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Growth and profitability of the savings and loan industry in Montana

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The University of Montana

GROWTH AND PROFITABILITY

OF THE SAVINGS AND LOAN INDUSTRY IN MONTANA

1950-1969

By

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Date

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CHAPTER I

INTRODUCTION

Montana's savings and loan industry began on July 17, 1885 when the Territory of Montana chartered the Home Building and Loan Association of Helena. Home Building and Loan is the Northwest's oldest savings and loan association in point of continuous operation. Its beginning total assets were listed at $63,000, and its first loan, carrying an interest rate of 11 per cent and a principal balance of $300, was made for the purpose of financing an existing home.

Since this first association, Montana's savings and loan industry has progressively grown. In 1920, Montana's associations joined together to form the Montana Savings and Loan League, an organization which has ever since existed to encourage savings among Montanans and to promote thrift by channelling individual profits toward the objective of home ownership. Since 1920, Montana savings and loan associations have grown, in terms of total assets, from $3.6 million to $253.3 million. As of June 30, 1970, Home Building and Loan of Helena reported total assets of $13,043,055.[1]

The objective of this paper is to trace and analyse the growth and profitability of Montana's savings and loan industry during the recent 20 year period ending December 31, 1969. This period has been chosen because it was an era of change within Montana's financial intermediary industry.

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[1]Montana Savings and Loan League, "Proceedings of the 46th Annual Meeting of the Montana Savings and Loan League," Livingston, Montana, September 20-22, 1970.

Limitations placed upon this study concern the availability of information. To add relevance to findings, information regarding Montana's savings and loan associations is compared with similar data, such as Idaho's savings and loan associations, U. S. trends, Montana commercial banks, and Montana credit unions. In some instances (e.g., information concerning Montana credit unions), comparable and standardized data are not available for all years dating back to 1951. However, the above-mentioned limitations are not significantly detrimental in depicting the important trends of the 1950-1969 period.

In the preparation of this report a special note of gratitude is owed Mr. Thomas Judge, secretary of the Montana Savings and Loan League, and his staff, for their generous cooperation in the gathering of Montana savings and loan data.

CHAPTER II

GROWTH

Savings and loan associations are an integral part of Montana's financial intermediary market. Since 1950, total assets of Montana associations grew from $32.899 million to $253.319 million as of December 31, 1969.[1] As illustrated in Figure 1, Montana savings associations have grown in total assets at a relatively steady and smooth pace in comparison with the asset growth of Idaho associations.

Although total assets of savings associations have rapidly expanded, the growth has not been even (Figure 2). Relative growth markedly declined in the period 1961-1969. This slow growth has been the result of greater bank competition, tight money, and the flow of funds from financial institutions directly into the nation's capital and credit markets.[2] A serious decline in the demand for mortgage credit was a definite factor in the decreased asset growth in 1964 and 1965.[3]

Figure 3 illustrates the relative growth in assets of Montana savings associations, commercial banks, and credit unions for the period 1955-1969. This graph dramatizes the relative decrease in asset growth experienced by Montana savings associations during the period 1963-1969.

The reason for the greater dampening effect on savings associations during this period can be explained by the difference in asset

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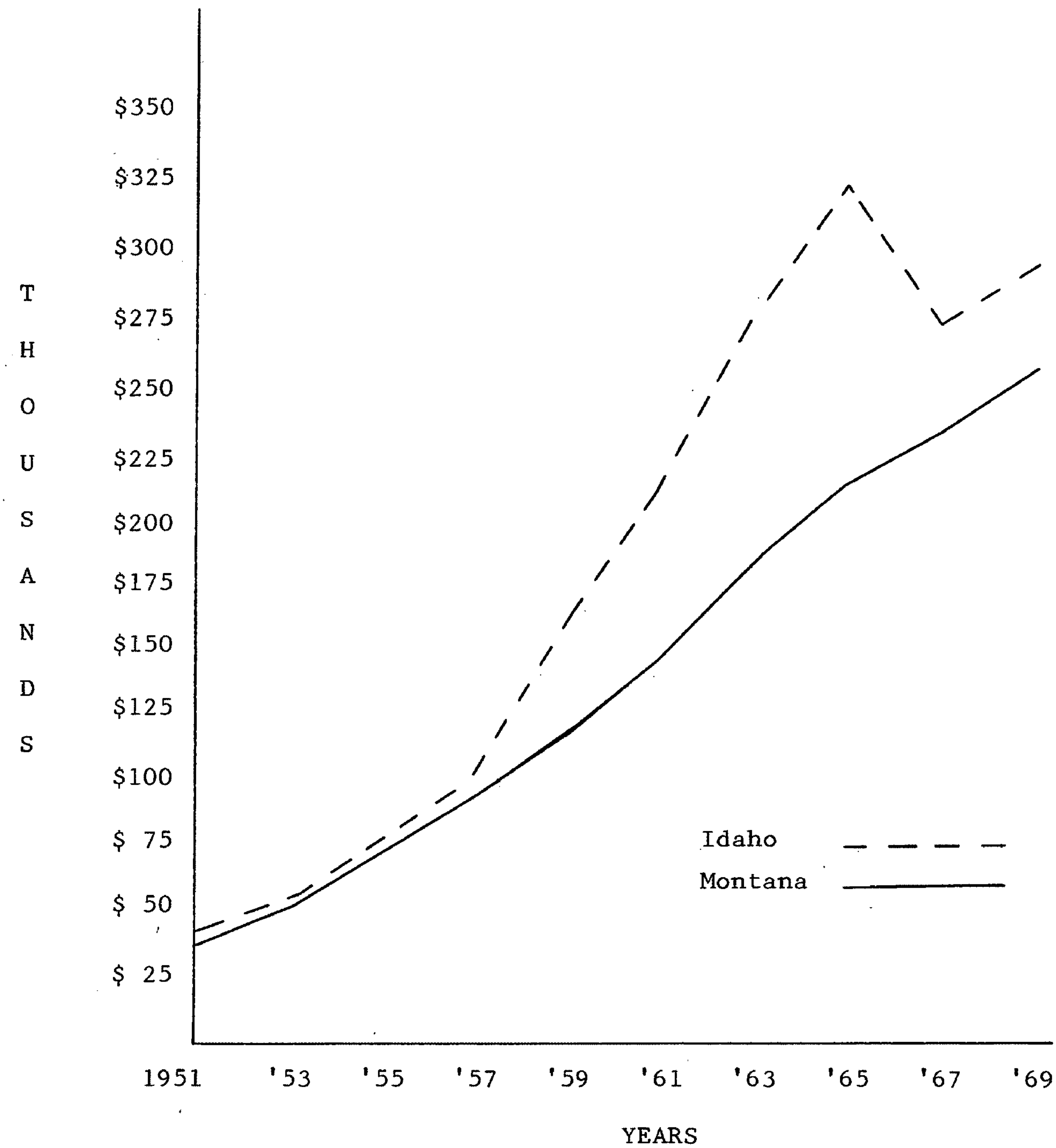
[1]United States Savings and Loan League, _Savings and Loan Fact Book, '70_ (Chicago, Illinois: U. S. Savings and Loan League, 1970), p. 54.

[2]_Ibid._, p. 55.

[3]_Ibid._

FIGURE 1

GROWTH OF SAVINGS AND LOAN RESOURCES
MONTANA AND IDAHO
SELECTED YEARS 1950-1969



Source: United States Savings and Loan League, Savings and Loan Annals.

