U. S. and Montana credit unions an analysis of the 1960's and recommendations for the 1970's

James R. Schwartz

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U.S. AND MONTANA CREDIT UNIONS

AN ANALYSIS OF THE 1960'S AND RECOMMENDATIONS FOR THE 1970'S

By

James R. Schwartz

B.A., University of Montana, 1967

Presented in partial fulfillment of the requirements for the degree of

Master of Business Administration

UNIVERSITY OF MONTANA

1971

Approved by:

Fred A. Hemminger
Chairman, Board of Examiners

John Z. Stewart
Dean, Graduate School

Aug. 11, 1971

Date
# TABLE OF CONTENTS

**INTRODUCTION** ........................................................................................................... v  

Chapter  
I. DESCRIPTION AND HISTORY OF CREDIT  
UNIONS IN THE U.S. AND MONTANA .......................................................... 1  
II. U.S. AND MONTANA CREDIT UNIONS - 1960's ............................................ 5  
III. PRESENT ACTIVITIES OF FINANCIAL INSTITUTIONS .............................. 22  
IV. RECOMMENDATIONS AND CONCLUDING OBSERVATIONS ..................... 26  

**BIBLIOGRAPHY** ............................................................................................................. 31
LIST OF TABLES

<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Credit Unions, Percentage Change, 1959-1969. (Members, Total Assets, Savings and Loans Outstanding)</td>
<td>6</td>
</tr>
</tbody>
</table>
## LIST OF ILLUSTRATIONS

<table>
<thead>
<tr>
<th>Chart</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1A</td>
<td>U.S. Credit Unions, Members, 1959-1969</td>
<td>8</td>
</tr>
<tr>
<td>1B</td>
<td>Montana Credit Unions, Members, 1959-1969</td>
<td>8</td>
</tr>
<tr>
<td>2A</td>
<td>U.S. Credit Unions, Total Assets, 1959-1969</td>
<td>9</td>
</tr>
<tr>
<td>2B</td>
<td>Montana Credit Unions, Total Assets, 1959-1969</td>
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<tr>
<td>3A</td>
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</tr>
<tr>
<td>3B</td>
<td>Montana Credit Unions, Savings and Loans Outstanding, 1959-1969</td>
<td>11</td>
</tr>
<tr>
<td>4</td>
<td>Montana to U.S. Credit Unions, Growth in Members, 1959-1969</td>
<td>13</td>
</tr>
<tr>
<td>5</td>
<td>Montana to U.S. Credit Unions, Growth in Assets, 1959-1969</td>
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</tr>
<tr>
<td>6</td>
<td>Montana to U.S. Credit Unions, Growth in Loans Outstanding, 1959-1969</td>
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</tr>
<tr>
<td>7</td>
<td>Montana to U.S. Credit Unions, Growth in Savings, 1959-1969</td>
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</tr>
<tr>
<td>8</td>
<td>U.S. Total Personal Savings (Financial Institutions) 1959-1969</td>
<td>19</td>
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<td>Montana Total Personal Savings (Financial Institutions) 1959-1969</td>
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INTRODUCTION

This paper has two main objectives:

1. To evaluate and compare U.S. and Montana credit unions during the 1960's.
2. To show present day credit union activity and propose some recommendations for credit unions in the 1970's.

The paper is divided into four Chapters:

Chapter I is a brief description of credit unions and history of the credit union movement in the U.S. and Montana.

Chapter II is an analysis of credit union activity in the 60's. Three areas are analyzed.

1. The change in members, assets, loans outstanding and savings of U.S. and Montana credit unions.
2. Montana change in relation to the U.S. change in the four categories mentioned in I.
3. How credit unions nationally and in Montana fared in the last decade in comparison to banks and savings and loan associations.

Chapter III is a description of the present competitive and legislative activities of financial institutions. These activities will be limited to those items which may have profound effects on credit unions in the 1970's.

