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Home ► All Journals ► Economics, Finance & Business ► Applied Financial Economics ► List of Issues
► Volume 18, Issue 11 ► What drives the performance of cooperative financial institutions?

Applied Financial Economics >
Volume 18, 2008 - [Issue 11](#)

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Original Articles

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

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credit unions seeking a more permissive operating environment has ended up negating

any potential gain in performance across the sector as a whole. In contrast to the limited role identified for sector effects, individual credit union effects explain a large proportion of the variation in performance. This suggests that decisions made by 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

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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

³In the p... mmon bond
to that o

⁴Federal income tax and franchise taxes are not levied on most state income taxes.


⁵See for example, Fried et al. ([1993](#), 1994), who utilize data envelopment analysis to compute efficiency measures for US credit unions, and explain differences in relative 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  credit union

¹¹In 2007, the U.S. was the only country to charter, while an increasing number of other countries credit union.



¹³A number of credit unions have recently converted to mutual savings banks. Merrick ([2001](#)) calculates that 16 credit unions have converted since 1995. 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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