

Research Department  
Federal Reserve  
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## Cottage Industry

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Credit unions may resemble a cottage industry, in view of their generally small size and limited range of operations, but they deserve closer attention because of the competitive gains they have recently achieved. Indeed, they accounted for practically the entire growth of consumer instalment credit in 1975, when commercial banks and finance companies sharply reduced their own activities. Moreover, if financial-reform legislation had not been sidetracked in Congress, they could probably have counted on even faster growth because of the broadened range of lending powers they would have gained under such legislation.

After several decades of rapid growth, credit unions now account for 15.7 percent of the nation's outstanding instalment credit—up from 4.0 percent in 1950. Within the 1970-75 period alone, the number of credit-union accounts increased by a third and savings deposits more than doubled to \$33.0 billion. This growth took place through the expansion of existing institutions, since there was no increase in the number of credit unions (23,000) during this period.

### **Growth industry**

This impressive performance reflects the fact that credit unions withstood the dangers of disintermediation better than much larger institutions during the 1973-74 period. In 1974, for example, credit union deposits increased 12.3 percent, compared with gains of

only 6.6 percent for bank savings deposits and 7.0 percent for savings-and-loan deposits. During that period of high interest rates, credit unions—paying up to 7 percent on savings accounts—were better able to withstand the competitive attractiveness of high market rates than were other financial institutions, whose savings rates were limited by Regulation Q rate ceilings. Credit unions could pay such high rates because they generally make only short-term consumer loans with relatively high rates of return—unlike other thrift institutions, which still hold substantial portfolios of older mortgages made at low interest rates in earlier (non-inflationary) periods.

Several other factors have helped account for the continued growth of credit-union deposits, regardless of the level of interest rates. Most credit unions are organized for the employees of a particular firm and hence are located near their workplace, making it convenient for them to save. Also, their accounts are generally smaller—and less interest sensitive—than accounts at other thrift institutions. Moreover, many credit-union members make their deposits through payroll deductions, which they generally change infrequently or not at all.

As funds continued to pour in during the 1975 recession-recovery year, credit unions were able to make a strong contribution to their principal field of activity, consumer credit—for example, with a 25-

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percent increase in extensions of auto credit. Their outstanding instalment credit increased 15 percent over the year to \$25.4 billion, so that they accounted for 87 percent of the year's entire \$3.7-billion increase in that lending category. In contrast, credit unions accounted for only 13 percent of the much larger instalment-credit increase of \$20.8 billion in the 1973 boom year. The difference reflected not only the strengthening performance of credit unions, but also the much weaker performance of the dominant consumer lenders, commercial banks. The latter sharply reduced their outstanding auto loans in both 1974 and 1975, as well as their mobile-home loans in 1975, and meanwhile slowed down their lending pace in other categories.

## **Cottage industry**

Despite the recent upsurge in growth, there is still a cottage-industry aura to the credit-union movement. Although the requirements for chartering vary from state to state, almost any group of seven people with a common bond (employment or otherwise) and a \$5 to \$25 filing fee stands a good chance of obtaining a certificate. (Credit

unions have been organized by groups as diverse as felt-hat makers and Bay Area feminists.) But along with ease of entry into the industry goes a relative lack of managerial sophistication, since volunteers account for about 80 percent of all credit-union staffers. However, larger credit unions—those with assets of \$5 million and over—employ about 15 full-time employees on the average.

The 31 million CU shareholders seem to save a relatively stable proportion of their income, since their average savings account rose from \$681 to \$934 over the 1970-74 period—just matching the 37-percent increase in per capita income over that period. As borrowers, they tend to pay higher rates than bank customers but lower rates than finance-company borrowers. They tend to be good risks because of their common membership bond but also because of their above-average incomes, which averaged \$17,000 in 1975. The largest concentration of shareholders is in the 30-39 age group—a span in the life cycle which normally borrows heavily for consumer durable goods. Credit-union membership is closely correlated with union

membership—and female union members are more likely to be CU members than are male union members.

