FEDERAL CREDIT UNIONS: GROWTH AND OPERATIONS, 1934-1961

by

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INTRODUCTION

This study deals with federal credit unions on a national basis. It attempts to answer such questions as the following:

What is a federal credit union? Where does the federal credit union stand, as a financial institution, in our present day economy? Are there economies of scale in the larger credit unions' operations? Should there be a tax upon the earnings of federal credit unions similar to the tax upon earnings of other financial institutions (such as commercial banks and savings and loan associations)? For what purposes do credit unions lend?

This study also analyzes federal credit union growth and operations. It attempts to point out the significant changes that have taken place in the federal credit union system since 1934.

The method of presentation in this study is both historical and statistical. In the analysis of statistical data the emphasis is predominantly on developments in recent years.

There are six chapters in this study. A brief synopsis of each follows:

Chapter 1. Origin, Development, and Organization.

A brief explanation of the functions of credit unions is given. A history of credit union development is presented, with emphasis on the historical and legislative development of the federal credit union.

Chapter 2. Growth and Size of Federal Credit Unions.

The number of federal credit unions, number of members, amount of shares, amount of assets, and asset distribution among credit unions will be presented. Growth rates will be analyzed and compared.

Chapter 3. Analysis of Assets and Liabilities.

Assets and liabilities will be presented with a thorough analysis of these statistics for selected years.

Chapter 4. Analysis of Income, Expense, and Dividends.

Income and expense items will be presented and analyzed. Statistics for income and expense will be presented for 1939-1961 and detailed breakdown of income and expense items will be performed for selected years. Possible economies of scale in large credit unions will be explored.

Chapter 5. Member Saving and Borrowing.

Statistics showing the value of federal credit union member shares and amount of loans outstanding will be presented. The purposes for which money is borrowed is studied.

Chapter 6. Conclusion.

Here it is attempted to summarize and answer conclusively the questions involved in this study.

CHAPTER I

ORIGIN, DEVELOPMENT, AND ORGANIZATION

The Federal Credit Union Act describes a Federal Credit Union as a cooperative association organized in accordance with the provisions of the Act for the purpose of promoting thrift among its members and creating a source of credit for provident and productive purposes. Federal credit unions are corporations chartered by the United States to operate among well defined groups with a strong common bond.[1]

The growth of federal credit unions has been healthy since the passage of the 1934 Act. Except for the years of World War II, their growth in numbers, membership, and assets has been vigorous. At the end of 1961, twenty-seven years after the passage of the original Federal Credit Union Act, federal credit unions numbering 10,271 were operating in all 50 states, the District of Columbia, Canal Zone, Puerto Rico, and the Virgin Islands; their 6½ million members held aggregate assets of over 3 billion dollars. The amount of loans outstanding was slightly in excess of

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[1]U. S. Congress, Federal Credit Union Act, Public Law No. 467, 73rd Congress, 1934.

2.2 billion dollars.[1]

A federal credit union is an institution of personal finance, operating under government charter and owned and managed by its members for their mutual benefit. Charters are granted only to groups with definite bonds of association, occupation, or residence.[2] Examples of associational credit unions are those established by religious, fraternal, cooperative, or labor organizations. The most common type of occupational credit union is one organized among employees of a company or other common employer. A residential credit union is one organized by people living in a small town, in a particular township or county, or in a distinct section of a larger city. In all cases, the people making up the membership should have a certain feeling of cohesiveness and neighborliness which will be an incentive to cooperate with each other in solving financial problems.

As a financial institution, the federal credit union's function is to furnish its members with facilities for saving money and for using their pooled savings to obtain personal loans at a minimum cost. As a social

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[1] 1961 Report of Operations, Federal Credit Unions, U.S. Department of Health, Education, and Welfare (Washington: U.S. Government Printing Office, 1962), p. 2.

[2] Erdis W. Smith, "Federal Credit Unions: Origin and Development," Social Security Bulletin, November 1955 (Washington: U.S. Government Printing Office, 1955), p. 3.

agency, the federal credit union creates for its membership, in many cases, personal experiences in group action designed to better the community. It adds to the individual welfare by establishing facilities for rewarding thrift and for obtaining credit on reasonable terms. We will become more explicit on these matters in this and later chapters.

The credit unions which inspired the American system were started as cooperative institutions in the German Empire to meet the credit needs of small entrepreneurs. Small farmers and artisans there suffered greatly at the hands of usurious money lenders in the early part of the nineteenth century. Recognizing the seriousness of the situation, Herman Schulze, then mayor of Delitzsch, Prussian Saxony, organized a cooperative bank in his town in 1850.[1]

This institution was philanthropic in nature and not self-supporting. Three years later he started another which was self-sustaining and in which members subscribed the share capital. These two societies were the wellspring of the modern European urban cooperative.[2]

The rural counterpart of the cooperative credit movement had its beginning in 1849. In that year Friedrich

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[1] Ibid.

[2] M. R. Neifeld, Cooperative Consumer Credit, (New York: Harper, 1936), p. 11.

Wilhelm Raiffeisen, a wine merchant and mayor of a group of small villages around Neuwied, Germany, established his first loan society for the use of farmers. Members of this first society were not farmers, but rich philanthropists who sold cattle on easy terms to unorganized farmers. Raiffeisen's third cooperative bank, which was an adaptation of the Schulze plan, was established in 1862 at Anhousen. This society was made up of farmers who pooled their funds so that members might borrow through the society.[1] This original experimentation with rural groups by Raiffeisen led to the further development of cooperative credit in Germany and its eventual spread throughout the world. Credit unions in the United States, though descendants of the Schulze and Raiffeisen cooperative banks, bear little resemblance to them. The consumer-credit-cooperative is distinctively an American concept. It has been developed with the consumer in mind, while the European societies were created for the benefit of small producers in urban as well as in rural districts.[2]

The beginning of cooperative consumer credit on the American continent goes back to 1900, when Alphonse Desjardins started La Caisse Populaire, or the People's Bank, at

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[1] Ibid.

[2] Ibid., p. 17.

Levis near Quebec. As a journalist he had become acquainted with usurious money lending among the workers of Montreal. He was much distressed by this activity. After studying the cooperative credit societies of Europe and the savings bank system of New England, he organized North America's first credit union in 1900.[1] Desjardins also organized the first credit union in the United States. In December 1908, he organized the credit union among a group of French Canadians who had immigrated to Manchester, New Hampshire. A special charter was granted to this society by the State Legislature on April 6, 1909.[2]

In the United States the major impetus for the credit union movement came from Desjardins and Edward A. Filene. In 1908, Mr. Filene, a Boston merchant, came in contact with the rapidly developing German societies, directly traceable to the Raiffeissen influence. The philanthropist, Filene, had first learned about credit unions on a trip to India where a representative of the British government, Gourley, was successfully showing Indians how to provide themselves with low cost credit. Filene returned home deeply impressed and convinced that the idea should be advanced in the United

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[1] Credit Union Yearbook 1956, (Madison: Credit Union National Association, 1956), p. 20.

[2] Roy F. Bergengren, Crusade, The Fight for Economic Democracy (New York: Exposition Press, 1952), p. 40.

States. In 1909 a bill was prepared and offered for enactment in the Massachusetts legislature. Desjardins was then invited to Boston to appear in favor of the bill before the appropriate legislative committees. Also, Filene added very valuable testimony based on his observation of cooperative credit abroad. The bill was subsequently enacted April 21, 1909.

After the passage of the 1909 Act in Massachusetts, promotional efforts for establishment of credit unions and credit laws became more intense. Pamphlets were issued in Massachusetts explaining credit unions. North Carolina appointed a Superintendent of Cooperatives and Credit Unions in 1915, whose job was to promote and organize these associations.[1] The Russell Sage Foundation did extensive promotional work in New York and published some materials on credit unions that had a nationwide circulation and impact. In 1921 Filene and Roy F. Bergengren organized the Credit Union National Extension Bureau to promote the passage of credit union laws and the organization of credit unions.[2] The Bureau was succeeded by the Credit Union National Association (CUNA) in August 1934, with Mr. Filene as president and Mr. Bergengren as managing director. The

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[1]Smith, p. 6.

[2]Roy F. Bergengren, CUNA Emerges (Madison: Credit Union National Association, 1936), p. 23.

purposes of CUNA were, and still are, to combat usury, promote organization of new credit unions, help existing credit unions do a better job for their members, and work for good credit union legislation. Today CUNA is also active in the fields of loan protection insurance, life insurance, and insurance counselling. It also supplies credit unions with office supplies and equipment. CUNA consists of leagues of credit unions in the individual cities, states, and provinces. It is financed by dues paid by such member leagues which have received dues from their member credit unions.[1]

Credit union development was fairly rapid in the United States between 1909 and 1934, but organization was slow or even non-existent in some states due to lack of enabling legislation or laws that were hostile to credit union development. There seemed to be a need for legislation which would allow credit unions to be established in any state. Of course, this was primarily the opinion of credit union promoters of that time. Credit union promoters had enough influence to get a bill introduced in the 73rd Congress. The bill as subsequently enacted in June 1934 is known as the Federal Credit Union Act. The Act permits credit unions to be organized, under federal charter, in any state or territory over which the United States has sovereignty. The administration of the Federal Credit Union Act

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[1]Ibid., p. 181.

was originally assigned to the Governor of the Farm Credit Administration. In April 1942, the responsibility was transferred to the Federal Deposit Insurance Corporation where it remained until July 1948. At that time the Bureau of Federal Credit Unions was created and made a part of the Federal Security Agency--now called the Department of Health, Education, and Welfare.

To organize a federal credit union, a group with a common bond of association, occupation, or residence submits an organization certificate to the Bureau of Federal Credit Unions. If the Director of the Bureau approves the organization certificate, it thereby becomes the corporate charter of the federal credit union and authorizes the group to operate in accordance with the Federal Credit Union Act. The corporate form of business organizations is the most practical method by which such a relatively large group of people can pool their resources for economic purposes.

Some of the legal powers of the federal credit union include the power to:

1. Make contracts necessary to carry out its purpose.

2. Sue and be sued.

3. Purchase, hold, and dispose of property necessary or incidental to its operations.

4. Make loans to members, subject to limitations. A federal credit union may not make a loan to any person who

is not a member. No loans can be made to any organization except that loans may be made to other credit unions. Loans made to members must be for provident or productive purposes and must be approved by the credit committee or a loan officer. Interest rates may not exceed 1 percent per month (12 percent per annum) on unpaid balances, including all charges incident to making the loan. Loans to directors, supervisory committee, or credit committee members may not be larger than the amount of their particular shareholdings.[1]

A loan to any member may not be larger than 10 percent of the credit union's unimpaired capital and surplus. A credit union with less than $2,000 of unimpaired capital and surplus may make loans up to $200. No loan may be made to any member for more than $750 unless the amount over $750 is adequately secured. Any loan made must be repaid within five years or less. As an example of how federal credit union legislation has kept pace with our changing economy, it is interesting to note that in 1939 the unsecured loan limit was $50 and maximum maturity of the loan was 2 years. At the present time, depending on the size of the credit union, adequately secured loans may be as large as $10,000.

5. Receive from its members payments on shares.

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[1]Handbook for Federal Credit Unions, U.S. Department of Health, Education, and Welfare (Washington: U.S. Government Printing Office, 1961), p. 3.

Shares in a credit union are not deposits, and shareholders are owners, not creditors or depositors. Share payments may be made by payroll deductions, mail, or any other method used by the member and which is acceptable by the board of directors. Installment payments on shares may be as small as 25 cents a month. Shares in federal credit unions are not insured by any agency of the Federal Government.

6. Invest its funds. A federal credit union has only four outlets for the investment of its funds. It can invest in: loans to members; obligations of the United States; loans to other federal credit unions, and to credit unions chartered under the laws of any of the States or Territories of the United States; shares or accounts of savings and loan associations whose accounts are insured by the Federal Savings and Loan Insurance Corporation.

7. Federal credit unions can borrow money from any source willing to lend, such as another credit union, banks, or individuals. However, it may not borrow an amount greater than 50% of its paid-in and unimpaired capital and surplus.[1]

These are some of the specific powers given federal credit unions which enable them to carry out the purpose for which they are incorporated.

Chart 1 shows the organizational structure of a

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[1]Ibid., p. 4.

CHART 1. ORGANIZATION OF A FEDERAL CREDIT UNION

MEMBERS

Privileges

1. Saving small sums regularly with convenience and safety.
2. Obtaining loans for useful purposes.
3. Participating in democratic control of their own savings and credit.

Responsibilities

1. Elect capable management (directors and credit committee members) from own number.
2. Exercise democratic control of credit union by attending and taking active part in membership meetings -- only one vote per member.
3. Tell others eligible for membership about credit union and encourage them to join.
4. Repay loans as agreed so fellow members may also benefit.
5. Authorize educational and other special expenditures, and may elect educational committee.
6. Remove any official for cause.
7. Expel members.

CREDIT COMMITTEE

Responsibilities

1. Pass on individual loan applications in accordance with Act, bylaws, regulations and policies of board.
2. Meet often as necessary, at least monthly.
3. Counsel members in wise use of credit.
4. Maintain confidential relations with members.
5. Determine if loans are for provident or productive purposes.
6. Determine if security, when required, is adequate.
7. May approve borrowers' share withdrawals.
8. Grant extensions on loans or refinance them.
9. May appoint, supervise and delegate authority to loan officers.
10. Keep minutes of meetings.
11. Prepare and present annual report to members.
12. Act on all loans not approved by loan officer.
13. Study and use Credit Manual.

Limitations

1. May not borrow in excess of shareholdings pledged.
2. May not endorse for borrowers.
3. May not be compensated as committee member.
4. May not be appointed to supervisory committee.

Composition

1. Usually 3 or 5 members.
2. Staggered terms, 2 or 3 years as determined by board.
3. ~~Chairman, secretary, elected from own number.~~

LOAN OFFICER
(One or more)

Responsibilities

1. Approve loans in accordance with the Act, bylaws, regulations, and authority delegated by credit committee.
2. Submit to credit committee for action all loans not approved.
3. Furnish to credit committee a record of each loan approved or not approved within 7 days of the date of filing application therefor.

Limitations

1. May not disburse funds for any loan approved by him as loan officer.
2. No more than one member of the credit committee may be appointed as a loan officer.
3. May not be appointed as membership officer or member of supervisory committee.

SUPERVISORY COMMITTEE

Responsibilities

1. Constructively critical examination of credit union affairs, including audit of books, according to Act, regulations, bylaws, and Supervisory Committee Manual.
2. Prepare quarterly audit report to board of directors and send copy to Bureau of Federal Credit Unions annually.
3. Verify with members their share and loan balances.
4. Maintain confidential relations with members.
5. Suspend officers, directors, or members of credit committee for cause.
6. Call special meetings of members for cause.
7. See that record of all actions is kept.
8. Prepare and present annual report to members.
9. Request board to provide compensation for clerical and auditing assistance.

Limitations

1. May not borrow in excess of shareholdings pledged.
2. May not endorse for borrowers.
3. May not be compensated as committee member.

Composition

1. Three members, one of whom may be a director other than the treasurer.
2. One year terms.
3. No member of credit committee or any employee of credit union may be appointed.
4. Chairman, secretary, elected from own number.

BOARD OF DIRECTORS

Responsibilities

1. General direction and control of credit union according to Act, regulations, and bylaws.
2. Meet once a month or oftener.
3. Act on applications for membership.
4. Periodically (at least semi-annually) review and fix amount of surety bonds on treasurer and employees.
5. Periodically fix maximum individual share limit.
6. Periodically set loan policy, including interest rate (maximum 1% per month) and maximum loan with or without security.
7. Supervise collection of loans and authorize charge-off of uncollectible loans and may assess late charges on delinquent share and loan payments.
8. Designate depository for funds.
9. Maintain confidential relations with members.
10. Appoint supervisory committee and temporary officials; fill vacancies in board, credit committee, and supervisory committee.
11. May appoint membership officer and executive committee.
12. May hire employees and fix duties and compensation.
13. Authorize and supervise investments and credit union borrowing.
14. May declare dividends, authorize interest refunds, and determine treasurer's compensation.
15. Plan for annual meeting, annual report to members; operating budget; educational and other special expenditures.
16. May appoint educational committee, if not elected by members.
17. May amend bylaws with approval of Director, Bureau of Federal Credit Unions.
18. Use Federal Credit Union Handbook.

Limitations

1. May not borrow in excess of shareholdings pledged.
2. May not endorse for borrowers.
3. May not be compensated as director.

Composition

1. Usually 5, 7, or 9 members.
2. Staggered terms, 2 or 3 years as determined by board.
3. Officers elected from own number.

EDUCATIONAL COMMITTEE

Responsibilities

1. Develop methods for members to learn about thrift, credit, family budgets, and related economic problems.
2. Develop active membership participation in credit union.
3. Arouse interest of nonmembers.
4. Work closely with board on plans and activities.

Composition

1. Size depends on number which will function most effectively.
2. May be elected by membership or appointed by board.
3. Indefinite terms but often for one year.
4. Majority usually members who do not hold other credit union offices.
5. Frequently credit committee and board represented.

EXECUTIVE COMMITTEE

Responsibilities

1. Act for board of directors in making and disposing of investments permitted by Act.
2. If the board of directors so prescribes, may approve applications for membership in accordance with the Act, bylaws and conditions laid down by board of directors.
3. Submit to the board at each monthly meeting a list of approved or pending applications for membership received since the previous monthly meeting, together with such other related information as the bylaws or the board may require.

Composition

1. Not less than three directors appointed by the board.

Limitations

1. May not be compensated as committee member.

MEMBERSHIP OFFICER

Responsibilities

1. Approve applications for membership under such conditions as the board of directors, the Act and bylaws may prescribe.
2. Submit to the board at each monthly meeting a list of approved or pending applications for membership as prescribed by the Act.

Limitations

1. May not be the treasurer, assistant treasurer, or loan officer.
2. May not be compensated as membership officer.

PRESIDENT

Responsibilities

1. Preside at meetings of board and members--sign minutes.
2. Countersign checks, notes, obligations of credit union if bylaws require.
3. Carry out, usually with treasurer, instructions of board on investments, credit union borrowings.
4. Submit Federal examination report to board for necessary action and inform Bureau of Federal Credit Unions of result.
5. Call special meetings of board and members when necessary or upon proper request.
6. Appoint nominating committee.
7. ~~Present annual report of board to members.~~
8. Customary duties of president and other duties assigned by board.

Limitations

1. May not be treasurer or assistant treasurer.

VICE PRESIDENT
(1 or more)

Responsibilities

1. Act as president during his absence or disability.
2. Other duties assigned by board.

Limitations

1. May not be treasurer or assistant treasurer.

*SECRETARY

Responsibilities

1. Keep and sign minutes of board and members' meetings.
2. Prepare notice of any meeting of members.
3. Prepare and send annual election report and notice of any change in managing staff to Bureau of Federal Credit Unions.
4. Other duties assigned by board.

