

Federal Credit Union Loans, 1948

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THE Federal Credit Union Act authorizes Federal credit unions to make loans to members for "provident and productive purposes." In practice this phrase is interpreted to mean any purpose that is helpful to the members. As a result, a credit union may today lend the amount needed to pay for an operation, while tomorrow it may grant a loan to finance the purchase of a television set.

As part of a survey to determine the purposes for which most loans were made during 1948, the Bureau of Federal Credit Unions sent a questionnaire in December 1948 to the credit committee chairmen of all Federal credit unions. Since the credit unions hold their annual meetings each January and operating reports for the preceding calendar year are then made to the members, the questionnaire was sent out with the suggestion that it be completed at the same time that the committees prepared the reports for the 1949 meetings. The Bureau emphasized that participation in the survey was optional.

The questionnaire called for listing the total number and total amount of loans granted during 1948 for each of the following purposes: to finance the purchase of automobiles, household furniture and appliances, and other consumer durable goods; to pay taxes, funeral expenses, insurance premiums, current living expenses, vacation expenses, and home repair expenses; to pay medical, dental, and hospital expenses for adult members of the family, dependent children, and maternity cases; to consolidate debts; to make investments in business ventures and in stocks and bonds; and for all other purposes.

Most of the organizations holding charters under the Federal Credit Union Act represent occupational groups. Though Federal employees constitute the largest single occupa-

tional category, others with large numbers include State and local governments, schools, stores, railroads and other public utilities, and the petroleum industry. Of the groups classified as associational, almost a third are religious organizations. Almost two-thirds of the residential groups are rural community groups.

Complete and usable returns produced a sample equal to 10.6 percent of the 4,058 Federal credit unions in operation on December 31, 1948. To test the adequacy of the sample the reporting credit unions were classified by type of membership—occupational, residential, or associational—and were compared with all Federal credit unions, similarly distributed. In addition, the credit unions making returns were classified according to the amount of loans granted during the year and were compared with all Federal credit unions classified by the amount of total assets. The tests indicated that the sample was a good cross section of all operating Federal credit unions.

To interpret properly the findings of the survey, it is necessary to keep two points in mind—the nature of Federal credit union lending policies and the difficulty of identifying exactly the purpose for which a loan is made.

Federal credit unions, as noted above, are authorized to make loans to members for provident and productive purposes. The board of directors for each Federal credit union establishes the general operating policies, including the interest rate on loans, the maximum amount that may be loaned to any one member, and in some cases the type of security that may be accepted. The credit committee, which must act on each loan application, administers the organization's loan policies. The committee may increase the collateral requirements or cut the amount loaned in individual cases, but the amount loaned may not exceed the limitations fixed by the board of directors and by the Federal Credit Union Act. As a

credit union increases in size, the board of directors usually liberalizes its loan policies. Generally, too, credit committees become more liberal as they gain experience and the members demonstrate their credit worthiness through transactions with the credit union. The standard loan application provides space for the member to write the purpose for which he is borrowing the money. The purpose as stated by the member is considered at the time the committee acts on the application.

The specific application of the proceeds from a cash loan may not be identifiable since, in general, the total family income is apportioned among all family obligations. For instance, the "rent money" one month may be used to purchase a radio. A loan of approximately the same amount during the same month may be designated as a loan to pay the rent or to pay for the radio. When the variety of family expenditures over a period

Table 1.—Percentage distribution of number and amount of Federal credit union loans granted, by purpose, 1948

Purpose	Percentage distribution	
	Number of loans	Amount of loans
Total.....	100.0	100.0
Purchase of:		
Automobiles.....	7.5	21.3
Household furniture and appliances.....	6.0	5.5
Other durable consumer goods.....	1.4	1.3
Payment of:		
Taxes.....	3.9	2.5
Funeral expenses.....	.6	.5
Insurance premiums.....	2.0	1.2
Current living expenses.....	16.1	9.6
Vacation expenses.....	5.9	3.4
Home repair expenses.....	7.2	9.5
Medical, dental, and hospital expenses for:		
Adult members of family.....	11.9	8.0
Dependent children.....	2.5	1.6
Maternity cases.....	.9	.7
Educational expenses for:		
Adult members of family.....	0.6	.5
Dependent children.....	1.1	.7
Consolidation of debts.....	15.4	14.9
Investments in:		
Business ventures.....	1.3	4.5
Stocks, bonds, etc.....	.3	.5
All others.....	15.4	13.8

