Federal credit unions of Great Falls Montana: will they experience a shortage of funds in the 1970's?

Merrill Lee Wunder

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FEDERAL CREDIT UNIONS OF GREAT FALLS, MONTANA: WILL THEY EXPERIENCE A SHORTAGE OF FUNDS IN THE 1970'S?

By

Merrill L. Wunder

B.S.C., University of Iowa, 1959

Presented in partial fulfillment of the requirements for the degree of

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UNIVERSITY OF MONTANA

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Approved by:

Chairman, Board of Examiners

Dean, Graduate School

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</tbody>
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CHAPTER I

INTRODUCTION

Walter Polner has written a handbook entitled, Credit Unions in the 1970's, which covers the economic trends of the 1960's, the status of the credit union in the 1960's, and the trends on the horizon for the 1970's. He suggests that the ability of the credit unions to continue to attract all the savings they need in the decade of the 1970's is questionable.

The purpose of this paper is to evaluate the national data on which Mr. Polner's projection is based and to compare it with similar data available for Great Falls, Montana. Any answer to the question of whether or not the federal credit unions of Great Falls, Montana, will experience a shortage of savings in the 1970's has been sought.

As the Director of the Credit Union National Association (CUNA) Research and Economic Department, Mr. Polner has observed and analyzed the growth of the credit union movement for the past several decades. Some of the problems which he believes the credit unions will encounter in attracting and

---

keeping all the funds they will need have been outlined by Mr. Polner. The major parts of that analysis are presented here.\(^2\)

1. The 1970's are projected to be a decade of deficit saving. The savings of individuals 40 to 65 years of age will probably not keep pace with the credit needs of the expanding 20 to 40 year age group. Persons born during the high birth-rate years of the 1950's will be forming new families which will create a high demand for credit.

2. The increasing use of credit cards, particularly bank credit cards, may draw both active and potential members away from the credit union. When credit card purchases are not paid within a specified time period, the account is charged interest usually at the rate of 18 percent a year. For credit union members, a loan can be obtained at 12 percent interest or less. The difference in interest is added expense to the credit union members, and the credit card transaction is a loss of business for the credit union.

3. With affluence people desire to diversify their savings. The increasing institutionalism of savings is consuming more of the available discretionary income. One reason is that savings accounts lack a hedge against inflation.

4. If the goal of full employment is pursued as a national policy of government, inflation can be expected to be constantly with us. Even a mild inflation of 2 to 3 percent

\(^2\)Ibid., pp. 68-71.
annually will significantly affect the return on savings held by individuals.

5. The demand for improved education, recreation, and health care will keep the tax rate high. Even if the higher expenditures are covered by increased fees charged to the consumer directly, the end result will be less money available for savings.

6. The Federal Government will need funds to alleviate problems of air and water pollution, urban blight, and other social and environmental problems. Higher taxes are one means of making these funds available. The consuming public could also be asked to pay for these services through higher prices on the products they purchase. Under either method, the cost of the service will reduce the discretionary income that is held in savings.

**Problem Areas to be Examined**

An evaluation of Mr. Polner's projected problems for credit unions will be limited to the following three areas:

1. The projection of the 1970's to be a decade of deficit saving.

2. The increased use of credit cards.

3. The growing institutionalism of savings.

Based on all of his projected problem areas, Mr. Polner has forecast a possible shortage of savings for the credit unions. If his prediction holds true nationally, would it necessarily be valid for an area such as Great Falls, Montana?
In order to answer this question, two evaluations will have to be made. First, can the national data be reasonably interpreted to support Mr. Polner’s projection of a shortage of savings for credit unions? Secondly, are the trends for Great Falls along with or counter to national trends?

Credit Unions - The Relative Position Today

Credit unions have recorded dramatic gains in membership, deposits, and loans since World War II. They have not been alone in their ability to attract savings. The commercial banks have maintained their lead in individual savings accounts. Savings and loan associations now have the second highest dollar value of individual savings accounts. As recently as the early 1950’s, savings and loan associations were behind the mutual savings banks but now hold twice as many savings as the mutual savings banks.

The recent recession of 1968-70 has resulted in a large increase in savings for all financial institutions. In 1970, the most current year for which data are available, savings at credit unions increased by 13 percent. The increase in loans was only 9 percent. This established a record increase in assets in any one year of two billion dollars. Credit union assets at the end of 1970 exceeded 17.9 billion dollars.

---

4 Ibid., p. 8.
5 Ibid.
The percentage gain in savings and assets was established despite a leveling out of the number of credit unions and total membership. Changes taking place within the credit unions and the national economy have made the increase in savings and assets possible.

When their assets are compared with other financial institutions, credit unions are still relatively small. They only account for 3 percent of the savings held by major institutions. Credit unions specialize in consumer installment credit, and their performance is impressive. In 1970, 12 percent of the installment credit in the United States was provided by credit unions.

A Brief History of Credit Unions

A majority of the people in the 19th Century and early 20th Century could not obtain a loan or credit. The 19th Century banking system served the large merchants and traders along with those who owned the large factories and means of production. For the small farmer and craftsman with very little to secure or guarantee a loan, the task of

---

6 Savings and Loan Associations, Mutual Savings Banks, Commercial Banks, Open End Mutual Funds, U.S. Savings Bonds, and Credit Unions.


9 Ibid., p. 2.
obtaining funds was very difficult. Whenever credit was found, the rates of interest were very high and few laws existed to protect the borrower from unethical practices.

In 1850, the first cooperative credit society was founded in Germany and was known as the Schulze-Delitzsch Association.\textsuperscript{10} The loan society required that all of its borrowers belong to the association and that they make monthly deposits toward its capital. The risks to the membership were high in that each member individually assumed "unlimited liability" for the debts of the association.\textsuperscript{11} The association operated under democratic control through a system of general and executive committees. It was every member's duty to participate in the management of the organization. It was the association's policy that loans should be based on the character of the person requesting the loan rather than on any collateral or chattel mortgage that he might have to secure the loan.

Also in the mid 1800's in Germany, Friedrich Raiffeisen established a society funded by the wealthy for the benefit of the poor.\textsuperscript{12} The Raiffeisen Society bought and resold goods and merchandise used primarily by farmers thereby utilizing its volume buying power to obtain favorable prices. The society, very early in its existence, changed from an outside controlled and funded organization to one controlled, owned,

\textsuperscript{10}Ibid., p. 6. \hspace{1cm} \textsuperscript{11}Ibid
\textsuperscript{12}Ibid., p. 9.
and operated by its members.\textsuperscript{13} The Raiffeisen Society also made loans to its members.

Purpose and Goals

The credit unions that were established had their special areas of interest and specific groups they intended to help. Friedrich Raiffeisen insisted that brotherly love and Christian principles motivate the credit union.\textsuperscript{14} The Schulze-Delitzsch Association believed in and was concerned with promoting economic self-sufficiency.\textsuperscript{15} In their various ways, they also promoted thrift and faith in the individual based on his character rather than on his credit rating.

Changes - Past and Present

Credit union societies were successful in Germany and other countries of Europe. Their growth was not rapid, but by adopting new ideas and evaluating the problems of those societies forced to discontinue, they gained experience and organizational strength. The first credit union in the United States was established in 1909 in New Hampshire. Its founders were influenced by the success of credit unions in the Maritime Provinces of Canada.