*TREASURER

Responsibilities

1. General manager of credit union.
2. Custody of funds, securities, and other assets--must be bonded for faithful performance.
3. Keep books of account according to accounting manual.
4. Sign checks, notes, obligations of credit union.
5. Receive share and loan payments.
6. Transmit to credit committee or loan officer loan applications received.
7. Sympathetic and intelligent understanding of members' problems.
8. Maintain confidential relations with members.
9. ~~Prepare monthly financial report to~~ board and members, send copies annually to Bureau of Federal Credit Unions.
10. Carry out, usually with president, instructions of board on investments, credit union borrowings.
11. Prepare annual financial report to members.

Limitations

1. May not serve as president, vice president, membership officer, or supervisory committee member.

EMPLOYEES

Assistant Treasurer (1 or more)

Responsibilities

1. Under treasurer's direction, perform any duties devolving upon treasurer which board may assign.
2. Act as treasurer when treasurer is absent or unable to act.
3. Must be bonded for faithful performance.

Limitations

1. Classed as employee--need not be member of credit union.
2. Appointed by board.
3. Compensation fixed by board.
4. May not be president, vice president, membership officer, or supervisory committee member.

Other than Assistant Treasurer

1. Number and duties of employees, such as: collector, teller, cashier, bookkeeper, depend upon needs of credit union.
2. Duties and compensation of employees determined by board.
3. Usually under direct supervision of treasurer.
4. All employees handling cash must be bonded in amount and character determined by board from time to time.

Limitations

1. May not be supervisory committee member.

NOTE: Dotted boxes and lines indicate optional functions.

SOURCE: U.S. DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
Bureau of Federal Credit Unions, Washington D.C.

*Offices may be held by same person.

federal credit union. Although a federal credit union is member-owned and controlled, not all members can participate in the day-to-day management of it. They must elect officials to carry on the daily business. The officials and employees of a credit union are responsible to the members for the management of their business.

The members elect a board of directors composed of not less than five members, at the annual meeting of the membership. They also elect a credit committee and a supervisory (or auditing) committee, of three members each. The board of directors elects from its membership the officers of the credit union. They elect a president, vice-president, treasurer, and a secretary (or clerk). The treasurer and the secretary's office may be held by the same person.[1]

The directors are responsible for the general management of the credit union. They set its policies, approve all applications for membership, set the interest rate, and declare dividends. They meet monthly and hold additional meetings if necessary.

The credit committee considers loan applications submitted by members. Applications are made in writing, and must tell the purpose of the loan, security offered, and any other data required. The committee will inquire into the

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[1] _What Are Credit Unions and How Can We Use Them?_ (Madison: Credit Union National Association), p. 12.

character and financial condition of the applicant in order to determine whether the loan will be of benefit to the applicant and whether he is financially able to carry the requested loan. The committee meets regularly, as often as necessary, to approve loans.

The supervisory committee is the "watchdog" of the credit union. It keeps an eye on the operations of the credit union, audits its books at least quarterly, and reports to the members annually as to the financial condition of the credit union. It has the power to suspend officers and committeemen if it deems necessary.[1]

The treasurer is the active manager of the credit union. He keeps the books, makes the financial reports, and is in charge of the receiving and disbursing of funds. Most of the members come to the treasurer with their financial problems, and he usually transmits loan applications to the credit committee. The treasurer may be paid because most of the work falls on him, but other members of the board and committeemen must volunteer their services. Of course, in larger credit unions employees may be hired.

The educational committee works to increase the members' understanding and information on thrift, the use of credit, and related economic topics. They may utilize

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[1] _Ibid._, p. 13.

many forms of publicity to do this job. Members are urged to form the habit of regular saving each payday, and to use the credit union to meet all their needs for consumer credit. They are urged to come to the credit union for help and advice on any of their financial problems, without any obligation, and with the assurance that their affairs will be held in strict confidence.

Under Federal law, a new member must agree to subscribe and pay for, in cash or installments (as low as 25¢), at least one $5 share. There is also an entrance fee of 25¢. The member will be expected to save regularly if he can. Voting rights or dividends are not received until the first full share has been paid for. The savings (shares) deposit is entered in a pass book, which serves as a record both of savings and of loans.[1]

For the protection of shareholders, all records of federal credit unions are examined at least quarterly by the supervisory committee as well as once a year by the Bureau of Federal Credit Unions. The treasurer and other employees of the credit union are bonded. Cash receipts of a federal credit union must be deposited promptly in a bank whose deposits are insured by the Federal Deposit Insurance

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[1] Richard Y. Giles, <u>Credit for the Millions</u> (New York: Harper & Brothers, 1951), p. 41.

Corporation.[1] If a federal credit union desires to deposit cash receipts in an institution whose deposits are not insured by FDIC, it must gain the permission of the Bureau of Federal Credit Unions.

A dividend may be declared from net earnings for the year after 20 percent has been set aside in the reserve funds. A member can receive dividends on all of his paid up shares as of any given dividend date. Six percent is the maximum annual dividend rate which may be paid to members of the credit union.

When a person becomes a member, and has paid the first installment on his shares, he is then eligible to apply for and receive a loan. Loans are made to members only for productive and provident purposes; accordingly, the credit committee may grant loans: for dental or medical bills, for auto financing, clothing, furniture or other necessities, for educational and vacation purposes, for real estate (in some instances), and for various other reasons. As already mentioned, maturities on loans cannot exceed five years and unsecured loans cannot exceed $750. Interest on loans cannot exceed one percent per month on the unpaid balance and in many cases are fractionally lower than this.

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[1] Security Through Credit Unions, Federal Security Agency (Washington: U.S. Government Printing Office, 1948).

There are several CUNA Mutual insurance plans to which the credit unions may subscribe. One plan (Borrower's Protective Insurance) insures the credit union against loss caused by the death or disability of borrowers. Thus, if a borrower dies or becomes totally and permanently disabled, CUNA Mutual pays off the loan balance up to $10,000. There is also a Life Savings Insurance plan under which CUNA Mutual pays to the beneficiary, in the event of a member's death, the amount of his savings (up to $2,000).[1] The insurance premiums are usually paid by the credit union out of earnings.

By reason of their cooperative character, credit unions should place primary emphasis upon services to members rather than earnings. Nevertheless, their earnings have been creditable, and in many cases, excellent. As non-profit cooperatives, federal credit unions are not taxed. As stated in the 1959 Federal Credit Union Act:

> The Federal credit unions organized hereunder, their property, their franchises, capital, reserves, surpluses, and other funds, and their income shall be exempt from all taxation now or hereafter imposed by the United States or by any State, Territorial, or local taxing authority; except that any real estate property and any tangible personal property of such Federal credit unions shall be subject to Federal, State, Territorial, and local taxation to the same extent as other similar property is taxed.

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[1] 1962 Credit Union Yearbook, p. 34.

> Nothing herein contained shall prevent holdings in any Federal credit union organized hereunder from being included in the valuation of the personal property of the owners or holders thereof in assessing taxes imposed by authority of the State or political subdivision thereof in which the Federal credit union is located; but the duty or burden of collecting or enforcing the payment of such a tax shall not be imposed upon any such Federal credit union and the tax shall not exceed the rate of taxes imposed upon holdings in domestic credit unions.[1]

Even though federal credit unions are exempt from Federal income taxes, they must file an annual return under Section 101 of the Internal Revenue Code. The Bureau of Federal Credit Unions files one return for all of the federal credit unions.

The exemptions from income taxes contained in the Federal Credit Union Act apply only to the credit unions themselves and not to their members. Dividends, wages, bonuses, and compensation received from federal credit unions are not exempt from income taxation.[2]

As we will see in Chapter 4, federal credit unions pay out about 75 percent of earnings to members in the form of dividends. These dividends are taxed as interest by federal and some state authorities, along with other

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[1]U.S. Congress, Federal Credit Union Act, Public 86-354, Sec. 23, 86th Congress, 1st Session, 1959.

[2]David A. Bridewell, Credit Unions, Organization--Operation--Questions of Legality (New York: Mathew Bender & Company, 1955), p. 385.

personal income of the member. So it is seen that earnings of federal credit unions are taxed, although indirectly, to a certain extent.

CHAPTER 2

GROWTH AND SIZE OF FEDERAL CREDIT UNIONS

From the date of passage of the original Federal Credit Union Act in 1934 and the approval of the first federal charter on October 1 of that year--through twenty-seven years of operations--federal credit unions have experienced periods of depression, recession, war, postwar reconversion, and prosperity. The first federal credit union started in Texarkana, Texas with $7.75. Table 1 shows the growth in numbers of federal credit unions, members, and assets.

During the early years of the federal credit union system, promotional efforts by the Farm Credit Administration were largely responsible for the rapid expansion in credit union growth. By 1941 there were 4,228 federal credit unions in operation, with 1.4 million members. Assets showed the greatest percentage growth during the first seven years of federal credit union existence. They grew from approximately $2.4 million at the end of 1935 to $106 million at the end of 1941. Total assets increased 286.1 percent in 1936, 110.4 percent in 1937, 53.8 percent in 1938, 61.4 percent in 1939, 51.7 percent in 1940, and 46.2 percent in 1941. As Table 1 shows, the percentage

TABLE 1. Growth in number of federal credit unions, membership, and total assets, 1934-1961[a]

	Number				Percent Growth		
Year	Credit Unions	Members[b] (Thousands)	Assets[b] (Thousands)	Yearly increase in FCUs	FCUs %	Members %	Assets %
1934[c]	39	3	$ 23	----	----	----	----
1935	772	119	2,372	733	1,879.5	3,585.8	1,008.1
1936	1,751	310	9,158	979	126.8	159.3	286.1
1937	2,313	484	19,265	562	32.1	56.2	110.4
1938	2,760	632	29,629	447	19.3	30.6	53.8
1939	3,182	851	47,811	422	15.3	34.6	61.4
1940	3,756	1,128	72,530	574	18.0	32.6	51.7
1941	4,228	1,409	106,052	472	12.6	24.9	46.2
1942	4,145	1,357	119,591	-83	-2.0	-3.7	12.8
1943	3,938	1,312	127,329	-207	-5.0	-3.3	6.5
1944	3,815	1,306	144,365	-123	-3.1	-0.4	13.4
1945	3,757	1,217	153,103	-58	-1.5	-6.8	6.1
1946	3,761	1,302	173,166	4	0.1	7.0	13.1
1947	3,845	1,446	210,376	84	2.2	11.0	21.5
1948	4,058	1,628	258,412	213	5.5	12.6	22.8
1949	4,495	1,820	316,363	437	10.8	11.7	22.4
1950	4,984	2,127	405,835	489	10.9	16.9	28.3
1951	5,398	2,464	504,715	414	8.3	15.8	24.4
1952	5,925	2,853	662,409	527	9.8	15.8	31.2
1953	6,578	3,255	854,232	653	11.0	14.1	29.0
1954	7,227	3,599	1,033,179	649	9.9	10.5	20.9
1955	7,806	4,032	1,267,427	579	8.0	12.0	22.7
1956	8,350	4,502	1,529,202	544	7.0	11.6	20.7
1957	8,735	4,898	1,788,768	385	4.6	8.8	17.0
1958	9,030	5,210	2,034,866	295	3.4	6.4	13.8

TABLE 1. Continued

	Number			Percent Growth			
Year	Credit Unions	Members[b] (Thousands)	Assets[b] (Thousands)	Yearly increase in FCUs	FCUs %	Members %	Assets %
1959	9,447	5,643	$2,352,813	417	4.6	8.3	15.6
1960	9,905	6,086	2,669,734	458	4.8	7.8	13.5
1961	10,271	6,543	3,028,294	366	3.7	7.5	13.4

[a]Calculated from: 1961 Report of Operations, Federal Credit Unions, p. 2.

[b]Data for 1934-1944 partly estimated.

[c]First charter approved 1 Oct. 34.

growth of assets was larger than the growth in the number of federal credit unions and members.

The years during World War II were a period of testing for the federal credit unions. From 1942 through 1945 liquidations exceeded new organizations. This was caused primarily by the atmosphere of impermanence created by the war. Industries were converting from making goods for peace to making goods for war; industries were expanding and new industries were born; men were leaving their jobs to join the services. Such unsettled conditions were not favorable to the organization of new credit unions, and made difficult the successful operation of those already in existence. Also, during the war years there was less need for the services usually performed by credit unions.[1] This decreased need can be more readily explained by such factors as high personal income, loan restrictions of Regulation W, and the fact that there were less consumer goods available for purchase as compared to non-war years. The weaker credit unions (the credit unions already financially weak before the war and those in unstable industries) were usually the ones that were liquidated, so after the war the remaining credit unions formed a strong foundation for continued growth in the federal credit union system. Between 1941 and the end of 1945 the number of federal credit unions

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[1] 1945 Report of Operations, p. 1.

decreased by 471 to 3,757; membership dropped by almost 200,000; assets increased, although slowly, by about $47 million. Loans to members dropped off very sharply during the war years. We will look at this more thoroughly in Chapter 5.

The percentage growth in number, membership, and assets of federal credit unions increased each year from 1946 to 1951. During 1950 the number of federal credit unions increased by 489 or 10.9 percent; the number of members increased by 16.9 percent; assets increased by 28.3 percent. In 1951 the percentage growth decreased slightly in all of these categories, primarily because of the Korean War. Regulation W was in effect throughout 1951 and, as a result, curbed the lending functions of credit unions.[1] Regulation of consumer credit by the Federal Reserve has been a temporary credit restraint in times of emergency to supplement general credit measures. Regulation W is one of the selective credit regulation measures that the Federal Reserve can impose if credit restraint is necessary in our economy. The restraints of Regulation W have applied primarily to installment credit. Basically, the restraints imposed by Regulation W were threefold: they limited the amount of credit that might be granted for the purchase of any article listed in the regulation; they specified minimum

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[1]1951 Report of Operations, p. 2.

down payment on the above articles; they limited the time that might be agreed upon for repaying an obligation.[1]

The number of federal credit unions, members, and the amount of assets increased throughout the 1950's, although at a generally diminishing percentage rate of growth. Membership increased at a rate almost twice that of the number of federal credit unions from 1951 to 1961 and assets grew at a rate over 2-1/2 times that of new organizations. The healthy growth can be partially explained by the general prosperity of the nation and the large personal savings in the economy. Also, the organized credit union movement (CUNA) sponsored an advertising program consisting of radio newscasts and full-page advertising in news magazines of wide circulation.[2] Another factor might be the testing, in a Darwinian sense, which in the war years weeded out hundreds of weak credit unions and left a solid core of vigorous units to shoot ahead in unusual growth.[3] In the last ten years there has been an average yearly increase of 487 federal credit unions.

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[1]The Federal Reserve System, Purposes and Functions, Board of Governors of the Federal Reserve System (Washington: Board of Governors of the Federal Reserve System, 1954), pp. 60-61.

[2]1952 Report of Operations, p. 1.

[3]John T. Croteau, The Federal Credit Union, Policy and Practice (New York: Harper & Brothers, 1956), p. 9.

Along with the growth in the number of credit unions, membership, and assets, there has been a corresponding growth in average membership and average shareholdings per member. Chart 2 shows, graphically, the growth in average membership and average shareholdings from 1952 to 1961.

Table 2 illustrates the significant change that has been taking place in the distribution of federal credit unions, measured by amount of assets. In 1948, 48.9 percent, or almost half of the 4,058 federal credit unions, had assets of less than $25,000. At the end of 1961, out of 10,271 credit unions, only 23.8 percent held less than $25,000 in assets. At the end of 1948, 0.2 percent of the federal credit unions had $1.0 million or more worth of assets. Twelve years later, at the end of 1961, 6.4 percent of the federal credit unions had assets of $1.0 million or more. This trend of credit unions becoming larger will continue if present growth rates continue. As was seen in Table 1, assets have been increasing yearly 2-1/2 times faster than the number of federal credit unions. Arbitrarily using $100,000 as the dividing line between "small" and "large" credit unions, it may be seen from Table 2 that in 1950, 78.7 percent of the groups were characterized as "small" and 21.3 percent as "large." At the end of 1961, by contrast, while the total number of credit unions in operation had more than doubled, "small" credit unions

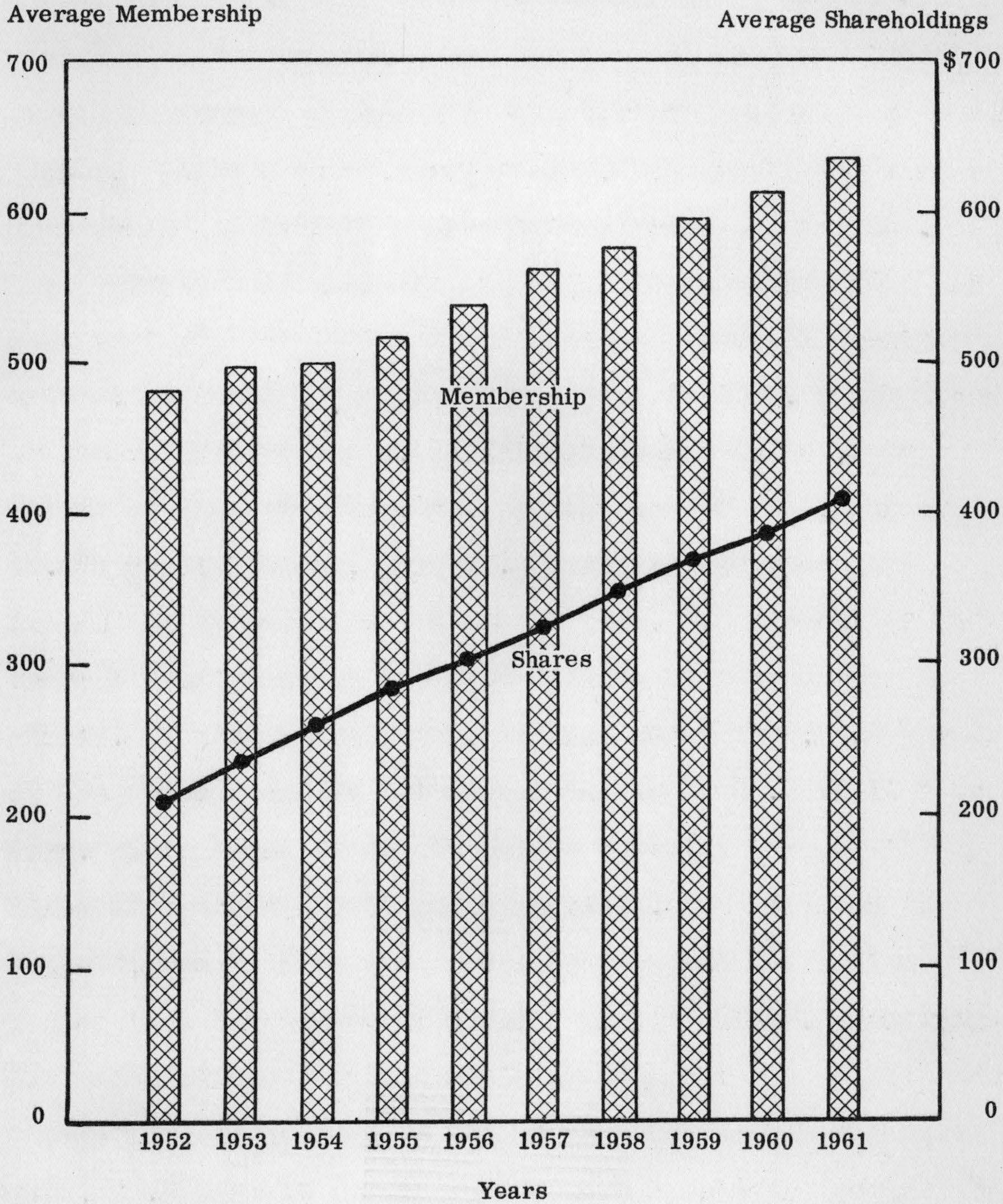

CHART 2. Average membership per federal credit union and average shareholdings per member, December 31, 1952-1961.

