

# **Credit Unions on the Financial Landscape: Geographical Strategies of Expansion and Service.**

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## **ABSTRACT**

Recent legislative efforts to protect credit unions against unfavorable legislation reflect the growing importance of credit unions in the U.S. financial services sector. Efforts to address new technologies, combined with deregulation in financial services, have led changes in the field of membership rules governing how credit unions are chartered and how they may grow. These regulations have clear geographic implications for defining communities and for offering financial services and education to particular segments of the population. This paper briefly reviews the history of credit unions, then examines the Credit Union Membership Access Act of 1998 (CUMAA) and the National Credit Union Administration's (NCUA) interpretation and implementation. A case study of two Florida locales is used to analyze the changes in credit union charters and their expansion in the rapidly changing market. The results point to the possibility that credit union expansion as currently legislated may be an effective way to insure access to financial services.

## **Keywords:**

credit union, financial services, community, fields of membership, regulation

*Credit Unions have demonstrated the efficacy of cooperative principles in the management of the financial affairs of millions of people. . . . The relaxation of previously restrictive common bond requirements has inevitably brought credit unions into closer competition with other financial institutions, especially retail banks (Goddard, et al., 2002)*

## INTRODUCTION

Cooperative principles have guided the ideals behind credit unions since the first societies formed in Europe to address the disparity in the access to capital across classes. Credit unions have proven adaptable to the changing economic conditions, positioning themselves as providers of economic opportunity, as a way of providing access to the capitalist system for the masses. In the current regulatory climate of maintaining a separate identity while offering many of the same services as banks, credit unions service an increasingly middle-class clientele. Little research by geographers addressing credit unions directly has been articulated. An exception is Fuller's (1998) work on the socio-spatial development of a credit union in Great Britain. Most work by geographers has focused on access to financial services and exclusion from such services (Leyshon and Thrift, 1995; Leyshon, 1995; Pollard, 1996). Analysis of the U.S. banking system and savings and loan industry has attracted the attention of geographers (Holly, 1987; Warf, 1994). Furthermore, although analysis of North American credit unions within the banking and finance literatures is well established (Goddard et al., 2002; Murray and White, 1983; Reichert, et al, 1994), attention from social scientists is lacking.

Credit unions historically have had a mystique about them that proves challenging for analytical techniques to capture:

*Credit unions seek to protect the weak, to save them from the exactions of usurers. They emphasize voluntary action, the democratic dream, the development of latent abilities found in the common man. These explicit values are not amenable to economic analysis, but they cannot be ignored by anyone who would understand the credit union (Croteau, 1963.)*

However, the credit union today occupies an interesting place in the restructured financial services landscape of the United States, and is worthy of further study. Just as banking services have embraced new technologies, credit unions have adopted modern technologies to enhance their service capabilities. Similarly, the waves of financial deregulation and heightened competition that facilitated merger after merger in the banking industry have led to a decline in the number of credit unions in operation today, yet have produced increased membership (Ferguson and McKillop, 1997; Credit Union National Association (CUNA), 2003.) The position of credit unions in the financial landscape is a protected one as well, with the banking industry lobbying and filing court challenges to the tax-exempt status of the cooperative credit union, only to see legislative action support the credit union industry, even enhancing the ability of credit

union membership fields to expand both geographically and functionally with few barriers.

This paper will briefly examine the credit union movement's history, linking the European origins to the United States case. Next, we examine the state of the industry today by examining trends in the state of Florida as well as two case studies to analyze the growth and change of credit unions in the state. The case study analysis will address the strategies of credit unions in specific locales. The final section will present conclusions and further discussion of the changing credit union landscape.

### **HISTORICAL OVERVIEW**

The European cooperative movements of the mid-1800s saw the introduction of institutions that came to be known as credit unions. A multitude of societal changes brought on by the transformation of capitalism during the industrial revolution fostered the growth of the idea of individuals working together to ameliorate the worst tendencies of capitalism. Credit (along with most banking services) was reserved for the wealthy. However, with greater availability of consumer goods and transformations in agricultural production processes, credit became increasingly necessary for the middle classes and the poor. When credit was made available however, high interest rates and usury abounded. Indeed, early leaders of the credit

union movement were appalled by the notion of 1200 percent interest levied on the poorest applicants (Moody and Fite, 1971) prompting the cooperative movement to develop the precursors of the modern credit union.

The cooperative movement developed first in Europe where the establishment of cooperative credit institutions, was seen as a way to reduce poverty and provide opportunities for business growth (Melvin, et al., 1977, p. 9.) Two organizational structures were established: one strove for a broad-based membership emphasizing the ideal of economic self-sufficiency, while the other focused upon urban workers and small merchants promoting credit unions grounded in Christian ethics. (Ferguson and McKillop, 1997.)

The first successful attempt to start a credit union in North America occurred in 1901, with several differences in the application of the European ideal to the North American context. First, due to the different economic situation Canada's population faced, the two European organizational forms were merged. Second, European cooperatives employed unlimited liability for members but the North American model rejected this on the grounds that organization under unlimited liability would not be successful due to the individualistic nature of the citizenry. Importantly, this would prove to be the standard

that would apply to credit unions across North America (Moody and Fite, 1971.)

Efforts to draft a law establishing credit unions in Massachusetts began in the early 1900s with the passage of the Massachusetts Credit Union Act in 1909 (NCUA, 2003,

[www.ncua.gov/about/history.html](http://www.ncua.gov/about/history.html)). The Massachusetts school worked to develop credit unions in other states, to lobby for legislation authorizing state-chartered credit unions, and to establish a national credit union association (the Credit Union National Extension Bureau, or CUNEB.) The efforts were couched in terminology deliberately non-threatening to capitalist interests, and the movement itself was a socially conservative one, often promoting fundamental principles of thrift, self-reliance, and the education of a new class so it would embrace capitalism (Moody and Fite, 1971.)

The growth of credit unions was hampered though for several reasons. First, loan sharks and other suppliers of informal credit worked to discourage competition. Second, individual companies that provided their own version of in-house cooperative credit saw little reason to support the movement. Finally, there was a general lack of understanding of the differences between credit unions and other sorts of financial institutions. Indeed, many of CUNEB's early efforts were aimed at educating the

masses as to what credit unions could provide them, primarily an alternative to loan sharks and note shavers<sup>1</sup>. The Great Depression also hurt the movement by slowing growth, though by 1932, the number of credit unions had actually increased. The asset level however suffered a sharp decline (\$54 million in 1929 to \$16 million in 1932, *ibid.*)

Federal legislation authorizing charters was passed in 1934, allowing credit unions to be chartered in states lacking state charter legislation. Efforts to expand the credit union movement focused on the development of a national association that state credit union leagues could join. This would provide effective backing for organizing new credit unions and greater lobbying power to resist efforts to change the legislation governing credit unions, especially their exclusion from federal income taxes. This organization was the Credit Union National Association (CUNA.)

