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The Federal Credit Union

The Federal Credit Union

Policy and Practice

by

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THE FEDERAL CREDIT UNION

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Preface

THE federal credit union system at the end of 1954 finished twenty years of operation with an accumulation of assets in excess of one billion dollars. This is an appropriate occasion to examine the policies and practices which have made this accomplishment possible. The existence of carefully gathered statistics and studies extending over the life of the system has provided the source material on which this study is based.

While there have been some statewide studies of credit unions, no analytical study has ever been made in this country of the growth, policies, and practices of the credit union development on a national scale. Thus the book should fill a neglected area in the fields of personal finance and consumption economics.

Mr. Claude R. Orchard, who directed the administration of the Federal Credit Union Act from 1934 until his retirement in 1953, extended to the author for the purposes of this study unlimited access—except for classified budget material—to the files of the Bureau. This privilege was continued by Mr. J. Deane Gannon, the present Director. My thanks go to these two men and to the staff of the Bureau for their interest and cooperation in this work. The staff of the Washington office of the Bureau of Federal Credit Unions, Joseph E. Blomgren, William E. Allen, George W. Boyd, Kenneth L. Wimer and Virginia B. Daw, have been unfailingly cooperative when called upon for information.

Special thanks go to Mr. Erdis W. Smith, Chief of the Division of Programs and Reports of the Bureau. Mr. Smith went to great trouble not only in searching out obscure material, but also in providing special I.B.M. tabulations for certain statistical sections of this study.

To the late Mr. Thomas W. Doig, Managing Director of the

Credit Union National Association, to the members of the Executive Committee, and to the staff of that Association, and especially to Mr. Howard C. Custer, Assistant Director of Public Relations, who served as liaison between the author and the National Association, thanks are expressed.

Appreciation is also expressed to the University of Notre Dame for a financial grant to provide travel funds and for an allocation of time to work on this study. Finally, thanks to my wife for her assistance with the manuscript and the proofs.

JOHN T. CROTEAU

The Federal Credit Union

CHAPTER I

INTRODUCTION

THE past twenty years have seen the rise of a novel institution of personal finance, the federal credit union. The needs which this institution is designed to satisfy are as old as history and have been of concern to all societies from the time of the Old Testament. Expressed positively, the federal credit union seeks to establish agencies of thrift and of personal credit for the middle and the lower income groups; negatively, it seeks to combat the exactions of usurious money lenders by providing alternative sources of credit to borrowers.

Perhaps the most unusual feature of the federal credit union system is that it is a venture of the federal government in the area of voluntary action. The credit union is a "do-it-yourself" type of activity; owned and managed by its members, it relies in large part on unpaid voluntary effort, or on part-time work modestly rewarded. Traditionally this type of voluntary activity has been of a local, personal nature, and not considered to be within the purview of federal government jurisdiction. Yet the growth of the system points to an institutional arrangement that has sought to combine the prestige and the solidity of a federal statute and the general supervision and examination of a federal bureau with the personal altruism and benevolence of the community group.

Twenty years after the enactment of the original Federal Credit Union Act of 1934 federal credit unions, at the beginning of 1955, had reached 7,227 in number, and their 3½ million members held aggregate assets in excess of one billion dollars. These totals, however, are exceeded by the figures from state-chartered credit unions. State-chartered credit unions—going back to the Massachusetts Act

of 1909—are outside the scope of this study. Not that there is much difference between a federal credit union and one chartered by a state; their similarities are much greater than their differences. Indeed, much of the statistical analysis and description of this book has application to the operational problems of the state-chartered as well as of the federal credit unions. The accessibility of the source material and limitations of time and of space made it more practical to restrict this study to the federal credit union.

A credit union may be defined as an institution of personal finance, operating under government charter and supervision, owned and managed by its members for their mutual benefit. Federal credit union charters are granted only to groups with definite bonds of association, occupation, or residence. Its function as a financial institution is to provide its members with facilities for saving money and for using their pooled savings to obtain personal loans at a minimum cost. It is more than a financial institution, however. It is a social agency, creating for its membership personal experiences in group action designed to better the community. It contributes to the common good by providing facilities for remedial action in the field of personal credit through techniques of democratic and cooperative action. It adds to the individual welfare by establishing facilities for rewarding thrift and for securing credit on reasonable terms.

The credit union does not have a complicated organization. A federal credit union may be formed by any seven persons who belong to an eligible group. The members, with one vote each, elect a board of directors of five to nine members which has general management of the corporation, a credit committee of three or five members which grants or denies loan applications, and a supervisory committee of three members which has the responsibility for examining the books of the organization. The board of directors elects from its own number a president, a vice-president, a clerk, and a treasurer; it also hires the staff. All of this is covered by the Federal Credit Union Act and the Bylaws.

As an economic institution the credit union has embodied and verified some of the neglected aspects of the thought of great economic and social thinkers. Charles Darwin is best known for his phrase, "the survival of the fittest." Yet in his *Origin of Species*

Darwin emphasized mutual aid as a factor of survival. Adam Smith of the "invisible hand," the father of modern economics and the prophet of Capitalism, also wrote *The Theory of Moral Sentiments*. In this book Adam Smith stated: "No benevolent man ever lost altogether the fruits of his benevolence. If he does not always gather them from the persons from whom he ought to have gathered them, he seldom fails to gather them, and with a tenfold increase, from other people." John Stuart Mill, the great classical economist, in speaking of a similar development stated: "There is a capacity of exertion and self-denial in the masses of mankind, which is never known but on the rare occasions on which it is appealed to in the name of some great idea or elevated sentiment." And finally, the words of Professor Alfred Marshall, in his day the most influential theorist and teacher of economics, speaking to the twenty-first British Annual Cooperative Congress, can be applied to the credit union development of today:

It combines high aspirations with calm and strenuous action, . . . it sets itself to develop the spontaneous energies of the individual while training him to collective action by the aid of collective resources, and for the attainment of collective ends. It has points of affinity with many other movements; but it is like no other.

Other schemes for developing the world's material resources are equally practical and equally businesslike, but they have not the same direct aim to improve the quality of man himself. Other schemes for social reform have equally high aspirations, but they have not the same broad basis of patient action and practical wisdom. . . . It is at once a strong and calm and wise business, and a strong and fervent and proselytising faith.

Such lofty quotations, however, must rest in the introduction. This study will not explore the philosophy of human motivation. While it does examine the socially-conditioned motivation of consumer savings and borrowing decisions, this study is concerned for the most part with the operation and the functioning of the federal credit union as a financial institution.

In the light of such quotations, however, it is not surprising that the federal credit unions could amass a billion dollars in one generation without the incentive of the profit motive. There are other motives than the profit motive in human action. Great thinkers have appreciated this fact. Possibly the credit union has succeeded in

attracting leaders who are appealed to by "some great idea or elevated sentiment." Probably the majority of credit union officials would disclaim such high motivation; few of them wear their hearts on their sleeves. Some say that they find the work interesting, others work out of a sense of duty to the group, and still others can use the extra income from the outside employment which the credit union affords. In the last analysis, the real reasons for human action remain unknown, even to oneself.

The historical and legislative development of the federal credit union system explains the form which the institution has taken. Unfortunately space limitations curtail our presentation of these developments here. However, they will be summarized very briefly in the close of this introductory chapter, and given relative attention in other chapters, notably chapters IX and X. Statistical description and analysis of the federal credit union which compose the body of this study are intended to expose uniformities of development and to afford a basis for predictions of growth. Norms of operation set forth can be applied to the individual credit union and will afford some basis for the evaluation of performance and of progress.

The idealistic and voluntary character of the credit union development carries with it certain dangers. A part-time, amateur management may tend to think in terms of isolated cases and may fear the problems associated with growth. As credit unions grow in size, management must think more and more in abstractions: no longer is the individual borrower known, but the delinquency ratio and the loan turnover are discussed by the board of directors. Some of the personal warmth and feeling are perhaps lost as credit unions grow larger; but the work of the credit union and the good that it does also grow. New tools are needed to handle problems of growth and other problems of management. To fill the need for such tools of thought is one of the objects of this book.

The individual federal credit unions are supervised and examined by the Bureau of Federal Credit Unions. Since the operation of the Bureau is of such importance to the credit union development, some explanation of Bureau policies is also contained here. Finally, suggestions for improvement and structural change are considered.

Historically, financial agencies of consumer credit can be traced back to the pawnbrokers and the *montes pietatis* of the late middle ages. In a sense the credit union has effected a union of the idealistic ethic of the *montes pietatis* with the thrift promotion of the savings bank so desirable in a society badly in need of capital. The technical models of the American credit union are found in the Raiffeisen Bank in Germany as adapted by Luigi Luzzatti in Italy, and applied to the American milieu by Alphonse Desjardins in his *Quebec caisse populaire*. Indigenous American institutions of benevolent and co-operative savings and lending societies are found in the mutual savings banks and the building and loan societies. The age of mass production and installment credit, starting around 1910, saw the credit union take its place as an institution of consumer credit. That the credit union developed in the face of aggressively competing institutions is due to the entrepreneurial and promotional genius of E. A. Filene, assisted by R. F. Bergengren and a host of volunteer workers. State legislation dates from the Massachusetts law of 1909; the federal law was passed in 1934.

That the Federal Credit Union Act of 1934 was able to pass through a session of Congress crowded by New Deal legislation was almost a legislative miracle. Moreover, it faced the additional handicap of being opposed by all of the old-time financial agencies of the government. It passed just before the close of the session; but in order to have it accepted it was necessary to drop a whole section on central credit unions and to follow the conventional credit union model of a small loan agency, rigidly restricted in powers. This was the type of society which H. W. Wolff, the great English authority on co-operative banking, strongly criticized. Many of the amendments which have been offered during the past twenty years have been moving in the direction of Wolff's criticisms. However, the changes have not been radical: some, such as the extension of the unsecured loan limit from fifty to four hundred dollars, have done little more than keep pace with inflation; others, such as those concerned with fees, have been of an administrative character. The Bureau of Federal Credit Unions seems to have resisted proposed amendments which it believed would change the essential nature of the federal credit union. The Bureau seems to have held that in organizing federal

credit unions it had entered into a quasi-contract with the sponsors of the credit unions and that any change in the essential nature of the credit union law would be a violation of this legislation contract. The changes that have been made have for the most part been sponsored by the Credit Union National Association. Chapter X considers some major changes and some major proposals, notably the one which would establish regional credit unions.

CHAPTER II

GROWTH AND SIZE OF FEDERAL CREDIT UNIONS

THE growth of the federal credit union system is shown in Table 1, which lists the number of federal credit unions, their membership and total assets from 1935 to 1955. It also shows the rate of growth of each of these components during the period under survey. In the late 1930's, under the aggressive promotional efforts of the Farm Credit Administration, the federal credit union system expanded rapidly. The total number of credit unions rose to 4144 in 1941; membership reached 1,396,696 in the same year. Total assets grew at a rate greater than 50 per cent annually to 1940 and dropped only slightly to a 45.6 per cent increase in 1941.

The war years were a period of testing for the federal credit union system. From 1942 to 1944 liquidations exceeded new organizations, the number of credit unions decreased, and the total membership figure also declined. Between 1942 and 1946 total assets grew at a rate fluctuating from 6 to 13 per cent. Total assets reached the \$100 million mark in 1941 and in 1946 were slightly over a total figure of \$173 million.

From 1947 to 1950 the rate of growth of both the number and the membership of federal credit unions continually increased. The rate of growth of total assets in the three years from 1947 to 1949 seemed to be stabilized at approximately 22 per cent. The growth rate of total assets, however, jumped significantly to 28.2 per cent in 1950. The rate of growth in the number of credit unions was not as high—it was 8.3 per cent in 1951, 9.7 per cent in 1952, and 11 per cent in 1953

TABLE 1. GROWTH OF FEDERAL CREDIT UNIONS: NUMBER, MEMBERSHIP, AND TOTAL ASSETS, 1935-54.^a

Year	Number			Per Cent Growth		
	Credit Unions Reporting ^b	Members	Assets	Credit Unions	Members	Assets
1935	762	118,665	\$ 2,368,521	—	—	—
1936	1,725	307,651	9,142,943	26.3	159.3	295.6
1937	2,296	482,441	19,249,738	33.1	56.6	110.9
1938	2,753	631,436	29,621,501	19.9	30.9	54.1
1939	3,172	849,806	47,796,278	15.2	34.5	61.4
1940	3,739	1,126,222	72,500,539	17.8	32.6	51.6
1941	4,144	1,396,696	105,656,839	10.8	23.9	45.6
1942	4,070	1,347,519	119,232,893	— 1.8	— 3.6	12.9
1943	3,859	1,302,363	126,948,085	— 5.2	— 3.5	6.4
1944	3,759	1,303,801	144,266,156	— 2.6	.1	13.6
1945	3,757	1,216,625	153,103,120	0.0	— 6.7	6.1
1946	3,761	1,302,132	173,166,459	.1	7.0	13.1
1947	3,845	1,445,915	210,375,571	2.2	10.9	21.4
1948	4,058	1,628,339	258,411,736	5.5	12.6	22.8
1949	4,495	1,819,606	316,362,504	10.7	11.7	22.4
1950	4,984	2,126,823	405,834,976	10.8	16.8	28.2
1951	5,398	2,463,898	504,714,580	8.3	15.8	24.3
1952	5,925	2,853,241	662,408,869	9.8	15.8	31.2
1953	6,578	3,255,422	854,232,007	11.0	14.0	28.9
1954	7,227	3,598,790	1,033,179,042	11.0	10.5	20.9

^a 1954 *Report of Operations, Federal Credit Unions*, U. S. Dept. of Health, Education, and Welfare, Social Security Administration, Bureau of Federal Credit Unions (Washington, 1955), p. 2.

^b From 1945 to 1954 the number operating and reporting was the same. Before 1945 the number reporting was less than the number in operation.

and 1954—and the rate of growth in membership stabilized at 15.8 per cent in 1951 and 1952. It then declined to 14.0 per cent in 1953 and to 10.5 per cent in 1954. The rate of growth in total assets, however, fluctuated at a surprisingly high rate—24.3 per cent in 1951, 31.2 per cent in 1952, 28.9 per cent in 1953, then 20.9 per cent in 1954. At the end of 1954 there were 7227 federal credit unions with 3,598,790 members and total assets of \$1,033,179,042.¹ *

* Notes will be found at the back of this volume.

The rate of growth of credit union assets in the 1950's exceeded all estimates. The 1952 *Report of Operations* lists the following factors in attempting to explain the unprecedented increase: the general prosperity of the nation, the advertising program, consisting of weekly radio newscasts and full-page advertisements in news magazines of wide circulation sponsored by the organized credit union movement, and the high rate of personal savings in the economy.² An added factor might be the testing, in a Darwinian sense, which in the 1940's weeded out hundreds of weak credit unions and left a solid core of vigorous units to shoot ahead in unusual growth.

Have the nineteen years of federal credit union experience given us any basis for predicting the long-term trend of growth of the federal credit union system? It has been stated that the growth of an industry may be divided into four stages: ³

1. Period of experimentation;
2. Period of growth into the social fabric;
3. Through the point where growth increases but at a diminishing rate;
4. Period of stability.

Although the theoretical foundation of this classification has been contested, and although the terms are not precisely demarcated, there are some indications that the federal credit union system is in the second of the above stages. Federal credit union growth is especially strong at the present time. This has been reinforced by the factors previously enumerated: the testing of the war period, the general prosperity, high savings, and aggressive advertising. It does not seem illogical to assume that the federal credit union system should follow a general law of growth. It is probably too early in the history of the federal credit union system to determine with any accuracy the long-term trend of growth. The long-run growth curve will probably follow some type of asymptotic growth curve; but with the present data such a curve cannot be projected. Disturbing short-run factors in our highly volatile economy and the comparative newness of the federal credit union system make efforts at long-run prediction extremely tenuous.

Together with a growth in total assets there has been a corre-

sponding growth in the size of federal credit union averages. As shown in Table 2, the average membership has grown from 156 in 1935 to 498 in 1954; average assets rose from slightly more than \$3000 in 1935 to over \$142,000 in 1954; average shareholdings per member grew from \$19 in 1935 to \$259 in 1954. With the exception

TABLE 2. FEDERAL CREDIT UNIONS: AVERAGE MEMBERSHIP, AVERAGE ASSETS, AND AVERAGE SHAREHOLDERS, 1935-54.^a

Year	Average Membership	Average Assets	Average Shareholdings Per Member
1935	156	\$ 3,108	\$ 19
1936	178	5,300	28
1937	210	8,384	37
1938	230	10,760	43
1939	268	15,068	51
1940	302	19,390	58
1941	337	25,496	69
1942	331	29,296	81
1943	337	32,897	90
1944	344	38,015	102
1945	324	40,751	116
1946	346	46,043	123
1947	376	54,741	133
1948	401	70,333	144
1949	405	70,381	157
1950	427	81,428	170
1951	456	93,500	185
1952	482	111,799	209
1953	495	129,862	236
1954	498	142,961	259

^a Calculated from annual reports of operation.

of slight declines in average membership in 1942 and 1945, all of these averages show yearly increases throughout the period. Chart A shows graphically the changes in averages from 1942 to 1954.

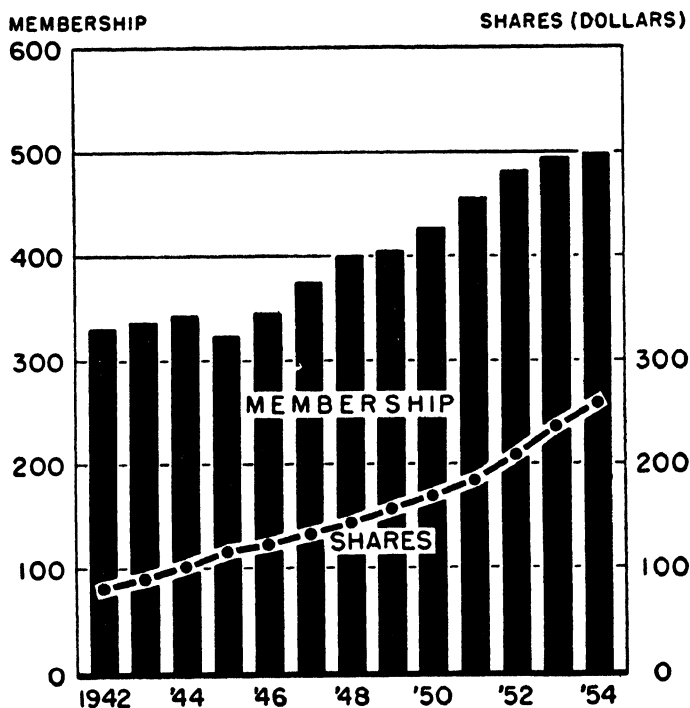
Of perhaps greater significance is the distribution of credit unions according to the amount of assets, as shown in Table 3. This table is a more detailed breakdown for the postwar period, showing the

TABLE 3 FEDERAL CREDIT UNIONS: PERCENTAGE DISTRIBUTION, GROUPED BY SIZE OF ASSETS, 1947-54.^a

All Federal Credit Unions		Percentage of Federal Credit Unions with Assets of:							
Year	Number	Per Cent	Less than \$25,000	\$25,000 to \$49,999	\$50,000 to \$99,999	\$100,000 to \$249,999	\$250,000 to \$499,999	\$500,000 to \$999,999	\$1,000,000 and More
1947	3,845	100.0	53.7	19.3	13.3	9.7	3.1	.7	.2
1948	4,058	100.0	48.9	19.4	15.5	11.3	3.4	1.3	.2
1949	4,495	100.0	47.5	18.5	16.0	12.2	4.0	1.5	.3
1950	4,984	100.0	44.8	17.3	16.6	13.9	5.0	1.9	.5
1951	5,398	100.0	42.2	17.4	16.5	15.0	6.0	2.2	.7
1952	5,925	100.0	38.9	17.4	16.0	16.8	7.0	2.7	1.2
1953	6,578	100.0	37.2	16.3	16.3	17.2	7.7	3.6	1.7
1954	7,227	100.0	35.7	15.8	16.7	17.1	8.4	4.3	2.0

^a Calculated from annual reports of operation.

CHART A. AVERAGE MEMBERSHIP PER FEDERAL CREDIT UNION AND AVERAGE SHAREHOLDINGS PER MEMBER, DECEMBER 31, 1942-54.



shifting of size groups among federal credit unions.⁴ In 1947 more than half of the credit unions had assets of less than \$25,000. By 1954 this group consisted of slightly more than one-third of all of the credit unions. In 1947 slightly less than 14 per cent of all credit unions had assets of \$100,000 or more; at the end of 1954, 31.8 per cent of all credit unions had assets of \$100,000 or more. The large credit unions—those with \$1 million or more in assets—in 1947 made up only two-tenths of one per cent of the total; by 1953 the large credit unions were 2 per cent of the total. Thus the size composition of federal credit unions has been shifting away from a group composed predominantly of small units to one in which the larger unit is of greater significance.

The size of federal credit unions, as measured by the number of members, is shown in Table 4.⁵ At the end of 1954, 40.4 per cent of

TABLE 4. FEDERAL CREDIT UNIONS: SIZE, MEASURED BY NUMBER OF MEMBERS, DECEMBER 31, 1954.^a

Number of Members	Federal Credit Unions		
	Number	Per Cent	Cumulative
Less than 100	1,148	15.9	15.9
100- 199	1,769	24.5	40.4
200- 299	1,123	15.5	55.9
300- 399	765	10.6	66.5
400- 499	505	7.0	73.5
500- 999	1,078	14.9	88.4
1,000-1,999	564	7.8	96.2
2,000-2,999	169	2.3	98.5
3,000 and over	106	1.5	100.0
Total	7,227	100.0	

^a Tabulations furnished by the Bureau of Federal Credit Unions.

all credit unions had fewer than 200 members and two-thirds of all credit unions had fewer than 400 members. Slightly less than 12 per cent of all credit unions had more than 500 members.

The relationship between size of membership and size of assets is shown in Table 5. As one might expect, the credit unions with a small number of members have low assets: 97.9 per cent of the credit unions with fewer than 100 members had assets of less than \$25,000. There were 2917 credit unions with fewer than 200 members and of these only 5 credit unions had assets greater than \$100,000. On the other hand, all but one of the 106 credit unions with more than 3000 members had assets greater than \$250,000; and only 5 of the 275 credit unions with more than 2000 members had assets less than \$250,000. The other figures in Table 5 show the direct relationship between size of membership and size of assets.

When we examine statistically the characteristics of federal credit unions in relationship to their age we find that, generally speaking, there has been growth and progress as credit unions grow older. This

TABLE 5. FEDERAL CREDIT UNIONS: PERCENTAGE DISTRIBUTION, GROUPED BY SIZE OF MEMBERSHIP
AND BY SIZE OF ASSETS, DEC. 31, 1954.^a

Number of Members	Percentage of Federal Credit Unions with Assets of:						
	Less than \$25,000	\$25,000 to \$49,999	\$50,000 to \$99,999	\$100,000 to \$249,999	\$250,000 to \$499,999	\$500,000 to \$999,999	\$1,000,000 or More
Less than 100	97.9	1.9	.2	—	—	—	—
100- 199	61.2	29.5	8.1	.3	—	—	—
200- 299	22.8	29.8	37.7	9.6	.1	—	—
300- 399	9.2	20.8	40.8	28.6	.6	—	—
400- 499	5.7	10.7	30.3	49.5	3.8	—	—
500- 999	.6	4.4	15.0	49.6	27.6	2.8	—
1,000-1,999	—	.2	1.6	20.0	44.3	32.1	1.8
2,000-2,999	—	—	.6	1.8	18.9	47.9	30.8
3,000 or more	—	—	.9	—	4.7	19.9	74.5
Total:							
100 per cent	35.7	15.8	16.7	17.1	8.4	4.3	2.0

^a Tabulations furnished by the Bureau of Federal Credit Unions.

might be expected, as the marginal credit unions over the years will tend to be liquidated and the more successful will survive. There seems to be a tendency, however, for the credit unions to reach a stable position after about twelve years of operation, with the more vigorous growth taking place in the younger credit unions. These figures cover twenty years of operation, a period long enough to be of significance in demonstrating the relationship between credit union age and growth.^a

To December 31, 1954, 9,948 federal credit union charters had been granted; on that date 7,586, or 76 per cent of the original charters, were still outstanding. The number of charters granted in each year

TABLE 6. FEDERAL CREDIT UNIONS: GROUPED BY
YEARS OF OPERATION, DEC. 31, 1954.

Years of Operation ^a	Year Chartered	Number Chartered	Number Operating Dec. 31, 1954	Per Cent Operating Dec. 31, 1954
Less than 1	1954	852	734	86.2
1	1953	825	781	94.7
2	1952	692	621	89.7
3	1951	533	473	88.7
4	1950	565	476	84.2
5	1949	523	432	82.6
6	1948	341	274	80.4
7	1947	207	167	80.7
8	1946	157	108	68.8
9	1945	96	64	66.7
10	1944	69	36	52.2
11	1943	108	51	47.2
12	1942	187	97	51.9
13	1941	583	300	51.5
14	1940	666	391	58.7
15	1939	529	332	62.8
16	1938	515	321	62.3
17	1937	638	373	58.5
18	1936	956	591	61.8
19	1935	906	605	66.8
Total		9,948	7,227	72.6

^a The figure "1" means 1 but less than 2 years in operation on December 31, 1954.

TABLE 7. FEDERAL CREDIT UNIONS: SELECTED AVERAGES, GROUPED BY YEARS OF OPERATION, DEC. 31, 1954.

Years of a Operation	Average Membership		Ratio of Actual to Potential Members	Average Assets		Per Cent Growth	
	Potential	Actual		Per FCU	Per Member	Per FCU	Per Member
Less than 1	720	149	.21	\$ 10,218	\$ 69	—	—
1	750	220	.29	27,719	126	171.3	82.6
2	816	279	.34	45,236	162	63.1	28.6
3	1,044	400	.38	83,976	210	85.6	29.6
4	976	395	.41	93,809	237	11.7	12.9
5	1,069	422	.39	107,028	254	14.0	7.2
6	1,386	574	.41	143,643	250	34.2	1.6
7	1,482	742	.50	213,272	287	48.5	14.8
8	1,367	566	.41	142,309	251	— 33.3	— 12.5
9	1,065	444	.42	112,644	253	— 20.8	— .8
10	1,279	600	.47	198,440	331	76.2	30.8
11	2,933	700	.24	184,861	264	— 6.8	— 20.2
12	1,096	505	.46	141,625	280	— 23.4	— 6.1
13	1,258	696	.55	223,869	322	58.1	15.0
14	1,119	596	.53	180,850	303	— 19.2	— 5.9
15	1,050	625	.60	204,027	326	12.8	7.6
16	984	542	.55	182,232	336	— 10.7	— 3.1
17	1,348	774	.57	268,832	347	47.5	3.3
18	1,275	773	.61	282,870	366	5.2	5.5
19	1,472	891	.61	307,290	345	8.6	— 5.7
Total	1,081	498	.46	\$142,961	\$287		

a The figure ".1" means 1 but less than 2 years in operation on Dec. 31, 1954.

and the number and per cent operating at the end of 1954 are set forth in Table 6. The 78 charters which were granted in 1934 are included with the 1935 statistics in federal credit union tabulations. At the end of 1954 there were 247 credit unions in process of liquidation, 3 under suspension, and 109 which were chartered late in 1954 and had not commenced business by December 31, when the annual report was due. Deducting this total of 359 from 7586 leaves, at the end of 1954, 7227 active credit unions, or 72.6 per cent of the charters granted.

Of the 906 charters granted in 1934 and 1935, 66.8 per cent were in operation at the end of 1954. The experience of the war years was unfavorable: fewer credit unions were chartered and a larger number was liquidated; the turnover of officials and members and the closing of war plants led to a low survival rate. The small number of credit unions left in the nine, ten, and eleven year age-groups give an instability to some of the ratios and averages of those years. This will be evident in the statistical data that follow. The percentages operating in the one to seven year group—those chartered from 1953 to 1947—seem to decline at a fairly regular rate, dropping from almost 95 per cent in the one year group to 80.7 per cent in the seven year group.

The average membership rises steadily from 149 in the newly-formed groups to 891 in credit unions with more than nineteen years of operation. This is shown in Table 7. While the potential membership seems to be smaller in the new groups, the potential membership averages do not form any consistent pattern. The ratio of actual to potential membership, however, continually increases, rising from .21 in the newly-formed credit unions to .61 in the oldest credit unions. Thus the average credit union starts with one out of five of its potential membership, and in eighteen years it has three out of five. The over-all average is 498 members, a .46 ratio of actual to potential members.

Table 7 shows a similar growth in average assets. Newly-formed credit unions have average assets of \$10,200, or \$69 per member. A high rate of growth takes place in the first three years of operation and then it fluctuates widely in the different age groups. Remembering the unstable averages of the credit unions chartered during the

war years, the averages, on the whole, grow steadily until they reach an average of \$307,290 in the oldest credit unions. For all credit unions the average is almost \$143,000 per credit union, or \$287 per member. The percentage of growth per credit union shows no consistent pattern; it is up in one year and down in another. The growth rate in assets per member, however, with the exception of the erratic movement of those chartered in the war years, declines in a fairly regular progression. While the figures in this table show that growth continues with age, the increasing ratio of actual to potential membership seems to indicate that this growth is due to the introduction of new members, rather than through greatly increased savings on

TABLE 8. AVERAGE SHARES AND AVERAGE LOANS OUTSTANDING
DECEMBER 31, 1954, AND AVERAGE SIZE LOAN GRANTED IN
1954, GROUPED BY YEARS OF OPERATION.^a

Years of Operation	Average Shares Per Member	Average Loans Outstanding Per Member	Average Size Loan Granted in 1954
Less than 1	\$ 62	\$ 53	\$184
1	112	102	236
2	146	129	283
3	189	164	374
4	216	174	335
5	228	189	396
6	226	181	337
7	258	209	427
8	227	171	383
9	227	151	325
10	302	208	383
11	234	196	354
12	254	185	394
13	292	203	423
14	274	195	399
15	294	199	399
16	304	208	430
17	311	215	424
18	330	234	498
19	311	211	431
Total	\$259	\$189	\$394

^a The figure "1" means 1 but less than 2 years in operation on Dec. 31, 1954.

the part of the older members. Indeed, in the oldest credit unions the gain in average assets is little more than the addition of a normal dividend rate.

This conclusion is also brought out in Table 8. The average shareholdings almost doubled in one year and tripled in three. Thereafter the growth in average member shareholdings is much slower. In fact, after about twelve years the growth in average member shareholdings seems almost to stabilize, allowing for annual dividend accumulations. Average loans per member, while a bit larger in the oldest groups, stay fairly close to the over-all average of \$189. Nor, with the exception of the newest and the oldest groups, is there any marked difference in the size of the average loan granted in 1954.

There is a gradual decline in the percentage of credit unions surviving as they get older. Those which survive, however, increase in average membership, in average assets, and in the ratio of actual to potential membership. After a high initial rate of growth in both assets and membership, there seems to be no consistent pattern of growth associated with age. Average shares per member grow steadily for the first decade, but thereafter show signs of stabilizing. While the oldest credit unions grant larger loans, on the average, and their members hold larger outstanding loan balances, the age of the credit union does not seem to be significant in regard to credit union lending.

CHAPTER III

LOCATION OF FEDERAL CREDIT UNIONS

FEDERAL credit unions operate in every state of the Union and in federal jurisdictions beyond the continental boundaries of the United States: Alaska, Canal Zone, Hawaii, Puerto Rico, and the Virgin Islands. Thus the word "state" in federal credit union statistics includes, in addition to the forty-eight states, the District of Columbia and the five jurisdictions mentioned above. Chart B shows the distribution of federal credit unions in the different "states."

The location of the federal credit unions, ranked by the number of credit unions in each state on December 31, 1954, is shown in Table 9. New York, with 753 federal credit unions, was the leading state, followed by Pennsylvania, California, Texas, and Michigan. These five states together included 43.1 per cent of all of the federal credit unions in the United States.

Adding the next five states—Ohio, New Jersey, Connecticut, Indiana, and Louisiana—makes up 64.1 per cent of the United States total. In the first fifteen states are concentrated almost three-fourths of all of the federal credit unions. Twenty-seven states each had less than one per cent of the total number of federal credit unions.

Just as there is a concentration in the number of federal credit unions among the "big ten" states, so also there is a concentration of credit union assets in almost the same group. Of the \$1033 million total assets at the end of 1954, \$484 million, or 46.9 per cent, are held in the five largest states, \$742 million, or 71.9 per cent, in the ten largest states, and \$859 million, or 83.2 per cent, in the fifteen largest. The aggregate figures are shown in Table 10. While the first

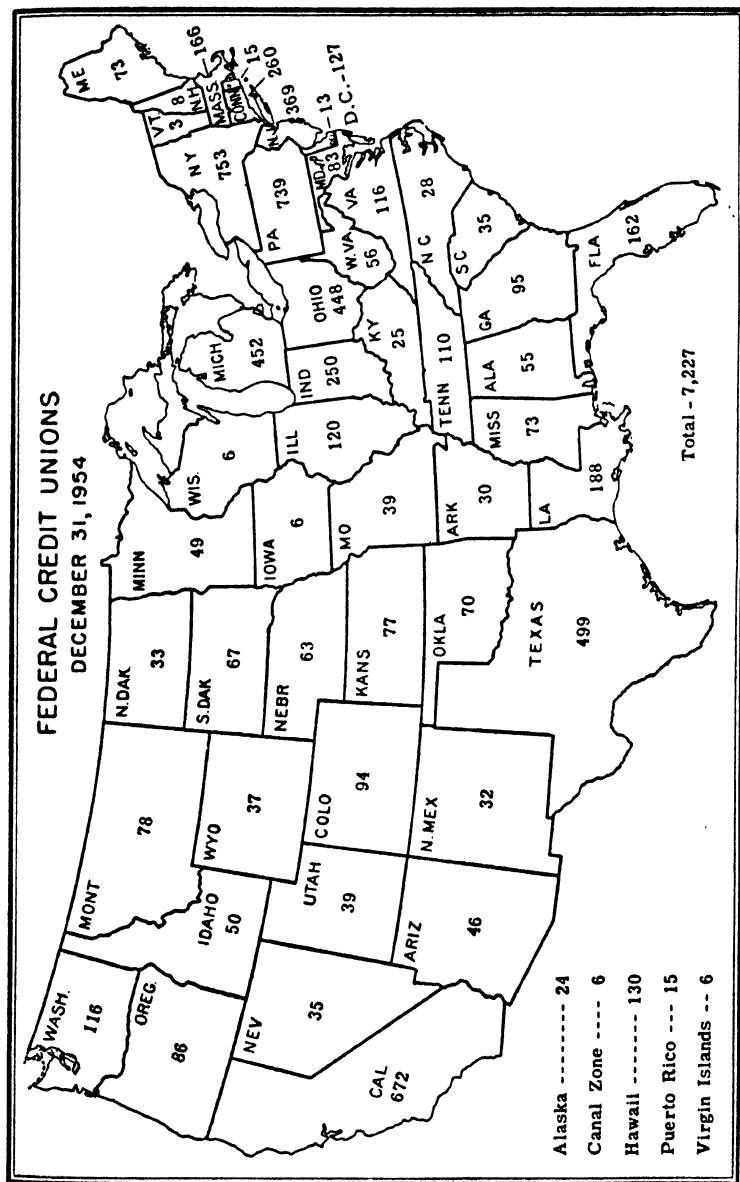


CHART B. MAP OF THE UNITED STATES SHOWING THE NUMBER OF
FEDERAL CREDIT UNIONS IN EACH STATE, DECEMBER 31, 1954.

TABLE 9. FEDERAL CREDIT UNIONS: LOCATION BY STATES, RANKED BY NUMBER OF CREDIT UNIONS AND PERCENTAGE OF TOTAL NUMBER, DEC. 31, 1954.^a

Rank	State	Number of Credit Unions	Per Cent of Total	Rank	State	Number of Credit Unions	Per Cent of Total
1.	New York	753	10.4	25.	Oklahoma	70	1.0
2.	Pennsylvania	739	10.2	26.	South Dakota	67	.9
3.	California	672	9.3	27.	Nebraska	63	.9
4.	Texas	499	5.9	28.	West Virginia	56	.8
5.	Michigan	452	6.3	29.	Alabama	55	.8
6.	Ohio	448	6.2	30.	Idaho	50	.8
7.	New Jersey	369	5.1	31.	Minnesota	49	.7
8.	Connecticut	260	3.6	32.	Arizona	46	.7
9.	Indiana	250	3.5	33.	Missouri, Utah	39	1.1
10.	Louisiana	188	2.6	34.	Wyoming	37	.5
11.	Massachusetts	166	2.3	35.	Nevada,		
12.	Florida	162	2.2		South Carolina	35	1.0
13.	Hawaii	130	1.8	36.	North Dakota	33	.5
14.	District of Columbia	127	1.7	37.	New Mexico	32	.4
15.	Illinois	120	1.6	38.	Arkansas	30	.4
16.	Virginia,			39.	North Carolina	28	.4
	Washington	116	3.2	40.	Kentucky	25	.3
17.	Tennessee	110	1.4	41.	Alaska	24	.3
18.	Georgia	95	1.3	42.	Puerto Rico,		
19.	Colorado	94	1.3		Rhode Island	15	.4
20.	Oregon	86	1.2	43.	Delaware	13	.2
21.	Maryland	83	1.1	44.	New Hampshire	8	.1
22.	Montana	78	1.1	45.	Canal Zone, Iowa,		
23.	Kansas	77	1.0		Wisconsin,		
24.	Maine,				Virgin Islands	6	.4
	Mississippi	73	2.0	46.	Vermont	3	.1
					Total	7,227	100.0

^a 1954 Report of Operations, Federal Credit Unions, p. 18.

five states are the same in both Table 9 and Table 10, the order of rank is different: California, third in the number of credit unions, has the greatest asset total. With certain other exceptions the other states keep about the same rank.

Table 10 also lists the average assets of the credit unions in each

state. The District of Columbia, with average assets of \$257,000, has the highest average assets in continental United States. Hawaii, with average assets of \$282,000, leads all of the groups. Five states have average assets of more than \$200,000. Five states have average assets of between \$150-\$199 thousand, 19 between \$100-\$149 thousand, 22 between \$50-\$99 thousand, and 3 less than \$50,000. The average for the country as a whole is slightly under \$143,000—\$142,961 to be exact. Average assets seem to decrease somewhat as the order of rank decreases; the high ranking states in total assets have, generally speaking, above-average assets. However, a few states like Delaware and New Hampshire, with only a few relatively large federal credit unions, have high average assets with small totals. Active organization of new credit unions will be reflected in low average assets.

Since a ranking of states by total membership would produce results similar to those of Tables 9 and 10, there is little point in repeating the comparison. A ranking of the states by the average membership per credit union would produce an entirely different order. Nor does any consistent pattern emerge with the ratios of actual to potential membership or with the average shares per member. This shows that a study of the location by states is important more for showing federal credit union concentration than for any other reason. Rather than location, the size and the age of the credit union, studied in the previous chapter, and the type classification, which will be examined in the next chapter, are of primary significance in determining significant ratios of operation and of service.

