

Abstract

Credit Union Size and Growth: Tests of the Law of Proportionate Effect

Cross sectional and panel methods are used to test the law of proportionate effect for Federally Chartered US Credit Unions over the period 1991 to 1997. Size effects on growth are tested, using a model that also incorporates persistence of growth. The model is estimated for all credit unions, and for sub-sectors defined by common bond category. In general, the results suggest that large credit unions tend to grow faster than their smaller counterparts. This superior growth is attributed to merger and acquisition activity, scale economies and the effects of regulation in driving the growth of larger credit unions. Credit unions with above average growth in one period tend to experience below average growth in the next, and small credit unions tend to have more variable growth rates than their larger counterparts. Large credit unions may enjoy advantages associated with learning economies of scale or diversified operations, which make them less susceptible to extreme fluctuations in growth performance.