BANKING TRENDS

Credit Unions’ Expanding Footprint

Is there any evidence new rules could cause small banks to lose market share to credit unions?

BY JAMES DISALVO AND RYAN JOHNSTON

> *Consumers should have options in the financial marketplace. They vote with their feet and wallets. I’ve always believed there should be at least one credit union option available to every American.*
>
> *— Rick Metsger, chairman, National Credit Union Administration*

> *The “changing face” of the credit union industry should raise serious questions about whether the tax exemption continues to serve a legitimate policy goal. While credit unions were created to serve people of modest means, the benefits of the tax subsidy skew to affluent consumers.*
>
> *— Rob Nichols, president and CEO, American Bankers Association*

One of the main banking stories of the past 25 years has been the dramatic growth of large banks. Less well known is that credit unions have been expanding their market share during this time, too, especially after membership criteria were relaxed in 1998. While credit unions have been increasing their market share, small banks’ market share has declined. And now, legal changes that took effect in January 2017 expanded credit unions’ capacity to make loans to commercial customers, raising further concern among small banks that they might lose ground to credit unions.

As nonprofit institutions, credit unions are largely tax-exempt, a status that for-profit banks argue constitutes an unfair competitive advantage. Credit unions respond that their member-owned, cooperative structure allows them to provide unique financial services that would otherwise not be available, and hence their tax-exempt status is warranted. Taking no stance in this debate, we instead seek to shed light on some central questions: Do small banks and credit unions serve separate clienteles, or do they compete in the same markets with essentially indistinguishable products? What exactly do the new regulations change? What evidence can we find that regulatory changes for credit unions might take market share away from small banks?

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THE GROWTH OF CREDIT UNIONS

In recent decades, the lending industry has undergone major regulatory shifts, particularly in the wake of the 1980s savings and loan crisis and the 2008–2009 financial crisis. The loan business has also been altered by market innovations such as the rise of mortgage-backed securities. Such events and forces have reordered the competitive positions of banks, credit unions, and thrifts, a category consisting of savings and loans and savings banks.[1] As credit unions and large banks have increased their market share, small banks and thrifts have lost market share (Figure 1). Indeed, since 1990, thrifts have shrunk significantly.

Since the financial crisis, both credit unions and

SMALL VS. LARGE

We define small banks as those not in the top 100 in banking assets in a given year, including assets of only their commercial bank subsidiaries. Large banks are defined as banking organizations such as bank holding companies that are ranked in the top 100 in banking assets in that year, including assets of only their commercial bank subsidiaries.

small banks have increased their mortgage lending, although with some interesting differences that we will explore for possible evidence that the two types of lenders serve somewhat different types of borrowers. And as we will see, while small banks have pulled back on consumer lending, credit unions have gained ground there (Figure 2).

Despite credit unions' expansion, they still represent a modest 7.1 percent of all assets and loans of all depository institutions. And while there are a few large credit unions, most are small compared with small banks. The average credit union has about $198.5 million in total assets, compared with $443.6 million for an average small bank.[2] Nonetheless, in terms of total assets held, credit unions have expanded at a more rapid pace than small banks and even large banks (Figure 3).

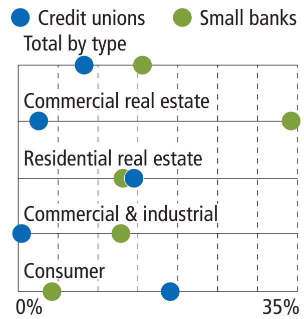
The credit union market is much less concentrated than the commercial banking market. Nationally, the top 10 credit unions control only about 15 percent of the credit union market, compared with the top 10 banks, which control approximately 57 percent of the banking market.

Credit unions have grown significantly since a 1998 law relaxed credit union membership rules. The Credit Union Membership Access Act of 1998 was created in order to expand credit unions' reach to more citizens as well as improve safety and soundness practices.[3] Previously, a credit union's members all had to share a single common bond, such as working at the same company or in the same industry or living in the same well-defined neighborhood, community, or rural district. The 1998 law permitted multiple common bonds. For instance, Allegheny Health Services Employees Federal Credit Union in Pittsburgh originally served only the employees of Allegheny General Hospital and their family members. But it later expanded its membership to include other organizations such as Family Services of Western Pennsylvania, Milestone, Inc., and Three Rivers Adoption Council.

