

Press Summary of “Credit Union to Mutual Conversion: Do Rates Diverge?”

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The authors note that over the past ten years, roughly 30 credit unions in the U.S. have converted to mutual savings banks. The majority of these institutions have subsequently converted to stock-owned institutions. This activity, while very limited in terms of number of institutions, has been hotly debated. Opponents of this activity say that in almost every case this process has been motivated by insider greed because it results in an economic transfer of wealth from credit union members to insiders. Further, some argue, credit union members are not properly informed of the negative consequences of the conversions. Advocates, on the other hand, say that converted credit unions can maintain and even improve their level of service to members. These conversions, they argue, increase flexibility and make institutional growth easier.

This study conducts a cross-sectional analysis of 175 depository institutions, assessing the impact on the interest rates charged on loan products and offered on savings products by the size of the institution, its liquidity, its net worth, its tax and salary payments, and its status as a for-profit institution, a credit union, or a converted credit union. The principal findings are:

- After accounting for all other variables, credit unions offer higher rates on savings accounts and lower rates on many loan products than do for-profit institutions.
- After accounting for the impact of all other variables, credit unions offer significantly higher interest rates on 3 of 4 savings products examined (excepting interest-bearing checking accounts) and charge significantly lower interest rates on all three loan products examined compared to converted credit unions.

Table 1b - Average Interest Rates by Product and Institution Type			
	Always Credit Unions	Converted Credit Unions	Always Banks
Savings Products			
Regular Savings Accounts	0.93	0.61	0.64
Money Market Accounts	1.19	1.01	0.86
Checking With Interest	0.47	0.42	0.37
One Year CD	3.17	3.14	2.89
Loan Products			
Unsecured Loans	11.02	12.14	12.87
Regular Credit Cards	12.03	13.49	12.97
Gold Credit Cards	10.38	11.16	11.38
Used Auto Loans	5.41	6.25	7.86
New Auto Loans	5.17	5.83	7.21
Home Equity Loans	5.97	6.07	6.15