In every area where credit unions were established, Europe or North America, the success achieved with farmers was very disappointing. The credit union needed a steady flow of deposits and loans.

\textsuperscript{13}\textit{Ibid.}, p. 10. \textsuperscript{14}\textit{Ibid.}, p. 11.\textsuperscript{15}\textit{Ibid.}
The nature of farming and the needs of agriculture did not fit the credit union pattern very well... Most farmers had small and irregular incomes which made it difficult to organize and operate a credit union. The farmers who needed credit most had no money to invest in credit unions to provide the capital and loan funds for a viable society.16

The more successful credit unions were established among the urban workers. In the American credit union movement, this is where most of the organizational effort was placed. The expansion of the credit union movement in the United States became a personal crusade for a prominent Boston merchant, Mr. Edward A. Filene. He established the Credit Union National Extension Bureau in 1921. Its goal was to guide and promote credit union development.

In order that new credit unions could benefit from the mistakes and experience of the past, Mr. Filene and his associates wrote their Eight Principles for Operation of Credit Unions.17

1. Organize on a cooperative basis.
2. Form an association of men, not shares; limit each member's shares and allow each member only one vote.
3. Exclude thriftless and improvident borrowing.
4. Only honest and industrious men and women shall be members.
5. Operate only in small communities and groups.
6. Make small loans with frequent partial repayments.
7. Character and industry are to be the main basis of credit.
8. Require prompt payment of loans.

16 Ibid., p. 60. 17 Ibid., p. 31.
To fulfill and abide by all of these principles in the 1970's, could lead to some very difficult problems for the credit union. Do loans for vacations and sporting equipment come within the area of thriftless and improvident borrowing? A strict adherence to the policy of thrift would only encourage members to go to other financial institutions for their loans. It is the small credit union with only sufficient assets to cover small loans that is in trouble today. It would seem that many of these principles are in need of modification.

Credit unions continue to change both from the desires of its membership and the requirements of federal regulations. The membership of credit unions also changes. Low income groups no longer make up a very large portion of the membership. Only 4 percent of the credit union membership has an annual family income below $5,000.18

For the credit union to remain viable and healthy, it must anticipate and prepare for future needs and changes. The decade of the 1970's, like the decade before it, will be different and hold many changes for the credit union.

18Credit Union Yearbook, 1971, p. 25.
CHAPTER II

NATIONAL TRENDS ON SPECIFIC PROBLEMS

Decade of Deficit Saving

A credit union is unique in that its membership is restricted by charter. The membership must have a common bond of occupation, residence, or association. The vast majority of federal credit unions (89 percent) have an occupational bond.

It is from this restricted membership that all deposits, which make up the assets and loanable funds, must be drawn. An individual must be a member or apply and be accepted as a member in order to receive a loan.

Mr. Polner's first concern for the 1970's is his projection of a decade of deficit saving. The imbalance of age groups in the population is to be a primary cause. The imbalance becomes important when it is associated with the fact that most individuals and families are not able to maintain significant amounts of savings until they are age 35 to 40 and beyond.\(^\text{19}\) While this 35 and over age group can be labeled the net savers, the 20 to 34 year age group is the net borrowers.

\(^{19}\)Walter Polner, "Credit Unions Face a New Decade," *Credit Union Executive*, Spring, 1970, p. 2.
By using the data in Tables 1 and 2, the changes that will take place in the two age groupings can be calculated. The population age group 35 to 44 (Table 1) at the time of the 1970 census consisted of persons born during the years 1926 to 1935. As the 1970's progress, those individuals reaching age 35 will have been born in the latter half of the 1930's. The number of live births that occurred during 1925 to 1960 is shown in Table 2. The relatively low rate between 1936 and 1940 may be observed. The number of live births did not return to its pre-depression level until early in the 1940's. This will contribute to a slow increase of net savers.

A 20 year old in the 1970 census would have been born in 1950. Utilizing Table 2, it is noted that 1950 had the lowest number of live births for the decade of the 1950's. The number of people reaching age 20 will steadily increase during the decade of the 1970's until it reaches a peak in 1977, (see Table 2). The low number of people reaching age 35 and entering the net-saver category is, of course, the age group leaving the 20 to 34 year grouping of net borrowers.

Because of this age distribution, the net borrowers of ages 20 to 34 will increase at a much faster rate than net savers of age 35 and over.
<table>
<thead>
<tr>
<th>Age (Years)</th>
<th>Population</th>
<th>Age (Years)</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 5</td>
<td>17,167</td>
<td>35 - 44</td>
<td>23,072</td>
</tr>
<tr>
<td>5 - 13</td>
<td>36,647</td>
<td>45 - 54</td>
<td>23,203</td>
</tr>
<tr>
<td>14 - 17</td>
<td>15,839</td>
<td>55 - 64</td>
<td>18,582</td>
</tr>
<tr>
<td>18 - 20</td>
<td>10,815</td>
<td>65 - 74</td>
<td>12,425</td>
</tr>
<tr>
<td>21 - 24</td>
<td>12,882</td>
<td>75 and over</td>
<td>7,625</td>
</tr>
<tr>
<td>25 - 34</td>
<td>24,908</td>
<td>21 and over</td>
<td>122,697</td>
</tr>
<tr>
<td>All Ages</td>
<td></td>
<td></td>
<td>203,185</td>
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<table>
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<th>Year</th>
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<th>Year</th>
<th>Live Births</th>
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</thead>
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<tr>
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<td>2,909</td>
<td>1941</td>
<td>2,703</td>
</tr>
<tr>
<td>1926</td>
<td>2,839</td>
<td>1942</td>
<td>2,989</td>
</tr>
<tr>
<td>1927</td>
<td>2,802</td>
<td>1943</td>
<td>3,104</td>
</tr>
<tr>
<td>1928</td>
<td>2,674</td>
<td>1944</td>
<td>2,939</td>
</tr>
<tr>
<td>1929</td>
<td>2,582</td>
<td>1945</td>
<td>2,858</td>
</tr>
<tr>
<td>1930</td>
<td>2,618</td>
<td>1946</td>
<td></td>
</tr>
<tr>
<td>1931</td>
<td>2,506</td>
<td>1950</td>
<td>3,632</td>
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<td>1932</td>
<td>2,440</td>
<td>1951</td>
<td>3,823</td>
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<td>1933</td>
<td>2,307</td>
<td>1952</td>
<td>3,913</td>
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<tr>
<td>1934</td>
<td>2,396</td>
<td>1953</td>
<td>3,965</td>
</tr>
<tr>
<td>1935</td>
<td>2,377</td>
<td>1954</td>
<td>4,078</td>
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<tr>
<td>1936</td>
<td>2,355</td>
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<td>4,104</td>
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<tr>
<td>1937</td>
<td>2,413</td>
<td>1956</td>
<td>4,218</td>
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<tr>
<td>1938</td>
<td>2,496</td>
<td>1957</td>
<td>4,308</td>
</tr>
<tr>
<td>1939</td>
<td>2,466</td>
<td>1958</td>
<td>4,255</td>
</tr>
<tr>
<td>1940</td>
<td>2,559</td>
<td>1959</td>
<td>4,245</td>
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</tbody>
</table>

Increased Use of Credit Cards

A credit card sale is a convenience to the customer which creates more expense and paperwork for the seller than a cash sale. For most merchants, a credit card sale is less costly than maintaining their own credit departments. There is a benefit for both the customer and the merchant.