TABLE 2. Percentage distribution of federal credit unions by amount of assets, 1948-1961[a]

Year	# of FCUs	Percent of Federal Credit Unions with Assets of:[b] Less than $25,000	$25,000-49,999	$50,000-99,999	$100,000-249,999	$250,000-499,999	$500,000-999,999	$1,000,000 or more
1948	4,058	48.9%	19.4%	15.5%	11.3%	3.4%	1.3%	0.2%
1949	4,495	47.5	18.5	16.0	12.2	4.0	1.5	0.3
1950	4,984	44.8	17.3	16.6	13.9	5.0	1.9	0.5
1951	5,398	42.2	17.4	16.5	15.0	5.9	2.2	0.7
1952	5,925	38.9	17.4	16.0	16.8	7.0	2.7	1.2
1953	6,578	37.2	16.3	16.3	17.2	7.7	3.6	1.7
1954	7,227	35.7	15.8	16.7	17.1	8.4	4.3	2.0
1955	7,806	33.6	15.1	16.9	18.1	8.8	4.9	2.5
1956	8,350	31.1	14.9	16.7	19.5	9.4	5.2	3.2
1957	8,735	28.5	14.6	16.6	20.8	10.0	5.5	3.9
1958	9,030	26.7	14.4	16.6	20.7	11.0	6.2	4.4
1959	9,447	25.3	14.2	15.9	21.1	11.5	6.9	5.1
1960	9,905	25.0	13.3	15.7	20.9	11.8	7.6	5.7
1961	10,271	23.8	13.2	15.7	20.8	12.2	7.9	6.4

[a]Calculated from: Report of Operations, Federal Credit Unions, 1948-1961.

[b]Totals may not add to 100.0% because of rounding.

made up 52.7 percent of the total number and "large" groups accounted for 47.3 percent. This is illustrated more clearly in Table 3, where the number and percentage distribution of federal credit unions by size of assets is shown for 1950 and 1961. In other words, the size composition of federal credit unions has been shifting away from a group made up predominantly of small units to one in which the larger unit is of greater significance. This fact has led some critics to claim that as the credit union becomes larger its management becomes preoccupied with profit-making and forsakes or slights the personal services required of the credit union in its role as a social agency.[1] However, there does not appear to be any indications that the federal credit unions, as they become larger, are giving less personal attention to their members. There have been isolated cases where the management of very large credit unions has forgotten its goal of educating its members in the wise use of money, and has put sole emphasis on the safe loan and increasing the profit margin. But, in the great majority of cases, the larger a credit union, the better equipped it is to perform the function of educating its members. The larger the credit union, the more likely it is to have an educational committee, a personal financial

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[1]Smith, p. 5.

TABLE 3. Numbers and percentage distribution of federal credit unions, by size of assets, 1950 and 1961 compared[a]

Credit Unions by size of Assets	1950 Number	1950 Percent Distribution	1950 Cumulative Percent	1961 Number	1961 Percent Distribution	1961 Cumulative Percent
Less than $25,000	2,234	44.8%	44.8%	2,447	23.8%	23.8%
$25,000-49,999	861	17.3	62.1	1,356	13.2	37.0
$50,000-99,999	829	16.6	78.7	1,616	15.7	52.7
$100,000-249,999	695	13.9	92.6	2,130	20.8	73.5
$250,000-499,999	248	5.0	97.6	1,247	12.2	85.7
$500,000-999,999	92	1.9	99.5	819	7.9	93.6
$1,000,000 or more	25	0.5	100.0	656	6.4	100.0
Totals	4,984	100.0%		10,271	100.0%	

[a]Calculated from: Report of Operations, Federal Credit Unions, 1950 and 1961.

counselor, or a library.[1] From these sources the members can learn how to borrow (if it is necessary), buy, and spend more wisely.

Tables 4 and 5 examine statistically the characteristics of federal credit unions in relationship to their age. The most recent figures available for this analysis are as of December 31, 1959, but they are recent enough to be useful.

Table 4 shows the number and percent of federal credit unions in operation December 31, 1959 grouped by years of operation. At the end of 1959, 13,414 federal credit union charters had been granted; on that date 9,447, or 70.4 percent of the credit unions chartered since 1934, were in operation. Seventy-eight credit unions were chartered in 1934 and 53, or 67.9 percent of these, were still in operation at the end of 1959. It has already been mentioned that the experience of the war years was unfavorable for federal credit union organization. This fact shows up in Tables 4 and 5. The small number of credit unions in the fourteen, fifteen, sixteen, and seventeen year age-groups gives an instability to some of the averages of those years.

As seen in Table 4, the percentage of federal credit

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[1] Credit Manual for Federal Credit Unions, U.S. Department of Health, Education, and Welfare (Washington: U.S. Government Printing Office, 1959), p. 45.

TABLE 4. Federal credit unions grouped by years of operation, December 31, 1959[a]

Years of Operation	Year Chartered	Number Chartered	Number Operating Dec. 31, 1959	Percent Operating Dec. 31, 1959
Less than one	1959	700	597	85.3%
1	1958	586	539	92.0
2	1957	662	579	87.5
3	1956	741	623	84.1
4	1955	777	656	84.4
5	1954	852	695	81.6
6	1953	825	627	76.0
7	1952	692	516	74.6
8	1951	533	411	77.1
9	1950	565	407	72.0
10	1949	523	392	75.0
11	1948	341	246	72.1
12	1947	207	153	73.9
13	1946	157	99	63.1
14	1945	96	57	59.4
15	1944	69	31	44.9
16	1943	108	47	43.5
17	1942	187	87	46.5
18	1941	583	273	46.8
19	1940	666	364	54.7
20	1939	529	297	56.1
21	1938	515	287	55.7
22	1937	638	349	54.7
23	1936	956	549	57.4
24	1935	828	513	62.0
25	1934	78	53	67.9
	Totals	13,414	9,447	70.4%

[a]Source: 1959 Report of Operations, Federal Credit Unions, p. 12.

unions operating in the one to twelve year group, those chartered from 1958 to 1947, seems to decline at a fairly regular rate, dropping from 92.0 percent in the one year group to 73.9 percent in the twelve year group. Statistics in Table 4 would indicate that a very large majority of credit unions organized in the postwar period had survived and were still operating on December 31, 1959.

Table 5 shows selected averages of federal credit unions grouped by years of operation as of December 31, 1959. Average membership rises steadily from 121 in the newly-formed credit unions to 765 in the credit unions with eight years of experience. After eight years of operation, there is no consistent pattern in average membership, but the average membership in those credit unions older than eight years is larger than the 597 average for the system as a whole. The ratio of actual to potential membership increases, although not consistently, from 16.8 percent in the newly-formed credit unions to 74.9 percent in the oldest credit unions. Thus, the average credit union starts out with approximately one out of six of its potential membership, and in twenty-five years it has three out of four of the potential. In the federal credit union system, as of December 31, 1959, 52.1 percent of those eligible for membership in a credit union were members. The figures of potential membership are determinable at any given time because the charter for each federal credit union defines

TABLE 5. Selected averages of federal credit unions, grouped by years of operations, December 31, 1959.[a]

Years of Operation	Average Membership: Potential	Average Membership: Actual	Ratio of Actual to Potential Membership	Average Assets: Per FCU	Average Assets: Per Member	Percent Growth of Assets: Per FCU	Percent Growth of Assets: Per Member
Less than one	717	121	16.8	$ 8,806	$ 73	-----	-----
1	791	202	25.5	28,070	139	218.8%	90.4%
2	736	279	37.9	50,591	181	80.2	30.2
3	751	323	42.9	76,361	236	50.9	30.4
4	842	369	43.8	93,905	254	23.0	7.6
5	882	439	49.7	134,226	306	42.9	20.5
6	917	480	52.4	161,943	337	20.6	10.1
7	1,089	546	50.1	190,044	348	17.4	3.3
8	1,376	765	55.6	311,084	407	63.7	16.9
9	1,222	640	52.3	285,116	445	-8.3	9.3
10	1,105	614	55.5	264,067	430	-7.4	-3.4
11	1,445	861	59.6	371,869	432	40.8	0.5
12	2,331	1,127	48.3	551,533	489	48.3	13.2
13	1,511	732	48.5	277,528	379	-49.7	-22.5
14	1,080	585	54.2	217,991	373	-21.4	-1.6
15	1,541	902	58.5	422,608	469	93.9	25.7
16	2,594	975	37.6	370,045	380	12.4	-19.0
17	1,403	779	55.5	359,657	462	-2.8	21.6
18	1,485	924	62.2	460,208	498	28.0	7.8
19	1,393	812	58.3	383,801	473	-16.6	5.0
20	1,195	786	65.8	393,556	501	2.5	5.9
21	1,104	697	63.1	348,026	499	-11.6	-0.4
22	1,577	996	63.1	502,292	505	44.3	1.2
23	1,437	997	69.4	542,592	544	8.0	7.7

TABLE 5. Continued

Years of Operation	Average Membership Potential	Average Membership Actual	Ratio of Actual to Potential Membership	Average Assets Per FCU	Average Assets Per Member	Percent Growth of Assets Per FCU	Percent Growth of Assets Per Member
24	2,104	1,168	55.5	$573,542	$491	5.7%	-9.7%
25	1,216	911	74.9	501,755	551	-12.5	12.2
TOTALS	1,146	597	52.1	$249,054	$417		

[a]Calculated from data in 1959 Report of Operations, Federal Credit Unions, pp. 12-13.

in specific terms the group it may serve.

Table 5 also shows the growth in average assets per federal credit union and per member. The newly-formed credit unions have assets of $8,806, or $73 per member. A high rate of growth seems to take place in the first eight years of operation, and then fluctuates widely in the different age groups. Allowing for the unstable averages in the credit unions chartered during the war years, the averages, on the whole, increase rather unsteadily until they reach an average of $573,542 in the credit unions organized in 1935. For the federal credit union system, average assets per credit union and per member were $249,054 and $417 respectively as of December 31, 1959. The percentage growth in assets per credit union and per member shows an initial high rate and then fluctuates rather widely showing no consistent pattern. The figures in the table show that, in general, a credit union grows as it becomes older. The increasing ratio of actual to potential membership would seem to indicate that asset growth, after about eight or nine years, is primarily due to the introduction of new members rather than greatly increased savings on the part of older members.

There are many reasons for initial credit union growth. A credit union established in a sound and growing industry should have a good chance of success. A credit union in an unstable industry will have less chance of success. Successful participation in a newly founded credit union is governed by many factors. Promotional efforts and availability of other savings or loaning facilities in the area are two important factors contributing to early success or failure of a credit union. Many factors also contribute to the continued successful growth and existence of the credit union, among them, sustained economic health of the industry and area where the credit union is located and good credit union management.

CHAPTER 3

ANALYSIS OF ASSETS AND LIABILITIES

Assets have varied more than liabilities (see Chart 3) during the 27 year federal credit union history. Assets showed the greatest variance during World War II, the Korean War, and minor postwar depressions.

Loans to members accounted for approximately 78-80 percent of total assets prior to World War II. The remainder of the assets was composed primarily of cash. Changes in economic conditions during World War II caused the prewar distribution of assets to change drastically. Loans to members dropped rapidly due to the shortage of consumer goods and the loan restrictions of Regulation W. The shortage of consumer goods, coupled with the relatively high personal incomes, reduced the need of members to borrow. And in some cases, where there was a need to borrow, Regulation W controls made credit terms prohibitive. Loans to members accounted for only 24 and 23 percent of total assets in 1944 and 1945, respectively. In 1945, cash accounted for 14.2 percent of total assets, savings and loan shares made up 11.8 percent, and United States Government obligations accounted for 50.3 percent of total assets. With reduced loans to members during the war years,

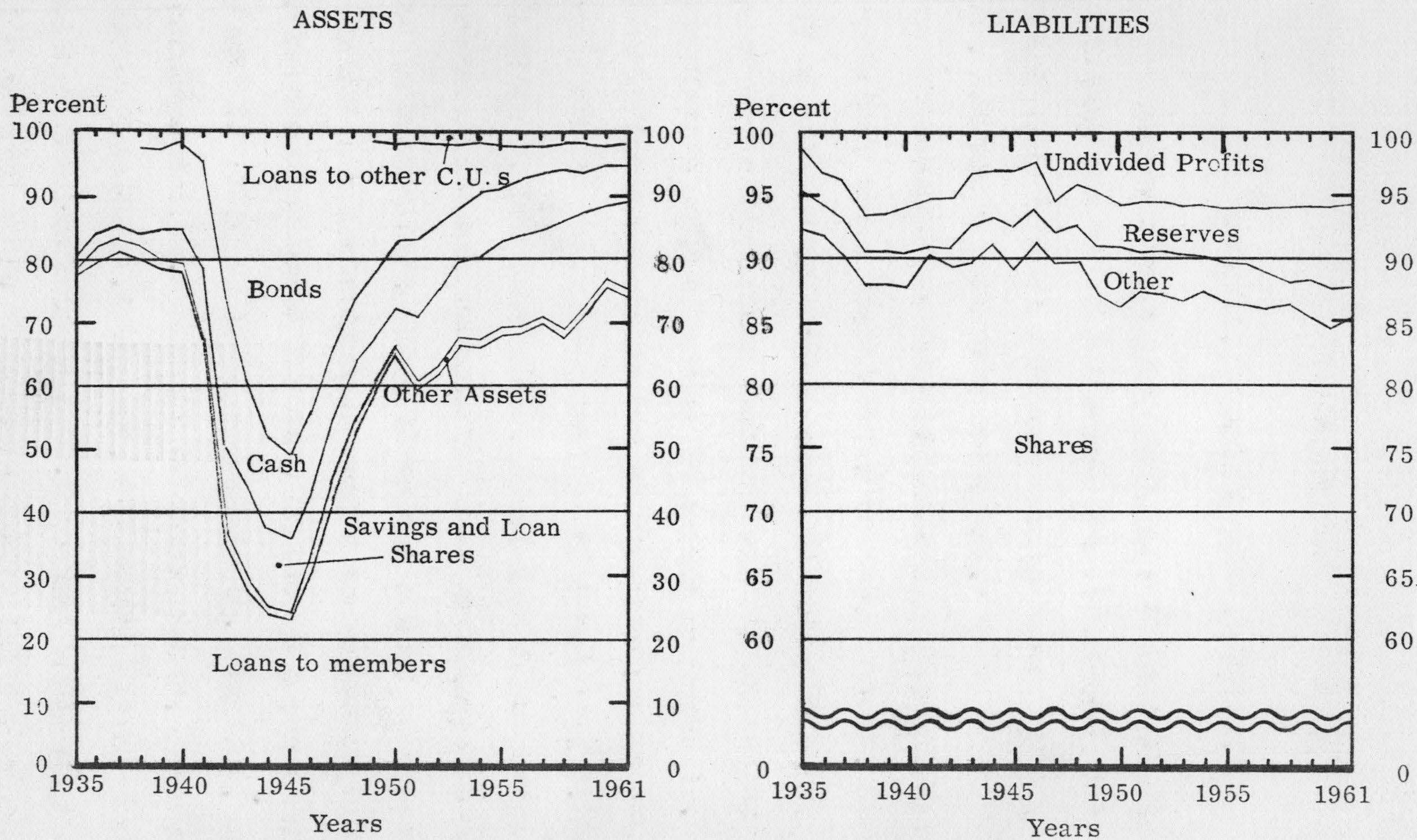

CHART 3. Percentage distribution of assets and liabilities of federal credit unions, December 31, 1935-1961.

government bonds were a logical investment for credit unions. The only investment alternatives available to federal credit unions were government bonds and savings and loan shares. Investment in government bonds was the best investment as far as the national security was concerned. As an aid in the war effort, many federal credit unions were designated as issuing agents of United States War Bonds.[1] The sale of these War Bonds to their members and the general public helped, if only in a small way, to strengthen our war effort. After World War II, loans to members began to increase again, cash and government bond holdings began to decrease, and investments in savings and loan shares became increasingly popular because of attractive interest rates.

Chart 3 illustrates the instability of asset ratios a and the stability of liability ratios over the life of the federal credit union system. Approximately 90 percent of total liabilities are in members' shares. This has been the case throughout the history of the system.

Looking at the percentages of total assets and liabilities gives a limited view of these items. Table 6 shows, in addition to the percentages of total assets and liabilities, the totals involved in the various accounts for selected years.

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[1]1942 Report of Operations, p. 1.

TABLE 6. Federal credit unions: Assets and liabilities, totals and percentages, December 31, selected years[a]

	1940		1943		1945	
	Total (Thousands)	Per-cent	Total (Thousands)	Per-cent	Total (Thousands)	Per-cent
Assets						
Loans to members	$55,801	77.0	$ 35,228	27.8	$ 35,155	23.0
Cash	9,842	13.6	20,588	16.2	21,734	14.2
United States Bonds	1,102	1.5	50,316	39.6	77,027	50.3
Savings and Loan shares	4,878	6.7	20,107	15.8	18,100	11.8
Loans to credit unions	597	0.8	149	0.1	417	0.3
Land and buildings	-	-	-	-	-	-
Other assets	280	0.4	559	0.4	669	0.4
TOTALS	$72,501	100.0	$126,948	100.0	$153,103	100.0
Liabilities						
Notes payable	$1,318	1.8	$ 601	0.5	$ 2,425	1.6
Accts. payable and other liabilities	42	0.1	1,745	1.4	1,363	0.9
Shares	65,780	90.7	116,989	92.1	140,614	91.8
Regular Reserves	2,019	2.8	3,962	3.1	4,762	3.1
Special reserve for delinquent loans	-	-	142	0.1	148	0.1
Other reserves[b]	-	-	-	-	-	-
Undivided profit	3,342	4.6	3,510	2.8	3,790	2.5
TOTALS	$72,501	100.0	$126,948	100.0	$153,103	100.0

[a]Source: Report of Operations, Federal Credit Unions, Selected years.

[b]Includes reserve for contingencies and special reserve for losses.

TABLE 6. Continued.