FIGURE 2

RELATIVE CHANGE IN RESOURCES--SAVINGS AND LOAN ASSOCIATIONS
U. S., MONTANA, IDAHO--TWO YEAR INTERVALS, 1951-1969

Source: U. S. Savings and Loan League, Savings and Loan Annals

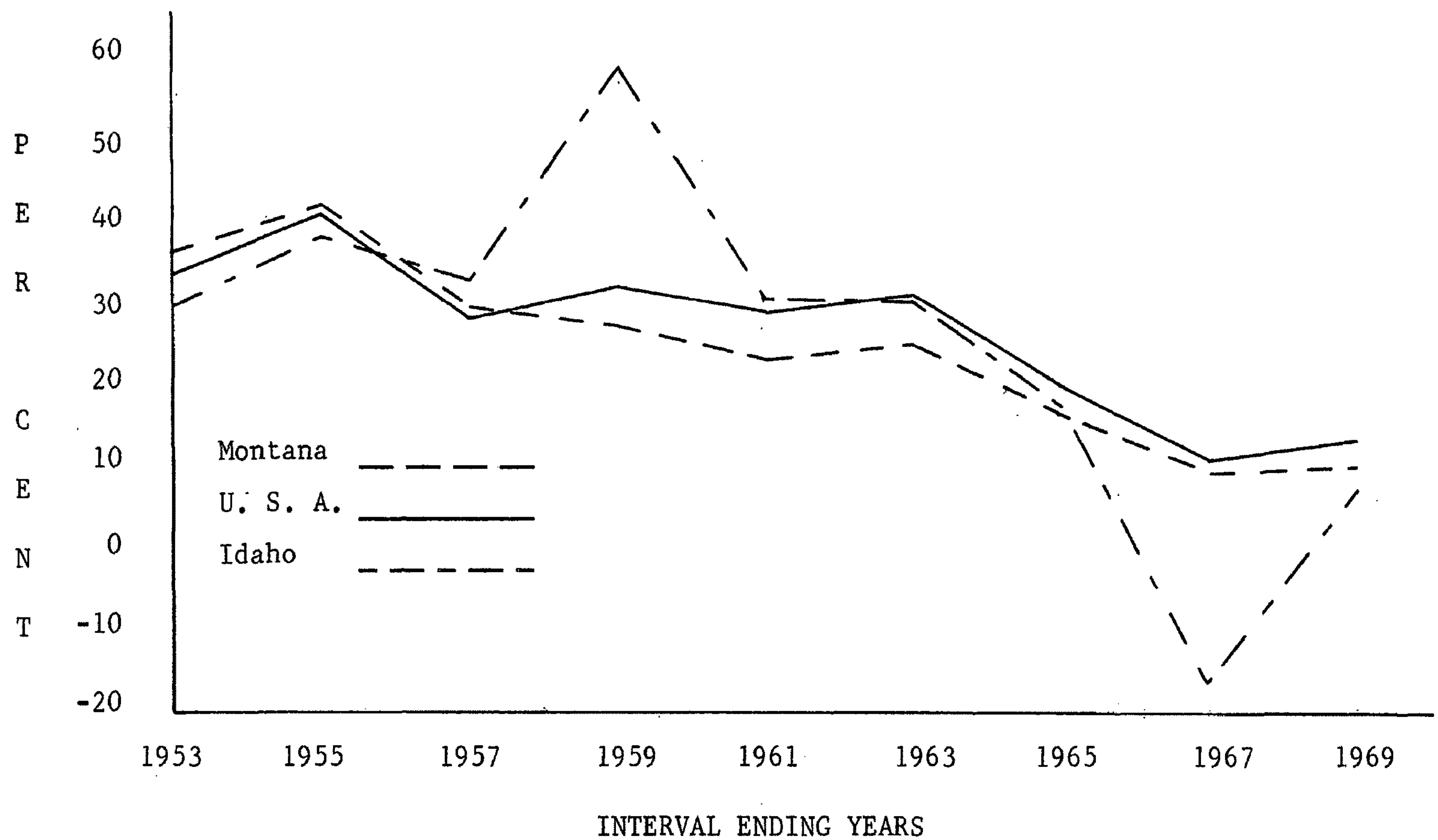
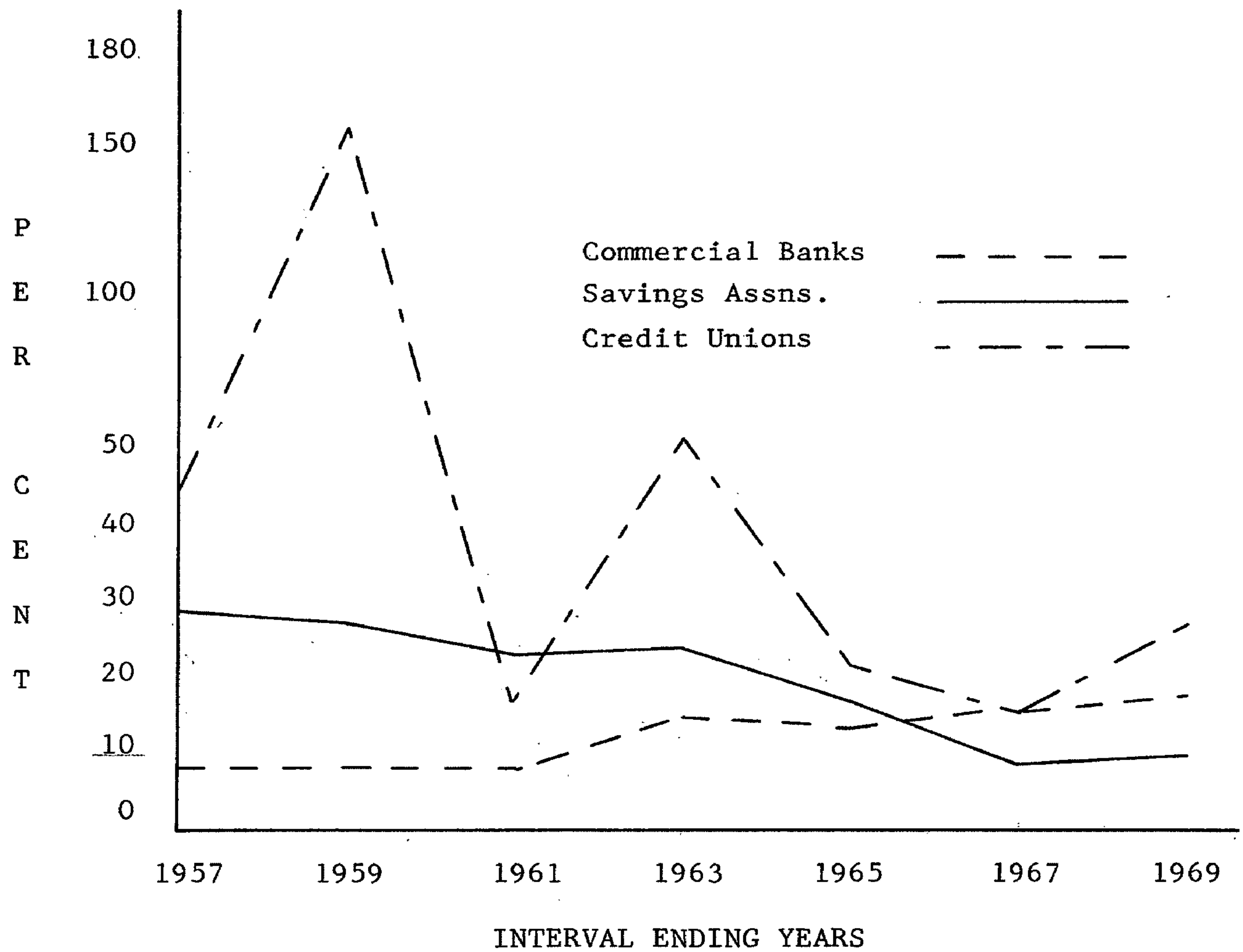


FIGURE 3

RELATIVE CHANGE IN RESOURCES--MONTANA
COMMERCIAL BANKS, CREDIT
UNIONS, SAVINGS ASSOCIATIONS

TWO YEAR INTERVALS, 1955-1969



Sources: Credit Union National Association, International Credit Union Yearbook; U.S.F.D.I.C., Assets and Liabilities Report, Report of Call; U. S. Savings and Loan League, Savings and Loan Annals.

portfolios held by the various intermediaries. Rapidly rising interest rates, which have been characteristic of the past few years, place savings and loan institutions at a definite disadvantage relative to other financial institutions. Savings associations are locked into long-term mortgage loans with relatively low interest rates and slow turnover. Thus it is difficult for them to improve their earnings when rates are climbing. On the cost side, however, they must raise the interest paid on time deposits in order to remain competitive with other institutions and with direct market yields.[4]

Figure 4 displays the dispersion, as of December 31, 1969, of Montana's savings and loan associations. Notice that there are only 16 associations. This compares with 19 associations in 1950. The decline in the total number of associations is explained, not by failures (no Montanan has ever lost money as the result of an association failure), but rather by mergers of existing institutions.[5] Other contributing factors to the attrition in the number of Montana associations include the growing complexity of savings and loan operations, the intense competition for savings among Montana intermediaries, a smaller demand for mortgage loans in some localities, and a shortage of trained personnel.[6]