FIGURE 2

Competitive in RRE, Consumer Markets

Shares of total loans, loan types, 2015.



Sources: Federal Financial Institutions Examination Council and National Credit Union Administration Call Reports.
Note: Shares of total U.S. depository institutions' loans and shares of loan types. Loan amounts as of December 31, 2015.

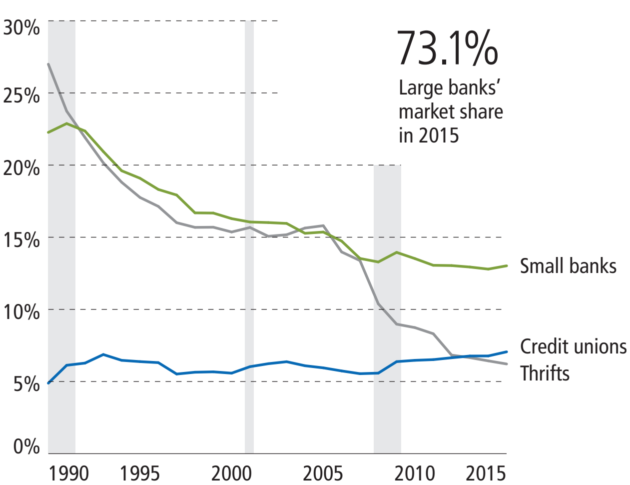
HOW CREDIT UNIONS COMPETE WITH SMALL BANKS

In addition to competing for households' deposits, credit unions compete for borrowers, mainly in the markets for residential real estate loans and consumer loans (Figure 2).

FIGURE 1

Gain in Market Share Versus Thrifts

Share of total U.S. depository institution assets.

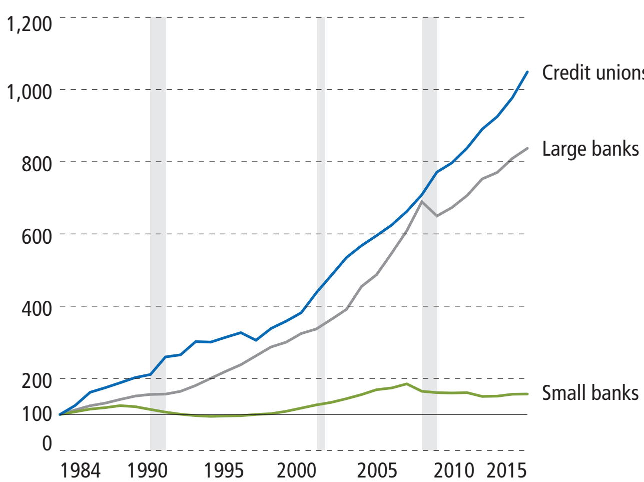


Sources: Federal Financial Institutions Examination Council and National Credit Union Administration Call Reports.

FIGURE 3

Growing Faster Than Small Banks

Total asset growth index, 1984=100.



Sources: Federal Financial Institutions Examination Council and National Credit Union Administration Call Reports.

Residential real estate loans are home loans that are secured by one- to four-family properties, and the consumer loans made by credit unions are predominantly auto loans. While the relative shares of these two categories have changed over time, their combined total has remained roughly the same at 85 percent of credit unions' loan portfolios since at least 2000 (Figure 4). The main source of growth over the past 20 years has been in residential real estate lending, particularly home mortgages and home equity lines of credit.

Residential Real Estate Lending

Credit unions have increased their share of the home loan market continuously since 1990 and at an accelerated pace since the financial crisis. Since the crisis, both credit unions and small banks have been able to increase their market share of the residential real estate market at the expense of the thrift industry as well as the large banks, which had been taking an increasing share of this market in the years leading up to the crisis (Figure 5).

