Discussion of “Credit Union Expansions: A Fork in the Road for Local Banks?” by Chen, Ramcharan, Wang and Zhang

James Vickery (Federal Reserve Bank of Philadelphia)

AFA Meetings

January 3, 2026

FEDERAL RESERVE BANK
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Overview of the paper

- Paper studies February 2017 rule change that relaxed “field of membership” restrictions for *federally-chartered* credit unions (“FCUs”)
  - E.g., allows FCUs to expand geographically within a CBSA etc.
  - Rule change did not directly affect state-chartered credit unions (“SCUs”)

- Viewed as competition shock for banks
  - Larger competitive effects if *ex ante* FCU market share was high (i.e., shift-share strategy).

- How do banks respond?
  - Small banks (<$100bn) actively compete: i) increase deposit rates, ii) reduce loan rates, iii) lend to riskier and/or lower-income borrowers, iv) grow more (?)
  - Large banks compete less actively and are more likely to withdraw (e.g., close branches)
  - Consistent with simple Salop theory model in which small banks have advantage in local lending

Overall reactions

- Overall -- very interesting paper studying what appears to be a really nice natural experiment
  - Significant relaxation of regulatory constraints on credit union growth
  - Benefits one type of credit union (FCUs) but not another similar type (SCUs)
- Sheds new light on how credit unions shape competition in financial services
- My comments:

1. Show effects of policy change on FCU growth more clearly
2. Isolating the effects of CU competition on banks
3. “What’s different about credit unions?”

Did FCUs *actually* grow faster after 2017 policy change?

- **Necessary first step:** Important to convincingly show us the 2017 rule change allowed FCUs to expand and compete more fiercely (and quantify how much) – paper can do more here

- I found current CU-level evidence (table 3) somewhat confusing / unsatisfying:

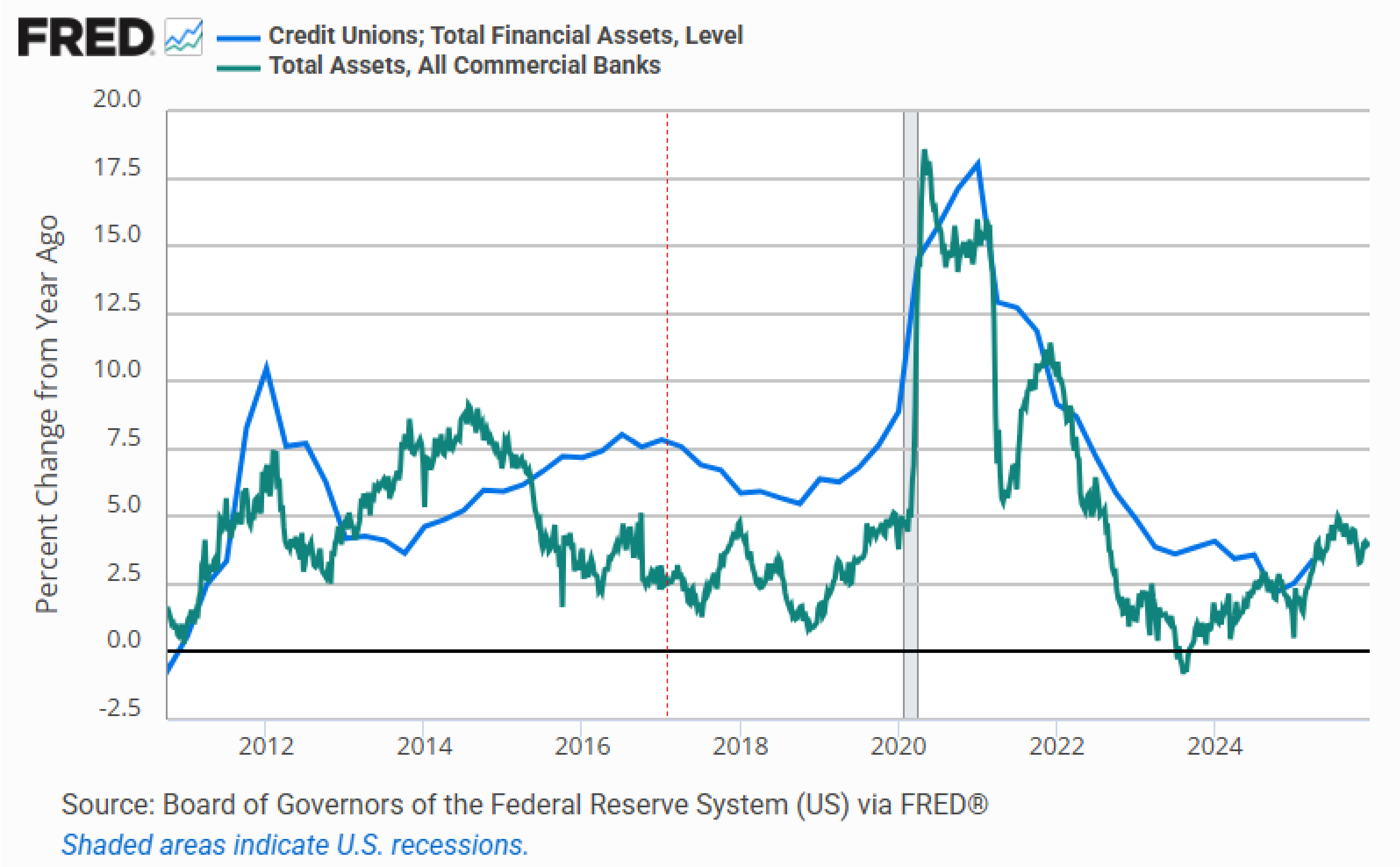
Dep. Var.	(1) Sum of branches	(2) Sum of counties operating	(3) Log Members	(4) Log Assets
FCU × FCU fraction × Post	2.705**	0.806*	0.232***	0.241***
	(1.329)	(0.436)	(0.074)	(0.068)
FCU × Post	-0.651***	-0.208***	-0.052***	-0.066***
	(0.183)	(0.072)	(0.009)	(0.009)
CU FE	Yes	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes	Yes