The special legal status afforded credit unions caused consternation in the banking industry, but since the typical clients of credit unions were expensive to service (account balances and activity were low, not allowing account maintenance to be cost effective), banks saw little

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<sup>1</sup> Note-shavers existed to determine the value of various notes intended for payment, such as credit for crops and various state bank notes, and levied a percentage fee for their knowledge of the credit-worthiness of the producer of the note. This practice applied to state banks as well as to individuals in the 1800s.

reason to actively work to eliminate them. In the post-WWII boom however, banks moved to harness potential growth in consumer loans, a traditional purview of credit unions. The industry assault on such non-profit tax exemptions intensified in the 1950s, as credit unions began to be a perceived threat to banks and other financial services companies. The cooperative nature of the institutions may have been seen as socialist practice, as credit unions were said to undercut the efforts of for-profit companies. At the same time, the large debt the US held from World War II fostered efforts to close perceived tax loopholes in many industries. Aided by lobbying groups representing industries hostile to cooperatives, legislation was introduced in Congress to remove what banking lobbyists termed an unfair competitive advantage (Moody and Fite, 1971, p. 313-4). The response of the credit unions was that as cooperatives, income was distributed back to members as dividends, and thus was already taxed at the dividend rate (*ibid.*, p. 314.) Since then, Congress has consistently defended credit unions as an alternative to banks. The debate over tax-exempt status and expanding fields of membership continues today, with court cases filed against credit unions successfully limiting credit union enlargement, only to see action by Congress restoring the ability of credit unions to expand their membership base (for the most

recent defense, see the Credit Union Membership Access Act, 1998).

Today, two levels of regulatory oversight exist in the credit union industry. The agency in charge of federal credit unions is the National Credit Union Administration (NCUA), whose Administrator and National Credit Union Board are nominated by the US President, and confirmed by the US Senate. NCUA takes an active role in the chartering of credit unions—a role very different from other financial service regulatory agencies—in addition to supervising and auditing credit unions, and insuring credit union deposits. The establishment of a federal charter provision was to aid in the establishment of credit unions in states lacking appropriate legislation.

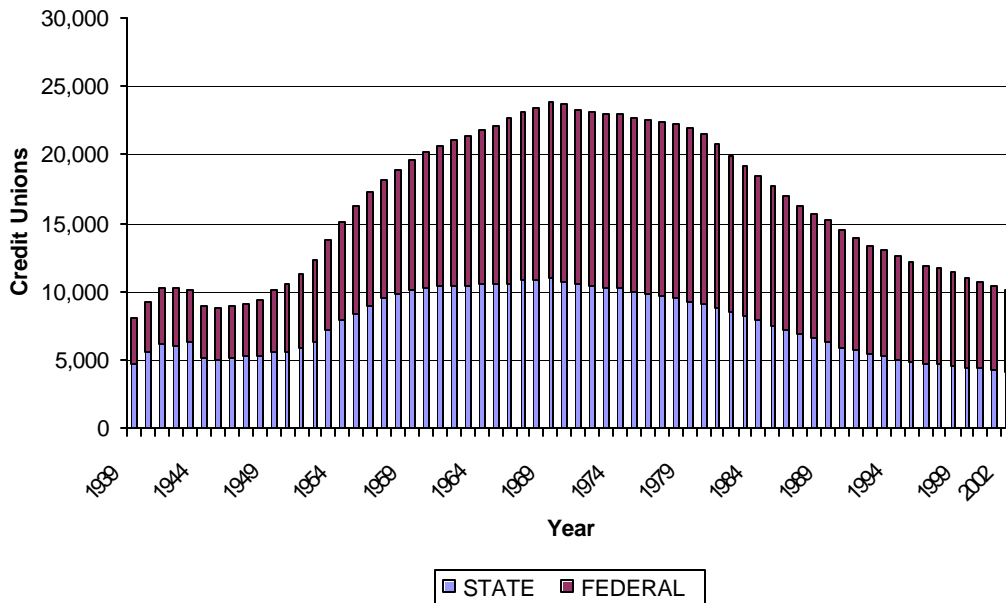
State-chartered credit unions are regulated either by independent agencies or as is most often the case, a banking commissioner's office, or in other cases, the agency overseeing savings and loans (since 1939 only three states have never had state-chartered credit unions, Delaware, South Dakota, and Wyoming, CUNA Long-run Trends, 2003, [www.cuna.org/econ/long-run.html](http://www.cuna.org/econ/long-run.html), accessed December 31<sup>st</sup>, 2003.) Of interest is the difference between state and federal agencies with respect to chartering. States are often not as aggressive as the National Credit Union Administration in their efforts to

charter new credit unions. Furthermore, the states are more likely to charter credit unions with residential common bonds, or disparate groups of employees (Melvin, et al. 1977, p. 65.) This is a key point, as critics of credit unions have pointed to the changing fields of membership that have facilitated enlargement of membership bases, with little apparent regard to the intent behind the formation of the credit union. Credit union proponents argue that nothing has changed, and that expansion of membership is vital to offering similar services as other financial institutions while maintaining the not-for-

profit status. Thus, while states may follow federal legislation closely when governing credit unions, the practice of chartering credit unions varies.

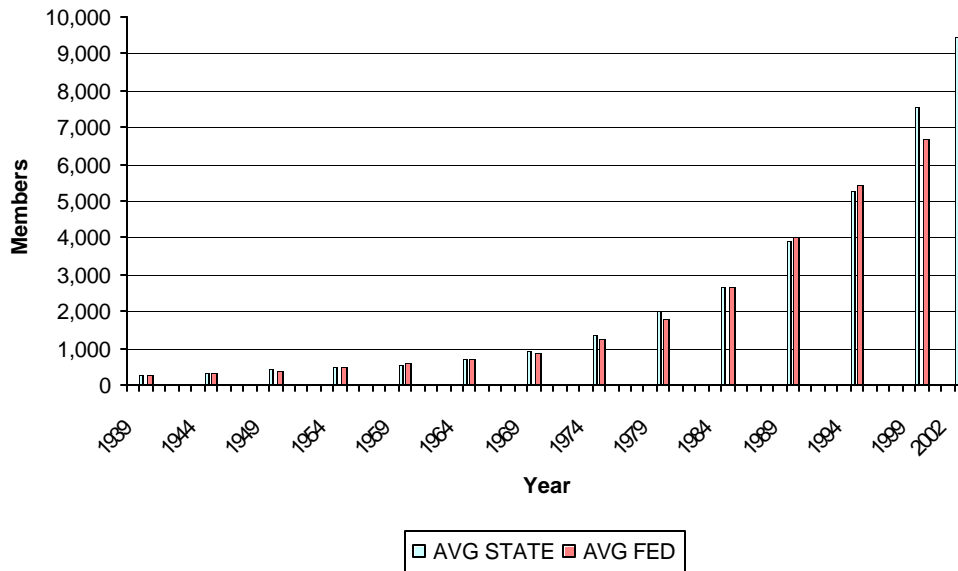
Despite an absolute decline in the number of credit unions nationally, accelerated by recent mergers and the liberalization of field of membership rules, the number of members of both state and federally chartered credit unions has increased (Figure 1) resulting in a significant increase in the average number of members per CU (Figure 2).

