

Banking on the Firm Objective

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January 2019

Abstract

How much do firm objectives matter? In the case of the traditional banking sector in the U.S., cooperative credit unions lent as much as 10 percentage points more relative to commercial banks during the Great Recession. Higher lending was sustained by 15-20 percent lower profitability margins. Comparing institutions that faced identical borrowers within the same local credit markets and the same crisis exposures show that the effect is supply-driven. Loan pricing, informational advantages, tax benefits, and regulatory environments do not explain the results. Rather, member-oriented non-profit firm objectives enabled the \$1.3 trillion dollar credit union industry to lend more relative to profit-maximizing banks.

Keywords: Banking; Firm objectives; Household finance; Great Recession

JEL Classifications: D22, G01, G21, L21, L33, P13

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