The rate of growth in the nine leading states and in all other states in the postwar period is reviewed in Table 11. The states are ranked in order of over-all growth from January 1, 1947 to January 1, 1955. The nine leading states together had during the period an asset growth of 388.4 per cent; this percentage figure is not shown in the table. All other states had a growth of 397.1 per cent. The sensational growth in Michigan overshadows the remarkable asset growth of the whole group. Michigan started the period with assets of \$5,689,000 at the end of 1946; at the end of 1954 the total assets in federal credit unions in Michigan amounted to \$83,721,000. Other states such as New York and Pennsylvania started with much larger total

TABLE 10. FEDERAL CREDIT UNIONS: LOCATION BY STATES, RANKED BY TOTAL ASSETS IN EACH STATE AND AVERAGE ASSETS IN EACH STATE, DEC. 31, 1954.^a

Rank	State (Number of Credit Unions)	Total Assets (000 omitted)	Average Assets (000 omitted)	Rank	State (Number of Credit Unions)	Total Assets (000 omitted)	Average Assets (000 omitted)
1.	California (672)	\$143,361	\$213	29.	Missouri (39)	4,997	128
2.	Pennsylvania (739)	88,459	120	30.	West Virginia (56)	4,548	81
3.	New York (753)	87,468	116	31.	Mississippi (73)	4,458	61
4.	Michigan (452)	83,721	185	32.	Utah (39)	4,346	111
5.	Texas (499)	81,831	164	33.	Montana (78)	3,912	50
6.	Ohio (448)	63,182	141	34.	Minnesota (49)	3,669	75
7.	Connecticut (260)	62,221	239	35.	South Dakota (67)	3,369	50
8.	New Jersey (369)	51,065	138	36.	Idaho (50)	3,022	60
9.	Indiana (250)	44,471	178	37.	South Carolina (35)	2,949	84
10.	Hawaii (130)	36,674	282	38.	New Mexico (32)	2,821	88
11.	District of Columbia (127)	32,643	257	39.	North Carolina (28)	2,616	93
12.	Illinois (120)	24,831	207	40.	Kentucky (25)	2,493	100
13.	Florida (162)	23,797	147	41.	Alaska (24)	2,329	97
14.	Louisiana (188)	19,039	101	42.	Nevada (35)	2,006	57
15.	Tennessee (110)	16,503	150	43.	Wyoming (37)	1,873	51
16.	Massachusetts (166)	15,268	92	44.	Delaware (13)	1,780	137
17.	Washington (116)	13,432	116	45.	North Dakota (33)	1,760	53
18.	Georgia (95)	10,433	110	46.	New Hampshire (8)	1,380	173
19.	Colorado (94)	10,039	107	47.	Rhode Island (15)	1,334	89
20.	Oklahoma (70)	9,969	142	48.	Puerto Rico (15)	1,227	82
21.	Virginia (116)	9,499	82	49.	Arkansas (30)	1,045	35
22.	Nebraska (63)	8,349	133	50.	Iowa (6)	682	113
23.	Kansas (77)	8,161	106	51.	Canal Zone (6)	374	62
24.	Arizona (46)	6,654	145	52.	Vermont (3)	271	90
25.	Oregon (86)	6,458	75	53.	Wisconsin (6)	97	16
26.	Alabama (55)	5,683	103	54.	Virgin Islands (6)	35	6
27.	Maine (73)	5,313	73	Total		\$1,033,179	\$143
28.	Maryland (83)	5,262	63				

^a 1954 Report of Operations, Federal Credit Unions, p. 18.

TABLE 11. FEDERAL CREDIT UNIONS: ASSET GROWTH IN NINE LEADING STATES AND ALL OTHER STATES, AS A PERCENTAGE RATE OF GROWTH, 1947-55.^a

States	1947	1948	1949	1950	1951	1952	1953	1954	Jan. 1, 1947- Jan. 1, 1955
Michigan	36.6	33.7	24.0	45.7	44.4	57.7	54.6	26.5	976.8
California	24.0	27.9	36.2	37.8	25.2	38.5	33.1	28.1	610.5
Texas	29.5	35.2	40.8	33.2	23.2	33.4	29.4	23.1	558.9
Indiana	20.1	19.9	16.0	22.9	27.1	27.4	32.4	16.2	327.0
Ohio	22.4	23.1	14.8	24.8	27.2	29.5	24.0	15.1	315.4
New Jersey	16.5	9.0	12.4	28.2	26.0	32.0	26.1	20.2	297.2
Connecticut	28.5	25.8	11.3	27.0	27.5	32.2	23.2	12.6	290.4
New York	15.3	19.5	17.9	21.8	21.4	25.6	22.9	18.1	280.6
Pennsylvania	20.6	22.9	15.6	22.1	16.0	18.4	22.4	13.1	230.7
All Others	19.7	23.2	25.2	27.8	23.3	30.0	27.9	22.8	397.1

^a Calculated from data in annual reports of operation.

assets and, while their growth has been substantial, percentagewise it has not been as great. This table is an amplification of the general picture of growth which was presented in the previous chapter.

Federal credit unions, the subject of this study, are only part of the total credit union picture in the United States. At the end of 1953, 48.1 per cent of the credit unions in the United States operated under a federal charter. Membership was almost evenly divided between federal and state-chartered credit unions, 49.1 per cent in federal and 50.9 per cent in state-chartered organizations. The difference between the two groups is greatest in total assets; 45.1 per cent of total assets was held by federal credit unions and 54.9 per cent by state-chartered credit unions.

In certain states, especially Illinois, Iowa, Kentucky, Massachusetts, Minnesota, Missouri, North Carolina, Rhode Island, Vermont, and Wisconsin, state-chartered credit unions predominate. In some cases an early start under a state law or possibly more advantageous provisions in the state laws account for these relatively high concentrations of state-chartered credit unions. In other states federal charters predominate, either because no workable state law exists or because of advantages in federal charter or administration. A detailed com-

parison of the various state law provisions with those of the federal legislation is outside the scope of this study. State-chartered credit unions are mentioned here solely to round out the credit union picture. The main concern of this chapter has been to analyze federal credit unions from the point of state location.

CHAPTER IV

TYPES OF FEDERAL CREDIT UNIONS

THE Bureau of Federal Credit Unions places credit unions in three main classifications: those operating among (1) associational groups, (2) occupational groups, and (3) residential groups. This follows section 9 of the Federal Credit Union Act which states that “. . . Federal credit union membership shall be limited to groups having a common bond of occupation, or association, or to groups within a well-defined neighborhood, community, or rural district.” The classification might seem to be self-explanatory. However, the Bureau’s interpretations on the eligibility of groups seeking to qualify for incorporation are discussed in some detail in Chapter IX.

By far the most important group of federal credit unions is the occupational group—where the membership works for a common employer—with 82.9 per cent of the total number of federal credit unions, 91.5 per cent of total assets, and 89.9 per cent of the total membership. This is shown in Table 12. The associational group—broken down into four subclassifications, the religious, the fraternal and professional, labor unions, and cooperatives—has 14.9 per cent of the number of credit unions but only 7.5 per cent of total assets and 8.9 per cent of the total membership. The smallest group, the residential group—divided into two classes, the rural community and the urban community—includes only 2.2 per cent of the credit unions, 1.0 per cent of the assets, and 1.2 per cent of the membership.

Table 13 brings out additional data on the three main groups of

TABLE 12. FEDERAL CREDIT UNIONS: NUMBER, ASSETS, AND MEMBERSHIP (TOTALS AND PERCENTAGES) GROUPED BY TYPE OF MEMBERSHIP, DEC. 31, 1954.^a

Type of Membership	Number		Assets		Membership	
	Total	Per Cent	Total	Per Cent	Total	Per Cent
<i>Credit unions operating among:</i>						
Associational groups	1,080	14.9	\$ 77,576,777	7.5	321,855	8.9
Occupational groups	5,992	82.9	945,078,163	91.5	3,234,638	89.9
Residential groups	155	2.2	10,524,102	1.0	42,297	1.2
All credit unions	7,227	100.0	\$1,033,179,042	100.0	3,598,790	100.0

^a 1954 *Report of Operations, Federal Credit Unions*, pp. 20 and 27.

TABLE 13. FEDERAL CREDIT UNIONS: POTENTIAL AND ACTUAL MEMBERSHIP; RATIO OF ACTUAL TO POTENTIAL; AVERAGE MEMBERSHIP PER CREDIT UNION; AVERAGE SHAREHOLDINGS PER MEMBER (GROUPED BY TYPE OF MEMBERSHIP), DEC. 31, 1954.^a

Type of Membership	Potential Number of Members	Actual Number of Members	Ratio of Actual to Potential (Per Cent)	Average Membership Per Credit Union	Average Shareholding Per Member
<i>Credit unions operating among:</i>					
Associational groups	1,348,647	321,855	23.9	298	\$213
Occupational groups	6,254,635	3,234,638	51.7	540	264
Residential groups	208,973	42,297	20.2	273	222
All credit unions	7,812,255	3,598,790	46.1	498	\$259

^a 1954 *Report of Operations, Federal Credit Unions*, p. 27.

credit unions. It also measures, in a rough way, the relative efficiency in extending service of the three groups. As this table shows, the occupational credit unions have more than half of their potential membership enrolled as members. In the associational groups only 23.9 per cent and in the residential groups a low 20.2 per cent are embraced in the actual membership. The average membership in the occupational groups is 540, while in the associational it is 298 and in the residential only 273. Average shareholdings in the occupational groups also are higher, but not by as wide a margin: average shareholdings per member in the occupational groups are \$264, in the associational groups, \$216, and in the residential groups, \$222.

Table 14 contains a further breakdown of figures in the associa-

TABLE 14. ASSOCIATIONAL AND RESIDENTIAL FEDERAL CREDIT UNIONS: TOTAL AND PER CENT OF TOTAL NUMBER; TOTAL, PER CENT OF TOTAL, AND AVERAGE ASSETS (RANKED BY NUMBER OF CREDIT UNIONS), DEC. 31, 1954.*

Type of Membership	Number		Assets (000 omitted)		
	Total	Per Cent	Total	Per Cent	Average
<i>Credit unions</i>					
<i>operating among:</i>					
Associational groups:					
Religious	355	4.9	\$23,524	2.3	\$66
Fraternal and professional	270	3.7	23,325	2.3	86
Labor unions	262	3.6	14,825	1.4	57
Cooperatives	193	2.7	15,903	1.5	82
	<u>1,080</u>	<u>14.9</u>	<u>\$77,577</u>	<u>7.5</u>	<u>\$72</u>
Residential groups:					
Rural community	109	1.5	\$ 7,714	.7	\$71
Urban community	46	.6	2,810	.3	61
	<u>155</u>	<u>2.1</u>	<u>\$10,524</u>	<u>1.0</u>	<u>\$68</u>

* 1954 *Report of Operations, Federal Credit Unions*, p. 20.

tional and in the residential groups. In almost every category these two groups show a smaller operation than do the occupational credit unions. One exception is in the religious category, which is

the second largest type classification, exceeded in number only by the credit unions organized among employees of the Federal government. The percentage figures in Tables 14 and 15, it will be noted, refer to the grand total of 7227 credit unions.

The small average size of both the associational and the residential credit union is shown in Table 14. The average assets of all federal credit unions at the end of 1954 were almost \$143,000. Most of the types in the associational and in the residential groups were hardly half this size. The largest, that of the fraternal and professional type, was \$86,388. This identification of size and type conceals important differences of efficiency and of service; there are many well managed credit unions in all categories.

The number and the assets of the occupational group are broken down in Table 15. The Federal government type has the largest number of credit unions and the greatest total assets; average assets in this group, however, due to a large number of newly organized

TABLE 15. OCCUPATIONAL FEDERAL CREDIT UNIONS: TOTAL AND PER CENT OF TOTAL NUMBER; TOTAL, PER CENT OF TOTAL, AND AVERAGE ASSETS (RANKED BY NUMBER OF CREDIT UNIONS), DEC. 31, 1954.^a

Type of Membership	Number		Assets (000 omitted)		
	Total	Per Cent	Total	Per Cent	Average
<i>Credit unions operating in occupational groups:</i>					
Government, Federal	707	9.9	\$100,354	9.7	\$142
Miscellaneous	407	5.6	35,652	3.5	88
Educational, schools	332	4.6	35,163	3.4	106
Petroleum	320	4.4	70,226	6.8	219
Government, local	298	4.1	61,843	6.0	208
Railroads	287	4.0	43,927	4.3	153
Iron and steel	265	3.7	47,598	4.6	180
Machine manufacturers	249	3.4	52,121	5.0	209
Automotive products	231	3.2	52,886	5.1	229
Stores	220	3.0	35,488	3.4	161
Electric products	214	2.9	46,904	4.5	219
Chemicals and explosives	174	2.4	31,338	3.0	180

TABLE 15. OCCUPATIONAL FEDERAL CREDIT UNIONS: TOTAL AND PER CENT OF TOTAL NUMBER; TOTAL, PER CENT OF TOTAL, AND AVERAGE ASSETS (RANKED BY NUMBER OF CREDIT UNIONS), DEC. 31, 1954.* (Continued)

Type of Membership	Number		Assets (000 omitted)		
	Total	Per Cent	Total	Per Cent	Average
Heat, light, and power	150	2.1	20,712	2.0	138
Metals, other	144	2.0	20,457	2.0	142
Telephone	134	1.9	34,556	3.3	258
Textiles	133	1.8	11,608	1.1	87
Paper	130	1.8	19,440	1.9	150
Food products, other	124	1.7	23,367	2.3	188
Bus and truck	117	1.6	9,475	.9	81
Bakery, grocery, produce	107	1.5	10,449	1.0	98
Government, State	101	1.4	9,123	.9	90
Construction, other	94	1.3	9,968	1.0	106
Food products, dairy	88	1.2	8,576	.8	97
Transportation, other	85	1.2	11,513	1.1	135
Banking and insurance	82	1.2	8,798	.9	107
Newspapers	77	1.1	9,611	.9	125
Hardware	73	1.0	8,805	.9	121
Glass	70	1.0	16,291	1.6	233
Educational, colleges	67	.9	5,854	.6	87
Aviation	61	.8	52,529	5.0	861
Printing, publishing, other	57	.8	4,967	.5	87
Construction, lumber	56	.7	4,968	.5	88
Meat packing	53	.7	4,426	.4	84
Rubber	47	.7	6,932	.7	147
Furniture	42	.6	2,943	.3	70
Beverages	40	.6	4,510	.4	113
Hotels and restaurants	39	.5	1,749	.2	45
Metals, aluminum	36	.5	2,762	.3	77
Leather	32	.4	1,479	.1	46
Laundries and cleaners	23	.3	549	.1	24
Telegraph	13	.2	824	.1	63
Amusements	10	.2	3,925	.4	392
Tobacco products	3	.1	410	—	137
Total	5,992	83.0	\$945,078	91.5	\$158

credit unions, do not quite reach the national average. The highest average size is found in the aviation type credit unions which have average assets of more than \$861,000. The ten amusement type credit unions also have high average assets.

The five largest types in the occupational group have 28.6 per cent of the number of federal credit unions and 29.4 per cent of total assets. The ten largest have 45.9 per cent of the total number and 51.8 per cent of the assets. Possibly "miscellaneous" is a doubtful type; but eliminating it and including electric products as the tenth largest type, the ten largest categories will be found to include 43.2

TABLE 16. FEDERAL CREDIT UNIONS: ASSET GROWTH AS A PERCENTAGE RATE OF GROWTH, BY TYPE OF MEMBERSHIP, JAN. 1, 1947-JAN. 1, 1955.

Type of Membership	Percentage Rate of Growth
<i>Credit unions operating among:</i>	
Association groups:	
Labor unions	679
Fraternal and professional	508
Cooperatives	503
Religious	424
Subtotal	503
Occupational groups:	
Rubber	990
Automotive products	986
Educational, colleges	933
Miscellaneous	809
Government, Federal	802
Construction and materials, other	777
Aviation	772
Beverages	725
Construction and materials, lumber	712
Paper	608
Chemicals and explosives	608
Transportation, bus, and truck	597
Furniture	594
Machine manufacturing	591
Banking and insurance	583

TABLE 16. FEDERAL CREDIT UNIONS: ASSET GROWTH AS A PERCENTAGE RATE OF GROWTH, BY TYPE OF MEMBERSHIP, JAN. 1, 1947-JAN. 1, 1955. (Continued)

Type of Membership	Percentage Rate of Growth
Telephone	500
Leather	482
Government, State	480
Bakery, grocery, and produce	479
Printing and publishing, other	471
Food products, dairy	468
Government, local	467
Railroads	437
Petroleum	432
Educational, schools	424
Metals, iron, and steel	418
Electric products	416
Heat, light, and power	401
Newspapers	394
Stores	376
Meat packing	372
Tobacco products	336
Glass	332
Metals, other	316
Hotels and restaurants	314
Food products, other	290
Hardware	276
Metals, aluminum	258
Amusements	251
Textiles	220
Laundries and cleaners	165
Transportation, other	163
Telegraph	145
Subtotal	495
Residential groups:	
Rural community	815
Urban community	410
Subtotal	655
Grand total	497

per cent of all federal credit unions with 52.8 per cent of all of the assets. Should a half dozen more of the largest occupational types be added to this number, the bulk of federal credit union assets would be found to be concentrated in this group.

A measure of the rates of growth of the credit unions of different membership types is given in Table 16. This covers the period from January 1, 1947 to January 1, 1955. Of the three main classifications, the residential group, due to a strong rate of growth among the rural community type, shows the highest rate of growth. In the associational group, the labor union type, with a percentage rate of growth of 679, was the leader.

In the occupational group the rubber, automotive products, and the college types had rates of growth of more than 900 per cent, during the eight-year period under review. It is also worthy of notice that all but three types had rates of growth more than 200 per cent in the past eight years.

This chapter has reviewed the main group and type classifications of federal credit unions. Later analysis will examine more in detail the operations of these various groupings.

CHAPTER V

ANALYSIS OF ASSETS AND LIABILITIES

THE federal credit union balance sheet is not a complicated statement. During the history of the federal credit union system, due to the exigencies of the war situation, the composition of the asset side of the balance sheet has varied more than that of the liabilities side. Around 90 per cent of the total liabilities are in members' shares; shares and member saving will be discussed in the following chapter, so that at this point it will be sufficient to say that "shares" represent the savings placed by the members in the credit union. Equity items—shares and the different reserves—comprise all of the liabilities, except for 2 or 3 per cent of the total in notes payable and accounts payable. These proportions have remained stable for the past twenty years, as can be seen in Chart C.

The proportions held in the different asset accounts, however, have varied widely through the past two decades. In the early years of the federal credit union system around 80 per cent of the assets were invested in loans to members and the remainder consisted largely of cash; this was in the late thirties. During the war years loans to members dropped sharply under the working of Regulation W and the shortage of consumer goods. In 1944 and 1945 loans to members comprised only 23 per cent of total assets. At this time heavy investments were made in government bonds; savings and loan shares came to be a more popular investment and cash holdings were relatively heavy. These four asset items included all but 2.4 per cent of all assets in 1954.

In addition to the percentages of total assets and liabilities held in

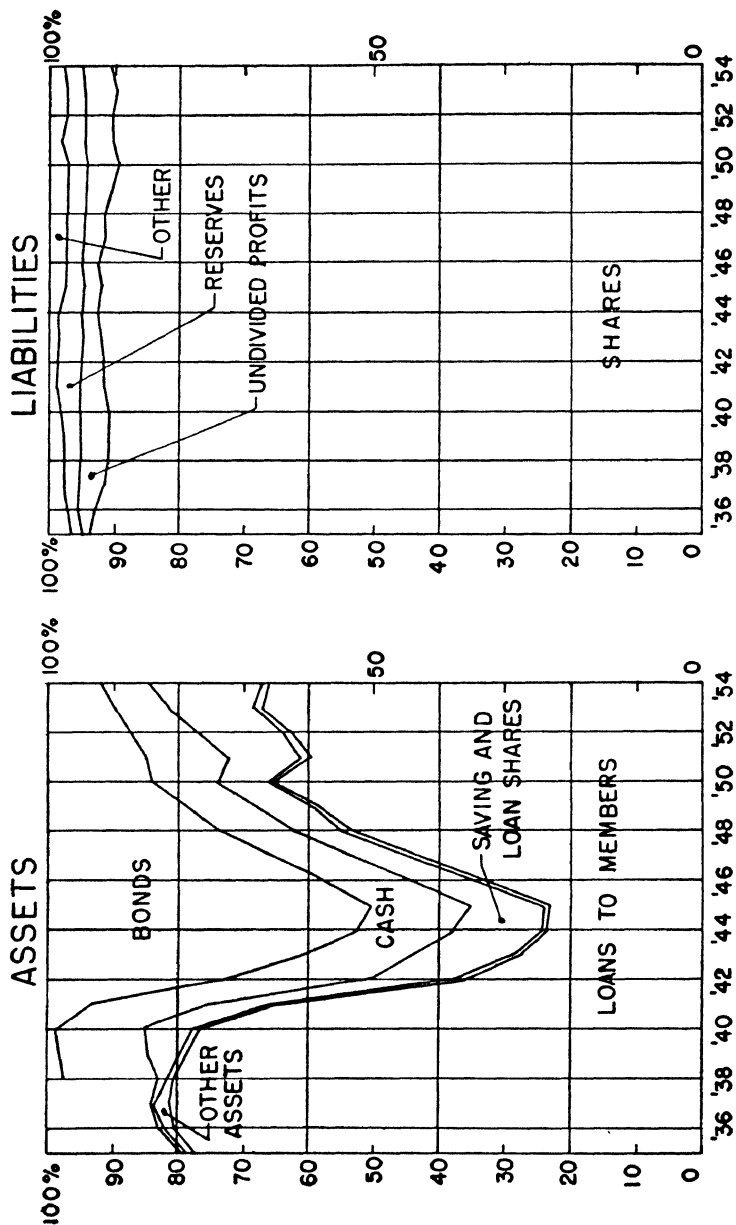


CHART C. PERCENTAGE DISTRIBUTION OF ASSETS AND LIABILITIES OF
ALL FEDERAL CREDIT UNIONS, DECEMBER 31, 1935-54.

the various accounts, Table 17 shows the totals involved. While this table reviews only five of the twenty years, they are the most significant; by the end of 1937 the first flush of organization had been completed; 1940 was the last year before the war; in 1945 the war restrictions impinged most heavily on the credit unions; in 1949 the system was beginning to operate well once more; and 1954 is the last year for which exist complete statistics. Most of this series is of historical interest only; little can be learned from the harrowing experience of the war years that would be of use to the credit unions in their present stage of vigorous development. Therefore, this study will concentrate on an examination of the balance sheet of December 31, 1954.

At the end of 1954 total assets were more than \$1 billion. Of this almost \$682 million, or 66 per cent, were invested in loans to members. Loans to members are the ideal credit union investment; here the organization is extending a unique service to its membership—in fact, in the membership loan might be said to be found the essence of the credit union. Moreover, the return on loans to members is usually higher than on other types of investment, a second strong reason for attempting to expand this item. Cash on hand yields nothing; therefore management attempts to reduce this item to the lowest point consistent with a prudent liquidity. Table 17 shows that cash in 1954 was only 9.5 per cent of total assets. The lowest point in the history of the system was in 1953, when cash was only 9 per cent of total assets.

The remainder of the asset items indicate the limited legal possibilities open to the credit unions for investment. United States bonds to the value of more than \$84 million were held in the credit unions at the end of 1954. In absolute amount this exceeds the \$77 million held in 1945; yet the 1954 figure was only 8.2 per cent of total assets, whereas in 1945 it was 50.3 per cent. Savings and loan shares are also legal investments for credit unions, and they pay a moderately high return; they amounted to almost \$144 million or 13.9 per cent of total assets at the end of 1954. Apparently there is a regional concentration in savings and loan shares, with the largest amount being held in Connecticut with \$18,693,000, followed by

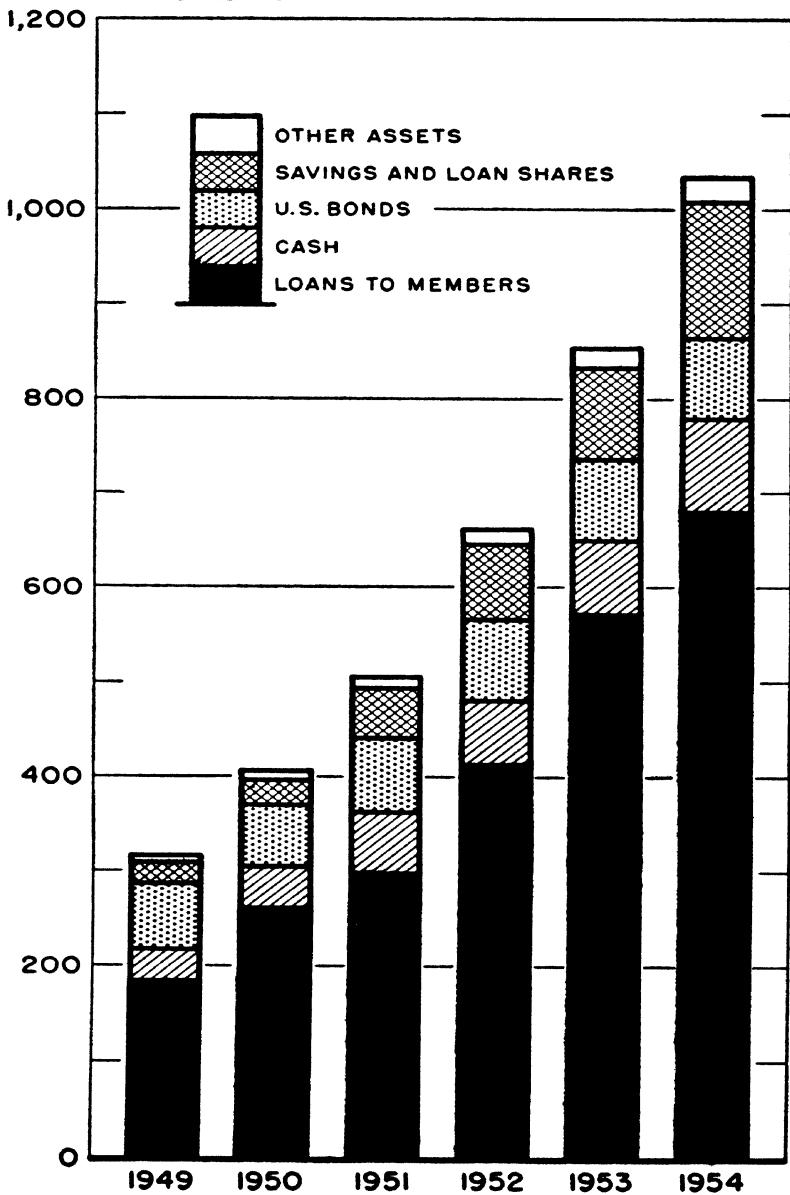
TABLE 17. FEDERAL CREDIT UNIONS: ASSETS AND LIABILITIES, TOTALS AND PERCENTAGES OF TOTALS,
DECEMBER 31.^a

	1937		1940		1945		1949		1954	
	Total	Per Cent	Total	Per Cent	Total	Per Cent	Total	Per Cent	Total	Per Cent
Assets										
Loans to members	\$15,683,676	81.5	\$55,801,026	77.0	\$ 35,155,414	23.0	\$186,218,022	58.9	\$ 681,970,336	66.0
Cash	3,107,486	16.1	9,842,296	13.6	21,733,949	14.2	32,529,318	10.3	97,740,682	9.5
United States bonds			1,101,757	1.5	77,027,297	50.3	68,752,813	21.7	84,313,214	8.2
Savings and loan shares			4,878,275	6.7	18,100,327	11.8	22,749,795	7.2	143,974,932	13.9
Loans to other credit unions			597,359	.8	417,020	.3	4,558,368	1.4	17,737,716	1.7
Other assets	458,576	2.4	279,826	.4	669,112	.4	1,554,188	.5	7,442,162	.7
Total assets	\$19,249,738	100.0	\$72,500,539	100.0	\$153,103,120	100.0	\$316,362,504	100.0	\$1,033,179,042	100.0
Liabilities										
Notes payable			\$ 1,318,154	1.8	\$ 2,425,406	1.6	\$ 8,868,787	2.8	\$ 19,729,224	1.9
Accounts payable and other liabilities	\$ 443,772	2.3	41,749	.1	1,362,738	.9	765,139	.3	2,772,413	.3
Shares	17,636,414	91.6	65,780,063	90.7	140,613,962	91.8	285,000,934	90.1	931,407,456	90.2
Regular reserve	420,192	2.2	2,019,004	2.8	4,762,399	3.1	9,609,775	3.0	31,134,017	3.0
Special reserve for delinquent accounts										
Undivided profit	749,360	3.9	3,341,569	4.6	148,409	.1	358,523	.1	2,273,804	.2
Total liabilities	\$19,249,738	100.0	\$72,500,539	100.0	\$153,103,120	100.0	\$316,362,504	100.0	\$1,033,179,042	100.0

^a From annual reports of operation.

CHART D. FEDERAL CREDIT UNIONS: GROWTH IN ASSETS,
DECEMBER 31, 1949-54.

MILLIONS OF DOLLARS



Pennsylvania, New York, California, and New Jersey.¹ Loans to other credit unions are also legal investments for federal credit unions. While only \$17 million, or 1.7 per cent of total assets, are involved in such loans, inter-credit-union lending seems to be more important in recent years.² This about exhausts the legal investments for federal credit unions. Other assets include items such as furniture and fixtures, prepaid surety bond premiums, unamortized organization costs, and real estate used for office purposes. At the end of 1954 other assets amounted to \$7 million, or .7 per cent of total assets. The growth of federal credit union assets from 1949-54 is shown in Chart D.

While shares, to be discussed in the next chapter, make up the bulk of the liabilities—around 90 per cent through the history of the system—the other liability items should be discussed briefly. Notes payable consist of funds borrowed by credit unions; at the end of 1954 notes payable were slightly more than \$19,729,000, or 1.9 per cent of total liabilities. This was a decrease of \$1,750,000 from 1953. By law federal credit unions may borrow up to 50 per cent of their unimpaired capital and surplus. Borrowing has never been an important source of capital for credit unions. At times credit unions have borrowed to meet emergency withdrawals, or to meet loan demand in anticipation of normal growth. In many cases short term borrowing is undertaken in order to avoid selling long term investments.³

Accounts payable and other liabilities include such items as United States savings bonds remittances payable, employees' income tax deductions, and other tax deductions. It amounted to more than \$2,770,000, or .3 per cent of total liabilities at the end of 1954.

The remaining liability items are equity items, that is, the sums involved really belong to the membership but consist of earnings set aside for the protection of the credit union, or not yet declared as dividends. The regular reserve, formerly called "Reserve for bad loans," of more than \$31 million is required by the law, which states that entrance fees and 20 per cent of earnings must be set aside to take care of possible losses from bad debts. No further transfers are required when this reserve equals 10 per cent of paid-in shares. At

the end of 1954 these reserves were equal to 3 per cent of total liabilities, 4.6 per cent of loans outstanding, and 3.3 per cent of members' shareholdings. Since 1939 a regulation has required a special reserve to be set up when delinquent loans are excessive. At the end of 1954 these special reserves amounted to slightly more than \$2,270,000, or .2 per cent of total liabilities. A final item, undivided profits—the accumulated net earnings after setting aside the required reserves—totaled more than \$45.8 million, or 4.4 per cent of total liabilities, at the end of 1954.

TABLE 18. FEDERAL CREDIT UNIONS: PERCENTAGES OF ASSET ITEMS TO TOTAL ASSETS, BY SIZE OF CREDIT UNION, DEC. 31 1954.^a

Size of Assets	Loans to Members	Cash	U.S. Bonds	Savings and Loan Shares	Loans to Other Credit Unions	Other Assets
Less than \$1,000	41.4	46.2	—	1.0	—	11.7
\$1,000—\$2,499	63.3	33.0	—	.8	.1	2.8
\$2,500—\$4,999	68.5	26.5	.9	2.7	.1	1.3
\$5,000—\$9,999	70.6	20.6	2.6	4.9	.4	.9
\$ 10,000—\$ 24,999	72.4	16.5	2.8	7.2	.6	.5
\$ 25,000—\$ 49,999	71.9	14.1	3.8	9.2	.5	.5
\$ 50,000—\$ 99,999	70.9	11.4	4.9	11.7	.7	.4
\$100,000—\$249,999	69.0	9.9	5.8	13.3	1.4	.6
\$250,000—\$499,999	67.6	9.1	6.2	14.9	1.5	.7
\$500,000—\$999,999	65.9	8.0	8.5	14.9	2.0	.7
\$1,000,000 or more	59.6	8.3	13.4	15.1	2.5	1.1
All credit unions	66.0	9.5	8.2	13.9	1.7	.7

^a Calculated from data in 1954 *Report of Operations, Federal Credit Unions*, p. 18.

The pattern of percentage distribution of liabilities does not vary much in relationship to the size of credit unions. With assets, however, there is a definite relationship between assets distribution and size. This is shown in Table 18. The percentage of assets in loans to members rises until a peak is reached in the

\$10,000–\$24,999 size group, where 72.4 per cent of assets are invested in loans to members; thereafter it falls, reaching a low of 59.6 per cent in credit unions with \$1 million or more in assets. The percentage of cash on hand decreases as the size of the credit unions increases, dropping from 46.2 per cent in the credit unions with less than \$1000 in assets, to 8.0 per cent in those with assets of \$500,000 to \$999,000; the slight rise to 8.3 per cent in the \$1 million or more class is not significant.

Investments in United States bonds show a percentage gain as the size increases, going from .0 per cent in the two smallest classes to 13.4 per cent in the \$1 million or more class. The percentage of assets invested in savings and loan shares also moves in the same direction, reaching 15.1 per cent in the \$1 million or more class. The percentage of assets in loans to other credit unions increases sharply as the size class increases, indicating possibly that correspondent relationships are developing with the large credit unions as lenders and the small credit unions as borrowers. Other assets show no consistent pattern. The movement of the proportion of assets invested in the different size classes seems to show that as member savings increase in the large credit unions the relative opportunity for investment in member loans decreases and the savings tend to be invested in government bonds and savings and loan shares, the other major possibilities of legal investment. Of course, the year selected for analysis is affected by the economic conditions prevailing at the time; for example in 1954, compared with other years in the recent past, all size groups reflect the declining popularity of United States bonds and an increasing investment in savings and loan shares.

Age as well as size seems to be of significance in the determination of the percentage distribution of credit union assets. This is shown in Table 19. Generally speaking, we find a decreasing percentage of assets in loans to members and in cash as the credit unions get older. Conversely, investments in United States bonds and in savings and loan shares increase with the age of the credit union, although with savings and loan shares there is a decline starting with the 16-year-old class. Loans to other credit unions fluctuate around the national average of 1.7 per cent in almost all age classes. Again, other assets

TABLE 19. FEDERAL CREDIT UNIONS: PERCENTAGES OF ASSET ITEMS TO TOTAL ASSETS, BY AGE OF CREDIT UNIONS, DEC. 31, 1954.^a

Years of Operation	Loans	Cash	U.S. Bonds	Savings and Loan Shares	Loans to Other Credit Unions	Other Assets
Less than 1 year	76.8	17.2	—	5.1	—	.9
1	80.7	12.7	.3	4.8	.5	1.0
2	79.8	12.2	1.2	5.6	.6	.6
3	78.1	10.1	.8	8.7	1.6	.7
4	73.1	10.3	1.2	13.1	1.4	.9
5	74.6	10.2	.7	11.9	1.5	1.1
6	72.5	9.5	1.2	14.3	1.9	.6
7	72.7	9.1	2.7	12.9	2.0	.6
8	67.9	9.6	2.7	16.8	2.1	.9
9	59.7	11.1	3.5	22.8	1.3	1.6
10	63.0	9.2	2.6	23.0	1.6	.6
11	74.3	11.1	2.8	6.6	3.5	1.7
12	66.0	10.5	4.2	16.6	2.2	.5
13	63.2	10.1	7.4	16.1	1.9	1.3
14	64.4	10.0	7.2	16.5	1.3	.6
15	61.0	10.6	9.3	16.6	1.9	.6
16	62.0	9.1	11.6	15.3	1.5	.5
17	62.0	8.5	12.4	14.5	2.0	.6
18	63.9	8.8	10.7	14.1	1.9	.6
19	61.2	8.0	14.0	14.2	1.8	.8
Total	66.0	9.5	8.2	13.9	1.7	0.7

^a The figure "1" means more than 1 but less than 2 years of operation on December 31, 1954.

show no consistent pattern. Credit unions chartered during the war years show rather wide divergence from the general pattern; the small number of operating credit unions in these classes, however, make such averages unreliable. It might seem that since credit unions increase in size as they get older, the age factor is more a reflection of the influence of size than an operating independent variable.

While the size, and possibly the age, of credit unions seem to be the significant variables in determining the percentage distribution of assets, an examination of state differences reveals some interesting variations. There is a wide spread from the average percentage of 66

per cent of the assets in loans to members. Indeed, the spread from the average is so wide that there can hardly be said to be any central tendency for the percentage distribution of assets invested in loans to members when looked at from the point of state location.

Of the states with a substantial number of federal credit unions, Connecticut, Hawaii, Indiana, Illinois, and New Jersey have relatively low percentages of total assets in loans to members. Their investment portfolio is filled in various ways: in Connecticut a high proportion of assets is invested in savings and loan shares; in Hawaii and in Illinois there are proportionately large holdings of government bonds; in Indiana there are relatively large holdings of government bonds; in New Jersey there is an above-average percentage invested in government bonds and savings and loan shares. Another large state, Michigan, has a relatively high percentage of its assets invested in loans to members—72.6 per cent—and relatively low holdings of bonds and savings and loan shares; in Michigan the percentages both of loans to other credit unions and notes payable among the liabilities are relatively high, showing an unusual amount of interlending among the credit unions of that state. Only in a few states—Arizona, New Mexico, and South Dakota (and in each of these there are only a small number of federal credit unions)—are the notes payable much over the average; this shows that only in a few states is borrowing a significant source of capital for federal credit unions.

An examination of the percentage distribution of liabilities from the type classification reveals that only a few types rely to any extent upon borrowing as a source of capital; cooperatives have 7.4 per cent of their liabilities in notes payable and only 85.4 per cent in shares. Other types well over the average in the percentage of liabilities in notes payable are: fraternal and professional with 4.0 per cent, automotive products with 3.5 per cent, lumber with 3.4 per cent, colleges with 3.4 per cent, rubber with 4.0 per cent, telephone with 4.5 per cent, and urban community with 5.3 per cent. Apart from this there is not much variation from the average on the liabilities side of the balance sheet.

While there is some variation in the percentage distribution of assets, classified by type, it is not as wide as that of location. The average amount of assets in loans to members is 65.2 per cent; the

distribution in the various subtypes clusters much more closely about this central point than with the state location groups. This would seem to indicate that state or regional policies and practices are of greater importance in determining investment policy than is type. The associational type had 74.7 per cent of its assets invested in loans to members and the residential type had 75.9 per cent. Other asset items also varied, but in any type of significant size the variation from the normal was much less marked than with the location or the size classifications.

This chapter has examined the balance sheet development of the federal credit unions historically and has analyzed it, item by item, in the December 31, 1954, balance sheet. Significant variations were reviewed. In this connection size, age, and location seem to be more important in the variation of the proportions of the asset items. Little significant variation was shown in liabilities.