**Figure 1.** Credit Union Membership (1939-2002).



Source: [www.ncua.gov](http://www.ncua.gov) accessed October, 2003.

**Figure 2.** Average number of members



Source: calculated by authors.

**SPACE, COMMUNITY, AND FIELDS OF MEMBERSHIP**

Of interest to the authors is the spatial pattern of credit unions during this time of deregulation and adoption of new technologies. The founders of the credit union movements did not envision challenging the system, but providing help to those without access to traditional service that would under-gird consumption for the masses. Today, the variance in credit union size and assets lends credence to the claims of banking associations that credit unions are subsidized banks. The local ideals of the credit unions' early history have been shaped by waves of deregulation and technological innovation. These challenge the

ideals of local, community knowledge within fields of membership, and more importantly, how credit union members feel about the role of the credit union, their relationship with it, and the community at large (see Heenan and McLaughlin, 2002). One of the purported advantages of credit union operation was the idea that research costs were low for loans because the tapping of networks of social capital allowed for lower costs of service provision (see Li, *et al* 2001 for a discussion of social capital and community in financial services.) This certainly would be true for smaller credit unions focused upon one or two factories or associations. The credit unions

profiled in our study shows that this may no longer be the case.

The use of information technology in financial services (Kellerman, 2002; Warf, 1995) and greater societal acceptance of it in financial life has forced credit unions to adopt technology at high costs, fostering a logic focused on expanding membership bases, to pay for needed technology services and more varied financial services. As Table 1 demonstrates (next page), provision of computer services to members increases with the assets of the credit union.

Responses to increasing market dominance by large banks would seem to necessitate a scalar expansion of activities by smaller firms in order to remain competitive through growth in assets and potential clients, though not without resistance to such imperatives (Argent, 2002, pp 329-331.) The same has occurred with credit unions. The decline in the number of credit unions can be attributed to a wave of mergers as credit unions attempt to expand their member bases. This is a logical response as credit unions seek to strengthen their position vis-à-vis banks, as what remains are, in theory, stronger, diversified credit unions with broader membership bases able to withstand sectoral declines in local economies that would weaken the institutions. However, as noted above, historically, growth in fields of membership was usually limited to specific groups of employees, a

slow, incremental approach to growth. The ability to grow via spatial field of membership definitions becomes a clear strategy that credit unions employed after the Credit Union Membership Access Act (hereafter, CUMAA) as our cases will demonstrate. The US Supreme Court ruled in a 1998 suit that the expansion of the credit union fields of membership was in violation of the federal legislation, with a narrow interpretation of what constituted a legitimate expansion in the field of membership. The case against the NCUA (NCUA v. First National Bank & Trust Co. et al, 1998) quickly garnered a legislative response. The U.S. Congress immediately drafted legislation to protect the right of expansion in fields of membership, within specific guidelines, including the use of a *priori* geographic boundaries to expand fields of membership. Title I of HR 1151, or CUMAA, defines three types of common bond membership field categories for federally chartered credit unions: single common-bond, multiple common-bond and community credit unions.

In addition, expansion of a membership field requires NCUA approval. These changes reflect the role of multiple stakeholders reacting to rapid technological changes and attendant impacts on competition within particular financial services sectors. Politicians did not wish to alienate the populist credit union



**Table 1.** Credit Unions and Technology

Size of Credit Union Assets	Percent with a Web Site	Percent with Banking via PC
\$0-.2 million	0.0	0.0
\$.2-.5 million	2.6	0.0
\$.5-1 million	2.9	0.0
\$1-2 million	5.2	1.8
\$2-5 million	18.2	6.2
\$5-10 million	36.9	17.2
\$10-20 million	62.9	35.1
\$20-50 million	85.2	62.3
\$50-100 million	94.2	85.3
\$100-200 million	97.7	93.3
\$200-500 million	98.7	98.0
\$500 million +	100.0	98.7
<b>All Credit Unions</b>	<b>49.9</b>	<b>35.8</b>

Source: Credit Union Report 2003. <http://cuna.org/download/curepj03>.

movement, with its millions of members and possible voters. Thus, the CUMAA legislation was the codification of a regulatory attitude held by the NCUA, with its mandate to promote credit union growth. Previous rounds of economic restructuring weakened credit unions that relied on common employment bonds for membership. Allowing expansion using *a priori* defined spaces enlarged potential membership bases more quickly than along employment lines.

This expansion, supported by state and federal regulatory agencies, is a form of spatial fix (Harvey, 1982) in that spatial expansion is key to

increasing the base of potential members, and the flow of capital into the credit union. While this is not a typical application of the term 'spatial fix' (See Schoenberger, 2004 on defining the term) as credit unions are not profit-seeking institutions in the normal sense, they seek rent from defined fields of membership which of course have spatialities of their own. In the current regulatory environment, reflective of changes in the political economy of financial services, credit unions expand fields of membership to increase capital flows into the institution

and then produce profits from this capital in the form of loans to members, which are then returned to the owners in the form of higher interest rates on savings or reduced loan rates.

Unlike the waves of retrenchment seen in the banking industry, replete with abandonment of offices and services and a shift toward computerized banking (Leyshon and Thrift, 1997, Leyshon and Pollard, 2000), the credit union industry achieves growth of profits (returned to members as dividends) through expansion of the membership base in ways that approximate the free range of banks. Credit unions (especially larger ones, as noted in this paper) employ similar technologies to lower account service costs.