Both credit unions and small banks specialize in a similar market niche: loans that are not intended to be securitized — that is, bundled into securities and sold as single interest-bearing investments. So, these mortgages don't have to conform to the stricter standards set by the major securitizers, the government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac.[4] Large banks have mostly stepped back from making nonconforming loans after the financial crisis and now concentrate on making loans that conform to GSE specifications and that are almost always securitized.[5]

In terms of both loan sizes and borrower incomes, the mortgages for purchasing one- to four-family homes that credit unions and small banks make are similar across all income tracts, according to Home Mortgage Disclosure Act data (Figure 6).[6]

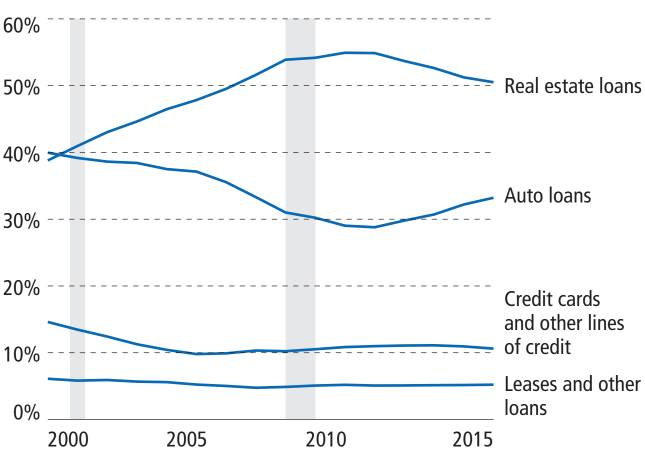
Furthermore, both small banks and credit unions make the lion's share of their home loans in middle-income tracts.[7] Thus, the data are largely consistent with the contention by the American Bankers Association that small banks and credit unions are competing for similar customers and providing loans on similar terms.[8] However, credit unions make a slightly larger portion of their loans in low- and moderate-income tracts than small banks do, providing modest support for the view that credit unions serve some customers that might not have received home loans from banks.

The broad similarities, though, hide a significant difference between the lending policies of credit unions and small banks. Credit unions reject a larger proportion of their home loan applicants, and the difference in rejection rates is greatest in low- and middle-income tracts. Furthermore, credit unions have a smaller average charge-off ratio than both small banks and large banks — 0.071 for credit unions

FIGURE 4

Specialization in RRE and Auto Loans

Loan types as shares of credit unions' total loans.

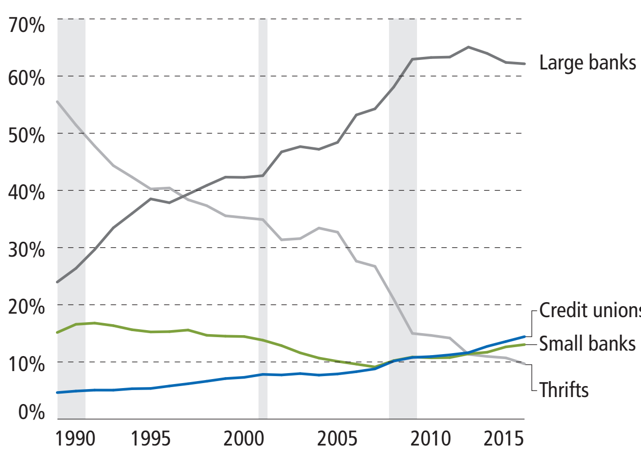


Source: National Credit Union Administration Call Reports.

FIGURE 5

Recent RRE Growth at Expense of Large Banks

Share of residential real estate loans, by lender type.



Sources: Federal Financial Institutions Examination Council and National Credit Union Administration Call Reports.
Note: Shares are as of total U.S. depository institutions' residential real estate loans. Loan amounts as of December 31, 2015.

compared with 0.107 for small banks and 0.224 for large banks as of the end of 2015. Together, their higher rejection rates and lower charge-off rates suggest that credit unions have more stringent credit standards than small banks do.

Why credit unions apparently have more stringent credit policies for home loans is unclear. We examined the share of government-insured loans at small banks and credit unions and found that a larger share of small bank home loans was insured by the Veterans Administration or Federal Housing Administration.[9] In principle, having a smaller share of government-insured loans on their books might lead credit unions to be more worried about default, because they are more exposed to loss in the event of default on uninsured loans. This exposure could prompt them to adopt tighter lending standards, resulting in their observed higher rejection rates. Yet, when we restrict our attention to conventional, uninsured loans, rejection rates at both credit unions and small banks remain largely unchanged.

