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What drives the performance of cooperative financial institutions? Evidence for US credit unions

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Abstract

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individual credit unions with respect to staffing, governance and product portfolio, as well as philosophy and ethos, play an important role in explaining the heterogeneity in credit union performance.

Acknowledgements

The third named author acknowledges the kind support of the Leverhulme Trust.

Notes

¹See Credit Union National Association ([2004](#)) for more information on the distinctive features of US credit unions.

²Larger credit unions provide a similar array of retail financial services to personal customer as banks and savings and loan associations. In addition, credit unions may also offer interest bearing business checking accounts and commercial loans (to a multiple of 1.75 of a credit union's capital or no more than 12.25%), agricultural loans and venture capital loans. Credit unions may also deal in investment products such as bankers' acceptances, money market funds, mutual funds, and structured investments. This has enabled credit unions to offer a wider range of services than traditional providers. Credit unions are also active in promoting financial literacy and micro-finance in emerging markets (Tokle and Schmid, 2003; Schmid, 2003; Schmid, 2004).

³In the UK, credit unions are required to have a common bond between members, which can be based on geography, occupation or income.

⁴Federal credit unions are required to have a common bond between members, which can be based on geography, occupation or income. In most states, credit unions are required to have a common bond between members, which can be based on geography, occupation or income.

⁵See for example, Schmid (2004) for a detailed analysis to compute the relative importance of each variable in explaining the heterogeneity in credit union performance.

efficiency in terms of industry effects.

⁶The authors are indebted to Callahan and Associates for supplying most of the data on which this article is based.

⁷These geographical areas have become much wider during recent times. An example is America First, which in 2003 was granted a charter by the NCUA permitting it to serve members in six Utah counties.

⁸Frame et al. ([2003](#)) in a study which focuses upon the distribution of the credit union income tax subsidy emphasize the cost-efficiency effect of the common bond. The authors note that credit unions with a residential common bond have higher costs than mutuals but that single common bond occupational and associational credit unions are more cost efficient.

⁹The National Credit Union Share Insurance Fund insures individuals' shares of all federal credit unions and a majority of state credit unions. The remaining state credit unions secure share insurance from various state and private funds.

¹⁰In 2002 and 2003, a further 13 federal credit unions converted to a state charter, while an additional 51 federal credit unions merged into a state chartered credit union

¹¹In 2002 and 2003, a further 35 state credit unions converted to a federal charter, while another 10 converted to a federal charter in 2004. Source: FDIC, *State Credit Unions* (2004).



¹³A number of studies have found that the use of social media can lead to increased social support and improved mental health outcomes. Merrick (2001) conducted a study that found that 25% of adolescents have converted since 2000. He argues that

although as yet it involves very few credit unions, interest in conversion is symptomatic of the fact that legislative and regulatory events have eroded the value of the credit union charter.

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Credit Unions: A Theoretical and Empirical Overview

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Determinants of recent structural change for small asset U.S. credit unions

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