Chapter IV is the concluding observations and recommendations for
the 70's. The economic picture for the present decade and recommended procedures credit unions will have to take in order to grow and proper are considered.
A credit union is a cooperative association organized for the purpose of promoting thrift among its members and creating a source of credit for provident or productive purposes. This description is almost word for word that contained in the Federal Credit Union Act of 1934. Credit unions may be State or Federally chartered and are non-profit financial institutions. If Federally chartered they are regulated by the National Credit Union Administration. State chartered credit unions are regulated by various State agencies. In Montana they are regulated by the State Examiner.

"These supervisory authorities operate under state or federal acts which prescribe among other things, establishment of mandatory reserves against bad loans, limits on the size of single loans, maximum interest rates on loans, maximum security on these loans, as well as the operation of board of directors and credit committees."1

Credit unions are financial intermediaries. They utilize the savings of members in order to lend money to other members. In effect this is a "pooling" of funds in order to be able to make loans.

Any sizable group of people having a common bond of interest may form a credit union. Some examples of a common bond are the same place of work, church or other common association. This area will be discussed

1Walter Polner, "Credit Unions in Montana in the 1960's and 1970's, Montana Business Quarterly Spring 1971, Vol. 9; No. 2; Bureau of Business and Economic Research (University of Montana, Missoula, Montana 1971) p. 70.
in more detail in Chapter IV. Most credit unions are small because of this common bond of interest requirement. Only members may deposit with or borrow from credit unions. Members own their credit union and may vote at annual or special meetings for Board of Directors on one vote per member basis. The amount of a member's savings is not a factor of ownership. All members have the same voting power—one vote per membership.

What does a credit union do for its members?

"All credit unions encourage systematic thrift and low cost loans. Most credit unions provide life insurance at no extra cost, based on amounts they save and borrow. Most credit unions also provide financial counseling as a regular service."  

During 1970 an additional service was added to certain credit unions. Prior to this time savings were not insured. All Federal credit unions which qualify must insure savings up to $20,000 through the N.C.U.A. Presently 99 percent of all credit unions have qualified. Those not qualifying within one year must liquidate.

Most credit unions encourage saving and loan repayment by payroll deduction if payroll deduction is feasible. The dividend paid on savings varies. Federal credit unions may pay a maximum dividend of 6 percent. State credit unions may pay up to maximum interest rates allowed by their regulatory agencies.

The main function of a credit union is to provide loans to its members.

---


"Credit union loans at low interest rates enable members to survive financial emergencies of many kinds, but all members are encouraged to use credit wisely." 6

Although laws vary widely, most credit unions can lend up to $750 on the borrower's signature alone. Credit union lending rates are usually set as low as possible to keep the credit union solvent. The interest rates vary but may never exceed 12 percent per annum on the unpaid balance.

Most credit unions, Federal and State chartered, belong to State credit union leagues. These leagues in turn are affiliated with CUNA International, Inc. (Credit Union National Association). CUNA publishes statistical information on credit unions and is a major factor in regulatory changes and improvements. Much of the proposed recodification and present congressional legislation was introduced by CUNA.

In 1909 CUNA had one member. 5 By the end of 1959 there were 19,452 active credit unions affiliated with CUNA. 6 These credit unions reported 11,262,581 members with total assets of over $5 billion dollars. 7 During the 1950's credit unions' membership in the U.S. grew 250 percent while assets increased 500 percent. 8

Credit unions first started in Montana in the 1930's. By the end of 1959 Montana had 149 credit unions with 47,182 members and over


6Ibid.

7Ibid.

8Ibid.
$14 million in assets.\(^9\) Montana, like the rest of the nation, had substantial growth from credit union inception to the end of 1959.

CHAPTER II

U.S. AND MONTANA CREDIT UNIONS--1960's

Credit unions, both rationally and in Montana, grew during the last decade. When one looks at the changes in population totals and personal and per capita income figures during this period, such growth seems perfectly normal. (See Table II, III and IV) The following charts and tables show three things:

2. How Montana grew in relation to the U.S. credit unions.
3. How credit unions fared in relation to their competitors.

Charts 1, 2 and 3 (A and B) illustrate the rates of growth in credit unions' assets, membership, savings, and loans outstanding. These charts were constructed on semi-log graph paper to show rates of growth rather than absolute changes. The slope of the line segments indicates the rate of increase or decrease. If a series is growing at a constant percentage rate per year, it will appear on the chart as a straight line.