We also examined the median incomes in each tract of those applicants rejected for home loans by banks versus those rejected by credit unions to see whether a higher rejection rate could be explained by a lower-income applicant pool. But the median incomes of the applicants that credit unions rejected in each tract were actually higher than for those applicants that small banks rejected.[10] Another possibility, which unfortunately isn't possible to explore using the available data, is that small banks may sell a larger share of their loans to the GSEs than credit unions do. If credit unions indeed keep more of the mortgages they make on their own books, they're more directly exposed than small banks are to the risk that their borrowers will default and arguably have more reason to impose tighter lending criteria as a safeguard.

Consumer Lending

Since 1990, credit unions have doubled their share of the consumer loan market, while small banks now have only a small share of consumer loans, having lost market share both to large banks and credit unions (Figure 7).

The vast majority of credit union consumer loans are auto loans. As of the second quarter of 2016, credit unions made up roughly 25 percent of the auto loan market.[11] While small banks do make some auto loans, they represent only about 4 percent of the market.

FIGURE 6

Similar Applicants, yet Credit Unions Turn Down a Bigger Share

Median loan amount and borrower income in each type of census tract between 2011 and 2014.

		Share of Loans			Percent Rejected			Median Loan Amount			Median Income		
		Low/ Moderate	Middle	Upper	Low/ Moderate	Middle	Upper	Low/ Moderate	Middle	Upper	Low/ Moderate	Middle	Upper
2011	Credit Unions	11.92%	52.96%	35.12%	34.66%	18.80%	13.99%	$96,000	$120,000	$170,000	$60,000	$66,000	$93,000
	Small Banks	10.87%	56.88%	32.25%	16.76%	13.69%	9.00%	$89,000	$116,000	$175,000	$57,000	$63,000	$90,000
2012	Credit Unions	14.18%	48.36%	37.47%	33.11%	17.74%	13.60%	$96,000	$127,000	$180,000	$58,000	$67,000	$94,000
	Small Banks	13.10%	49.72%	37.18%	15.57%	13.08%	8.59%	$95,000	$123,000	$190,000	$57,000	$65,000	$92,000
2013	Credit Unions	13.89%	48.35%	37.75%	29.04%	16.72%	12.91%	$104,000	$133,000	$192,000	$60,000	$69,000	$97,000
	Small Banks	12.79%	49.63%	37.59%	14.87%	12.44%	8.47%	$102,000	$130,000	$200,000	$60,000	$67,000	$96,000
2014	Credit Unions	13.43%	48.28%	38.30%	26.48%	15.48%	11.39%	$108,000	$138,000	$196,000	$61,000	$71,000	$100,000
	Small Banks	13.26%	49.71%	37.03%	13.62%	11.70%	8.05%	$107,000	$133,000	$206,000	$60,000	$69,000	$98,000

Source: Home Mortgage Disclosure Act data.

Note: A low-income census tract is defined as one where the median family income is less than 60 percent of the median family income of the metropolitan statistical area (MSA) in which it's located. A moderate-income tract has a median family income between 60 and 80 percent of the MSA median. A middle-income tract has a median family income between 80 and 120 percent of the MSA median, and an upper-income tract has a median family income greater than 120 percent of the MSA median.

Credit unions' main competition in the auto loan market is large banks, which are able to offer indirect loans through auto dealers.[12] In contrast, credit unions lend to members applying directly to the credit union rather than arranging financing at the dealership.