The bank credit card has wide acceptability and can establish immediate credit. It is useful in emergencies and is a substitute for other forms of credit, such as installment plans and bank loans. Most credit cards can be used to obtain a 30 to 55 day interest-free loan, if the purchase is well-timed. These are some of the reasons why the use and popularity of credit cards have continued to grow.

The bank credit card system is the fastest growing of all types of credit cards. It is also the system that offers the most competition for credit unions. The outstanding balance on bank credit cards has risen from $800 million on December 31, 1967, to an estimated $3.7 billion on December 31, 1970. This discussion will, therefore, be limited to the bank credit card system.

The credit union is restricted by law as to the types of investments it can make. It can invest funds in loans to members, in obligations and securities of the United States

of America fully guaranteed as to principal and interest, in
loans to other credit unions, in federally insured savings
and loan associations or mutual savings banks, in shares or
deposits of central credit unions, and in selected government
corporations and agencies. 21

In most cases, the loan to a member represents the
highest possible interest return. If a high loan-level is
not maintained, the effectiveness and competitive advantage
of the credit union will diminish. The cycle of loans ex-
tended and repaid generates the income necessary to pay divi-
dends, which attract the savings deposits essential for a
successful financial institution.

The bank credit card is competitive with the credit
union, because any credit purchase that is allowed to accumu-
late interest is, in effect, a loan not obtained from the
credit union. This will only apply, of course, when the
bank credit cardholder is also a credit union member.

The number of credit union members who use bank credit
cards is unknown. Most credit union members are good credit
risks and desirable credit card customers. A 1970 survey
revealed that 63 percent of credit union members has a total
family income in excess of $10,000. 22

21 U.S., Department of Health, Education, and Welfare,
Bureau of Federal Credit Unions, The Federal Credit Union Act
and Related Statute as Amended to August 1, 1968 (Washington,
22 Credit Union Yearbook, 1971, p. 25.
It was shown in a 1970 Federal Reserve survey that about 30 percent of all households possessed credit cards. All age groups, income brackets, and education levels were represented; but credit card usage increased with income and education.

About 44 percent of the college educated and 44 percent of households with over $10,000 in income utilized credit cards, and those groups also showed the most rapid expansion of card usage over time.\(^\text{23}\)

As the bank credit card system has grown in experience and technology, there has been a trend toward profitability for banks which operate or are agents for credit cards. This technology has assisted the credit card system to be more widely accepted by merchants. Through reductions of overhead and operating costs, the average discount for a credit card sale has fallen from 5 to 6 percent in 1967 to three and one-half percent in 1970.\(^\text{24}\) With further increases in technology and experience, the 18 percent interest rate charged on overdue accounts might also be reduced and become even more competitive with the 12 percent rate charged by credit unions.

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**Institutionalism of Savings**

Saving money for future uncertainties and needs has been a goal of families for decades. Since World War II, the


\(^{24}\)Ibid.
means and methods of saving money have changed. With the increase in affluence, Americans have chosen to be more selective in their savings and investment programs. The passbook savings account is no longer considered the only way to save. Individuals and families are looking for the maximum return on their dollar and are willing to make changes from previous saving habits.

The trend of diverse savings and the institutionalism of savings may become a problem for credit unions, because they are restricted by law in the type of financial services that can be offered. The cash savings account or passbook account is the only method of saving in which credit unions can participate.

The charter for the credit union restricts it to passbook savings deposits with the objective of promoting thrift among its members. These deposits are used as a source of funds to provide loans to its members at a competitive rate of interest.

The credit union provides a very important and vital service for its members, but the complex financial planning required of today's affluent family cannot be adequately met by a loan service and passbook savings account. The increased purchasing power and over-all financial knowledge of Americans have forced an expansion of services in the area of savings and investments. Life insurance companies have been available for many years and have always consumed a high percentage of the American savings dollar. Mutual funds have only
recently attracted significant amounts of the savings dollar.

Polner has predicted that these alternate means of savings could have a detrimental effect on credit unions. The recent growth and trends of these various savings and investment programs will be evaluated to determine the degree to which they support this prediction.

Life Insurance

The amount of ordinary life insurance in force grew at the average annual rate of 11 percent during the 1960's. It can be seen from the data in Table 3 that the growth rate in 1970 was just under 8 percent. The year 1970 was a period of business recession and high unemployment and is probably not truly representative of the over-all trend. This reduction in life insurance purchases is probably only temporary, because the amount of life insurance purchased per family is increasing faster than its disposable personal income. The disposable personal income per family increased from $6,300 in 1961 to $10,200 in 1970, a 62 percent increase. The life insurance in force per family increased from $10,800 in 1961 to $20,900 in 1970 for a 93 percent increase.\(^25\)

TABLE 3

LIFE INSURANCE IN FORCE IN THE UNITED STATES
(000,000 omitted)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary</td>
<td>$789,167</td>
<td>$731,097</td>
<td>$364,347</td>
<td>7.9</td>
<td>116.6</td>
</tr>
<tr>
<td>Group</td>
<td>581,434</td>
<td>545,092</td>
<td>192,202</td>
<td>6.7</td>
<td>202.5</td>
</tr>
<tr>
<td>Industrial</td>
<td>39,202</td>
<td>38,644</td>
<td>39,451</td>
<td>1.4</td>
<td>(.6)</td>
</tr>
<tr>
<td>Credit</td>
<td>94,956</td>
<td>87,925</td>
<td>33,493</td>
<td>8.0</td>
<td>183.5</td>
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<tr>
<td></td>
<td>$1,504,759</td>
<td>$1,402,758</td>
<td>$629,493</td>
<td>7.3</td>
<td>139.0</td>
</tr>
</tbody>
</table>

Mutual Funds

Mutual funds offer the opportunity for small investors to purchase a cross section of stocks that will be administered by professional management. A primary goal of the investor is to share in the potential stock-price appreciation and to protect himself from inflation. The period of inflation and recession in 1969 and 1970 caused a decrease in the value of assets held by mutual funds as seen in Table 4. Mutual funds failed to provide the anticipated protection from inflation, but the number of share accounts continued to grow during this period despite the loss in previously invested funds.

Stocks

For families with larger amounts of funds, an investment in the securities market can be made through purchases of individual stocks. Individuals and families have various reasons for purchasing stocks, which are usually held for a shorter period of time than mutual funds; but the attempt to protect savings from loss due to inflation is still a prime factor. Middle and upper income families purchase more stocks during periods of inflation as indicated in Figure 1.
<table>
<thead>
<tr>
<th>Year</th>
<th>Assets</th>
<th>Number of Accounts</th>
</tr>
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<tbody>
<tr>
<td>1961</td>
<td>22,788.8</td>
<td>5,319.2</td>
</tr>
<tr>
<td>1962</td>
<td>21,270.7</td>
<td>5,910.5</td>
</tr>
<tr>
<td>1963</td>
<td>25,214.4</td>
<td>6,151.9</td>
</tr>
<tr>
<td>1964</td>
<td>29,116.3</td>
<td>6,301.9</td>
</tr>
<tr>
<td>1965</td>
<td>35,220.2</td>
<td>6,709.3</td>
</tr>
<tr>
<td>1966</td>
<td>34,829.4</td>
<td>7,701.7</td>
</tr>
<tr>
<td>1967</td>
<td>44,701.3</td>
<td>7,904.1</td>
</tr>
<tr>
<td>1968</td>
<td>52,677.2</td>
<td>9,080.2</td>
</tr>
<tr>
<td>1969</td>
<td>48,290.7</td>
<td>10,391.5</td>
</tr>
<tr>
<td>1970</td>
<td>47,618.1</td>
<td>11,018.6</td>
</tr>
</tbody>
</table>

Fig. 1.—Stock Ownership by Income.