CHAPTER VI

SAVING AND BORROWING IN FEDERAL CREDIT UNIONS AND THE PROBLEM OF CONSUMER BEHAVIOR

THE saving and borrowing activities of credit union members fit into the general picture of consumer behavior. In recent years economists have begun to explore some of the theoretical aspects of consumer motivation, especially the savings decisions of the consumer. This chapter will attempt to summarize some of the most significant findings of modern economists in the savings-consumption area. Specific applications of this theory to the problems of the credit union saver-borrower will be sought. Analyses will be made both of shareholdings (member saving) and loans (member dissaving).

To some extent economists have related consumer credit to the spending habits of the consumer; but the traditional approach was not well developed. Only since the late 1940's have economists begun to develop a theory of consumer behavior which could be integrated with general economic analysis. Hitherto in general economic analysis consumption was considered primarily as a function of income—i.e., as related to changes in income. Estimates built on relationships to disposable income and rates of change in income proved to be in error and these errors led to recent efforts to explain savings and consumption patterns.¹

A suggestive and at the same time a realistic approach to the problem has been advanced by James S. Duesenberry.² He begins his study "with a full recognition of the social character of consumption

patterns.” The problem of consumption is not merely a question of satisfying certain physical needs, but of acquiring goods and services to satisfy wants in socially acceptable ways. Consumption patterns are acquired by a learning, a habit-forming process. This is built upon basic physical and social needs. A pattern of consumption is tested experimentally, either actually or in an imaginary way; expenditures which are later regretted are changed until an expenditure pattern is established which is successful in the sense that no expenditures are regretted sufficiently to change the pattern.

Any want can be satisfied by qualitatively different types of goods; these may be regarded as superior or inferior to one another. Social contact with superior, or more expensive, types of goods is an always-present drive to consumption activity. Saving is the outcome of an inner conflict between a desire to improve a current standard of living and a desire to obtain future welfare. Obviously the strength of the drive toward higher consumption is conditioned by the character of the society. As Duesenberry says:

Ours is a society in which one of the principal social goals is a higher standard of living. Now the fact that the attainment of a higher standard of living as an end in itself is a major social goal has great significance for the theory of consumption. For this means that the desire to get superior goods takes on a life of its own. It provides a drive to higher expenditure which may be even stronger than that arising out of the needs which are supposed to be satisfied by the expenditure.³

In other words: “. . . after some minimum income is reached, the frequency and strength of impulses to increase expenditures for one individual depend entirely on the ratio of his expenditures to the expenditures of those with whom he associates.” ⁴

A theory of saving is part of a general theory of consumers' choice. But consumers are not affected directly by the savings actions of other people, because people do not know what others save. Rather they are affected indirectly; and since current consumption standards are influenced by other's consumption behavior, desires for future consumption will be influenced the same way.⁵

Duesenberry points out that about 75 per cent of spending units save virtually nothing. He states that lower income families will not

be influenced in their savings by changes in interest rates or in income expectations, or even changes in their own preferences. This is because their desires for current consumption are so strong as to overcome all considerations of the future. Moreover, since the cost of dissaving has usually been too great, it has been difficult for such families to dissave, and to borrow without repaying has been considered immoral. Saving will thus take place largely in the upper income group, at least the upper quarter. Moreover, a large part of saving is made with a view to future liquidation; saving for retirement, purchase of durable goods, future contingencies, or the education of children are examples.⁶ Thus, as incomes rise, savings can be expected to rise.

This last point is substantiated by evidence from "A National Survey of Liquid Assets," which states that three out of five spending units save for old age, ill health, unemployment, and general protection against a "rainy day." One out of five save to make investments, mainly the purchase of a home, and one out of six to provide benefits for children. Only one out of ten said that they were saving to purchase durable consumer goods or to make other consumer expenditures. One in twelve saved for miscellaneous reasons or had no specific purpose.⁷

Franco Modigliani, in his study of past income spending and savings patterns, seems to substantiate the hypotheses of Duesenberry. Modigliani holds that a distinction must be made between the short-run or cyclical savings pattern and the long-run propensity to save. When there is a long-run rise in real income, savings will not depend upon absolute income but on the rate of change in income. Thus the proportion of income saved will tend to increase with an increase in the rate of change in income; on the whole, however, it will be a constant proportion of income.⁸ Laurence R. Klein has studied the relationship of consumer liquid assets and debts to savings pattern, using data from the Federal Reserve Board's Survey of Consumer Finances. He finds that it is necessary to study the consumption patterns of durable and nondurable goods as separate categories.⁹

A distinction of no little importance is that between "habitual" and "genuine" consumers' decisions, analyzed by George Katona.¹⁰

According to Katona, most consumer behavior is "habitual," patterns of action established on the basis of contractual obligations or for the purchase of necessities—for example, rent, mortgage payments, purchases of food or clothing. Some of these payments, such as repayment of mortgage principal, the purchase of insurance, or payment into retirement funds, might be classified as savings. In the short run consumers have only a slight latitude in changing these "habitual" expenditures. "Genuine" decisions—or, as he says in another place, "supernumerary" or "special" money outlays—are the result of active decisions. These may be postponed. They may lead to the purchase of durables, or to savings of various forms.¹¹

Drawing upon these various modern contributions to consumption theory Dauten distinguishes between emergency credit, convenience credit, and installment credit to buy durables. The first is quickly disposed of in these words: "Emergency credit is not a part of any pattern of consumer behavior, but a safety valve for use in emergencies. It behaves counter-cyclically and probably becomes less important in relationship to aggregate real income as income rises." "Convenience credit"—charge accounts and the like—in the words of Dauten, "moves with disposable income, but shows a rising trend. This is due to the greater acceptance of such credit by consumers and the expansion of its use by merchants."¹²

"The heart of the problem," according to Dauten, "is installment credit for the purchase of durable goods." In the short run this is both a savings and a credit problem. Older studies are not of much use here, as over the past thirty years the psychological factors which affect the balance between spending, saving, and the use of credit have been changing, and consumer credit has become more and more accepted as a part of the pattern of consumer behavior and institutions been developed to handle it.¹³

Dauten's theoretical views on modern consumer credit may be summarized as follows:

1. The level of consumer debt is independent of the absolute level of income.
2. It is based on the demand for durable goods which is based on discretionary income, the rate of change in such income, expected in-

come, the pattern of income distribution, the age distribution of the population, the stocks of durables on hand, and similar factors.

3. The proportions of durables bought on credit are based on the income status of the spending unit, the family status, holdings of liquid assets, and the level of other debts.

4. Also significant are the size of the down payment, the size of the installments and the credit charges.

5. Because of the large amounts involved in most purchases of durable goods in relation to credit costs, the use of credit will be rather insensitive to charges in credit costs.

6. The propensity to use credit rises as income rises, but at upper middle income levels it stabilizes and then declines. This pattern is likely to change with changes in the shape of the income distribution.

7. The use of consumer credit will change during the business cycle in part because both grantors and users of credit become more cautious but primarily because changes in real income shift families into real income groups in which different amounts of credit are used.¹⁴

Much of this theory lacks empirical proof. However, a certain confirmation is found in the changing of aggregate expenditure patterns with a larger number of family units entering the \$4000-\$7000 income class since the pre World War II days. In 1952 the percentage with the lowest debt was found in the \$1000-under group; the percentage of debt increased to 62 per cent in the \$3000-\$3999 group and stayed at that level through the \$5000-7499 group, then fell in the group with incomes greater than \$7500. Family status is also significant, with married persons having greater debt than single persons and those with children under 18 with more debt than those without children.¹⁵ However, a great deal more research must be done on consumption theory; all through the modern writings there runs the complaint that the data are too scanty, that more research is required.

What application has modern consumption theory to the credit union area? One should not try too hard to attempt to apply this theory directly to the practical problems faced by credit union management. Since the credit union is an institution of consumer finance, the fundamental basis of operation should rest on an understanding of consumer motivation in saving and in dissaving. Furthermore, much of this new theory is highly suggestive and can give insight

and direction to research in all forms of institutionalized consumer finance, including credit unions.

There is a need for much basic research in the credit union field. We know little about the purposes which motivate credit union members to save. No studies have been made relating the incomes of members to their saving and borrowing. The asset holding of credit union members is unknown. The connection between the insurance programs of credit union members and their credit union saving should also receive study. Nothing is known of the seasonal variation in borrowing or in saving. Limitations placed on savings by credit union management itself have never been studied.¹⁶

In examining the federal credit unions as savings institutions one is struck by the fact that there is relatively little net savings in these credit unions. In the previous chapter it was pointed out that 66 per cent of total assets are invested in loans to members. A comparison of shares and loans points up the net savings position of credit union members: shareholdings in federal credit unions on December 31, 1954 amounted to \$931 million and loans to members totaled \$682 million, or 73.2 per cent of member shareholdings. Setting off the loans against the shares, it would seem as if almost three-quarters of the members have saved nothing—a ratio which seems to hold for consumers in general. In Chapter II it was pointed out that the average share account virtually ceased to grow after the credit union had been operating for twelve years. Possibly the share total would be much larger if credit union management did not deliberately restrain savings by imposing limitations either on maximum shareholdings or on weekly deposits. Just how widespread are such limitations are not known.

No study has investigated the motivation of credit union savers: in other words we have no authentic picture of why credit union members save. Barou, in his book *Cooperative Banking*, on a priori reasoning advanced what might be termed a "rainy day" theory of saving by the working class. Barou 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; . . ." ¹⁷

A survey conducted during the summer of 1953 for the United States Savings and Loan League, while concerned primarily with savings and loan associations and banks, contains much empirical information about the motivation of savers that has application in the credit union area.¹⁸ The survey found that the economic characteristics of those who saved in banks and those who saved in building and loan associations were not significantly different. Nor did the purposes for which people saved differ markedly.

While the savings and loan study contains certain statistical exhibits that are difficult to interpret, it would seem to show that the chief purposes for which savings are made are to provide against emergencies and for old age, or to provide for future items of family comfort or welfare. The study stated: "Only a small percentage regard their account as an investment or maintain their account primarily for 'added income.'" Again it said: "Obviously our institutions are being regarded more and more as savings institutions and not as investment outlets."¹⁹ The study also stated:

Safety and convenience clearly rank highest among the reasons for the choice by a family of a place to keep its savings. Habit plays an important role in the continued preference of one institution over another. The rate of earnings paid on a savings account, while important, is clearly secondary in the minds of most people, particularly those comprising the great majority who have too little in savings for rate to make an important difference.²⁰

In this connection the study points out that a difference of one per cent in earnings of an account of \$1000 would mean a difference of only \$10 annually in earnings; and 50 per cent of American savers have less than \$1000 in savings. It is not unreasonable to assume that the saver in a credit union is motivated in a fashion similar to a saver in a bank or in a savings and loan society.

Technically, the member of a credit union when saving invests in "shares" of the organization. The "shares" of a credit union, like those of a savings and loan society, have a peculiar legal status. Legally, the shareholder is an investor in an incorporated company and a "share" is the evidence of his equity in the organization. The shareholder has title to all of the earnings of the organization, after

provision for reserves, and at liquidation he is the residual claimant of gains or losses. Credit union shares have many of the legal characteristics of common stock equity. Looked at in this way credit union shares might be called "risk capital."²¹ From an economic or a financial point of view, however, credit union shares are really the equivalent of bank deposits: almost always in practice shares are withdrawable on demand; no share certificates are issued but deposits or withdrawals are entered in a passbook. The shareholder is protected by a cushion provided by statutory reserves and undivided profits. Practically speaking, the share unit is used only in the calculation of dividends at the end of the year; in these calculations tables of "share-months" at different dividend rates are used for convenience in computation.

The Bureau of Federal Credit Unions has made a study on the size distribution of members' share accounts on June 30, 1953.²² While the size distribution of the accounts is inconveniently large the study reveals the broad pattern of shareholdings in credit unions. Table 20 shows the percentage distribution of share accounts.

TABLE 20. FEDERAL CREDIT UNIONS: PERCENTAGE DISTRIBUTION OF SIZE OF SHARE ACCOUNTS, JUNE 30, 1953.^a

Size of Accounts	Number of Accounts		Amount of Shares	
	Percentage	Cumulative Percentage	Percentage	Cumulative Percentage
Less than \$10	27.1	27.1	1.0	1.0
\$10-\$1,000	66.4	93.5	47.5	48.5
\$1,001-\$2,500	5.3	98.8	31.8	80.3
Over \$2,500	1.2	100.0	19.7	100.0
	100.0		100.0	

^a 1953 *Report of Operations, Federal Credit Unions*, p. 11.

As shown by this table, 27 per cent of all accounts had less than \$10 in shares, but these accounts held only 1 per cent of total shares. Accounts with shares up to \$1000 comprised 93.5 per cent of all accounts with 48.5 per cent of total shareholdings. The 6.5 per cent

TABLE 21. FEDERAL CREDIT UNIONS: PERCENTAGE DISTRIBUTION OF
NUMBER AND AMOUNT OF SHARE ACCOUNTS, BY SIZE OF ACCOUNT
AND BY SIZE OF CREDIT UNION, JUNE 30, 1953.^a

Size of Federal Credit Union Assets	Percentage Distribution in Size of Accounts						
	Number of Accounts			Amount of Shares			
	Less than \$10	\$10- \$1,000	\$1,001- \$2,500	Over \$2,500	Less than \$10	\$10- \$1,000	\$1,001- \$2,500 Over \$2,500
Less than \$10,000	43.2	56.5	.3	—	4.4	87.3	6.7
\$10,000-\$24,999	33.4	65.3	1.2	.1	2.1	81.6	14.1
\$25,000-\$49,999	32.0	65.4	2.4	.2	1.7	69.4	23.8
\$50,000-\$99,999	28.4	67.0	4.1	.5	1.0	60.3	29.6
\$100,000-\$249,999	27.2	66.5	5.4	.9	1.0	50.0	33.9
\$250,000-\$499,999	24.8	67.9	6.0	1.3	.7	46.6	34.1
\$500,000-\$999,999	23.4	67.7	6.9	2.0	1.1	41.0	33.6
\$1,000,000 and over	25.1	65.1	7.1	2.7	.8	37.7	30.7
All credit unions	27.1	66.4	5.3	1.2	1.0	47.5	31.8
							19.7

^a Unpublished data from study made by Bureau of Federal Credit Unions.

of the accounts with shareholdings of more than \$1000 held 51.5 per cent of total shares.

The relationship between the size of accounts and the size of credit unions, measured by the size of assets, is shown in Table 21. Both the proportionate number of the largest accounts—\$2500 and over—and the amount of shares in these accounts, increase as the size of the credit unions increases. Except in the smallest credit unions, where the percentage is larger, both the proportionate number of accounts with shares of less than \$10, and the amounts in them, are fairly stable in all sizes of credit unions, fluctuating around the average of 27 per cent of the number of accounts and the average of 1 per cent of the amount in shareholdings. The proportion of the number of accounts in the \$10–\$1000 class also stays close to the national average of 66.4 per cent, but the proportion of the amount in shares in this class drops as the size of the credit union increases. On the other hand, while the proportionate number of accounts in the \$1001–\$2500 class increases with the size of the credit union, the proportionate amount in shares drops after reaching a high of 34.1 per cent in the \$250,000–\$499,999 class. Both the proportionate number of accounts and the amount of shares in accounts with more than \$2500 rise rapidly as the size of the credit union increases.

This pattern of share distribution is what might be termed a “normal” pattern in credit unions. This is confirmed by a similar distribution found among the state-chartered credit unions of Ohio on December 31, 1952.²³

The concentration of such a large proportion of credit union savings among a small proportion of members is of no little significance to the understanding of the savings performance of the credit union. Projecting the percentages of the sample used in the study—a fairly large sample embracing 65 per cent of the membership and 70 per cent of the total shares of all federal credit unions on June 30, 1953—to the reported totals for June 30, 1953,²⁴ one finds that the net savings in the credit unions are equal to the shareholdings of only a very small percentage of the members. On the date of the study some 200,000 members, or 6.5 per cent of the 3 million members, had shares of more than \$1000, and 37,000 members had shares of more than \$2500. Shareholdings of slightly more than \$350 mil-

lion out of the total of \$684 million were held by those with accounts of \$1000 or more, and shareholdings of around \$135 million were held by the 1.2 per cent of the membership with shareholdings of more than \$2500. Loans to members amounted to almost \$503 million. There were on this date \$684 million in shares; this leaves a net member saving in shares in excess of loans of \$181 million.

Although we cannot tell exactly because of the reporting of the data, it might be estimated that the net savings in shares in the federal credit unions is equal to the investment of about the 2 per cent of the members with the largest shareholdings. This is also shown in liquidations where only a very few members—those with large shareholdings—have suffered appreciable losses.²⁵ These findings are consistent with modern savings theory, as well as with Barou's *a priori* "rainy day" theory. One can hardly view these figures without remarking that the potentialities of the credit union as a savings institution have scarcely been explored.

Our analysis of credit union borrowing is handicapped by a lack of certain information. With the data as reported it is impossible to obtain a frequency distribution of the size of loans. And while we know in general that loans may be unsecured, secured by co-makers or by various forms of collateral, there is no information on the security behind credit union loans. It is also difficult to get a picture of the credit union borrower, due to a dearth of studies in this area: even the occupation of the borrower is at times difficult to discern—for example, one might suppose that a schoolteachers' credit union would be composed largely of teachers, yet usually a significant number of administrative and maintenance personnel belong to such a group. On the other hand, we have information on the average size of loans, on their duration, and on the reasons for borrowing. Our loan analysis will be built largely around these categories. The effectiveness of payroll deductions both in saving and in borrowing will also be considered.

It would seem that 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 his 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 good; at times he is assisted by the credit union to complete the purchase. Here again saving is taking place in his repayment of the loan.

Some, of course, save in the credit union and never have the occasion to borrow; others are chronic borrowers; some use the credit union both as active savers and as dissavers. We have no precise statistical information on the pattern of members who save and those who borrow. Table 22, however, shows something of the interrelated character of credit union saving and borrowing.

Table 22 shows that the size of the average shareholdings per member and the average loan per member have increased since the early days of the federal credit union. During the war years the ratio of loans to shares was changed drastically, dropping to a low of 25 per cent in 1945. Since the war, however, this ratio has risen; at the end of 1953 almost 75 per cent of total shares was found in member loans, but this ratio dropped to 73 per cent at the end of 1954. Possibly the rise of the large credit union with a concomitant increase in the proportion of large shareholdings will prevent the ratio of loans to shares returning to the prewar figure; but this table would seem to show that it is a normal credit union experience for share savings to be closely associated with loan dissavings. The interrelated character of shares and loans is also shown by the ratio of borrowers to total members. The number of borrowers was not reported before 1949, but figures after that date show that between 42 and 48 per cent—slightly less than half—of the members are active borrowers, or dissavers.

The purposes for which credit union members borrow can be identified in a study made in 1949 by Erdis W. Smith of the Bureau of Federal Credit Unions.²⁶ The study was based on a sample of 10.6 per cent of the federal credit unions in operation on December 31, 1948 and covered the loans made during that year. There are difficulties in recognizing exactly the purposes for which certain loans are made; for example the "rent money" of one month might be used to purchase a radio, and a loan of the same amount from a credit union might state as its purpose either the payment of rent or

TABLE 22. FEDERAL CREDIT UNIONS: AVERAGE SHARES PER MEMBER, AVERAGE LOAN OUTSTANDING PER MEMBER, RATIO OF LOANS TO SHARES, AND RATIO OF BORROWERS TO TOTAL MEMBERS, DEC. 31, 1935-54.^a

Year	Average Shares Per Member	Average Loan Per Member	Ratio of Loans to Shares (per cent)	Ratio of Borrowers to Total Members (per cent)
1935	\$ 19	\$ 15	78.9	b
1936	28	24	85.7	b
1937	37	33	89.2	b
1938	43	38	88.4	b
1939	51	44	86.3	b
1940	58	50	86.2	b
1941	69	51	73.9	b
1942	81	32	39.5	b
1943	90	27	30.0	b
1944	102	26	25.5	b
1945	116	29	25.0	b
1946	123	44	35.8	b
1947	133	63	47.4	b
1948	144	85	59.0	b
1949	157	102	65.0	42.0
1950	170	124	72.9	44.0
1951	185	122	65.9	44.6
1952	209	145	69.4	44.6
1953	236	176	74.6	46.6
1954	259	189	73.0	48.0

^a Calculated from annual reports of operation.

b Not available.

the purchase of a radio. Recognizing the obstacles in the way of exactness in a study of this kind, nevertheless Table 23 gives an approximation of the purposes of credit union borrowing.

Smith believes that the number of loans granted is a more significant figure than the amount of the loans; the amount of the loans is weighed by the lending of the larger credit unions which do a substantial amount of automobile financing. That is the only category where the percentage of the amount lent exceeds substantially the percentage of the number of loans made.

TABLE 23. FEDERAL CREDIT UNIONS: PERCENTAGE DISTRIBUTION OF NUMBER AND AMOUNT OF LOANS GRANTED, BY PURPOSE, 1948.^a

Purpose	Percentage Distribution	
	Number of Loans	Amount of Loans
Purchase of:		
Automobiles	7.5	21.3
Household furniture and appliances	6.0	5.5
Other durable consumer goods	1.4	1.3
Payment of:		
Taxes	3.9	2.5
Funeral expenses	.6	.5
Insurance premiums	2.0	1.2
Current living expenses	16.1	9.6
Vacation expenses	5.9	3.4
Home repair expenses	7.2	9.5
Medical, dental, and hospital expenses for:		
Adult members of family	11.9	8.0
Dependent children	2.5	1.6
Maternity cases	.9	.7
Educational expenses for:		
Adult members of family	.6	.5
Dependent children	1.1	.7
Consolidation of debts	15.4	14.9
Investment in:		
Business ventures	1.3	4.5
Stocks, bonds, etc.	.3	.5
All others	15.4	13.8
<i>Total</i>	100.0	100.0

^a Erdis W. Smith, "Federal Credit Union Loans, 1948," *Social Security Bulletin*, Vol. 12, No. 7 (July 1949).

Recasting the items of Smith's table—with an even more arbitrary classification than that originally made—Table 24 based on a current consumer credit classification, is perhaps more indicative of the purposes of credit union borrowing. It would seem from Table 24 that the largest number of loans, 43.6 per cent of the total, are made for emergency purposes, but that the purchase of durables accounts for the largest percentage lent, 37.6 per cent. The line between emer-

TABLE 24. PURPOSES OF CREDIT UNION BORROWING, 1948.^a

Purpose of Credit	Percentage Distribution	
	Number of Loans	Amount of Loans
Emergency credit	43.6	29.8
Taxes, funeral expenses, medical expenses, current living, and half of "other" expenses		
Purchase of durables	22.1	37.6
Automobiles, household goods, other durables, home repair expenses		
Convenience credit	32.7	27.6
Insurance premiums, vacation expenses, education, consolidation of debts, and half of "other" expenses		
Business investment	1.6	5.0
Total	100.0	100.0

^a Based on E. W. Smith, "Federal Credit Union Loans, 1948," *Social Security Bulletin*, Vol. 12, No. 7 (July 1949).

gency and convenience credit is thin; this study would seem to show that the credit unions are concentrating in the remedial loan area. This gives substance to the "rainy day" theory of cooperative credit. Nevertheless, loans for the purchase of durables and business investment together account for 42.6 per cent of the amount lent. Smith's study seems to indicate that this type of loan is more significant in the larger credit unions. With the increasing importance of the large credit unions in the credit union movement, this type of loan, it would seem, will become increasingly more important. Again, there is need for a more up-to-date study in this area.

Table 25 shows the average size loan made during the year and the average size loan outstanding on December 31. Generally speaking, there has been a growth in the average size of the loan granted each year from 1938, although in 1951 the average dropped \$2 from the previous year. In 1954 the average reached a high of \$395. The influence of the raising of the legal limits of unsecured loans is shown in the first column of this table. Originally the limit for unsecured loans was \$50. In June 1940 this was raised to \$100, and the average

TABLE 25. FEDERAL CREDIT UNIONS: AVERAGE SIZE OF LOAN, AVERAGE LOAN OUTSTANDING, DEC. 31, AND AVERAGE LOAN TURNOVER, 1938-54.^a

Year	Average Size Loan Outstanding on Dec. 31	Average Size Loan Made During Year	Average Turnover in Loans to Members (in days)
1938	\$ 71 ^b	g	154
1939	102	g	156
1940	117 ^c	g	160
1941	132	g	167
1942	107	g	221
1943	112	g	182
1944	118	g	160
1945	130	g	160
1946	159 ^d	g	144
1947	194	g	139
1948	227	g	151
1949	260 ^e	\$244	167 ^f
1950	299	282	174
1951	297	273	187
1952	351	318	168
1953	388	378	186
1954	395	394	211

^a Calculated from annual reports of operation.

^b Unsecured loan limit \$50.

^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 Period of loan raised from 2 to 3 years, October 1949.

g Not available.

size loan immediately increased. After the war, in July 1946, the limit was again raised to \$300, and in October 1949 to \$400; substantial increases in average loans followed. Figures on the average size loan outstanding on December 31 are available only from 1949; they show an increase in every year except 1951.

Table 26 examines the average size loan granted to members and the average turnover in loans in 1954, by size of the assets of the credit unions. The average size loan increases as the size of the credit union increases. There is only a slight variation in the average turnover in the credit unions of less than \$100,000 asset size. The turn-

TABLE 26. FEDERAL CREDIT UNIONS GROUPED BY SIZE OF ASSETS:
AVERAGE SIZE LOAN GRANTED AND AVERAGE TURNOVER
IN LOANS IN 1954.^a

Size of Assets	Average Size Loan	Average Loan Turnover (Days)
Less than \$10,000	\$143	191
\$10,000-\$24,999	194	200
\$25,000-\$49,999	267	206
\$50,000-\$99,999	343	199
\$100,000-\$249,999	377	225
\$250,000-\$499,999	425	216
\$500,000-\$999,999	450	209
\$1,000,000 or more	486	202
Total	\$394	211

^a 1954 *Report of Operations, Federal Credit Unions*, p. 28; 1953 figures from a tabulation furnished by the Bureau of Federal Credit Unions.

over rises to 225 days in credit unions of the \$100,000-\$249,999 group and then declines to 202 days in the credit unions with \$1 million or more in assets. Information on loans by size of assets was reported for the first time in the 1954 *Report of Operations*. Thus it is not possible to develop an historical series with this category.

Table 27 shows that the states with the lowest loan averages are those with new or small federal credit union developments. Most of the southern states, with the exception of Kentucky, Louisiana, and Florida, have average loans well below the national average. The western and southwestern states, on the other hand, are well above the national average. The large eastern and midwestern industrial states, especially those states with substantial numbers of federal credit unions, are grouped around the middle of the distribution.

From the aspect of type of membership both the associational groups with an average size loan of \$519 in 1954 and the residential groups with an average size loan of \$508 in 1954 are much higher than the occupational groups which have an average of only \$386. Among the associational groups the cooperatives granted an average size loan of \$570 in 1954, the fraternal and professional type an average of \$798, the largest of all, the religious type, had an average

TABLE 27. FEDERAL CREDIT UNIONS BY STATES: FREQUENCY
DISTRIBUTION OF AVERAGE SIZE LOAN TO MEMBERS
GRANTED IN 1954.^a

Average Size of Loan	Number of States	Names of States and Average Size Loan
Under \$200	3	Canal Zone \$81, Virgin Islands \$146, Wisconsin \$193.
\$200—\$249	3	South Carolina \$222, Vermont \$243, Alabama \$248.
\$250—\$299	6	Arkansas \$251, Maine \$244, Maryland \$257, Puerto Rico \$271, Georgia \$280, Mississippi \$295.
\$300—\$349	8	West Virginia \$309, North Carolina \$313, Connecticut \$322, Missouri \$331, Tennessee \$332, New Hampshire \$336, Virginia \$337, New Jersey \$345.
\$350—\$399	11	Rhode Island \$351, Massachusetts \$354, Pennsylvania \$357, Nevada \$368, Florida \$372, District of Columbia \$373, North Dakota \$380, Iowa \$389, Louisiana \$389, New York \$393, Kentucky \$398.
\$400—\$449	12	Illinois \$404, Indiana \$406, New Mexico \$406, Idaho \$413, Arizona \$415, Minnesota \$417, Ohio \$419, Oregon \$426, Texas \$435, Colorado \$437, California \$446, South Dakota \$448.
\$450—\$499	9	Montana \$453, Nebraska \$454, Utah \$456, Oklahoma \$459, Washington \$460, Kansas \$461, Michigan \$472, Alaska \$485, Wyoming \$499.
Over \$500	2	Delaware \$510, Hawaii \$554.
All states	54	Average \$394 Median \$384

^a 1954 *Report of Operations, Federal Credit Unions*, p. 28.

of \$460, and the labor unions an average of \$368. The rural community group granted an average loan of \$584 and the urban community group an average of \$361.

The average size loan granted to members of occupational type federal credit unions is analyzed in Table 28. Lowest averages are found among such types as hotels and restaurants, laundries and cleaners, tobacco products, leather products, textiles, and aluminum products. At the other extreme are found: teacher credit unions with the highest average of any of the occupational types—\$570, public utilities, government, automotive products, petroleum, and a few

TABLE 28. FEDERAL CREDIT UNIONS BY OCCUPATIONAL TYPE:
FREQUENCY DISTRIBUTION OF AVERAGE SIZE LOAN
TO MEMBERS GRANTED IN 1954.^a

Average Size of Loan	Number in Occupational Type	Occupational Types and Average Loan
Under \$200	2	Laundries and cleaners \$165, Hotels and restaurants \$194.
\$200-\$249	2	Tobacco products \$225, Aluminum \$244.
\$249-\$299	4	Textiles \$258, Leather \$267, Hardware \$291, Aviation \$293.
\$300-\$349	10	Bus and truck \$316, Iron and steel \$319, Telegraph \$320, Meat packing \$326, Government-State \$330, Miscellaneous \$337, Metals—other \$340, Construction—other \$341, Furniture \$343, Electric products \$349.
\$350-\$399	11	Government—Federal \$352, Machine manufacturers \$357, Beverages \$362, Paper \$362, Colleges \$363, Bakery, grocery, and produce \$372, Chemicals and explosives \$377, Glass \$381, Stores \$386, Printing—other \$391, Railroads \$391.
\$400-\$449	5	Construction—lumber \$400, Rubber \$406, Food products—dairy \$411, Transportation—other \$412, Food products—other \$421.
\$450-\$499	6	Banking and insurance \$459, Heat, light, and power \$464, Printing—newspapers \$472, Telephone \$472, Automotive products \$475, Government—local \$497.
Over \$500	3	Amusements \$548, Petroleum \$553, Schools \$570.
All types	43	Average \$386 Median \$362

^a 1954 *Report of Operations, Federal Credit Unions*, p. 29.

special categories such as amusements and banking and insurance. The average of this classification is \$386 and the median is \$362.

Table 25 also shows the average turnover in loans to members.²⁷ In the prewar years when the legal period of a loan was two years, the average turnover was between 154–160 days. The war period with its high delinquencies and other difficulties is reflected in the increase in the average turnover of 221 days in 1942 and 182 days in 1943.

Thereafter the average turnover dropped annually and reached a low of 139 days in 1947 but rose slightly to 151 days in 1948. In October 1949 the legal limit was extended to 3 years and the average turnover immediately lengthened to 187 days in 1951, dropped to 168 days in 1952, and rose again to 211 days in 1954. In other words, the average credit union loan in 1954 had an average turnover period of almost 7 months.

TABLE 29. FEDERAL CREDIT UNIONS BY STATES: FREQUENCY
DISTRIBUTION OF AVERAGE TURNOVER IN LOANS
TO MEMBERS, 1954.

Average Loan Turnover (days)	Number of States	Names of States (average turnover in parentheses)
Under 160	2	Vermont (138), Georgia (159).
160-169	2	Alaska (167), Puerto Rico (167).
170-179	3	Tennessee (170), Alabama (177), Nevada (179).
180-189	4	Virginia (180), South Carolina (182), Massachusetts (184), Arkansas (188).
190-199	6	Indiana (191), North Carolina (194), Rhode Island (195), New Hampshire (196), New York (196), Arizona (199).
200-209	8	Connecticut (200), Utah (200), Wisconsin (200), Louisiana (203), Maine (207), Oklahoma (208), Pennsylvania (208), Texas (209).
210-219	10	Florida (210), Canal Zone (213), District of Columbia (213), Oregon (213), Iowa (214), Missouri (216), New Mexico (216), West Virginia (216), Illinois (217), South Dakota (217).
220-229	10	California (220), Ohio (220), Hawaii (222), Wyoming (222), Virgin Islands (224), Michigan (225), Washington (225), Kentucky (228), Maryland (228), New Jersey (228).
230-239	1	Nebraska (232).
240-249	3	Montana (243), Idaho (245), Mississippi (248).
250-259	3	Colorado (250), Minnesota (250), Delaware (255).
Over 260	2	Kansas (273), North Dakota (286).
All States	54	Average 211 Median 213

Regional differences are evident in the average turnover in loans to members. This is shown in Table 29. The lowest average turnover, under 170 days, is found in states where the movement is either new or where there are only a few credit unions. A second group with a short average turnover in loans is found in the deep southern states.

TABLE 30. FEDERAL CREDIT UNIONS BY OCCUPATIONAL TYPE:
FREQUENCY DISTRIBUTION OF AVERAGE TURNOVER IN
LOANS TO MEMBERS, 1954.

Average Loan Turnover (days)	Number in Occupational Type	Occupational Types (average turnover in parentheses)
Under 160	3	Hotels and restaurants (143), Laundries and cleaners (148), Meat packing (154).
160-169	4	Leather (161), Tobacco products (166), Transportation—other (167), Textiles (169).
170-179	3	Printing and publishing—other (170), Paper (174), Furniture (178).
180-189	4	Construction—other (180), Hardware (182), Machine manufacturers (184), Printing—newspapers (188).
190-199	7	Glass (190), Chemicals and explosives (194), Miscellaneous (196), Bakery, grocery and produce (198), Metals—iron and steel (199), Stores (199), Food products—other (199).
200-209	5	Lumber (201), Beverages (202), Bus and truck (202), Telephone (203), Metals—other (205).
210-219	8	Banking and insurance (211), Metals—aluminum (211), Aviation (213), Government—local (214), Heat, light, and power (214), Food products—dairy (217), Government—State (217), Electric products (218).
220-229	6	Telegraph (220), Government—Federal (221), Rubber (221), Automotive products (222), Colleges (229), Railroads (229).
230-239	2	Petroleum (231), Amusements (234).
Over 240	1	Education—schools (257).
All types	43	Average 207 Median 202

The median is 213 days, and the average 211 days. The states west of the Mississippi seem to lie above the average. The highest averages of all are found largely in the North Central states. Possibly these regional differences reflect different economic conditions or various district inspection standards.

Wide differences in average turnover in loans to members in federal credit unions classified by type are also found. In 1954 the occupational type had an average turnover of 207 days, slightly under 7 months. The average of the residential group was 252 days. The associational type average was also 252 days with the following averages in the subgroups of this classification: cooperatives, 275 days—the slowest turnover in any category; fraternal and professional, 252 days; religious, 265 days; and labor unions, 212 days.

The distribution in 1953 of the average turnover in loans to members among the occupational types is shown in Table 30. The average turnover was 207 days and the median was 202 days. The most rapid turnover is found among the following categories: hotels and restaurants, laundries and cleaners, and meat packing. At the other extreme—with the slowest turnover—are found credit unions organized in schools and colleges, Federal and state government groups, public utilities—heat, light and power, and telegraph—and the electric, rubber, amusement, petroleum industries.

There seems to be a distinct correlation between the average size of the loans granted and the average turnover. A high average loan and a slow turnover in loans seem to be found in those credit unions where the membership enjoys stability of employment and greater job security, and perhaps higher wages; these are the desirable elements of a good credit risk. People in such forms 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 are more prevalent. The traditionally high credit standing of schoolteachers²⁸ among personal finance companies is reflected in the high average loan and the slow loan turnover found in schoolteacher credit unions.

Over the entire life of the federal credit union system the net amount of loans to members charged off as losses seems to have been surprisingly small. The total amount of personal loans granted from

the organization of the system in 1934 to December 31, 1954 was \$5,446,993,484; because of liquidations and other factors it is not possible to state precisely the amount charged off against this aggregate. However, the net amount charged off to regular reserves since organization as reported by the 7227 federal credit unions in operation at the end of 1954 totaled \$9.4 million, or 0.17 per cent of total loans made since organization.²⁹

TABLE 31. FEDERAL CREDIT UNIONS: PERCENTAGE OF LOAN BALANCE DELINQUENT TWO MONTHS OR MORE; RATIO TO TOTAL LOANS OF LOAN BALANCE IN RESERVE FOR BAD LOANS AND IN SPECIAL RESERVE FOR DELINQUENT LOANS, DEC. 31, 1938-54.^a

Year	Percentage of Loan Balance Delinquent Two Months or More	Ratio of Reserve for Bad Loans to Total Loans (per cent)	Ratio of Special Reserve for Delinquent Loans to Total Loans (per cent)
1938	6.2	3.16	—
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

^a Calculated from annual reports of operation.

Table 31 shows the percentage of loans to members delinquent and the reserves set aside specifically as a protection against loss from delinquent loans, at December 31, 1938-54. In both the prewar and

the postwar years delinquencies fluctuated between 5 and slightly over 6 per cent of the total amount due. During the war years loan delinquencies increased to 12.4 per cent of the total balance in 1942 and went to 10 per cent in 1944 and 1945; thereafter they dropped, reaching a low of 5.1 per cent of total loan balances in 1953. They rose to 5.5 per cent in 1954. The percentage of the number of loans delinquent (reported only since 1949 and not shown in Table 33) has fallen from 9.7 per cent in 1949 to 8.3 per cent at the end of 1954.

The reserves against bad loans, called "Regular Reserve" in the 1954 Report, as shown in Table 31 have fluctuated with the rise and fall of delinquencies; in 1945 reserves for bad loans and special reserves against bad loans totaled almost 14 per cent of the loan balances. With the rapid rise in lending in recent years the reserve ratio has fallen slightly below the delinquency ratio; at the end of 1954 reserves and special reserves against bad loans were 4.89 per cent of total loans, compared with loans delinquent two months or more of 5.5 per cent. Of course most of these delinquent balances, judging from past experience, will eventually be collected; nevertheless it is conservative management to have substantial reserves to take care of possible losses. In addition, it should be pointed out, other accounts such as undivided profits, which at the end of 1953 were larger in amount than both reserve accounts, also serve as a cushion against possible losses. Since the quality of loans is a matter peculiar to an individual credit union it would not serve any purpose to pursue the matter of delinquency ratios and reserve ratios further among the state, size, or type categories. In individualized problems of delinquency an extended analysis of delinquency averages is not particularly revealing.