This expansion as discussed below, is interesting in that while a priori spatial definitions are deployed, one should not assume universality in the process. The regulations define how expansion may occur, but it is likely that efforts to cream-skim, (taking on accounts from the wealthiest segments of a given population) are underway. As we point out below, the expansion of credit union spaces via community definitions incorporates places that are often significantly poorer than those the credit unions themselves are located in. Such expansion is the sort of behavior that raises the ire of the banking industry and leads to efforts to

challenge cooperative financial services, culminating with clashes in front of regulators that play out at both federal and state scales.

### **EXPANDING THE FIELDS OF MEMBERSHIP**

Most federal credit unions operate under one of three types of charters: single common bond (related to occupation or association membership), multiple common bond (the charter covers multiple groups that would qualify as single common bond relationships but elect to unify to form a credit union), and community (geographically defined area of service.) Geographic descriptors are often used to describe the field of membership for common bond and multiple common bond charters, but are not part of a limiting factor in these charters. It is generally assumed that if a charter is granted for a single common bond, the facilities serving the membership are in the same geographic location of the people served (if an occupational bond, near the plant or office.) The same status is assumed for CUs having multiple common bonds:

*Additionally, these groups must be in reasonable proximity of the credit union. That is, the groups must be within the service area of one of the credit union's service facilities... A federal credit union's service area is the area that can reasonably be served by the service facilities accessible to the groups within the field of membership. The service area will most often coincide with that geographic area primarily served by the service facility. Additionally, groups served by the*

*credit union must have access to the service facility (NCUA, 2001, p. 2-31.)*

The problem facing regulators is how to define reasonable proximity, a definition that could be delimited in terms of absolute distance, time to travel to a service facility, or convenience. These regulations become more problematic when the number of CUs offering online financial transactions is increasing. Service centers termed 'shared facilities' are used by multiple credit unions in order to expand their geographic area of service in response to residential movements of the membership. Suburbanization has forced CUs to respond, fostering a form of spatial fix (and cooperation across CUs) in order to comply with regulatory guidelines.

Guidelines for community charters employ a number of concepts, including the term "community," whose definitions are indeed flexible:

*Community charters must be based on "a well-defined local community, neighborhood, or rural district." NCUA policy is to limit the community to a single, geographically well-defined area where individuals have common interests or interact (NCUA, 2001, p. 2-46.)*

The NCUA acknowledges the multiple factors involved in defining the meaning of local community, thus, there are a number of limits imposed. A proposed community must exist within a "recognized single political jurisdiction, a county or its political

equivalent or any contiguous subdivisions contained therein, and if the population of the requested well-defined area does not exceed 300,000," (NCUA, 2001, p. 2-47.) Communities can encompass multiple counties but the population threshold actually decreases to 200,000 (*ibid.*)

Further complicating the picture is the type of evidence the NCUA regulators will accept as the definition of 'community'. Having a regional newspaper, a single major trade area, or, single governmental facility is considered appropriate evidence (see Table 2 next page, NCUA, 2001, p. 2-46, 2-49.) No rationale is given for the arbitrary population guidelines for community outside of the notion that a county with 300,000 in population will have "sufficient interaction and/or common interests to meeting community charter requirements," (NCUA, 2001, 2-47.) For chartering purposes the NCUA guidelines, therefore provide some flexibility in definitions of community.

Historically, the single common-bond credit unions focused on a single industrial plant, or a single industry in a locale. However, recurring waves of economic restructuring, with the attendant plant closures and offshoring of production, led to the liquidation of many insolvent credit unions with such narrow fields of membership. Regulatory efforts were undertaken in the 1980s to prevent

the liquidation of CUs due to regional downturns in the restructuring economy (Muckian, 2003.) Multiple common-bond credit unions generally have a stronger member base, while community credit unions are focused on all residents in defined geographic areas, though CUMAA's text uses the term 'local' (without definition) to emphasize legislative intent to restrict regulatory interpretation (see Committee on Banking and Financial Services, 106-1, 1999 for a clash of legislative and regulatory views of CUMAA.)

From inception, the CU movement has emphasized the local nature of CUs, but restructuring in the financial industry has forced credit unions to perhaps undercut their

original rationale. Charter conversion is allowed with many conversions to 'community' in recent years. Such conversions are a point of contention for the banking and finance industries, for these put CUs in competition with banks directly for certain segments of the market.

Expanding membership bases and services that approximate the banking industries, in combination with lower fees and interest rates for borrowers, continue to attract members to credit unions (Hazard, 2003.) As one credit union manager put it, he loved the continual mergers of the banks, as it drove people to the credit union, especially those seeking some local identity or level of service that

**Table 2.** Evidence of Community for NCUA Community Charters

Defined political jurisdictions	Data on flows in a trade area.	List of shared facilities (schools, police and fire stations, school district, public utilities.)	Lists of organizations and clubs in community area.
Newspapers and other periodicals published for or about the area	Maps designating the area served.	Common characteristics and backgrounds of residents (income, religious affiliation, primary ethnic groups, age, etc.)	Documentation demonstrating the area is a community where individuals have common interest or interact.

Source: Source: National Credit Union Administration, (2001) *Chartering and Field of Membership Manual*. pp. 2-46, 2-49.

customers felt banks were not providing. With the trend the data reveals, the simultaneous expansion in membership with the decline in credit unions, one is left to wonder if the same may happen to credit unions.

Loosened regulations allowing limited commercial banking has provoked a strong reaction from banks (Berg, 2002), calling for more regulatory oversight for credit unions. Thus, the regulatory relief credit unions enjoy may foster more and more bank-like behavior, and may cause problems for the industry. The next section probes the issue of credit unions 'locality', with considerations to the scale of their activities, the changes in their charters, and the services provided in two specific local contexts.

### **THE FLORIDA CASES**

Florida is home to a diverse array of credit unions, differing in charter, size, services, and extent of membership fields. Table 3 shows that 257 credit unions are licensed to operate in Florida<sup>2</sup>, which is approximately 2.6% of all credit unions in the U.S. Florida credit unions have over 4 million members, which is just over 5% of all credit union members in the country. The asset base of Florida credit unions is slightly larger than

would be expected with over 6% (\$32 billion) of all U.S. credit union assets under management in the U.S. (stateworkers and university faculty, staff, and students.) Over 29% of Tallahassee's workforce are state employees with the next largest sector of employment being transportation, trade and utilities at 14% of the workforce.

The second largest employer after the state of Florida with 25, 204 employees is Florida State University at 8,784. The Tallahassee MSA has a limited industrial base and only 4% of the workforce is employed in financial services. Tallahassee MSA was selected to illustrate processes occurring in the predominantly rural context.