SOURCE: Credit Unions in the 1970's, p. 35.
The number of credit union families with a total family income of $7,500 or more in 1970 was 83 percent.26 Although many of these families could be considered potential purchasers of common and preferred stocks, recent experience has been that few credit union families owned stocks or mutual fund shares. It was disclosed in the 1970 Survey of Consumer Finances that only 10 percent of credit union members owned mutual funds while 20 percent held stocks.

Time and Demand Deposits

The average bank depositor's knowledge of interest rates and checking account costs has increased over the years, and he has applied this knowledge to his own benefit. He has maintained his demand deposit balance closer to the minimums required. The excess funds have been transferred to interest bearing passbook savings or certificate of deposit accounts. Even with the certificate of deposit accounts, the liquidity of the funds has not been reduced, because money can usually be withdrawn without the bank applying the required waiting period.

This change in the way both individuals and businesses maintain their demand deposit accounts is one reason for the low rate of increase for demand deposits as depicted in Figure 2.

26 Credit Union Yearbook, 1971, p. 25.
Demand Deposits

Time Deposits

SOURCE: Credit Unions in the 1970's, p. 30.

Fig. 2.—Growth of Time and Demand Deposits in U.S. Banks, 1945-1970*

*August 1970 Estimate
Changes in regulations for federally insured savings and loans have allowed them to offer different types of accounts other than the normal passbook savings. They now have the ability to offer various rates of interest in accordance with the amount deposited and date of maturity.

These new accounts have had a significant effect on the business of the savings and loan associations. The certificates and special accounts represented 11.7 percent of total insured savings in October, 1966, but as of December, 1971, this had risen to 45.4 percent.27

Because of the diversity of accounts it can offer, the savings and loan associations have an advantage over credit unions. This is important because the savings and loan associations acquire most of their funds from individuals, not from businesses or corporations. As of May, 1968, 97 percent of the accounts and 94 percent of the funds in savings and loans were held by individuals.28

The number of accounts at savings and loan associations has increased from 40,711 thousand in 1965 to an estimated 50,910 thousand in 1971. At the same time, the average size of an account increased from $2,711 to an estimated $3,427.29

28 Ibid.
29 Ibid., p. 67.
Social Security

The Social Security program can be considered as a system of involuntary savings. The payments cover some of the risks of providing retirement income and reduce, to some degree, the need for savings. The rates of payment and the maximum income subject to taxation have continued to increase over the years. The tax rate for the years 1973 through 1975 will be 5.65 percent up from 5.2 percent for 1972. The maximum salary subject to taxation, presently at $9,000, will increase to $10,800 and $12,000 in the years 1973 and 1974, respectively.\(^3\)

Pension Plans

Many employers now provide pension plans for their employees. Under some plans, contributions are made both by the employer and the employee. The growth of pension plans as they have developed over the last half of the 1960's is shown in Table 5.

As of 1970, three-fourths of all government civilian personnel was enrolled in retirement programs other than Old-Age Survivors Disability Insurance (OASDI). About one-half of all workers in commerce and industry was enrolled in similar retirement programs. This estimate includes persons enrolled in profit-sharing plans which provide for an income at

It was reported in an area wage survey completed in 1969, that nationally, 72 percent of plant workers and 82 percent of office workers were covered by retirement pension plans. The large majority of plans are non-contributory; that is, the employee makes no cash contribution. The percentage for non-contributory plans was 82 percent for plant workers and 76 percent for office workers.

An Evaluation of National Data

Can the national data be reasonably interpreted to support Polner's projection of a shortage of savings for the credit unions? A shortage of savings will be defined as the inability of credit unions to grant all of their approved requests for loans.

Decade of Deficit Saving

A large increase in young people entering the labor market will take place in the 1970's. If past patterns of consumption and saving hold true, those workers will not add significantly to the available savings until they reach age 35 to 40. Their demands for credit can be expected to contribute to a decade of tight money, assuming that the Federal Government makes no changes in taxation, fiscal, and monetary policy.

31 1972 Life Insurance Fact Book, p. 36.

TABLE 5
NUMBER OF PERSONS COVERED BY MAJOR PENSION AND
RETIREMENT PROGRAMS IN THE UNITED STATES, 1972
(In millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Insured</th>
<th>Non-Insured</th>
<th>Railroad Retirement</th>
<th>Federal Civilian Employees</th>
<th>State and Local Employees</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1965</td>
<td>7,040</td>
<td>21,060</td>
<td>1,176</td>
<td>2,893</td>
<td>6,685</td>
<td>38,854</td>
</tr>
<tr>
<td>1966</td>
<td>7,835</td>
<td>21,640</td>
<td>1,168</td>
<td>3,086</td>
<td>7,112</td>
<td>40,841</td>
</tr>
<tr>
<td>1967</td>
<td>8,700</td>
<td>22,280</td>
<td>1,128</td>
<td>3,248</td>
<td>7,486</td>
<td>42,842</td>
</tr>
<tr>
<td>1968</td>
<td>9,155</td>
<td>22,860</td>
<td>1,104</td>
<td>3,297</td>
<td>7,880</td>
<td>44,296</td>
</tr>
<tr>
<td>1969</td>
<td>10,120</td>
<td>23,410</td>
<td>1,088</td>
<td>3,346</td>
<td>8,155</td>
<td>46,249</td>
</tr>
<tr>
<td>1970</td>
<td>10,980</td>
<td>24,100*</td>
<td>1,055*</td>
<td>3,327</td>
<td>8,450</td>
<td>47,912</td>
</tr>
</tbody>
</table>

*Estimated

Personal savings have increased from an annual rate of $32.4 billion in the first quarter of 1969 to $50.1 billion in the second quarter of 1972. The recession and concern for job security were prime factors in personal savings reaching a peak of $64.1 billion as an annual rate in the second quarter of 1971.

This growing rate of savings might seem to refute a concern for a shortage of funds. For credit unions, this rate of savings has to be related to its membership as net borrowers and net savers. The number of members with heads of families 36 years of age and younger is 36 percent, while the figure for banks and savings and loans is 29 percent and 24 percent, respectively. Credit unions can, therefore, expect a higher loan demand and lower rate of average savings.

It is reasonable then to expect a shortage of savings for credit unions based on the changing age distribution of the membership.

Credit Card Usage

The use and convenience of the bank credit card by itself are not detrimental to credit unions. Bank credit card holders have been carrying purchases over in ever-increasing numbers. It was indicated in a Federal Reserve report in 1972 that only about one-third of bank card holders avoid interest charges by paying their accounts in full during the grace period. Not only is the number of interest

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bearing accounts increasing, but the credit outstanding is growing at a faster rate than the increase in number of card holders. 34

At the present time, credit unions can argue that they can extend the credit by means of a loan at 12 percent interest or less as compared to 18 percent for bank credit cards. Any future development in administrative technology of the control and cost of loans could reduce this high interest rate for bank credit cards. If selective interest rates on loans come into being as they have on savings deposits, the credit unions would have a very difficult problem. The high income and good credit rating of the majority of credit union members make them prime prospects for loans with selective interest rates.