The importance of habit and convenience to both saving and borrowing is shown in a study, made by the Bureau of Federal Credit Unions in 1949,³⁰ on the effectiveness of payroll deductions as an aid to federal credit union operation. On December 31, 1948, 1284, or 37.7 per cent of the 3410 occupational type federal credit unions, used payroll deductions to collect member payments on both shares and loans. In comparison with the 2126, or 62.3 per cent, of the

groups which did not use payroll deductions, these credit unions had higher average assets, higher average shares per member, higher ratio of actual to potential members and a smaller loan delinquency. In this study the Bureau of Federal Credit Unions concludes:

Payroll deductions are an important aid in the operation of Federal credit unions serving employee groups. The organizations grow faster, serve a higher percentage of their potential members, promote thrift more effectively, provide more loan service, and are less troubled with delinquent loans. Although the advantages of payroll deductions are particularly important for Federal credit unions that serve scattered fields of membership, payroll deductions cut down the time required by the officials to provide thrift and credit service for members in any employee group.³¹

This chapter has attempted to examine saving and dissaving in the credit union as a special case of consumer behavior. First modern developments in consumption theory were briefly reviewed. In relating this to the credit union area several gaps in our knowledge—problems for future research—were mentioned. Savings motivation was then studied and the conclusion reached that credit union saving is not primarily for investment but for future consumption, either asset purchase or emergency. Thus safety and convenience rather than high dividends are the strongest motivation to a credit union saver. The “share” concept was next clarified and shareholdings in credit unions identified by distribution among savers and in credit unions of different size. From this it would appear that net savings in the credit union movement come from a very small group, perhaps the top 2 per cent of savers. Much greater savings in credit unions would seem to be possible.

Borrowing, or dissaving, was examined as an aspect of consumer behavior, one closely related to saving. Again this study is handicapped by a lack of information on the distribution of loan size and collateral requirements, and the general picture of the credit union borrower—his income, occupation, and asset holdings are largely unknown—is vague. The loan analysis was built on a study of the loan averages, historical and classified by location and occupation, loan duration, and purpose. The effectiveness of payroll deduction, point-

ing up the importance of habit and convenience in consumer saving and dissaving, was examined. Further research is needed to fill out our understanding of the function of the credit union in its contribution to a satisfaction of consumer wants.

CHAPTER VII

FEDERAL CREDIT UNION OPERATIONS: COST OF OPERATION, EARNINGS, AND DIVIDENDS

THIS chapter examines the financial operations of federal credit unions by analyzing their costs of operation, their earnings, and their disbursements of dividends. These topics will be treated both historically—the testing to which the credit union was subject during the war period is highlighted here—and from the point of asset size. While there are interesting variations and divergences from the normal in certain state and occupational types it would probably confuse the picture to follow credit union financial operations through locational and occupational ramifications. Certain qualifications have to be kept in mind when examining credit union costs: the inclusion or exclusion as true costs of items such as life insurance based on share and loan balances and the element of voluntary contribution. The analysis will be both theoretical and statistical.

The income and expense figures for all federal credit unions from 1939–54 are contained in Table 32. Gross income rose from \$3.4 million in 1939 to \$7.3 million in 1941 and then fell below this level during the war years. After 1947 gross income rose rapidly, reaching \$70 million in 1954. While expenses did not drop with income during the war period, neither did they rise as rapidly in the postwar years; this is shown both by the aggregate expense figures and by the ratio of expense to income. Expenses were slightly over a third of total income in the prewar period; they rose to 60 per cent of income

TABLE 32. FEDERAL CREDIT UNIONS: GROSS INCOME, OPERATING EXPENSE, AND NET INCOME, 1939-54.^a

Year	Gross Income	Operating Expense		Net Income
		Total	Per Cent of 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

^a From annual reports of operation.

in 1943 but have in recent years stabilized at around 40 per cent of total income. Net income has grown from slightly over \$3 million in the early 1940's to more than \$41 million in 1954.

The proportionate distribution of the various income and expense items is shown in Table 33. The years are the same as those covered in Chapter V when the balance sheet was discussed. Since the income of a credit union is derived almost entirely from interest on loans and on investments, the income statement is rather simple. In the late thirties interest on loans was almost the sole item of income in the federal credit unions. During the war, loan volume dropped and the percentage of income from loans fell to 61.2 per cent in 1945. It rose to 90.2 per cent in 1954. Income from investments moved opposite to income from loans; in 1937 there was practically no income from investments and in 1945 this item comprised 33 per cent of

TABLE 33. FEDERAL CREDIT UNIONS: INCOME AND EXPENSE, TOTALS AND PERCENTAGES OF TOTALS, NET INCOME, AND RATIOS OF EXPENSE TO INCOME.^a

	1937		1940		1945		1949		1954	
	Total	Per Cent	Total	Per Cent	Total	Per Cent	Total	Per Cent	Total	Per Cent
Income:										
Interest on loans	\$1,285,692	98.4	\$5,076,659	96.0	\$3,430,325	61.2	\$15,964,178	85.5	\$63,407,902	90.2
Income from investments	^b		145,094	2.7	1,848,243	33.0	2,332,874	12.5	6,435,745	9.2
Other	21,619	1.6	68,075	1.3	328,587	5.8	310,876	1.7	420,773	.6
Total income	\$1,307,311	100.0	\$5,289,828	100.0	\$5,607,155	100.0	\$18,607,928	100.0	\$70,264,420	100.0
Expense:										
Salaries	\$224,311	51.4	\$1,120,343	57.5	\$2,002,388	65.7	\$4,386,021	58.0	\$14,101,572	49.5
Surety bond premiums	^b		43,390	2.2	106,374	3.5	181,079	2.4	607,411	2.1
Interest on borrowed money	15,959	3.7	55,337	2.8	25,485	.8	177,184	2.3	686,586	2.4
Other	197,264	44.9	728,223	37.5	911,398	30.0	2,822,940	37.3	13,086,114	46.0
Total expense	\$ 437,534	100.0	\$1,947,293	100.0	\$3,045,645	100.0	\$ 7,567,224	100.0	\$28,481,683	100.0
Net income	\$ 869,777		\$3,342,535		\$2,651,510		\$11,040,704		\$41,782,737	
Ratio of expense to income	33.5		36.8		54.3		40.7		40.5	

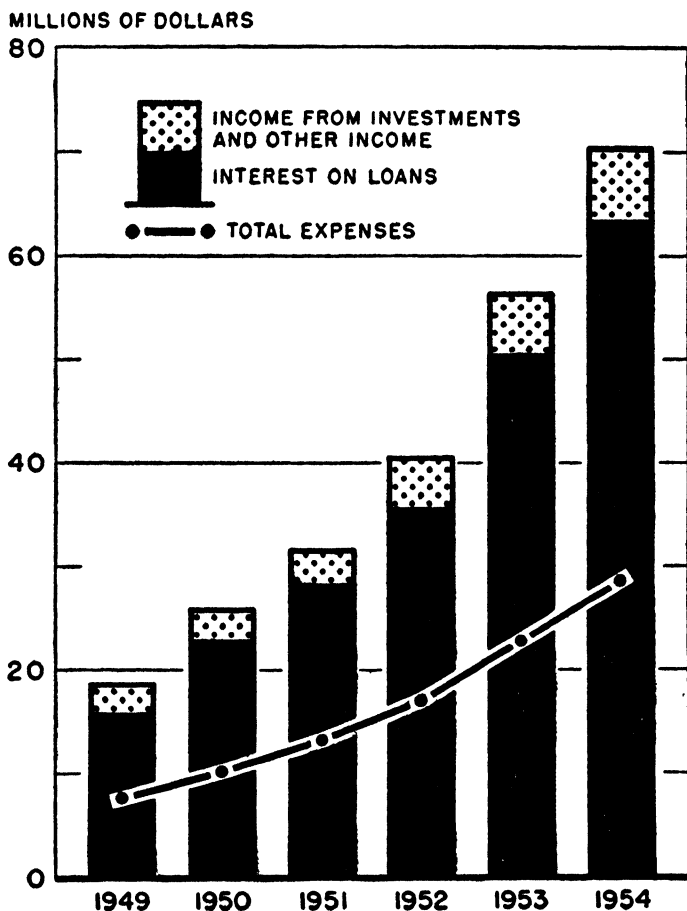
^a From annual reports of operation.

^b Included in "other."

total income. Income from investments had dropped to less than 9.2 per cent of total income in 1954. Other income, consisting largely of gifts and donations plus unusual profit items, has been a rather insignificant item in the total; it rose to 5.8 per cent in 1945, but in 1954 had fallen to 0.6 per cent.

The expense items in Table 33 contain limited information since

CHART E. INCOME AND EXPENSES OF FEDERAL
CREDIT UNIONS, 1949-54.



they report few items—salaries, bond expense, and interest on borrowed money. Only since 1951 have the annual reports of operation carried a fairly complete breakdown of expense items. Table 33 shows that salaries rose from slightly over 50 per cent in 1937 to 65.7 per cent in 1945, and then dropped below 50 per cent of total expenses in 1954. The cost of bonding has remained fairly stable at slightly more than 2 per cent of expense, except in the abnormal war years. The same is true of the expense of interest paid on borrowed money. The ratio of total expense to total income has risen from 33.5 per cent in 1937 to 40.5 per cent in 1954; this ratio has fluctuated between 39 and 42 per cent from 1948–54.

TABLE 34. FEDERAL CREDIT UNIONS: STATEMENT OF INCOME AND EXPENSE, TOTALS AND PERCENTAGES OF TOTALS, 1954.^a

Account	Total	Per Cent
Income:		
Interest on loans	\$63,407,902	90.2
Income from investments	6,435,745	9.2
Other	420,773	.6
<i>Total income</i>	<i>\$70,264,420</i>	<i>100.0</i>
Expense:		
Treasurers' salaries	\$4,698,403	16.5
Other salaries	9,403,169	33.0
Borrowers' protection insurance	3,424,204	12.0
Life savings insurance	1,774,411	6.3
Surety bond premiums	607,411	2.1
League dues	965,664	3.4
Examination and supervision fees	1,313,378	4.6
Interest on borrowed money	686,586	2.4
Other	5,608,457	19.7
<i>Total expense</i>	<i>\$28,431,683</i>	<i>100.0</i>
Net income	\$41,782,737	
Ratio of total expense to total income: 40.5 per cent		

^a 1954 *Annual Report of Operations, Federal Credit Unions*, p. 9.

The statement of income and expense for the year 1954 is presented in greater detail in Table 34. The largest expense, that of salaries, makes up about half of total expenses; salaries paid to

treasurers amount to 16.5 per cent of total expenses and other salaries are 33 per cent of the total. Interest, bond premiums, and supervision and examination fees have already been considered in connection with Table 33. League dues amounted to 3.4 per cent of total expense in 1954.

The inclusion as expenses of borrowers' protection insurance and life savings insurance might be questioned. Borrowers' protection insurance—the policies are usually written by the CUNA Mutual Insurance Society—pays to the credit union, at the death or total disability of the borrower, the amount of the outstanding loan balance. Life savings insurance—again in the policies written by CUNA Mutual—duplicates up to \$1000 the amount of the member's savings placed in a credit union before he has reached the age of 55 and covers the member's savings, in decreasing percentages, in amounts deposited up to the age of 70. Both are in essence specialized forms of low-cost group insurance. For example, at the beginning of 1955 the rate on borrowers' protection insurance written by CUNA Mutual was 55 cents per thousand dollars per month, or \$6.60 per thousand per year; total disability is covered for 10 cents per month more. The premiums are paid by the credit unions out of earnings and are not charged to the individual account of the members—borrowers or savers. In that sense these forms of insurance are expenses; and there is perhaps some justification for this classification, as a policy on the life of the borrower relieves the credit union from unpleasant and difficult collection efforts at the death of a borrower. Possibly even the life savings insurance might be considered as what personal finance companies call an acquisition expense; to be able to gain \$1000 of insurance at no visible cost must be a strong incentive to member saving.

On the other hand, both forms of insurance are a distribution to the members of the earnings of the credit unions; if the credit unions did not have this insurance, dividend rates would be higher. In this sense credit union insurance is not an expense but a purchase of an insurance service for the membership. In 1953 borrowers' protection insurance and life savings insurance together amounted to 18.3 per cent of total expenses—if in the light of the above qualifications one may classify them as expenses. This qualification must be kept in

TABLE 35. FEDERAL CREDIT UNIONS BY SIZE OF ASSETS: PERCENTAGES OF INCOME AND EXPENSE ITEMS, 1954

Size of Assets	Income a		Expense b									
	Interest on Loans	Income from Investment	Ratio of Expenses to Income (per cent)	Other	Treasurers' Salaries	Borrowers' Protection Insurance	Life Saving Ins.	League Dues	Surety Bond Premium	Super-vision Exam. Other		
Less than \$10,000	94.7	2.8	2.5	52.2	21.6	2.1	11.7	8.0	4.1	7.3	11.1	34.1
\$10,000-\$24,999	94.8	4.2	1.0	44.8	29.7	5.4	13.2	7.4	4.3	4.3	10.7	25.0
\$25,000-\$49,999	94.4	5.1	.5	44.3	40.0	8.7	12.9	7.2	4.0	3.3	9.6	23.2
\$50,000-\$99,999	93.2	6.4	.4	42.8	28.5	15.3	12.7	7.5	4.1	3.2	7.5	21.2
\$100,000-\$249,999	92.0	7.5	.5	41.4	23.5	24.4	12.6	6.5	4.4	2.6	5.5	20.5
\$250,000-\$499,999	90.6	8.8	.6	41.8	15.9	34.4	12.0	6.2	3.8	2.0	3.8	21.9
\$500,000-\$999,999	89.7	9.8	.5	38.5	12.2	40.6	11.6	6.1	3.2	1.8	3.4	21.1
\$1,000,000 or more	86.8	12.4	.8	38.4	5.5	48.0	11.5	5.3	1.8	1.1	2.7	24.1
All credit unions	90.2	9.2	.6	40.5	16.5	33.0	12.0	6.3	3.4	2.1	4.6	22.1

^a Income items add to 100.0 per cent.

^b Expense items add to 100.0 per cent.

mind when speaking about credit union costs, or trying to measure credit union efficiency. A credit union providing borrowers' protection and life savings insurance might have an expense ratio higher than one not providing such benefits, yet from the members' point of view it might be turning out a more efficient service. In many ways the credit union is a unique organization; it is difficult to compare credit union costs with the ratios and the cost categories which have originally been developed to measure the performance of banks and personal loan companies.

It would be useful for comparative purposes if some of the other bona fide cost items were broken down in the annual report of operations. What is called in the report "Other Expenses" consists of the following items: stationery and supplies, cost of space occupied, educational expense, depreciation on fixtures and equipment, social security taxes, fire, burglary and other insurance, recording fees, communications, losses on sale of bonds, cash short, other losses, bank charges, and other expenses. An examination of these items would be revealing, especially in larger credit unions. However, this information is not available. Interest on borrowed money, a minor item, is also included with "other" in Table 35.

At the present time, so it would seem, the economies of scale are rather limited in credit union operations. This is studied in Table 35. One rough ratio of efficiency, in intracredit union comparisons, is the ratio of expenses to income. The average of all credit unions is 40.5 per cent. But this average is almost reached with credit unions in the \$100,000-\$249,999 size group where this ratio drops to 41.4 per cent. As one might suspect, credit unions smaller than that have a higher ratio. The ratio rises slightly in the \$250,000-\$499,999 group, going to 41.8 per cent; evidently in this asset class the credit union passes from a small part-time operation to a full time organization. Thereafter the ratio of expenses to income drops, reaching a low of 38.4 per cent in the group with over a million dollars in assets.

From Table 35 it would seem that what economies are found in the larger credit unions are perhaps not due so much to efficiency as to the stronger bargaining position of the larger units. For example, fee schedules seem to be set to favor the larger units: supervisory and examination fees comprise 11.1 per cent of the expenses of credit

unions with assets of less than \$10,000, but only 2.7 per cent of the expenses of credit unions with more than \$1 million; league dues are 4 per cent or more of the expenses of size groups to \$249,999, but drop to 1.8 per cent with the group over \$1 million; similarly surety bond premiums drop from 7.3 per cent in the smallest size group to 1.1 per cent in the largest. The drop in the proportion spent for life savings insurance in the larger groups is accounted for by the fact that premiums are not paid for more than \$1000 in any account.

There seems to be little saving to accompany size in the many operating items covered by "Other Expenses"; indeed, after dropping to 20.5 per cent of total expenses in the \$100,000-\$249,999 size group, other expenses rise as the size of the credit union increases. Salaries, the most important expense item, seem to increase as the credit union grows. This is shown in Table 36. Measured as a per-

TABLE 36. FEDERAL CREDIT UNIONS BY SIZE OF ASSETS: SALARIES AS A PERCENTAGE OF TOTAL EXPENSE AND OF TOTAL INCOME, 1954.

Size	Salaries as a percentage of:	
	Total Expenses	Total Income
Less than \$10,000	23.7	12.4
\$10,000-\$24,999	35.1	15.8
\$25,000-\$49,999	48.7	17.6
\$50,000-\$99,999	43.8	18.7
\$100,000-\$249,999	48.9	19.9
\$250,000-\$499,999	50.3	21.0
\$500,000-\$999,999	52.8	20.0
\$1,000,000 or over	53.5	20.6
<i>All credit unions</i>	49.5	20.1

centage of total expenses, salaries rise with each increase in size group, going from 23.7 per cent of total expenses in the group with assets of less than \$10,000 to 53.5 per cent in credit unions with over \$1 million; the average of all credit unions is 49.5 per cent. This is understandable: in the early days of a credit union much of the work is voluntary; as a credit union grows the membership will increase the remuneration of the treasurer. Even with these increases, in

many cases the treasurer, working only part time, is contributing a substantial amount of voluntary labor. When the credit union develops to a full-time operation and it is necessary to hire a staff, wages, indeed the whole expense ratio, will jump. Measured as a percentage of total income, however, wages seem to stabilize at about 20 per cent of total income in credit unions with more than \$100,000 in assets; increases in wages are just about compensated for by increases in earnings.

Just as there seems to be a certain efficiency, measured by the ratio of expenses to income as credit unions increase in size, using the same measure age also seems to be related to increased efficiency. The ratio of total expenses to total income continuously decreases as the credit unions become older; the ratio drops from 47 per cent among credit unions less than one year in operation to 37 per cent in those which have operated eighteen and nineteen years.

From a cost point of view a credit union is in a fortunate position. At its inception, at least, it assumes no fixed costs and few variable costs. The charter fee is nominal—\$25 for a federal credit union—and, if necessary, the initial supplies are provided on credit. The sponsoring firm not infrequently absorbs these items. The firm usually provides office space and equipment and in a new credit union all of the labor is voluntary. As the credit union grows it gradually takes over more of the variable cost items: the treasurer is paid a salary and clerical assistance is hired. Salaries make up around half of the expense of operating a credit union. But it must be remembered that the directors and committee members serve without pay; the treasurer is the only official who may be paid for his services. Other costs—bonding, insurance, supervision, league commitments, and the like—increase in proportion to the growth of the credit union. By the nature of the operation fixed costs need never bulk very large in the total cost picture.

The cost of capital is also favorable to the credit union. It should be observed that the credit union operates in an imperfectly competitive market. The local member, depositing his savings in a credit union, if he considers at all the question of interest rates usually has only the alternative choice of the rate paid by banks and by savings and loan associations. Studies would seem to show that in these

institutions no great economic significance is attached either to the interest received by the depositor or to the interest paid by the borrower. Convenience rather than cost would seem to be the crucial element.¹

A substantial area of the credit union development cannot be analyzed in terms of the familiar economic categories. Part of the explanation of the growth of this movement will be found in what Professor E. R. Walker in his book, *From Economic Theory to Policy*, has called "extra-market operations," or possibly in "mixtures" of market and extra-market operations. He says that dissatisfaction is frequently the motive behind such extra-market operations as are deliberately preferred to market operations. In other words, our analysis of credit union growth cannot ignore the fundamental motivations of the credit union leadership. For example, to organize or to manage a credit union might yield little or no financial return; it might even diminish it. Yet the credit union official might find in this activity the satisfaction of a desire for power and prestige, or for the fulfillment of a social welfare ideal. Walker points out that extra-market operations arise when groups, such as labor or agriculture, recognize common goals. When a member of a group identifies his interests with those of other members of his group and finds that they are frustrated in ordinary market operations, the dissatisfaction may lead to extra-market operations.² It would seem that there are aspects of the credit union development which are applications of extra-market theory; the zeal of the credit union organizer and manager does not solely depend upon profits.

Admitting that the credit union leadership is not primarily cost motivated, however, is not the same thing as saying that credit union managers should not know their costs. This is a rather difficult problem with credit unions since the element of voluntary contribution enters into so many credit union operations. The word "subsidy" is not an exact term in this connection. Subsidy is difficult to determine; it is even difficult to define. If a credit union can free the personnel director of a firm from troublesome problems of wage garnishment or of family adjustment, possibly that credit union is paying for the privilege of operating on the company's premises, for office space, or for the additional accounting work involved in payroll deductions.

Of course the major item of voluntary contribution in a credit union operation is not employer subsidy but the voluntary managerial and supervisory effort of the officials elected from the membership. A credit committee spends many hours in studying and in passing upon loan applications; in a large credit union the supervisory committee faces a formidable task in its audit of the books; the board of directors in its regular meetings must devote an appreciable amount of time to its work. If the officials of a credit union should charge even the going minimum wage for this work the cost of doing business would show an appreciable increase. But since the credit union is a self-help organization, organized among a group with some bond of community, its members have a direct personal interest in the success of the business; this provides one incentive for them to work for the credit union's advancement. This does not deny other, perhaps more powerful, incentives found in the desire to help others.

An attempt was made to determine the amount of employer subsidy among 103 million-dollar credit unions—both federal and state—which reported on their operations for a study made by the National Credit Union Management Conference.³ As of June 30, 1954, no subsidy was reported by forty-seven of these credit unions. The other fifty-five credit unions reported an average subsidy of \$3925; the highest was \$75,000 and the lowest \$75. While payroll deduction is not essential to the success of a credit union, as has been pointed out it is beneficial; seventy of these credit unions reported that they had the privilege of payroll deductions and thirty-three did not. Some of these credit unions pay the employer a fee for this service; some cash checks in lieu of a fee.

Qualified by the inclusion of member insurance as a business expense and by a certain element of "subsidy," average figures on credit union costs must be interpreted with caution. Cost of loans might be considered on a per dollar basis or on a per unit-loan basis. The per dollar measure is useful particularly in considering losses from bad loans. The per unit-loan basis, however, provides a figure that is easier to grasp and one which has application in administrative decisions.⁴

In 1954 a total of 2,730,124 loans were granted to credit union members. Since 90 per cent of the total income of federal credit unions comes from member loans it is not unreasonable to charge

TABLE 37. FEDERAL CREDIT UNIONS BY SIZE OF ASSETS: LOAN AND COST ANALYSIS, 1954.^a

Size of Assets	Number of Loans	Amount of Loans (000 omitted)	Average Loan	90 Per Cent of Expenses	Percentage Increase	
					Average Cost Per Loan	Cost Per Loan
Less than \$10,000	58,724	\$ 8,397	\$143	\$ 164,970	\$2.81	—
\$10,000-\$24,999	127,501	24,693	194	517,920	4.06	44
\$25,000-\$49,999	189,225	50,582	267	1,140,770	6.03	49
⁸ 4 \$50,000-\$99,999	307,146	104,955	342	2,364,445	7.70	28
\$100,000-\$249,999	549,590	207,308	377	5,096,100	9.27	20
\$250,000-\$499,999	513,446	218,281	425	5,462,366	10.64	15
\$500,000-\$999,999	470,993	211,818	450	5,013,363	10.64	0
\$1,000,000 or over	513,499	249,466	486	5,873,582	11.44	8
All credit unions	2,730,124	\$1,075,500	\$394	\$25,633,515	\$9.39	

^a Calculated from 1954 Report of Operations, Federal Credit Union, pp. 23 and 28.

these loans with 90 per cent of the expense; while this allocation is arbitrary, it does not seem out of line to say that 90 per cent of the work in a credit union is concerned with member loans and 10 per cent with the administration of investments. Ninety per cent of total expenses amounted to \$25,633,515; divided by the total number of loans, this gives an average cost per loan-unit of \$9.39. At the average interest rate of 10.09 per cent—see Table 37—this would mean that any loan under about \$190, repayable monthly in twelve equal installments, would not be carrying its costs. An average figure like this, of course, needs further interpretation: with facilities already at hand anyone knows that an additional loan of, say, \$50, can be made with little or no cost, little more than the cost of the forms used in the transaction. This, however, is another cost concept: this is what economists call “marginal costs,” the cost of an additional unit once facilities adequate to a certain size operation have been provided. A credit union equipped to handle 1000 loans a year can with almost no additional cost put through 1001 or 1002 loans. If, however, business expands to a point where 1500 loans are accommodated, it will be necessary to raise salaries and provide additional equipment. This may raise average cost once more. Again marginal cost will be small until the new capacity is fully utilized.

Credit unions, organized as they are as individual firms, are distinctly limited in their control over costs. Such economies of scale available to personal finance chains as the prorating of the overhead cost of executive specialists are not at present available to credit union management; this may eventually be approximated by league or Credit Union National Association activity. But while specialization, research, and the spreading of costs over large units offer some opportunities in cost reduction, the greatest possibility of cost reduction is found in the size of the average loan. Here again the credit union is in a different position from that of a personal finance company; the personal finance company can, as a matter of policy, determine the size loan it wishes to make. Presumably it will do this with the maximization of profits as its objective. But assuming that a credit union management knows full well that a large loan costs less to make than does a small one—that, for instance, a loan smaller than \$190 repayable in twelve months does not cover the cost incurred in

making it—nevertheless the credit union will not insist, or even encourage a member to make a large loan if a smaller amount will take care of the member's needs. It is likely, however, that the concept of marginal costs is behind a policy of multiple rates found in certain credit unions; large loans are more profitable to make, so the large borrower pays a low rate while the borrower of a small amount pays the full maximum permitted by law. The credit union leadership, generally speaking, has opposed this concept on the grounds that the credit union exists first of all to help the small borrower and not for profit maximization.

In a peculiar way, however, credit union costs are adjusted not by competitive market forces but by a sympathetic adjustment of salaries to the growth and the progress of the credit union. If a credit union is just starting business or if it is in difficulties a treasurer may work with little or no pay; as business increases and the earnings of the credit union grow, the salary of the treasurer is accordingly raised. After a certain growth has been reached the credit union is in a position to hire a staff; then to some extent competitive factors enter into wage determination. This growth model of a credit union does not correspond to the traditional economist's pattern, but it explains how it is possible for a credit union to start with a very small operation and to meet its costs as it grows. One might almost say that salary costs in a small credit union are a residual and not a contractual payment: after a reasonable dividend rate, say 3 per cent, has been covered, the treasurer is paid whatever the residual earnings will provide. In a large credit union, however, salary costs are determined by competitive forces.

The relationship of the cost per loan and the size of credit unions, measured by the size of assets, is examined in Table 37. After charging 90 per cent of the expenses to loans, this table shows that the average cost per loan increases as the size of the credit union increases; in credit unions with less than \$10,000 in assets the average cost of a loan is \$2.81, and in credit unions with more than \$1 million in assets it is \$11.44. The average cost is stabilized at around \$10.64 in the size groups from \$250,000 to \$999,999. Possibly the million dollar group average is higher because of the inclusion of some new high-cost credit unions in that group. A similar calculation of

loan costs for 1953 made from a tabulation furnished by the Bureau of Federal Credit Unions—the classification of loans by size of credit unions appears for the first time in the 1954 *Report of Operations*—shows the same consistent relationship. The costs in 1953 in all size groups are lower, however, rising from \$2.77 per loan in the smallest credit unions to \$10.57 in those with more than \$1 million.

As shown in Table 37, the average size loan increases as the size of the credit union increases. This would lead one to expect a lower cost per loan, but the opposite has been true. Indeed, in most classes the percentage increase in the cost per loan has been larger than the percentage increase in the average size loan. Relative costs seem to be pretty well stabilized, however, after the \$250,000 level has been reached. More refined cost accounting methods would throw more light on this question. Frequency distributions on the size of loans and the duration of loans would help in this analysis; unfortunately this information is not available. However, the main point of the analysis seems to be established: federal credit union operations do not show any significant economies of scale. On the contrary, increasing size is accompanied by increasing unit costs.

As has been stated, in federal credit unions there are only three main categories of income: income from member loans, income from investments, and other income. "Other income," including gifts, gains from the sale of bonds, and other unusual items, can be disposed of by stating that in 1953 this item was less than one per cent of total income, and it has been less than 2 per cent of total income since 1947. During the war years it was proportionately more important.

Table 38 examines the rate of return on average loans to members and on the average investments for the years 1939–54. The average used is the arithmetic average of the loans or the investments at the beginning and at the end of the year. As shown by this table, in the prewar years the return on loans fluctuated around 11 per cent—10.9 per cent in 1939 and 1940 and 11.2 in 1941. During the war years the rate of return dropped and reached a low of 9.6 per cent in 1946. In the years since the war the rate of return has stayed close to 10 per cent, slightly above in one year and slightly below in another. The maximum rate which may be charged by law is one per cent per

TABLE 38. FEDERAL CREDIT UNIONS: RATE OF RETURN ON AVERAGE LOANS TO MEMBERS AND ON AVERAGE INVESTMENTS, 1939-54.^a

Year	Return on Average Loan Balance (per cent)	Return on Average Investment Balance (per cent)
1939	10.88	2.69
1940	10.86	2.93
1941	11.17	2.08
1942	10.62	1.65
1943	9.81	1.81
1944	10.21	1.86
1945	9.86	2.01
1946	9.60	2.14
1947	9.93	2.30
1948	10.25	2.42
1949	9.85	2.51
1950	10.25	2.54
1951	10.09	2.37
1952	10.02	2.66
1953	10.21	2.83
1954	10.09	2.89

^a Calculated from annual reports of operation.

month, or 12 per cent per year. Even if the full one per cent per month were charged by all credit unions the yield would, because of "leakages," fall below the 12 per cent level. Many credit unions, however, do not charge the full one per cent per month and others charge multiple rates, such as one per cent per month on small loans but lower rates on loans to finance the purchase of cars or for "estate loans." But as Table 38 shows, the rate of yield on the average loan balance is only around 10 per cent.

The return on the average investment balance, as shown in Table 38, is of course much lower than the yield on member loans. The return on investments reached a high of 2.93 per cent in 1940, dropped to a low of 1.65 per cent in 1942 and, except for a slight dip in 1951, has shown a gain each year, reaching 2.89 per cent in 1954. Presumably the shift away from low-yielding government bonds to savings and loan shares and, to a lesser extent, to loans to other

credit unions has accounted for the fractional improvement. This table points out that a dollar invested in loans to members will earn about $3\frac{1}{2}$ times as much as a dollar placed in other investments.

TABLE 39. 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, 1939-54.^a

Year	Net Earnings as a Percentage Rate of:		Dividends as a Percentage Rate of:	
	Return on Average Shares	Return on Average Net Worth	Return on Average Shares	Dividends to Net Earnings
1939	6.13	5.68	3.92	64.0
1940	6.12	5.67	3.89	63.6
1941	5.50	5.09	3.34	60.7
1942	3.17	2.94	2.16	68.2
1943	1.81	1.69	1.52	85.0
1944	1.76	1.66	1.40	79.5
1945	1.86	1.76	1.53	82.3
1946	2.19	2.06	1.76	80.4
1947	3.05	2.87	2.20	72.2
1948	3.88	3.63	2.61	67.3
1949	4.24	3.95	2.90	68.5
1950	4.87	4.55	3.14	64.5
1951	4.48	4.14	3.08	68.7
1952	4.44	4.11	3.14	70.8
1953	4.89	4.57	3.30	67.6
1954	4.92	4.53	3.34	68.0

^a Calculated from annual reports of operation.

The effect of the war on credit union earnings is shown in Table 39. In 1939 and 1940 the rate of return on average shareholdings was slightly in excess of 6 per cent. This dropped rapidly until in 1944 the earnings on average shares were only 1.76 per cent. A gradual rise followed until in 1954 earnings on average shares reached 4.92 per cent. Since there is little trading on the equity in credit unions the return on average net worth follows closely the return on average

TABLE 40. FEDERAL CREDIT UNIONS: PERCENTAGE DISTRIBUTION OF RATE OF DIVIDEND PAID ON MEMBER SHARE CAPITAL, 1943-54.^a

Rate of Dividend Paid	Percentage of Credit Unions ^b										
	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953 1954
Credit unions paying none	27.6	25.4	22.5	18.5	13.2	12.7	14.8	15.2	14.0	14.4	14.5 14.0
Credit unions paying:											
Less than 1 per cent	.5	.8	.9	.4	.3	.1	.1	.1	.1	.1	.1 —
1.0 to 1.9 per cent	13.3	20.3	20.7	16.6	7.3	3.2	2.5	1.9	2.3	1.8	1.7 1.6
2.0 to 2.9 per cent	29.8	32.6	34.4	36.6	32.0	21.6	15.7	12.3	11.4	11.0	9.4 7.8
3.0 to 3.9 per cent	19.7	14.9	15.2	20.1	30.1	32.2	31.2	30.4	31.3	31.8	31.1 30.9
4.0 to 4.9 per cent	5.7	3.9	4.5	5.5	11.7	18.6	22.0	24.5	26.2	28.0	29.1 31.0
5.0 to 5.9 per cent	1.7	1.2	.9	1.4	3.1	6.3	7.6	8.5	8.5	7.5	8.1 8.9
6.0 per cent	1.7	.9	.9	.9	2.3	5.3	6.1	7.1	6.2	5.4	6.0 5.8
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 From annual reports of operation. Dividend payments have been reported in this form only since 1944.

^b Dividends for 1943 were paid in January 1944 and were reported in the 1944 Report of Operations, Federal Credit Unions; similar payments were likewise reported in the subsequent years.

shares. The net worth is composed of the share accounts, plus the various reserve and undivided profit items. In 1939 and 1940 the earnings on average net worth were slightly less than one-half of one per cent lower than the earnings on shares and in the 1950's they were about one-third of one per cent lower than the earnings on shares.

The proportion of total net earnings declared as dividends has a range from 60.7 per cent in 1941 to 85 per cent in 1943. During the war years, in an effort to keep up some kind of dividend, a large proportion of earnings were paid out. In 1954 slightly over two-thirds of the net earnings were declared as dividends. The true dividend rate—calculated as the percentage of dividends to the average share balance—dropped from almost 4 per cent in 1939 to 1.4 per cent in 1944 and then rose to 3.34 per cent in 1954.

The percentage distribution of dividend payments is shown in Table 40. In 1954 almost 62 per cent of all federal credit unions paid dividends on shares between 3 and 5 per cent. As shown by this table, dividends have been rising since the war years. During 1943 and 1944 more than one-quarter of all credit unions did not pay any dividend. The proportion of credit unions not paying any dividend seems to have been stabilized at slightly over 14 per cent since the war; the newly organized credit unions and those in difficulties comprise this group. Because of the method of computing dividends the rate of dividend declared is slightly higher than the true dividend rate as stated in Table 39. Dividends are figured on "share months." A member must have the full five dollars in his account for a month before he can receive a dividend on that particular share. In any credit union for any month there will be part payments on shares that will escape dividend payments. Furthermore, to receive a dividend the share must remain in the credit union to the close of business on December 31. The method of computing dividends, which is specified in the Federal Credit Union Act,⁵ puts a premium on consistent saving and on leaving savings intact. It would seem that the rate of dividend declared is somewhat of a misnomer: the average rate of dividends declared in 1953—calculated from the frequency distribution for 1954 found in Table 40—amounted to 3.51 per cent, or 0.17 per cent higher than the rate calculated on the average share balance. The

amount of dividends as a percentage of 1954 year-end shares was 3.1 per cent.

The relationship between dividend payments and size of assets in federal credit unions was the subject of a study using 1952 data made by the Bureau of Federal Credit Unions. The study is summarized in Tables 41 and 42. Some credit unions in all asset categories paid

TABLE 41. FEDERAL CREDIT UNIONS BY SIZE OF ASSETS: DIVIDENDS PAID IN JANUARY 1953 TO MEMBERS OF RECORD
DECEMBER 31, 1952.^a

Size of Assets	No. Operating	No. Paying Dividends	Ratio of No. Paying to No. Operating (per cent)	Amount of Dividends Paid	Percentage of Total Amount of Dividends Paid (per cent)
Less than \$10,000	1,277	610	47.9	\$ 73,040	.5
\$10,000-\$24,999	1,029	910	88.4	336,718	2.0
\$25,000-\$49,999	1,032	995	96.4	873,748	5.3
\$50,000-\$99,999	946	927	98.0	1,694,017	10.2
\$100,000-\$249,999	994	982	98.8	3,982,406	24.0
\$250,000-\$499,999	416	414	99.5	3,791,053	22.8
\$500,000-\$999,999	159	159	100.0	2,790,780	16.8
\$1,000,000 or more	72	72	100.0	3,054,668	18.4
Total	5,925	5,069	85.6	\$16,596,430	100.0

^a From an unpublished study made by the Bureau of Federal Credit Unions.

dividends, and the ratio of the number paying to the number operating varied from 47.9 per cent in the credit unions with less than \$10,000 in assets to 100 per cent in credit unions with more than \$500,000. The numbers and the ratios are shown in Table 41. This table also shows the amount of dividends paid and the percentage of the total amount paid by the credit unions of different asset size. Credit unions with more than \$250,000 in assets paid 58 per cent of the total amount distributed in dividends.

The distribution of federal credit unions that paid dividends on 1952 shareholdings is broken down further in Table 42. This table is extended down to the very smallest classes, which for the most part

TABLE 42. FEDERAL CREDIT UNIONS GROUPED BY AMOUNT OF ASSETS: DISTRIBUTION OF UNIONS THAT PAID DIVIDENDS IN JANUARY 1953 TO MEMBERS OF RECORD DECEMBER 1952, BY RATE OF DIVIDEND PAID.^a

Size of Assets	No Dividends: Per Cent	Rate of Dividends Paid										Total
		Less than 1 Per Cent	1.0 to 1.9 Per Cent	2.0 to 2.9 Per Cent	3.0 to 3.9 Per Cent	4.0 to 4.9 Per Cent	5.0 to 5.9 Per Cent	6 Per Cent				
Less than \$1,000	98.8				0.6	0.6					100	
\$1,000-\$2,499	81.8	0.3	2.1	5.5	7.2	2.1	0.9	0.4			100	
\$2,500-\$4,999	51.1		5.5	14.0	15.8	9.4	2.1	1.8			100	
\$5,000-\$9,999	28.0		3.9	16.6	26.2	16.9	4.5	3.9			100	
\$10,000-\$24,999	11.6		2.1	14.8	33.4	27.6	5.7	4.8			100	
\$25,000-\$49,999	3.6		1.4	12.3	35.9	31.2	8.7	6.9			100	
\$50,000-\$99,999	2.0		1.7	9.6	36.4	34.1	8.7	7.5			100	
\$100,000-\$249,999	1.2	0.2	1.0	7.4	36.9	35.5	10.8	7.0			100	
\$250,000-\$499,999	0.5		0.2	8.2	38.7	36.5	10.8	5.1			100	
\$500,000-\$999,999			1.3	10.1	33.3	36.5	13.8	5.0			100	
\$1,000,000 or more				6.9	43.1	45.8	2.8	1.4			100	
Percentage of the number of FCUs in each dividend category	14.4	0.1	1.8	11.0	31.8	28.0	7.5	5.4			100	

^a From an unpublished study made by the Bureau of Federal Credit Unions.

are the newly-organized credit unions. In the very smallest units only 1.2 per cent of the credit unions paid dividends. After the \$25,000 level is reached, however, almost all of the credit unions paid some dividend. In all classes above the \$10,000 level dividends between 3 and 4.9 per cent predominate: in the \$1 million and over class almost all dividends are in this range. In the \$100,000-\$249,999 group 17.8 per cent of the credit unions paid dividends of 5 per cent or more, and in the \$500,000-\$999,999 group 18.8 per cent of credit unions paid 5 per cent or more. Table 42 brings out in greater detail the information on dividend payments already reviewed.