One of the more effective means of measuring savings and loan

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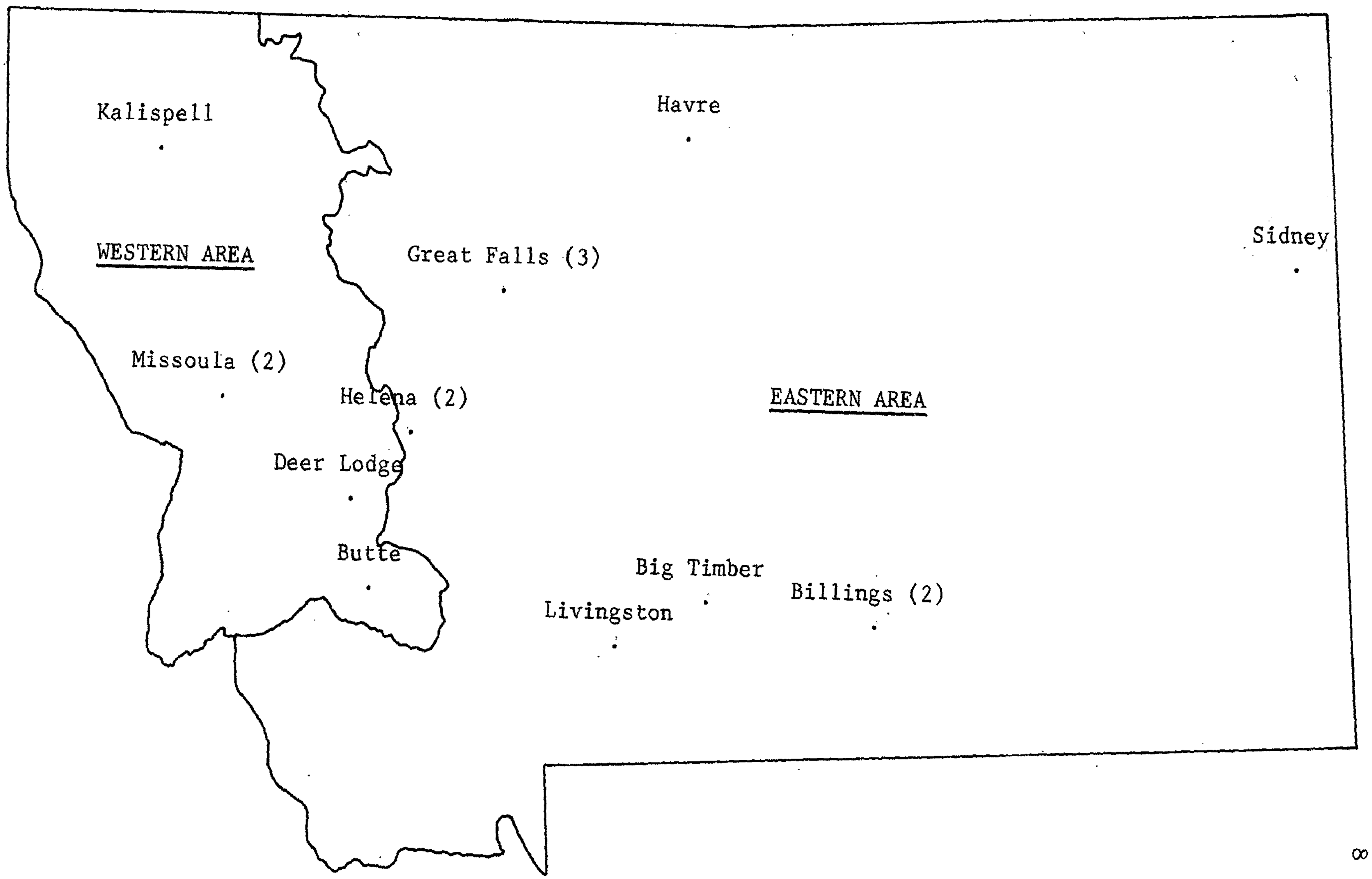
[4] Ibid.

[5] Thomas Judge, secretary of the Montana Savings and Loan League. An interview held in Mr. Judge's office, 316 Wheat Building, Helena, Montana, July 9, 1971.

[6] Ibid.

FIGURE 4

DISPERSION OF MONTANA SAVINGS AND LOAN ASSOCIATIONS
(DECEMBER 31, 1969)



growth is to relate assets to population. Figure 5 depicts the per capita resources of Montana, Idaho, and the U. S. for the years 1950, 1960, and 1969. Though it is true that per capita resources has steadily grown over the past 20 years in each area, it cannot be denied that Montana has significantly lagged behind the U. S. Variation in the growth of these two sectors, Montana and the U. S., are explained by differences in population, income, and urbanization. Savings and loan associations tend to locate in the larger metropolitan areas where building activity, population, and per capita income tend to be high. Montana has relatively few such metropolitan areas and is characterized more by a rural economy whereby building activity, per capita income, and population tend to be low. In Montana counties where savings associations exist, per capita assets as of December 31, 1969 were $635.[7] This figure compares with the Montana per capita asset figure at only $365. Thus, in areas where savings and loan associations exist in Montana, per capita assets is much more comparable to the U. S. per capita amount than is the Montana per capita figure.

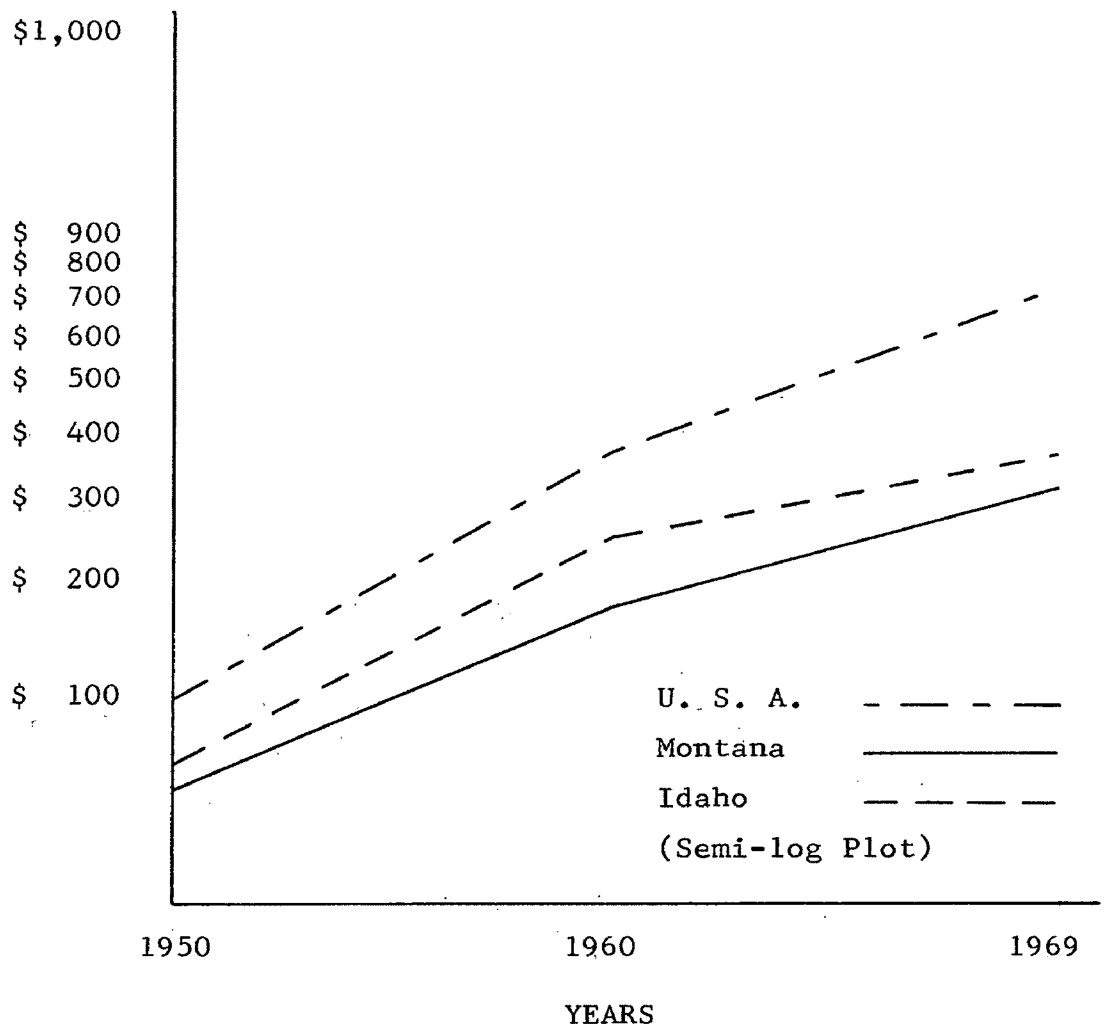
Another aspect of asset growth is assets per association. Table I displays average assets for selected years 1951 through 1969. Reference to this table reveals a progressive growth for the years shown. The Montana figure for 1969, $15.832 million, compares with the U. S. average of $27.88 million. Once again the divergence between these two figures must be attributed to Montana's rural economy in which a small number of

[7]Computed from the 1970 Census of Population (advance report), and the 1970 Savings and Loan Annal.

FIGURE 5

PER CAPITA RESOURCES--SAVINGS AND LOAN ASSOCIATIONS
U.S., MONTANA, IDAHO

SELECTED YEARS 1950-1969



Source: Computed from United States Savings and Loan League Data. Savings and Loan Annals (selected years 1951-1970).

TABLE I

AVERAGE ASSETS OF MONTANA ASSOCIATIONS
AT YEAR END
SELECTED YEARS 1951-1969

	Number of Associations	Assets (in $1,000.)	Average (in $1,000.)
1951	19	37,664.	1,982.
1953	19	51,209.	2,695.
1955	20	72,396.	3,415.
1957	20	93,562.	4,678.
1959	18	118,845.	6,603.
1961	17	145,755.	8,574.
1963	18	181,096.	10,061.
1965	17	211,286.	12,429.
1967	16	229,602.	14,350.
1969	16	253,319.	15,832.

Source: U. S. Savings and Loan League, <u>Savings and Loan Annals</u> (selected years 1951-1969).

people are spread out over a large area. The actual gain achieved in average assets over the 1951-1969 period can be attributed to two factors: (1) a decrease in the number of associations and (2) a dynamic increase in the total assets of the industry.