	1949		1955		1961	
	Total (Thousands)	Percent	Total (Thousands)	Percent	Total (Thousands)	Percent
Assets						
Loans to members	$186,218	58.9	$ 863,042	68.1	$2,245,223	74.2
Cash	32,529	10.3	105,361	8.3	190,191	6.3
United States Bonds	68,753	21.7	83,896	6.6	94,653	3.1
Savings and Loan Shares	22,750	7.2	181,957	14.4	412,429	13.6
Loans to credit unions	4,558	1.4	24,020	1.9	54,943	1.8
Land and ~~other~~ bldgs.	-	-	-	-	11,861	0.4
Other Assets	1,554	0.5	9,151	0.7	18,994	0.6
TOTALS	$316,363	100.0	$1,267,427	100.0	$3,028,294	100.0
Liabilities						
Notes Payable	$ 8,869	2.8	$ 29,098	2.3	$ 59,698	2.0
Accts. Payable and other liabilities	765	0.3	3,642	0.3	16,151	0.5
Shares	285,001	90.1	1,135,165	89.5	2,673,488	88.3
Regular Reserve	9,610	3.0	39,043	3.1	133,940	4.4
Special Reserve for delinquent loans	359	0.1	2,468	0.2	4,604	0.2
Other Reserves	-	-	-	-	7,645	0.2
Undivided Profit	11,759	3.7	58,010	4.6	132,767	4.4
TOTALS	$316,363	100.0	$1,267,427	100.0	$3,028,294	100.0

The importance of these statistics is mostly of historical significance. For the purpose of this study the balance sheet of December 31, 1961 is worthy of analysis. It took the federal credit union system twenty years to accumulate its first one billion dollar balance sheet in 1954; in only seven more years, by the end of 1961, the federal credit unions had over $3.0 billion in assets.

Many factors account for the rapid growth of assets. New credit unions are being established each year. In 1961 there were over 3,000 more operating credit unions than in 1954. Membership increased by almost 3 million from 1954 through 1961 as many people found that the federal credit union could offer them many banking services at reasonable rates. Personal savings have increased in the last decade, and the federal credit unions, having established themselves as financial institutions, have become the safekeepers of some of this wealth. In 1950 federal credit unions held 0.5 percent of personal savings in financial institutions in the United States. In 1961 they held 1.4 percent of all personal savings kept in financial institutions. Holders of the remainder of personal savings accounts and the percent held in 1961 are as follows: Commercial banks, 39.7 percent; Savings and Loan Associations, 37.0 percent; Mutual Savings Banks, 20.0 percent; and state credit unions and postal savings, 1.9 percent.[1]

As can be seen in Table 6, loans to members accounted for 74.2 percent of assets as of December 31, 1961. This is the second highest ratio of loans outstanding since 1940. In 1960 loans to members accounted for 75.7 percent of assets. The peacetime trend in this category is upward, as can be seen in Chart 3. Loans to members represent the preferred use of credit union assets. Assets loaned to members offer a higher rate of return than other types of credit union investment alternatives. Cash on hand is needed for liquidity purposes. The trend here is for the credit union to keep cash at a minimum, with the remainder of assets invested. Cash holdings may vary greatly from one credit union to another depending upon particular liquidity requirements and investment possibilities. Of the several investment possibilities available to credit unions, investment in United States government obligations has been declining as a percent of total assets over the last decade, primarily because better yields can be found elsewhere. At the end of 1961 United States Government

[1] Calculated from United States Savings and Loan League, 1962 Savings and Loan Fact Book. (Washington: United States Savings and Loan League, 1962), p. 11.

obligations were 3.1 percent of assets in the federal credit union system.

Investment in savings and loan shares is a popular investment, and at the end of 1961 over $400 million, or 13.6 percent of federal credit union assets, were invested in savings and loan shares. Loans to other credit unions (either federally or state chartered) seem to be more important in recent years.[1] However, loans to other credit unions amounted to only $54.9 million or 1.8 percent of federal credit union assets as of December 31, 1961. This is the extent of legal investments for the federal credit unions.

At the end of 1961 land and buildings and other assets accounted for 1.0 percent of the system's total assets. The other assets category includes such items as furniture, prepaid surety bond premiums, and unamortized organization costs.

Chart 4 gives a graphic illustration of asset growth over the last ten years.

A look at the liabilities section of the balance sheet for December 31, 1961 in Table 6 shows that member shares are the largest liability item. At that date member shares amounted to 88.3 percent of the liabilities items. The term "shares" is used to designate members' savings in their credit union. Technically, a share is defined as a

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[1] 1953 Report of Operations, p. 5.

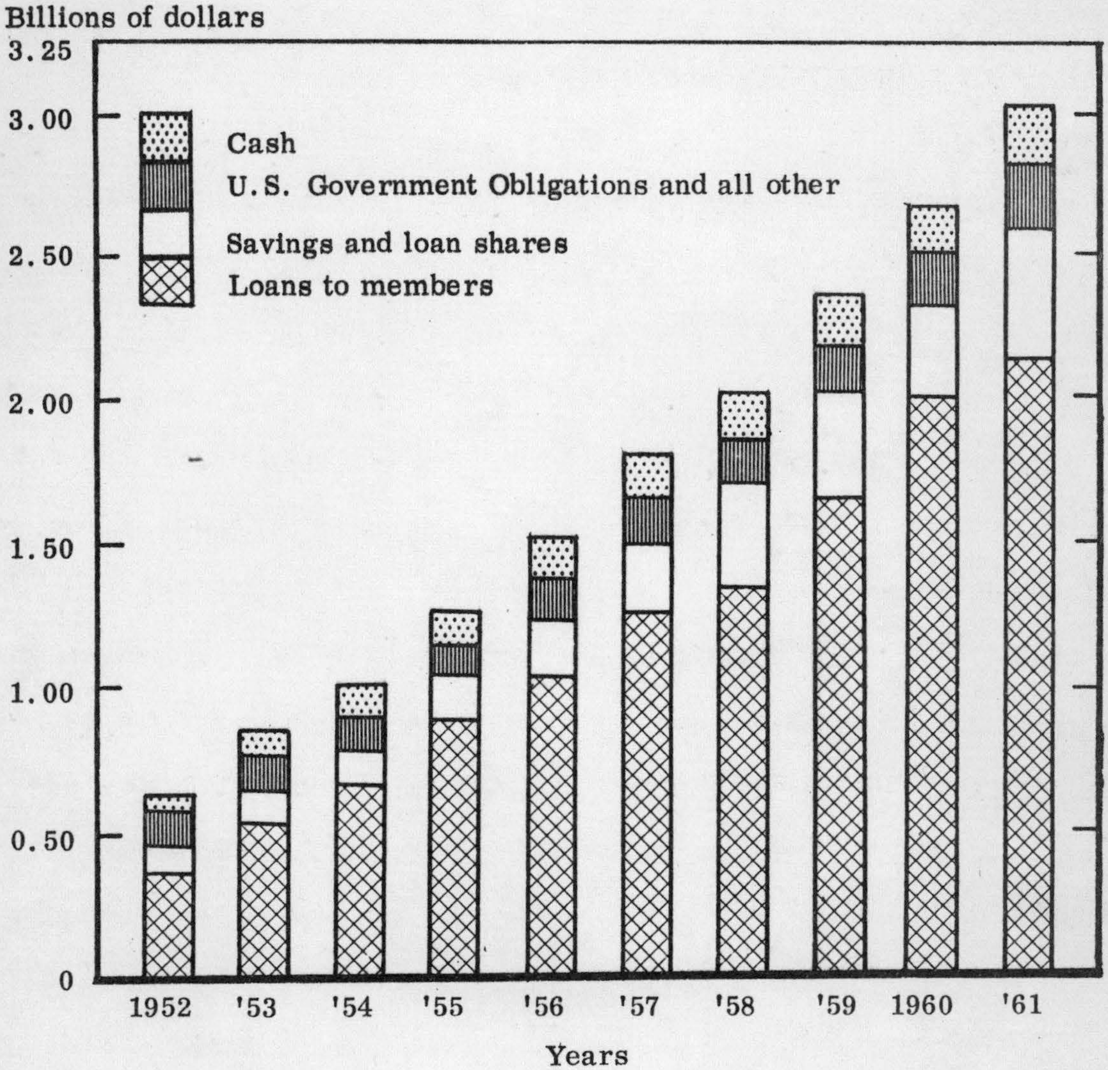

CHART 4. Distribution of assets of federal credit unions, 1952-1961.

$5 unit of member savings. This unit is used in the computation of dividends, but has little significance in the day-to-day operation of the credit union.[1] The term is not ill chosen, however. Members' savings in a credit union are equity capital in the corporation sense of the term because the members actually own the incorporated credit union.[2]

Shareholdings are not only the predominant item among credit union liabilities; they are also the principle source of funds available to credit unions for lending purposes. As mentioned, in 1961 they accounted for 88.3 percent of total liabilities. In dollar amounts the shares represented over $2.6 billion at the end of 1961. This was more than a two-fold increase over 1955 shareholdings; since 1949 there has been a 9-1/4 fold increase.

Member shareholdings increased $329 million during 1961; loans to members increased $224 million. This caused a sharp decrease in notes payable as the credit unions paid off notes with some of the savings not needed for member loans. Notes payable were approximately $59.7 million at the end of 1961. Notes payable accounted for only 2.0 percent of the total liabilities of federal credit unions at the end of 1961.

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[1]*Ibid.*, 1951, p. 6.

[2]*Ibid.*

Accounts payable and other liabilities consist of such items as United States savings bonds remittances payable, credit union employees' income tax deductions, and deductions from credit union employees' salaries for old-age and survivors insurance premiums. These items amounted to approximately $16.1 million at the end of 1961, and accounted for 0.5 percent of total liabilities.

In 1961 regular reserves of federal credit unions amounted to $133.9 million; special reserves for delinquent loans amounted to $4.6 million; other reserves amounted to $7.6 million. These reserves were 4.8 percent of the total liability and equity items in 1961. The reserve accounts of federal credit unions are established for the purpose of protecting members' equity from loss precipitated by defaulted loans or other unforeseen losses.

All federal credit unions are required by law to establish and maintain a regular reserve to which losses on uncollectible loans (including unrecovered collection costs) will be charged.[1] The regular reserve account is credited at the end of each accounting period with an amount equal to 20 percent of the net earnings of that period. However, when this account equals 10 percent of total members' shareholdings, no further credits of earnings need be made to it. If a bad loan previously charged against the regular

[1] Public Law No. 86-354, 1959.

reserve is collected, the regular reserve will be credited for the amount of the recovery.

If the amount credited to the regular reserve at the end of an accounting period does not equal 10 percent of the unpaid balances of loans delinquent two to six months, plus 25 percent of the unpaid balances of loans delinquent six to twelve months, plus 80 percent of unpaid balances of loans delinquent twelve months or more, a special reserve for delinquent loans must be established.[1] Many credit unions do not have a special reserve for delinquent loans because the amount credited to the regular reserve equals or exceeds the requirements established by the above formula. If a credit union has a history of a large amount of losses on loans (compared with the federal credit union average), the Director of the Bureau of Federal Credit Unions may require that the credit union set up a special reserve for losses. This reserve is considered as temporary and the amount credited to it is determined by the Director.

Some credit unions may voluntarily establish a reserve for contingencies.[2] This reserve has no particular relationship to member loans or losses on loans. It is usually associated with property losses caused by unusual circumstances.

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[1] Ibid.

[2] 1959 Report of Operations, p. 6.

Along with the reserves already mentioned, there is one other important equity item in the liabilities section of the federal credit union balance sheet. That is undivided earnings, which amounted to $132.8 million, and made up 4.4 percent of the liabilities as of December 31, 1961. Undivided earnings include dividends payable at the year end and retained earnings. Credit union earnings will be examined in detail in Chapter 4.

Table 7 shows the asset distribution of federal credit unions grouped according to size. There seems to be a definite relationship between certain asset items and the size of the credit union. The percentage of assets in loans to members is highest in the $25,000-$49,999, and $50,000-$99,999 size groups, where 76.9 and 76.4 percent respectively, of assets are invested in loans to members. The percent of assets in loans to members tends to decrease in the larger credit union groups. The group of credit unions with $5 million or more in assets have only 70.5 percent of their assets in member loans. The percentage of cash on hand decreases in every case as the size of the credit union group increases. In the smallest size grouping, credit unions with less than $25,000 in assets, cash composes 17.1 percent of assets. In the largest asset grouping cash makes up only 4.6 percent of total assets. Cash amounted to 6.3 percent of assets in the system as a whole at the end of 1961.

TABLE 7. Percentages of asset items to total assets by size of credit union and total assets in each grouping, December 31, 1961[a]

Size of Credit Unions (by Assets)	Loans to Members	Cash	U.S. Govt. Obligation	Savings and Loan Shares	Loans to other Credit Unions	Land and Building	Other
Less than $25,000	74.3%	17.1%	0.5%	6.9%	0.3%	*	0.8%
$25,000-49,999	76.9	12.5	0.6	8.7	0.6	*	0.5
$50,000-99,999	76.4	10.1	1.0	11.2	0.8	*	0.5
$100,000-249,999	74.8	8.1	1.4	13.8	1.3	0.1%	0.6
$250,000-499,999	75.4	6.8	1.6	14.0	1.5	0.1	0.6
$500,000-999,999	74.4	6.1	1.7	15.0	1.9	0.2	0.7
$1,000,000-1,999,999	75.4	5.4	2.7	13.5	1.9	0.4	0.7
$2,000,000-4,999,999	72.6	5.1	4.1	14.5	2.4	0.7	0.6
$5,000,000 and over	70.5	4.6	9.4	11.7	2.3	0.9	0.6
All credit unions 1961	74.2	6.3	3.1	13.6	1.8	0.4	0.6
All credit unions 1960	75.7	5.9	3.5	11.5	2.3	0.4	0.7

[a]Calculated from data in 1961 Report of Operations, Federal Credit Unions, p. 12.

*Less than 0.5%.

Note: Percentages may not add to 100.0% because of rounding.

United States government obligation holdings increase as the size of the credit union group increases, going from 0.5 percent in the smallest asset grouping to 9.4 percent in the $5 million and over group. The investment in savings and loan shares rises from 6.9 percent in the small grouping to 15.0 percent in the $500,000-$999,999 group. Savings and loan share investment decreases slightly in the remaining large groups. Loans to other credit unions increase moderately as the size of the credit union groups increase. However, even in the large credit unions, loans to other credit unions amount to only 2.4 percent of assets. The fact that the smaller credit unions have an almost negligible amount of assets in loans to other credit unions, and the larger credit unions have several percent of assets in this category, may indicate that correspondent relationships are developing with the large credit unions as lenders and the small credit unions as borrowers.

Land and buildings make up a very small proportion of federal credit union assets. Other assets also compose a very small part of total assets, and show no consistent pattern by size of credit union.

A few generalizations can be made regarding the statistics in Table 7. It seems that after credit unions reach a very large size the opportunity for investment in member loans decreases and the savings are invested in government obligations and savings and loan shares. The smaller credit unions seem to have an excess of cash on hand. This may be a function of unseasoned management. It may be that management in a smaller credit union is unsure as to what to do with excess savings and is conservative with its investments to the point of being over-liquid. The management in larger and usually older credit unions know from experience the amount of liquidity required, and therefore keep excess savings invested and earning a return, with a minimum of cash on hand.

The statistics at the bottom of Table 7, comparing 1960 and 1961 asset percentages for all federal credit unions, are interesting. They show the decreased demand for loans in 1961, with 74.2 percent of assets in loans to members, as compared with 75.7 percent in 1960. This decreased demand for loans is also reflected in the overall percentage totals of cash and savings and loan shares, as these items increased both in dollars and percent in 1961.

The pattern of percentage distribution of liabilities does not vary significantly in relation to the size of federal credit unions, and therefore will not be analyzed in the manner that the assets were analyzed in Table 7.

Table 8 points up the concentration of assets in the hands of a small number of federal credit unions. At the end of 1961, 23.8 of the credit unions had less than $25,000 in assets and held only 0.9 percent of the total assets in the system. Approximately 74 percent of the operating

TABLE 8. Number and percent of federal credit unions by size of assets, and total assets and percent of assets in each group, December 31, 1961[a]

Size of Credit Union (by Assets)	Number of FCUs: Number	Number of FCUs: Percent	Number of FCUs: Cumulative Percent	Total Assets in Each Grouping: $ Amount	Total Assets in Each Grouping: Percent of all Assets	Total Assets in Each Grouping: Cumulative Percent
Less than $25,000	2,447	23.8%	23.8%	$ 27,193,786	0.9%	0.9%
$25,000-49,999	1,356	13.2	37.0	49,437,303	1.7	2.6
$50,000-99,999	1,616	15.7	52.7	117,428,611	3.9	6.5
$100,000-249,999	2,130	20.8	73.5	344,583,879	11.4	17.9
$250,000-499,999	1,247	12.2	85.7	442,553,521	14.6	32.5
$500,000-999,999	819	7.9	93.6	570,547,994	18.8	51.3
$1,000,000 and over	656	6.4	100.0	1,476,548,744	48.7	100.0
TOTALS	10,271	100.0%		$3,028,293,938	100.0%	

[a]Calculated from: 1961 Report of Operations, Federal Credit Unions, p. 12.

federal credit unions--those with less than $250,000 in assets--held 17.9 percent of the total assets December 31, 1961. Sixty-seven percent, or two-thirds, of total assets of federal credit unions are concentrated in those with assets of $500,000 or more.

The trend toward concentration of assets in the larger credit unions may continue. More credit unions are getting bigger each year, as assets have been increasing yearly at more than twice the rate that new credit unions have been organized. There is nothing evil, or economically bad, about this situation. As long as the smaller credit unions can meet the demands of their borrowers, as they are doing, they are performing a service to their members. The larger credit unions generally have more than ample funds for loans to members, and therefore perform a service and earn an income on excess savings by making them available in the money and capital markets.

CHAPTER 4

ANALYSIS OF INCOME, EXPENSE, AND DIVIDENDS

This chapter will analyze the operations of federal credit unions.

Table 9 contains the gross income and operating expense figures of the federal credit union system for the period, 1939 - 1961. Income and expense figures for the years 1934-1938 are rather incomplete and are not used in this study. In 1941 gross income was approximately $7.3 million, gross expense was $2.8 million, and net income was approximately $4.5 million. The ratio of expense to income was 38.6 percent. During the war years of 1942, 1943, 1944, and 1945, gross income fell and remained appreciably below the high of 1941. Gross expenses increased during the war and profit margins narrowed. Some of the weaker credit unions were liquidated. However, the federal credit union system as a whole weathered the war years quite well. For instance, in 1943, the most unfavorable year for credit unions, the ratio of expense to income was 60.0 percent, and total net income was a little over $2 million. Although the expenses did not drop as much as income during the war years, neither did they rise as rapidly in the immediate postwar years. This can be seen in Table 9, both

TABLE 9. Gross income, operating expense, and net income of federal credit unions, 1939-61[a]

Year	Gross Income	Operating Expense	Ratio of Expense to Income	Net Income
1939	$ 3,431,517	$ 1,280,738	37.3%	$ 2,150,779
1940	5,289,828	1,947,293	36.8	3,342,535
1941	7,292,589	2,817,013	38.6	4,475,576
1942	6,604,030	3,332,194	50.5	3,271,836
1943	5,132,235	3,078,918	60.0	2,053,317
1944	5,276,422	3,066,838	58.1	2,209,584
1945	5,607,155	3,045,645	54.3	2,561,510
1946	6,729,347	3,432,341	51.0	3,297,006
1947	9,770,020	4,391,771	44.9	5,378,249
1948	14,203,980	5,901,662	41.5	8,302,318
1949	18,607,928	7,567,224	40.7	11,040,704
1950	25,850,543	10,091,988	39.0	15,758,555
1951	31,636,758	13,279,123	42.0	18,375,535
1952	40,484,665	17,058,918	42.1	23,425,748
1953	56,257,256	22,848,178	40.6	33,409,078
1954	70,264,420	28,481,683	40.5	41,782,737
1955	86,371,775	34,539,709	40.0	51,832,066
1956	106,267,212	42,851,821	40.3	63,415,391
1957	130,070,858	51,846,532	39.9	78,224,326
1958	148,027,150	59,873,564	40.4	88,153,586
1959	171,847,029	69,609,882	40.5	102,237,147
1960	207,372,637	83,389,229	40.2	123,983,408
1961	235,397,588	94,359,340	40.1	141,028,248

[a]Calculated from: <u>Report of Operations, Federal Credit Unions</u>, 1940-1961.

in the total income and expense figures, and in the ratio of expense to income. The ratio of expense to income declined yearly from its high of 60.0 percent in 1943 to 39.0 percent in 1950. Since 1953 this ratio has stabilized at about 40.0 percent. After twenty-two years of federal credit union existence, gross income topped $100 million for the first time in 1956. Four years later, in 1960, gross income had increased another $100 million to approximately $207.4 million. At the end of 1961 gross income was more than $235 million and net income was approximately $141 million.