After reviewing the earnings and expenses of federal credit unions since 1939 this chapter examined in detail the various income and expense items. The anomaly of including as an expense insurance premiums designed to benefit the individual member was examined and the question of voluntary contribution was discussed. Qualified by the inclusion of such elements, a cost analysis of federal credit unions revealed evidence of few economies of scale; large credit unions, measured by size of assets, in most operational items incurred about the same proportionate costs as the smaller units. This can be explained by what seems to be the experience in personal loan organizations that economies of operation reflect more the size of the loan than the spreading of fixed cost elements over a larger number of units. However, adjustments of costs to growth, particularly salary costs, seem with credit unions to be more of a personal than of a competitively economic character. There seems to be a slight gain in efficiency associated with size—due perhaps more to bargaining efficiency than operational efficiency—and also a gain in efficiency associated with age. Certain peculiarities associated with the credit union cost picture—particularly the imperfect market faced both by borrower and by saver and the extra-market relationships in credit union operation—were also discussed.

The average return on member loans for the past few years has been slightly over 10 per cent and the average yield on investments has shown a rising tendency, reaching 2.89 per cent in 1954. As a percentage return on average shares the net earnings, more than 6 per cent before the war, dropped to 1.76 per cent in 1944, but since then have gradually risen to 4.92 per cent in 1954. Since there is

little trading on the equity in credit unions the percentage return on average net worth for the past few years has been only one-third of one percent lower than the return on shares. For the past few years slightly more than two-thirds of the earnings have been paid out in dividends; during the war, however, as high as 85 per cent was paid out to maintain dividends. The dividend rate declared, it should be observed, is slightly higher than the true dividend rate. The declared dividends have been analyzed in detail, as well as dividends and the size of credit unions measured by total assets.

CHAPTER VIII

FEDERAL CREDIT UNION LIQUIDATIONS, 1935-53

FROM the passage of the Federal Credit Union Act in 1934 to the end of 1953 there were organized 9096 federal credit unions. Of this number 2240, or 24.6 per cent of the total, were liquidated. It is the purpose of this chapter to examine these federal credit union liquidations. The extent of the liquidations will be reviewed and the liquidation figures will be broken down in statistical detail. Following the statistical analysis, reasons given for liquidation will be examined and evaluated.¹

The word "liquidation" as used in this study means a final surrender of charter. It includes 51 mergers or conversions to state charter, and 135 "revocations"—defined by the Bureau of Federal Credit Unions as the cancellation of the charter of a credit union which has never done any business. This study does not include credit unions which are under suspension or are in the process of liquidation. It seems to be more satisfactory to deal only with those cases where the final outcome of the liquidating process has been determined.

Table 43 lists the number of charters granted and the number of liquidations from 1934-53. Since the growth of federal credit unions has been covered in Chapter II this chapter will concentrate on the liquidations. Starting with 4 in 1936, liquidations reached a peak of 321 in 1943 and dropped slowly to only 75 in 1951, the lowest total since 1937. There has been a slight increase in liquidations in 1952 and 1953. The rise in the number of inactive credit unions in Table 43 points to a further increase in liquidations. These "inactive"

TABLE 43. NUMBER OF CHARTERS ISSUED AND CANCELED, BY YEARS AND STATUS OF CHARTERS IN FORCE ON DEC. 31, 1943-53.^a

Year	Number of Charters		Status on December 31		
	Granted	Canceled	Total	Inactive	Operating
1934	78	—	78	—	78
1935	828	—	906	134	772
1936	956	4	1,858	107	1,751
1937	638	69	2,427	114	2,313
1938	515	83	2,859	99	2,760
1939	529	93	3,295	113	3,182
1940	666	76	3,885	129	3,756
1941	583	89	4,379	151	4,228
1942	187	89	4,477	332	4,145
1943	108	321	4,264	326	3,938
1944	69	285	4,048	233	3,815
1945	96	185	3,959	202	3,757
1946	157	151	3,965	204	3,761
1947	207	159	4,013	168	3,845
1948	341	130	4,224	166	4,058
1949	523	101	4,646	151	4,495
1950	565	83	5,128	144	4,984
1951	533	75	5,586	188	5,398
1952	692	115	6,163	238	5,925
1953	825	132	6,856	278	6,578

^a 1953 *Report of Operations, Federal Credit Unions*, p. 2.

credit unions are largely composed of credit unions in the process of liquidation, although this column also includes a handful of suspended credit unions and a few from other categories.

The annual liquidation statistics are examined in Table 44. As shown in this table, the 2240 liquidated credit unions had a total of almost 204,000 members and slightly over \$10 million in share balances. The declining relative importance of the credit union liquidations, in the face of a strong growth in the Federal Credit Union System, is also shown in Table 44. In this table the number, the membership, and the share balances of liquidated federal credit unions are expressed as percentages of the totals on January 1 in each of these categories. For the entire period, liquidation proceeded at an annual rate of 3.39 per cent of the number of credit unions, one

per cent of the number of members, and 0.43 per cent of the share balances. The number of liquidations declined from a rate of 7.16 per cent in 1943 to 1.46 per cent in 1951, and rose to 2.14 per cent in 1953. The percentage of the number of members involved also declined from a high of almost 1.9 per cent in 1945 to a little under one-half of one per cent in 1953. The greatest relative decline is seen in the percentage of share balances in liquidated credit unions; this dropped from 0.81 per cent in 1943 to only 0.1 per cent in 1951, and rose to 0.25 per cent in 1953.

TABLE 44. FEDERAL CREDIT UNIONS LIQUIDATED DURING THE YEAR: NUMBER, MEMBERSHIP, AND SHARE BALANCES; PERCENTAGES OF THE TOTALS OUTSTANDING ON JAN. 1 OF THE SAME YEAR, 1936-53.

Year	Totals in liquidations			Percentage of total on Jan. 1		
	Credit Unions	Members	Share Balances	Credit Unions (per cent)	Members (per cent)	Share Balances (per cent)
1936-41	414	19,807	\$ 471,877	2.70	0.57	0.29
1942	89	5,777	192,815	2.04	0.41	0.18
1943	321	24,446	964,172	7.16	1.81	0.81
1944	285	24,439	930,745	6.68	1.88	0.73
1945	185	24,607	1,030,845	4.58	1.89	0.71
1946	151	18,449	1,106,742	3.81	1.52	0.72
1947	159	15,487	891,339	4.01	1.18	0.51
1948	130	13,505	912,919	3.24	0.93	0.43
1949	101	17,815	868,454	2.39	1.09	0.34
1950	83	9,013	723,250	1.78	0.50	0.23
1951	75	5,580	410,434	1.46	0.26	0.10
1952	115	12,008	1,235,313	2.05	0.48	0.24
1953	132	12,830	1,688,700	2.14	0.44	0.25
Total	2,240	203,763	\$10,427,605	3.39	1.00	0.43

In other words, by 1953 the liquidation problem had come to involve only 2.14 per cent of all federal credit unions, less than one-half of one per cent of the total membership and one-quarter of one per cent of total share balances. Obviously the growth of the credit

TABLE 45. FEDERAL CREDIT UNIONS LIQUIDATED FROM 1935 THROUGH 1953: CLASSIFIED BY NUMBER OF MEMBERS AND SIZE OF SHARE BALANCES AT COMMENCEMENT OF LIQUIDATION AND LENGTH OF TIME IN OPERATION.

Classification	Number of Credit Unions	Per Cent of Total Number
<i>A. Members at commencement of liquidation</i>		
None	186	8.3
Less than 50	866	38.7
50- 99	685	30.6
100-249	371	16.5
250 and over	132	5.9
<i>Total</i>	<u>2,240</u>	<u>100.0</u>
<i>B. Share balances at commencement of liquidation</i>		
None accepted	186	8.3
Less than \$501	524	23.4
\$ 501-\$ 1,000	341	15.2
\$ 1,001-\$ 2,000	383	17.2
\$ 2,001-\$ 5,000	369	16.4
\$ 5,001-\$ 10,000	215	9.6
\$10,001-\$ 25,000	137	6.1
\$25,001-\$ 50,000	51	2.3
\$50,001-\$100,000	21	.9
Over \$100,000	13	.6
<i>Total</i>	<u>2,240</u>	<u>100.0</u>
<i>C. Length of time in operation (months)</i>		
None	186	8.3
12 or less	84	3.7
13- 24	235	10.5
25- 36	263	11.7
37- 48	255	11.4
49- 60	206	9.3
61- 72	171	7.6
73- 84	176	7.8
85- 96	162	7.3
97-108	132	5.9
109-120	101	4.5
Over 10 years	269	12.0
<i>Total</i>	<u>2,240</u>	<u>100.0</u>

union movement explains the declining relative importance of the totals involved in liquidations: a million dollars is relatively unim-

portant in a system which has reached the billion dollar mark. Still, the problem is not simply one of aggregates; every liquidation involves a number of personal problems, intensely important to those concerned.

The 2240 federal credit unions which were liquidated are classified in Table 45 according to the number of members and the size of share balances at the commencement of liquidation, and by the length of time in operation. The first two classifications, number of members and size of share balances, give a picture of predominantly small credit unions involved in liquidation. Almost 78 per cent of the liquidated credit unions had fewer than 100 members and 80.5 per cent had less than \$5000 in share capital. On the other hand, few large credit unions—and these can hardly be called large by modern standards—have been liquidated. Only 34 liquidated credit unions, or 1.5 per cent of the total, had share balances of more than \$50,000, and only 13 had share balances of more than \$100,000. Counting only the 2054 credit unions that actually conducted operations to determine an over-all average, the average liquidated credit union had 99.2 members and an average share balance of \$5564. These figures are minute in comparison with the December 31, 1953, averages of 495 members and share balances of \$116,687. They are small even compared with the averages of the year 1945—the middle year of the series under consideration and perhaps a fairer comparison; in 1945 the average membership was 324 and average share holdings were \$37,427.

In regard to the length of time in operation, as shown in Table 45, we do not find a pronounced concentration in any of the frequency classes. Only 55 per cent of the liquidated credit unions were less than five years of age. Liquidations, it would seem, take place among credit unions of different ages with much the same frequency. The following comparison of the only recent years for which it is possible to calculate the average ages of operating federal credit unions shows that the difference between the average age of operating credit unions and the average age of those which were liquidated in that year was about four months in 1949, eleven months in 1950, sixteen months in 1951 and 1952; there was virtually no difference in 1953.

	1949	1950	1951	1952	1953
Average age, all FCUs (<i>months</i>)	100.9	101.5	103.8	103.2	101.4
Average age, liquidated FCUs	97.0	90.4	87.6	87.2	101.7

These figures on final liquidation exaggerate the ages of the liquidated credit unions; after the decision to liquidate has been taken, it requires from six months to two years, or even more, to complete the liquidation proceedings.

The survival rate of federal credit unions, measured by the number of credit union charters granted and the number of credit unions active on December 31, 1953, was examined in Chapter II. Due to the method of tabulation the figures used in Chapter II are not exactly comparable with the figures on liquidations used in this chapter; the difference is slight, however.

In Table 46 the credit union liquidations are analyzed according to the three type categories: occupational, associational, and residential. The occupational group is further analyzed in Table 47. These tables list the number of charters issued, the number canceled and the percentage canceled. During the life of the federal credit union system 9096 charters have been issued and 2240, or 24.6 per cent of the total, have been canceled.

TABLE 46. FEDERAL CREDIT UNIONS CLASSIFIED BY TYPE: CHARTERS ISSUED AND CANCELED; PERCENTAGE CANCELED, 1935 THROUGH DECEMBER 31, 1953.

Type	Charters Issued	Charters Canceled	Per Cent Canceled
Occupational	7,403	1,749	23.6
Associational:			
Cooperatives	300	97	32.3
Fraternal and professional	339	94	27.7
Religious	438	87	19.9
Labor unions	348	110	31.6
Total	1,425	388	27.2
Residential:			
Urban	77	29	37.7
Rural	191	74	38.7
Total	268	103	38.4
Grand total	9,096	2,240	24.6

The great majority of credit union charters, 81.4 per cent, were issued to occupational groups. The percentage liquidated in this area, 23.6 per cent, is one per cent less than the national average. The associational group, with 15.7 per cent of all of the charters issued, had 27.2 per cent of the total liquidated. Within this broad area, cooperatives had the highest percentage liquidated, 32.3 per cent, and the religious credit unions had the lowest, 19.9 per cent. The 268 residential credit unions, about 3 per cent of the charters issued, had 38.4 per cent of their charters canceled. Urban residential credit unions had 37.7 per cent of their charters canceled while rural credit unions had 38.7 per cent canceled.

TABLE 47. FEDERAL CREDIT UNIONS CLASSIFIED BY OCCUPATIONAL TYPES: CHARTERS ISSUED AND CANCELED; PERCENTAGE CANCELED, 1935-53.

Occupational Type	Charters Issued	Charters Canceled	Per Cent Canceled
1. Telephone	138	11	8.0
2. Heat, light, and power	165	20	12.1
3. Government—local	311	39	12.5
4. Chemicals and explosives	184	27	14.7
5. Glass	80	12	15.0
6. Food products, other	141	22	15.6
7. Transportation—railroads	326	53	16.3
8. Metals—iron and steel	311	52	16.7
9. Paper	140	24	17.1
10. Automotive products	291	51	17.5
11. Beverages	47	9	19.1
12. Educational—colleges	73	14	19.2
13. Rubber	57	11	19.3
14. Miscellaneous	452	91	20.1
15. Metals—other	171	35	20.5
16. Machine manufacturers	306	66	21.6
17. Electric products	248	54	21.8
18. Petroleum	389	87	22.4
19. Government—State	118	27	22.9
20. Bus and truck	131	31	23.7
21. Transportation—other	114	27	23.7
22. Government—Federal	900	221	24.6
23. Educational—schools	399	99	24.8
24. Tobacco products	4	1	25.0

TABLE 47. FEDERAL CREDIT UNIONS CLASSIFIED BY OCCUPATIONAL TYPES: CHARTERS ISSUED AND CANCELED; PERCENTAGE CANCELED, 1935-53. (Continued)

Occupational Type	Charters Issued	Charters Canceled	Per Cent Canceled
25. Food products—dairy	115	30	26.1
26. Leather	42	11	26.2
27. Metals—aluminum	45	12	26.7
28. Construction—other	112	30	26.8
29. Printing—newspapers	101	27	26.8
30. Banking and insurance	104	28	26.9
31. Transportation—aviation	83	23	27.7
32. Printing—other	75	21	28.0
33. Hardware	104	30	28.8
34. Stores	331	107	32.3
35. Meat packing	76	26	34.2
36. Construction—lumber	71	25	35.2
37. Bakery, grocery, and produce	150	53	35.3
38. Furniture	62	23	37.1
39. Amusements	16	6	37.5
40. Textiles	237	103	43.4
41. Telegraph	22	10	45.5
42. Laundries and cleaners	58	34	58.6
43. Hotels and restaurants	103	66	61.4
Total	7,403	1,749	23.6

In Table 47 the credit unions of the occupational type are ranked according to the percentage of charters canceled. From this table it can be seen that in the public utilities, or quasi-public utilities—industries characterized by stability—relatively few charters have been canceled. At the other end of the scale we find hotels and restaurants, laundries, textiles, and lumber—industries subject to wide seasonal and cyclical fluctuations, with a high proportion of unskilled labor and subject to a heavy labor turnover. Almost coinciding with the average of the entire group are the credit unions organized among federal and state government employees.

In Table 48 the classification is by states and the ranking is according to the percentage of charters canceled. States with fewer than

TABLE 48. FEDERAL CREDIT UNIONS CLASSIFIED BY STATES: CHARTERS ISSUED AND CANCELED; PERCENTAGE CANCELED, 1935-53.^a

State	Charters Issued	Charters Canceled	Per Cent Canceled
1. Nevada	29	2	6.9
2. Michigan	523	61	11.7
3. Hawaii	145	18	12.4
4. Alaska	24	3	12.5
5. Arizona	48	7	14.6
6. Nebraska	64	10	15.6
7. Montana	83	15	18.1
8. Mississippi	75	15	20.0
9. California	762	155	20.3
10. New Jersey	439	90	20.5
11. South Dakota	77	16	20.8
12. Minnesota	67	14	20.9
13. Washington	139	29	20.9
14. Kansas	95	20	21.1
15. Indiana	327	71	21.7
16. Massachusetts	184	40	21.7
17. Pennsylvania	931	219	23.5
18. Louisiana	221	53	24.0
19. Oklahoma	87	21	24.1
20. Connecticut	331	80	24.2
21. Maryland	91	22	24.2
22. Florida	206	50	24.3
23. New Mexico	37	9	24.3
24. Ohio	611	150	24.5
25. Wyoming	43	11	25.6
26. Texas	650	170	26.1
27. Alabama	68	18	26.5
28. Colorado	113	30	26.5
29. Utah	49	13	26.5
30. District of Columbia	169	45	26.6
31. Arkansas	41	11	26.8
32. Georgia	123	36	29.3
33. Illinois	177	53	29.9
34. Maine	83	25	30.1
35. New York	1,043	328	31.4
36. Idaho	66	21	31.8
37. Virginia	166	53	31.9
	56	18	32.1
	162	52	32.1

TABLE 48. FEDERAL CREDIT UNIONS CLASSIFIED BY STATES: CHARTERS ISSUED AND CANCELED; PERCENTAGE CANCELED, 1935-53.^a (Cont.)

State	Charters Issued	Charters Canceled	Per Cent Canceled
40. West Virginia	89	30	33.7
41. North Dakota	52	20	38.5
42. Oregon	96	37	38.5
43. North Carolina	47	20	42.6
44. Rhode Island	29	13	44.8
45. South Carolina	77	43	55.8

^a States with fewer than 20 charters not included.

twenty federal credit union charters have been omitted from this table. With a number of exceptions, it would seem that states from different regions—perhaps reflecting a similar economic experience—tend to cluster in liquidation ranking; for example, states in the North Central region seem to have had a low liquidation experience, and those from the deep south cluster just above the average. New York, with the largest number of charters granted, has had liquidated almost a third of the number of credit unions chartered in that state. Pennsylvania, with the second largest number of charters, has had an average liquidation experience; and Michigan, with 523 federal charters, has had less than 12 per cent of them liquidate.

Up to this point we have been considering the entire number of 2240 liquidated federal credit unions. For purposes of determining the amount of dividend or loss at liquidation it will be useful to eliminate from further consideration certain liquidations. Liquidated credit unions may be classified as follows:

Total number of liquidations		2240
Less:		
Revocations of charter	135	
Conversions and mergers	51	186
Total		2054

The 135 "revocations" consist of cases where a charter has been

granted but the group concerned has never commenced operations; for one reason or another interest died—perhaps the organizers left the group, or too long a time elapsed between organization and a visit from a league or a field representative, or employer opposition developed, or some other reason. In all of these cases there was at least a loss of the \$25 investigation and charter fee. No statistics exist on such losses, however.

There have been only a small number of conversions from federal to state charter—this is true also of conversions from state to federal charter. In such conversions presumably the credit unions were sound financially and there were no losses. At least there is no account of losses. Where mergers have occurred—and their number also is small—whatever losses or dividends existed were taken into the new organization and no record concerning them exists. The total of all conversions and mergers is only 51. These, together with the 135 revocations, a total of 186, have been deducted from the 2240 liquidations and further analysis will examine only the 2054 remaining liquidated federal credit unions.

For purposes of analysis the 2054 liquidated credit unions have been divided into three groups: (1) those which paid less than 100 per cent—414 credit unions, or 20.2 per cent of the total; (2) those which paid exactly 100 per cent—460 credit unions, or 22.4 per cent of the total; and (3) those which paid more than 100 per cent—1180 credit unions, or 57.4 per cent of the total. With the first and the third groups the loss or the gain can be determined accurately. But credit unions in the second group, which the records show paid the shareholders exactly 100 per cent, might have earned a dividend, or possibly have suffered a loss. The records do not tell. This is due to the fact that in liquidating a credit union, rather than delay indefinitely in collecting outstanding notes, it is customary to sell the notes after a reasonable attempt has been made at collection. At times the notes are sold rather soon after liquidation proceedings commence.

When the notes are sold to a bank or to a finance company presumably they are worth the price paid. At other times—and here there may or may not be doubtful items—the company or the union where the credit union was organized will buy the notes at a figure

which will enable the credit union to pay 100 per cent. This is a clean and easy way to wind up the credit union. But whether the company collects the entire amount which it has paid for the notes cannot be determined from the liquidation record. It is not thought, however, that losses to note purchasers have been at all significant; possibly there have been none in the aggregate. At other times the notes are sold to the treasurer, or to the liquidating agent, at a figure less than their face value but one sufficient to pay the shareholders 100 per cent. This is to pay the treasurer for his work in conducting the liquidation. Again any gain or loss does not show in the figures. With these qualifications we will examine the statistics on gain or loss at liquidation.²

TABLE 49. FEDERAL CREDIT UNIONS: NUMBER OF MEMBERS AT LIQUIDATION; SHARE BALANCES, AMOUNT, AND PERCENTAGE PAID TO MEMBERS AT LIQUIDATION, CLASSIFIED BY PAYMENTS TO MEMBERS, 1935-53.

Payments to Members	Number of Credit Unions	Members at Time of Liquidation	Members' Share Balances	Payments to Members	
				Amount	Per Cent of Amount Due
Less than 100 per cent	414	37,459	\$ 1,054,049	\$ 925,001	87.7
Exactly 100 per cent	460	45,960	\$ 1,902,494	\$ 1,902,494	100.0
More than 100 per cent	1,180	120,394	\$ 8,471,060	\$ 9,057,089	106.9
Total	2,054	203,813	\$11,427,603	\$11,884,584	104.0

As shown in Table 49, 203,813 members held share balances of \$11,427,603 in the 2054 liquidated credit unions. These members received in payment at liquidation a total of \$11,884,584, or 104 per cent of their holdings. The members of the credit unions which paid less than 100 per cent received 87.7 per cent of their share-holdings, while the members of the credit unions which paid more than 100 per cent got 106.9 per cent of the share balance due. Some

45,960 members were paid back the exact amount of their shareholdings.

Payments to shareholders are further broken down in Table 50. Where the shareholders sustained a loss, slightly more than 20 per cent of the liquidated credit unions with 18.4 per cent of the membership had share balances of just over \$1 million. Only one per cent of the share balances was involved in payments of less than 75 per cent of shareholdings. 22.4 per cent of the credit unions paid exactly 100 per cent of the shareholdings; 22.6 per cent of the members and 16.7 per cent of total shareholdings are found in this group.

TABLE 50. LIQUIDATED FEDERAL CREDIT UNIONS: NUMBER AND PERCENTAGE OF TOTAL NUMBER OF UNIONS, MEMBERS, AND SHARE BALANCES, CLASSIFIED BY PERCENTAGE PAYMENT TO MEMBERS, 1935-53.

Payments to Members	Credit Unions		Members		Share Balances	
	Number	Per Cent	Number	Per Cent	Amount	Per Cent
<i>A. Shareholders sustained a loss</i>						
Less than 50%	78	3.8	3,612	1.8	\$ 35,739	.3
50.1- 75%	97	4.7	4,895	2.4	83,371	.7
75.1- 95%	169	8.2	22,817	11.2	720,008	6.3
95.1-100%	70	3.4	6,135	3.0	214,931	1.9
Total	414	20.1	37,459	18.4	\$1,054,049	9.2
<i>B. Shareholders paid exactly 100 per cent</i>						
Exactly 100%	460	22.4	45,960	22.6	\$1,902,494	16.7
<i>C. Shareholders paid liquidating dividends</i>						
100.1-110%	725	35.3	88,077	43.2	\$6,905,910	60.4
110.1-125%	338	16.5	25,275	12.4	1,337,574	11.7
125.1-150%	79	3.8	5,140	2.5	198,009	1.7
Over 150%	38	1.9	1,902	.9	29,567	.3
Total	1,180	57.5	120,394	59.0	\$8,471,060	74.1
Grand total	2,054	100.0	203,813	100.0	\$11,427,603	100.0

The bulk of liquidation payments were in the class of 100.1-110 per cent dividend payments: 35.3 per cent of the credit unions, 43.2 per cent of the members, and 60.4 per cent of the share balances are found in this class. Only 2 per cent of the total share balances were in dividend payments of more than 125 per cent.

In business generally, whether it is of a banking, industrial, or commercial nature, losses to shareholders at liquidation are usually heavy. Frequently, after prior claims of other creditors have been paid, shareholders receive no residual payment at all. In liquidations credit unions have advantages over many other types of businesses. Credit union liquidations are almost always handled by their own officers, frequently without compensation or with only a nominal payment. Liquidation procedure is extremely simplified so that legal costs, an expensive item, are negligible or avoided entirely. Usually the only significant assets of a credit union are the loans to members. Where the quality of these loans is good they may be sold to a bank, or to the sponsoring company, as was already explained. In such cases the liquidation can be conducted expeditiously and without loss. Where there is mismanagement, unemployment, or a closing of a plant and a dispersal of the workers, there may be difficulty in collecting the loans, with attendant collection expenses and charge-offs. Then losses may result.

Total losses at liquidation, however, have been amazingly small—only \$129,048, or about fifteen one-thousandths of one per cent of the share balances in all federal credit unions at the end of 1953, and an infinitesimally small percentage of the total amount entrusted to the care of federal credit unions since the inauguration of the system in 1934. There has been no net loss; at liquidation the shareholders as a group have received a net dividend of \$456,977 on their shareholdings.

The total loss of \$129,048 and the total dividend paid of \$586,029 are analyzed further in Tables 51, 52, and 53. Table 51 shows that in all of the credit union liquidations total dividends, less losses, amounted to \$456,977. The average net dividend per credit union amounted to \$222.48 and the average net dividend per member came to \$2.56. In the credit unions which suffered losses the average loss was \$311.71 and the average loss per member was \$3.44. In the credit unions where dividends were paid the average dividend was \$496.63, and the average dividend per member was \$4.86. Average losses per credit union ranged from \$432 to \$74, and losses per member from \$6.16 to \$.85 in the different percentage payment classes. Average dividends per credit union ranged from \$839 to \$428 and average dividends per member from \$11.18 to \$3.52.

TABLE 51. LIQUIDATED FEDERAL CREDIT UNIONS: AMOUNT AND PERCENTAGE OF LOSS OR DIVIDEND; AVERAGE LOSS OR DIVIDEND PER CREDIT UNION AND PER MEMBER, CLASSIFIED BY PERCENTAGE PAYMENT TO MEMBERS, 1935-53.

Payments to Members	Loss or dividend		Average Per Credit Union	Average Per Member
	Amount	Per Cent		
A. Shareholders sustained a loss				
Less than 50%	\$ 22,248	17.3	\$285.24	\$6.16
50.1- 75%	28,524	22.1	294.06	5.82
75.1- 95%	73,066	56.6	432.35	3.20
95.1-100%	5,210	4.0	74.43	.85
Total	\$129,048	100.0	\$311.71	\$3.44
B. Shareholders paid liquidating dividends				
100.1-110%	\$310,523	53.0	\$428.30	\$3.52
110.1-125%	187,880	32.0	555.85	7.43
125.1-150%	66,345	11.4	839.81	12.90
Over 150%	21,281	3.6	560.02	11.18
Total	\$586,029	100.0	\$496.63	\$ 4.86
Grand total	\$456,977		\$222.48	\$ 2.56

TABLE 52. LIQUIDATED FEDERAL CREDIT UNIONS SUFFERING A LOSS OR PAYING A DIVIDEND, CLASSIFIED BY SIZE OF SHARE BALANCES AT COMMENCEMENT OF LIQUIDATION.

Size of Share Balances	Suffering a Loss			Paying a Dividend		
	Number	Amount	Average	Number	Amount	Average
Less than \$501	245	\$ 14,023	\$ 57	132	\$ 7,722	\$ 58
\$501- \$1,000	62	7,626	123	175	19,590	112
\$1,001- \$2,000	43	7,536	175	257	43,751	170
\$2,001- \$5,000	36	17,013	473	269	89,696	333
\$5,001- \$10,000	16	22,994	1,437	165	99,757	604
\$10,001- \$25,000	8	17,512	2,189	115	114,246	993
\$25,001- \$50,000	2	2,482	1,241	41	100,230	2,444
\$50,001- \$100,000	1	6,084	6,084	17	37,971	2,233
Over \$100,000	1	33,778	33,778	9	73,065	8,118
Total	414	\$129,048	\$ 312	1,180	\$586,028	\$ 497

The most significant fact shown in Table 52 is that 2 liquidations, involving losses of almost \$40,000, account for almost 31 per cent of the total losses. In fact, of all of the credit unions which suffered losses, the 28 credit unions with shares of more than \$5000, or 7 per cent of the credit unions which incurred losses, account for 64 per cent of these losses. In other words, the bulk of the funds lost in liquidations is concentrated in a handful of credit unions. The other 386 credit unions with shares of less than \$5000 suffered losses, but the amounts involved were rather trifling. Dividends, on the other hand, seem to increase as the size of the credit union increases. The larger the share balances of a credit union the greater is the possibility and the actuality of larger dividends. This can also be seen in Table 52.

TABLE 53. LIQUIDATED FEDERAL CREDIT UNIONS SUFFERING A LOSS OR PAYING A DIVIDEND, CLASSIFIED BY THE LENGTH OF TIME IN OPERATION.

Length of time in Operation (Months)	Suffering a Loss			Paying a Dividend		
	Number	Amount	Average	Number	Amount	Average
12 or less	38	\$ 1,641	\$ 43	11	\$ 262	\$ 24
13- 24	89	9,028	101	62	6,370	103
25- 36	76	11,399	149	113	29,847	264
37- 48	60	9,498	158	130	22,462	173
49- 60	37	4,293	116	115	39,310	342
61- 72	23	6,972	303	113	32,912	291
73- 84	27	4,887	181	116	47,713	411
85- 96	20	15,742	787	125	65,117	521
97-108	12	4,438	370	104	44,281	426
109-120	13	6,229	479	74	29,965	405
Over 10 years	19	55,191	2,905	217	267,789	1,234
Total	414	\$129,048	\$312	1,180	\$586,028	\$ 497

Table 53 shows that, generally speaking, both the average losses and the average dividends increase with the age of the credit union. Few of the older credit unions, however, seem to have incurred losses; the disproportionately large losses in the group of credit unions

over ten years old are accounted for by the liquidation of one credit union which had losses of more than \$33,000. One or two large losses—and the same is true of large dividend payments—can throw out an average. But the results as shown by this table are about what one might expect: as the credit unions grow older they get larger. Then it becomes possible either to pay a larger dividend upon liquidation, or to suffer a greater loss, than with a younger and a smaller credit union.

TABLE 54. FEDERAL CREDIT UNIONS SUSTAINING A LOSS AT LIQUIDATION: NUMBER OF MEMBERS AND AMOUNT OF LOSS, CLASSIFIED BY SIZE OF INDIVIDUAL LOSS.

Size of Individual Loss	Total		Percentage	
	Number of Members	Amount of Loss	Members	Amount
Less than \$1.00	22,772	\$ 6,530	61.2	5.2
\$1.00– \$4.99	10,225	24,468	27.5	19.5
\$5.00– \$9.99	2,005	14,071	5.4	11.3
\$10.00–\$24.99	1,392	21,239	3.7	16.9
\$25.00–over	803	58,870	2.2	47.1
<i>Total</i>	<u>37,197</u>	<u>\$125,178</u>	<u>100.0</u>	<u>100.0</u>
Unclassified	262	3,870		
<i>Grand total</i>	<u>37,459</u>	<u>\$129,048</u>		

Just as it was shown that the greatest incidence of loss was concentrated in a very few credit unions, Table 54 shows further that the greatest share of the loss has fallen upon a very few persons and that the vast majority of the members of those credit unions which liquidated at a loss escaped with trifling losses or no loss at all. According to Table 54, 61.2 per cent of the members had losses of less than \$1.00, or only 5.2 per cent of the total losses. At the other end of the scale, 5.9 per cent of the members—those with losses of more than \$10.00—had 64 per cent of the total amount lost. As has been shown in Chapter VI, in a typical credit union there are a few members with relatively large sums of money in shares and the bulk

of the members hold small sums, a share or two, or even less. If the credit union liquidates at a loss, the percentage deduction falls heavily on the large shareholdings. Also at times the amount held on shares is set off against the amount of a loan. This is not correct procedure; but if the loan can be collected in no other way there is little else that the liquidating agent can do. This might enable some members to escape paying their full shares of the losses.

Explanations or attempts to explain liquidations of credit unions have hitherto followed a cause and effect logic.³ "Causes" or "reasons" or, more exactly, reported causes or reasons have been listed, and an attempt has been made to evaluate their importance according to their percentage frequency. In certain ways this method is unsatisfactory, since many of the reported causes, such as a "lack of interest," in themselves demand a further explanation; in such a case, why was there a lack of interest? Further the reasons reported by the examiners—and they are the chief source of this information—reflect the biases, the prejudices, or even the "lack of interest" of a harassed examiner. It might be more profitable to discuss the "liquidation syndrome," to analyze and to evaluate that complex of personal, social, and economic factors which accompany a liquidation. Viewed in this context, the liquidation is only part of a larger picture, the climax of a chain of events both within and outside of the economic sphere.

In an attempt to clarify this topic the 565 liquidations which took place in the years from 1948 through 1953 have been tabulated in Table 55. The last 6 years only were used, as it is believed that in this treatment of reasons for liquidation a consideration of the most recent period is more pertinent and valuable than a complete discussion which would include the outdated wartime and prewar liquidation experience.

The reasons as listed can be accepted as accurate only to a degree: they must be qualified insofar as they reflect inadequacies in the examiners' reports and also in the positions which they have been given in the tables. In both Tables 55 and 56 only one reason has been given for each liquidation, the one which seemed to be the most important. At times the field examiner has assigned two or

TABLE 55. ANALYSIS OF REASONS REPORTED FOR LIQUIDATIONS OF FEDERAL CREDIT UNIONS, 1948-53.

Reasons Reported	Credit Unions		Share Balances		Membership		Time in Operation	
	Number	Per Cent	Amount	Average	Number	Average	Total	Average
								(Months)
A. Endogenous Factors								
1. Indifference of potential leaders and members	251	44.4	\$1,257,071	\$5,008	20,021	79.8	23,098	92.0
2. Field of membership unsatisfactory	50	8.8	164,890	3,298	3,847	76.9	4,426	88.5
3. Management and operating problems (internal friction)	36	6.4	573,103	15,919	14,239	395.5	4,023	111.7
4. Heavy labor turnover	27	4.8	108,435	4,016	2,104	77.9	2,591	95.9
Total	364	64.4	\$2,103,499	\$5,778	40,211	110.4	34,138	93.8
B. Exogenous Factors								
5. Alternative thrift and loan service available	23	4.1	\$ 752,875	\$32,734	4,304	187.1	2,557	111.2
6. Opposition of employer	60	10.6	674,388	11,239	7,908	131.8	6,085	101.4
7. Closing of plant or field of operation	116	20.5	2,302,796	19,852	18,167	156.6	10,967	94.5
8. Miscellaneous	2	.4	5,513	2,757	161	80.5	258	129.0
Total	201	35.6	\$3,735,572	\$18,584	30,540	151.9	19,867	98.8
Grand total	565	100.0	\$5,839,071	\$10,335	70,751	125.2	54,005	95.6

TABLE 56. ANALYSIS OF REASONS REPORTED FOR LIQUIDATIONS OF FEDERAL CREDIT UNIONS, 1948-53.

Reasons Reported	Paid 100% or More			Sustained a Loss			Net Gain or Loss		
	Credit Unions	Total Dividends	Average Dividends	Credit Unions	Total Loss	Average Loss	Credit Unions	Amount	Average
A. Endogenous Factors									
1. Indifference of potential leaders and members	193	\$64,592	\$335	58	\$10,349	\$178	251	\$54,243	\$216
2. Field of membership unsatisfactory	43	12,064	280	7	823	117	50	11,241	225
3. Management and operating problems (internal friction)	25	12,579	503	11	47,112	4,283	36	(34,533)	(960)
4. Heavy labor turnover	22	8,725	397	5	1,856	371	27	6,869	254
Total	283	\$97,960	\$346	81	\$60,140	\$742	364	\$37,820	\$104
B. Exogenous Factors									
5. Alternative thrift and loan plans available	23	\$ 21,953	\$ 954	—	—	—	23	\$ 21,953	\$954
6. Opposition of employer	52	46,078	886	8	\$ 1,710	\$ 214	60	44,368	739
7. Closing of plant or field of operation	96	116,198	1,210	20	21,732	1,086	116	94,466	814
8. Miscellaneous	2	428	214	—	—	—	2	428	214
Total	173	\$184,657	\$1,067	28	\$23,442	\$ 837	201	\$161,215	\$802
Grand total	456	\$282,617	\$ 620	109	\$83,582	\$ 767	565	\$199,035	\$352

three reasons for a liquidation and it is perhaps arbitrary to choose one of these. But it would seem that the "opposition of the employer" is more significant than a "lack of interest of potential officers and members." At any rate, in view of these qualifications and in view of the essentially inexact, subjective nature of the assigned reasons, any conclusions derived from an analysis of these reasons must be accepted only tentatively.

In both Tables 55 and 56 a classification has been made into "endogenous factors," or those predominantly within the credit union organization, and "exogenous factors," or those originating outside of the credit union. There was a question of where to place numbers 4 and 5, "heavy labor turnover" and "alternative thrift and loan service available," but as the number of cases in each of these categories is not large and as the matter does not lend itself to exact treatment, any change in the position of these two classifications is not of essential significance.

It seems evident from Table 55 that slightly over one-third of the liquidations of these six years were due to factors over which the officers and members had little or no control—exogenous factors. The moving of a plant, the closing of a plant in which exists a credit union, necessarily means the liquidation of the credit union. This one factor accounts for 20.5 per cent of all liquidations. The opposition of the employer, found in 10.1 per cent of all liquidations, likewise makes it difficult or impossible for the credit union officials to continue in operation.

The endogenous factors are not as clearcut. The 44.4 per cent of the liquidations ascribed to the "indifference of potential leaders and members," is a reason which leaves unexplained why there should be a lack of interest. An "unsatisfactory field of membership"—8.8 per cent of liquidations—might have worked out perfectly satisfactorily under a different leadership; although with the wisdom of hindsight we can see that the denial of a charter to small groups or those with a scattered membership would probably have been advisable in these cases. "Management and operating problems" can be solved; why did they lead to liquidation in 6.4 per cent of these cases? Obviously the liquidations ascribed to endogenous factors require further analysis. But before this is explored let us examine statistically the

difference between the liquidated credit unions classified under the headings of endogenous and exogenous factors.

Liquidated credit unions where endogenous factors are found have average share balances less than one-third the size of those in the exogenous group; but they average 41.5 fewer members and they are on the average five months younger. This is shown in Table 55.