A more meaningful discussion of average assets can be developed by giving attention to the intra-state growth of assets per association. Figure 4, a map of Montana displaying the dispersion of Montana savings associations, also depicts the two geographical areas that will be used to illustrate this particular aspect of growth. The barrier dividing the state into Eastern and Western areas is the familiar Continental Divide. Table II lists the cities falling within each of the two areas. Table III lists the total assets by city for the years 1950, 1960, and 1969. Based upon these various tables and additional information concerning the number of associations in 1950 and 1960, the following can be derived:

GROWTH IN TOTAL ASSETS PER ASSOCIATION
MONTANA GEOGRAPHICAL AREAS

	1950 Average (in $1,000.)	1960 Average (in $1,000.)	1969 Average (in $1,000.)
Western Area	3,354.	15,605.	33,250.
Eastern Area	1,610.	8,714.	17,448.

As illustrated by the above, the Western area has far outstripped the Eastern area in terms of real dollar growth per association. The rea-

TABLE II

MONTANA GEOGRAPHICAL AREAS

Area No. 1--West of Continental Divide

Cities with Savings and Loan Associations

Butte	1
Deer Lodge	1
Kalispell	1
Missoula	2
Total	5 Associations

Area No. 2--East of Continental Divide

Cities with Savings and Loan Associations

Big Timber	1
Billings	2
Great Falls	2
Havre	1
Helena	2
Livingston	1
Sidney	1
Total	10 Associations

Note: Total excludes one state association (of negligible size) not belonging to the Montana State Savings and Loan League.

TABLE III

DISTRIBUTION OF ASSETS* BY CITY
MONTANA SAVINGS AND LOAN ASSOCIATIONS
FISCAL YEARS ENDING JUNE 30, 1950, 1960, 1969

City	1950	1960	1969
Area No. 1--West of Continental Divide			
Butte	8,006.	42,683.	92,700.
Deer Lodge	557.	2,654.	5,797.
Kalispell	—	5,133.	16,704.
Missoula	8,206.	27,553.	51,050.
TOTALS	16,769.	78,023.	166,251.
Area No. 2--East of Continental Divide			
Big Timber	251.	601.	839.
Billings	7,308.	23,109.	51,720.
Livingston	1,976.	9,494.	17,082.
Great Falls	7,739.	29,699.	57,934.
Havre	1,707.	10,775.	20,263.
Helena	2,400.	12,175.	24,833.
Sidney	381.	1,299.	1,810.
Bozeman	409.	—	—
Dillon	119.	—	—
Glendive	253.	—	—
TOTALS	22,543.	87,144.	174,481.

*In $1,000.

Source: Montana Savings and Loan League, Helena, Montana.

sons for this difference can be attributed to several factors: (1) Western associations tend to be somewhat older and possibly better established; (2) fewer associations exist in the Western area, thus limiting inter-association competition; (3) associations in the Western area are located only in population centers, whereas in the Eastern geographic area certain very small associations tend to pull the average down (e.g., Sidney and Big Timber); and (4) a definite trend over the last 10 years, brought out by the 1970 Montana Economic Study, has been the migration of Montana's population toward the Western part of the state where per capita incomes have been higher.[8] An additional fact which can be derived from the table on page 12 is that, while real dollar growth has been greater in the Western area than in the Eastern area, relative growth (assets per association) from 1950 to 1969 has been somewhat greater in the East than in the West: 108.4 per cent to 99.1 per cent. This relatively greater growth (assets per association) occurring in the East is explained by the fact that the Eastern area's base, $1,610, was only about half the Western area's base of $3,354.

The 1969 Western area per association figure, $33,250,000, takes on added significance when compared to the 1969 U. S. average of $34,074,000. In other words, the increase in assets per association in Western Montana was on an almost even keel with the rest of the United States. This finding is somewhat surprising when consideration is given the fact that Montana is not a state having branch operations on a large

[8]"The Montana Economy," The Montana Economic Study, Volume 1, Part 1, Chapter 1 (Missoula, Montana: Bureau of Business and Economic Research, University of Montana, 1970).

scale. Montana savings and loan associations have only 5 branches. In the U. S., however, of the 5,817 associations operating in 1969, 1,579 of them operated a total of 3,964 branches.[9]

Although growth in resources may be the most significant indicator of growth of Montana's savings and loan industry, two other items, time deposits and mortgages outstanding, merit consideration. Table IV shows the amount of savings and time deposits held by Montana commercial banks, savings associations, and credit unions for selected years 1950-1969. Though savings have significantly increased in all three institutions, commercial banks and savings associations have dominated the savings market in Montana. In relative terms, the growth occurring in both savings associations and commercial banks has been fairly even. From 1951-1969 commercial banks increased time and savings deposits by 627 per cent. During the same period, savings and loan associations increased shares and deposits by a somewhat higher 676 per cent. The seemingly greater growth of savings associations can be attributed more to a relatively small base ($28.8 million) than to an increase in their proportional share of the savings market. The proportional share of savings held by 1951 associations was the same as that held by 1969 associations, 23 per cent. During the same period, commercial banks showed an approximate 2 per cent decrease indicating that credit unions have grown more at the expense of commercial banks than at the expense of savings and loan associations. Figure 6 graphically depicts the same type of information (growth of time deposits held by various institutions) for selected years

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[9] _Savings and Loan Fact Book, '70_, _op. cit_., p. 60.

TABLE IV

SAVINGS AND TIME DEPOSITS*
IN SELECTED INSTITUTIONS, MONTANA
SELECTED YEARS 1950-1969

Institution	1950	1960	1965	1967	1968	1969
Commercial Banks**	97.1	256.2	474.3	592.3	676.8	733.9
Savings and Loan Associations	28.8	116.4	189.2	206.0	216.9	224.7
Credit Unions***	1.6	14.4	27.3	31.2	34.0	38.6

*In $1,000,000.

**Time deposits of individuals, partnerships, and corporations.

***Shares and deposits.

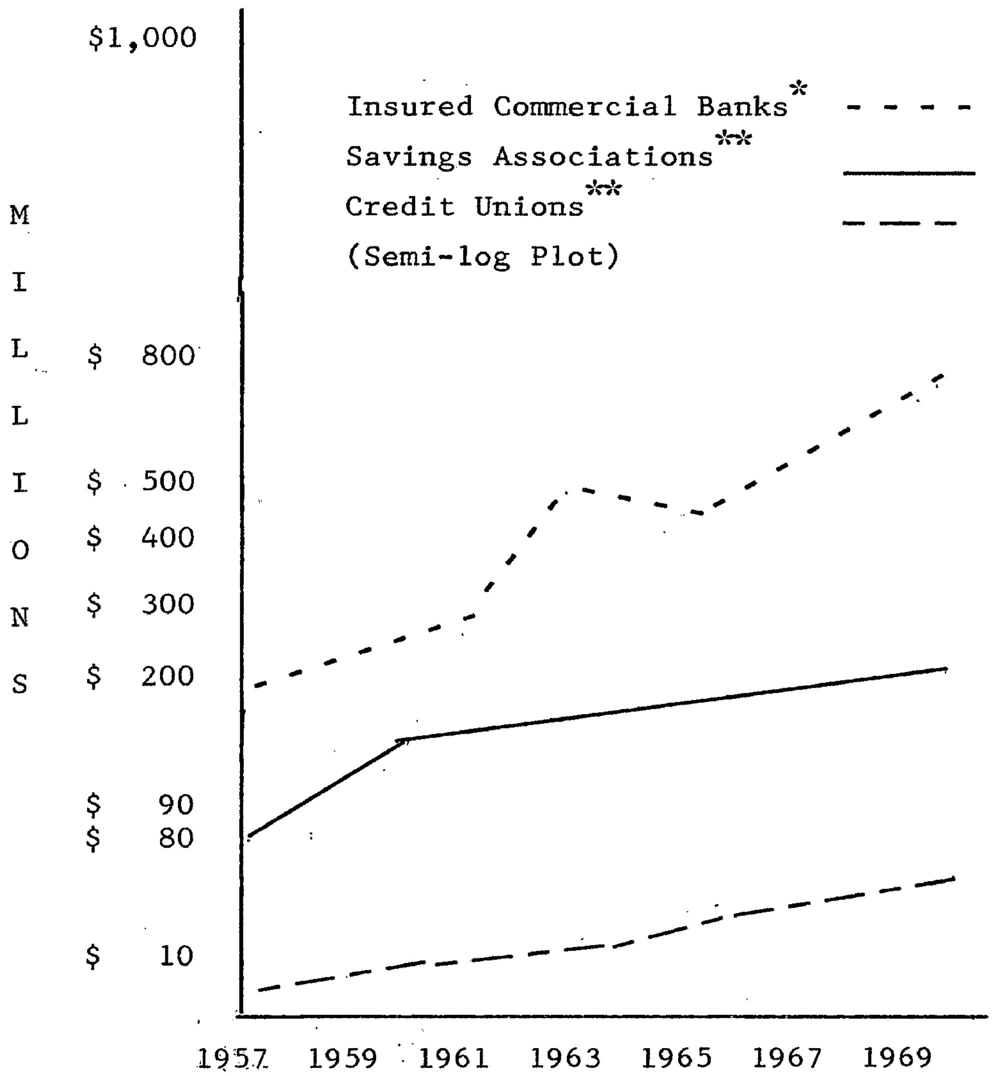
Sources: Secondary, Montana Data Book, Chapter 18, Helena, Montana, 1970.

