Alaska's banks and credit unions

More banking jobs have been in credit unions since 2015

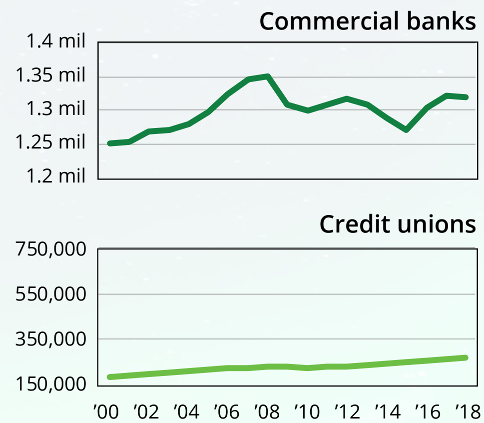
By SARA TEEL

Banking in Alaska stretches back to the Gold Rush, before statehood and banking regulations, when anyone could open a bank by hanging a sign on a building.

Among the first major commercial banks was the Bank of Alaska, which opened in Skagway in 1916. Modern banking giant Wells Fargo also has a long history in the state — not as a bank, but as a transporter of gold and furs by dog sled. Wells Fargo left the state as World War I began, returning in 2000 to become the largest commercial bank in Alaska.

Alaska credit unions also predate statehood. Alaska USA Federal Credit Union was one of the state's first, established in 1948. (See the sidebar on page 14 for more banking history.)

Banks have far more jobs than credit unions nationwide



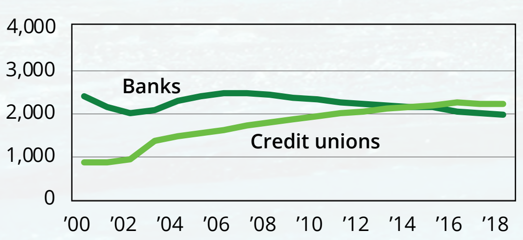
Source: U.S. Department of Labor, Bureau of Labor Statistics

Similarities and differences

Commercial banks and credit unions are similar in that they both provide financial services such as checking and savings accounts, auto loans, home mortgages, and money market and IRA accounts. But while banks are shareholder-owned, for profit, and open to anyone, credit unions are nonprofit, member-owned, and require some sort of affiliation for membership. This can be a common employer, military branch, educational institution, or area of residence.

Credit unions usually have fewer commercial products, branches, and available ATMs than commercial banks, but because they don't pay income tax, they often have lower interest rates and fewer fees. Credit union proceeds are invested back into the credit union or disbursed as dividends to members.

... but Alaska has more jobs in credit unions than banks



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

Unlike U.S., jobs in credit unions have overtaken banks in Alaska

While commercial banks have far more jobs than credit unions nationally, credit unions in Alaska have provided more jobs than banks since 2015. Commercial bank employment peaked in 2006 at almost 2,500 but has declined since while credit union employment has grown.

Alaska credit union employment peaked in 2016 at more than 2,000 after overtaking banks the year before, then declined marginally in 2017 and 2018.

How the coronavirus pandemic affected financial institutions

The pandemic has spared no industry this year, but the challenges it has caused vary considerably.

Like many businesses, banks and credit unions initially faced shutdown mandates for in-person services or other company-specific rules — but unlike most industries, they don't appear to have lost jobs. Preliminary data suggest employment in banks and credit unions in Alaska actually grew in recent months.

Employment in the larger financial activities sector, of which banks and credit unions represent about a third, declined 3.5 percent in April, then grew 1.8 percent in May and 8.1 percent in June. While financial activities' June employment was still down by 4 percent compared to June 2019, that's a much smaller loss than the preliminary 11.4 percent over-the-year drop in Alaska's jobs overall.

The biggest pandemic-related change for financial institutions has been the massive influx of deposits from a handful of new federal relief programs.

The influx of federal relief dollars

The Federal CARES Act (Coronavirus Aid, Relief, and Economic Security) was signed into law in late March, depositing $2 trillion into U.S. bank accounts — $865 billion in April alone — mainly as stimulus checks and unemployment benefits. Two-thirds of those deposits have been with the 25 largest banking institutions in the country.

The federal Paycheck Protection Program, through the Small Business Administration, injected another $660 billion. In addition to aiding small businesses, the PPP is designed to help banking institutions process its loans and grants. Lenders may receive up to $24 billion in associated fees.

Since the pandemic began, Alaska banks and credit unions have processed more than $1.2 billion in forgivable PPP loans. More than 11,000 Alaska businesses and nonprofits have been approved, and two-thirds of the funds have gone to a little more than 1,600 applicants.

(**Note:** While the Economic Injury Disaster Loan and EIDL Advance program predate COVID-19, they are another option for small businesses that can provide up to $10,000 as a loan or advance. The loans have a low interest rate, and advances don't have to be repaid. The Alaska CARES Grant is also available to eligible businesses and nonprofits that received $5,000 or less from PPP or EIDL and can range from $5,000 to $100,000. This grant is facilitated by Credit Union 1, and under current circumstances, applicants don't need to be members.)