While Table 55 indicated that credit unions where endogenous factors predominated in liquidation are smaller as measured by share balances, Table 56 shows that this group was also much weaker financially. In Table 56 the 565 credit unions liquidated from 1948 through 1953 have been grouped in two classes: (1) those which paid 100 per cent or more of shareholdings, and (2) those which suffered a loss. For those credit unions where endogenous factors predominate the average gain was \$346 and the average loss was \$742, with an over-all gain of \$37,820 or an average gain of \$104 per credit union. Where exogenous factors are found the average gain was \$1067 or almost 3 times that of the other group. In the exogenous group also the average loss was less and the total net gain was \$161,215, or an average gain of \$802 per credit union. In other words, it seems probable that had not certain factors outside of the credit union forced them to close, most of the credit unions in the exogenous group would have continued in successful operation.

It is with those credit unions where endogenous factors have accompanied liquidation that we have difficulty in explaining the liquidation. This is the "liquidation syndrome." It is a highly elusive phenomenon, a complex of psychological, social, and economic factors. It is the mystery of leadership; why can we not find leaders in certain groups where there is a real need for a credit union? On the other hand, there might be leaders with enthusiasm for the credit union idea who find that followers are lacking; there might be no need for a credit union, or potential members might have persuaded themselves that there is no need. Again, the preliminary work, the education in parliamentary, management, and bookkeeping skills might have been lacking, and an enthusiastic organizer might have forced the credit union into being before the group was ready to handle such an organization. Here the liquidation was an adaptation to an unwise decision to organize. It might have been better had such

a charter not been granted. But it is extremely difficult for an examiner to distinguish between true leadership and the ephemeral type; in seemingly similar cases one credit union will grow and flourish while another will wither away.

An inhibiting factor in all economic activity is found in the observed fact that entrepreneurial ability is limited. Credit union organizers have the task of trying to discover this ability and to develop it. But if sometimes leadership fails to be uncovered in certain groups where a credit union has been formed, it might be an occasion for regret but should not be one of surprise.

What is here called the "liquidation syndrome" is essentially the same phenomenon as that discussed by Erdis W. Smith in his study, *Retarded Federal Credit Unions*.⁴ In this study the retarded credit union is defined as one with less than \$5000 in total assets after two full years of operation. The study was undertaken to analyze a proposal that "retarded" credit unions should be liquidated as a policy of the Bureau. Mr. Smith found retarded credit unions in all age groups, in most of the type classifications, and in most of the States. From this study he concluded that "there is no clear evidence that warrants changes in the Bureau's chartering policies." The study further stated:

There is no apparent justification for the conclusion that a Federal credit union with less than \$5000 in assets after at least 2 full years of operation should be liquidated. Although this study bears out the well-known fact that Federal credit unions in the various localities and serving various types of membership have different problems and rates of growth, there are no indications as to what the standards should be for each locality and type, or that a standard for each state and type category would be any more practical than the definition of retarded groups which has been applied to all Federal credit unions in this study.⁵

In Mr. Smith's opinion the continuing advice and assistance of the examiners is the most effective way to handle this problem. Undoubtedly some of these credit unions will eventually be liquidated, others will come to life, and others will remain small but will continue to do a certain amount of good.

A further question arises: How can the liquidation experience of federal credit unions serve as a guide to chartering policies? A

statistical analysis of credit union liquidations can be of but limited assistance as a guide to the chartering of new credit unions. The supervision of credit unions and the granting of credit union charters is still an art and its practice must rest upon the experience, the judgment, and the character of the officials in charge. The rules are highly pragmatic and have little of scientific inevitability in them. Relying, as credit unions do, upon highly idealistic human motivation, it is improbable that the granting of credit union charters will ever closely approach scientific determination.

In conclusion, this chapter has traced historically the pattern of federal credit union liquidation from 1935 through 1953. The rate of liquidation was low in the early years of the system, rose sharply from 1943 to 1948, then declined, rising slightly in 1952 and 1953. Statistical analysis reveals that the small credit unions, measured by number of members and shareholdings, predominate in liquidations. All age groups are fairly evenly represented. There were 9096 charters issued and 2240 canceled, or 24.6 per cent of the total. Classified by type as occupational, associational, and residential, the percentages liquidated were 23.6 per cent, 27.2 per cent, and 38.4 per cent, respectively. Liquidations in the occupational area ranged from 8 per cent among telephone workers' credit unions to 64.1 per cent in credit unions organized in hotels and restaurants. Classified geographically, the percentages liquidated ranged from 6.9 per cent in Nevada to 55.8 per cent in South Carolina.

Omitting from further analysis the 186 "revocations," conversions, and mergers of charters, the 2054 remaining liquidated credit unions paid to shareholders at liquidation 104 per cent of total shareholdings, or a net gain of \$456,977; 1180 credit unions paid more than 100 per cent, 460 paid exactly 100 per cent, and 414 credit unions paid less than 100 per cent of the amount due. These figures were further broken down, and the dividend and the loss analyzed according to the percentage of the amount due, the size of share balances, and the age of the credit unions. Total losses in liquidations were amazingly small, only \$129,048, or about fifteen one-thousandths of one per cent of the share balances in all federal credit unions at the end of 1953. The incidence of loss, bearing heavily on only a small number

of credit unions and on a very few of the members, was further analyzed.

Reasons accounting for the liquidations were examined. Here it was shown that exogenous factors accounted for slightly over one-third of the liquidations, and endogenous factors were present in the remaining two-thirds. The latter group was discussed under the heading of the "liquidation syndrome." In this connection reference was made to Erdis W. Smith's study of the "retarded" credit union.

Should these liquidated credit unions be called failures? "Death is an affirmation of life, not a denial of it." More than a third of this group were liquidated due to forces largely outside of their control. Many others provided valuable service to their members in the years before they closed. True, mistakes were made; possibly some charters were granted prematurely, or insufficient assistance was given to newly organized groups. In other cases organizers did not follow through and leadership failed to develop. But although the number of liquidations might seem to have been large, the losses were surprisingly small—trivial in all but a few cases—and a substantial overall dividend was paid. Possibly these liquidations might be considered as part of the social costs of developing the credit union movement. There were human failures in the credit union membership; however, the liquidation record, as developed in this study, is not one of discouragement or failure but one of encouragement, in that it reveals a capacity for devotion to duty and responsibility on the part of both the credit union and the Bureau officials who carried out the arduous task of liquidation with such success. It also shows a capacity for cooperation in at least a part of the membership that, where conditions are more favorable, augurs well for a future expansion of the credit union movement.

CHAPTER IX

THE BUREAU OF FEDERAL CREDIT UNIONS —POLICIES AND PRACTICES

THE administration of the Federal Credit Union Act was originally assigned to the Governor of the Farm Credit Administration. In April 1942, this administration was transferred to the Federal Deposit Insurance Corporation where it remained until, in July 1948, a 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. This chapter will outline the organization and financing of the Bureau; and will examine in some detail its operating policies. While some mention will be made of the historical evolution of these policies, the emphasis of the chapter will be centered on present-day policy application.¹

ORGANIZATION OF THE BUREAU OF FEDERAL CREDIT UNIONS²

In the early days under the Farm Credit Administration, the administration of the Federal Credit Union Act was centralized in Washington. Under the Federal Deposit Insurance Corporation a decentralization of the field staff was effected; this fitted into the twelve regional office organization of the Federal Deposit Insurance Corporation. With decentralization the processing of examination reports and service to credit unions was speeded up. When the Bureau of Federal Credit Unions was created the pattern of decentralized organization was continued but the number of field offices was first reduced from twelve to eight; and effective on January 1, 1954, the number of regional offices was reduced from eight to six.

Certain other operations formerly performed in the Washington office were decentralized to the regional offices. Statistics on the staff of the Bureau are found in Table 57.

TABLE 57. AVERAGE ANNUAL EMPLOYMENT ENGAGED IN FEDERAL CREDIT UNION ADMINISTRATION, FISCAL YEAR ENDING JUNE 30.^a

Farm Credit Administration		Federal Deposit Insurance Corporation	
Year	Number	Year	Number
1936	15.6	1943	128.6
1937	45.3	1944-46	not available
1938	62.8	1947	111.5
1939	95.6	1948	107.4
1940	110.9		
1941	116.0		
1942 (May 15)	174.6		

Bureau of Federal Credit Unions				
Year	Examiners	Regional Office	Washington	Total
1949	52	51	23	126
1950	57	47	23	127
1951	83	49	22	154
1952	85	49	21	155
1953	134	54	22	210
1954	143	54	22	219

^a Information supplied by the Bureau of Federal Credit Unions.

This table shows that the staff engaged in credit union administration continually rose until it reached 174 at the end of the period under the Farm Credit Administration. In the difficult war years when it was impossible to secure staff, the number fell to a low of 107 in 1948. It was not until 1953 that the number employed by the Bureau exceeded the total employed by the Farm Credit Administration in 1942. Under the administration of the Bureau the number employed in the Washington office and in the regional offices has

remained almost static; the increase has taken place largely in the number of field examiners.

In the Washington office of the Bureau of Federal Credit Unions are found the Director, the Deputy Director, the Chief of the Division of Field Operations and two Assistant Chiefs, the Chief of the Division of Programs and Reports, and the Chief of the Division of Administration Services, together with their clerical staffs.

The administration of the Federal Credit Union Act is the responsibility of the Director of the Bureau of Federal Credit Unions, subject to the broad policies of the Social Security Administration and of the Department of Health, Education, and Welfare. The field program of the Bureau for the supervision of federal credit unions is directed through the Regional Representatives and their staffs.

The following actions originate in the Washington office:

1. The formulation of policies;
2. Promulgation and publication of rules and regulations pertaining to the organization and the operation of federal credit unions;
3. The fixing of the scale of charter, supervision, and examination fees;
4. Issuing of manuals of instruction to regional staffs, examiners, and federal credit unions;
5. The development of educational material and programs for federal credit union officials;
6. The making of studies of credit union operation and the dissemination of this information—the Annual Report is the major effort under this item;
7. The development of training programs for examiners and the assisting of regional staffs in conducting them;
8. The making of studies of examination methods and costs;
9. The supervision of the operation of the regional staffs, including conferences with Regional Representatives and examiners;
10. The maintenance of contacts with national credit union organizations and governmental agencies which have interests which concern all federal credit unions.

Acting upon recommendation from the Regional Representative the Washington office does the following:

1. Act upon all applications for federal credit union charters, and issue charters to qualified groups;

2. Act upon all applications for nonstandard amendments, and after having approved them issue certificates of amendment;
3. Cancel charters upon completion of liquidation or merger;
4. Approve variations in standard accounting forms and procedures;
5. Approve, prior to release to the credit union, unusual reports of shortage examination and statements of discrepancy;
6. Give preliminary approval to proposed mergers and conversions;
7. Give final approval to conversions;
8. Issue Notices of Intention to Suspend Charter, Notices of Suspension, Notices of Involuntary Liquidations, and Appointment of Liquidating Agents in cases of involuntary liquidation.

The six regional offices are located in Boston, New York, Chicago, Atlanta, Dallas, and San Francisco. Here are found a Regional Representative, an Associate Regional Representative, and their clerical staffs. In general, the work performed by the Regional Representative and his staff is the following:

1. The training and supervision of field examiners and assigned clerical employees;
2. The processing of inquiries from prospective credit union groups, including the review and processing of charter applications and investigation reports;
3. The issuing of assignments to conduct organization meetings and the instruction of new officials;
4. The review and processing of examination reports submitted by examiners, including the writing of transmittal letters and follow-up assignments;
5. The preparation of correspondence to examiners, credit union leagues, state credit union supervisors, government agencies, and others within the region on established policies and supervisory matters pertaining to federal credit unions;
6. The supervision of obtaining and processing of call reports and supervision fees from federal credit unions;
7. The processing of cases of merger and conversion for action by the Washington office and the supervision of the completion of such cases;
8. The supervision of liquidation and shortage cases;
9. The review of reports received from problem cases and from special reporting federal credit unions;
10. The processing of requests for amendments to federal credit union charters and bylaws;

11. The preparation of recommendations for Washington office action on charter cancellations and revocations;
12. The issuing of certificates of approval for establishing permanent change funds in credit unions;
13. The analyzing of proposed changes in standard accounting forms and procedures and the submission of recommendations thereon to the Washington office;
14. The initiation of administrative action of suspension or revocation of charter under section 16(b) of the Federal Credit Union Act, and the supervision of directives issued by the Director.
15. The preparation of prescribed reports on operations of the region for the Washington office;
16. The supervision and maintenance of prescribed control records and operating files;
17. The supervision of storage and safekeeping, for the statutory period of five years, of records of liquidated federal credit unions; (Since February 1954 this has been done only for the records of involuntary liquidations—those liquidated by the Bureau.)
18. Cooperation with credit union leagues and chapters and representatives of the Washington office to initiate and to participate in the training of and in group instruction programs for federal credit union officials;
19. To maintain, through personal contacts, good relations with credit union leagues and chapters, state supervising agencies, government agencies, community organizations, and credit union leaders;
20. To answer inquiries for information about the organization and operation of federal credit unions.

Each region is divided into districts; these are determined by the density of credit union organization, the type and size of individual credit unions, and other relevant factors. The assignment of examiners to the various districts is made by the Regional Representative.

FINANCING THE ADMINISTRATION OF THE FEDERAL CREDIT UNION ACT

To the beginning of the 1954 fiscal year, when the Bureau of Federal Credit Unions reached a self-supporting status, appropriations totaling slightly more than \$4.5 million were obtained from Congress to administer the Federal Credit Union Act. This is an average appropriation of almost \$238,000 annually from 1935 to 1953. In 1954 Congress made a loan of \$250,000 to provide working capital

for the Bureau; this is to be repaid, with interest, over a 10-year period. In addition to the congressional appropriations, up to 1954 the Bureau collected from the credit unions in fees slightly more than \$4.3 million, almost as much as Congress had appropriated directly. The annual appropriations and fee collections are shown in Table 58.

The initial grant of \$50,000, specifically provided for in the Act, was for the purpose of establishing an organization and preparing the

TABLE 58. FEES COLLECTED FROM FEDERAL CREDIT UNIONS, GENERAL TREASURY FUNDS EXPENDED, AND TOTAL EXPENDITURES, IN THE ADMINISTRATION OF THE FEDERAL CREDIT UNION ACT, 1935-53.*

Fiscal Year	Fees Collected from Federal Credit Unions	General Treasury Funds	Expenditures
1935	\$ 25,954	\$ 50,000	—
1936	24,046	18,982	\$ 118,982
1937	65,358	104,541	169,899
1938	37,505	209,301	246,806
1939	32,888	274,150	307,038
1940	91,000	272,255	363,255
1941	110,000	306,045	416,045
1942	158,795	437,525	596,320
1943	190,352	292,778	483,130
1944	153,208	236,508	389,716
1945	165,934	178,203	344,137
1946	162,319	195,791	358,110
1947	210,372	287,447	497,819
1948	190,437	317,903	508,340
1949	196,663	455,610	652,273
1950	291,480	200,000	618,841
1951	470,725	250,000	754,341
1952	644,471	229,150	832,847
1953	1,110,287	200,000	1,144,069
Total	\$4,331,794	\$4,516,189	\$8,801,968 ^a

* SOURCE: *Departments of Labor and Health, Education, and Welfare Appropriations for 1955: Hearings before the Subcommittee of the Committee on Appropriations, House of Representatives, Eighty-Third Congress, Second Session*, Department of Health, Education, and Welfare (Washington: U.S. Govt. Printing Office, 1954), p. 290.

^a Total collections plus Treasury funds exceed expenditures by \$46,015.

forms necessary to administer the Federal Credit Union Act. Appropriations obtained while the Act was under the administration of the Farm Credit Administration covered organization and supervision, the phase of the work performed by the Credit Union Section. The Examination Division, entirely distinct, collected enough in fees to cover the costs of examination. During the war when the administration was in the hands of the Federal Deposit Insurance Corporation, a self-sustaining agency, Congress was asked for no specific appropriations for credit union administration; but the costs were left to accumulate as a charge on the books. When in 1948 administration was shifted to the Federal Security Agency—as it was then called—the Federal Deposit Insurance Corporation was reimbursed for most of the expenditures made on federal credit unions in excess of fees collected. This reimbursement, to the amount of \$1,575,088.66, was approved by Congress at the time that the Bureau was established, which happened to coincide with the time of repayment to the Treasury of the initial capital invested by the United States Government when The Federal Deposit Insurance Corporation was formed. It should be noted, however, that no charges were made by the Corporation for personnel services, budget and supply services, and for the preparation of the annual report of federal credit union operations. Thus the figures in Table 58 tend to understate the actual amount spent in establishing the federal credit union system.

Three types of fees are specified in the Federal Credit Union Act: (1) organization fees; (2) supervision fees; and (3) examination fees.³ The organization fee is \$25—\$20 for investigation and \$5 for the insurance of the charter; should the charter application be rejected only \$5 is returned to the applicant. This is the maximum fee specified in the act; but it has never been assessed at a lower figure.

The Act originally provided for a supervision fee not to exceed \$10 per year. Until the Act was amended in April 1952 the supervision fee was assessed at this figure. The present fee provides for a graduated scale of payments to be made on all credit unions with assets over \$34,000. No such fee is payable for the year in which a final distribution of assets is made to members of a liquidating credit union.

The original Federal Credit Union Act provided for the Governor of the Farm Credit Administration to fix an examination fee schedule which would cover the expense of examination. A 1937 amendment provided that consideration be given to the time and expense of the examination and the ability of federal credit unions to pay such fees.

Until August 1, 1955, examination fees were assessed on a split basis. The fee was computed on assets and on the time required by the examiner to make the examination; then the fee was assessed at the lesser of the two amounts, except where the minimum fee applied. Under the Farm Credit Administration federal credit unions were billed for examinations by the Washington office. The cost of making examinations was computed every six months in order to determine the day rate to be applied during the period. The asset rate was 25 cents per \$100 of assets, and the day rate varied from \$19.80 to \$28.18, with a minimum fee of \$2.50 per examination.

A day rate of \$25.72 was fixed in 1941, when examiners were paid about \$2600 per year, and the per diem allowance for federal employees in travel status was \$5. The scale of examination fees was not changed under the administration of the Federal Deposit Insurance Corporation. After the war a series of classifications and increases made the prewar day rate out of line with actual costs. In addition to the necessity of meeting these increased costs, another pressure to increase fees came soon after the creation of the Bureau of Federal Credit Unions. This was the admonition—later a firm directive by the Bureau of the Budget, and successive cuts in appropriations by Congress—that finally forced the Bureau to become self-supporting from fees collected from federal credit unions. Table 59 lists the successive changes in examination fees made from the beginning of the examination program.

The March 1954 schedule provided that no fee be charged for the first examination of a newly-chartered credit union. This fee had been burdensome and there had been a tendency to postpone the initial examination just at the time that a new organization needs the assistance of the examiner. This practice of making the first examination without charge was continued in the fee increase of August 1, 1955. This increase, it is claimed, was necessary to provide pay raises for Bureau employees in line with congressional action.⁴ This marks

TABLE 59. FEDERAL CREDIT UNIONS: FEES CHARGED FOR EXAMINATIONS FROM THE BEGINNING OF THE EXAMINATION PROGRAM THROUGH 1955.^a

Period Schedule in Effect	Minimum Fee	Fee Schedule— Lessee of Fees Computed at:	
		Per \$100 of Assets Per Examiner Day	
Initial fee schedule	\$2.50	25 cents	\$19.80
July 1–Dec. 31, 1936	2.50	25 cents	26.75
January 1–June 30, 1937	2.50	25 cents	21.16
July 1–Dec. 31, 1937	2.50	25 cents	24.48
Jan. 1–June 30, 1938	2.50	25 cents	25.79
July 1–Dec. 31, 1938	2.50	25 cents	28.18
Jan. 1–June 30, 1939	2.50	25 cents	24.54
July 1–Dec. 31, 1939	2.50	25 cents	25.02
Jan. 1–June 30, 1940	2.50	25 cents	25.18
July 31–Dec. 31, 1940	2.50	25 cents	23.40
Jan. 1–June 30, 1941	2.50	25 cents	26.22
July 1, 1941–April 28, 1949	2.50	25 cents	25.72
April 29–Dec. 31, 1949	3.50	35 cents	32.08
Jan. 1–July 9, 1950	3.50	35 cents	34.24
July 10, 1950–June 30, 1951	5.00	50 cents	47.20
July 1, 1951–Mar. 15, 1954	5.00	50 cents	56.00
March 15, 1954–July 31, 1955	25.00	50 cents	56.00
(No fee charged for any initial examination commenced within 12 months after the date a FCU charter is issued.)			
August 1, 1955	\$44.80 per examiner day, plus 3¢ per \$100 of assets up to \$1 million, plus 1¢ per \$100 of assets in excess of \$1 million, for FCU's with assets over \$25,000 subject to a minimum of \$125.		
	FCU's with less than \$25,000 of assets 50¢ per \$100 of assets, subject to a minimum of \$25.		
	No fee for newly chartered FCU's for the first examination made within a year of the date of its charter approval.		

^a Information supplied by the Bureau of Federal Credit Unions.

the end of the split fee principle—in the sense that “lower of the two” no longer applies. Of course, a well-kept set of books will still

result in lower examination cost; but the saving, which could formerly be shown by comparing the day-rate with the asset-rate, will no longer be evident.

ADMINISTRATIVE POLICIES OF THE BUREAU OF FEDERAL CREDIT UNIONS

The following policies of the Bureau will be discussed:

1. Chartering policies, including preliminary investigation;
2. Examination policies;
3. General supervision;
4. Liquidation policies;
5. Other policies:
 - a. Problem cases;
 - b. Mergers and conversions;
 - c. Diversification of services;
 - d. Education and research activities.

Chartering Policies

Under the Farm Credit Administration the first federal credit union field representatives were organizers who did cold canvass. They had nothing to do with examination or auditing; that was handled by another section of the Farm Credit Administration. The vigorous growth of 1935 and 1936 attests to the effectiveness of their work. In 1937 the Bureau of the Budget ruled out cold canvass: in the opinion of the Bureau of the Budget, the Federal Credit Union Act had not given such power to the Farm Credit Administration. Since that time groups wishing to organize a credit union have been contacted only after they initiate a request. Under the Farm Credit Administration charter applications submitted by volunteer organizers were accepted.

Under the Federal Deposit Insurance Corporation the chartering of a federal credit union was made a formal and a complicated procedure. A follow-up investigation was required on any application submitted by a volunteer. Processing a charter application included the writing of several long memoranda for the final consideration of the Board of Directors of the Corporation. Under this agency, also, a change in policy increased from one hundred to two hundred the minimum number of potential members for an eligible group.

One of the first policies adopted after the creation of the Bureau

of Federal Credit Unions was to decrease the minimum number of potential members from two hundred to one hundred. Volunteer organizers were again encouraged, and normally no elaborate follow-up investigation was made. In recent years the Bureau has gone one step further: where the regional representative and the local examiner know that the volunteer is competent and has the time to devote to the task, he is encouraged to conduct the organization meeting by himself and also to assist and to instruct the new officials. In such cases the first contact by an employee of the Bureau may be at the time of the initial examination of the credit union, perhaps from four to six months after the organization meeting. At the present time only about one per cent of the examiners' time is spent on organization. Regional Representatives are urged to use the services of volunteer organizers, sometimes called "investigators." An excerpt from the *Examiner's Guide* dealing with the investigation of groups interested in forming federal credit unions and the procedure for organizing such groups has been published for the use of volunteer organizers.⁵ The Field Operations Manual states:

The Regional Representative is expected to make a real effort to encourage and train local credit union leaders to become volunteer investigators . . . The effective use of volunteers in investigating prospective groups and in organizing new Federal credit unions will result in a saving of examiner time and travel expense. In addition, good public relations and the good will of the organized credit union movement will be promoted.⁶

Section 4 of the Federal Credit Union Act places upon the supervisory authority the responsibility of investigating applications for a charter in order to determine (1) whether the organization certificate conforms to the provisions of the Act; (2) the general character and fitness of the subscribers; and (3) the economic advisability of establishing the proposed credit union. Section 9 provides that membership be limited to groups within a well defined neighborhood, community, or rural district. The determination of the economic advisability of establishing a proposed federal credit union is based on the following factors:

1. Whether satisfactory credit union service is now readily available to the group;
2. The practicality of operation from the standpoint of providing credit union service for the group;
3. The number of potential members, now set at a minimum of one hundred.

Each application for a charter is considered on its own merits.. The *Examiner's Guide* treats at some length the general principles of eligibility which apply to the organization of various types of occupational, associational, and residential groups.

With occupational groups the eligibility question does not pose any great difficulty. The employees of any company and affiliated companies under the same management and in the same locality usually have the qualification of a common bond that is specified in the Act. And while no general rule can be laid down as to the extension of the field of membership to those located away from the home office, there are advantages to compactness of operation.

With government groups—employees of the United States Government, states, counties, and municipalities—again the question is to decide upon the size of the group to be embraced in the credit union. In small communities, at times, it has been found practical to combine municipal, county, state, and federal employees in one credit union. In larger cities there are advantages in organizing separate credit unions for teachers, police, fire, and other departments. Teacher groups also face the same problem of extension. The general principle seems to be that of bringing credit union service to all employees in a group, and at the same time making the credit union as compact as possible.

In groups which depend on membership in an association for their common bond the main problem of eligibility seems to be that of determining whether the association has stability. The convenient location of a treasurer is at times a problem.

With labor-union-sponsored credit unions in general the principles of eligibility are similar to those in occupational groups. The problem seems to be one of working out a plan of organization which is acceptable both to management and to the labor unions. Where the employees of a number of small shops are members of one local it

may be convenient to have the credit union charter issued on the basis of membership in the labor union.

In regard to fraternal and beneficial groups the *Examiner's Guide* states:

Local lodges of some national fraternal orders are of sufficient age and stability to warrant the organization of credit unions . . . Purely local groups should be studied carefully to determine the nature of the ties binding the members together. Such groups can be considered satisfactory only if they have property or mutual benefits which are of sufficient importance . . . to make certain that there is a cohesiveness and reasonable stability in the association.

Similarly, with church groups the *Examiner's Guide* says: "In general, church credit unions should be limited to members of one parish or congregation."

Where an organization is operating as a bona fide cooperative, either producer or consumer, its membership is considered to be an eligible group. At times the membership of more than one overlapping cooperative may be included in one credit union. Groups of credit union officials also constitute an eligible group.

Since only 2.3 per cent of all federal credit unions at the end of 1953 were of a residential grouping, the eligibility requirements of such groups seem to be rather stringent. There are difficulties in finding a convenient location for a treasurer and in being assured that a sufficient number of members will use the credit union service. Usually in urban centers the occupation or associational group is more effective. The Bureau has found, however, that in smaller communities where there is a general acquaintance among the residents, credit unions organized on a residential basis have proved to be workable; experience seems to have shown that the community should not have a population greater than 5000, nor should the territory covered exceed a radius of 15 miles.

Farm groups have usually been limited to an area not larger than a county. Since there are advantages in building on established organizations, it has been considered desirable that rural groups be bound together by membership in a Grange, Farmers' Union, Farm Bureau Federation, or other such organization.

There are also certain ineligible groups. It has not been the policy of the Bureau to grant charters to such groups as:

1. Groups of business men who do not have any formal association or organization and whose only possible common bond is that of being in business in the same general locality;
2. Federations in which members of subdivisions are not directly members of the Federation;
3. Groups in which the only bond between the members is a financial one, such as holders of insurance policies in the same company;
4. Employees located in one building but having a variety of occupations and employers;
5. Political party groups;
6. Neighborhood groups in large cities;
7. Directly overlapping or competing groups;
8. Groups whose desire is to make available general banking service through the credit union.

Borderline cases are referred to Washington for a decision as to whether or not their field of membership is eligible for a charter.

It is not necessary here to go into detail on questions of investigation, the charter meeting, the preliminary and later organization, and the instruction of officials. These and other important matters of organization are taken up in the *Procedure for Organizing Federal Credit Unions*. Copies of this excerpt from the *Examiner's Guide* and other material for volunteer organizers may be secured from the Bureau of Federal Credit Unions. Matters of organization are handled through the regional offices.

Examination Policies ⁷

There is an interim period between the organization of a credit union and its first examination. The effectiveness of the instructional work done prior to organization, the ability and the experience of the officials, and the nature of the problems facing the new credit union determine the extent of the follow-up work required prior to the first examination. Follow-up contacts are helpful in instructing the treasurer in the procedure to be followed in closing the books and in the preparation of the bank reconciliation and financial statement. Other problems arise that an experienced examiner can help to solve.

More and more the Bureau is leaving such follow-up work to voluntary and to league effort.

The Bureau policy previously mentioned, of making no charge for the initial examination, was formulated with a realization of the importance of the initial examination of a credit union, not so much from an auditing point of view, but rather as an instrument of instruction and guidance to the officials of the new organization. Where this examination is delayed too long, not infrequently the officials become discouraged and retardation or even liquidation follows. The Bureau states that the initial examination should be made approximately within four months of the date when the credit union was chartered. A joint meeting of the credit union officials and the examiner is held at the conclusion of such an examination. Of this joint meeting the *Examiner's Guide* states:

The meeting of officials following the initial examination has especial significance in the development of a credit union. The directors and committee men are reviewing, perhaps for the first time with a representative of the supervising agency, the operations of their organization. The problems encountered may have been new and strange to most of the officials. For this reason it is imperative that the examiner promote general discussion on the affairs of the credit union. Questions should be encouraged and carefully answered. Any misunderstanding as to objectives of credit union operations and purposes of the regulations should be brought out and reconciled. . . . This first meeting with the officials is perhaps the examiner's finest opportunity to forestall the frequently encountered trend toward "one-man" operation.⁸

The regular examination is the principal supervisory contact which the Bureau makes with federal credit unions. The first examinations of federal credit unions were made in 1936. The examiners were members of the staff of the Examination Division of the Farm Credit Administration. Their stated objective was "to protect the reputation of the Governor of the Farm Credit Administration." Their examinations were extremely meticulous as to details of record keeping and loans, and their reports itemized all exceptions, even the most insignificant. The examiners made the examination and submitted a report without discussing their findings with the officials of the credit union concerned. Not infrequently by the time that the re-

port had reached the credit union a faulty note had been repaid. The actual discussion of the examiner's report was the task of the field representative. It was neither a satisfactory nor an efficient system.

When cold canvass was discontinued the work of the field representatives was changed. The emphasis was then placed on instruction of officials. As a basis for these instructions wherever a federal credit union had been organized, the field representatives made audits; these were at first called inspections and later constructive service reviews. In addition, the representatives made follow-up calls to help officials to correct exceptions disclosed by Farm Credit examiners. The field representatives could only examine new credit unions with assets of less than \$50,000; examiners from the Examination Division would inspect the larger ones.

A number of important changes in examination policies and practices were made during the years when federal credit unions were under the administration of the Federal Deposit Insurance Corporation. These changes had the effect not only of improving the quality of the examination, but more subtly, of improving the quality of the examiner. This was done by changing the field representatives to examiners: the work that had been separated under the Farm Credit Administration was consolidated under the Federal Deposit Insurance Corporation. Next, the meeting with the officials of the credit union at the conclusion of an examination was made a standard procedure. A simplification was made of the standard report form; this was put into use in 1943. In 1946 a complete examiner's manual was issued and was coordinated with a revision of the accounting manual and the *Federal Credit Union Handbook*. At the time the *Examiner's Guide* was written, further improvements were made in the examination report forms and procedures. Two years after becoming a Bureau, a substantial change in the examination report forms was adopted; in 1950 the report form was reduced from a minimum of seventeen pages to a minimum of nine pages. Again, this change was worked out after conferences with examiners and credit union officials. A result of this change is shown in that, despite the growth both in assets and transactions in credit unions, the average time required to make an examination decreased from 3.5 days in 1949 to 3 days in 1950.

The Bureau has listed the following objectives for making a regular examination of a federal credit union: ⁹

1. Determination of the facts concerning the operations through the use of auditing techniques and procedures.
2. Analysis of the facts thus developed to determine basic causes for strength and also weaknesses, if any, and ways and means of improving credit union operations.
3. Discussion of the findings with the responsible credit union officials for the purpose of:
 - a. Making recommendations for improvement in operations and service;
 - b. Instructing officials as to the requirements of the law and regulations, and in sound credit union procedures;
 - c. Obtaining, where necessary and to the extent possible, correction of unsatisfactory conditions, and assurance of proper future practices.
4. Preparation of a report of examination that adequately sets forth, for the benefit of the credit union and the supervising agency, the findings, actions taken, results accomplished, further recommendations for improvement, and the examiner's appraisal of the credit union.

The Examiner's Guide states: ¹⁰

The broad objectives of the regular examination afford the examiner an opportunity to use his ingenuity and to experience the satisfaction which comes from rendering a genuine service to a movement dedicated to the development of sound thrift habits and the intelligent use of credit. Protection of the members' savings by examination procedures which will uncover violations of the law and unsound practices is the starting point. Following through to obtain corrections and improvements through instruction of and the development of a sense of responsibility in credit union officials is an integral part of the regular examination program.

The general program of examination is that each operating credit union shall have a regular examination during each calendar year. The examination itself is made in conformity with modern auditing practices. A full discussion of the actual procedures and techniques will not be attempted here. It should be noted, however, that in credit unions with assets of less than \$50,000 a modified examination

report is used. This is intended to save time without harming the quality of the examination.

The regular examination is primarily an educational and an operational aid; it is not a criminal investigation. The examiner tries first to secure proper internal controls and to prevent shortages. Nevertheless, in spite of the utmost vigilance, shortages will occur. Shortages, while comparatively rare, are the most troublesome and possibly the most spectacular phase of examination. They have a significance far beyond that indicated in statistics; and while there have been relatively few shortages, frequently they have had tragic consequences for the officials implicated and in a few cases they have resulted in the liquidation of the credit union.

For statistical purposes the Bureau of Federal Credit Unions defines a shortage as: "Any loss of credit union assets caused by defalcation, mysterious disappearance, lack of faithful performance of duties, robbery, burglary, or forgery. Losses of \$200 or less where, in the opinion of the board of directors, no dishonesty is involved and no claim is filed will not be classified as shortages."¹¹ It should be emphasized that all shortages are not defalcations; some involve outside crime, such as robbery and burglary, others arise from confusion and from what is technically known as "lack of faithful performance." The statistics of the Bureau on shortages were originally accumulated in order to determine the exposure of federal credit unions to loss. Thus all shortage figures, whether they involved internal dishonesty or not, have been lumped together. Future statistics will be broken down into the above categories. Furthermore, since these figures include all types of shortages, they cannot be compared with bank or other financial embezzlement figures.

Shortage statistics—subject to the qualifications of the preceding paragraph—are shown in Tables 60 and 61. Discoveries were low during the war years and the sums involved, with the possible exception of 1944, were moderate. New discoveries rose after 1947, reaching a peak of 191 in 1953. The average discrepancy has also tended to rise. Two catastrophic defalcations account for the high averages of 1951 and 1953. In 1954 average defalcations were above the average for the period under examination.

TABLE 60. FEDERAL CREDIT UNION SHORTAGES, 1941-54.^a

Year	Discoveries		Additional Discoveries	Average Discrepancy	Ratio of Discoveries to Total Assets on Jan. 1 of that Year
	Number	Amount			
1941	54	\$ 30,362		\$ 562	.0421%
1942	86	54,759		637	.0518%
1943	59	52,999		898	.0445%
1944	64	137,609	\$ 1,420	2,150	.1084%
1945	40	59,794	3,549	1,495	.0414%
1946	42	70,624	2,269	1,682	.0461%
1947	68	47,681	9,066	701	.0275%
1948	81	148,174	4,011	1,808	.0704%
1949	97	171,845	16,433	1,772	.0665%
1950	116	292,419	1,271	2,521	.0924%
1951	136	644,733	24,753	4,741	.1587%
1952	144	303,426	4,999	2,107	.0601%
1953	191	887,569	5,203	4,647	.1339%
1954	156	565,607	12,737	3,626	.0662%
Total:	1,334	\$3,467,601	\$85,711	\$2,599	

^a Bureau of Federal Credit Unions, Office Memorandum from Division of Field Operations to Regional Director, June 1, 1953. 1953 and 1954 statistics supplied by Bureau.

As Table 60 shows, the ratio of shortage discoveries to total assets on January 1 of that year rose above one-tenth of one per cent only in 1944, 1951, 1953. As a result of spectacular defalcations in 1951 and 1953 a certain pressure has arisen for the inauguration of "share insurance." This will be discussed in the next chapter. In 1954 the Federal Credit Union Act was amended to clarify the authority of the Director of the Bureau to specify the form of surety bond contracts and to fix a scale of minimum coverage for federal credit unions.

The Bureau has a policy of going in a credit union where a shortage is discovered and of making a complete examination, or at least being assured that the responsible officials are capable and willing to make such an examination. This has been done at no little cost to

TABLE 61. DISPOSITION OF SHORTAGES IN FEDERAL CREDIT UNIONS, 1941-54.^a

Year	Restitution	Paid by Surety	Absorbed by C.U.	Scaledown of Shares ^e	Other	Total	Pending, 12/31	
							Number	Amount
1941	\$ 10,244	\$ 23,251	^d	c	b	\$ 33,495		\$ 12,915
1942	14,416	22,844	\$ 185	c	b	37,444		9,782
1943	7,169	21,345	188	c	b	28,702		27,096
1944	44,959	70,612	16,270	c	b	131,842	46	51,394
1945	27,774	27,655	1,424	c	b	56,852	39	58,581
1946	32,935	48,823	2,754	c	\$ 168	84,679	42	65,072
1947	18,185	39,084	10,226	c	14,752	82,248	30	53,286
1948	35,667	75,905	2,198	\$ 8,703	549	123,022	41	27,786
1949	45,266	106,183	2,858	—	1,169	155,476	43	56,949
1950	26,366	73,802	4,138	—	3,226	107,532	51	89,751
1951	41,401	186,868	14,182	56,494	2,787	301,732	69	275,909
1952	60,547	164,702	10,572	314,537	12,385	562,743	77	643,663
1953	68,723	170,856	16,415	25,899	10,551	292,443	87	389,346
1954	63,017	381,620	12,514	389,404	140,194	986,749	70	989,626
Total	\$496,669	\$1,413,550	\$93,924	\$795,037	\$185,781	\$2,984,961		581,269
Per cent	16.6%	47.4%	3.2%	26.6%	6.2%	100.0%		

^a Bureau of Federal Credit Unions, Office Memorandum from Division of Field Operations to Regional Director, June 1, 1953. 1953 and 1954 statistics supplied by Bureau.

^b 1941-45 figures apparently included in amounts shown for Restitution or Absorbed by C.U.

^c Disposition by Scaledown of Shares, if any, for 1941-47 apparently shown under one of the other figures.

^d 1941 figures apparently included in amounts shown for Restitution.

^e Includes gross scaledown. Amounts do not include any recoveries returned to the shareholders who participated in the scaledown.

the Bureau. Such an action, however, has given an excellent claim record and has aided with bonding company recoveries. Of the cases disposed of from 1941 to 1954, almost one-half of the \$3 million involved was paid by the surety companies. This is shown in Table 61. 16.6 per cent was paid back by restitution and 26.6 per cent was absorbed by a scaledown of shares.