Table I supports the rate graphs and shows the actual percentage change in the aforementioned categories. The slopes of the graphs follow the actual percentage changes indicated in the table.

These charts were derived from data in CUNA yearbooks. The information is limited because not all active credit unions report to CUNA. For example, in 1969 of 140 active credit unions in Montana 136 reported.
# TABLE I

CREDIT UNIONS
PERCENTAGE CHANGE
1959-1969

<table>
<thead>
<tr>
<th>Year</th>
<th>Montana</th>
<th>U.S.</th>
<th>Percentage Change</th>
<th>Montana</th>
<th>U.S.</th>
<th>Percentage Change</th>
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<td></td>
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<td>--</td>
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</tr>
<tr>
<td>60</td>
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<td>11.6%</td>
<td>5.9%</td>
<td>6.9%</td>
<td>6.7%</td>
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</tr>
<tr>
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<td>33.9%</td>
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<tr>
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<tr>
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<td>10.3%</td>
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<tr>
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<tr>
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<td>3.4%</td>
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<th>U.S.</th>
<th>Percentage Change</th>
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<td>Loans 0/S</td>
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<td>--</td>
<td>--</td>
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<td>8.7%</td>
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<td>15.6%</td>
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<td>9.4%</td>
<td>9.8%</td>
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One of those not reporting was Malmstrom Air Force Base Federal Credit Union which holds 16 percent of all Montana credit union assets.

Charts 1A and B show what happened to credit union memberships in the U.S. and Montana. The U.S. chart is a straight line reflecting growth at an almost constant rate of 6.5 percent. This actually fluctuated between 6.1 percent in 1968 and 7.1 percent in 1966, a difference of only 1 percent. Montana growth was much more erratic. A large increase of 20.7 percent occurred in 1961. This was caused by the entrance of the Malmstrom Air Force Base Credit Union into the credit union league. At the end of 1961 Malmstrom dropped out of the league and thus caused a decline in memberships of 1.5 percent. It should be mentioned that Malmstrom which is Montana's largest credit union is reported to have rejoined the league in 1970. Because of the bias introduced by Malmstrom's actions, 1961 and 1962 will be eliminated in the analysis of Montana credit unions. From 1963 through 1969 Montana memberships have grown between 3.4 percent and 7.1 percent. The growth rate trend has fluctuated from year to year.

Charts 2A and B illustrate the growth of total credit union assets. In the U.S. assets grew from 1960 through 1965 at about 14 percent except during 1961 when they increased only 11.4 percent. During 1966-1969 they increased at an increasing rate, 9.9 percent in 1966 to 11.9 percent in 1969, but below the 1960 through 1965 rate increases. Overall, assets increased at a constant rate for better than half the decade with a downturn in 1966 and 1967 and a small upswing during 1968 and 1969.

---


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CHART 1A
U.S. CREDIT UNIONS
MEMBERS
1959-1969

Charts 1A through 7 were derived from CUNA International, Inc., International Credit Union Yearbook 1960-1970 (Madison, Wisconsin)

CHART 1B
MONTANA CREDIT UNIONS
MEMBERS
1959-1969

Charts 1A through 7 were derived from CUNA International, Inc., International Credit Union Yearbook 1960-1970 (Madison, Wisconsin)

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CHART 1B
U.S. CREDIT UNIONS
TOTAL ASSETS
1959-1969

Dollars (Millions)

Year

15,867


---

CHART 2B
MONTANA CREDIT UNIONS
TOTAL ASSETS
1959-1969

Dollars (Thousands)

Year

45,555


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Eliminating 1961 and 1962 there was a definite increase at a decreasing rate for Montana credit union assets from 1963 through 1967. In 1963 assets grew 15.0 percent while by 1967 the growth was only 7.6 percent. In 1968 and 1969 the growth rate increased from 11.4 and 11.5 percent respectively. Generally, the 1960's were years of growth at a decreasing rate for Montana credit union assets.