U. S. Savings and Loan League, Savings and Loan Annals (selected years 1951-1970).

F.D.I.C., Report of Call (selected years 1951-1970).

FIGURE 6

GROWTH OF TIME DEPOSITS--MONTANA
VARIOUS INTERMEDIARIES
SELECTED YEARS 1957-1969



*Time deposits--individuals, corporations, and partnerships.

**Shares and deposits.

Sources: Credit Union National Association, International Credit Union Yearbook; F.D.I.C., Report of Call; U. S. Savings and Loan League, Savings and Loan Annals.

1957-1969. From this graph it can be seen that growth of savings associations and credit unions was fairly steady during the years shown. On the other hand, time deposit growth at commercial banks was less steady, especially during the 1961-1965 period. The dynamic trends displayed by commercial banks can be explained by the public policy vulnerability to which commercial banks were subjected during this period, and also by the fact that, not until the passing of the Stevens Act in 1966, were returns paid to savers by savings and loan associations directly subject to law or regulation.[10]

Figure 7 compares Montana shares and deposits held by similar institutions in Idaho and a conglomerate of Western states comprised of Montana, Idaho, Utah, Oregon, Washington, Wyoming, Hawaii, and Alaska. Progressive growth is once more the key word, except for Idaho which exhibits a decline in shares and deposits during the 1965-1969 era. Idaho's decline in shares and deposits parallels a similar decline in total resources of, and mortgages held by, Idaho associations during the same period. The reasons for Idaho's comparative regression in the savings and loan business during these years are that there occurred a total decline in the number of Idaho institutions from 19 in 1965 to 11 in 1969, and that a key institution failed.[11]

Savings and loan associations are specialized institutions limited by law and regulations to the financing of residential structures. Thus a majority of the savings they hold are placed in residential loans.

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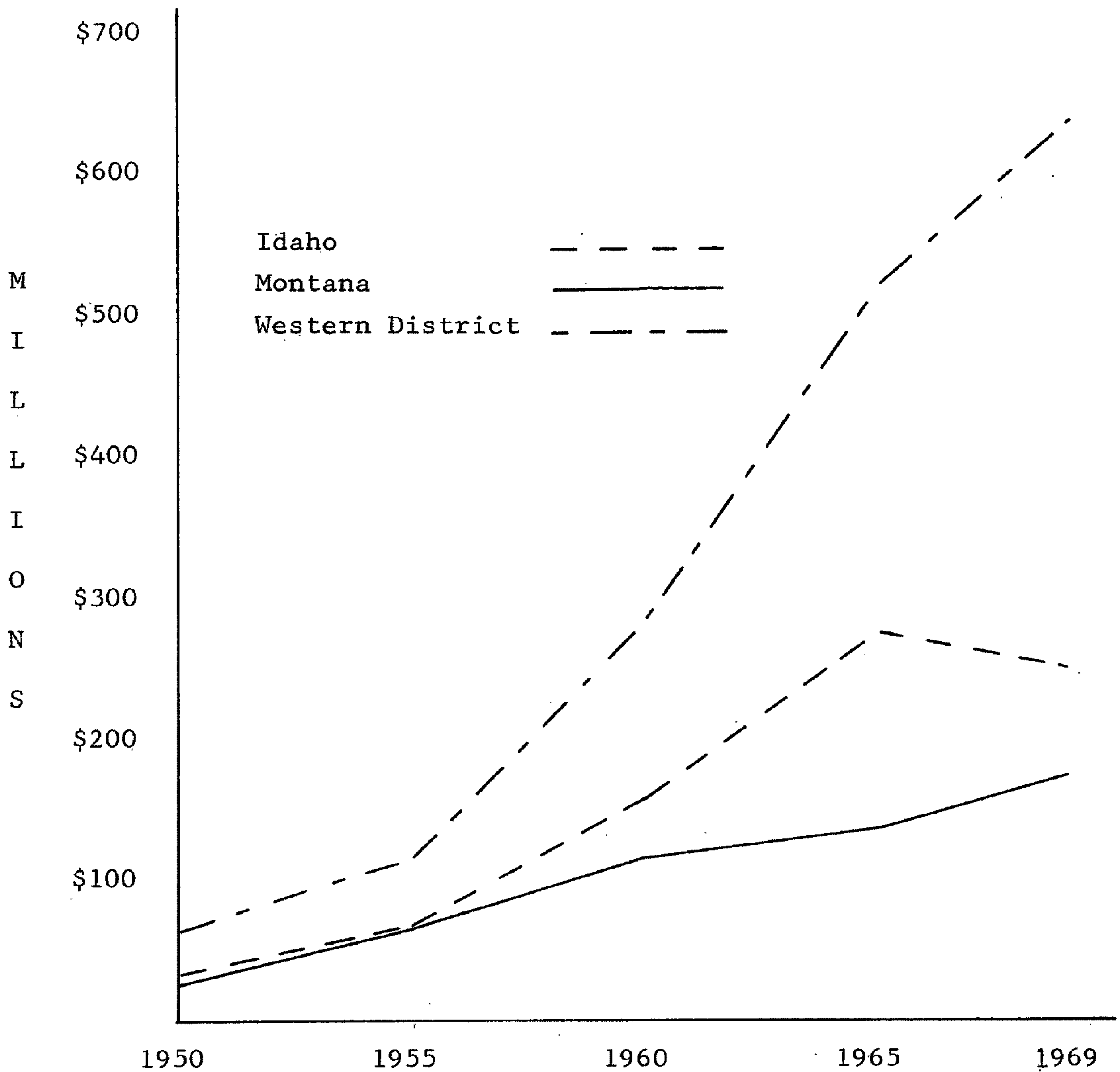
[10] *Ibid.*, pp. 13 and 65.

[11] Judge, *op. cit.*

FIGURE 7

GROWTH IN SAVINGS
SAVINGS AND LOAN ASSOCIATIONS
MONTANA, IDAHO, WESTERN DISTRICT*
1950-1969



*This data is derived by averaging the time deposits of the following 8 Western states: Montana, Idaho, Wyoming, Utah, Oregon, Washington, Hawaii, and Alaska.

Source: U. S. Savings and Loan League, Savings and Loan Annals.

Since savings and loan associations are limited in the kinds of loans they can make, their fortunes are tied to these loans.[12]

Figure 8 illustrates the value of residential mortgages held by Montana savings associations and commercial banks. Notice that Montana savings and loan associations not only compete with, but lead, commercial banks in residential mortgages outstanding. The significance of this finding is that savings and loan associations very successfully compete in areas where competition is allowed.

Another aspect of the growth of mortgages outstanding held by Montana savings associations is illustrated in Table V, Average Mortgages Outstanding at Montana Associations at Year End. This graph illustrates the fact that, from 1951 to 1969, average mortgages outstanding per association grew from $1,572,000 to $13,836,000. Explanation for this growth does not rest upon any single factor but is, rather, based upon a bevy of factors, among them being: (1) the average mortgage has increased in size owing to a rise in prices for homes and real property, (2) an increase in the financing of multi-family structures,[13] and (3) the total number of mortgages held has increased because of demographic changes and because of expanded mortgage portfolios (i.e., savings and loan associations were allowed to invest in mortgages on mobile homes and vacation homes, and to also make small home improvement loans).[14]