The bank credit card can be reasonably expected to continue to compete with credit unions for loans. This competition would be greatly intensified if the rate of interest charged by bank credit cards were reduced selectively or across the board.

Institutionalism of Saving

Personal income in the United States has continued to grow giving Americans increased purchasing power. This is true even when income is calculated on a constant dollar basis as shown in Table 6.

TABLE 6
PERSONAL INCOME AND DISPOSITION OF INCOME 1950 TO 1970
(In billions of dollars)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Income</td>
<td>227.6</td>
<td>310.9</td>
<td>401.0</td>
<td>538.9</td>
<td>587.2</td>
<td>629.4</td>
<td>688.7</td>
<td>748.9</td>
<td>801.0</td>
</tr>
<tr>
<td>1958 Prices</td>
<td>274.7</td>
<td>335.1</td>
<td>389.6</td>
<td>495.2</td>
<td>526.5</td>
<td>550.1</td>
<td>581.3</td>
<td>606.5</td>
<td>619.7</td>
</tr>
<tr>
<td>Disposable Income</td>
<td>206.9</td>
<td>275.3</td>
<td>350.0</td>
<td>473.2</td>
<td>511.9</td>
<td>546.3</td>
<td>591.2</td>
<td>631.6</td>
<td>684.8</td>
</tr>
<tr>
<td>1958 Prices</td>
<td>249.6</td>
<td>296.7</td>
<td>340.2</td>
<td>435.0</td>
<td>458.9</td>
<td>477.5</td>
<td>499.0</td>
<td>511.5</td>
<td>529.8</td>
</tr>
<tr>
<td>Personal Outlays</td>
<td>193.9</td>
<td>259.5</td>
<td>333.0</td>
<td>444.8</td>
<td>479.3</td>
<td>506.0</td>
<td>550.8</td>
<td>593.9</td>
<td>634.6</td>
</tr>
<tr>
<td>Personal Consumption Expenditures</td>
<td>191.0</td>
<td>254.4</td>
<td>325.2</td>
<td>432.8</td>
<td>466.3</td>
<td>492.1</td>
<td>535.8</td>
<td>577.5</td>
<td>616.7</td>
</tr>
<tr>
<td>Interest paid by Consumer</td>
<td>2.4</td>
<td>4.7</td>
<td>7.3</td>
<td>11.3</td>
<td>12.4</td>
<td>13.2</td>
<td>14.3</td>
<td>15.7</td>
<td>17.0</td>
</tr>
<tr>
<td>Personal Savings</td>
<td>13.1</td>
<td>15.8</td>
<td>17.0</td>
<td>28.4</td>
<td>32.5</td>
<td>40.4</td>
<td>40.4</td>
<td>37.6</td>
<td>50.2</td>
</tr>
<tr>
<td>Percent of Disposable Personal Income</td>
<td>6.3</td>
<td>5.7</td>
<td>4.9</td>
<td>6.0</td>
<td>6.4</td>
<td>7.4</td>
<td>6.8</td>
<td>6.0</td>
<td>7.3</td>
</tr>
</tbody>
</table>

*1970 Data is Preliminary

Institutionalism of savings has brought about a great expansion in several saving and investment institutions. Their growth at first observation would appear to be detrimental to credit unions. A prime factor to remember is the over-all growth of personal savings. The increase has been so large (see Table 6) that it is able to support all of the growing fields of saving and investment.

As can be seen from the calculation of the increases between 1965 and 1970, mutual fund assets were up 35 percent, ordinary life insurance were up 59 percent, savings at commercial banks were up 55 percent, savings at savings and loan associations were up 33 percent, and savings at federal credit unions were up 68 percent. Even with the high growth rate, the relative position of the credit union in total savings increased only slightly.

It is not the fact that competition exists but that the capabilities of the competition under changing economic and monetary conditions could harm credit unions.

A period of high inflation or a tight money policy could raise the interest rates beyond the 6 percent credit unions are allowed to pay on savings. Barring a change in the maximum interest rate, credit unions would undoubtedly lose deposits.

The funds that Social Security and pension plans take away from disposable personal income are a factor shared by all savings and investment companies and should affect them all fairly equally.
The institutionalism of savings has not had an adverse effect on the growth of credit unions. They have maintained the highest growth rate of all the financial institutions discussed.

A shortage of savings for credit unions, as defined in this paper, could develop through either a great increase in the loan demand or a decline in the rate of growth of savings. A comparison of the credit union with other financial institutions over the past six to seven years has shown a steady growth in both loan demand and savings deposits.

The changes in age distribution which will cause an increase in net borrowers are expected to significantly increase the loan demand. Since one-third of the membership of credit unions is below age 36, the loan demand at credit unions can be expected to increase in the 1970's.

The growing use of bank credit cards could relieve some of the loan demand at credit unions. The short-run result could be beneficial if the credit union members do not also take their savings deposits to other institutions.

Many factors in the general economy and in government policy will influence the loan demand and savings at credit unions. At the writing of this paper, the evaluation of national data on the decade of deficit saving, bank credit card usage, and institutionalism of savings does not reasonably support the projection of a shortage of savings for credit unions in the 1970's.
CHAPTER III

LOCAL TRENDS ON SPECIFIC PROBLEMS

Will the federal credit unions of Great Falls, Montana, experience a shortage of savings in the 1970's? In Chapter II, the projection that credit unions nationally may not be able to attract all the savings they will need in the 1970's, was evaluated.

In this chapter, an evaluation will be made of the available data on population trends, bank credit cards, and institutionalism of savings as it pertains to Great Falls, Montana. The findings will be compared with the national data to evaluate the effect of national trends on local credit unions.

Great Falls is one of two Standard Metropolitan Statistical Areas (SMSA) in the State of Montana. As one of the smallest metropolitan areas in a sparsely populated region of the country, its growth rate can be expected to be different from the major metropolitan areas of the United States.

The same or similar statistical data that could be secured for Great Falls is presented in the discussion below.
Decade of Deficit Saving

The population of the Great Falls SMSA increased by 11.4 percent between 1960 and 1970. During the same period, the population of the State of Montana grew by less than 20 thousand, which represented only a 3 percent increase. A natural increase of 78 thousand was recorded for the state. The difference represents a net emigration of 58 thousand from Montana. The loss was not evenly distributed among the various age groups. The groupings that recorded losses statewide were the Under 5 Years and the 25 to 44 Years. In Great Falls, only the Under 5 Years group decreased, recording a percentage change of minus 28.6. The 25 to 44 Years group recorded a modest increase of 2.2 percent. The absolute and percentage changes for the Great Falls SMSA are presented in Table 7.

The large increase in the net borrower age group taking place nationally is not projected to occur in Great Falls. The high percentage increase in the 15 to 24 Years group will have a minimum effect on Great Falls. Emigration of young people will heavily deplete the upper-age level of this 15 to 24 Years bracket. Young people leave the state after they have completed their high school or college


\[36\text{Ibid., p. 12.}\]

\[37\text{Ibid., p. 4.}\]

\[38\text{Ibid., p. 14.}\]
education, because they cannot find the employment they desire. The emigration of workers carries over into the 25 to 44 Years group. Losses from this grouping would affect its lower-age level. Workers with only a few years tenure are more likely to leave their jobs to pursue other opportunities. Furthermore, any work force reductions usually affect employees with the least seniority.