1. FCU x post is *negative* → FCUs *shrank* (in relative terms)?

2. Triple interaction is positive, but mean of FCU fraction is only 0.11 [sum of two terms still negative for avg FCU?]

3. Why does FCU mkt share matter for post-reform growth of an *individual* FCU?

How did policy change affect CU growth?



- Would be great to start by showing effects of 2017 policy change on FCUs in simple graphs
- Left: In aggregate, CUs grew faster than banks in 2010s. But this was already true *prior* to 2017.
  - But what if you split by FCUs vs SCUs? (great placebo)
  - Could also just compare to smaller banks (<$100bn)?

Tracing out FCU growth: other suggestions for analysis

1. Dynamic versions of table 3 at the CU level *without* triple-interactions over full six-year window:

   $size_{it} = \gamma_t \, . \, FCU_i + \delta_t$ + location fixed effects + other controls….

   where size is assets, branches, number of markets etc. – ideally estimate by Poisson.

   (Also consider test for pre-trends a la Roth 2022; refinements like matched-sample DiD a la Abadie 2005…)

2. Then show us at the *market* level that:

   i. FCUs capture a greater share of overall intermediation after 2017 compared to banks and SCUs (e.g., a higher share of mtg lending)

   ii. This increase in (i) is more pronounced if the *ex ante* FCU share is higher

Clarify (and exploit) the institutional details

- Paper could do more to clarify exactly *which markets* were most affected, and the *timing* of the effects – particularly given ABA lawsuit

NCUA to Phase in FOM Regulations After Legal Victory

Credit unions have more options to expand their field of membership thanks to a legal victory over the American Bankers Association regarding a 2016 rule.

Sam Brownell
Published Sep 4 2019

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Appeal Decision Reached in ABA vs. NCUA Case

The decision finally came down Aug. 20, in the appeal of American Bankers Association (ABA) vs. the National Credit Union Association (NCUA). The opinion could create a lot of field of membership expansion opportunities for community chartered and multiple common bond federal credit unions. The court sides with the NCUA on two main issues, meaning the following two changes in regulations from 2016 are now being phased in:

- "Well-defined local community" was previously defined as within a County or a Core-Based Statistical Area (CBSA). This definition now extends to Combined Statistical Areas (CSA), which are groups of CBSAs. It is still limited to areas with populations of less than 2.5 million people.
- A "rural district" was previously capped at a population of 250,000, but that cap increased to 1 million people.

Can we view *FCU fraction* as "as-if" random?

- In studying effects on banks, paper runs regressions of the form:

$$Y_{i,t} = \beta_1 FCU\ \ fraction_i \times Post_t + \beta_2 FCU\ \ fraction_i + \beta_3 Post_t + \gamma_t + \delta_i + \varepsilon_{i,t}, \qquad (3)$$

where the dependent variable is a bank's balance sheet component for bank i in year-quarter t.

- Natural concern: *FCU fraction$_i$* is not random. Suggestions to make progress:

  1. Use "*SCU fraction*" as placebo test in this part of the analysis – great control group!
  2. Again – test for pre-trends to show FCU effect emerges only after 2017
  3. Exploit geography more: e.g., if policy change allowed FCUs to expand to new counties within a CBSA, use "*FCU neighbor share"* to measure exposure to FCU competition?

“What’s different about credit unions?”

Would be interesting to say more about *which* bank activities credit unions compete with … e.g.,:

1. Many smaller banks focus on commercial lending and CRE – how much does CU competition matter here, if at all?

2. Underserved products; e.g., small-value mortgages? (Chu et al., 2023; Urban Institute 2022)

3. Role of technology: are CUs less of a competitive threat for technology-centric banks?

Summing up

- Credit unions have grown significantly in recent years -- important to understand *drivers* of this growth (e.g., better customer service? Incentives? Regulatory arbitrage?) and *implications* for banks and consumers / firms

- This paper – credit union growth can help explain retreat of large banks e.g., in terms of branch network size, mortgage offerings etc.

- Scope to refine analysis, but results are very interesting. I look forward to seeing future versions!