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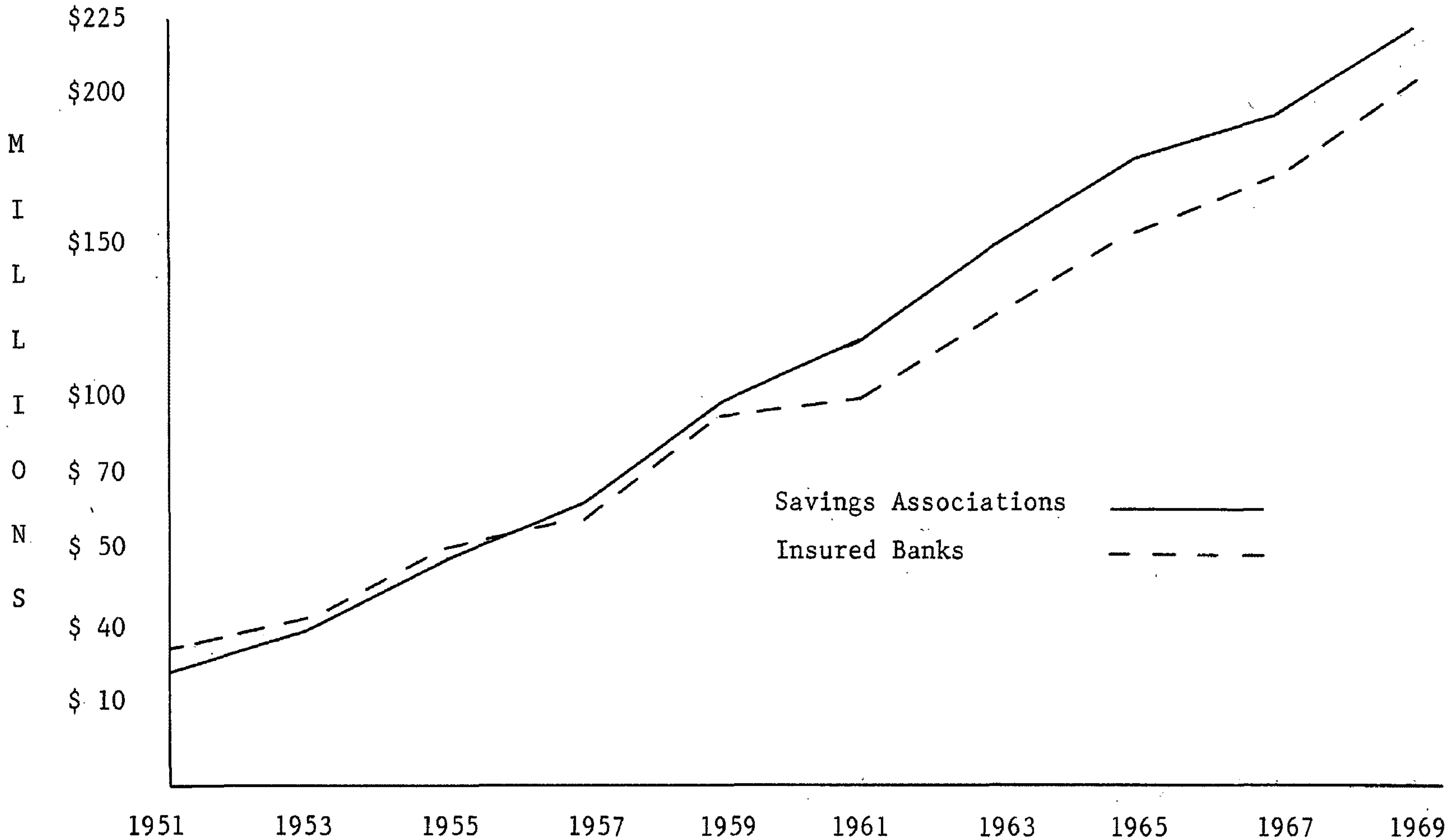
[12]Ira Kaminow, "Should Housing Be Sheltered from Tight Credit?" Business Review (Philadelphia, Pennsylvania: The Federal Reserve Bank of Philadelphia, November, 1970), p. 26.

[13]Savings and Loan Fact Book, '70, op. cit., p. 30.

[14]Ibid., pp. 24, 30, and 31.

FIGURE 8

RESIDENTIAL MORTGAGES--MONTANA
INSURED COMMERCIAL BANKS* AND SAVINGS AND LOAN ASSOCIATIONS
SELECTED YEARS 1951-1969



*All residential non-farm mortgages.

Sources: F.D.I.C., Report of Call; U. S. Savings and Loan League, Savings and Loan Annals.

TABLE V

AVERAGE MORTGAGES OUTSTANDING AT MONTANA ASSOCIATIONS AT YEAR END SELECTED YEARS 1951-1969

	Number of Associations	Mortgages (in $1,000.)	Average (in $1,000.)
1951	19	29,877.	1,572.
1953	19	40,810.	2,147.
1955	20	59,758.	2,988.
1957	20	76,792.	3,840.
1959	18	101,723.	5,651.
1961	17	120,301.	7,077.
1963	18	152,859.	8,492.
1965	17	180,189.	10,599.
1967	16	194,065.	12,129.
1969	16	221,378.	13,836.

Source: U. S. Savings and Loan League, Savings and Loan Annals (selected years 1951-1969).

Though per association mortgages outstanding have grown dramatically in the past 20 years, a fact which is inescapable is that growth in mortgages outstanding held by savings associations has considerably slowed during the past several years. (See Appendix, Mortgage Loans Outstanding at Savings and Loan Associations.) An explanation of this slowdown centers mainly around public policy and its resultant effect upon the mortgage market. Since mortgage borrowers are driven off by rising interest rates, mortgage rates will not rise very much when credit tightens. Therefore, savings and loan associations, because of the restrictions placed upon their asset portfolios, will not have as much incentive as other lending institutions to try to capture funds during periods of tight credit. Thus, during such periods of tight credit, there is a general decline in the inflow of savings to savings institutions. Since savings associations make so many mortgage loans, the supply of mortgage funds will necessarily suffer.[15]

[15] Kaminow, op. cit.

CHAPTER III

PROFITABILITY

Trends of measures such as expense ratios, dividends, earnings, reserves, liquidity, and the future course of these, weigh heavily on savings and loan management decisions. Broadly stated, Montana association management did a creditable job of improving the earning power of its institutions during the 20 year period 1950-1969. Earning conditions were not always ideal and management was oftentimes forced to balance earnings on a long-term investment portfolio against a short-term, sharply rising cost of funds. Managers were also called upon to provide for the building of reserves and liquidity positions in line with the evolving character of the risks in the earning assets of the institution.

One of the best measures of how efficiently a business is being run on a year-to-year basis is the ratio of operating expense to gross income. This ratio, often called the operating ratio, includes in its make-up all income accounts, operating and nonoperating, but for savings and loan associations it does not include interest on borrowed money, federal income tax, nonoperating charges, or dividends.[1] Figure 9 shows that the trend in operating costs was one of improvement for savings associations throughout the period shown. The ratio of operating expense to gross operating income declined steadily from almost 28.4 per cent of gross income in 1950 to 18.1 per cent in 1969.

The operating ratio is dependent upon two variables--cost of

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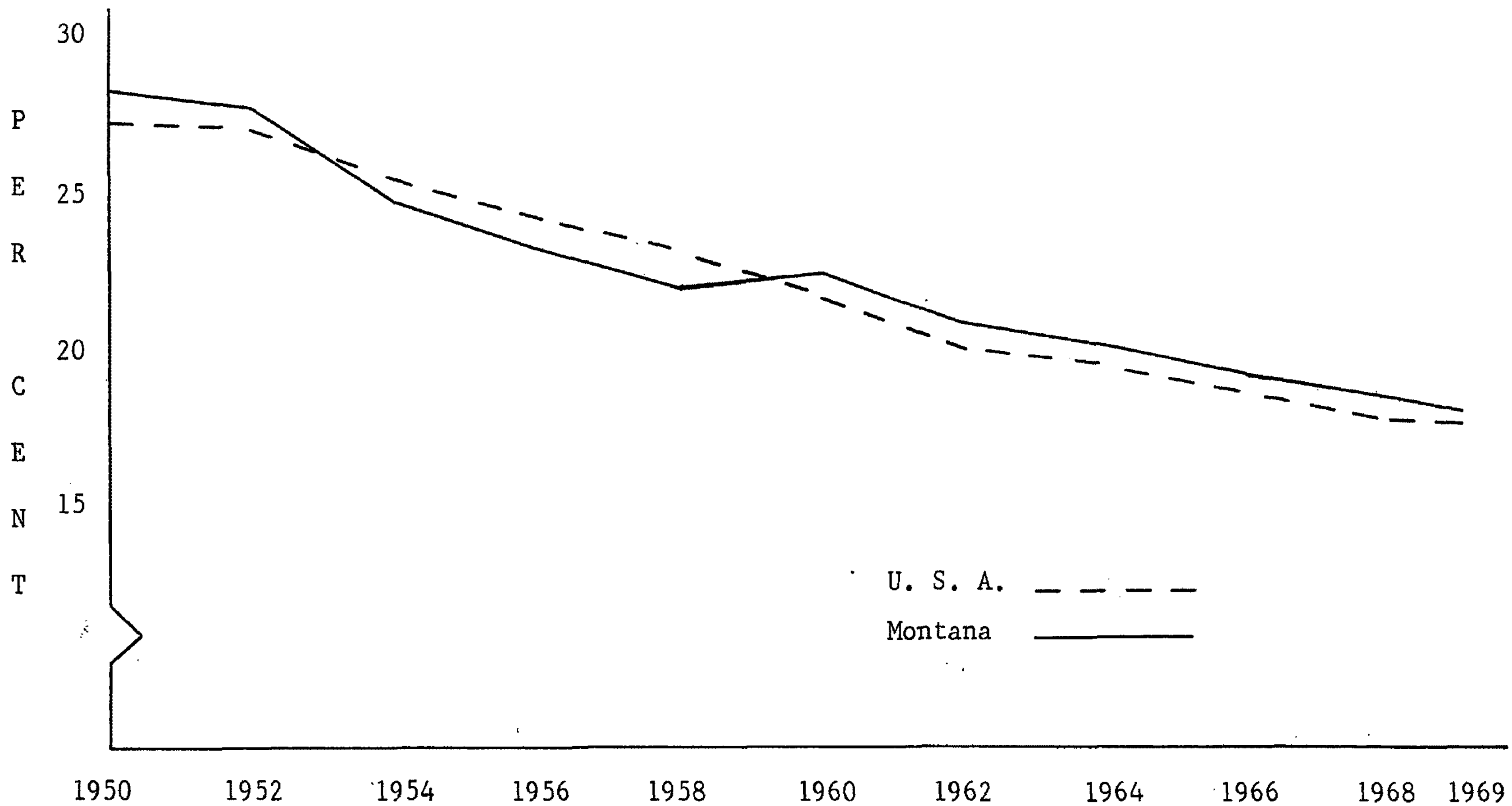
[1]Leon T. Kendall, The Savings and Loan Business, a Monograph prepared for the Commission on Money and Credit (Englewood Cliffs, N. J.: Prentice Hall Inc., 1962), p. 132.