Chart 5 graphically illustrates the growth of gross income in the federal credit union system for the twelve year period of 1950-1961. Most of the gain in gross income is a result of the ever increasing interest from member loans. Most of the gain in interest from loans may be attributed to the continuing increase in the size of loans granted. The average loan has increased from $447 in 1955 to $672 in 1961. The number of loans made to members has been increasing also. In 1961, 4.7 million loans were granted. This is 1.4 million more loans than were granted as recent as 1956. Other factors which may influence the income from loans are: increased activity on the part of credit union officials in the collection of delinquent loans, any shifts which may occur in the proportion of loans granted at rates of interest below the legal maximum,

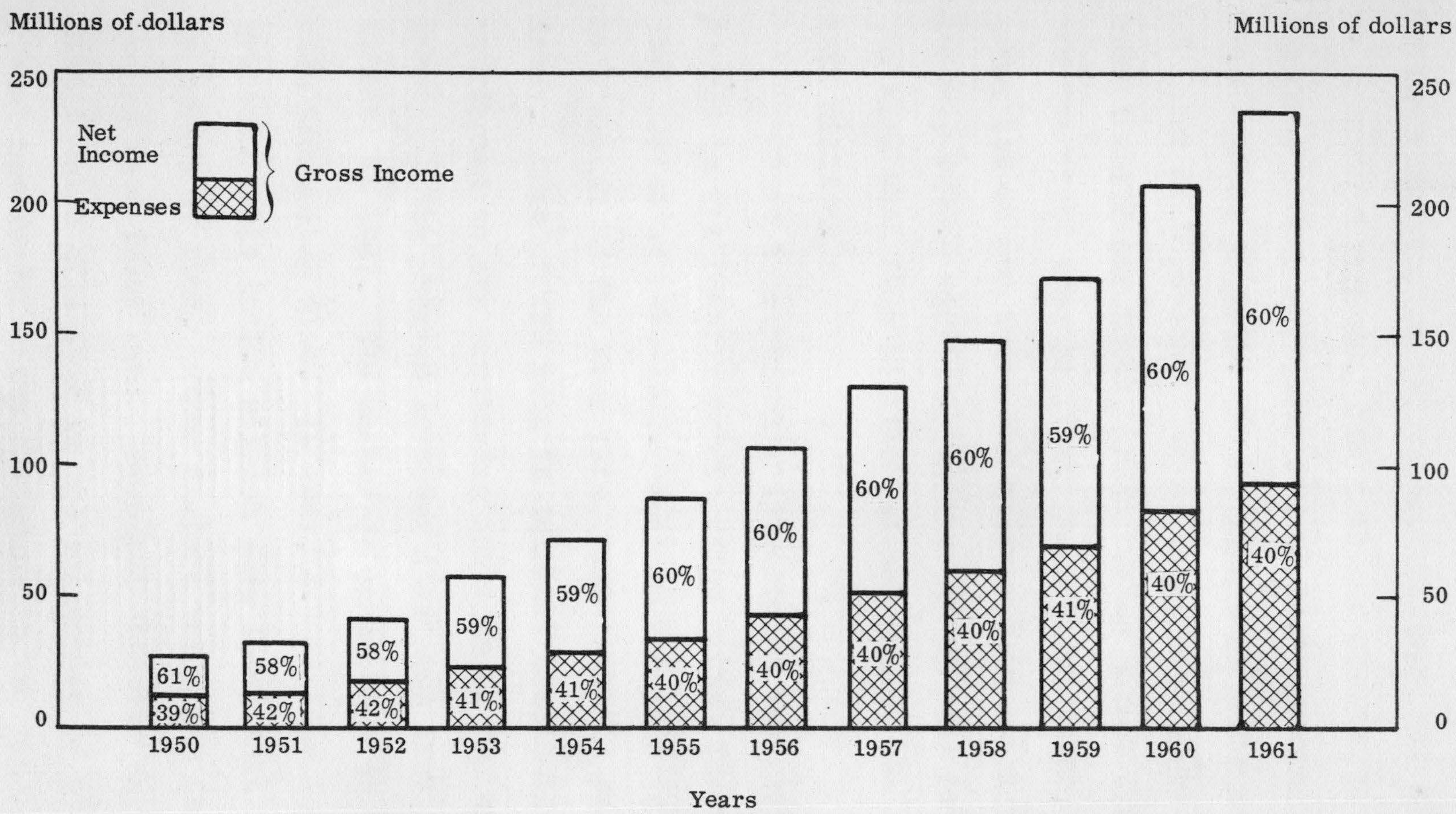

CHART 5. Gross income, expense, and net income of federal credit unions, 1950 - 1961.

and longer terms of repayment as the size of loans increase.[1]

The percent distribution of the various income and expense items for selected years is shown in Table 10. The years represented are the same as those used in Chapter 3 when the balance sheet was analyzed. Since the income of a credit union is derived almost entirely from interest on loans, the income statement is rather uncomplicated. In 1940 interest on loans accounted for 96.0 percent of total income. It was typical in the prewar history of the federal credit union for interest on loans to be almost the sole item of income. Loan volume dropped during the war and the percentage of income from loans was 74.7 in 1943 and 61.2 in 1945. United States Bonds and savings and loan shares were held in large quantities during the war; as a result, income from investments made up 21.2 percent and 33.0 percent of total income in 1943 and 1945, respectively. Other income also increased as a percentage of total income during the war. After the war, interest on loans increased rapidly as a percentage of total income. Interest on loans accounted for 85.5 percent of total income in 1949, 90.3 percent in 1955, and 91.0 percent in 1961. In the last decade interest on loans has stabilized around 90.0 percent of total income in the federal credit union system. Income from investments has stayed close to 9 percent of total

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[1] 1956 *Report of Operations*, p. 8.

TABLE 10. Gross income and expenses of federal credit unions for selected years[a]

	1940		1943		1945	
	Total	Percent	Total	Percent	Total	Percent
Income:						
Int. on loans	$5,076,659	96.0	$3,832,948	74.7	$3,430,325	61.2
Income from investments	145,094	2.7	1,086,935	21.2	1,848,243	33.0
Other income	68,075	1.3	212,352	4.1	328,587	5.8
TOTAL INCOME	$5,289,828	100.0	$5,132,235	100.0	$5,607,155	100.0
Expense:						
TOTAL Salaries	$1,120,343	57.5	$1,970,603	64.0	$2,002,388	65.7
Borrowers' protection insurance	-	-	-	-	-	-
Life savings insur.	-	-	-	-	-	-
League dues	-	-	-	-	-	-
Surety bond premiums	43,390	2.2	86,793	2.8	106,374	3.5
Examination and supervision fees	-	-	-	-	-	-
Int. on borrowed money	55,337	2.8	15,455	0.5	25,485	0.8
Cost of space occupied	-	-	-	-	-	-
Educational expenses	-	-	-	-	-	-
Other expenses	728,223	37.5	1,006,067	32.7	911,398	30.0
TOTAL EXPENSE	$1,947,293	100.0	$3,078,918	100.0	$3,045,645	100.0
NET INCOME	$3,342,535		$2,053,317		$2,651,510	
RATIO OF EXPENSE TO INCOME		36.8		60.0		54.3

[a]Calculated from: Report of Operations, Federal Credit Unions, selected years.

TABLE 10. <u>Continued</u>

	1949 Total	1949 Percent	1955 Total	1955 Percent	1961 Total	1961 Percent
Income:						
Int. on loans	$15,964,178	85.5	$78,000,090	90.3	$214,113,850	91.0
Income from investments	2,332,874	12.5	8,052,787	9.3	20,292,354	8.6
Other income	310,876	1.7	318,898	.4	991,384	0.4
TOTAL INCOME	$18,607,928	100.0	$86,371,775	100.0	$235,397,588	100.0
Expense:						
TOTAL Salaries	$ 4,386,021	58.0	$17,051,691	49.4	$ 42,133,164	44.7
Borrowers' protection insurance	-	-	3,714,270	10.7	12,965,818	13.7
Life savings insur.	-	-	2,348,312	6.8	8,151,495	8.6
League dues	-	-	1,240,761	3.6	3,218,084	3.4
Surety bond premiums	181,079	2.4	857,600	2.5	1,523,143	1.6
Examination and supervision fees	-	-	1,633,185	4.7	3,691,398	3.9
Int. on borrowed money	177,184	2.3	892,237	2.6	2,953,598	3.1
Cost of space occupied	-	-	-	-	1,715,199	1.8
Educational expenses	-	-	-	-	1,605,969	1.7
Other expenses	2,822,940	37.3	6,801,593	19.7	16,401,472	17.5
TOTAL EXPENSE	$ 7,567,224	100.0	$34,539,709	100.0	$ 94,359,340	100.0
NET INCOME	$11,040,704		$51,832,066		$141,028,248	
RATIO OF EXPENSE TO INCOME		40.7		40.0		40.1

income, with savings and loan shares being the largest earner in this category. Other income has accounted for a rather negligible amount of total income in the last decade, stabilized at around 1/2 of 1 percent of total income.

The expense items in Table 10 contain very limited information for the first four years reviewed. In 1955 a fairly complete breakdown of expenses is given. Since 1956, the breakdown of expense items in the annual reports of operations of the federal credit union system is even more complete, with cost of space occupied and educational expenses reported separately. They were previously reported in the "catch-all" other expenses.

Salaries have always been the largest expense item for federal credit unions. During the war years of 1943 and 1945, salaries made up 64.0 percent and 65.7 percent respectively, of total expenses. Since the war, salaries have decreased as a percentage of total expenses and in 1961 composed 44.7 percent of expenses in the federal credit union system. Salaries, as a percent of total expenses, vary widely among credit unions grouped by size of assets.

The cost of bonding has remained fairly stable in federal credit union history. In 1945 surety bond premiums accounted for 3.5 percent of total expenses, but since the war this item has stayed around 2.0 percent of total expenses. During 1961 surety bond premiums were only 1.6 percent of total expenses. Interest on borrowed money has fluctuated widely during the history of the federal credit unions. The cost of borrowing by federal credit unions is dependent in large part on the demand for loans by credit union members. In 1961 there was a decrease in demand for loans by members. As a result credit unions did not borrow as heavily from other credit unions, banks, and other sources as they did in 1960. Interest on borrowed money was approximately $2.9 million or 3.1 percent of total expenses in the federal credit union system in 1961. This compared with $3.1 million or 3.7 percent in 1960.

Historically, other expenses have been the second largest expense item of federal credit unions. This category is a "catch-all," and it includes such items as stationery and supplies, depreciation, premiums on burglary and robbery insurance, collection expenses, recording and filing fees, property taxes, social security taxes, and miscellaneous general expenses. Other expenses made up 37.5 percent of total expenses in 1940, 32.7 percent in 1943, 30.0 percent in 1945, and 37.3 percent in 1949. Since 1951 and 1956 there has been a more complete breakdown of expense items reported by the federal credit unions. This is illustrated in Table 10. Since the more complete breakdown of expense items has come about, other expenses have dropped sharply as a percentage of total expenses. However, this category is still large and made up 19.7 percent of expenses in 1955 and 17.5 percent in 1961.

League dues are paid by all federal credit unions belonging to a state or district credit union league. In 1961 league dues were 3.4 percent of total expenses. Examination and supervision fees paid to the Bureau of Federal Credit Unions were almost $3.7 million in 1961 or 3.9 percent of total expenses. Cost of space occupied and educational expenses accounted for 1.8 percent and 1.7 percent of total expenses, respectively, in 1961.

Borrowers' protection insurance and life savings insurance have been increasing as a percent of total expenses over the last decade. During 1961, borrowers' protection insurance was about $13.0 million or 13.7 percent of total expenses. Life savings insurance was $8.1 million or 8.6 percent of total expenses in the federal credit union system. Borrowers' protection insurance pays off the balance of a loan up to $10,000 in case of the insured borrowers' death or disability. Life savings insurance provides insurance based on the amount a member saves, matching members' savings in case of death up to a maximum of $2,000.[1]

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[1]1962 Credit Union Yearbook, p. 34.

These policies are usually written by the Credit Union National Association (CUNA) Mutual Insurance Society. It is not mandatory that federal credit unions carry borrowers' protection or life savings insurance, and therefore some of them do not. In 1960, borrowers' protection insurance was reported as an expense item by 8,911 of the operating federal credit unions, and life savings insurance was reported by 7,458 groups.[1]

The inclusion of borrowers' protection insurance and life savings insurance as expenses might be questioned. The premiums are paid by the credit unions out of earnings, and are not charged to the individual account of the members. In this sense, these forms of insurance are expenses, and there is some justification for this classification. A policy on the life of the borrower relieves the credit union from unpleasant and difficult collection efforts at the disability or death of a borrower. The life savings insurance might possibly be considered as an acquisition expense; to be able to gain $2,000 of insurance at no visible cost must be a strong incentive to member savings.[2] In a way, both forms of insurance might be considered a distribution of earnings to the members of the credit

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[1] 1960 Report of Operations, p. 5.

[2] Croteau, p. 77.

unions. If the credit unions did not have this insurance, dividend rates would be higher, or interest on loans might be lower. In this sense the insurance is not an expense, but a purchase of an insurance service for the membership.

The entire concept of life savings and borrowers' protection insurance might be question from an economic point of view. Many of the credit union members would be found uninsurable if they were to apply for insurance privately. But as members of a credit union which carries life savings and/or borrowers' protection insurance, they are insured. A credit union which carries blanket group insurance for its members will usually charge a higher rate of interest on loans and/or will pay a smaller dividend than a credit union not carrying such insurance. In effect, the members that are insurable (individually) are helping to pay for the insurance protection that the uninsurable (individually) members are getting. This is so because the insurable members are paying the same interest rates on loans and are receiving the same rate of dividends as the uninsurable members. From the standpoint of economic equality, life savings and borrowers' protection insurance is not a service to the majority of credit union members, but a burden. This insurance is a real service only to the members who are uninsurable (individually). They are receiving insurance which they would not otherwise be able to get and are paying no more for it than a fellow credit union member who is healthy and insurable.

The majority of credit union members would be wise to evaluate the insurance provided by their credit union and determine whether it is a real service or not. The members can determine by vote whether or not their credit union should subscribe to any of the insurance plans.

Table 11 presents the ratio of income and expense items for the various sizes of federal credit unions for the year 1961. A rough indication of the economies of scale in the credit unions can be gained from this table. One ratio of efficiency in credit union comparisons is the ratio of expenses to income. The average ratio for all federal credit unions is 40.1 percent. In the credit union group with assets of $25,000 or less the ratio of expenses to income is 49.6 percent. As the credit unions become larger this ratio declines constantly until it reaches a low of 36.9 percent in the group of credit unions with assets of $5 million or more. The expense to income ratio may vary widely between credit unions in a particular asset size grouping, but as an average figure this ratio seems to indicate an increasing efficiency in credit union operations as the size of the credit union increases.

The economies that are found in the larger credit unions are due partly to increased efficiency and partly to

TABLE 11. Percentages of income and expense items, and ratio of expense to income in various size groups of federal credit unions, 1961[a]

Size of Credit Union (Assets)	Income*			Ratio of Exp. to Inc.	Expenses*							
	Int. on Loans	Inc. from Inv.	Other		Total Salaries	Borrowers Protect. Ins.	Life Savs. Ins.	Leag. Dues	Surety Bond Prems.	Exam. Supervision fees	Int. on Borrowed Money	Other Exp.[b]
Less than $25,000	95.3%	3.6%	1.1%	49.6%	27.3%	12.2%	11.1%	4.7%	5.4%	11.8%	3.3%	24.2
$25,000-49,999	95.0	4.3	0.6	47.2	36.2	12.7	10.1	4.9	3.2	10.1	4.0	17.2
$50,000-99,999	93.9	5.6	0.5	44.4	38.8	13.6	10.4	5.1	2.7	7.4	4.3	17.7
$100,000-249,999	92.2	7.4	0.4	42.5	41.8	13.8	9.9	4.9	2.5	5.3	3.8	18.0
$250,000-499,999	91.9	7.8	0.3	41.9	44.1	14.1	9.4	4.2	2.1	4.1	3.5	18.5
$500,000-999,999	90.7	8.8	0.4	40.5	45.7	13.9	8.6	3.5	1.7	3.7	2.9	20.0
$1,000,000-1,999,999	91.0	8.5	0.4	39.1	45.4	14.3	8.4	2.8	1.2	3.1	3.5	21.3
$2,000,000-4,999,999	90.1	9.6	0.4	37.4	45.3	14.2	7.9	2.3	0.8	2.7	2.4	24.4
$5,000,000-and over	88.0	11.5	0.5	36.9	50.8	11.6	6.2	1.9	0.4	2.1	1.9	25.0
All FCUs	91.0	8.6	0.4	40.1	44.7	13.7	8.6	3.4	1.6	3.9	3.1	21.0

[a]Calculated from: 1961 Report of Operations, Federal Credit Unions.

[b]Cost of space occupied and educational expenses are included in other expenses.

[c]Percentages may not add to 100 percent because of rounding.

the stronger bargaining position of the larger credit unions. For example, fee schedules favor the larger units: examination and supervisory fees make up 11.8 percent of the expenses in the group of credit unions with assets of less than $25,000, but compose only 2.1 percent of the expenses in credit unions with assets of $5 million or more; league dues compose approximately 5.0 percent of expenses in the asset size groups up to $250,000, but drop to 1.9 percent of expenses in the $5 million or more asset group; surety bond premiums drop from 5.4 percent in the smallest group to 0.4 percent in the largest credit unions. The drop in life savings insurance from 11.1 percent of expenses in the credit unions with assets of $25,000 or less to 6.2 percent in the $5 million and over group is partially accounted for by the fact that premiums are not paid on more than $2,000 in any one account. The larger the credit union, the more likely that individual accounts may exceed $2,000. Borrowers' protection insurance, interest on borrowed money, educational expenses, and other expenses comprise a fairly stable percentage of total expenses in all asset size groups.