Charts 3A and B show the growth of savings and loans outstanding. In the U.S. savings in credit unions grew at an average rate of 13.2 percent from 1960 through 1965. Savings grew at an increasing rate from 1960 through 1964. In 1960 they grew 11.3 percent and by 1964 were growing at a 15.4 percent increase. The rate of growth began to decline in 1965 and had dropped to 10.9 percent by the end of 1969. From 1965 to 1969 savings grew at an average rate of 10.6 percent. Loans outstanding in credit unions grew dramatically in the U.S. during the past decade. From 1960-65 they grew at an average annual rate of 14.1 percent. This was 1 percent faster than savings during the same period. From 1965 through 1969 loans outstanding grew on the average at 12.9 percent per year. This was 2.3 percent faster growth than savings in U.S. credit unions during the same period. There were no apparent rate trends during the 60's in U.S. Loans Outstanding. They increased from year to year at fluctuating percentage rates.

The 1960's being generally prosperous years created problems for U.S. credit unions. Savings did not keep pace with the demand for loans by credit union members. Many credit unions were forced to borrow money from lending institutions to accommodate membership demands. With high interest charges in the late 1960's many credit unions were facing liquidity problems.
CHART 3A

U.S. CREDIT UNIONS
SAVINGS AND LOANS OUTSTANDING
1959-1969

Dollars
(Millions)

1959 60 61 62 63 64 65 66 67 68 69

Savings
Loans Outstanding


CHART 3B

MONTANA CREDIT UNIONS
SAVINGS AND LOANS OUTSTANDING
1959-1969

Dollars
(Thousands)

59 60 61 62 63 64 65 66 67 68 69

Savings
Loans Outstanding


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Montana, like the rest of the U.S. has had somewhat similar trends in savings and loans outstanding. From 1964 through 1967 savings increased at a decreasing rate. In 1964 the increase was 15.2 percent and by the end of 1967 was 6.7 percent. During 1968 and 1969 savings began to increase at an increasing rate. In 1968 and 1969 they grew 9.4 and 11.2 percent respectively. Loans outstanding growth showed fluctuating rates until 1966 when they grew only 5.7 percent. At this point in time, they began to grow at increasing rates and at the end of 1969 were growing 14.6 percent.

From 1963 through 1969 savings grew at an average rate of 10.8 percent while loans outstanding increased at an annual rate of 11.7 percent. Loans were growing almost 1 percent faster than savings during the 60's. Because loans were growing faster than savings, Montana credit unions, like other U.S. credit unions, were having liquidity problems.

How did Montana credit unions do in relation to the U.S.? Bar charts 4, 5, 6, and 7 compare Montana's credit union growth to the U.S. growth. The solid horizontal line is the Montana to U.S. ratio, in each category at the end of 1959. The dotted line shows Montana's relative position to the 1959 ratio each year of the decade.

Montana outgrew the U.S. in two areas: Assets and Savings. The 1959 ratio of assets was .28 percent and by the end of 1969 was .29 percent. The Savings ratio grew from .27 percent to .285 percent by the end of 1969. Montana did not grow as fast in Members and Loans Outstanding. The 1959 ratio was .36 percent of U.S. membership. By the end of 1969 the ratio had declined to .35 percent. From 1966 through 1968 Montana was slightly below the U.S. in membership rate growth.
CHART 4
CREDIT UNIONS
MONTANA TO U.S.
GROWTH IN MEMBERS
1959-1969

CHART 5
CREDIT UNIONS
MONTANA TO U.S.
GROWTH IN ASSETS
1959-1969

Derived from, CUNA International, Inc., International Credit
Union Yearbook 1960-1970 (Madison, Wisconsin)
**Chart 6**

MONTANA TO U.S. CREDIT UNIONS
GROWTH IN LOANS OUTSTANDING
1959-1969


---

**Chart 7**

MONTANA TO U.S. CREDIT UNIONS
GROWTH IN SAVINGS
1959-1969


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During 1969 there was similar rate growth. Loans outstanding went from .30 percent of the nation in 1959 to .29 percent by the end of the decade. The U.S. loans outstanding outgrew Montana from 1962 through 1968. During 1969 the growth rate was about the same.