FIGURE 9

RATIOS OF OPERATING EXPENSE TO GROSS OPERATING INCOME
FOR MEMBER ASSOCIATIONS OF THE FHLB SYSTEM
SELECTED YEARS 1950-1969
MONTANA-U. S. A.



Sources: Federal Home Loan Bank Board, <u>Combined Financial Statements</u>; Home Loan Bank Board, <u>Combined Financial Statements</u>.

operations and gross income.[2] To determine the importance of these variables in the total picture each, along with net operating income, was related to average assets for the period covered. Table VI shows that between 1950 and 1969 gross income as a percentage of average assets increased from 3.99 per cent to 6.16 per cent, while operating expense stayed approximately the same (1.13 per cent in 1950 to 1.12 per cent in 1969). During the 20 year period represented in this table, the most striking improvements occurred in the gross operating income to average assets ratio. Thus, it seems that during the 1950-1969 period, the increase in gross income was more important in producing a favorable operating ratio than was the decrease in operating expenses.

Table VII lists the major expense items of Montana savings associations. The most important operating expense is compensation, which takes approximately half of each expense dollar. One expense item of Montana associations which has increased very little over the past 20 years, but which has increased markedly in the U. S. during the same period, is advertising expense. Advertising's relative share of Montana's 1969 total operating expense, 7.1 per cent, compares with the 1969 national figure of 9.7 per cent. This is a notable difference indicating either a relatively non-aggressive savings and loan industry in Montana, or simply a non-essential activity in the Montana savings market. Most other expenses have changed relatively little over the years shown.

Table VIII indicates the relative importance of the various sources of gross income at savings and loan associations. As one might

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[2] *Ibid.*, p. 133.

TABLE VI

INCOME AND EXPENSE AS A PERCENTAGE OF AVERAGE ASSETS
MONTANA SAVINGS AND LOAN ASSOCIATIONS--FHLB MEMBERS
SELECTED YEARS 1950-1969

Year	Gross Operating Income (%)	Operating Expense (%)	Net Operating Income* (%)
1950	3.99	1.13	2.82
1952	3.88	1.08	2.79
1954	4.02	1.00	3.02
1956	4.27	1.00	3.25
1958	4.68	1.04	3.61
1960	5.04	1.14	3.90
1962	5.09	1.07	4.02
1964	5.26	1.07	4.18
1966	5.64	1.09	4.48
1968	5.81	1.09	4.69
1969	6.16	1.12	5.02

*Before Income Taxes.

Sources: Federal Home Loan Bank, Combined Financial Statements (1954-1969).

Home Loan Bank, Combined Financial Statements (1947-1953).

TABLE VII

PERCENTAGE DISTRIBUTION OF TOTAL OPERATING EXPENSE
MONTANA SAVINGS AND LOAN ASSOCIATIONS--FHLB MEMBERS
SELECTED YEARS 1950-1969

	1950 (%)	1953 (%)	1956 (%)	1959 (%)	1962 (%)	1965 (%)	1968 (%)	1969 (%)
Compensation	52.0	56.4	52.9	49.1	46.1	49.9	50.8	51.1
Office Expenses*	13.0	8.8	8.6	14.2	14.4	15.6	14.0	13.6
Advertising	6.6	7.4	8.1	7.7	6.8	5.8	6.4	7.1
Other Operating Expenses**	28.4	27.4	30.4	29.0	32.7	28.7	28.8	28.2
TOTALS	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

*Rent, Light, Heat, etc., plus Office Building Maintenance, Taxes, and Depreciation less Gross Income from Office Building.

**Includes Federal Insurance Premium, Audit, and Supervisory Exams and Assessments.

Sources: Federal Home Loan Bank, <u>Combined Financial Statements</u> (1954-1969).

Home Loan Bank, <u>Combined Financial Statements</u> (1947-1953).

TABLE VIII

SOURCES OF GROSS INCOME
MONTANA SAVINGS AND LOAN ASSOCIATIONS
FHLB MEMBERS
1950-1969

Year	Interest on Mortgage Loans* (%)	Interest on Other Investments (%)	Premiums Commissions and Fees (%)	Other Income** (%)	Total (%)
1950	86.7	7.5	2.8	3.0	100
1951	86.3	7.9	2.8	3.0	100
1952	85.7	8.7	3.3	2.3	100
1953	85.6	9.2	2.9	2.3	100
1954	85.5	8.4	3.3	2.8	100
1955	86.7	7.6	3.1	2.6	100
1956	87.7	6.8	3.3	2.2	100
1957	85.7	7.5	4.3	2.5	100
1958	82.7	7.8	5.5	4.0	100
1959	84.7	6.7	3.9	4.7	100
1960	85.9	6.7	2.6	4.8	100
1961	85.5	6.4	3.4	4.7	100
1962	85.1	7.0	4.1	3.8	100
1963	85.8	6.0	3.7	4.5	100
1964	86.2	7.7	3.3	2.8	100
1965	86.5	7.5	3.5	2.5	100
1966	87.7	6.9	2.9	2.5	100
1967	86.5	7.4	3.1	3.0	100
1968	85.7	8.2	3.6	2.5	100
1969	85.1	8.2	4.1	2.6	100

*Includes Interest Income on Investments and Bank Deposits.

**Includes Net Income from Real Estate Owned and Gross Income from Office Buildings.

Sources: Federal Home Loan Bank, Combined Financial Statements (1954-1969).

Home Loan Bank, Combined Financial Statements (1947-1953).

expect, the bulk of the earnings comes from interest on mortgage loans.

Net income at savings associations is the residual after expenses of operation and interest payments on borrowed money have been met, and after nonoperating income and charges have been accounted for. Analysis of Table IX reveals one outstanding fact: savers fared well at the hands of savings and loan associations during the 1950-1969 period. The share of income going to savers in the form of dividends rose consistently throughout this period. In 1950 association savers received 69.4 per cent of net income as dividends; in 1969 the returns paid to savers took nearly 88 per cent of net income. In 1969, $10.4 million was paid to Montana association savers; this was more than double the amount paid to 1960 savers and more than 17 times the amount paid in 1950. Thus the major beneficiary of Montana savings and loans' earning power in the period observed was the saver.

"Throughout the years one of the major objectives of savings and loan management has been the steady build-up of reserve accounts for the sake of safety."[3] Reserves are built-up to absorb any losses incurred during the life of the risk assets and, by channelling earnings year after year into reserve accounts, associations prepare themselves to absorb any potential losses which may be realized. The build-up of reserves between 1950 and 1969 are shown in Table X. The decades 1950-1959 and 1960-1969 witnessed a continual build-up of total reserves from $2.23 million to $18.967 million. Total reserves as a percentage of total savings remained fairly even during this period, thus indicating that reserve accumulations

[3] *Ibid.*, pp. 138-139.

TABLE IX

ALLOCATION OF NET INCOME TO DIVIDENDS AND RESERVES
MONTANA SAVINGS AND LOAN ASSOCIATIONS--FHLB MEMBERS
1950-1969

Year	To Dividends (%)	To Reserves and Surplus (%)	Total (%)
1950	69.4	30.6	100
1951	68.3	31.7	100
1952	71.5	28.5	100
1953	72.9	27.1	100
1954	73.9	26.1	100
1955	73.4	26.6	100
1956	75.3	24.7	100
1957	74.6	25.4	100
1958	70.1	29.9	100
1959	77.6	22.4	100
1960	78.2	21.8	100
1961	83.2	16.8	100
1962	80.7	19.3	100
1963	83.3	16.7	100
1964	80.8	19.2	100
1965	82.7	17.3	100
1966	86.0	14.0	100
1967	88.1	11.9	100
1968	88.2	11.8	100
1969	87.9	12.1	100

Sources: Federal Home Loan Bank, Combined Financial Statements (1954-1969).

Home Loan Bank, Combined Financial Statements (1947-1953).