Jacksonville is much larger than Tallahassee in terms of population, and has a more diverse economy than that of Tallahassee being home to two large naval bases, three universities, and several large hospitals. The Jacksonville metropolitan area (including Duval, and parts of Nassau, and Baker counties) was selected to illustrate changing patterns and priorities in the urban context. The Jacksonville metropolitan area is the 55<sup>th</sup> largest in the U.S. with a relatively young population when compared to the rest of Florida's large cities (median age is 36).

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<sup>2</sup> Currently there are 9688 federally insured credit unions in the U.S. with approximately 81 million members and total assets of over \$557 billion (<http://ncua.gov/ref/statistics/yearend2002.pdf>).

**Table 3.** Credit Unions in Florida

	FLORIDA	JACKSONVILLE MSA	TALLAHASSEE MSA
Population	15,928,378	1,157,812	284,539
CUs	237	22	16
Assets (\$)	32,116,632,248	5,081,229,286	3,730,214,234
Members	4,126,949	660,734	123,749
Assets/member (\$)	7,782	7,990	30,143

Source: [www.ncua.gov](http://www.ncua.gov), [www.census.gov](http://www.census.gov), author calculations

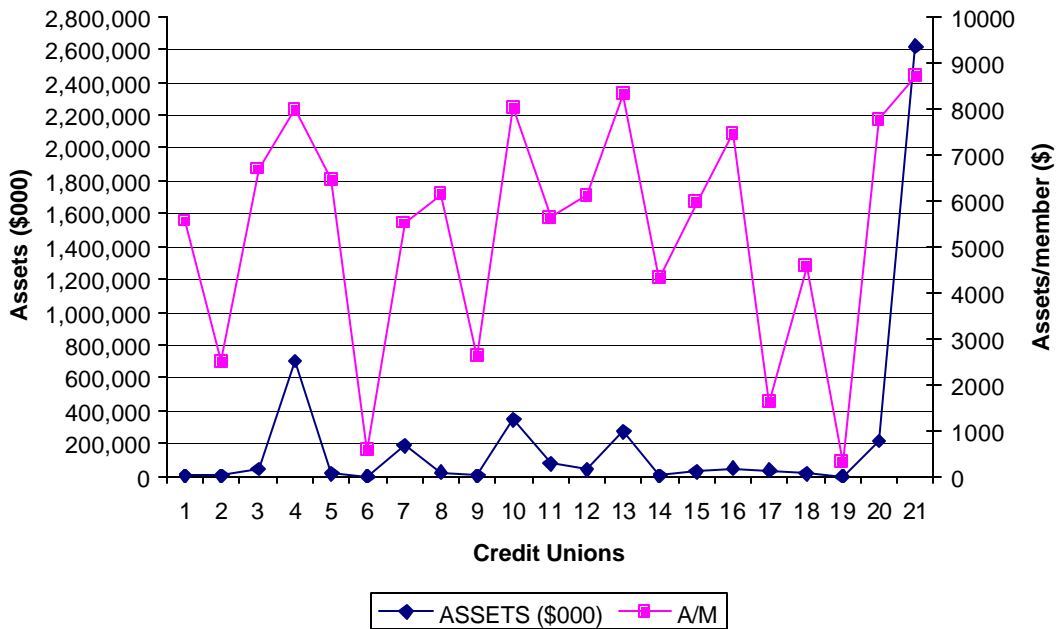
The financial, professional and business services sectors comprise over 25% of the workforce, which is slightly larger than the trade, transportation and utilities sector (Bureau of Labor Statistics, 2002). The U.S. Navy is by far the largest employer in the region with over 45,000 employees and other large employers include the banking and insurance sectors.

Table 3 shows that the Jacksonville MSA has population of over 1.1 million which is four times as large as the Tallahassee MSA. Jacksonville has more credit unions (22 compared to 16) and five times as many CU members (660,734 compared to 123,749). The levels of assets under management, however, are much closer with the Jacksonville credit unions having less than half as much again when compared to the Tallahassee credit unions (\$5.1 billion compared to \$3.7 billion). The biggest surprise in the case study area profiles is the large (and

unusual) difference in the average assets under management per member (\$7,690 in Jacksonville compared to \$30,143 in Tallahassee). This difference can be accounted for by the fact that one Credit Union based in Tallahassee (SouthEast Corporate CU) is a clearing-house for other credit unions services and had a disproportionate amount of assets when compared to members--\$7 millions in assets per member compared to the more usual figure of approximately \$7000 per member.

Figure 3 (below) shows amount of assets under management and number of members for each of the twenty-two credit unions located in the Jacksonville area. It is immediately apparent that one large credit union dominates the market in Jacksonville—this is VyStar (figure 3, #21) with over \$2.6 billion in assets and over 300,000 members.

**Figure 3.** Jacksonville Case: Assets and Assets per member.



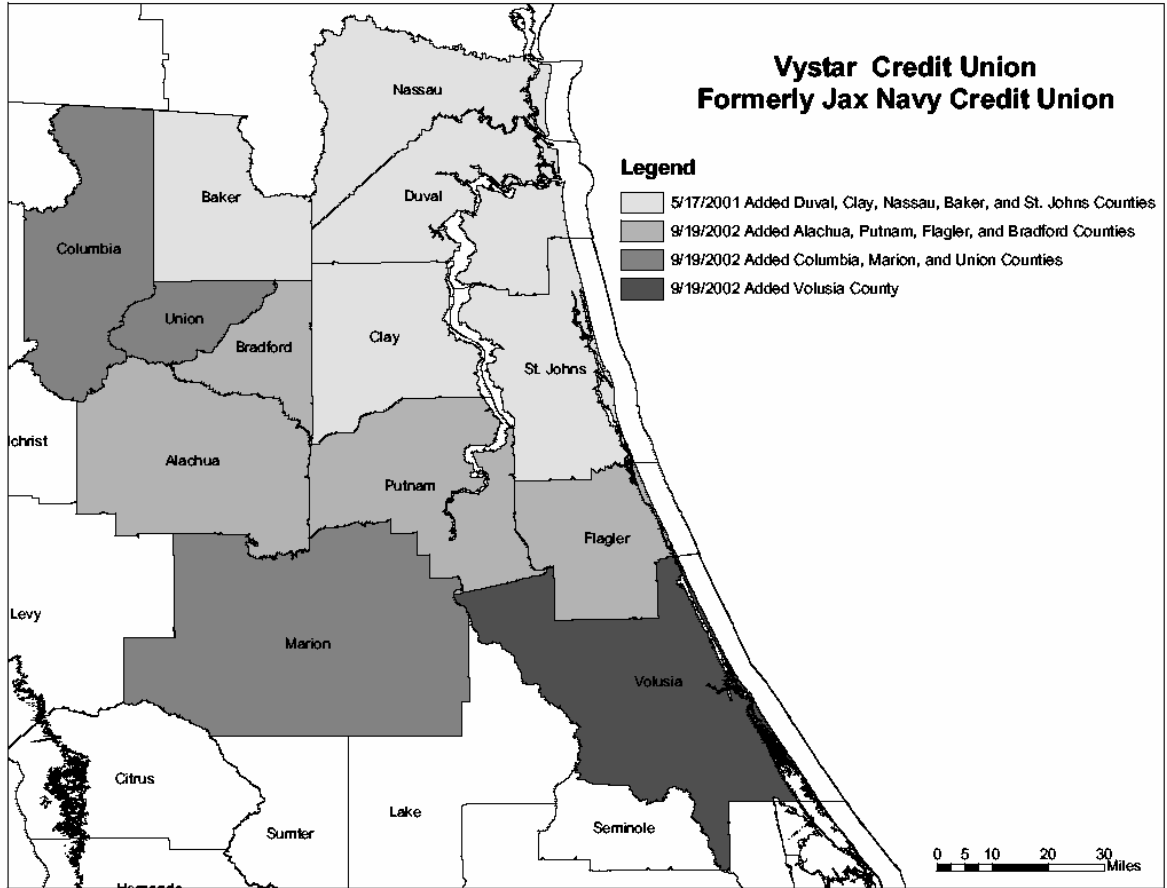
Source: [www.ncua.gov](http://www.ncua.gov), [www.fcui.com](http://www.fcui.com), author calculations.