Salaries, the most important expense item, increase as a percentage of total expenses as the credit union becomes larger. In the group of federal credit unions with assets of less than $25,000 salaries make up only 27.3

percent of expenses. In the credit unions with $5 million or more of assets, salaries are 50.8 percent of total expenses. Salaries make up a smaller proportion of expenses in the smaller credit unions because much of the work done in the smaller credit unions is on a voluntary basis. If even a minimum salary were paid for this work, the ratio of expenses to income would be very much higher than it presently is in the smaller credit unions. For example, a treasurer of a new credit union usually serves without compensation, at least for a few months. After that (if the credit union shows a profit) he may be voted a token bonus by the members at the annual meeting and later may be paid a nominal salary. Assuming that a new credit union grows, the duties of maintaining the records and disbursing funds become too burdensome to be handled on a part-time, after-hours basis. At this time the board of directors usually hires part-time or full-time clerical assistance for the treasurer. As the credit union grows and the clerical staff is expanded, salaries become an increasingly significant part of total expenses.[1]

It may be concluded that the larger credit unions would show more economies of scale than they presently do if the small credit unions did not have the advantage of a

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[1]1955 Report of Operations, p. 8.

large amount of voluntary labor.

From a cost point of view, a credit union is in a very fortunate position. In the beginning it assumes very few fixed costs. The charter fee is only $25 for a federal credit union and, if necessary, the initial supplies are provided on credit. More often than not the sponsoring firm absorbs the costs of these items. The firm often provides office space and equipment. A credit union, either state or federally chartered, whose members are employees of the Federal Government, may get its office space free of charge, if there is any space available in a federal building.[1]

Directors and committee members serve the credit union without pay, no matter how profitable the organization may become. Costs such as bonding, insurance, examination and supervision fees, and league dues increase only as the credit union grows. Therefore, fixed costs generally do not bulk large in the total cost picture.

The cost of capital is also favorable to federal credit unions. The credit union member, if he considers at all the question of interest rates (dividends) on his savings, usually has only the alternative of the rate paid by banks or by savings and loan associations. Convenience,

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[1]Public Law No. 86-354, Sec. 8, 1959.

rather than rate of return, seems to be the crucial element in member savings.[1] Therefore, credit unions generally get the use of funds without a fixed obligation to pay the members for their use. However, most of the federal credit unions pay fair dividends on member shareholdings.

Table 12 presents a cost analysis of loans by size of credit unions for the year of 1961. The statistics in this table are intended to point out possible economies or dis-economies of scale in credit unions. In 1961 a total of 4,663,709 loans was granted to federal credit union members. The loans granted amounted to more than $3.1 billion; the average loan for the federal credit union system as a whole was $672. In order that an average cost per loan can be figured, it is necessary to allocate a certain amount of total expenses in the various size groups of credit unions to the loan-making function. This has been done in Table 12 by allocating a percentage of total expenses to each asset size group in proportion to the percentage of total income that interest on member loans is

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[1]United States Savings and Loan League, Consumer Survey on Savings Habits (Washington: United States Savings and Loan League, 1954), pp. 32-41.

TABLE 12. Loan and cost analysis, by size of federal credit union, 1961

Size of Credit Union (by assets)	Number of Loans	Amount of Loans	Average Loan	Expenses[a] Allocated to Loan Making	Avg. Cost per Loan
Less than $25,000	153,858	$ 35,667,287	$232	$ 913,514	$ 5.94
$25,000-49,999	181,285	63,023,352	348	1,771,391	9.77
$50,000-99,999	300,672	136,461,651	454	3,986,612	13.26
$100,000-249,999	638,235	361,922,868	567	10,846,086	16.99
$250,000-499,999	730,475	463,124,277	634	13,625,311	18.65
$500,000-999,999	848,498	595,265,520	701	16,573,658	19.53
$1,000,000-1,999,999	782,836	599,838,894	766	16,290,108	20.81
$2,000,000-4,999,999	654,036	539,753,383	825	13,781,065	21.07
$5,000,000 or over	373,814	339,221,147	907	8,123,369	21.73
All FCUs	4,663,709	$3,134,278,379	$672	$85,866,999	$18.41

[a]See footnote number 1 on page 78.

TABLE 12. Continued

Size of Credit Union (by assets)	Ratio of increase for: Average Loans	Average Cost per Loan	% of efficiency (+) or inefficiency (-) as a: Relation of asset size grp. to the Prev. Group	Relation of asset size group to the base group ($25,000-$49,999)
Less than $25,000	-	-	-	-
$25,000-49,999	b	b	b	b
$50,000-99,999	1.305	1.357	-3.8	- 3.8
$100,000-249,999	1.249	1.281	-2.5	- 6.3
$250,000-499,999	1.118	1.098	+1.8	- 4.5
$500,000-999,999	1.106	1.047	+5.6	+ 1.1
$1,000,000-1,999,999	1,093	1.066	+2.5	+ 3.6
$2,000,000-4,999,999	1.077	1.012	+6.4	+10.0
$5,000,000 or over	1.099	1.031	+7.6	+17.6

[b] See footnote number 1 on page 79.

in each group (see Table 11--Interest on Loans).[1] For the federal credit union system as a whole, 91.0 percent of total expenses, or $85,866,999, was allocated to loan making. This dollar amount, divided by the total number of loans granted in 1961, gives an average cost per loan of $18.41.

The average loan and average cost per loan were calculated for each different asset size grouping in Table 12. In the credit unions with assets of $25,000 or less the average loan is $232. The size of average loans increases fairly constantly as the credit unions get larger until, in the group of credit unions with assets of $5 million or over, the average loan is $907. Likewise, average cost per loan increases as the size of the credit union and size of loan increases, going from $5.94 in the smallest grouping of federal credit unions to $21.73 in the largest grouping. A moving average ratio was calculated for average loans and

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[1]This allocation is arbitrary, but it does not seem out of line to allocate expenses to loan making in proportion to the income on such loans in relation to total income. For example, in Table 11 it was seen that 95.3 percent of total income in the credit unions with assets of $25,000 or less was derived from interest on loans. In Table 12, 95.3 percent of total expenses in credit unions with assets of $25,000 or less was allocated to loan making. A similar procedure was carried out in the remaining asset groupings.

average cost per loan. This was done by dividing each figure for average loans and average cost per loan in each asset size grouping by their respective figures in the preceding asset size grouping. The percentage difference in the two ratios computed for each asset size grouping gives an indication of the economies or dis-economies of scale of each group as compared to the previous smaller group. An accumulation of these percentages relates each larger asset size group to the smallest asset group $25,000-$49,999) used as a base in this comparison.[1]

The ratio of average loans in the federal credit unions with assets of $50,000-$99,999 is 1.305 ($454 divided by $348) in relation to average loans in the $25,000-$49,999 asset size group. As between these same two groups, the ratio of average cost per loan is 1.357 ($13.26 divided by $9.77). In other words, average loans increased as the size of the credit unions increased, but average cost per loan increased by a slightly larger

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[1]The federal credit unions with assets of $25,000 or less were not used as a base for these economies or dis-economies of scale calculations because of the cost advantages that are present in the very small credit unions. These advantages, already mentioned in this chapter, have to do with the fact that most of the labor in the very small credit unions is voluntary. Therefore, the small average cost per loan is somewhat superficial in the very small credit unions and becomes less so only as the credit unions become larger and competitive factors enter into wage determination.

amount, 3.8 percent. The fact that cost increased faster than the size of loan increased as the credit union size increased would indicate that the credit unions with assets of $50,000-$99,999 are a little less efficient than the smaller credit unions with assets of $25,000-$49,999. This is shown by the -3.8 percent in Table 12. The $100,000-$249,999 asset group is less efficient in loan making than the previous groups. This is indicated by the -2.5.[1] This figure indicates that average cost per loan has increased more than the size of average loan in going from one asset group to the next largest, but not as much as it did between the previous two groups. Some indications of economies of scale are apparent in the federal credit unions with assets of $250,000-$499,999. In relation to the previous group $100,000-$249,999), average loans increased 1.8 percent more than average cost per loan. The economies of scale are also apparent in the credit unions with $500,000-$999,999 of assets. In this group the average loan increased 5.6 percent more than the average cost per loan compared to the previous group. The cumulative percent of 1.1 percent

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[1]The percentages of inefficiency for these last two asset size groups ($50,000-$99,999 and $100,000-$249,999) may not be due to actual inefficiency relative to the credit unions with assets of $25,000-$49,999. More than likely, the higher unit costs in relation to the smaller credit unions are primarily due to increasing salaries as the amount of voluntary labor decreases.

indicates that this group of credit unions is also more efficient than the small base group of credit unions $25,000-$49,999). In each larger asset size group of credit unions from $250,000-$499,999 on up, there are economies of scale in relation to the previous smaller group. The largest credit unions with assets of $5 million or over are shown to be 17.6 percent more efficient than the federal credit unions with assets of $25,000-$49,999.

Chart 6 attempts, by means of least-square trend lines, to show the economies of scale associated with the larger credit unions. This chart is primarily a graphic presentation of the statistics in Table 12. It shows that the trend of average loans increases at a faster rate than the trend for the average cost per loan as the credit unions get larger. The analysis in Table 12 and Chart 6 leave but one conclusion to be drawn: there are, on the average, economies of scale in the larger federal credit unions. There appear to be dis-economies of scale as the size of credit unions increase up to the $250,000 asset size, but this appearance may be caused by increasing salaries as the amount of voluntary labor decreases, rather than by less efficient operations. From credit unions in the $250,000-$499,999 asset range, on up to the very largest credit unions, there seem to be increasing and significant economies of scale.

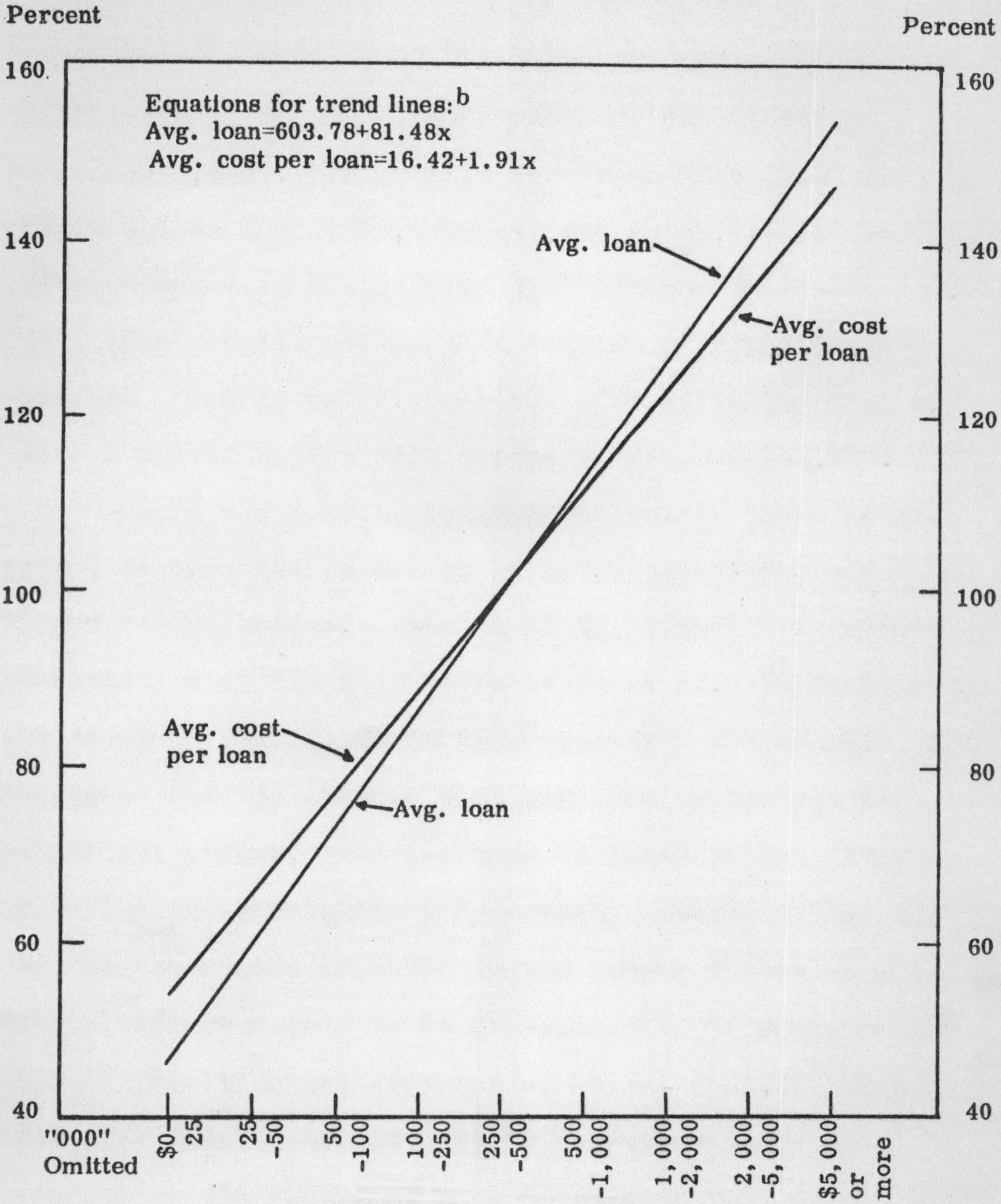

CHART 6. Comparison of average loan and average cost per loan trends.[a]

[a] Calculated from information in Table 12. [b]For comparison of the two trend lines, the constants, 603.78 and 16.42 were equated to 100%. All other values of bx were computed as percentages of the base, 100%.

Table 13 shows the rate of return on average loans to members, and on the average investments of all federal credit unions for the years 1939-1961. Before the war the return on loans fluctuated around 11 percent. The lowest return on loans was 9.6 percent in 1946. During the twelve year period of 1950-1961 the return on loans was exceedingly stable, ranging from 10.0 percent to 10.2 percent. The average rate of interest will always be less than the legal maximum rate of 12 percent as long as some credit unions grant loans at a rate less than 1 percent a month on the unpaid balance. As the proportion of such loans increase, the average rate of return will shift away from the maximum rate and thus reduce interest income; conversely, as fewer loans are granted at rates below the maximum allowed, interest income will increase, other factors remaining equal.[1] Many credit unions do not charge the maximum of one percent a month. Some credit unions even charge multiple rates, such as one percent a month on small loans, but lower rates on loans to finance the purchase of cars or for "estate loans."[2]

As seen in Table 13, the prewar return on the average investment balance reached a high of 2.9 percent

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[1]1956 Report of Operations, p. 8.

[2]Croteau, p. 88.

TABLE 13. Rate of return on average loans to members and on average investments, 1939-1961[a]

Year	Return on Average Loan Balance[b] (percent)	Return on Average Investment Balance (percent)
1939	10.9%	2.7%
1940	10.9	2.9
1941	11.2	2.1
1942	10.6	1.6
1943	9.8	1.8
1944	10.2	1.9
1945	9.9	2.0
1946	9.6	2.1
1947	9.9	2.3
1948	10.2	2.4
1949	9.8	2.5
1950	10.2	2.5
1951	10.1	2.4
1952	10.0	2.7
1953	10.2	2.8
1954	10.1	2.9
1955	10.1	3.0
1956	10.0	3.1
1957	10.0	3.4
1958	10.1	3.4
1959	10.0	3.7
1960	10.2	3.9
1961	10.0	3.4

[a]Calculated from: Report of Operations, Federal Credit Unions, 1940-1961.

[b]Averages are arithmetic averages of beginning and year end totals.

in 1940. The rate of return on investments fell during the war, primarily because of the large holdings of low yielding government bonds. The rate of return on investments has increased in almost every year since the war, reaching a high of 3.9 percent in 1960. The rate of return on investments has been increasing for various reasons. Most of the gain can be accounted for by the fact that there has been a shift away from low yielding government securities to higher yielding savings and loan shares and, to a lesser extent, loans to other credit unions. The statistics in Table 13 would seem to indicate that a dollar invested in member loans will earn 2-1/2 to 3 times as much as a dollar placed in investments.

Table 14 illustrates the effect of World War II on credit union earnings. Prior to the war, net earnings as a percentage rate of return on average shares had reached 6.1 percent and 5.7 percent on average net worth. From 1942 through 1946 return on average shares fell from prewar levels and fluctuated between 1.8 percent and 3.2 percent. During this same period net earnings as a percentage rate of return on average net worth fluctuated between 1.7 percent and 2.9 percent. Since the end of the war profits have increased, and net earnings as a percentage rate of return on average shares and average net worth have gradually increased. In 1961 net earnings amounted to 5.6

TABLE 14. Net earnings as percentage rate of return on average shares, and on average net worth; dividends as a rate of return on average shares and as a percentage of net earnings, 1939-1961[a]

Year	Net Earnings as a Percentage Rate of Return on: Avg. Shares[b]	Avg. Net Worth[b]	Dividends as a Percentage Rate of: Return on Avg. Shares[b]	Net Earnings
1939	6.1%	5.7%	3.9%	64.0%
1940	6.1	5.7	3.9	63.6
1941	5.5	5.1	3.3	60.7
1942	3.2	2.9	2.2	68.2
1943	1.8	1.7	1.5	85.0
1944	1.8	1.7	1.4	79.5
1945	1.9	1.8	1.5	82.3
1946	2.2	2.1	1.8	80.4
1947	3.1	2.9	2.2	72.2
1948	3.9	3.6	2.6	67.3
1949	4.2	3.9	2.9	68.5
1950	4.9	4.6	3.1	64.5
1951	4.5	4.1	3.1	68.7
1952	4.4	4.1	3.1	70.8
1953	4.9	4.6	3.3	67.6
1954	4.9	4.5	3.3	68.9
1955	5.0	4.6	3.4	68.3
1956	5.1	4.7	3.6	70.9
1957	5.3	4.8	3.7	69.1
1958	5.2	4.7	3.7	71.6
1959	5.3	4.8	3.8	71.7
1960	5.6	5.1	4.0	70.8
1961	5.6	5.1	4.1	73.1

[a]Calculated from: Report of Operations, Federal Credit Unions, 1940-1961.

[b]Averages are arithmetic averages of beginning and year end totals.

percent and 5.1 percent of average shares and average net worth respectively. Since there is very little trading on equity in federal credit unions, the return on average net worth follows closely the return on average shares.