### **Circumscribed industry?**

The credit-union movement would like to broaden its range of operations, as it made clear in the debates over the shape of the 1976 financial-reform legislation. It has argued for the establishment of a Central Liquidity Facility which would make low-interest advances to credit unions; for the expansion of lending powers, such as longer-term loans and residential mortgages; and for the establishment of “draft accounts” with access to electronic funds-transfer systems. These draft accounts, like the S&L’s NOW accounts, would be tantamount to interest-bearing demand deposits. The tie-in to electronic payments systems, moreover, would allow CU’s to participate in the growing trend toward automatic deposit of payroll checks and government benefit checks, as well as other computer-based transactions.

Critics argue that CU’s should not have such broadened powers, some because of competitive reasons, but other because of a belief that new

operations of this scope are too costly and too complex for most credit unions to undertake. Credit-union spokesmen, understandably, argue differently, in light of the circumscribed nature of their present operations. Those funds which are not used for consumer lending are invested in government securities, savings-and-loan shares and bank CD’s, with investment assistance provided by the Credit Union National Association (CUNA). Like other specialized lenders, CU’s tend to believe that broadened powers would lead to larger, better balanced and more profitable operations.

As recent data indicate, however, credit unions already play a crucial role, by helping to stabilize the flow of consumer credit when other major lenders move their funds elsewhere. This role could become even larger if other lenders decide to reduce their participation in this market, as a consequence of the increasingly costly paperwork associated with new consumer legislation. In this event, credit unions might have all the consumer credit they can handle, and then some.

**Joan Walsh**

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**BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT**  
 (Dollar amounts in millions)

Selected Assets and Liabilities	Amount Outstanding 4/28/76	Change from 4/21/76	Change from year ago	
			Dollar	Percent
<b>Large Commercial Banks</b>				
Loans (gross, adjusted) and investments*	86,966	- 720	+ 1,540	+ 1.80
Loans (gross, adjusted)—total	65,124	+ 162	- 95	- 0.15
Security loans	1,086	- 110	- 47	- 4.15
Commercial and industrial	22,867	+ 13	- 1,181	- 4.91
Real estate	19,613	+ 35	- 36	- 0.18
Consumer instalment	10,747	+ 37	+ 860	+ 8.70
U.S. Treasury securities	9,412	- 651	+ 1,705	+ 22.12
Other securities	12,430	- 231	- 70	- 0.56
Deposits (less cash items)—total*	86,813	- 1,010	+ 2,105	+ 2.49
Demand deposits (adjusted)	23,363	- 934	+ 645	+ 2.84
U.S. Government deposits	613	- 139	- 357	- 36.80
Time deposits—total*	61,306	+ 11	+ 1,638	+ 2.75
States and political subdivisions	6,848	- 5	- 727	- 9.60
Savings deposits	25,849	+ 104	+ 6,316	+ 32.34
Other time deposits‡	26,281	- 111	- 2,777	- 9.56
Large negotiable CD's	11,335	- 107	- 4,367	- 27.81
<b>Weekly Averages of Daily Figures</b>	<b>Week ended 4/28/76</b>	<b>Week ended 4/21/76</b>	<b>Comparable year-ago period</b>	
<b>Member Bank Reserve Position</b>				
Excess Reserves	- 4	99		38
Borrowings	7	0		2
Net free(+)/Net borrowed (-)	- 11	+ 99		+ 36
<b>Federal Funds—Seven Large Banks</b>				
Interbank Federal fund transactions				
Net purchases (+)/Net sales (-)	+ 352	+ 1,391		+ 503
Transactions of U.S. security dealers				
Net loans (+)/Net borrowings (-)	+ 136	+ 288		- 279

\*Includes items not shown separately. ‡Individuals, partnerships and corporations.

**Editorial comments may be addressed to the editor (William Burke) or to the author. . . .**  
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