NOTE: The outlier Navy Federal Credit Union with over \$19 billion assets and 2.4 million members was omitted from this analysis because it has no geographical fields of membership.

VyStar’s level of \$9000 in assets per member is higher than the average of \$7000 in the region. VyStar (formerly known as Jax Navy Federal Credit Union) was federally chartered in 1952 at the Jacksonville Naval Air Station and served military and civil service employees and their families. Concurrent with liberalization of membership regulations, today VyStar one of the largest CUs in the country and the largest state-chartered CU in Florida providing services to people living or working in thirteen counties in Northeast Florida (figure 4).

The median household income of the VyStar field of membership illustrates a core-periphery pattern with lower household incomes in counties furthest away from the Duval/Clay/St Johns core (figure 5). VyStar has 18 branch locations and 101 ATM locations in Northeast Florida and plans to expand aggressively throughout the state of Florida. The switch from state to federal charter in 2001 was seen as a mechanism to facilitate growth believing that the impediments to grow geographically would be less than if the CU was federally chartered. This decision proved

**Figure 4. VyStar Field of Membership**



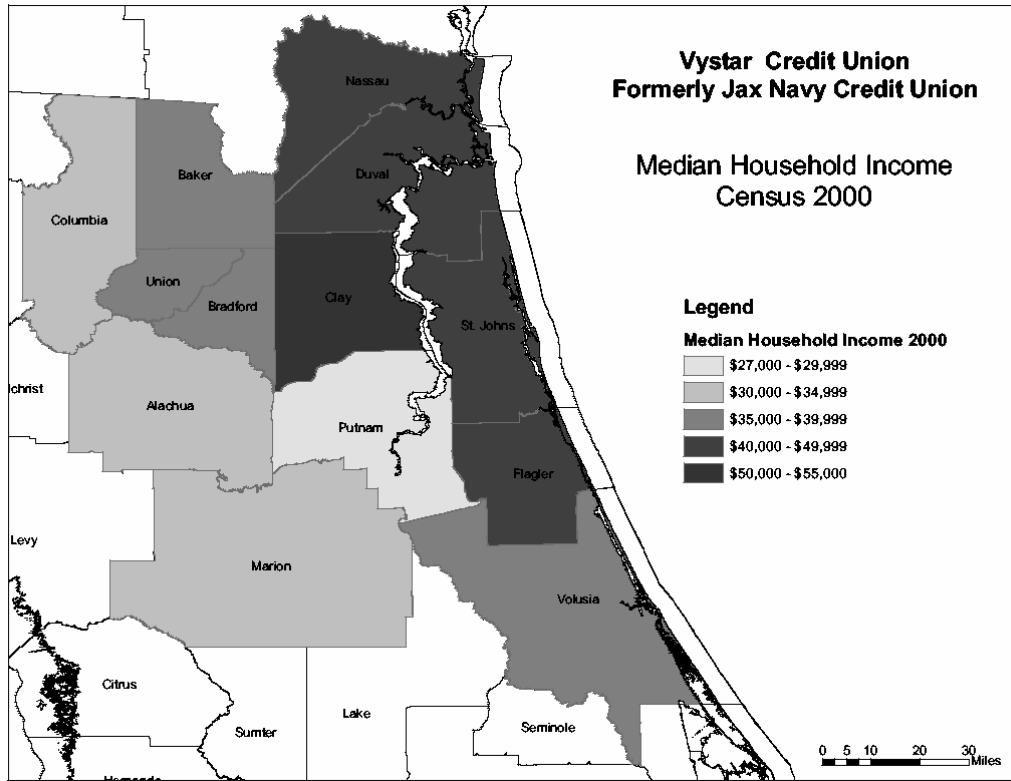
Source: Credit Union By-Law Amendments filed with State of Florida, Department of Financial Services, Office of Financial Regulation. Obtained October 16, 2003.

correct at least in the short term as, in 2003, VyStar's total membership increased by 7.9% and total assets increased by 9% over the previous year. Furthermore, VyStar has recently approved a \$125 million project to expand the branches in Northeast Florida. (VyStar Credit Union Annual

Report, 2003). A different picture emerges in the Tallahassee market (Figure 6). Florida Commerce, the CU with the greatest assets (over \$170 million) has the second largest number of members in the region at approximately 28,000 (figure 6, #7).