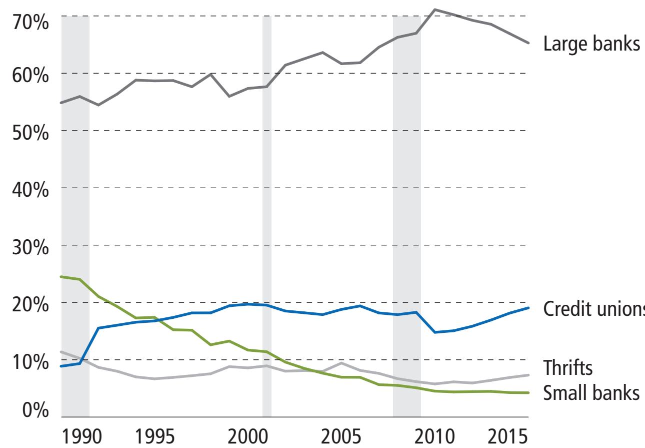
Although the available data do not permit a direct comparison between the terms of auto loans arranged by credit unions and those made by small banks, we can compare the terms from credit unions with those of banks with less than $50 billion in assets, which includes small plus midsize banks. Together, these banks make about 7 percent of all auto loans, for both new and used cars. Car buyers who finance their purchases through a credit union generally have lower credit scores, longer loan maturities, and lower monthly payments compared with those who take out a car loan from a small or medium-size bank. These results are different from our findings for residential real estate lending. In the market for car loans it appears that credit unions provide more flexible lending terms to their borrowers than do banks.

One might expect apparently less stringent credit standards to lead to higher loan losses. But credit unions have a lower aggregate ratio of consumer loan net charge-offs to average consumer loans than banks do. Together, these data suggest that credit unions have some comparative advantage over small banks in auto lending — an advantage whose possible sources we will discuss later.

FIGURE 7

Small Banks Slip in Consumer Market

Share of total consumer loans, by lender type.



Sources: Federal Financial Institutions Examination Council and National Credit Union Administration Call Reports.
Note: Shares of total U.S. depository institutions' consumer loans. Loan amounts as of December 31, 2015.

LIKELY TO EXPAND IN COMMERCIAL LENDING?

New regulations that took effect in January 2017 expand credit unions' capacity to make commercial and industrial loans and commercial real estate loans, together known as member business loans (MBLs).[13] (See the timeline, Credit Union Legislation and Regulation.)

The new regulations' liberalization puts credit unions on closer to level ground with small banks by raising limits on loan size to individual borrowers, relaxing the rules governing collateral requirements for business borrowers, and getting rid of the requirement that borrowers post full and unconditional personal guarantees — that is, a written promise from a majority business owner guaranteeing payment on a loan if the business cannot make the payment.

In addition, the new regulations effectively relax credit unions' ceiling on business loans, which had been set at 12.25 percent of a credit union's total assets, by excluding nonmember business loans from the limit. These regulatory changes may not be the end of the line. In 2016, Senators Rand Paul and Sheldon Whitehouse proposed legislation that would raise the ceiling on credit unions' MBLs to 27.5 percent of assets.

These new regulations have been a source of concern for the banking industry.[15] Business lending is important to small banks. Despite losing market share across a range of products to large banks over the past 25 years, small banks have retained a steady share of small business lending.[16] Furthermore, commercial real estate loans represent the single largest share of small banks' loan portfolios.[17] The numbers suggest that small banks continue to have some comparative advantage in small business lending and commercial real estate lending vis-à-vis large banks.

So, how can we get a handle on whether the recent and proposed regulatory liberalizations will lead credit unions to ramp up their business lending? We do not have the data about individual loans that would permit us to examine the effects of the liberalized lending standards in the current regulations. But we can shed some light on the potential effects of raising lending limits. One way to shed light on the likelihood of a significant expansion is to gauge the fraction of credit unions for which the current ceiling might already be binding — that is, it might already be a constraint on their underlying capacity to expand their MBL portfolios. In other words, can we get a sense of how many credit unions would already have gotten more heavily into business lending were it not for the current regulatory limit?

Credit Union Legislation and Regulation [14]

1909 The first credit union in the United States is formed in New Hampshire with the help of Alphonse Desjardins, who earlier had imported to Canada the European idea of cooperative financial institutions. The first U.S. credit union law — the Massachusetts Credit Union Act of 1909 — was a precursor to future credit union legislation.

1934 The Federal Credit Union Act of 1934 is signed into law by President Franklin D. Roosevelt, authorizing federally chartered credit unions in all states.

1970 The National Credit Union Administration (NCUA) is formed to supervise federal credit unions. The National Credit Union Share Insurance Fund is also formed to insure credit union deposits.