TABLE 7

GREAT FALLS SMSA POPULATION BY AGE, 1970 AND 1960

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Population 1970</th>
<th>Population 1960</th>
<th>Change Number</th>
<th>Change Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Ages</td>
<td>81,804</td>
<td>73,418</td>
<td>8,386</td>
<td>11.4</td>
</tr>
<tr>
<td>Under 5 Years</td>
<td>7,295</td>
<td>10,221</td>
<td>(2,926)</td>
<td>(28.6)</td>
</tr>
<tr>
<td>5 to 14 Years</td>
<td>18,726</td>
<td>15,038</td>
<td>3,688</td>
<td>24.5</td>
</tr>
<tr>
<td>15 to 24 Years</td>
<td>14,747</td>
<td>10,653</td>
<td>4,094</td>
<td>38.4</td>
</tr>
<tr>
<td>25 to 44 Years</td>
<td>20,311</td>
<td>19,876</td>
<td>435</td>
<td>2.2</td>
</tr>
<tr>
<td>45 to 64 Years</td>
<td>14,252</td>
<td>11,950</td>
<td>2,302</td>
<td>19.3</td>
</tr>
<tr>
<td>65 Years and Over</td>
<td>6,473</td>
<td>5,680</td>
<td>793</td>
<td>14.0</td>
</tr>
</tbody>
</table>


Malmstrom Air Force Base, located two miles east of Great Falls, with a military population of 4,700 is made up primarily of 20 and 30 year-old men and women. The borrowing needs of these people only will affect one credit union, the Malmstrom Federal Credit Union.
A significant increase in the number of individuals and families in the 20 to 34 year-age group is not expected to take place in the Great Falls area. Therefore, an expansion of the loan demand based on population distribution cannot be substantiated.

**Increased Use of Credit Cards**

In May of 1968, the first National Interchange Bank Credit Card was offered in Great Falls, and two bank-card systems were represented in Great Falls by the end of that year.

Bank credit cards are very competitive and banks are reluctant to release information that discloses any part of their credit card operation. The BankAmericard agent bank in Great Falls would only release the number of cardholders at its bank. The review of bank credit card data has, therefore, been limited to the Master Charge Interbank Credit Card System.

In May, 1970, the number of bank credit cardholders in Great Falls was estimated to be just under 27 thousand.\(^{39}\) Master Charge affiliated banks accounted for 15,972 of these cardholders.

Among the Master Charge accounts, 13 percent was considered active and had an outstanding average balance of

$37.50. Master Charge had a committed credit line of $8 million in Great Falls, and the average bank card purchase was $21.  

The Mountain States Bankcard Association, which represents Master Charge affiliated banks, provided statistics for what it called the Great Falls trading zone, which included eleven counties of north central Montana. The Great Falls SMSA is estimated to account for 75 percent of these cardholders, and the applicable data has been adjusted to reflect this estimate.

As of October, 1972, all national interchange bank credit card plans in Great Falls accounted for 16,894 cardholders. The reduction of over 10 thousand cardholders in two years can be explained by the discontinuance of many cards which were mass mailed to Great Falls residents in late 1968, shortly after the bank card plans started.

The following discussion applies only to the Master Charge bank cards in Great Falls and is compared to the data in the 1970 study referenced earlier.

Whereas 13 percent of the cardholders was active in 1970, the 1972 figure increased to 48 percent. The effect of the large number of discontinued cards can be eliminated by

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40 Ibid., p. 8.


42 1972 Master Charge Data from correspondence with Mountain States Bankcard Association, Denver, Colorado, November, 1972.
comparing the active cardholders that were 3,720 and 4,968 respectively for 1970 and 1972, an increase of 33 percent.

The average outstanding balance per active cardholder in 1972 was $198 and the average bank card purchase was $18. A committed credit line of $6 million had been granted by Master Charge in 1972.

Two key figures, the number of active cardholders and the average outstanding balance stand out. In 1970, this represented loans outstanding of $139,500 (3,720 active cardholders x $37.50, average dollar amount outstanding per active cardholder). An enormous increase of 700 percent occurred in the next two years. Loans outstanding in the amount of $983,664 (4,968 active cardholders x $198 average dollar amount outstanding per active cardholder) were held by the banks in 1972.

As brought out above in the discussion of national data, bank card outstanding accounts carry an interest rate of 18 percent. When the cardholder is a member, he can obtain a 12 percent loan from the credit union to pay this account. If all the cardholders were eligible members, a savings of $59,199 in interest expense could be realized annually.

What do bank loans have to do with the question of a shortage of savings at Great Falls Federal Credit Unions? A first assumption could be that fewer loans would help alleviate any shortage of savings that might occur, but loans not granted by a credit union can be detrimental.
Loans earn the income that makes interest payments on savings possible. If the credit union member borrows from other institutions, he is denying the credit union a chance to earn income and is probably doing it at a greater interest expense to himself.

Each individual credit union decides how much interest it will pay on savings. The decision is based on income earned on the total assets, reserve requirements, and immediate goals of the credit union. A high liquidity position caused by low-loan demands could result in a decline in interest income and could cause the rate of interest on savings to be reduced. It is at this point that the cause and effect relationship of loans not taken out at the credit union could contribute to a shortage of funds in the future. Credit union members may deposit their savings with other institutions paying a higher rate of interest for the same or similar type of savings account.

The loss of loan business at the credit union could transpire in another way through the credit union not granting all reasonable loans requested by its members.

The gravity of this situation was brought out in an interview with a loan officer of the Malmstrom Federal Credit Union in Great Falls, Montana. In the opinion of this officer, if a member applies for a loan of the type usually granted and his request is turned down due to lack of funds, he is very likely not going to return to the credit union again with a loan request or a savings deposit.
Most credit unions want very much to avoid any loss of loan business and exercise their borrowing power when necessary. The Federal Credit Union Act allows credit unions to borrow from any source in amounts not exceeding 50 percent of their paid-in and unimpaired capital and surplus.\footnote{The Federal Credit Union Act, p. 4.}

The bank credit card in Great Falls has significantly broadened the volume of business on a reduced base of card-holders. Administrative efficiency and technical skill have been responsible for this development and are capable of carrying profitable bank credit card expansion even further. The bank credit card could have a very significant effect on credit unions in Great Falls.

Institutionalism of Savings

All of the various means of saving and investing are represented in Great Falls. There are several banks, stock brokerage firms, life insurance companies, mutual fund agents, and two federally insured savings and loan associations. The individual also has the option of conducting business outside of Great Falls through the mail. Except where it is specifically stated in the discussion, this factor has been left out of consideration and assumed to be equalized by business coming into Great Falls.

The availability of data was a limiting factor on the analysis of the stock market activity in Great Falls.
No valid and meaningful index of activity could be formulated which would indicate the direction of the securities market for Great Falls. This aspect of savings was, therefore, omitted in the local analysis.