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of time is considered, it becomes difficult to determine the exact purpose for which the family may borrow money during that period. This difficulty in labeling the purpose of the loan is greater for such expenditures as payment of medical expenses, vacation expenses, and home repairs than it is for the purchase of durable consumer goods, when the item purchased is pledged as security for the loan.

When the questionnaire was designed, an effort was made to list a comprehensive group of loan purposes that would be generally applicable and so provide a basis for tabulation and analysis. No definitions of the purposes were provided, since it was believed that the titles were self-explanatory.

The credit union officials tabulated the purposes stated on the loan applications and grouped them under the various categories on the questionnaire. While there were undoubtedly differences in grouping the data, due to differences in interpretation, it is believed that the general results of the survey are acceptable as indications of the purposes for which loans were granted during 1948.

When loans "for all other purposes" are ignored, the three most commonly given purposes were "payment of current living expenses," "consolidation of debts," and "payment of medical, dental, and hospital expenses for adult members of the family" (table 1). "Payment of current living expenses" was the most frequently cited purpose for five of the eight groups in which credit unions were classified on the basis of the total amount of their loans granted during the year. The

reporting credit unions were divided into those making loans of:

Less than \$1,000	\$10,000-24,999
1,000-2,499	25,000-49,999
2,500-4,999	50,000-99,999
5,000-9,999	100,000 and over

"Consolidation of debts" was first in rank of number of loans granted for one group, second for four, and third for one. Loans for medical services for adult members of the family ranked as the third most frequently given purpose for all groups that had granted more than \$1,000 in total loans during the year.

In evaluating the loan practices of Federal credit unions, however, the number of loans granted in a given period is more significant than the amount of loans granted for various purposes, since the influence of the large credit unions that make large loans affects the aggregate percentages. This distortion is best illustrated by the statistics for loans granted to purchase automobiles. While some automobile loans were granted by Federal credit unions in all eight groups during 1948, the number granted ranged from 2 percent for the group making loans of less than \$1,000 to 8.9 percent for the group with loans totaling \$100,000 or more. In amount, on the other hand, automobile loans ranged from 4.4 percent for the first group to 23.5 percent for the group of credit unions lending \$100,000 or more.

In amount, loans for the purchase of automobiles, consolidation of debts, and payment of current living expenses were the chief purposes in that order. Automobile loans made up the highest proportion of the amount

loaned for the four groups of Federal credit unions that granted loans totaling \$10,000 or more during 1948. Consolidation of debts accounted for the highest proportion of the amount loaned by three of the four groups that loaned less than \$10,000; it ranked second for the three largest groups, consisting of Federal credit unions that loaned amounts in excess of \$25,000. Loans to meet current living expenses, which ranged third in the amount loaned in the combined figures for all Federal credit unions, ranked second for three groups, fourth for four groups, and fifth for one group. Loans for home repairs ranked third for five groups, while loans to purchase household furniture and appliances, loans to pay medical bills for adult members of the family, and loans to consolidate debts each ranked third for one group.

The survey indicates that Federal credit unions are serving the purpose for which the program was established. Credit unions provide, in general, remedial loan service for their members, and they supplement rather than compete with the lending services provided by banks and building and loan associations. Loans that enable a family to adjust its finances to meet problems caused by declines in real income or sudden emergencies are not, as a rule, the type of loans banks choose to make, and need for such loans often forces people of small means to patronize money-lenders who charge high interest rates. Thus credit unions can and do provide a worth-while loan service in a field not adequately served at reasonable rates by commercial lending agencies.