1977 New laws allow credit unions to offer new services to members, including mortgage lending and share (deposit) certificates.

1998 The Credit Union Membership Access Act of 1998 is signed into law by President Bill Clinton, authorizing credit unions to have a multiple common bond charter, establishing new requirements for financial statements and audits, imposing an aggregate limit of 12.25 percent of total assets on MBLs, restricting the NCUA's authority to regulate conversions by credit unions to savings banks, and setting new capital rules and requirements.

2017 A new NCUA rule takes effect that gives credit unions more flexibility and autonomy in providing MBLs and commercial loans to their members. It replaces prescriptive requirements and limitations — such as collateral and security requirements, equity requirements, and loan limits — with a broader, principle-based approach.

Source: NCUA, "A Brief History of Credit Unions," https://www.ncua.gov/About/Pages/history.aspx.

To estimate how many credit unions might be poised to expand their commercial lending, we calculate the share of credit unions in each size category whose MBLs make up between 8 and 12.25 percent of their total assets.[18] We find that an increasing number of credit unions — mainly those with assets in excess of $500 million — are near the old ceiling. For example, we see that among credit unions with assets of $1 billion to $5 billion, the 12.25 percent limit might be binding on nearly a quarter of them. About 17 percent of credit unions with assets in the $500 million to $1 billion range might view the 12.25 percent limit as binding (Figures 8 and 9). This suggests that the higher ceiling might prompt these institutions to further increase their business lending activities.[19]

While this estimate may sound somewhat ominous for small banks, it's important to keep these numbers in perspective. The number of credit unions that might be ready to increase their business lending above the current limit totals just 228. That number represents about 3.7 percent of all credit unions in the United States. Although this isn't a trivial number, it also isn't very large.[20]

DOES THE SUBSIDY SERVE A PUBLIC PURPOSE?

One thing we haven't yet discussed is how their different tax status could affect the loan terms offered by credit unions versus small banks. While our findings for home loans do not suggest that credit union borrowers benefit from the tax subsidy, our evidence of more flexible terms for auto loans suggests that these borrowers might capture some of the benefit. The credit union industry has argued that their structure as nonprofit, mutually owned institutions enables credit unions to provide flexible, low-cost financial products and services to their members, while the banking industry maintains that the sole difference is that banks pay taxes and credit unions don't.

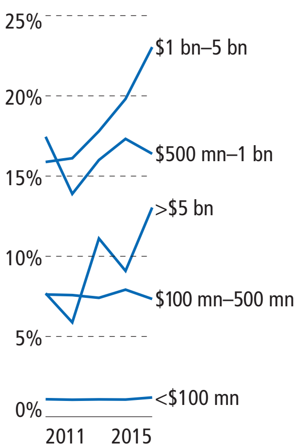
How large is this taxpayer subsidy? The total estimated value of the credit union tax subsidy was $1.7 billion in 2015, according to the Office of Management and Budget (Figure 10). This total represents 3 percent of total revenues in 2015, certainly not a negligible number.

Of course, just because credit unions receive this tax benefit does not necessarily mean that it's passed on to their members, either through higher deposit rates or more attractive loan terms. A 2016 working paper attempted to quantify who actually captures the subsidy. Robert DeYoung and his coauthors compared a sample of credit unions to roughly comparable small banks and estimated that approximately

FIGURE 8

Member Business Lending Varies with Size

Share of credit unions with MBLs between 8% and 12.25%, 2011–2015.

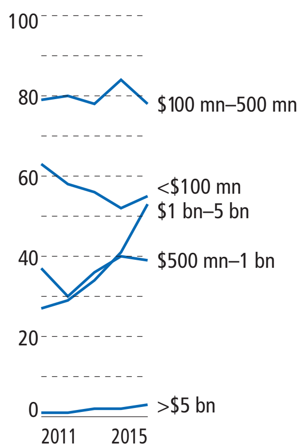


Source: National Credit Union Administration Call Reports.

FIGURE 9

Ceiling May Be a Factor for Some

Number of credit unions with MBLs between 8% and 12.25%, 2011–2015.

