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The Effect of the Common Bond and Membership Expansion on Credit Union Risk

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Abstract

This paper empirically examines differences in credit union risk profiles based on membership type and membership expansion via select employee groups (SEGs). We find that (1) occupational credit unions have a greater exposure to concentration risk, which they hedge by holding greater proportions of capital, (2) the presence of SEGs is negatively related to credit union capital ratios and positively related to loan–to–share ratios, and (3) the number of SEGs and the proportion of loan delinquencies are positively related. We conclude that credit union membership expansion results in reduced concentration risk and expanded investment opportunities, but also dilutes the informational advantages associated with tight common bonds.