Many people aren't spending the payments

According to the Bureau of Economic Analysis, the national personal saving rate jumped from 12.6 percent in March to 32.2 percent in April, and May's rate remained high at 23.2 percent. The personal saving rate is the percentage saved after spending and paying taxes.

Similarly, Bank of America reported that the balances for checking accounts that previously contained $5,000 or less have grown 30 percent to 40 percent in recent months.

Many people have been hanging on to their stimulus or unemployment checks until they need them, and closures have meant fewer opportunities to spend money.

Large banks are sitting on that money

Banks and credit unions would typically invest this influx, but given the economic uncertainty, the biggest national banks are sitting on tens of billions of dollars to prepare for COVID-related loan defaults. They are also more hesitant to loan money, which has further restricted stopgap options for some small businesses.

Alaska employment patterns have differed from U.S. trends

Unlike the industry nationwide, neither type of institution in Alaska was crippled by the national recession of the late 2000s. (The pandemic's ultimate effects on banking aren't yet clear, but the sidebar above details how COVID-19 has changed the industry in recent months.)

National bank employment has been volatile over the last two decades, subject to industry bankruptcies and shifts in investor confidence and business practices. Commercial banks were hit hard during the national recession and again in 2015 when a little-known two-year "mini-recession" dampened a number of U.S. industries while the overall economy continued to grow.

National credit union employment has grown steadily and gradually over the past two decades, aside from a barely noticeable dip in 2008 during the U.S. recession.

Commercial banks have over 80 percent of the industry's jobs nationally, but it used to be much more. In 2000, the nation had 6.7 commercial bank jobs for every credit union job, but by 2018 it fell to 4.9. Credit union employment grew 46 percent over that period while bank employment grew only 6 percent.

In contrast, commercial banks held 74 percent of banking jobs in Alaska in 2000, which dropped to 47 percent by 2018 as Alaska credit union employment rose 156 percent and jobs in commercial banks declined 18 percent.

Commercial banks pay more, but wages have grown in both

Even though Alaska's commercial bank employment declined during the last two decades, its total wages grew by 36 percent, when adjusted for inflation. Credit union wages grew 237 percent over that period. In 2018, they paid a combined total of more than $240 million in wages.

In terms of what these jobs pay on average, commercial banks pay slightly more, but the average includes executive positions. Commercial banks' average wage grew from $54,534 to $60,403 over the last two decades. In credit unions, it rose from $42,618 to $56,051.

The average hourly wage for a teller in Alaska is $14.77, as of 2018, which is around $29,000 a year if full-time.

The industry is changing, raising access concerns for some areas

In the last decade, very low interest rates and new banking regulations have reduced banks' profits, and online banking has become more popular. As a result, banks have been consolidating and closing brick-and-mortar branches nationwide.

The number of yearly bank closures in the U.S. increased by 68 percent between 2012 and 2018. This has created "banking deserts," mainly in low-income areas. When a branch closes, that area's small business loans tend to fall by around 13 percent, and by as much as 40 percent if the closure is in a low-income area.

(COVID-19 has made it even harder for many low-income applicants and some small businesses to secure loans. See the sidebar on the previous page for more details.)

Alaska's number of bank branches dropped about 7 percent over the last decade. While the number of credit union branches grew 15 percent at the same time, the openings weren't always in the same communities as the closures.

Online banking mitigates some of the difficulty getting financial services in many areas, including much of Alaska, although this remains a challenge in remote areas without reliable internet service.

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The history of banking

Banks have existed in various forms for thousands of years. Archeological evidence suggests money-lending institutions developed in ancient Babylonia, China, and India. They initially employed a bartering system, with deposits and currency exchanges developing over the centuries that followed.

The oldest commercial bank still in existence is the Monte Dei Paschi Di Siena, an Italian bank founded in 1472.

The first credit unions, established in Germany in 1849, were designed to provide small loans to lower-income people. North American credit unions opened in Canada first, then in the United States in 1909 with the establishment of St. Mary's Cooperative Association in New Hampshire.

During the Great Depression, the U.S. government enacted the Federal Credit Union Act to provide a federally regulated national credit union system. Then in 1970, Congress created the National Credit Union Administration, or NCUA.

The NCUA is an independent agency that charters and supervises federal credit unions (although some credit unions are state chartered and regulated, but federally insured). The World Council of Credit Unions, which has member organizations in almost 60 countries, formed that same year.

Accounts in banks and credit unions can be insured for up to $250,000 by the Federal Deposit Insurance Corporation, or FDIC, which was established in 1933 to promote banking stability as a result of widespread bank failures as the Great Depression unfolded. Credit unions can also be insured by the NCUA.