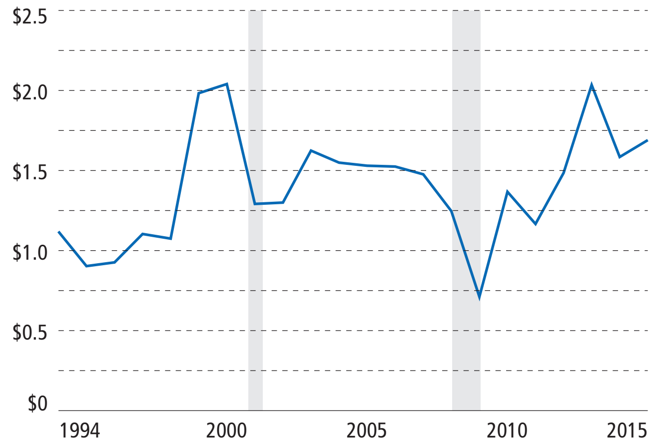


Source: National Credit Union Administration Call Reports.

FIGURE 10

Subsidy Is Significant

Real tax expenditure on exemption of credit union income, billions of dollars.



Source: Office of Management and Budget, *Analytical Perspectives*.

three-quarters of the subsidy is passed on to credit unions' customers in the form of higher deposit rates. They found that the rest of the subsidy is spent on hiring more workers than required for efficient performance or lost through investment in securities that receive below-market returns.[21] Indeed, they also raised the question of whether even the portion of the subsidy that is passed on to credit union customers serves valuable social goals, since many of the credit unions' customers are not low income or disadvantaged.

SOME THINGS WE KNOW AND SOME WE DON'T

The evidence presented here suggests a mixed picture about differences among the products offered by credit unions and banks. Both the home loans and home loan borrowers for banks and credit unions look very similar. But the higher rejection rates and lower charge-off rates at credit unions suggest that credit unions are using more stringent credit standards in their residential real estate lending than small banks. On the other hand, credit unions appear to offer more flexible terms on their auto loans. They offer auto loans to somewhat riskier customers at more attractive terms without suffering larger loan losses. And recent research by DeYoung and his coauthors shows that credit unions offer their depositors higher interest rates than otherwise comparable small banks and that these higher deposit rates capture a large share of the tax subsidy.

The apparent difference between credit unions' lending strategies in the home loan market versus the auto loan market suggests a couple of possible explanations. Credit unions lend primarily to their members, so their borrowers are more likely than bank borrowers to have funds on deposit with the lender. This difference may allow credit unions to give more of their borrowers a disincentive to default by, for instance, freezing or automatically debiting the accounts of members who are behind on their loan payments. This access to more borrowers' deposits may reduce credit unions' charge-off rates, particularly for smaller loans such as auto loans.

A second factor, less easy to quantify, is that the decision to join a credit union may act as a type of selection effect. For example, a customer who decides to finance a car purchase through a credit union intentionally forgoes the convenience of securing financing on the spot through the dealer in search of better terms. This decision may relate to other, less easily observed factors — say, stronger financial habits or acumen — that increase the likelihood that this customer won't default on the loan.[22]

The body of academic research on credit unions is tiny relative to the research on banks. Credit unions deserve closer study, especially as they expand beyond their traditional market niche.

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NOTES

[1] Thrifts traditionally specialized in making fixed-rate home loans that they held on balance sheet — a niche that was significantly eroded by market forces such as the growth of securitization and regulatory changes such as the deregulation of deposit rates. The Dodd–Frank Financial Reform Act abolished thrifts' most important remaining source of comparative advantage, a solicitous regulator, the Office of Thrift Supervision.

[2] Unless otherwise noted, the data presented here are from Federal Financial Institutions Examination Council and National Credit Union Administration Call Reports.

[3] Along with new multiple group membership rules, the credit union act of 1998 also set new rules related to financial statements and audits, member business loans (MBLs), conversions to savings bank charters, capitalization and net worth, and the National Credit Union Insurance Fund equity ratio and premium authority.

[4] Nonconforming loans include jumbo loans, loans with smaller down payments, and adjustable-rate loans. A jumbo loan is a home loan for an amount that exceeds conforming loan limits established by regulation. The jumbo loan limit is $417,000 in most of the United States and $625,500 in the highest-cost areas.