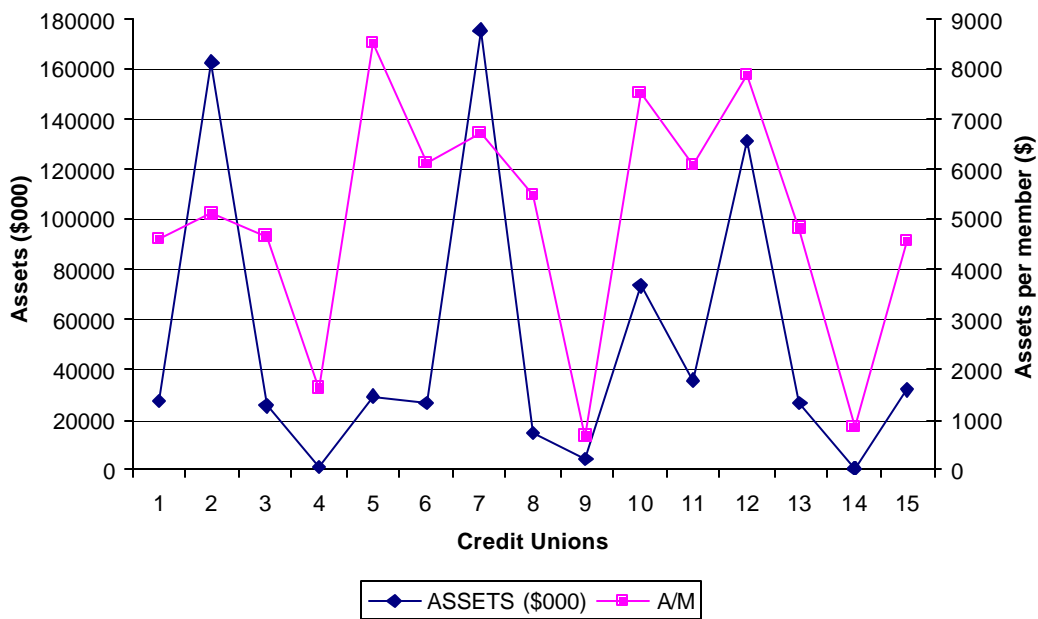


**Figure 5.** Household income for Counties in VyStar Credit Union Field of Membership



Source: U.S. Census, 2000

**Figure 6.** Tallahassee Case: Assets and Assets per member



Source: [www.ncua.gov](http://www.ncua.gov), [www.fcui.com](http://www.fcui.com), author calculations.

NOTE: The outlier Southeast Corporate Credit Union with over \$2.9 billion assets and 436 members was omitted from this analysis because members are corporations, not individuals.

Southeast Corporate is a wholesale supplier of investment, item processing & imaging, correspondent services and liquidity solutions to other credit unions.

The Tallahassee market is obviously much smaller market than the Jacksonville market. Florida Commerce was established in 1940 for employees and families of the Florida Industrial Commission (later renamed as the Florida Department of Commerce). Florida Commerce CU (FCCU) changed from a federal charter to a state chartered institution in 1997 and now can serve anyone living or working in six North Florida counties (figure 7). The largest CU in the Tallahassee area is much smaller than Jacksonville's VyStar, employing 85, with 6 branches and 5 ATMs. Again, the field of membership shows a core-periphery pattern with growth extending over time from the core (city of Tallahassee). Household income for the region also exhibits a pattern showing greatest wealth in the core area and lower income levels in the surrounding counties (figure 8). As in the case of Jacksonville's Vystar, FCCU's field of membership includes the Tallahassee MSA as the core, but reaches out to areas in which there is substantial migration-to-work in Tallahassee. Similarly to VyStar, FCCU's decision to switch from a federal to a state charter proved to be a wise one as, in 2003, FCCU's total membership increased by 5% and total assets increased by 13% over the previous year. (Florida

Commerce Credit Union Annual Report, 2003.

## **DISCUSSION AND CONCLUSIONS**

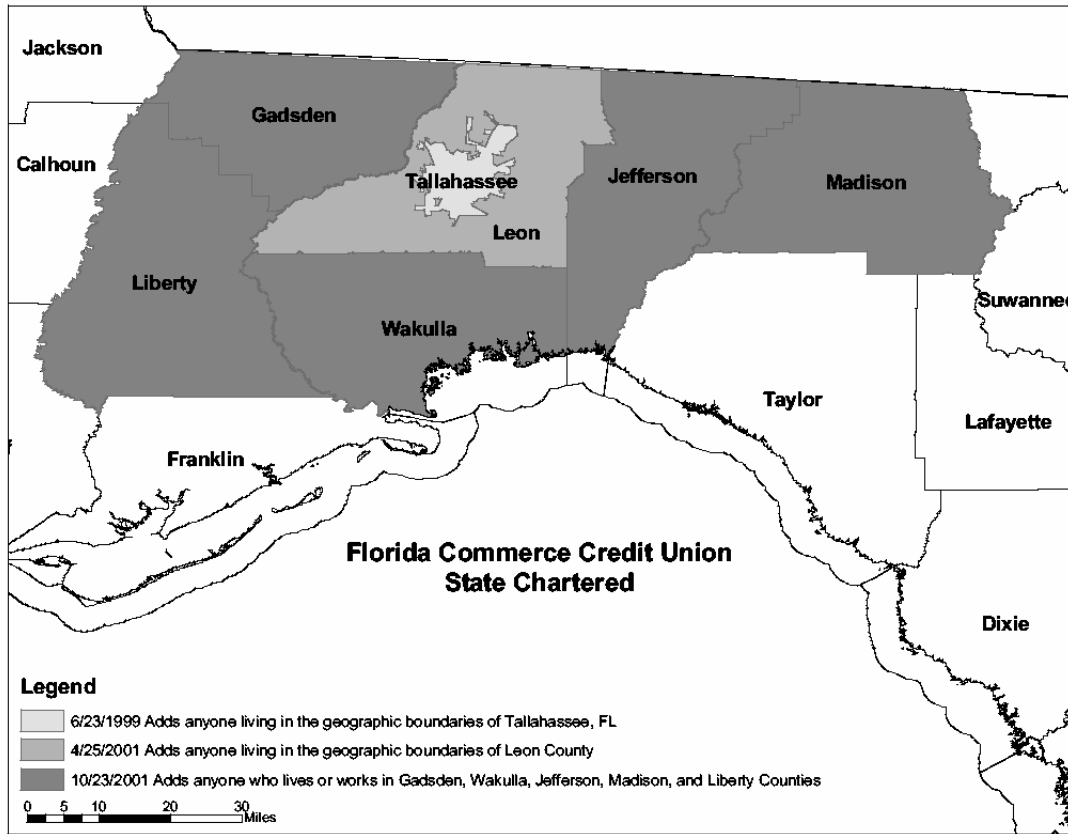
In both cases, we see credit unions that started with a federal charter with fields of membership defined by employment status, clearly a common bond association reflective of the credit union tradition. VyStar, with its field of membership greatly expanded from military ties, may have grown with the retirement of naval personnel as they scattered throughout the region.