**Life Insurance**

In 1970, the average amount of life insurance in force per family in Montana was $16,700.\(^{44}\) This increased to $17,400 in 1971 but was still fourth from the lowest in all fifty states.\(^ {45}\) A brief comparison of life insurance in force per family in selected states is presented in Table 8.

**TABLE 8**

AVERAGE AMOUNT OF LIFE INSURANCE IN FORCE PER FAMILY IN THE UNITED STATES BY STATE FOR 1970 AND 1971

<table>
<thead>
<tr>
<th>State</th>
<th>1970</th>
<th>1971</th>
</tr>
</thead>
<tbody>
<tr>
<td>Montana</td>
<td>$16,700</td>
<td>$17,400</td>
</tr>
<tr>
<td>Total U. S.</td>
<td>20,900</td>
<td>21,800</td>
</tr>
<tr>
<td>High - Hawaii</td>
<td>34,000</td>
<td>36,000</td>
</tr>
<tr>
<td>Low - Arkansas</td>
<td>13,100</td>
<td>14,000</td>
</tr>
<tr>
<td>Others Below Montana</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mississippi</td>
<td>14,600</td>
<td>15,100</td>
</tr>
<tr>
<td>West Virginia</td>
<td>15,800</td>
<td>16,200</td>
</tr>
<tr>
<td>Nevada</td>
<td>16,400</td>
<td>*</td>
</tr>
</tbody>
</table>

*In 1971 Nevada’s average increased to $18,000.*


\(^{44}\) [1972 Life Insurance Fact Book](#), p. 23.

\(^{45}\) [Ibid.](#), p. 24.
The annual increase in Montana in 1971 of 4.2 percent was about the same as the national average increase of 4.3 percent. With the smaller base from which the percentage is computed, the actual difference of life insurance in force will become greater each year.

Life insurance in force for the Great Falls area alone was not available. The Montana data is considered the best estimate available.

Mutual Funds

The accountability of mutual fund ownership for any one city or geographical area is difficult to calculate. The mobility of the purchaser and the constant buying and redeeming of mutual funds make a point of reference of questionable validity.

An attempt at measuring the degree of mutual fund investment activity in Montana was made by looking at purchases of mutual fund shares. In 1960, Montanans purchased $12.2 million or .58 percent of the total United States purchases. In 1970, purchases of $15.3 million by Montanans only represented .41 percent of the United States total. The absolute increase of over $3 million represented a 30 percent decrease in Montana’s share of total U. S. purchases.

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Time and Demand Deposits

The Federal Reserve Bank of Minneapolis publishes a summary of assets and liabilities, which includes among other things the demand deposits and time deposits held by Ninth District member banks. Selected data from this report is presented in Table 9.

As the interest rate rose in the 1960's, businesses began to maintain tighter control over their demand deposit balances. A vice-president of a Great Falls bank indicated that individuals are now also keeping their demand deposit balances closer to the minimums.

Total demand deposit balances reflect many things, such as the activity and level of business purchases and sales, construction, consumer purchases, and the seasonal activity of wheat and cattle ranchers in Great Falls. For Great Falls banks, the total of demand deposits decreased from 1966 through 1970 and now has increased again. Other than the general business and economic level which it reflects, the closer monitoring of checking account balances could be one of the reasons for the lower total demand deposits.

The higher interest paying certificates of deposit have recorded a steady increase since 1966. The percentage increase in the six-year span is nearly 300 percent. From 1966 through 1969, it appears that this increase was at the expense of passbook savings. The increase in interest on passbook savings from 4.5 to 5 percent in 1969 probably accounts for the reverse in the trend of total deposits in passbook savings.
### TABLE 9

**DEMAND DEPOSITS AND TIME DEPOSITS FOR GREAT FALLS SMSA**

(In thousands)

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand Deposits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IPC^a - Total</td>
<td>74,370</td>
<td>71,739</td>
<td>71,084</td>
<td>61,423</td>
<td>55,435</td>
<td>58,616</td>
<td>67,547</td>
</tr>
<tr>
<td>Time Deposits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>IPC - Total</td>
<td>66,577</td>
<td>76,240</td>
<td>80,718</td>
<td>91,695</td>
<td>91,874</td>
<td>110,065</td>
<td>130,940</td>
</tr>
<tr>
<td>Savings Deposits^b</td>
<td>29,799</td>
<td>26,263</td>
<td>24,615</td>
<td>24,033</td>
<td>26,040</td>
<td>32,267</td>
<td>39,530</td>
</tr>
<tr>
<td>Time Deposits IPC^c</td>
<td>32,041</td>
<td>46,347</td>
<td>54,462</td>
<td>65,895</td>
<td>65,834</td>
<td>77,798</td>
<td>91,410</td>
</tr>
</tbody>
</table>

^aIPC is Individuals, Partnerships and Corporations.

^bSavings Deposits are Passbook Savings.

^cTime Deposits IPC are Certificates of Deposit, Christmas Club Accounts, etc.

**SOURCE:** Ninth District Member Banks Summary of Assets and Liabilities, June 30, 1966 through June 30, 1972.
Savings and Loan

The savings and loan associations of Great Falls have recorded a 47 percent increase in total savings for the period of 1965 to 1972. Nationally, the increase for this period was 58 percent.

An analysis of the number of depositors and average account size indicates that the growth in Great Falls came about through larger account balances rather than more individuals making deposits at the savings and loan associations.

Nationally, the average size of the savings and loan account increased by 26 percent, while in Great Falls the average increase was 37 percent. The number of accounts at Great Falls associations increased 14 percent as compared to a national increase of 25 percent.

The Great Falls savings and loan associations were not able to significantly increase their base of accounts but did receive sizable deposits in the accounts they held.

Social Security

The degree to which Social Security withholdings affect the disposable personal income available in Great Falls is assumed to be the same as the effect nationally.

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47 Financial Records of the Two Savings and Loan Associations in Great Falls.

Pension Plans

A retirement pension plan covers 75 percent of the plant workers and 68 percent of the office workers in Great Falls. Of these, 88 percent of the plant workers and 81 percent of the office workers are enrolled in non-contributory plans. 49

If the company or industry for which the credit union has its common bond of membership has a high withholding for its contributory pension plan, the associated credit union could be significantly hurt. Since the percentage of workers who contribute to their own pension plan in Great Falls is relatively low, the aggregate effect on Great Falls credit unions is judged to be small.

An Evaluation of Great Falls Data

Will the Federal Credit Unions of Great Falls, Montana, experience a shortage of savings in the 1970's? A shortage of savings will be defined as the inability of credit unions to grant all of their approved requests for loans.

Decade of Deficit Saving

The labor market of Great Falls is not expanding as fast as national employment. The result is a loss of young people who are unable to find suitable employment. This factor

changes the local distribution of age groups drastically from the national distribution. The net borrowers will not increase significantly, and an expansion of the loan demand based on population distribution cannot be substantiated.

Credit Card Usage

The bank credit card has been used in Great Falls for a little over four years. Its initial growth period has resulted in the dropping of accounts that were not used and in the expanding of the number of merchants that honor bank credit cards.

A very significant increase in the outstanding balances has taken place. Part of the reason for this growth could be the initial accumulation of account balances. But a more important reason could be the great acceptance of bank credit cards in Great Falls and the willingness of the user to carry outstanding balances which charge an annual interest rate of 18 percent.