Montana did not fully share in the U.S. economic growth of the 1960's. Table II shows total personal income in the U.S. increased 95.4 percent while in Montana the increase during the 1960's was 61.5 percent. Total personal income is important because it is the best measure available of a state's economic activity. Personal income creates savings and increases in personal income generally bring about increases in savings.

Table III reflects the difference in Montana's per capita income and that of the U.S. At the end of 1959 per capita income in Montana was $151 below the U.S. while at the end of 1969 the difference had widened to $557. Per capita income is generally considered by economists to be a good measure of the economic well being of a state's citizens. Montana's citizens have fallen $406 farther behind the U.S. during the 1960's. This occurred when the population of the U.S. was increasing 11.7 percent in comparison to 2.9 percent for Montana (See Table IV).

The population figures help explain why Montana credit unions grew more slowly in memberships than their U.S. counterparts. Generally, the demand for loans increases and decreases with economic activity. Typically during economic booms the demand for loans increases and during recessions decreases. Because Montana did not fully share in the U.S. economic boom its demand for credit union loans was not as great as in the rest of the nation.
TABLE II

U.S. AND MONTANA
TOTAL PERSONAL INCOME
1959-1969
(Millions of Dollars)

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<td>U.S.</td>
<td>380,963</td>
<td>440,192</td>
<td>535,949</td>
<td>583,829</td>
<td>625,490</td>
<td>684,442</td>
<td>744,479</td>
<td>95.4</td>
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<tr>
<td>Montana</td>
<td>1,345</td>
<td>1,581</td>
<td>1,724</td>
<td>1,875</td>
<td>1,915</td>
<td>2,022</td>
<td>2,172</td>
<td>61.5</td>
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<td>2,906</td>
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### TABLE IV

U.S. AND MONTANA POPULATION 1960-1970

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<td>204,765,770</td>
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<td>Montana</td>
<td>674,767</td>
<td>694,409</td>
<td>+2.9</td>
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</tbody>
</table>


Why did Montana credit unions grow faster than their U.S. counterparts in the area of total assets and savings? The lack of Mutual Savings Banks in Montana is the probable reason. Mutual Savings Banks are similar to credit unions and provide credit unions stiff competition for savings in other states. Montanans did not have a choice between the two, and with the tightening of credit at commercial banks and savings and loans probably put some of their savings in credit unions because of attractive dividend and insurance options.

Charts 8 and 9 reflect how credit unions grew in relation to their competitors during the last decade. The charts show they only held their own. At the end of 1959 U.S. and Montana credit unions held 3 percent of
CHART 8

U.S.
TOTAL PERSONAL SAVINGS
(Financial Institutions)
1959-1969

Derived from, CUNA International, Inc., International Credit
Union Yearbook 1960-1970 (Madison, Wisconsin)
MONTANA
TOTAL PERSONAL SAVINGS
(Excluding Financial Institutions)
1959-1969

all savings in financial institutions. They held a little over 3 percent at the end of 1969.

While credit unions, both nationally and in Montana, were growing the other combined financial institutions were growing just as rapidly. Credit unions received 3 percent of the increase in savings generated by the economic growth of the 60's. They made almost no headway in capturing any of the other institutions' savings market. This occurred when credit was difficult to obtain and interest rates on loans from banks and savings and loans were high.

Even with substantial growth, credit unions did not do as well as might have been expected.