Dividends as a percentage rate of return on average shares were 3.9 percent in 1940, dropped to a low of 1.4 percent in 1944, and have increased gradually since the war, reaching 4.1 percent in 1961. Dividends as a percent of net earnings have been relatively stable, except during the war years, when they fluctuated between 60.7 and 85.0 percent of net earnings. The high percentage of earnings paid out as dividends in the low income years, 1942-1946, would seem to indicate that many of the federal credit unions attempted to keep up, in dollar amounts, with their prewar dividend payments. In the eleven year period, 1951-1961, over two-thirds of net earnings in the federal credit union system were paid out as dividends. Dividends for 1961 amounted to 73.1 percent of net earnings or a total of $102.4 million. This high rate of dividend payout is necessary if the credit unions wish to retain their status as non-profit institutions. Table 15 shows the percentage distribution of the rates of dividends paid on member share capital from 1950 through 1961. The percentage of federal credit unions paying no dividends is decreasing. In 1950, 15.2 percent of the credit unions

TABLE 15. Percentage distribution of federal credit unions, by percent of dividend paid on member share capital, 1950-1961[a]

Dividend Paid (Percent)	Percentage of Credit Unions											
	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961
Credit unions paying none	15.2	14.0	14.4	14.5	14.0	12.9	12.5	11.7	11.4	11.1	11.1	11.0
Credit unions paying												
Less than 1%	0.1	0.1	0.1	0.1	b	b	b	b	b	b	b	b
1.0 - 1.9%	1.9	2.3	1.8	1.7	1.6	1.0	0.8	0.8	0.9	0.5	0.5	0.5
2.0 - 2.9%	12.3	11.4	11.0	9.4	7.8	6.9	5.4	3.9	4.4	2.8	2.1	2.2
3.0 - 3.9%	30.4	31.3	31.8	31.1	30.9	29.4	27.5	24.0	23.2	18.2	13.0	11.2
4.0 - 4.9%	24.5	26.2	28.0	29.1	31.0	33.7	35.9	39.1	39.8	42.8	43.8	44.5
5.0 - 5.9%	8.5	8.5	7.5	8.1	8.9	11.0	12.6	14.7	14.9	18.9	22.8	24.5
6 percent	7.1	6.2	5.4	6.0	5.8	5.1	5.3	5.8	5.4	5.7	6.7	6.1
All Credit Unions	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[a]Calculated from: Report of Operations, Federal Credit Unions, 1950-1961.

[b]Less than 0.05%.

.d no dividends, but in 1961 only 11.0 percent refrained from paying dividends. The small percent of credit unions paying no dividend are, in most cases, new credit unions or "sick" ones. The percent of credit unions paying less than 4.0 percent has been decreasing over the period covered by Table 15. For example, in 1950, 44.7 percent of the credit unions paid dividends of less than 4.0 percent; in 1961 only 13.9 percent paid dividends of less than 4.0 percent and 75.1 percent of the federal credit unions paid 4.0 to 6.0 percent. In 1950 the most commonly paid dividend was in the 3.0 to 3.9 percent range, with 30.4 percent of the credit unions paying dividends in this range. Dividends on 1961 earnings were most common in the 4.0 to 4.9 percent range, with 44.5 percent of the credit unions paying dividends in this range. The percent of federal credit unions paying dividends of 6.0 percent has remained rather steady, fluctuating between 5.1 and 7.1 percent.

Prior to the 1959 Federal Credit Union Act, federal credit unions could pay dividends only on all paid-up shares outstanding as of December 31 of each year. In 1960, for the first time, federal credit unions were permitted to pay dividends on shareholdings as of June 30 as well as December 31.[1] Payment of dividends semi-annually

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[1]Public Law No. 86-354, 1959.

had not become widespread during 1960 or 1961, but increasing numbers of credit unions are expected to avail themselves of this provision in the future.[1]

A paid-up share, to be eligible for dividends at the end of a dividend period, must have been paid up for a month. However, dividend credit for a month may be accrued on shares which become fully paid up during the first five days of that month.[2] In any credit union there will be shares only partly paid for as of a given dividend date and, therefore, these partial shareholdings will escape dividend payment.

Statistics indicate that the majority of federal credit unions pay a substantial dividend. In this respect, many federal credit unions have an advantage over other financial institutions in competing for personal savings. A few credit unions also make interest refunds, to borrowers, with the result of lowering net borrowing costs. This proves to be an advantage that credit union members have over members of other savings institutions.

The number and percent of federal credit unions grouped according to the rate of interest refund paid to borrowers in 1960 and 1961 are shown in Table 16. A law

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[1] 1961 Report of Operations, p. 6.

[2] Public Law No. 86-354, 1959.

TABLE 16. Percentage distribution of federal credit unions by percent of interest refund, 1960 and 1961[a]

Rate of Interest Refund	1960		1961	
	Number	Percent	Number	Percent
All federal credit unions	9,905	100.0%	10,271	100.0%
Credit unions making no interest refund	8,189	82.7	8,357	81.4
Credit unions making interest refund	1,716	17.3	1,914	18.6
Less than 5 percent	57	0.6	59	0.6
5 to 99 percent	422	4.2	480	4.7
10 to 14.9 percent	866	9.0	978	9.5
15 to 19.9 percent	194	1.9	213	2.0
20 to 29.9 percent	150	1.5	178	1.7
30 percent and over	7	0.1	6	0.1

[a]Calculated from: 1961 Report of Operations, Federal Credit Unions.

to permit partial refund of interest paid by the borrowing members was approved on June 30, 1954.[1] When authorized by the board of directors, interest refunds are payable at the end of the year to members who have borrowed from the credit union during the year and who are still members in good standing.

In 1961, 18.6 percent of the federal credit unions had availed themselves of the provision to give interest refunds. Unlike dividends, which are limited to a maximum return of 6 percent a year on shareholdings, interest refunds are not limited by law or regulations. The modal, or most common rate of interest refund, was 10 percent in 1961.[2] However, rates of interest refund in excess of 15 percent or more are not uncommon. In 1961, 213 credit unions refunded between 15 and 20 percent of interest paid by members during the year; 178 credit unions refunded between 20 and 30 percent; 6 credit unions made interest refunds of 30 percent or more of interest paid by the borrowers during the year. Almost one out of five credit unions made interest refunds in 1961, thereby lowering the net borrowing cost to their members.

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[1] U. S. Congress, Amendment to the Federal Credit Union Act, Public Law No. 83-454, 83rd Congress, 1954.

[2] 1961 Report of Operations, p. 7.

CHAPTER 5

MEMBER SAVING AND BORROWING

The basic purpose of any credit union is to promote thrift among its members by the accumulation of their savings, and to loan such accumulations for provident and productive purposes. The terms provident and productive are used rather loosely in describing many loans made by credit unions. A "provident" loan could be considered as one that helps a borrower make provisions for the future. It could also be considered a wise or sensible loan. This would have to be determined by the treasurer or credit committee of a credit union. A loan for a "productive" purpose might be a loan which, if used as planned, would yield profits or benefits to the borrower. Upon applying for a loan, a borrower could state a use for the funds that would seem very provident or productive to the credit committee; of course, upon receiving the funds, the borrower could use them for other than the purpose stated on his loan application. The fact that the borrower's actual use of the loan is other than the stated use is, in most cases, beyond the control of credit union management.

There has been no study investigating the motivation of credit union savers. In other words, there is no authentic picture of why credit union members save. Barou, in his book Cooperative Banking, proposed what might be termed a "rainy day" theory of saving. He stated:

> The main characteristic of saving among the working population is that it is generally not "for permanent investment, but for deferred expenditure." The deposits and savings of individual workers also are not investable capital, but mainly income which has to be spent in the future;...[1]

This "rainy day" theory probably comes as close as any other theory in explaining why the majority of credit union members save. A study conducted in 1953 for the United States Savings and Loan League looked into reasons for which people saved.[2] This study indicates that the main purpose for which savings are made is to provide against emergencies and old age, or to provide for future items of family comfort or welfare, such as a college education for the children or an anticipated vacation. In regard to the type of institution in which a person might save, the study pointed out that safety and convenience rank highest among the reasons why people save in a particular institution.[3]

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[1]Noah Barou, Cooperative Banking (London: P. S. King & Son, 1932), p. 25.

[2]United States Savings and Loan League, Consumer Survey on Savings Habits, pp. 32-41.

[3]Ibid.

As Croteau stated in his book on federal credit unions:

> ... in a credit union, saving and borrowing are not to be looked upon as mutually exclusive acts; rather they are two interrelated aspects of the problem of consumer behavior. The credit union member saves for a "rainy day." At times an emergency arrives before the savings amount to a significant size and the credit union comes to the rescue; then he borrows, and in paying back he is saving after the fact, as it were. Or the credit union member might be saving to purchase some durable goods; at times he is assisted by the credit union to complete the purchase. Here again saving is taking place in the repayment of the loan.[1]

Some members save in the credit union and never borrow; others are chronic borrowers. Some use the credit union both as active savers and borrowers (dissavers).[2] Many people join a credit union to get a loan. It is the usual practice in these cases for the officials of the credit union to specify that the member make payments on shares as he repays his loan. By the time the loan is repaid, the member may have learned that he, too, can save.[3] There is not, at the present time, any precise statistical information on the pattern of members who save and those who borrow. Table 17 shows something of the interrelated character of credit union saving and borrowing.

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[1] <u>Croteau</u>, p. 56.

[2] <u>Ibid</u>., p. 57.

[3] 1951 <u>Report of Operations</u>, p. 1.

TABLE 17. Shares and loans of federal credit unions, average shares per member, average loans per member, and ratio of loans to shares, December 31, selected years[a]

Year	Shares	Loans	Avg. Shares per Member	Avg. Loans per Member	Ratio of Loans (percent) to Shares
1935	$ 2,228,400	$ 1,834,200	$ 19	$ 15	82.3%
1937	17,649,700	15,695,300	36	32	88.9
1938	26,876,100	23,830,100	43	38	88.7
1940	65,805,800	55,818,300	58	49	84.8
1943	117,339,100	35,376,200	89	27	30.1
1945	140,613,962	35,155,414	116	29	25.0
1947	192,410,043	91,372,197	133	63	47.5
1949	285,000,934	186,218,022	157	102	65.3
1950	361,924,778	263,735,838	170	124	72.9
1951	457,402,124	299,755,775	186	122	65.5
1952	597,374,117	415,062,315	209	145	69.5
1953	767,571,092	573,973,529	236	176	74.8
1954	931,407,456	681,970,336	259	189	73.2
1955	1,135,164,876	863,042,049	282	214	76.0
1956	1,366,258,073	1,049,188,549	303	233	76.8
1957	1,589,190,585	1,257,319,328	324	257	79.1
1958	1,812,017,273	1,379,723,727	348	265	76.1
1959	2,075,055,019	1,666,525,512	368	295	80.3
1960	2,344,337,197	2,021,463,195	385	332	86.2
1961	2,673,488,298	2,245,223,299	409	343	83.6

[a]Calculated from: 1961 <u>Report of Operations, Federal Credit Unions</u>.

Table 17 points out the growth of members' savings and borrowing in the federal credit union system for selected years. Average shareholdings per member, the average loan per member, and the ratio of loans to shares are also shown. Total shareholdings and average shareholdings per member have increased each year of federal credit union existence. At the end of 1935, the first full year of operations for the system, members held aggregate savings of \$2.2 million, or average savings of \$19 per member. By December 31, 1961, federal credit union members held over \$2.6 billion in their share accounts, and average savings per member were \$409. There was rapid growth in savings in the early years of the system. The growth rate in savings declined during World War II, although total savings and average shareholdings increased each year during the war. After the war, savings increased rapidly, and by 1955 aggregate savings in the system had surpassed \$1 billion.

The dollar amount of loans to members and average loans per member have grown as member shareholdings have grown, but have shown much more fluctuation. Loans to members increased rapidly prior to the war, and ranged between 82 and 89 percent of total savings. Total loans decreased each year during the war as a result of many factors. The greatly reduced supply of consumer goods available during the war and the restrictions on consumer credit imposed by regulation W are two main causes of the decline in loans. At the end of 1945 the ratio of loans to shares was only 25 percent. After the war, loans to members increased rapidly, largely as a result of the pent-up demand for consumer goods. At the end of 1956 loans to members had exceeded $1 billion for the first time. Five years later, at the end of 1961, loans to members stood at a little over $2.2 billion, and the average loan per member was $343. The ratio of loans to shares stood at 83.6 percent on December 31, 1961, the second highest percent of loans to savings since prior to World War II. Statistics in Table 17 would seem to show, with the exception of the war years, that it is a normal credit union experience for share savings to be closely associated with loan dissaving.

Chart 7 graphically illustrates the growth of members' saving and borrowing in the federal credit union system. It is evident that net savings are a relatively small percent of total savings. The fact that members' savings have always exceeded loans to members of federal credit unions indicates that the system has not exerted an inflationary effect on the economy. Although savings have grown rapidly in the system since the war, their impact on the economy of our nation is almost negligible. Shares in federal credit unions, at the present time, only account for about 0.75 percent of individuals' investments in

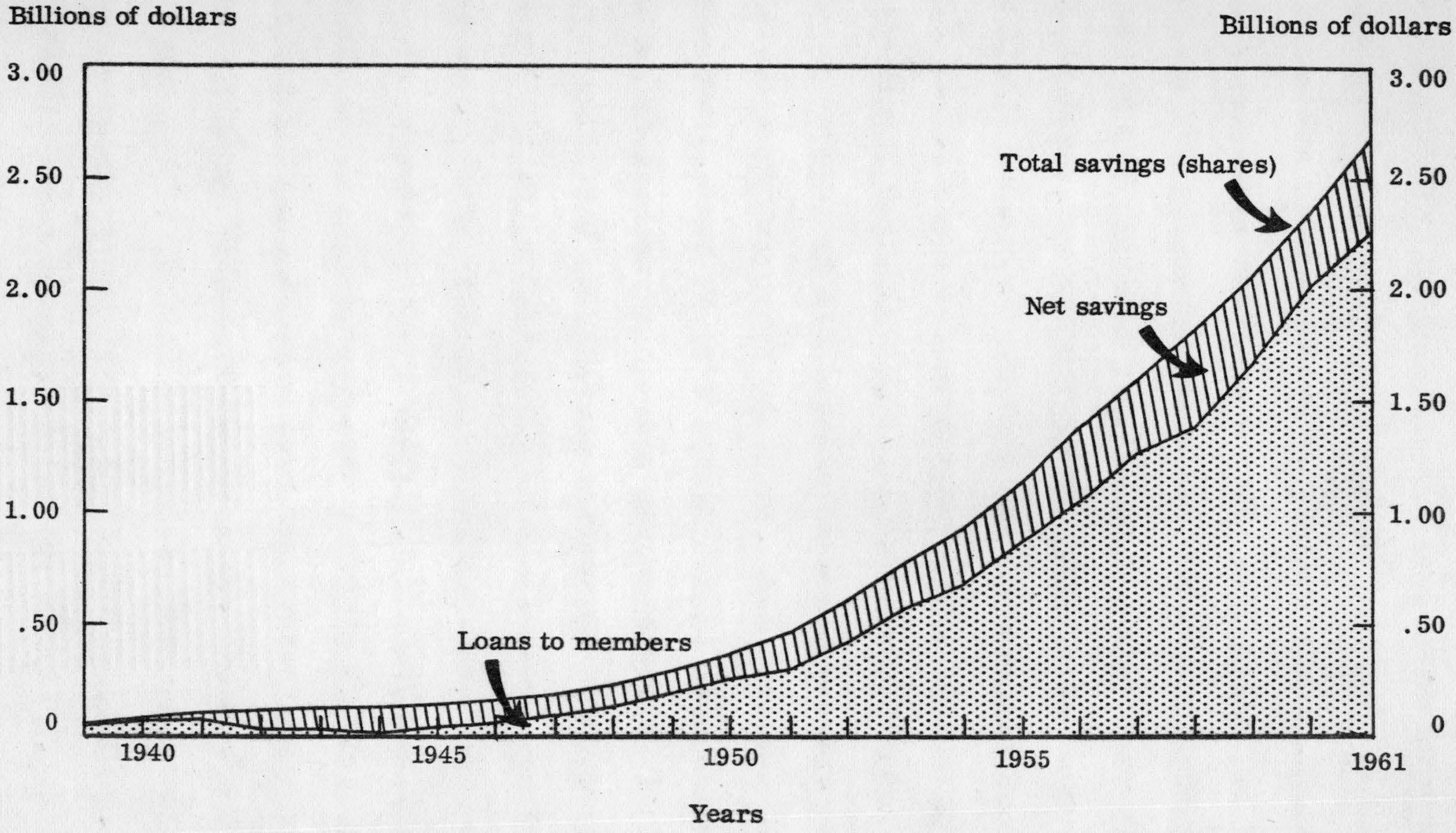

CHART 7. Total and net savings (shares) and total loans to members, 1939 - 1961.

savings accounts, government savings bonds, and life insurance companies' reserves.[1]

Table 18 presents the number and amount of loans granted during 1961 by size of credit unions. In 1961 approximately 4.7 million loans were granted amounting to over $3 billion. This is an average of $672 per loan. The smallest group of credit unions, those with less than $25,000 of assets, made 3.3 percent of the total number of loans. In dollar amounts these loans accounted for only 1.1 percent of total loans. The credit unions with assets of $5 million or more made 8.0 percent of the total number of loans in 1961. These loans, in dollar amounts, accounted for 10.8 percent of total loans. Credit unions with $500,000-$999,999 of assets made 848,498 loans, more than any other size group of credit unions. These loans made up 18.2 percent of the total number of loans in 1961 and 19.0 percent of the amount loaned.

The Bureau of Federal Credit Unions does not tabulate yearly data on the purposes of member borrowing. In 1961 the Bureau carried out a special study on the purposes for which loans were made during that year.[2] The

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[1]Savings and Home Financing Source Book 1961, Federal Home Loan Bank Board (Washington: U.S. Government Printing Office, 1961), p. 13.

[2]1961 Report of Operations, pp. 33-37.

TABLE 18. Number and amount of loans, grouped by size of federal credit union, 1961[a]

Size of Credit Union (by Assets)	Loans					
	Number	Percent of Total	Cumulaative Percent	Amount	Percent of Total	Cumulative Percent
Less than $25,000	153,858	3.3%	-	$ 35,667,287	1.1%	-
$25,000-49,999	181,285	3.9	7.2	63,023,352	2.0	3.1%
$50,000-99,999	300,672	6.4	13.6	136,461,651	4.4	7.5
$100,000-249,999	638,235	13.7	27.3	361,922,868	11.5	19.0
$250,000-499,999	730,475	15.7	43.0	463,124,277	14.8	33.8
$500,000-999,999	848,498	18.2	61.2	595,265,520	19.0	52.8
$1,000,000-1,999,999	782,836	16.8	78.0	599,838,894	19.2	72.0
$2,000,000-4,999,999	654,036	14.0	92.0	539,753,383	17.2	89.2
$5,000,000 and over	373,814	8.0	100.0	339,221,147	10.8	100.0
TOTAL	4,663,709	100.0		3,134,278,379	100.0	

[a]Calculated from: 1961 Report of Operations, Federal Credit Unions.

statistics in the 1961 study are based on data for 2,497 of the 10,271 federal credit unions operating as of the end of that year. This is 24.3 percent of all federal credit unions and presents a fairly good sample for the study.