Bank credit cards in Great Falls can be expected to continue their competition with the credit union and other institutions of consumer credit.

Institutionalism of Saving

In 1971, the per capita personal income of $3,479 in Montana ranked 35 in the nation. Its increase over the previous year was the lowest among all of the states. In Montana
the consumer purchasing power decreased because per capita personal income advanced less than consumer prices.  

Great Falls was affected by the weak gains in manufacturing and in the wholesale-retail trade. This slower growth rate can be seen in a comparison of the Great Falls savings and investment areas with national data.

Savings and investment institutions in Great Falls as a whole, did not maintain national averages in deposits and assets. The life insurance and mutual fund sales recorded considerable increases, but the growth rates for the state remained smaller than the national average.

Time deposits at banks had a steady increase in growth rates while demand deposits declined for four years before resuming their upward growth. The demand deposits have not attained their previous levels of 1966 through 1968.

The savings and loan associations had strong increases in individual accounts but lagged behind national trends in total deposit growth.

The funds that contributory pension plans will take from discretionary personal income will be minimal in Great Falls. A higher percentage of pension plans in Great Falls is non-contributory. Great Falls has a slightly higher number of plant workers enrolled in pension plans but is 14 percent below the national average for office workers.

The Malmstrom Federal Credit Union in Great Falls is the largest credit union in Montana. It holds 15 percent of the assets of Montana credit unions, and about two-thirds of the assets in Great Falls credit unions. With this large percentage of activity attributed to the Malmstrom Federal Credit Union, it is difficult to determine the changes that might be occurring in the other credit unions in Great Falls. For this reason, Malmstrom Federal Credit Union data will be deleted from the aggregate figures for Great Falls in this comparison.

The percentage increases in Great Falls federal credit unions from 1967 through 1971 in members, savings, and loans outstanding were 49, 81, and 87 percent, respectively and compare with the national increases of 28, 69, and 73 percent, respectively. The growth rate in Great Falls is significantly ahead of the national trend.

During the period 1967 through 1971, the savings and loan associations, bank time deposit departments, and federal credit unions experienced growth rates of 43, 44, and 81 percent, respectively. As in the national data, the credit unions were experiencing the highest percentage growth rates.

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52. Montana Credit Union League, Montana Credit Union League 1972 Yearbook (Helena: Montana Credit Union League, 1968, 69, 70, 71, 72).

The size of total deposits from which these calculations were made varies greatly between institutions. The base of deposits in 1967 for Great Falls credit unions was very small at $2,560,627, while savings and loan and bank time deposits were $47,031,218 and $76,240,000, respectively. Even with a growth rate nearly twice as large, the credit unions total deposits relative to other institutions have decreased.

The growth rate of credit union savings must be compared with the loan demands made against these funds. Since 1967, the growth rate in loans outstanding has been slightly higher than the rate of increase in deposits which are 87 percent and 81 percent, respectively. An exception to this trend was the business recession year of 1970 when savings increased more than loans.

Great Falls federal credit unions have raised the average rate of interest paid on savings deposits from 5 percent in 1967 to 5.5 percent in 1971. These increases have kept the credit unions .5 percentage points ahead of interest paid on passbook savings at other financial institutions in Great Falls.

Any defection of eligible borrowers is not evident in the rapid increase in loans granted. This high rate of loans which supports the interest paid on deposits has enabled the credit union to maintain a high rate of savings growth.

The loan demand is highly variable on the short-term consumer credit that is granted by the Great Falls credit unions. Any major change in a factor influencing loan demand
could cause credit unions to be dependent on their borrowing power to meet their loan demand. Will the age group distribution, bank credit card, or competition of other financial institutions cause such a change?

The increased loan demand based on population distribution for Great Falls was found not to be valid. Bank credit card usage was found to be high and could conceivably cause some defection from the credit union. The growth of other financial institutions did not impede the continuing expansion of credit union deposits in Great Falls.

On the basis of the analysis of these three factors, it seems unlikely that the Federal Credit Unions of Great Falls will experience a shortage of savings in the 1970's.
CHAPTER IV

CONCLUSIONS

National Data

The federal credit unions have continued to increase their total savings and loans granted despite the recent decline in growth of membership and in operating credit unions. The slower growth rates which developed in 1970 are probably caused by the change in the economy from war time to peace time. Credit unions are well represented among defense industries.

The increase in the 20 to 34 year old age group will create a higher demand for installment loans. Since presently one-third of the credit unions' membership is 36 years of age or under, the loan demand can be expected to increase when these consumers join the credit union. The expanding personal income and growth in savings are expected to meet some of this demand.

Nationally, the outstanding balances carried by bank credit cards continue to increase. When credit unions are experiencing high liquidity positions, the competition of the bank credit card is detrimental. In the 1970's, it is not anticipated that credit unions will have high liquidity problems.
The competition from other financial institutions has not restricted the growth of credit union savings or loan demand. The high growth rates that the credit union has experienced have only slightly increased their share of the total savings market. This is caused by the very low level of total credit union savings when compared to commercial banks and savings and loan institutions.

Loan demands caused by the increase of net borrowers will exert the most pressure on credit unions. The demonstrated ability of the credit unions to increase their savings is expected to provide most of the credit demand. Federal legislation passed on October 19, 1970, has established a mandatory insurance of up to $20 thousand on savings at federal credit unions. The insured savings feature is expected to stimulate savings and increase confidence in the federal credit unions.

Based on the three problem areas discussed in this paper; that is, a decade of deficit saving, increased use of credit cards, and the institutionalism of savings, the data does not reasonably support the projection of a shortage of savings for credit unions in the 1970's.

**Great Falls Data**

Credit union growth in Great Falls has steadily increased and did not experience the national decline beginning in 1970. Data is not presently available, but the loss of 700 jobs at the Anaconda Copper Company in Great Falls
will undoubtedly affect the A. C. M. Federal Credit Union serving that industry.

Approximately 60 percent of the credit union membership in Great Falls is employed in the fields of education, government, medicine, and public utilities. These areas of employment have been historically stable which contributes to the stability in these credit unions.

The increase in net borrowers will not affect Great Falls, because the slower economic growth rate causes young people to leave the area. The more senior employees are retained when reductions occur. This results in the more financially stable employee holding employment. Another effect of the slower economic growth rate is the problem of personal income in Great Falls not keeping pace with increases in consumer prices.

The bank credit cards in Great Falls are experiencing their initial period of growth since the cards were introduced in 1968. Their outstanding account balances have greatly increased and average just under $200 per active cardholder. The national circumstances of low credit union liquidity also exist in Great Falls; and, therefore, the competitive effect on credit unions is minimal.

The financial institutions of Great Falls have experienced similar growth rates as those recorded nationally. There were individual variations from the national average. In Great Falls, as recorded nationally, the credit unions experienced the highest growth rates.

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The national and Great Falls data have been shown to be similar except for the distribution of age groups. Great Falls will not experience an increase in the 20 to 34 year age group, comparable to the national trend. It, therefore, will not have a high loan demand based on an increase in net borrowers.

Based on the data available for the three problem areas discussed, it is determined that the federal credit unions of Great Falls, Montana, will not experience a shortage of savings in the 1970's.
SOURCES CONSULTED

BOOKS


ARTICLES


**GOVERNMENT DOCUMENTS**


**UNPUBLISHED MATERIALS**


MISCELLANEOUS