A shortage examination is usually a regular examination with a more detailed audit added. Such an examination is made when evidence is discovered that there appears to be a shortage in the funds of the credit union. The first purpose of such an examination is to determine whether there is an actual shortage. When this has been determined then the examiner has the task of fixing of responsibility for the apparent shortage, and of determining that the credit union officials comply with the provisions of the surety bond so as to make sure that a legally enforceable claim may be filed. A detailed, complete, and accurate record of the shortage is essential to enable the board of directors of the credit union to file a claim against the surety company. Because of the confusion—there may be a loss or actual destruction of records—and the emergency nature of certain of such cases, the examiner has to assume a great amount of responsibility. Where a criminal violation is involved the case comes under the jurisdiction of the Federal Bureau of Investigation. Not a large proportion of shortage cases, however, go to the F.B.I.

The examination function of the Bureau again comes in with a credit union liquidation. Before considering liquidation procedure, the general supervisory function of the Bureau will be reviewed.

General Supervision

In the operation of the Bureau of Federal Credit Unions a distinction is drawn between examination and general supervision. This distinction was held from the beginning: under the Farm Credit Administration, as has already been discussed, it was rigorously adhered to with a division of personnel. Later, as the examiner came to exercise supervisory functions, the distinction between general supervision and examination came to be blurred as far as field contacts by the examiner were concerned. The supervisory fee, under the original Act, was fixed at \$10 per year; this was amended only in 1952. The

discussion attendant upon the raising of the fee brought out once more the importance of the general supervisory function.

The supervision of federal credit unions was defined by the General Accounting Office to include the following: ¹²

1. Visitations by examiners to federal credit unions for the following purposes:
 - a. Consideration of proposed amendments to charter and bylaws;
 - b. Obtaining of annual financial and statistical reports and other call reports when these reports are not submitted on time or are incomplete;
 - c. Follow-up on recommendations and exceptions reflected in reports of examination when seriously faulty operating practices or financial conditions are indicated in individual cases;
 - d. Investigations of reported shortages in those cases where it is determined that a shortage examination is not required, and a follow-up on established defalcations after a shortage examination has been made;
 - e. Investigations concerning suspensions, mergers, and conversions;
 - f. Supervision of federal credit unions that are in the process of liquidation.
2. Preparation, revision, and distribution of manuals for officers, directors, and committeemen of federal credit unions.
3. Review of call reports and preparation of studies based on these reports, including the yearly report of federal credit union operations.
4. Review of proposed changes in accounting forms and procedures.
5. Answering of telephone or written inquiries to the Bureau's six regional offices concerning federal credit union operating problems and procedures.
6. Development and conduct, usually in cooperation with local, state, and national credit union organizations, of group training programs for federal credit union officials.
7. The provision of advisory services for federal credit union officials on operational and developmental problems that are state or national in scope. Included in such activity are negotiations with bookkeeping machine manufacturers to develop standardized forms and systems.

In general, the examination and organization work is given precedence by the field examiner and supervisory work is performed in conjunction with his other duties. Considerations of economy in travel enter into the planning of a work program. If matters requiring

supervisory contacts are taken care of promptly, however, less time is required for examinations. Likewise, if all examinations are made regularly, on an average of once a year, the amount of supervision will be somewhat less because of a reduction in problem cases. A study of examiners' time allocation during the period from October 1, 1948, to March 31, 1949, would seem to indicate that an average of two hours per year per operating federal credit union was spent by field examiners on work defined as general supervision. Even with an expanded examination program it can be conservatively estimated that two hours per operating federal credit union will be devoted annually to the field examiners' work of general supervision.¹³

Liquidations ¹⁴

A credit union, like any other enterprise, may find it necessary to go into liquidation. The liquidation record of the federal credit unions was analyzed in Chapter VIII. This discussion will review the liquidation policies of the Bureau of Federal Credit Unions. These policies have both supervisory and examination aspects.

Tersely stated:

The policy of the Bureau of Federal Credit Unions is to avoid the liquidation of a credit union if it is reasonably possible to do so and if there is a sufficient number of interested members to make continued operations feasible. There is no object in needlessly delaying liquidation, however, when such action appears to be unavoidable.¹⁵

Liquidations may be classified as voluntary and involuntary. A voluntary liquidation occurs when the liquidation or conversion to a state charter is undertaken with the approval of the membership and is carried out either by the board of directors or by a liquidating agent appointed by the board or by the members. An involuntary liquidation occurs when the Bureau of Federal Credit Unions orders an involuntary liquidation and appoints a liquidating agent to wind up the affairs of the credit union.

Voluntary Liquidations. Whenever a federal credit union informs the regional office that it contemplates liquidation, a copy of the liquidation procedure (Form FCU-61) is sent to the proper credit union officials. As set forth in the liquidation procedure, it is the

responsibility of the board of directors to conduct the liquidation so as to safeguard the interests of the creditors and the members of the credit union. Whenever possible, a voluntary liquidation is carried on by the board of directors, without any visits or direct supervision by the examiners. This is not always possible, however, and in these cases an examiner is assigned to assist in carrying out the liquidation procedure.

At times the examiner, in discussing with the board of directors the advisability of liquidating the credit union, may prevent unnecessary liquidations. Common causes for liquidation for which there may be practical solutions are: the withdrawal of support by the parent organization, delinquent loans, lack of interest on the part of the officials or members, difficulties in finding replacements for key officials, disputes between factions in the credit union, and even the desire of some officials to liquidate the credit union for selfish reasons.

Liquidations may be prevented by reorganizing the credit union staff, by revamping the operating procedures, or by reviving interest among the officials and the members. Various expedients may be tried: a meeting of the members, a conference with representatives of the parent organization, or the enlisting of the aid of league officials or other interested persons. If these efforts to retain the credit union fail, or if there are cases where liquidation clearly cannot be avoided—such as the closing of a plant—the problem then is one of bringing the liquidation to a prompt conclusion.

The date of the commencement of liquidation is the date when the board of directors votes to submit the question of liquidation to the members. The books are closed on this date. The approval of a majority of the members is ordinarily required for a voluntary liquidation.

The collection of outstanding loans is ordinarily the most time-consuming part of the liquidation procedure. At times, however, it is possible to sell the accounts at a favorable price to some individual or organization; this may be a neat way to wind up the business. Obviously the many actual details of conducting a liquidation need not be discussed here. At times the appointment by the board of a liquidating agent with complete authority to carry through the

liquidation simplifies and speeds up the process. Generally speaking, however, if the board can continue to operate it is advisable that it retain most of its powers and supervise the liquidation.

Occasionally the question of a partial distribution of assets comes up, especially where a liquidation requires a considerable period of time. The policy of the Bureau is to discourage partial distributions; they may be made, however, if warranted by the facts in individual cases.

Involuntary Liquidations. When at all feasible, a voluntary liquidation is preferred over an involuntary liquidation; in the former the board of directors of the credit union is responsible, while in the latter the Bureau has the responsibility for conducting the liquidation. A liquidation is classified as involuntary when, for any reason, it is necessary for the Bureau to appoint a liquidating agent. Even if authorized by a majority of members, a liquidation might be classified as involuntary should the Bureau be forced to appoint a liquidating agent. On the other hand, should a plant close, making it virtually impossible to get an authorization from the members, a voluntary liquidation may be effected by having the board of directors appoint a liquidating agency. Since the procedure for conducting an involuntary liquidation is more rigid than for a voluntary liquidation, the officials of a credit union are often receptive to methods that may make the action a voluntary one.

Action by the Director of the Bureau of Federal Credit Unions is required to place a credit union in involuntary liquidation. The Bureau appoints the liquidating agent. The selection of the liquidating agent is made on recommendation of the examiner and the Regional Representative. Generally an official, or a member of the credit union, or a local qualified person such as an official or employee of the state league, is appointed.

Substantially the same procedure is followed in an involuntary as in a voluntary liquidation. However, in an involuntary liquidation, instead of the liquidating agent retaining custody of the books and records for a period of five years, these records are retained by the Regional office. The approval of the members is not required in an involuntary liquidation.

Rescission of a Vote to Liquidate and Revocation of Charter. At

times it happens that after a majority of the members have voted in favor of liquidation the decision is reversed, and it is determined to continue operation. Whenever such a decision is made, it is necessary that at least a majority of the members vote in favor of continuing operations. If the decision to liquidate was not taken before the membership, all that is necessary is that the board of directors rescind its original resolution to present the question of liquidation to the members.

Sometimes it happens that a newly chartered credit union will, for one reason or another, not be able to begin operations. In such cases it is necessary that the group "surrender its charter" in order that it can be "revoked."

Other Policies

*Problem Cases.*¹⁶ On the borderline between liquidation and continued operation are certain credit unions classified as "problem cases." Included in this group are credit unions which present unusual supervisory problems because of material impairment of shares, continued serious violations of the law or the bylaws, or a continuous record of irresponsible management and unsound operating practices.

The Bureau lists the following basic considerations for determining whether to place a credit union on the problem list:

1. Material impairment of shares.
2. Seriously delinquent loans or estimated losses that clearly threaten solvency.
3. Record of serious and repeated violations of the Act, bylaws, and regulations.
4. Lack of growth for a considerable period of time and continued evidence that there is a lack of interest on the part of officers and members.
5. Credit unions which have been in operation for three full years and have less than \$5000 in assets are classified as problem cases regardless of the existence of any of the factors discussed above.

Patience, tact, and cooperative and firm guidance must be exercised to solve a problem case. Whether a credit union will be salvaged or will eventually be liquidated often may depend upon the effectiveness of the field examiner's supervision. The method of dealing with

a particular case must be adapted to the circumstances; but the purpose of an examiner is to assist the officials of the credit union to understand their responsibility and to guide them in restoring their organization to sound and useful operation. Obviously there are limits to such effort; it is impractical and uneconomical to continue such effort indefinitely. If after setting a goal of achievement to be reached after a definite time no progress has been made, usually a group will agree to liquidate.

When the shares of a credit union are impaired, a scaledown of shares may be authorized by the members. Such action may be all that is necessary to remove a credit union from the problem list. The policy of the Bureau is that no objection is raised if a credit union voluntarily decides upon a scaledown of shares, but that such action should not be recommended to a credit union by the examiner unless the Regional Representative agrees to its necessity.¹⁷ The procedure for this is set out in detail in the *Examiner's Guide*. A study prepared by the Bureau of Federal Credit Unions¹⁸ listed losses in scaledown of shares of \$884,476.46 to October 1953. The study added this qualification of that figure: "These totals are substantially influenced by two catastrophic embezzlements where gross scaledowns were 60% and 52% but may be subject to some recovery."

Where the estimated sound book value is 75 per cent or less, and it appears that insolvency cannot be eliminated within twelve months by continued operations or by donation to cover the deficit, a scaledown of shares to the extent necessary to restore solvency will ordinarily be necessary. In such cases the Bureau urges that the credit union take the action voluntarily. If voluntary action cannot be secured, the final step is a suspension of charter.

Suspension of Charter. Section 16 (b) (1) of the Federal Credit Union Act states:

The Director may suspend or revoke the charter of any Federal credit union, or place the same in involuntary liquidation and appoint a liquidating agent therefor, upon his finding that the organization is bankrupt or insolvent or has violated any provision of its charter, its bylaws, or of this chapter, or of any regulations issued thereunder.

Obviously this is a strong power, to be used only in the last resort when all other supervisory methods have failed to obtain satisfactory

management. It is also used in emergency conditions where immediate administrative action is required in order to protect the members' shareholdings. The power of suspension has rarely been used. In fact, through all the history of the Bureau at any one time there have never been more than five federal credit unions under suspension.

Usually a notice of intention to suspend the charter will allow the credit union a specified period—thirty to ninety days—to correct its unsatisfactory practices or conditions. This notice is a form of administrative action. Because of its serious character the notice of intention to suspend a charter often induces the management of a credit union to take the corrective action necessary for successful operation. Obviously such a notice will not be given except for serious reasons. The basic considerations for recommending a notice to suspend charter are:

1. Serious and repeated violations of the Act, bylaws, accounting manual regulations, and sound operating procedures, which continue despite the efforts of the supervising agency to obtain corrections;
2. Conditions involving the financial soundness of the credit union, the continuation of which will likely result in serious loss to the shareholders.

In addition, the Bureau requires that there be a record of patient effort by the examiner and by the regional staff to obtain a correction of this neglect.

After the notice of intention to suspend the charter has been issued, the case is followed closely. If a satisfactory compliance with the requirements is obtained, the recommendation is made by the Regional Representative that the proceedings be terminated. But if corrective measures fail, then suspension will follow.

It is the general policy of the Bureau to issue a notice of intention to suspend a charter before the actual suspension is ordered. But if an emergency exists—such as an impairment of shares caused by a defalcation in excess of the surety bond coverage and reserves—an immediate suspension may be issued to protect the interests of the membership.

Even this is not final. If the credit union returns to a satisfactory condition the suspension is lifted. Otherwise liquidation is the only

alternative. Here the Bureau prefers that the liquidation be voluntary, since the regulations governing involuntary liquidations necessitate strict controls and procedures which are often burdensome and expensive both to the credit union and to the Bureau.

*Mergers and Conversions.*¹⁹ When the boards of directors of two or more federal credit unions consider it desirable to merge their resources the following steps are involved:

1. Preliminary approval by the Director of the Bureau of Federal Credit Unions of the proposed merger, based upon the recommendation of the Regional Representative;
2. Completion of all phases of the prescribed merger procedure. A merger procedure for federal credit unions, including samples of the necessary forms, has been prepared by the Bureau and is furnished to interested credit unions. The procedure specifies that the terms of the proposed merger be decided by the boards of directors and approved by a majority of the members of each participating credit union;
3. Final approval of the merger by the Regional Representative, based upon the recommendation of the examiner;
4. Examination by a federal credit union examiner. After the examination the consolidation will be accomplished under the examiner's supervision;
5. Cancellation of the charters of the merged credit unions; this is effective as of the date of the consolidation.

Another major adjustment in the operations of a federal credit union may take place by conversion to a state charter. Conversely, a state-chartered credit union may convert to a federal charter. Because provisions of the state laws are involved in conversion from state to federal or from federal to state charters, specific instructions as to the procedure involved must be obtained in each case from the Washington office. Generally the policy of the Bureau is not to encourage the switching from one form of charter to the other.

Mergers and conversions have not been numerically significant; there is a record of only 54 mergers and conversions in the history of the system.²⁰

Diversification of Services. The Bureau of Federal Credit Unions has resisted attempts on the part of credit unions to diversify services. The Bureau holds that a federal credit union should not attempt to

provide a general banking service, nor should it enter into commercial activities outside of those set forth in the Act and in the bylaws.

Possibly the greatest demand is for an extension of check issuing and check cashing services. A federal credit union may issue checks for the convenience of its members, but it may not charge fees of any kind for this service. The *Examiner's Guide* states:

The selling of drafts of exchange is considered to be a function which is not within the powers of a credit union, but if a credit union is willing and able to render its members the service of issuing checks for their convenience without charging a fee therefor it may do so. This applies to register checks and other similar plans.²¹

Also, while the federal credit union may cash checks presented by members in connection with payments on shares and loans, or even for their convenience, it may not cash checks for nonmembers. Again the *Examiner's Guide* says:

A Federal credit union may not engage in the business of cashing checks since the business of check cashing is not one of the purposes granted by the Federal Credit Union Act. The charging of fees is evidence that check cashing has assumed the nature of a business activity. No fee of any kind may therefore be charged for cashing checks.²²

These prohibitions have at times been objected to by large credit unions where the members apparently appreciate a checking service and where the credit unions incur costs in providing such a service. The administrative decision of the Bureau seems to have been upheld by a decision in the District of Columbia District Court on January 27, 1955.²³

"Buying Clubs," or various types of purchasing activities conducted by credit unions for the benefit of their members, are not allowed. Nor may the officials of credit unions, as such, engage in such activities. This extends even to the operation of candy or soft drink vending machines. In some places the profits from such activities have been donated to the credit union. The credit union may accept such donations, but must not assume any liability for the success or failure of the activities.²⁴

A potential abuse which the Bureau has frowned upon is the tying up of insurance sales with credit union loans. This is opposed on the

general principle stated in Section 5, article XIX of the standard by-laws:

No director, committee member, officer, agent, or employee of this credit union shall in any manner, directly or indirectly, participate in the deliberation upon or the determination of any question affecting his pecuniary interest or the pecuniary interest of any corporation, partnership, or association (other than this credit union) in which he is directly or indirectly interested.

Thus a credit committee member would be precluded from writing insurance upon a loan where he served on the committee. The Bureau holds that it is highly desirable for the officials of a credit union to have no financial interest in the members' transactions with the credit union.

Another practice which the Bureau opposes is that of buying real estate in excess of need. Usually an employer provides office space. A credit union may provide office space through rental or purchase if necessary. Where the credit union rents space there is usually no problem of authority to enter the arrangement. But where real estate is purchased, the question arises of the authority of a federal credit union to invest its funds in real property. According to section 7 (4) of the Federal Credit Union Act, a federal credit union has power "to purchase, hold, and dispose of property necessary and incidental to its operations." The Bureau advises that no commitment be made to purchase real estate until the matter has been reviewed by the Bureau.²⁵

*Educational and Research Activities.*²⁶ The work of the Bureau in the education of members and of officials except as a part of general supervision and during examinations has progressively declined during the years. More and more has this activity been taken over by the state leagues and by the Credit Union National Association. During the period under the Farm Credit Administration the journal *Co-operative Saving* was published: one series ran from January 1935 to July 1936 and a second series went from July 1938 until it was finally discontinued in 1943 due to the wartime shortage of paper. *Cooperative Savings* was intended to be a medium of contact between the Bureau and the credit union; apart from official notices and information there were articles of general interest to credit union

people. The Bureau has no plan to resume such a journal; its place has been taken by the *Credit Union Bridge*, the official journal of the Credit Union National Association, and by various state league publications. A number of pamphlets are published, intended for the instruction of the various credit union committees. No new pamphlets have been issued in recent years, but the standard instructional pamphlets are kept in stock. The bibliography lists the current publications of the Bureau of Federal Credit Unions.

As cited above, an important objective of the regular examination is the instruction and training of officials; this usually takes place at a meeting conducted by the examiner at the conclusion of his examination. Other types of member education are being left to league organizations. In the summers of 1954 and 1955 the Credit Union National Association inaugurated at the University of Wisconsin an advanced school for credit union officials and members; this is to be continued on an annual basis. Institutes and educational meetings are continually being held in various parts of the country. While the Bureau cooperates in these activities by sending speakers and observers, it does not promote such activity as a part of its supervisory function.

Section 16 (e) of the Federal Credit Union Act states:

The Director is authorized to make investigations and to conduct researches and studies of the problems of persons of small means in obtaining credit at reasonable rates of interest, and of the methods and benefits of cooperative saving and lending among such persons. He is further authorized to make reports of such investigations and to publish and disseminate the same.

Under the Farm Credit Administration a little research was carried on: Frieda Baird made a few studies; some were published in processed form and others were simply retained in the files. With the war, research activity almost ceased. Since the war the Bureau has made a number of studies; some of these have already been referred to, such as the borrowing study, the payroll deduction study, the study of the share distribution in federal credit unions, and others. The greatest emphasis of Bureau research, however, has been placed on problems of internal administration. On these administration studies there has been little effort to disseminate this research.

This information is available to students and to others interested in credit union operations; all through this book reliance has been placed on such studies. Moreover, since many of these studies concern proposed legislation or projected administrative changes, the Bureau cannot give certain studies publicity lest it lay itself open to the charge of attempting to influence legislation.

Research falls under the Division of Programs and Reports. The budget of the Bureau provides only one professional and two clerical employees for this division. Its major continuing activity is the annual report, in itself a strong source of credit union information. In addition, it prepares and keeps under revision the instructional and operating manuals, and from time to time makes the various studies referred to above. Projections have been made to increase the staff of this division by the addition of another member, as it is realized that the study of the problems and the needs of federal credit unions will result not only in improved operation but in a more efficient examination and supervision.

This chapter has set forth some of the major policies and activities of the Bureau of Federal Credit Unions. It has also reviewed some other areas of possible activity which have been taken over by the state leagues and the Credit Union National Association. Questions of policy are continually changing and evolving; it would seem, however, that the major lines of Bureau policy have already been laid down and that future changes will lie in a refinement of existing policies rather than in any radical policy changes.

CHAPTER X

STRUCTURAL CHANGE AND IMPROVEMENT

THE credit union development is a dynamic one. The growth of the movement itself and changes in the economy have led to demands for improvement both in the legal structure and in operating practices. This was to have been expected: no one envisioned the federal credit union as a static organization, bound once and for all within the confines of the Act of 1934. The legislative development, however, has been gradual and moderate; after twenty years of growth the federal credit union still remains a specialized agency of consumer finance. In its administration of the Act the Bureau of Federal Credit Unions has resisted attempts by individual credit unions to enter into a general banking business.

The growth of the movement has pointed up certain problems. The emergence of the large credit union has emphasized the awkwardness of a committee structure originally designed for small, intimate units: in a large credit union the conventional credit committee is overwhelmed with hundreds of loan applications; and the supervisory committee, called upon to audit the books of a million dollar corporation, in many cases attempts a task beyond its technical competence. The large credit union, moreover, is faced with a greater possibility of catastrophic defalcation. Credit unions, both large and small, demand more competent management—a problem found in almost any business. Furthermore, the individual credit union is still largely an isolated unit, provided with only rudimentary rediscount facilities. These problems, in essence, were originally pointed out in

1917 by H. W. Wolff in a criticism of the New York Credit Union Act.¹ Recent proposals for structural improvement of the federal credit union have shown the astuteness of Wolff's judgment.

Most of the proposals for changes in the Federal Credit Union Act originate with the Credit Union National Association. While CUNA is an international organization, with membership embracing leagues composed of state-chartered and Canadian credit unions as well as federal credit unions, a not inconsiderable amount of CUNA's work is concerned with the Federal Credit Union Act. CUNA maintains an office in Washington, watches over federal legislation, and is in liaison with the Bureau of Federal Credit Unions. This chapter will take up current proposals for change in the federal credit union structure or operation. Proposed or recently enacted changes may be classified as: (1) those affecting internal operation, such as those dealing with defalcations, improved management or the streamlining of credit union operation; (2) those intended to cope with external factors, largely the adverse working of the business cycle—included here are proposals for regional discount banks and for share insurance. Other less important proposals, such as those dealing with check cashing by credit unions, dividend calculation, and others, deserve passing mention.

SUGGESTED INTERNAL IMPROVEMENTS

Bonding

Serious credit union defalcations in 1951 and in 1953 touched off an agitation for methods to prevent the recurrence of such disasters. One obvious protection was to insist upon bonding coverage adequate to protect the credit union against all possible losses through defalcation. Hitherto it had been the policy of the Bureau of Federal Credit Unions to suggest a minimum bond coverage for credit unions of different size.² This suggested minimum was set roughly at 10 per cent of the assets, and a "blanket bond" with a faithful performance rider was recommended for all credit unions with assets over \$50,000. It is not necessary here to go into detail on the different types of bonds and coverage; this is contained in the *Federal Credit Union Handbook*. This minimum was to be watched carefully by the board of directors and, when conditions warranted, it was to be increased.

The amounts suggested by the Bureau were calculated to cover the normal exposure to risks. In some cases where assets were concealed the coverage proved to be inadequate.

Before 1954, under the provisions of the Federal Credit Union Act and bylaws, it had been the responsibility of the board of directors of the credit union "to determine and obtain adequate bond coverage for each officer and employee having control of or access to funds or securities owned by or pledged with the credit union."³ An amendment to the Federal Credit Union Act proposed by CUNA and enacted into law in the last days of the 1954 session of Congress clarified the position of the Director of the Bureau of Federal Credit unions to prescribe the minimum bonding coverage and the form of contract, but left primary responsibility for the amount of coverage with the board of directors of the credit union.⁴ The Credit Union National Association has developed a "100 per cent coverage bond program."⁵ If credit unions can be persuaded to adopt such a coverage, losses through embezzlement will be eliminated. Cost considerations of course enter. Whether the Director of the Bureau of Federal Credit Unions should require a 100 per cent coverage is doubtful.

Streamlining Operations

Another suggested improvement, applicable particularly to large credit unions, is intended to streamline operations by providing for a loan officer to take over much of the routine work of the credit committee and leave that committee free to concentrate upon the more difficult decisions. A proposed amendment to Section 11 (d) of the Federal Credit Union Act provides:

That the board of directors may appoint and provide for the compensation of a loan officer to act under the supervision of the credit committee and such loan officer, when so appointed, may make loans without necessity for a meeting of or approval by any members of the credit committee, but only in any of the following three circumstances: (1) where an emergency exists which qualified as such within standards of qualification as an emergency previously established in writing by unanimous action of the credit committee, or (2) where a loan is wholly secured by an assignment of shares, or (3) where, to the extent that a loan is not

wholly secured by other collateral which meets minimum standards of qualification as adequate collateral previously established in writing by unanimous action of the credit committee.

This proposed legislation received the approval of the CUNA National Board meeting in 1953; and at the CUNA Executive Committee meeting in February 1954 instructions were given to Management and Counsel to introduce this legislation in Congress at a time deemed most appropriate. A bill to provide for a loan officer, worded differently from the proposed amendment just quoted, was introduced on March 15, 1956, by Congressman Wright Patman.⁶

The supervisory committee in the large credit union is also faced with an arduous and a time-consuming task. While membership in the credit committee requires few qualifications other than common sense and a sympathetic judgment—qualities not too easy to find, but calling for no formal training—the members of the supervisory committee need, in addition, some knowledge of bookkeeping and auditing techniques. The Bureau of Federal Credit Unions, as was seen in the last chapter, is continually improving its audit procedures. But this is not enough; a continuous audit by the supervisory committee is part of the pattern of credit union operation. Some leagues and chapters are offering the services of experienced accountants to conduct the regular audits required by the law. Apparently such assistance is permissible and a proper expense for a credit union provided that full responsibility for the work is assumed by the supervisory committee. The *Federal Credit Union Handbook* states:

The board of directors may authorize the employment and compensation of clerical assistance for the supervisory committee. Any such employee or employees should be responsible only to the supervisory committee for the performance of credit union duties as assigned by the supervisory committee.⁷

It would seem that, in the view of the Bureau, professional auditing is to be regarded as "clerical assistance." Thus a supervisory committee is not protected by a shield of ethico-professional relationship that usually attends the employment of a professional accountant. Possibly this situation might be clarified by an amendment to the

Act, or even by Bureau interpretation. The subject is under consideration by CUNA and a report of the Planning Committee to the Executive in August 1954 recommended:

that Management be asked to investigate the various auditing services now in operation in many of the leagues, and to develop a plan to . . . provide auditing services at the league level and also make provisions for counseling of these services by the National Association.⁸

Educational Activity

One cannot legislate or administer good management. That comes from the intelligent judgment and work of the officials of the local credit union. To develop management, a continuous educational program on the league and on the national level is required. That implies a unified program of classroom teaching, special schools, extension activity, the preparation of teaching materials, and fundamental research. A discussion of these factors, important as they are, is outside the scope of this study. They are part of a continually expanding program conducted largely by state leagues and the Credit Union National Association.

SUGGESTED EXTERNAL IMPROVEMENTS

Regional Credit Unions

The need for a central bank, an agency of rediscount where financial institutions can borrow in a time of need, has long been recognized in the world of finance. The banking systems of every economically developed country have central banks as integral parts of their structures. The Federal Reserve System was organized in 1913 after periodic breakdowns in our system of unit banks. It established a regional pattern of twelve central banks instead of one, and this regional pattern has since been followed in our systems of agricultural credit and of home financing.

Similarly, in the area of cooperative finance both students and practical bankers almost everywhere are agreed upon the necessity of central credit societies to supplement the work of the local credit societies. In certain countries the central credit societies were considered so essential that they were formed first, before any general

program of local organization was attempted. The Federal Credit Union Act, as originally submitted, provided in detail for statewide central credit societies composed both of state-chartered and of federal credit unions. The section providing for central credit societies was dropped from the bill prior to its enactment. It would seem to be remarkable that the credit union movement in the United States has grown to substantial proportions without the services of central credit societies. This is not to say that certain leaders of the credit union movement have not visualized a need for central credit societies; CUNA has had committees working on this for years.

In 1953 a committee of CUNA drafted a bill, and in the spring of 1954 this bill was introduced by Senator John Sparkman in the second session of the Eighty-Third Congress. The bill, S.2890, would have set up central credit unions—the number to be from six to twelve—on a regional pattern. Both state-chartered and federal credit unions might have had membership in these regional societies.

The structure of the proposed regional credit union system is not a complicated one.⁹ It would establish from six to twelve regional credit union districts, depending upon the convenience of the eligible credit unions. These were to be defined and might be changed by the Director of the Bureau of Federal Credit Unions. The form of internal organization proposed follows the familiar pattern of the federal credit union, with certain changes necessitated by the nature of the regional unit: for example, shares of stock would have a par value of \$100; members would have to subscribe for at least 2 per cent of their membership holdings. It would be required that at least 50 credit unions subscribe to the organization certificate and pledge at least \$250,000. While there could be only one regional credit union in a district, it might have "not to exceed three offices." Provision would be made for state-chartered credit unions to borrow from the regional credit union, even if they did not have any legal power to join as members. Management would be in the hands of nine directors, a credit committee of not less than three members and a supervisory committee of three members. The directors were to be divided into Class A, B, and C directors to represent credit unions of different sizes. The credit committee would meet monthly. The principle of the loan officer was introduced: "... loans may be

authorized and consummated by a loan officer of the regional credit union appointed with the unanimous consent of the entire committee in instances where such loans meet the minimum standards of loan policies previously established by unanimous action of the committee." A borrowing member would not be allowed an indebtedness of more than 50 per cent of its capital and surplus.

The section concerning the supervisory committee follows the Federal Credit Union Act. The executive officers, a president, vice-president, clerk, and treasurer were to be elected by the board of directors and might be compensated for their services. No members of the board of directors or other committees might be compensated, but could receive reimbursement for expenses incurred in their work. All directors and committee members would have to be members of some credit union in the regional credit union district. There would also be created a Regional Credit Union Advisory Council of one member for each regional credit union, this body to meet at least annually to confer with the Director of the Bureau. These are the principal provisions and innovations of the proposed legislation. Other details concern reserves, liquidation, and a series of other amendments to various sections of the Federal Credit Union Act to integrate the regional credit unions into the Act. It is a rather long bill, covering twenty-eight printed pages.

Section 26 is concerned with the powers of the regional credit unions. After the general clauses establishing a corporate structure, this section deals with the authority of the regional credit unions to sell shares to their members or to accept deposits from them; they could borrow from any source up to 100 per cent of their paid-in and unimpaired capital and surplus, invest or deposit their funds, and make loans to members. The interest rate to members would be limited to 6 per cent per annum and loans limited to a period of 3 years. Thus it can be seen that the regional credit societies are conceived to be a reliable source of funds for local credit unions to look to when in need of borrowing accommodation. This is by no means an unimportant function. Much of the experience of the credit union expansion has been in extremely prosperous times. Should tight money conditions again prevail and should credit unions find their loans frozen and be faced with demands for share withdrawals, the

rediscount services of the regional credit societies would be welcome indeed. It is difficult to understand the criticisms of certain financial journals to such a measure.¹⁰ Central banks are admitted to be necessary for the safe functioning of commercial banks and building and loan associations. Why should they not be equally desirable for credit unions?

The traditional economic functions of a central credit society are: (1) the accumulation of funds, both from cooperative sources and from the general public—the central credit society is usually the link between cooperatives and the money market; (2) the channeling of funds into cooperative undertakings; (3) the maintenance of a liquid position among its member societies; (4) other service functions, such as clearinghouse operations, trustee functions, auditing services, and the custody of securities.¹¹ The regional credit union bill seeks no such ambitious aims. Due to the rather weak cooperative development in urban America—and the American credit union is above all an urban institution—there is no formal identification between the regional credit union and the cooperative movement. Moreover the regional credit union bill states categorically “that nothing in this Act shall be construed to authorize a regional credit union to enter into a general banking business. . . .”¹² In other words, the economic function of the proposed regional credit societies is almost entirely confined to point 3 above; that is, the maintenance of a liquid position among its member societies.

A question might be asked as to whether credit unions need borrowing facilities at the present time. Do they in fact borrow? From what sources and under what conditions? A survey by the Bureau of Federal Credit Unions covering federal credit union borrowing during the year 1953 gives us the answer to these and other questions about credit union borrowing. This is the only comprehensive study ever made on credit union borrowing. Since the survey is reported in some detail in the 1953 *Report of Operations*,¹³ it will not be necessary here to review the study in great detail.

The study is based on returns from 5075 federal credit unions, or 77 per cent of the 6578 operating federal credit unions at the end of 1953. Of this number 3890, or 77 per cent, borrowed no capital funds during the year. The 1711 federal credit unions which borrowed re-

ported on 3878 loans for an aggregate amount of \$35,473,573. Expanding these figures to cover the entire credit union development in the United States, both state-chartered and federal, one might estimate that in 1953 slightly under \$100 million was borrowed.

Over half of these loans, 54.1 per cent, was borrowed from other credit unions, 35.3 per cent was borrowed from banks, 2.7 per cent from savings and loan associations, and 7.9 per cent from other sources, including private individuals and labor unions. The typical interest rate was 3 per cent; 86.4 per cent of the number of loans and 93.7 per cent of the amount borrowed were at rates less than 5 per cent. Three-fourths of the loans were for periods of less than six months. The study observes that "the period of the loan had little influence on interest rate." In only one category—where government bonds were used as collateral—did collateral influence the interest rate. The great majority of loans were unsecured.

The study breaks these figures down in detail. The data, of course, lend themselves to various interpretations. The proponents of the regional credit societies can point to a potential market of \$100 million of loans. True, over half of this is taken care of by existing credit unions. Here lies a possibility that a system will evolve with some of the larger credit unions, or perhaps banks, evolving into "quasi-centrals," tied to other credit unions by a set of correspondent relationships. Such a condition, should it persist over a period of time, might bring entirely new problems of administration into the movement. Those who are opposed or even indifferent to regional credit unions can use the same figures to minimize the need for such organizations, and can point to the fact that the borrowing needs of credit unions are taken care of under the present system. Thus, while the study is valuable and informative, it does not answer definitively the question as to whether regional credit societies are needed. The case for regional credit societies, it would seem, rests theoretically upon the need for agencies of rediscount to which credit unions may go in times of stress, and practically upon the experience of systems of cooperative credit in other countries¹⁴ and other types of financial institutions in this country. A survey made by CUNA—sampling one out of each five credit unions—showed a preponderance

of replies in favor of regional credit unions, some of the larger states running over ten to one in favor.¹⁵

However, the regional credit union bill met with opposition and was never reported from committee. Within the credit union movement itself there seems to have been a change of thought as to the desirability of a comprehensive regional credit union system. In the May 1955 meeting of the Board of Directors of the Credit Union National Association concurrence was expressed in a resolution which opposed the creation of a regional credit union system. In the words of the resolution, "the Directors of the Southern District . . . do hereby reaffirm its opposition to the creation of a regional credit union system and do hereby call upon the National Board of Directors of CUNA to rescind their action authorizing the introduction of such a bill in Congress."¹⁶

Thus, from all indications, there will be no attempt to reintroduce it at another session of Congress, at least for some time. That, apparently, is the rationale behind the introduction of S. 1641 and H.R. 5258 in the 1955 session of Congress. These bills, permitting a federal credit union to invest up to 10 per cent of its capital and surplus in the shares of other credit unions, would permit the establishment of central credit unions, either through formal organization or through informal investment and borrowing.

Apparently these bills did not go far enough for, on January 9, 1956, Congressman Wright Patman introduced H.R. 8273, "to authorize the organization of Federal central credit unions and to authorize Federal credit unions to invest in the shares of, and become members of, central credit unions organized under such Act or other laws." State-chartered credit unions would also be authorized to become members of these central credit unions. A number of technical amendments to the act are included in this bill.

Until central credit unions with some strength are established, the basic problem still remains of providing rediscount facilities in case of financial panic or of credit stringency.

SHARE INSURANCE

A proposal for safeguarding federal credit unions against practically all contingencies which has been advocated fairly strenuously from

time to time is that of share insurance. The popularity and enthusiastic acceptance of deposit insurance as a necessary feature of our banking system apparently has carried over into the credit union area. The "Rains Bill," designed to insure the shares of federal credit unions with the Federal Deposit Insurance Corporation, was originally introduced in Congress in 1947, and other bills with the same end in mind—although with different administrative agencies designed to carry the insurance program—have been introduced before a number of other Congresses. The Credit Union National Association has consistently opposed share insurance and has voted against it year after year at annual conventions.¹⁷ The publicity attendant upon serious defalcations seems to raise a clamor for share insurance. In early 1954 some of the large credit unions of the Philadelphia-New Jersey Area went so far as to form an organization, one of the stated objectives of which was "to provide the establishment of a system of insured savings for Federal Credit Unions." The movement was short lived, however, and the leaders decided to work out the problem within the framework of the Credit Union National Association.¹⁸

But before further considering credit union share insurance, it might be profitable to examine briefly the arguments for and against deposit insurance as they now stand after twenty years of experience.¹⁹ The strongest argument for deposit insurance is undoubtedly the psychological one: it works because people, believing that the government has guaranteed their deposits against loss, have confidence in the insured banks and refrain from starting disastrous runs. Deposit insurance was started at a time when public confidence in the banking system was at a low ebb and when hundreds of weak banks had been weeded out of the system. Its continuance is predicated upon the maintenance of public confidence. Deposit insurance has also been defended on the grounds that it does not represent an unwarranted interference by the government with private business: it protects the depositor but leaves the stockholder to assume the usual risks of business. (This distinction is not tenable with the Federal Savings and Loan Insurance Corporation, however.)

Apart from strengthening the quality of bank examination through the Federal Deposit Insurance Corporation—no minor achievement

—it is possible that deposit insurance has actually retarded any movement toward more fundamental bank reforms, such as branch banking. Theoretically, and this was an important argument against deposit insurance before the adoption of the Banking Act of 1933, it is not possible to anticipate on the basis of sound actuarial formulas the risks involved, since the risk in essence is that of the soundness of the loans and of the investments which the bank has made. Of this problem Kent states: "This problem of the nature and scope of the risk of loss has not yet been solved—indeed, we can hardly expect to solve it in keeping with any scientific mathematical formulas."²⁰ Since it is impossible to determine the risk, complaints are made that the rate of assessment is too high on the one hand, and that it is too low on the other. In regard to the latter argument it is charged that a major crisis would shortly wipe out the reserve that FDIC has built up. But this argument is countered by the fact of the existence of deposit insurance, which should prevent any major banking crisis.

Another argument, not heard so frequently today, is that deposit insurance might tend to weaken conservative bank management. This does not seem to have been borne out; it is to the interests of the stockholders to have good management. An important criticism, however, is that the assessments are not levied according to the incidence of risk: the strong, well-managed institutions are assessed at the same rate as the small, weak banks—basing assessments upon total deposits. Possibly the large banks do not object for fear that they might antagonize the smaller banks which they profitably serve as correspondents.

Do these arguments for and against deposit insurance for banks have any significance in connection with the problem of share insurance for federal credit unions? They do in this way: the theoretical argument for deposit insurance seems to be weak, resting largely on the strong psychological assurance that the magic term "insurance" gives the depositor. It is not insurance in any actuarial sense; a straight government guarantee might serve the purpose as well as the elaborate administration of FDIC. But at any rate, no one would advocate dropping it for banks.