[5] For a discussion of the differences between small and large bank residential real estate lending, see our *Banking Trends* article, "How Dodd–Frank Affects Small Bank Costs."

[6] Unless otherwise stated, the loan sizes and borrower incomes we discuss in this article are the median values for accepted mortgage applicants in a given census tract: A low-income tract is defined as one where the median family income is less than 60 percent of the median family income of the metropolitan statistical area (MSA) in which it's located. A moderate-income tract has a median family income between 60 and 80 percent of the MSA median. A middle-income tract has a median family income between 80 and 120 percent of the MSA median, and an upper-income tract has a median family income greater than 120 percent of the MSA median.

[7] Although there are no data that would permit a comparison of loan rates by income tract, it does appear that credit unions at best charge the same rate on mortgages. For example, the average rate on a 30-year fixed mortgage at U.S. credit unions on September 30, 2016, was 3.60 percent, the exact average rate that U.S. banks were charging on that day. These data are from the National Credit Union Administration and SNL Securities (now known as S&P Global Market Intelligence).

[8] See the association president's letter.

[9] We also include Farm Security Administration loans and Rural Housing Service loans.

[10] Of course, income is only one indicator of a borrower's creditworthiness, but the Home Mortgage Disclosure Act data set does not include other indicators of creditworthiness for rejected applicants. Without more detailed information about rejected applicants, we can't rule out the possibility that the applicant pool at credit unions is riskier.

[11] These statistics are calculated using automobile trade line data acquired from Equifax by the Federal Reserve Bank of Philadelphia. The data on charge-offs are from the Federal Financial Institutions Examination Council and National Credit Union Administration Reports of Condition.

[12] Anecdotally, unlike large banks, small banks do not have the necessary scale to bargain with dealers to gain favorable terms.

[13] Member business loans (MBLs) consist of construction and land development loans, loans secured by nonfarm residential property, loans secured by nonfarm nonresidential property (together, commercial real estate loans in banking parlance), loans secured by farmland, loans to finance agricultural production, commercial and industrial (C&I) loans, unsecured business loans, and unsecured revolving lines of credit granted for business purposes. The outstanding net aggregate business loan amount per lender must be over $50,000 to be considered an MBL.

[14] For more details and information on the new MBL rule, see https://www.ncua.gov/regulation-supervision/Documents/Regulations/FIR2016218member-business-loans.pdf.

[15] See for example, a press release from the Independent Community Bankers of America, https://www.icba.org/news-events/latest-news/2016/11/17/icba-standing-firm-in-credit-union-lawsuit.

[16] See our *Banking Trends* article, "How Our Region Differs."

[17] See our *Banking Trends* article, "The Growing Role of CRE Lending."

[18] There are five size categories: credit unions with assets of less than $100 million, $100 million to $500 million, $500 million to $1 billion, $1 billion to $5 billion, and greater than $5 billion.

[19] Before 2017, some credit unions could be given an exemption to make business loans above the 12.25 percent limit. To qualify for an exemption, a credit union had to submit a waiver and meet one of three requirements: They must have a low-income designation, be chartered for the purpose of making MBLs, or have a history of primarily making MBLs (meaning MBLs are at least 25 percent of a credit union's outstanding loans or MBLs comprise the largest portion of their loan portfolio). As of year-end 2015, 142 credit unions with total assets of $65.2 billion were over the 12.25 percent asset limit. These represent 2.3 percent of credit unions and 5.3 percent of total credit union assets.

[20] Our discussion assumes that a credit union that is not near the regulatory limit is unlikely to be constrained by the regulation. However, for some very small credit unions, the fixed costs of, for example, hiring a lending officer might prevent them from making any business loans unless the limit is raised.

[21] DeYoung and his coauthors also review the literature on the relative efficiency of credit unions and other mutually owned intermediaries. Prior studies had found conflicting results, so DeYoung and his coauthors' results are best viewed as a valuable contribution to a still unsettled debate.

[22] A third factor that has been noted by some observers is the possibility that credit unions have what banking economists refer to as "soft information" about their customers. Perhaps this is related to their deposit account activity or to the common bond requirement. However, we do not find evidence that soft information is important for home loan decisions.