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Original Articles

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

John Goddard, Donal McKillop & John O. S. Wilson **■**

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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

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

Notes

income taxes.

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

custome ions may also offe s (to a multiple tural loans and ven cts such as bankers sactions. This has rvices provider ole in narkets prom (Tokl n, 2003; Schmid, ³In the p mmon bond to that o ⁴Federal income or franchis most state

⁵See for example, Fried et al. (<u>1993</u>, 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.

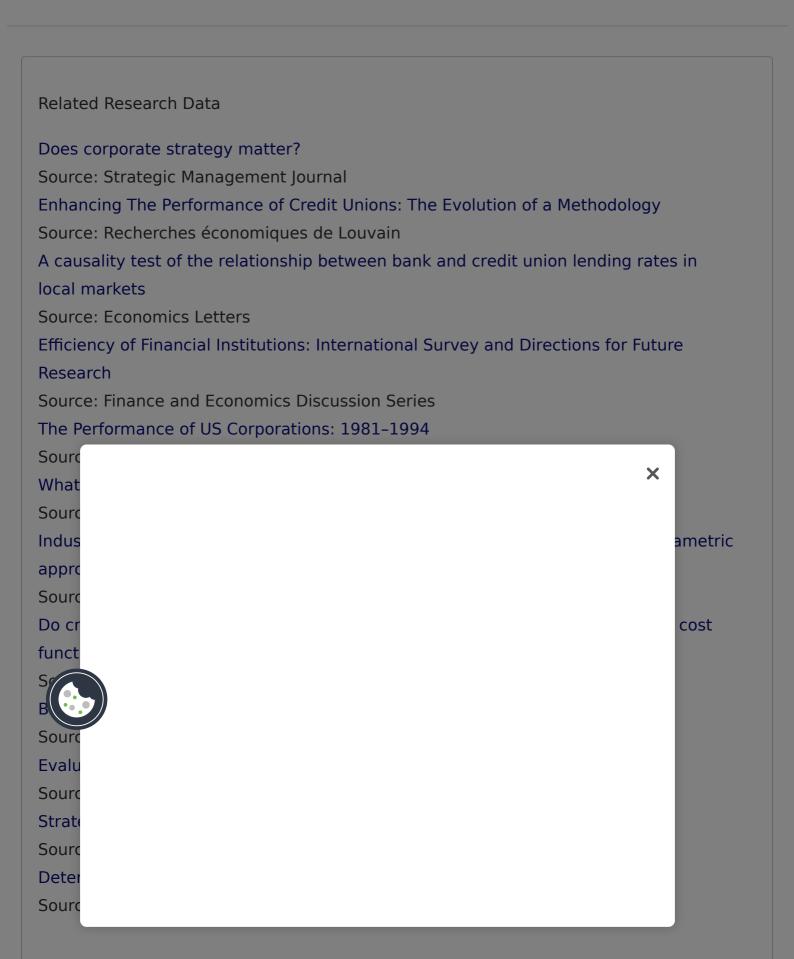
⁸Frame et al. (2003) in a study which focuses upon the distribution of the credit union income tax subsidy emphasize the cost-efficiency effect of the common bond. The authors note that credit unions with a residential common bond have higher costs than mutuals but that single common bond occupational 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 redit union X ¹¹In 200 charter, while an credit union. ¹²Roy Be ate and federal credit unior nion-related laws. irst cially build executiv the foun established the foun e drafting of the Fede which formed **IK** and

Ireland.

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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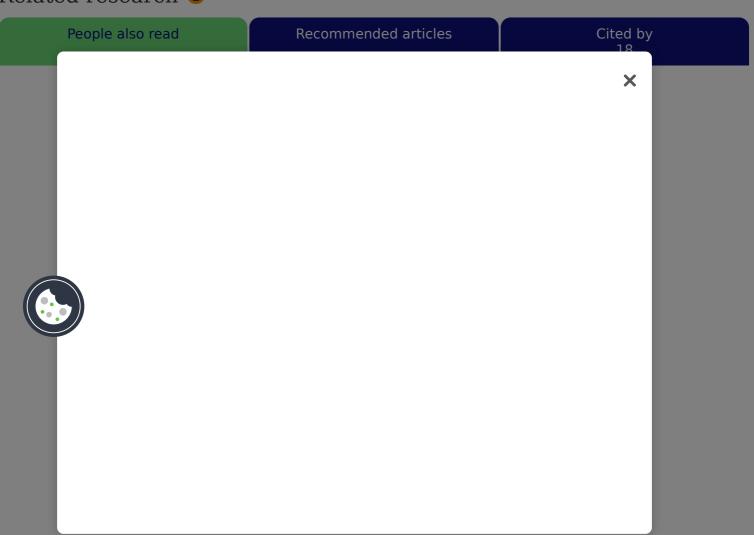
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