"Credit unions with the opportunities in the 60's should have performed better. They have been lucky—but they will need more than luck as they face stiff competition in the future."11

CHAPTER III

PRESENT ACTIVITIES OF FINANCIAL INSTITUTIONS

Presently banks are giving away toasters and other enticements to open checking and savings accounts. Commercial banks are trying to get rid of laws which regulate the maximum interest rate which they can pay on savings. Savings and loan companies are presenting Congress with a bill which would permit them to issue common stock to their savings account holders. Depositors would get the stock automatically.

"Thus, savings account holders would own ordinary stock and be entitled to draw dividends, to vote their shares, to put their stock up as collateral for a loan and to sell their securities on the open market, perhaps at a profit."\textsuperscript{12}

What are credit unions doing? In May 1971, a credit union bank bill was in Congress. This bill, H.R. 6936, is backed by CUNA International, Inc. If this legislation passes through Congress, it would give credit unions ready access to the nation's money markets. This would give credit unions access to capital which many have needed in order to meet loan demands.

"It is more than ever essential that credit unions of the nation have facilities similar to those of our other major financial institutions for providing liquidity and other vital services to their memberships."\textsuperscript{13}


The bill provides that all federal credit unions and insured state credit unions would have to join the bank. Any state credit union which does not have share insurance under the National Credit Union Administration could apply for membership. The initial cost of membership in the Bank would be 1 percent of a credit union's total assets. This would be refundable upon the liquidation of that particular credit union unless the credit union were indebted to the Bank.

The National Credit Union Bank would be a credit union of credit unions. It would utilize members' savings to make loans to them just as individual credit unions do.

CUNA is presenting the 92nd Congress a recodification bill. The bill, if passed, will make sweeping changes in the Federal Credit Union Act. Those proposals in the recodification bill which will most affect the operations of credit unions in the 1970's are:

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<tr>
<th>PROPOSAL</th>
<th>COMMENTS</th>
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<td>(1) That all language be removed from the Act (or regulations) that imposes borrowing limitations on the credit union.</td>
<td>To better enable credit unions to meet the financial needs of members.</td>
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<td>(2) To authorize a credit union to sell all or any part of its assets to another credit union or to purchase all or any part of the assets of another credit union; and to further provide that the purchasing credit union may assume any or all of the liabilities of the selling credit union or of the members whether or not they are members of the purchasing credit union; and requiring that the agreement between the selling and purchasing credit unions must be approved by the Administrator.</td>
<td>To facilitate the timely dissolution of a credit union, while conserving its assets and protecting the interests of members.</td>
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<td>(3) That the board of directors be permitted to authorize donations by the</td>
<td>To permit credit unions to be better integrated in civic and</td>
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(4) To seek legislation to assure the broadest possible interpretation of the common bond.

(5) That approval of loans by the credit committee be by a simple majority vote.

(6) To authorize credit unions to establish for members, checking accounts with reserves for such accounts to be set by the Administrator with the consent of the National Credit Union Board.

(7) To permit credit unions to operate deposit accounts, limited to members and treated as capital. These accounts to be subject to conditions established by the board of directors.

(8) To authorize variable dividend rates on shares.

(9) To allow federal credit unions to establish lines of credit for their members and enable them to use credit cards and other money-transfer-type instruments or systems. To encourage full reciprocity of credit cards in all credit unions.

Credit unions, along with other financial institutions, are trying to pass legislation which makes possible more or better services to their members.

members and depositers. There is one difference. Credit union legis­
lation is aimed at implementing services which will put them on the
same competitive basis as banks and savings and loan associations.
CHAPTER IV

RECOMMENDATIONS AND CONCLUDING OBSERVATIONS

Economic growth is a basic factor needed for credit union growth, both nationally and in Montana. What are the projections for the 1970's in total personal income and per capita income? It is estimated total personal income in the U.S. will rise from $744,479 billion in 1969 to $985,644 billion\(^\text{15}\) by the end of 1979. In Montana total personal income is projected to rise during the same period from $2,172 billion to $2,415 billion\(^\text{16}\). Per capital income in the U.S. is expected to grow from $3,687 in 1969 to $4,204 by the beginning of 1980\(^\text{17}\). In Montana it is expected to rise from $3,130 to $3,331\(^\text{18}\).