This particular credit union, with a field of membership encompassing 12 counties and over a million potential members, presents a clear challenge to the banks in the area. In Tallahassee FCCU also resembles VyStar in geographic area, expanding to encompass an area exceeding the MSA the institution is based in.

The expansion of the fields of membership appear to be aimed at strengthening the financial health of the credit unions examined, yet both would appear vulnerable to downturns in the economy.

Tallahassee's dependence on state government and university employment are subject to the whims of politicians, while

**Figure 7. Florida Commerce Field of Membership**



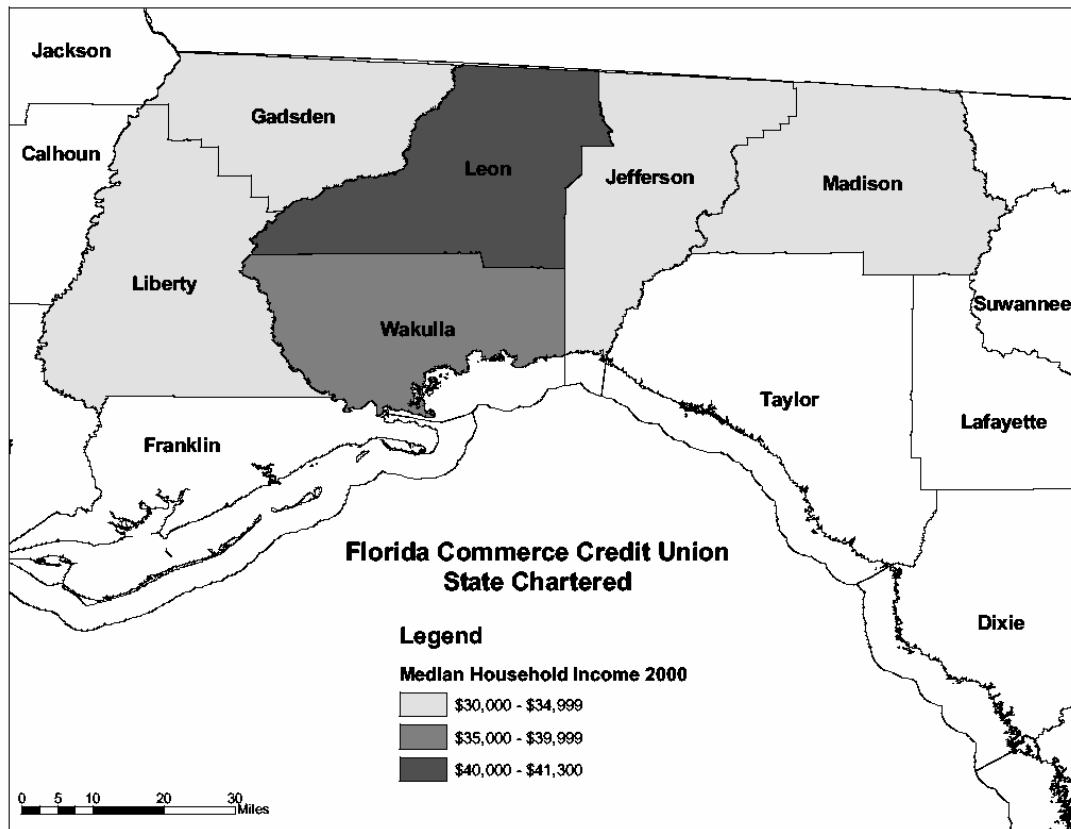
Source: Credit Union By-Law Amendments filed with State of Florida, Department of Financial Services, Office of Financial Regulation. Obtained October 16, 2003.

Jacksonville’s dominant firms in the services sector, such as banking, call centers, health care and logistics are likely not as insulated from economic downturn as the community would hope.

What one should note is the theoretical inclusiveness of the credit union expansions examined here. By 2003 entire counties that were highly varied in average household income levels were included in the fields of membership. Whether this can be seen as the credit union movement

stepping into a void left by banks and other financial institutions is beyond the scope of this paper, but such moves to offer services to areas abandoned or underserved by banks meshes well with credit unions’ historic goals. However, if tactics adopted by banks are deployed by credit unions in order to recruit the wealthiest members, there is a mismatch between the historic mission of the credit union and current marketing strategies.

**Figure 8.** Household Income for Florida Commerce Field of Membership



Source: U.S. Census, 2000.

We cannot say if the expansion of the fields of membership are based on the historic mission of credit unions, or are based solely on concerns of financial health for the institutions. What we see in this study are the signs of credit unions, while officially limited in the area they serve, competing on similar terms to—at the least—regionally focused banks. Despite their claims to the contrary, credit unions are increasingly becoming harder to distinguish from banks in many aspects of service, but conversely, with the commitment made to insure anyone in the fields of membership access to loans and low-fee financial services, remain distinctly un-bank like.

It is clear that establishing broader definitions of membership to encompass entire regions is itself a form of Harvey's spatial fix. In this case, we see a change in space via forms of legislation in combination with regulatory interpretation. Instead of globalizing production to exploit lower wage labor and other particularities of a locale, for credit unions the imperative is to expand the base of potential capital upon which to improve the facilities and services offered, thus making the credit union more attractive to the expanded market available for membership.

Such strategies underscore the highly contextual nature of credit unions vis-à-vis banks. At a time when a reduction in bank branches is occurring, the opposite is occurring in the credit union industry. The approval of expansion requests requires the credit union prove it can serve the field of membership. Technology such as online banking and the development of shared service centers will challenge traditional definitions of adequate member service, making it less traditionally spatial. Is such expansion an answer for issues raised by Leyshon and Thrift (1995) and Pollard (1996) regarding equitable access to financial infrastructure? If so, expanded definitions of fields of membership are a positive development in terms of access for those left behind during the restructuring of banks. However, it remains to be seen if credit union policies will be truly inclusive of market segments that are expensive to serve, or concentrate on attracting wealthy members from surrounding counties.

This dichotomy between the mission of credit unions and the vagaries of the global financial system today presents interesting research opportunities, as the institutions try and maintain their own identity in the financial services field <sup>3</sup>. Future research

will explore the apparent contradiction between the local identity of credit unions and the drive for fostering geographic expansion while simultaneously providing potential service to those that banks have left behind, addressing the pressing question in the literature on financial exclusion.

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<sup>3</sup> It should be noted that credit unions with bank-like characteristics have the option of becoming banks under federal regulations. One of the author's credit union recently declared its intent

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to become a federal mutual savings bank, which would make it the first credit union in Florida to become a bank. (Jordan, 2003.) See also Timmons, 2000.

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