Table 19 shows the purpose of loans to members and the percentage distribution of the number and amount of such loans, as well as the size of the average loan. Debt consolidation was cited the most frequently as the reason for borrowing during 1961, accounting for 15.1 percent of the number of loans and 14.9 percent of the total amount of loans. The average loan for debt consolidation was $437. From the statistics in the 1961 study it is impossible to determine the use of the proceeds from the loans to consolidate debts. In some cases a hospital or dental bill may have taken the bulk of the proceeds, with only a small amount going for a few other miscellaneous purposes. In other cases, perhaps the primary debts to be consolidated consisted of bills for furniture, appliances, or other consumer goods. A good credit committee looks very carefully at a member's application for a loan to consolidate debts to determine if such a loan is provident or productive. For example, such a loan might be considered provident if it is to be used to pay medical bills and current living expenses when it would be impossible for the member to pay such expenses out of present earnings. If

TABLE 19. Percentage distribution of number and amount of loan granted by federal credit unions during 1961, and average loan, by principal purpose[a]

Principal Purpose of Loan	Percentage Distribution Number	Amount	Average Loan[b]
LOANS FOR -			
Automobiles:			
New	4.5%	17.2%	$1,719
Used	8.2	13.7	749
Repairs and Other	6.2	2.7	191
Agriculture:			
Capital Investment (tractors, livestock, etc.)	0.4	0.7	804
Current Production (Seed, feed, etc.)	0.2	0.3	617
Other:			
Furniture & household appliances	6.9	5.7	368
Homes	2.0	5.0	1,128
Home Improvements & maintenance	8.0	8.8	495
Other durable goods (boats, house trailers, etc.)	1.2	1.9	704
Other non-durables (clothing, etc.)	2.1	0.9	180
LOANS TO PAY -			
Current living expenses	7.7	3.2	190
Educational expenses	2.7	1.9	326
Holiday & recreation expenses (vacations, gifts, etc.)	10.0	5.1	226
Insurance Premiums	3.4	1.2	164
Medical, hospital, dental & funeral expenses	8.4	4.8	255
Taxes	3.9	2.1	240

TABLE 19. Continued

Principal Purpose of Loan	Percentage Distribution Number	Amount	Average Loan[b]
LOANS TO -			
Consolidate debts	15.1%	14.9%	$ 437
Make Investments:			
In business ventures	0.8	2.2	1,208
In stocks, bonds, etc.	0.7	1.3	868
LOANS for all other purposes	7.6	6.4	376
Total (percent) and average of all loans	100.0	100.0	$ 447

[a]Calculated from: 1961 Report of Operations, Federal Credit Unions, p. 33.

[b]Based on new money only; excludes amounts to refinance old loans.

such a loan would prevent a bankruptcy procedure for the member it might be considered provident. In some cases a loan to consolidate debts will be used to pay off a number of debts which have interest costs in excess of 12 percent a year. The loan made by the credit union to consolidate these debts would have an interest cost to the borrower of 12 percent, or less, a year. In this case the credit committee would probably consider the loan as provident or productive in that it results in overall decreased interest costs to the member.[1]

Loans for "all other purposes," 7.6 percent of total amount of loans are difficult to categorize. The somewhat unspecific areas of debt consolidation and loans for all other purposes accounted for 22.7 percent of the number of loans made in 1961 and 21.3 percent of the amount loaned. One of every 10 loans made by federal credit unions in 1961 was for holiday and recreation expenses. Except for the reason "to consolidate debts" which is a convenient catch-all, "holiday and recreation expenses" was the reason most frequently given for borrowing in 1961. The increasing number of loans for holiday and recreation expenses may be attributed to the trend toward a shorter work week and increasing emphasis on leisure-time activities. Tourism

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[1]Telephone interview, April 22, 1963, with Mr. Paul F. McGinty, Managing Director, Washington Credit Union League, 501 Yale N., Seattle, Washington.

is booming also as workers take longer and more frequent vacations.[1]

Among the more specific reasons for borrowing, loans to purchase automobiles stand out as the most important. The purchase of new automobiles accounted for 4.5 percent of the number of federal credit union loans in 1961 and 17.2 percent of the amount of loans with an average loan of $1,719. Loans for the purchase of used cars averaged $749 and accounted for 8.2 percent of the number of federal credit union loans and 13.7 percent of the amount. Automobile repair and other loans made up 6.2 percent of number of the federal credit union loans and 2.7 percent of the amount. The average loan here was $191. In summary, 12.7 percent of the number of federal credit union loans are for the purchase of an automobile, either new or used. This, in dollar amounts, is 30.9 percent of all federal credit union loans. There has been some concern that credit unions are getting into the automobile lending field too deeply.[2] This is not supported by data. A 1956 study showed that 13.1 percent of the number of federal credit union loans went for the purchase of an automobile, while the 1961 study shows that 12.7 percent of federal credit union loans

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[1]1961 Report of Operations, p. 35.

[2]Ibid., p. 33.

were similarly granted.[1] Also, there have been charges that credit unions were dealing too heavily in real estate lending. This seems unlikely as only 2 percent of the number and 5 percent of the amount loaned by federal credit unions in 1961 were real estate loans. Loans for the purchase of automobiles were not the most important loans in the smaller credit unions. Lack of capital among the smaller and newer credit unions is perhaps the principal deterrent to making automobile loans, since size of the individual loan must necessarily be limited during the early stages of growth. As capital is accumulated for lending purposes, the credit union usually becomes better able to meet the demand for larger loans.

Although the loans to purchase automobiles, loans for homes, agricultural loans, and loans to make investments were quite large in 1961, the vast majority of federal credit union loans were relatively small in amount, ranging between $164 and $495 on the average. It may be concluded on the basis of the present study that after 27 years of operation, federal credit unions continue to make relatively small loans, and that members' needs for larger loans are taken care of by financial institutions other than credit unions. The allegation that credit unions are

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[1] 1956 Report of Operations, p. 12.

making too many large loans for real estate and the purchase of automobiles is not supported by the data. Relatively large loans in federal credit unions are the exception, and numerically insignificant, when the program is viewed from the overall standpoint.

Table 20 shows the average size loan made during the year and the average turnover of loans, in days, for the period 1939-1961. Since 1939 there has been an increase in the average size loan in every year, with the exception of the war years and a $2 decrease in 1951 (Korean War). In 1961 the average size loan reached a high of $672. The influence of raising the legal limits on unsecured loans can be seen in this table. Originally the limit for unsecured loans was $50. The size of the average loan immediately increased when the unsecured loan limit was increased to $100 in June 1940. The unsecured loan limit was again increased in July 1946 to $300; in October 1949 to $400; in September 1959 to $750. Substantial increases in the size of average loans have followed each limit increase.

Table 20 also shows the average length of time that loans were outstanding in the 1939-1961 period.[1] The

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[1]Average turnover in loans to members, in days, was calculated as follows:

$$\text{Turnover Ratio} = \frac{\text{Loans made during year}}{\text{Average loans outstanding}}$$

$$\text{Average Turnover, in days} = \frac{360}{\text{Turnover Ratio}}$$

TABLE 20. Average size loan made by federal credit unions and average loan turnover, 1939-61[a]

Year	Average Size Loan Made during Year	Average Turnover in Loans to Members (in days)
1939	$102[b]	156
1940	117[c]	160
1941	132	167
1942	107	221
1943	112	182
1944	118	160
1945	130	160
1946	159[d]	144
1947	194	139
1948	227	151
1949	260[e]	167[f]
1950	299	174
1951	297	187
1952	351	168
1953	388	186
1954	394	211
1955	447	207
1956	479	218
1957	516	220
1958	535	235
1959	593[g]	220[h]
1960	653	223
1961	672	245

[a]Calculated from: Report of Operations, Federal Credit Unions, 1940-1961.

[b]Unsecured loan limit $50, 1934 to June 1940.

[c]Unsecured loan limit raised to $100, June 1940.

[d]Unsecured loan limit raised to $300, July 1946.

[e]Unsecured loan limit raised to $400, October 1949.

[f]Maximum length of loan extended from 2 to 3 years, October 1949.

[g]Unsecured loan limit raised to $750, September 1959.

[h]Maximum length of loan extended from 3 to 5 years, September 1959.

average turnover has generally increased during the life of the federal credit union system. It has not increased at as fast a rate as the size of average loans. In 1939 the average size loan was $102 as compared with $672 in 1961. Average loan turnover was 156 days in 1939 and in 1961 was only 245 days. This would indicate that loans to credit union members are still being repaid quite rapidly, although the average size loan has increased over 6-1/2 fold since 1939. The average loan turnover varies little among different sizes of credit unions. Generally, however, the average loan turnover in days increases as the size of the credit union increases, reflecting the fact that the larger credit unions generally make larger loans. More important than size of credit unions as a factor influencing the average turnover is the type and location of a credit union. A high average loan and a slow turnover in loans are usually found in those credit unions where the membership enjoys stability of employment, and therefore greater job security. These are some of the desirable elements of a good credit risk. People in such areas of employment have the economic strength to dissave and to borrow larger amounts and for longer periods of time than those employed where lower pay and employment insecurity may be prevalent.[1]

Table 21 shows the percent of loans to members that were delinquent and the reserves specifically set aside as protection against loss from delinquent loans, as of December 31, 1961. In both the prewar and postwar years, delinquencies have fluctuated between approximately 4 and slightly over 6 percent of total loans outstanding. As might be expected, delinquencies increased during the war years. In 1942 delinquencies increased to 12.4 percent of total loans outstanding, dropped to 10 percent in 1944 and 1945, and have generally decreased since the war, reaching a postwar low of 4.0 percent at the end of 1961.

The reserves, regular reserve and special reserve, have fluctuated with the rise and fall of delinquencies. During the 23 year period shown in Table 21, the percent of delinquencies has slightly exceeded the percent in the reserves for 11 years, and reserves have exceeded delinquencies in 12 years. In 1945 the loan delinquencies of 10 percent in the federal credit union system were adequately protected, with the two reserves totaling almost 14 percent of the loan balances. In the seven year period from 1955 through 1961 the two reserves have totaled slightly in excess of the delinquency ratio. This favorable trend is

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[1] Croteau, p. 67.

TABLE 21. Percent of loan balance delinquent two months or more; ratio of regular reserve for bad loans and ratio of special reserve for delinquent loans to total loans, December 31, 1938-1961[a]

Year	Percent of Loan Balance Delinquent Two Months or More	Ratio of Regular Reserve to Total Loans (percent)	Ratio of Special Reserve for delinquent Loans to Total Loans (percent)
1939	5.4%	3.30%	-
1940	3.6	3.59	-
1941	5.7	4.32	.07%
1942	12.4	8.65	.22
1943	11.4	11.24	.40
1944	10.0	12.65	.49
1945	10.0	13.54	.42
1946	7.1	9.33	.24
1947	6.1	6.82	.17
1948	6.5	5.59	.16
1949	6.2	5.16	.19
1950	5.5	4.68	.21
1951	6.1	5.18	.24
1952	5.2	4.71	.22
1953	5.1	4.32	.23
1954	5.5	4.56	.33
1955	4.5	4.52	.29
1956	4.6	4.73	.33
1957	4.5	4.96	.29
1958	5.1	5.49	.33
1959	4.5	5.51	.28
1960	4.1	5.53	.22
1961	4.0	5.96	.20

[a]Calculated from: Report of Operations, Federal Credit Unions, 1940-1961.

accounted for, in part, by the relatively large net earnings in the federal credit union system, of which 20 percent must be transferred to the regular reserve, and by the relatively low delinquency rates that prevailed in the 1955-1961 period. The majority of the delinquent balances are eventually collected.

Other accounts, such as undivided earnings, which at the end of 1961 were almost as large as both the reserve accounts mentioned in Table 21 also serve as a cushion against possible losses.

Table 22 shows the savings in financial institutions in the United States, for selected years. Large increases in savings have taken place in these institutions during the last decade. Credit unions (both state and federal chartered) held only \$5.7 billion of the total of \$190.7 billion of savings in 1961. Federal credit unions held approximately 1/2 of the total savings shown for credit unions in Table 22. Credit union savings are a small portion of total savings in financial institutions. However, savings in credit unions have shown a faster growth rate than savings in other financial institutions since 1950. Credit union savings in 1961 were 6.3 times greater than savings in 1950.

TABLE 22. Savings in financial institutions, by selected years[a]

(Billions of dollars)

Year Dec. 31	Savings Associations[b]	Mutual Savings Banks[c]	Commercial Banks[d]	Credit Unions[e]
1940	$ 4.3	$10.6	$15.4	$0.2
1943	5.5	11.7	19.0	0.3
1946	8.5	16.8	33.4	0.5
1950	14.0	20.0	35.2	0.9
1951	16.1	20.9	36.6	1.1
1952	19.2	22.6	39.3	1.4
1953	22.8	24.3	42.0	1.7
1954	27.3	26.3	44.7	2.0
1955	32.2	28.1	46.3	2.4
1956	37.1	30.0	48.5	2.9
1957	41.9	31.7	53.7	3.4
1958	48.0	34.0	60.0	3.9
1959	54.6	34.9	62.9	4.4
1960	62.1	36.3	67.1	5.0
1961	70.8	38.3	75.9	5.7
No. of times 1961 savings are larger than 1950 savings	5.1	1.9	2.2	6.3

[a]Calculated from: 1962 Savings and Loan Fact Book, p. 11.

[b]Savings accounts, deposits and investment certificates, exclusive of shares pledged against mortgage loans and investments of U.S. Government.

[c]Regular and special savings accounts.

[d]Time deposits of individuals, partnerships, and corporations.

[e]Shares and members' deposits.

CHAPTER 6

CONCLUSION

It is the purpose of this chapter to summarize the findings in Chapters 1 through 5, and to answer the questions asked in the introductory section of this study.

In Chapter 1 it was seen that the credit unions which inspired the American credit unions were started as cooperative institutions in the German Empire. Alphonse Desjardins and Edward Filene were the early promoters of credit unions and credit union legislation in North America. These two men were primarily responsible for the passage of the first credit union law in the United States in 1909.

The Federal Credit Union Act of 1934 made possible the organization of federal credit unions in any state or territory over which the United States has sovereignty. A federal credit union is an institution of personal finance, owned and managed by its members. The accumulation of members' savings in the credit union is used primarily to make loans to members. Interest rates on member loans may not exceed 1 percent per month (12 percent per annum) on unpaid balances, including all charges incident to making the loan. This rate of interest is reasonable, in most cases, considering the large number of small, unsecured loans made. However, if a credit union member wished a large loan of, for example, $2,000, he would be wise to borrow from a commercial bank. Assuming he has adequate security, he could probably get a bank loan at about 1/3 less interest cost than a credit union loan. Credit union interest rates are very reasonable when compared with those of small loan companies whose rates are usually around 36 percent per annum.

As non profit, cooperative organizations, federal credit unions are exempt from income taxation. This is outlined in Section 23 of the 1959 Federal Credit Union Act. What right does the federal credit union have to escape income taxation when other financial institutions of various sorts are taxed as corporations? This is difficult to justify. In light of their healthy profits, it is difficult to understand how federal credit unions have retained their legal classification as non profit organizations. At the present time taxing authorities are looking for every possible source of revenue, and banking groups are attempting to get federal credit unions taxed. It would seem that the days of federal credit unions retaining their non profit status are drawing to a close. It is the opinion of the author that there should be a federal income tax upon the net earnings of credit unions, similar to the tax upon earnings of other profit-making financial institutions.

Statistics in Chapter 2 indicate that the federal credit union system has had a healthy growth from 1934 through 1961 in number of organizations, of members, and amount of assets. Operating federal credit unions now outnumber any other type of financial institution chartered and supervised by any one agency of government, state or federal. The war years severely tested the development of federal credit unions. However, after the war they resumed their healthy growth. Average credit union membership increased from 157 in 1935 to 637 in 1961, and average assets rose from $3,073 in 1935 to $294,839 in 1961.

An examination of the relationship between age and activity shows that membership generally increases as the credit union becomes older. Growth in savings seems to be stabilized after a credit union becomes nine or ten years of age. Increases after that are due more to a slight accretion of new members and the addition of the normal dividend payments than to any increase in savings by the membership.

As was seen in Chapter 3, the composite balance sheet of federal credit unions reveals little change in the distribution of liability accounts; shares have comprised about 88 to 92 percent of the liabilities of credit unions since 1934. The composition of the asset items have varied widely due to the influence of the war. Loans to members were approximately 80 percent of the total assets before the war, dropped to 23 percent in 1945, and rose to a post-war high of 75.7 percent in 1960. Investments--Government Bonds, savings and loan shares, and loans to other credit unions make up the big majority of the remainder of the assets. Assets in federal credit unions surpassed the $3 billion mark for the first time in 1961.

In Chapter 4, the income and expenses of federal credit unions were analyzed. Net income of the federal credit unions has shown a healthy growth throughout their history. Of the income items, interest on loans to members is by far the largest, making up 91 percent of the income in 1961. Salary expense is the largest expense item of federal credit unions, making up 44.7 percent of total expenses in the system in 1961. Salaries are not as large a percent of total expenses in the smaller credit unions as compared to the larger ones. This was seen to be the result of a large amount of voluntary work in the small credit unions.

There seem to be economies of scale in the larger credit unions. The ratio of expense to income is one measurement of economies of scale. This ratio is almost

50 percent in the smallest group of credit unions examined. As the credit unions get larger this ratio decreases constantly, reaching 36.9 percent in the very largest credit unions. In other words, the profit margin generally increases as the size of the credit union increases. One reason for this is increased efficiency of operations. The loan and cost analysis in Chapter 4 also indicated economies of scale in the larger credit unions. There appear to be dis-economies of scale as the size of credit unions increase up to the $250,000 asset size, but this appearance may be caused by increasing salaries as the amount of voluntary labor decreases, rather than by less efficient operations. The credit unions with $250,000 of assets or more showed appreciable economies of scale. This was indicated by the fact that as the size of the average loan increased, average cost per loan increased also, but not at as fast a rate. It may be concluded that there are, on the average, significant economies of scale in the larger credit unions' operations.

In Chapter 5 member saving and borrowing were analyzed, along with a study of purposes of loans made by federal credit unions. The saving and dissaving (borrowing) in federal credit unions are essentially problems in consumer behavior. Very little is known about why people save in credit unions or borrow from credit unions in preference to other credit agencies. It appears that credit union saving is not so much for investment, but for further consumption, either for asset purchase or for a "rainy day." It was also noted that safety and convenience are important factors in determining the institution in which a person will save and borrow.

Federal credit unions make loans for many purposes. The 1961 study revealed that debt consolidation was cited most frequently as the reason for borrowing in 1961. Among the more specific reasons for borrowing, loans to purchase automobiles stand out as the most important. Loans for the purchase of new and used automobiles accounted for 30.9 percent of the funds loaned by federal credit unions in 1961. The allegation that credit unions are making too many large loans for real estate and automobiles is not supported by data in the study. A great many loans are for current living expenses, educational expenses, vacation expenses and expenses of an emergency nature. In many cases credit unions stand ready to make emergency loans 24 hours a day to members in need.

The average-sized loan in the 1961 study was $447. It may be concluded, on the basis of the 1961 study, that federal credit unions make relatively small loans. In many cases the members' need for larger loans are taken care of by financial institutions other than credit unions.

Credit unions hold a small percent of total savings in financial institutions in the United States. However, credit union savings have shown a greater percentage increase than savings in other financial institutions since 1950.

Federal credit unions have established themselves, in our economy, as financial institutions. They have helped millions of people save money--much of which might not have been saved without the willingness of credit unions to encourage and accept small regular savings.

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