As was the case in the 1960's, Montana is not expected to fully share in the nation's economic growth. Montana credit unions will continue to depend on the non-existence of mutual banks to keep up with U.S. credit unions. Even so, economic forecasts show definite indicators of an increase in savings which credit unions will be competing for with other financial institutions. Chapter III showed they will also be competing for each other's present members and depositers' savings.


\(^{16}\) Ibid.

\(^{17}\) Ibid.

\(^{18}\) Ibid.
There are two changes many credit unions must accomplish in order that they grow in the 1970's, more substantially, or as well as they did in the 1960's. The two changes are interrelated. Credit unions will not be able to have one without the other. The two changes needed are ability to issue negotiable instruments and improvement of management.

All credit unions today issue primary drafts or checks on their own accounts. These are prepared so members can withdraw their savings or get a loan from the credit union. With the developing intense competition between financial institutions this limited transaction falls far short of the convenience of the bank "checking" account. If credit unions do not offer negotiable instruments, i.e., checks, banks with their computers, will offer employers a one-check payroll plan. Banks will attempt to get the payroll and the entire employed work force as customers. Employees could transfer a part of their pay to the credit unions but without the convenience of checks it is highly unlikely they will do so.

Most credit unions can do payroll work for their members' employer too. However, employees must be able to get their money out of a credit union as easily as from a bank. This is an era of convenience and credit unions must provide this type of service.

Why are negotiable instruments and improved management interrelated?

"Before a credit union enters a negotiable order system, it must thoroughly understand cash flow, posting must be daily, facilities and staff must be strictly up to scratch. Without adequate management and controls it can get out of hand, and quickly."  

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The boards of directors of credit unions will be primarily responsible for upgrading management. The board is responsible for hiring managers and as such should try to attract people who are graduates in the field of accounting or other business skills. The way to attract these types of people is to offer salaries which are competitive with bids received from other areas of business.

"To meet the competition for share deposits, attract borrowers, and make the credit unions really successful, boards must realize that operating and managing a large corporation is a professional job that demands numerous skills—all of which must be paid for adequately."20

It is common knowledge many credit unions pay their managers less than $10,000 per year. This is less than many business graduates get as beginning salaries.

The best method of upgrading present managers and employees would be for credit unions to encourage their employees to take business courses and finance their tuition when taking these courses. Boards of directors might require managers to attend seminars and instructive sessions put on by CUNA International. Whatever the means, managers and employees of credit unions in the 70's will need basic accounting, finance and economic backgrounds if credit unions are going to meet competition in the future.

In conclusion, if credit unions get their proposed legislation changes and improve their services and management they should continue to grow and prosper in the 1970's. They are predicted to grow in the next decade at the expense of their competitors. By the end of 1979 credit

unions are forecast to hold 5 percent of the nation's personal savings. This would be an increase of 67 percent over their 1969 total personal savings share of 3 percent plus. To accomplish this prediction credit unions will have to entice their present membership to put more of their savings into credit unions or attract their competitors' depositers who might be eligible for credit union membership. To do this will mean streamlining credit union operations and services. When credit unions offer the same services as their competitors they should expect more strict regulations on when, where, what and how they will perform those services. This is especially true in the area of negotiable instruments.

As was stated previously, most credit unions are small because of the common bond rule. Pending legislation proposes to relax this rule under the guise of allowing more people to join credit unions. The underlying motive is probably credit union mergers. This could, in part, allow many credit unions to become large. As has been shown by the actions of big government and big corporations, "bigness" is not necessarily an innate good either for the individual or the group.

Much of the prior growth of credit unions can be attributed to their ability to handle people on a personal basis. This can be accomplished only when each credit union is relatively small in membership. Credit unions must reach a size in membership where they can offer the necessary services for growth in savings and total assets, yet continue to treat individuals as individuals. If they become too much like banks and

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savings and loan associations they may find new organizations forming which are the mirror image of what they once were.
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