Effects of Credit Union Loans vs. Bank Loans on Employment and Firm Creation

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The purpose of this paper is to determine the relative impact of credit union and large bank investment in business on the state level. This is accomplished by studying the relationship between quantity of credit available for loans by each financial institution and the growth and expansion of the local economy. Ordinary Least Square (OLS) Regression was used to estimate the parameters of investment by each financial institution and determine the relationship between the explanatory variable (amount of credit union or bank deposits) and the dependent variables (number of new establishments and number of employees per establishment). The results of the study show that bank deposits had a significant positive relationship with the number of new establishments, while the credit union deposits did not. Neither group had a significant relationship with the number of employees per establishment. The conclusion is that credit unions have a negligible effect on job growth on the state level, and would not serve as an economic stimulus if the goal is to decrease unemployment levels or create new businesses, whereas banks would.