The question would seem to be: Do federal credit unions need the psychological prop that share insurance might afford? Possibly

the large credit unions do, or at least think that they do. These are the credit unions vulnerable to "runs." The failure of, or a serious defalcation in, a large credit union makes a newspaper sensation. And it is among the leaders of the large credit unions that the agitation for share insurance is centered. But there were only 454 federal credit unions—only 6.3 per cent of the total—with assets of more than \$500,000 at the end of 1954. Possibly as the number and the proportion of the large credit unions increase, the movement toward share insurance will gain strength. Indeed, a common experience in many countries has been that the large cooperative credit societies have tended to draw away from the main movement to pursue more closely their immediate interest.

That the majority of credit unions need share insurance is doubtful, in the opinion of the Credit Union National Association. CUNA has developed the arguments against share insurance in a number of places.²¹ In summary form CUNA's arguments against share insurance are as follows: The original deposit insurance came in to save the banks during the early thirties. Credit unions, however, came through the depression with only few losses: the greatest losses which credit unions suffered were in money deposited in failed banks and savings and loan associations. The cause of the current demand for credit union share insurance is the unfavorable publicity emanating from two large defalcations. Oddly, CUNA states the losses would be covered by share insurance only if these credit unions had liquidated. (This is not necessarily true, as an act might provide insurance payments to preserve the solvency of the credit union.) CUNA states that "over 80 per cent of these losses in credit unions have been caused by dishonesty on the part of credit union officers and employees." Thus they could have been prevented by present safeguards: passbook audits, supervisory committee examinations, and loan control. CUNA objects to share insurance, among other reasons, because of its mandatory character, its cost, and the additional paper work that it would entail.

As CUNA sees it, share insurance would curtail credit union service in the following ways:

1. It would hinder new organization.

2. It would reimburse shareholders only if the credit union were liquidated. This would tend to increase liquidations.
3. Many credit unions, operating "from desk drawers," might fail to qualify for share insurance.
4. It would necessarily lead to restrictions on lending practices, emphasizing safety above all other considerations.

In fact, CUNA states that there is really only one benefit offered by share insurance: "It would guarantee that credit union members would suffer no loss of their savings up to the insured limit, in case the credit union were liquidated because of mismanagement, poor investments, or economic conditions." It mentions the following arguments of proponents of share insurance, but does not give them much weight: (1) it might attract additional funds to credit unions; (2) it might give credit unions greater prestige; and (3) it might help credit unions to avoid unfavorable publicity in the event of a defalcation.

To sum up the opinion of CUNA, share insurance is unnecessary because of existing safeguards: bonding of officials—especially the new 100 per cent coverage—the legal structure, the regular examination, the functioning of the auditing committee, the deposit of cash in banks, and the guaranty fund.

These statements of CUNA have been countered by James J. Girvan, among others.²² In summary form the arguments for share insurance are that it is necessary: (1) to assure people of the return of their savings when withdrawal becomes necessary; (2) to eliminate long delays during liquidations; (3) to create confidence. The proponents of share insurance emphasize credit union losses, stating that existing safeguards are inadequate, that supervisory committees are weak, and that the cost of bonding is becoming prohibitive. Finally, they state that the cost of an insurance program would be modest and would not affect the rate of dividends.

The Bureau of Federal Credit Unions in October 1953 prepared a study, *Insurance of Shareholdings in Federal Credit Unions*.²³ While this study was restricted as to circulation, copies were made available to the leaders of the credit union movement. In fact, the information contained in this study has supplied both the opponents and the proponents of share insurance with most of the factual ma-

terial used to buttress their arguments. The Bureau, of course, can take no official stand where legislation is pending: the study is valuable as it provides new information on loss experience in credit unions and as it evaluates alternative methods to safeguard credit union members against loss. It reviews objectively the common arguments for and against share insurance; here it includes as a possible motive of opposition the fear that share insurance might give federal credit unions a competitive advantage over state-chartered systems—a point that does not seem to have been brought out anywhere else.

It examines the losses and administrative expenses of the insurance programs of the Federal Deposit Insurance Corporation and the Federal Savings and Loan Insurance Corporation. From this experience it projects cost estimates under different assumptions of expenses and of credit union growth. While this is suggestive, it is more in the realm of speculation. As the study states: "No one seems to know of any scientific formula for determining a sound relationship between the amount of an insurance fund and the potential risk in programs such as FDIC and FSLIC."²⁴ At any rate, the study concludes that: "On the whole, therefore, Federal credit unions generally could absorb the cost of share insurance without any reduction in dividends, although individual credit unions would find it necessary to adjust the rate of dividend slightly. . . ." ²⁵

The question of share insurance in federal credit unions was called to the attention of the nation in the 1955 *Economic Report of the President*. In this report the President stated that ". . . the Congress might well consider the merits of share-account insurance. An insurance system could be self-supporting, with membership mandatory for Federally chartered unions and voluntary for those having State charters."²⁶ This economic report is prepared by the Council of Economic Advisers. The thinking of the Council on this subject, as reported by M. F. Gregory, Director of Public Relations of the Credit Union National Association, who interviewed Dr. Raymond J. Saulnier of the Council, is that a share insurance scheme would not have as its purpose to cover losses due to defalcations but to protect credit unions in case of economic depression.²⁷ While the council

objective has not been overlooked by most of the proponents of share insurance, it would seem that the Council of Economic Advisers does not envisage share insurance as an all-embracing protective device.

The discussion of share insurance has been presented at some length since it is an important policy question involving the future line of development of the credit union. The strong opposition of the Credit Union National Association has so far forestalled action in Congress. Another series of defalcations or other serious losses in federal credit unions, however, might give rise to pressures for the adoption of share insurance too strong for Congress to withstand.

OTHER PROPOSALS

Many other proposals for the amendment of the Federal Credit Union Act, or for a modification of Bureau procedures, have been brought before the Credit Union National Association. Some of these proposals are serious, others trifling and hardly worth the tremendous effort required to push an amendment through the Congress of the United States. The list of these proposed amendments varies from year to year, depending upon CUNA's success with legislation, adjustments in administrative rulings made with the Bureau, and the sustained interest and persistence of the promoters.

In addition to the measures already discussed in this chapter another CUNA resolution asks for legislation to permit credit unions to allow money deposited up to the tenth of the month to be eligible for dividends for that month.²⁸ Another would amend the Federal Credit Union Act to provide procedures for conversion from federal to state charter and vice versa.²⁹ Another suggestion deals with the disposal of the shares of members whose address is unknown.³⁰ In addition to this, other resolutions presented to the Credit Union National Association seek to change the policies of the Bureau in regard to check cashing and insurance activities of credit unions.³¹ A committee of CUNA after years of work has completed a "Model Law."³² This Model Law contains most of the suggestions examined in this section. But since the Model Law will have application chiefly with state legislation it need not be considered further here.

CREDIT UNIONS UNDER STRESS

It has frequently been pointed out that most of the experience of federal credit unions has been in a time of relatively little economic stress. Leaving aside the question of a general economic collapse, the period of strikes in the steel industry in the early summer of 1952 provided a testing of the ability of credit unions to withstand unusual stress. A study of the effects of work stoppages arising out of the steel strike was made by the Bureau of Federal Credit Unions in late 1952.³³

In September 1952 questionnaires were mailed to 237 federal credit unions where there was thought to have been a strike or other form of work stoppage. Replies were received from 133 and from these came 87 usable questionnaires. Replies were eliminated where regular annual vacations or seasonal cutbacks were the causes of the stoppages. The 87 replies referred to major work stoppages. Of the 87 questionnaires, 58 referred to the steel strike or to raw-material shortages growing out of that strike, and the others dealt with other work stoppages.

Seven questions were asked. The questions and a summary analysis of the replies follow:

1. Were share withdrawals restricted? Fourteen replied "yes" and seventy-three "no." Some credit unions restricted share withdrawals to sums of \$30 to \$50 a week; others required a notice of intention to withdraw in order to permit the credit union itself to secure the funds from loans.

2. Were loans restricted? Forty of the eighty-seven credit unions imposed some restrictions. These restrictions varied from an extreme of no loans during the strike to sums varying from \$50 to \$200. Others restricted loans only for nonessentials. Almost all, apparently, took care of emergency loans.

3. Did your credit union borrow? Twenty-nine borrowed while fifty-eight did not. Some of the credit unions borrowed from other credit unions, some from banks. One credit union received a loan from the employer without any interest charge—possibly a harbinger of a new era in labor-management relations. Interest rates were slightly lower on the loans from credit unions. One large credit

union made arrangements to borrow up to \$500,000 from a bank, but the funds were not needed.

4. Were special efforts made to keep members informed? Fifty-six answered "yes" and thirty-one answered "no." The survey states: "The answers reflected ingenuity in overcoming obstacles and in providing needed services under difficult circumstances.

5. Were loans that became delinquent during the stoppage refinanced? Of the forty-four that answered "yes," forty-three reported that refinancing was carried out on an individual basis. In two cases, instead of refinancing, the directors waived fines on delinquent loans for a period of two months after the strike.

6. Was confidence of members impaired? Only two of the eighty-seven answered "yes." These were small credit unions, one with assets of \$40,000 and the other with only \$35,000 at the beginning of the strike.

7. Was financial condition of the credit union impaired? Of the four credit unions that answered "yes," three had assets of less than \$35,000 each. The fourth, with assets of \$240,000, stated that confidence was restored two months after the strike when a bank loan was repaid. Financial soundness was eventually restored to the other three.

The following conclusions were drawn by the Bureau:

Except for some of the unusual methods adopted by some credit unions to provide service and to keep members informed during the strike, this survey probably provides little that is really new. Credit union leaders have contended for years that these organizations, if staffed by capable and sincere officials, could successfully cope with almost any crisis. The success stories represented by the eighty-seven questionnaires used in the survey do attest to the truth of this generalization as it pertains to Federal credit unions and work stoppages.

The following more specific conclusions are indicated by this survey:

1. It is important in times of work stoppages to maintain confidence of the members by providing emergency loan service and share withdrawals, and by using special informational devices where necessary.

2. Cash position is important. Cash for emergency loans can be provided by one or a combination of the following, depending on the circumstances prevailing in each case:

a. Cashing of credit union investments.

b. Borrowing by the credit union.

c. Obtaining extra share payments from members who have funds.

3. Larger, well established federal credit unions are able to cope with work stoppages more easily than the smaller and less well established units.

4. Thrift promotion during normal times is a real service to members.

5. Sound loan collection policies and procedures during normal times are a service to members as well as being good financial management of the credit union.

6. Membership participation in a credit union is promoted by any effort that increases their understanding of credit union objectives and justifies their confidence in their organization. Actual experience under unusual and trying circumstances indicates that it is possible for a credit union to come through a work stoppage and be stronger than it was before the work stoppage occurred.

Little needs to be added to this summary of the Bureau's survey and to the conclusions drawn from it. The study would seem to point to a further conclusion—although the Bureau did not mention this—that strong regional credit unions might be an alternative instrument in coping with situations such as were examined in this study.

The advocacy of such fundamental reforms as regional credit unions and share insurance, and other suggested changes designed to improve the basic legislation and administration, shows a healthy concern by the leadership for the future of the credit union movement. Perhaps the search for an all-embracing panacea to protect credit unions against all eventualities, even a general economic collapse, is an illusion. Should an economic debacle occur such as that of the 1930's, the credit unions, the banks, industry, and agriculture would all be in the same boat.

Indeed, in the face of another sweeping economic disaster it is doubtful whether our American institutions could survive. To protect society against general economic depression it is necessary for the government to call upon devices of fiscal and monetary policy;

these, of course, lie beyond the scope of this study. Improvements in federal credit union legislation and administration are possible and will continue to be made. The credit union is a hardy institution and has demonstrated its capacity to survive ordinary difficulties. But it is only a part of our society and will grow or decline as does the general body politic.

CHAPTER XI

SUMMARY AND CONCLUSION

THIS chapter undertakes to summarize the main findings of this study on federal credit unions and to point to certain conclusions which rest on the evidence developed in detail in the different chapters.

The Federal Credit Union System showed a remarkable growth from 1936 to 1941 in numbers, membership, and assets. The war years severely tested the credit union development, but there has been a substantial rate of increase from 1947 to 1954. Average credit union membership increased from 156 in 1935 to 495 in 1953; average assets rose from \$3000 in 1935 to \$143,000 in 1954. The size composition has shifted through the years and the larger size credit union is more and more becoming of greater significance. At the end of 1954, 40 per cent of all credit unions had fewer than two hundred members and two-thirds had fewer than four hundred members; slightly less than 12 per cent of all credit unions had more than five hundred members. As one might expect, there is a close correlation between size of assets and size of membership. An examination of the relationship between age and activity shows that the average membership increases as the credit unions become older. Average assets per credit union and per member increase with age. However, growth seems to be stabilized after a credit union becomes twelve 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 an increase in saving by the membership. Size also increases with age, and the appearance of a number of million-dollar credit

unions in the older age groups possibly signifies a new aspect of the credit union development.

Federal credit unions are found in every state and in other federal jurisdictions beyond continental United States. The greatest concentration is found in only a few states: 43.1 per cent are found in five states, New York, Pennsylvania, California, Texas, and Michigan; adding Ohio, New Jersey, Indiana, Connecticut, and Louisiana includes 64.1 per cent of the total. Assets are also concentrated in this same group of states. Identification of federal credit unions by location is of importance for showing concentration; the size, age, and type categories are of greater significance in determining meaningful ratios of operation. For the country as a whole there are slightly more state-chartered than federal credit unions, the membership of the two groups is almost evenly divided, but the greatest difference is found in total assets with the state-chartered credit unions having 55 per cent of the national total.

An identification of federal credit unions by type, made in Chapter IV, reveals that the occupational group, with 82.9 per cent of the total number, 91.5 per cent of the total assets, and 89.9 per cent of the total membership, is the most important classification. The other two categories are the associational group, with 14.9 per cent of the number, 7.5 per cent of the assets, and 8.9 per cent of the membership, and the residential group with only 2.2 per cent of the number, 1 per cent of the assets, and 1.2 per cent of the membership. The occupational group has by far the highest ratio of actual to potential members, average membership, and average shareholdings per member. These ratios are followed through the subtypes in each group category. Rates of growth were also reviewed.

A study of the composite balance sheet of the federal credit unions reveals little change in the distribution of the liability accounts throughout the history of the system: shares have comprised around 90 per cent of the liabilities, and other equity items—reserves and undivided profits—all of the remainder, except 2 or 3 per cent in accounts and notes payable and other minor items. The composition of the asset items, however, has varied widely due to the influence of the war. Loans to members, the most desirable type of credit union investment, were around 80 per cent of total assets before the war,

dropped to 23 per cent in 1944 and 1945, and rose to 66 per cent in 1954. Government bonds, around 8 per cent of total assets in 1954, were the most important type of investment during the war years. Savings and loan shares, 13.9 per cent of total assets in 1954, were the other major type of investment. Due to legal restrictions, there are limited possibilities for federal credit union investment. A slight amount of interlending is practiced among credit unions—1.7 per cent of total assets at the end of 1954 was in loans to other credit unions. While there are few differences in the composition of the liabilities, the asset distribution varies according to size, age, location, and type. Size, age, and location are the most significant categories. The percentages of loans to members and of cash on hand decrease as the size of the credit union increases, and the percentages of assets held in government bonds and invested in loans to other credit unions increase as the size of the credit union increases.

There is more to a study of the credit union than financial analysis: the saving and the borrowing in the credit union are essentially problems of consumer behavior. Much of modern consumer theory has application in the credit union area. However, certain fundamental questions of consumer motivation for saving and for dissaving are only inadequately answered by modern consumption theory. We know even less about why people save in credit unions or borrow from credit unions in preference to other personal finance agencies. There are many problems for future research here. It would seem that credit union saving is not for investment but for future consumption, either for asset purchase or for a "rainy day." Because of deliberate restrictions by credit union directors upon saving—there have as yet been no studies to determine the extent of this restriction—the full potentialities of the credit union as a savings institution have not been fully developed. Indeed, there has been relatively little "net" saving in the credit union movement—that is, savings not utilized in member loans; in fact, the savings of the top 2 per cent of savers in federal credit unions just about provide all of the net savings in the system.

As saving is a consumer problem, so is dissaving, or borrowing. Again this study is hampered by lack of a clear picture of the credit union borrower—his income, occupation, or asset holdings are largely

unknown. Studies are also lacking in size distribution of loans and collateral requirements. The average size loan outstanding has risen from \$71 in 1938 to \$395 in 1954. Increasing the unsecured loan limit from \$50 in the original act to the present size of \$400 has had an effect here. Similarly the increasing of the legal loan period from two years to three years in 1949 has resulted in a lengthening of the turnover in loans from slightly over five months in the prewar period to slightly under seven months in 1954. There is a wide variety in the average loan size both in the state and in the group classifications. The volume of loans has fluctuated widely, due to the same economic conditions and apparent economic prospects that cause fluctuations in loan delinquency. The reserves of the credit unions have grown year by year, apparently little influenced by delinquency. In the past, delinquency has not caused any significant increase in reserves. Over the life of the system the amount charged off as uncollectible has been surprisingly small. The purposes for which members borrow have been predominantly in the remedial field, although there seems to be more of a trend, particularly in the large credit unions, toward financing the purchase of durables.

Reverting again to the problem of consumer behavior, the importance of habit and convenience to both saving and borrowing is seen in the superior performance of those credit unions with payroll deduction systems over those without such a plan.

A study of financial operations reveals the unique character of the credit union. Because of a member welfare focus and a certain element of voluntary contribution, it is difficult to evaluate credit union performance with the types of financial ratios that have been developed for profit-motivated financial enterprises. In personal finance companies, for example, it has been found that economies of operation reflect more the size of the loan than the spreading of overhead over a large number of units; in other words, small loans are less profitable to make than large ones. A credit union, however, will not try to persuade a member to borrow in excess of his need, simply to make a larger return on the loan. This consideration of the member welfare may result in a lower return on investment, but from the member's point of view it is of greater benefit than a higher dividend. Another seeming peculiarity is the charging of borrowers' and life

savings insurance as cost of operation; in reality they are the purchase of a low-cost group insurance service for the member.

But even with such qualifications, an analysis of credit union costs reveals certain peculiarities. There seem to be few economies of scale in credit unions; a credit union member in an organization with assets of, say, \$100,000 can, by and large receive as good financial results, measured by operating ratios, as can a member in a credit union with assets of \$1 million. What efficiency is shown by the larger units is more a bargaining efficiency than an operating efficiency. Possibly this can be explained by the observed behavior that salary costs, especially in the smaller credit unions, are residual costs—salaries are taken after other expenses and a reasonable dividend have been paid—rather than competitively determined costs. Efficiency seems to increase with age, however. There are other peculiarities in the cost picture: an imperfect market faced both by borrower and saver and extra-market motivations on the part of the leadership.

The average return on member loans has been slightly over 10 per cent during the past few years and the average return on other investments reached 2.89 per cent in 1954. On average shares the net earnings were more than 6 per cent in the thirties, dropped to 1.76 per cent in 1944, and rose to 4.92 per cent in 1954. With little trading on the equity, the return on net worth was only slightly under the return on shares. Around two-thirds of the earnings have been paid in dividends, and in 1954 the dividend rate on average shares was 3.34 per cent; this is slightly lower than the declared dividend rate.

A study of federal credit union liquidations reveals that 2240, or 24.6 per cent of the total of 9096 credit unions organized from 1934 to 1953, were liquidated. Total losses in liquidations have been small, less than \$130,000. Indeed, there has been an over-all gain of more than \$450,000 in payments to members of liquidated credit unions, or 104 per cent of their shareholdings. The incidence of loss has weighed heavily on only a few credit unions and on a very few members. An examination of the reasons accounting for the liquidations reveals that factors external to the operation accounted for more than one-third of the liquidations. A syndrome of indifference, managerial inefficiency, heavy labor turnover, inconsidered organization, and the

war-induced mobility of population account for the liquidations where internal factors prevail.

While the bulk of the study has concentrated on the federal credit union as a financial agency of saving and credit, an examination was made of the policies and practices of the Bureau of Federal Credit Unions, the agency in charge of the administration of the Federal Credit Union Act. The administrative agency was originally the Farm Credit Administration. During the war this function was transferred to the Federal Deposit Insurance Corporation. Finally it went to the Department of Health, Education, and Welfare. The staff involved numbered 174 in 1942, dropped during the war, and rose to 219 in 1954. The total cost to the Federal Government of establishing the Federal Credit Union System was slightly in excess of \$4.5 million. The Bureau of Federal Credit Unions is now on a self-sustaining basis. A description of the Bureau's functions is contained in Chapter IX. This chapter also treats of the development of the different fee schedules of the Bureau. The following policies were discussed: (1) chartering, (2) examination, (3) general supervision, (4) liquidation, and (5) other policies concerning problem cases, mergers and conversions, diversification of services, and education and research activities. While much of the detail on administrative policy does not lend itself to an easy summarization, the picture emerges of a system where the major lines of Bureau policy have been laid down and where future changes will consist more of a refinement of existing policies than any radical policy changes.

The federal credit union system is not static, however. Since 1934 a gradual evolution has been going on and in recent years other changes and improvements have been projected. Affecting internal management, an amendment to the Federal Credit Union Act in 1954 strengthened the power of the Director of the Bureau of Federal Credit Unions in matters of the bonding of credit union officials. Suggested amendments would permit a loan officer to take over part of the work of the credit committee and clarify the position of league and other credit union auditing services. More fundamental is a whole program of educational activity; this is outside the scope of this study.

To safeguard the credit union movement from the adverse work-

ing of the business cycle, regional credit unions have been proposed and a bill was introduced in the Eighty-Third Congress to set up regional credit societies. This has met with strong opposition from the banking interests; this is strange because central discount facilities have been proved essential in commercial banking in this country and in cooperative banking elsewhere. Credit unions now borrow around \$100 million annually, half from other credit unions. More controversial is another proposal to institute share insurance for credit unions. This has followed the popularity of deposit insurance for banks and, in spite of its shaky theoretical foundation, has been advocated in certain quarters for both federal and state-chartered credit unions. The Credit Union National Association has opposed share insurance. Other less important changes have been suggested such as the authority to pay dividends on money placed on deposit after the first of the month, the authority to charge for the cashing of checks, and similar powers.

The federal credit union has shown its capacity for survival during the depression of the thirties, the neglect and the testing of the period of war mobility and prosperity, and even the occasional stress of labor conflict and disturbance. And while the federal credit union is essentially a specialized agency of consumer finance, it is gradually evolving and adapting to meet the needs of its members and their problems of personal finance.

NOTES

CHAPTER II. GROWTH AND SIZE OF FEDERAL CREDIT UNIONS

1. 1954 *Report of Operations, Federal Credit Unions*, U.S. Dept. of Health, Education, and Welfare (Washington: U.S. Govt. Printing Office) 1955, p. 2.

2. 1952 *Report of Operations, Federal Credit Unions*, p. 1.

3. R. D. Prescott, "Law of Growth in Forecasting Demand," *Journal of the American Statistical Association*, Vol. XVIII (Dec. 1922), pp. 471-79. Also cf. F. E. Croxton and D. J. Cowden, *Applied General Statistics* (New York: Prentice-Hall 1946), pp. 447-58.

4. The 1954 *Report of Operations, Federal Credit Unions*, p. 5, carries this series, with a different asset distribution, back to 1935.

5. From tabulations furnished by the Bureau of Federal Credit Unions.

6. An extended analysis of the age variable in federal credit unions has been made in the 1954 *Report of Operations, Federal Credit Unions*, pp. 12-17. The statistics relating to membership, age, and growth have been derived from this source.

CHAPTER III. LOCATION OF FEDERAL CREDIT UNIONS

1. Current statistics on the credit union development are carried in *The Credit Union Yearbook*, published annually by the Credit Union National Association, 1617 Sherman Avenue, Madison 1, Wisconsin. Copies of this yearbook are generally available in libraries.

CHAPTER V. ANALYSIS OF ASSETS AND LIABILITIES OF FEDERAL CREDIT UNIONS

1. 1954 *Report of Operations, Federal Credit Unions*, p. 18.

2. 1953 *Report of Operations, Federal Credit Unions*, pp. 5-10. This report contains the results of a survey on federal credit union borrowing from all sources during the year 1953.

3. *Ibid.* The borrowing study is discussed in connection with regional credit unions, cf. Chapter X.

CHAPTER VI. SAVING AND BORROWING IN FEDERAL CREDIT UNIONS AND THE PROBLEM OF CONSUMER BEHAVIOR

1. Carl A. Dauten, "A Fresh Approach to the Place of Consumer Credit in Economic and Financial Thinking," *The Journal of Finance*, Vol. IX, No. 2 (May 1954), pp. 111-16.

2. James S. Duesenberry, *Income, Saving and the Theory of Consumer Behavior* (Cambridge: Harvard University Press, 1952).

3. *Ibid.*, p. 28.

4. *Ibid.*, p. 32.

5. *Ibid.*, pp. 33-34.

6. *Ibid.*, pp. 32-46.

7. *Federal Reserve Bulletin*, Vol. 32, No. 7 (July 1946), p. 720.

8. Franco Modigliani, *Fluctuations in the Saving-Income Ratio: A Problem in Economic Forecasting*, in *Studies in Income and Wealth*, Vol. 11 (New York: National Bureau of Economic Research, 1949), pp. 383-84.

9. Dauten, *op. cit.*, pp. 118-19.

10. George Katona, *Psychological Analysis of Economic Behavior* (New York: McGraw-Hill, 1951), Chap. V.

11. George Katona in *Savings in the Modern Economy: A Symposium* (Minneapolis, University of Minnesota Press, 1953), pp. 163-64.

12. Dauten, *op. cit.*, p. 120.

13. *Ibid.*

14. *Ibid.*, pp. 122-23.

15. *Ibid.*

16. A questionnaire was sent to all federal credit unions at the end of 1954 to determine, among other things, the limitations imposed on saving, seasonal variation in saving and in borrowing, connections with "estate loans," and insurance and payroll deductions.

17. N. Barou, *Co-operative Banking* (London: P. S. King and Son, 1932), p. 25.

18. United States Savings and Loan League, *Consumer Survey on Savings Habits* (Washington: U.S. Savings and Loan League, 1954).

19. *Ibid.*, p. 18.

20. *Ibid.*, p. 4.

21. 1952 Report of Operations, *Federal Credit Unions*, p. 7.

22. 1953 Report of Operations, *Federal Credit Unions*, pp. 11-12;

additional material collected but not published in the annual report was supplied by the Bureau.

23. *Analysis and Recapitulation of Reports Filed by Ohio Chartered Credit Unions for the Year Ended December 31, 1952* (Columbus, Ohio, Department of Commerce, 1953), processed.

24. Tabulation of June 30, 1953 aggregates supplied by the Bureau of Federal Credit Unions, processed.

25. See Chapter VIII.

26. Erdis W. Smith, "Federal Credit Union Loans, 1948," *Social Security Bulletin*, Vol. 12, No. 7 (July 1949).

27. Average turnover was calculated as follows:

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

$$\text{Average turnover in days} = \frac{360}{\text{Turnover ratio}}$$

28. Ralph A. Young and Associates, *Personal Finance Companies and Their Credit Practices* (New York: National Bureau of Economic Research, Inc., 1940), p. 95.

29. 1954 Report of Operations, *Federal Credit Unions*, p. 8.

30. *Payroll Deductions as an Aid to Federal Credit Union Operation* (Washington: Bureau of Federal Credit Unions, Oct. 1949), processed.

31. *Ibid.*, p. 3.

CHAPTER VII. FEDERAL CREDIT UNION OPERATIONS: COST OF OPERATION, EARNINGS, AND DIVIDENDS

1. United States Savings and Loan League, *Consumer Survey on Savings Habits* (Washington: U.S. Savings and Loan League, 1954), pp. 4, 32-41.

2. E. R. Walker, *From Economic Theory to Policy* (Chicago: University of Chicago Press, 1943), Chap. 6.

3. R. A. Steinke, Chairman, Statistical Committee, *Statistics—National Credit Union Management Conference* (Dayton, Ohio, 1954), processed.

4. For an illuminating discussion of costs in personal finance companies see M. R. Neifeld, *Personal Finance Comes of Age* (New York: Harper & Brothers, 1939), Chap. 25; see also, Ralph A. Young and Associates, *Personal Finance Companies and their Credit Practices*, Financial Research Program, Studies in Consumer Financing 1 (New York: National Bureau of Economic Research, 1940), Chap. 5; M. R.

Neifeld, *Trends in Consumer Finance* (Easton, Penna.: Mack Publishing Co., 1954).

5. *Federal Credit Union Act*, Section 13.

CHAPTER VIII. FEDERAL CREDIT UNION LIQUIDATIONS

1. This chapter originally appeared as the article, "Federal Credit Union Liquidations, 1935-1951," *The Journal of Business of the University of Chicago*, Vol. XXV. No. 3 (July 1952), pp. 187-202. The entire chapter has been rewritten and has been brought up to 1953. Only the summary totals of federal credit union liquidations are contained in the annual reports of operation. The detailed analysis of liquidations contained in this chapter was made from the records of liquidations at the Bureau of Federal Credit Unions. The source of the tables, not otherwise documented, is the original records of the Bureau of Federal Credit Unions.

2. A study, *Insurance of Shareholdings in Federal Credit Unions*, Bureau of Federal Credit Unions, 1953, listed as losses in liquidations donations to the amount of \$84,691. This figure was arrived at by including as a loss the purchase price of notes where the sale of notes made up the difference between the members' shareholdings and the other assets of the credit union in distributions of exactly 100 per cent. No follow-up was made to determine whether the purchasers ever collected on the purchased notes.

3. Freida Baird, *Federal Credit Union Liquidations Completed Through December 31, 1941*. Typewritten, n.d., in files of the Bureau of Federal Credit Unions; Eli Shapiro, *Credit Union Development in Wisconsin* (New York: Columbia University Press, 1947), pp. 133-60; Joseph L. Snider, *Credit Unions in Massachusetts* (Cambridge: Harvard University Press, 1939), pp. 26-30; Francis E. Wilcox, *A Statistical Study of Credit Unions in New York* (Chicago: University of Chicago Press, 1940), pp. 65-71.

4. Erdis W. Smith, *Retarded Federal Credit Unions*. Unpublished manuscript in the files of the Bureau of Federal Credit Unions, 1949.

5. *Ibid.*, p. 7.

CHAPTER IX. THE BUREAU OF FEDERAL CREDIT UNIONS—POLICIES AND PRACTICES

1. This statement of the policies of the Bureau of Federal Credit Unions has been taken largely from the following official publications of the Bureau: *Examiner's Guide* (Washington: U.S. Bureau of Federal

Credit Unions, 1950), processed and continually under revision; *Federal Credit Union Handbook* (Washington: U.S. Govt. Printing Office, 1949), has provision for revision and additions; *Field Operations Manual* (Washington: U.S. Bureau of Federal Credit Unions), processed and continually under revision; *Accounting Manual for Federal Credit Unions* (Rev. ed.; Washington: U.S. Govt. Printing Office, 1954), loose leaf and has provision for continual revision.

A word should be stated on the grass-roots origin of the manuals, especially the *Federal Credit Union Handbook* and the *Manual of Accounting Procedure*. The *Federal Credit Union Handbook* was designed to replace a series of circular letters which by 1946 had grown to a total of seventy-six letters. Conferences were held all over the country to discuss critically the content of the manuals; at these conferences were present both federal and state examiners and interested credit union leaders, officials of state leagues and of the Credit Union National Association. The manuals were designed to be practical guides to fit the needs of the people. The *Examiner's Guide* was then written to reflect the policies outlined in the other two manuals. The *Field Operations Manual* implements the others and is used chiefly for regional office guidance.

In addition to the manuals, discussions with officials of the Bureau and examination of materials in the files of the Bureau yielded background information.

2. *Field Operations Manual*, Sects. 1010-19. Historical material from the files of the Bureau of Federal Credit Unions.

3. The Federal Credit Union Act, Sects. 5 and 6.

4. J. Deane Gannon to Presidents and Boards of Directors of all Federal Credit Unions, Feb. 5, 1954.

5. *Procedure for Organizing Federal Credit Unions*, Bureau of Federal Credit Unions. Processed, April 1949.

6. *Field Operations Manual*, Sect. 1021.

7. *Field Operations Manual*, Sects. 1030-39; *Examiner's Guide*, Sects. 26-85.

8. *Examiner's Guide*, Sect. 30.

9. *Ibid.*, Sect. 40.1.

10. *Ibid.*, Sect. 40.

11. *Field Operations Manual*, Sect. 1050, rev. Feb. 9, 1954; Cf. *Examiner's Guide*, Sects. 100-11.

12. Claude R. Orchard to Presidents of all Federal Credit Unions, Dec. 29, 1952.

13. *Basic Considerations in Determining the Cost of Administering the Federal Credit Union Act*. Unpublished study in files of the Bureau of Federal Credit Unions, n.d., c. 1950.
14. *Field Operations Manual*, Sect. 1040-44, rev. Feb. 26, 1954; *Examiner's Guide*, Sects. 120-31; *Liquidation Procedure for Federal Credit Unions*, FCU-61, Bureau of Federal Credit Unions, Feb. 6, 1954.
15. *Field Operations Manual*, Sect. 1040.
16. *Field Operations Manual*, Sects. 1080-82.92; *Examiner's Guide*, Sects. 140-43.2.
17. *Field Operations Manual*, 1082.6-82.7; rev. March 3, 1955.
18. Bureau of Federal Credit Unions, *Insurance of Shareholdings in Federal Credit Unions* (U.S. Dept. of Health, Education, and Welfare, October 1953), p. 4.
19. *Field Operations Manual*, Sects. 1060-63.4; *Examiner's Guide*, Sects. 160-61, 173-73.22.
20. See Chap. VIII; 1954 *Report of Operations, Federal Credit Unions*, p. 11.
21. *Examiner's Guide*, Sect. 171.
22. *Examiner's Guide*, Sect. 171.1.
23. C. A. 4701-54; U.S. District Court for District of Columbia, Jan. 27, 1955, Signed by Judge R. B. Keech.
24. *Federal Credit Union Handbook*, p. 23.
25. *Ibid.*, p. 23.
26. Material gathered in interviews with staff members of the Bureau of Federal Credit Unions.

CHAPTER X. STRUCTURAL CHANGE AND SUGGESTED IMPROVEMENT

1. H. W. Wolff, *Cooperative Credit for the United States* (New York: Sturgis and Walton Co., 1917), pp. 302-11.
2. *Federal Credit Union Handbook*, pp. 14-16.
3. *Ibid.*
4. *Congressional Record*—House, June 22, 1954, p. 8198; approved August 24, 1954.
5. Thomas W. Doig to Credit Union Boards of Directors, "100 Per Cent Bond Coverage," CUNA Bonding Service, Madison, Wisconsin.
6. H.R. 9983, 84th Congress, 2nd Session, March 15, 1956.
7. *Federal Credit Union Handbook*, pp. 20-21. A communication from the Bureau of Federal Credit Unions states that a new manual will clarify this point and that this quotation from the *Handbook* will be changed. The communication states that the "interpretation of the

Bureau's position [is] not strictly correct, in spite of incomplete treatment in *Handbook*."

8. *Minutes, Executive Committee, Credit Union National Association, Inc.*, Estes Park, Colorado: Aug. 14, 1954, p. 9.

9. S. 2890, *A Bill Providing for a Regional Credit Union System*, 83d Cong., 2d Sess., Feb. 3, 1954.

10. "What About Credit Unions? Rapid Increase in the Number of Them Raises Some Confusing Issues," *United States Investor*, August 7, 1954; "How About Credit Unions Again?" *United States Investor*, October 2, 1954, pp. 4-9; W. B. French, "The Rapid Growth of Credit Unions," *Banking*, July 1954, p. 43.

11. Adapted from N. Barou, *Co-operative Banking* (London: P. S. King and Son, 1932), pp. 258-77.

12. Section 26 (12).

13. 1953 *Report of Operations, Federal Credit Unions*, pp. 6-10.

14. J. T. Croteau, "Co-operative Central Banking in Canada," *The Canadian Journal of Economics and Political Science*, Vol. XVII, No. 4 (Nov. 1951), pp. 523-38.

15. Report of C. Frank Pratt for the Regional Credit Union Study Committee, *Minutes of the Executive Committee, Credit Union National Association, Inc.*, Madison, Wisconsin, May 13, 1954, p. 10.

16. *Minutes, Credit Union National Association, Inc.*, Meeting of the Board of Directors, St. Louis, Missouri, May 15, 1955, p. 22.

17. Report of the Acting Managing Director to the Members of the Board of Directors, *Credit Union National Association, Inc.*, May 5, 1954, p. 23; Report of the President to a joint meeting of the executive committees of the Credit Union Association, CUNA Mutual Insurance Society, CUNA Supply Cooperative, Estes Park, Colorado, August 12, 1954, in the *Minutes*, pp. 2-3.

18. Abridged minutes of the organization meeting of the American Association of Federal Credit Unions., Inc., 107 North Sixth Street, Camden, New Jersey, March 1, 1954. Also interviews with James J. Girvan, Sept. 14, 1954. Concern at the organization of this association was expressed in a resolution passed at the 1954 meeting of CUNA, *Minutes*, May 15, 1954, pp. 23-24.

19. Raymond P. Kent, *Money and Banking* (Rev. ed.; New York: Rinehart, 1951), pp. 194-97.

20. *Ibid.*, p. 195.

21. E. g. Thomas W. Doig, *Deposit Insurance for Credit Unions Unnecessary and Undesirable*, leaflet reprinted from the *Bridge*; *Deposit*

Insurance for Credit Unions, Yes or No? an outline for chapter meetings, March 1954.

22. James J. Girvan, *Deposit Insurance for Credit Unions? Yes*, Philadelphia, Rex Federal Credit Union, March 1954; *Deposit Insurance . . . A Logical Solution*, presented to National Credit Union Management Conference, Dayton, Ohio, Sept. 13, 1954.

23. *Insurance of Shareholdings in Federal Credit Unions*, prepared by the Bureau of Federal Credit Unions, U.S. Dept. of Health, Education, and Welfare, Oct. 1953, processed.

24. *Ibid.*, p. 11.

25. *Ibid.*, p. 16.

26. *Economic Report of the President*, 84th Cong., 1st Sess., H. Doc. No. 31 (Washington: U.S. Govt. Printing Office 1955), p. 59.

27. Report to T. W. Doig from M. F. Gregory; Subject, Treasury Department study of taxation, May 5, 1955, p. 3 processed.

28. *Report of the Managing Director to the Executive Committee, Credit Union National Association*, July 30, 1954, p. 7.

29. *Ibid.*, p. 4.

30. *Ibid.*, p. 8.

31. *Minutes, Meeting of the Board of Directors, Credit Union National Association, Inc.*, Madison, Wisconsin, May 15, 1954, pp. 8, 14, 20.

32. *Ibid.*, p. 10; also, *Model Credit Union Law as Approved by the Board of Directors*, May 1954. Issued by CUNA, processed.

33. *Federal Credit Unions in Occupational Groups Report on Effects of Work Stoppages*, Bureau of Federal Credit Unions, Nov. 1952, processed.

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