TABLE X

NET ADDITIONS TO RESERVES
AND TOTAL RESERVES
OF MONTANA SAVINGS AND LOAN ASSOCIATIONS--FHLB MEMBERS
1950-1969

Year	Net Addition to Reserves		Total Reserves	
	Thousands of Dollars	Percentage of Gross Income	Thousands of Dollars	Percentage of Total Savings
1950	192.	15.67	2,231.	8.30
1951	230.	16.28	2,509.	8.00
1952	307.	18.99	2,824.	7.52
1953	363.	18.91	3,221.	7.36
1954	457.	19.55	3,614.	6.77
1955	559.	19.73	4,141.	6.63
1956	635.	18.79	4,777.	6.63
1957	750.	18.88	5,536.	6.82
1958	1,038.	21.72	6,631.	7.17
1959	904.	15.71	7,773.	7.29
1960	1,040.	16.40	8,648.	7.50
1961	812.	11.40	9,554.	7.20
1962	1,242.	15.28	10,675.	7.40
1963	1,005.	11.05	11,899.	7.40
1964	1,125.	10.90	13,310.	7.40
1965	1,087.	9.59	13,487.	7.77
1966	1,009.	8.38	15,878.	8.16
1967	815.	6.41	16,968.	8.25
1968	729.	5.36	17,738.	8.21
1969	765.	5.05	18,967.	8.47

Sources: Federal Home Loan Bank, Combined Financial Statements (1954-1969).

Home Loan Bank, Combined Financial Statements (1947-1953).

kept pace with the expansion of the business. Throughout the decade beginning in 1950, gross income allocated to reserves was fairly steady. Beginning in 1960 and continuing on to 1969, gross income allocated to reserves persistently declined. The reason for this relative decrease in earnings allocated to reserves was an easing of the reserve requirements of the member organizations of the Federal Home Loan Bank system.[4] This relaxation of reserve requirements was prompted by the "recognition of the earnings-cost squeeze produced by higher rates on savings and by lagging growth in mortgage loan income."[5] Additional liquidity, when required, is provided for system members by the FHLB system via a line of credit. Also, a certain amount of liquidity and safety are available for holders of certain mortgages (e.g., V. A. and F. H. A. mortgages) by means of a secondary mortgage market and a mortgage guarantee program.[6]

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[4]The Federal Home Loan Bank System, of which 15 of 16 Montana associations are members, was created in 1932. Its fundamental purpose is to act as a central credit facility to supplement the resources of member institutions.

[5]<u>Savings and Loan Fact Book, '70</u>, <u>op. cit</u>., p. 101.

[6]<u>Ibid</u>., pp. 129-131. <u>Note</u>: Yearly Montana gross operating income and net income figures are available for each year beginning with 1950 and continuing through 1969 in the final table of the Appendix.

CHAPTER IV

CONCLUSIONS

Broadly stated, the years 1950-1969 comprised a period of dynamic growth for Montana's savings and loan industry. This study has examined growth in assets, savings deposits, mortgages outstanding, earnings, and effectiveness of operations in terms of relating income to expenses (Figure 9).

Though tremendous growth from 1950 to 1969 cannot be denied, possibly the most important finding of this study concerns the recent relative growth of Montana's savings and loan associations. When consideration is given the conclusions of the recent Montana Economic Study concerning the immediate economic outlook for Montana, the future growth of the savings and loan industry in Montana appears severely limited. Quite possibly the major adjustment ahead for Montana savings and loan management must be the realization that growth, comparable to that which has taken place in the post World War II years, will be more difficult to achieve. For one thing, the very size of present savings associations will tend to limit opportunity for appreciable percentage gains in the future since the base from which managers will have to work will be larger. In addition, associations in the past have grown, not only with the demand for their services, but also by taking business away from competitors on both the savings side and the lending side of the business. Many institutions now find their major competition coming, not from other financial intermediaries in savings and mortgage markets, but rather from other savings associations competing on much the same terms as they do. This line of reasoning would especially hold true in Missoula, Helena, Billings, and Great Falls--cities with more than one association.

Savings and loan associations are primarily mortgage lending institutions. Their investments are limited by law, regulation, and custom mainly to loans secured by residential real estate, and particularly by the single family owner-occupied home.[1] The following dramatizes the dominating nature of mortgages as a per cent of total assets for Montana, Idaho, Western District, and the U. S.:

MORTGAGES AS A PER CENT OF TOTAL ASSETS
SAVINGS AND LOAN ASSOCIATIONS
U. S. A., MONTANA, IDAHO, WESTERN DISTRICT
1950, 1960, 1969

	1950 (%)	1960 (%)	1969 (%)
U. S. A.	82	85	86
Montana	80	85	87
Idaho	83	86	87
Western District	78	83	86

Note: Computed from U. S. Savings and Loan League Data, Savings and Loan Annals.

Other financial institutions such as commercial banks and credit unions may place their resources in a wide range of financial assets, but associations must allocate the bulk of their funds to the financing of home construction, an industry which has been in the doldrums during the

[1] Ibid., p. 76.

past few years.[2]

What does the immediate future hold in store for mortgage lenders? According to a recent U. S. News & World Report,[3] the U. S. is currently entering a "buyers' market" era for people who want to borrow money. Savings are high, thus making credit easier to arrange at lower interest rates, and with smaller down-payment requirements.[4]

Though such financial trends provide an optimistic note for U. S. savings associations, Montana's relatively stagnant economy will no doubt severely limit the potential growth of Montana associations. Montana association managers will have to face up to the fact that their industry cannot be operated in oblivion to the existing economic milieu, and that they, in order to advance their own industry, must also work to promote the state's economic welfare as well. As this fact is realized, management may well intensify efforts to further industrial and commercial growth in the community so as to increase income, savings, and potential mortgage borrowers.

As stated earlier in this paper, Montana savings and loan associations compete very well with other Montana intermediaries in fields where competition is allowed. Efforts to expand these fields of competition

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[2]J. A. Cacy and Linda Moore, "Financial Intermediaries in the Residential Mortgage Market, 1966-1969," Monthly Review (Kansas City, Missouri: Federal Reserve Bank of Kansas City, September-October, 1970), p. 3.

[3]"Good News for Borrowers," U. S. News & World Report (Washington, D. C.: Vol. 70, No. 11, March 15, 1971), pp. 95-99.

[4]"Big Payoffs for Savers Coming to an End," U. S. News & World Report (Washington, D. C.: Vol. 70, No. 14, April 5, 1971), pp. 72-74.

would appear to be worth-while. Some of the measures which would appear most fruitful include: (1) attempt to diversify the asset portfolios of savings associations to include not only home financing, but personal and business loans as well; (2) continue attempts to force state legislation to be passed which would allow government monies to be deposited on a competitive institutional basis, instead of the state's present policy which grants certain state banks exclusive depository rights;[5] and (3) promote legislation which would grant savings associations greater service privileges (e.g., demand deposit services). According to the May, 1971 issue of Banking,[6] progress along these lines is being made in certain Eastern states.

Stated as an overview, Montana's savings and loan industry has performed a creditable task in reducing their cost of operations at a time when inflationary pressures and rising wage rates were making this a most difficult task. Probably the greatest adjustment required of Montana's present association managers is the realization that future growth comparable to that of the recent 20 year period, 1950-1969, will be difficult to achieve. The challenge of growth will force management to become ever more aggressive in their present fields of financial competition, and to exert greater effort in expanding the actual fields of allowable competition.

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[5]Daniel J. Foley, "Banks Reap Benefits from Idle State Funds," The Independent Record (Helena, Montana: June 14, 1971), pp. 1-2.

[6]Richard M. McConnell, "Thrift Institutions Step Up Drive for Checking Accounts," Banking (New York: American Bankers Association, Vol. 63, No. 11, May, 1971), pp. 27-28.

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APPENDIX

POPULATION DATA*

	1950	1960	1969**
Montana	591	675	694
Idaho	589	667	718
Wyoming	291	330	320
Oregon	1,521	1,769	2,032
Washington	2,379	2,853	3,402
Utah	689	891	1,045
Hawaii	500	634	794
Alaska	129	226	282
U. S. A.	154,233	179,323	201,921

*Population amounts in thousands of people.

**Estimates.

Sources: 1970 Census of Population (advance reports); 1970 Statistical Abstract of the United States; 1950 Census of Population.

POPULATION OF COUNTIES CONTAINING CITIES WITH SAVINGS AND LOAN ASSOCIATIONS

Area No. 1--West of Continental Divide

County	
Silver Bow	41,981
Deer Lodge	15,652
Flathead	39,460
Missoula	58,263
Total	155,356

Area No. 2--East of Continental Divide

County	
Sweet Grass	2,980
Yellowstone	87,367
Cascade	81,804
Hill	17,358
Lewis and Clark	33,281
Park	11,197
Richland	9,837
Total	243,824

TOTAL (both areas) 399,180

Source: Bureau of the Census, 1970 Census, Montana, Preliminary Report.

TOTAL ASSETS*

Dec. 31	Montana	Idaho	Western District**	U. S. A.
1950	32,899	39,614	657,207	16,885,218
1951	37,664	42,505	732,676	19,885,218
1952	44,453	49,454	858,330	22,667,479
1953	51,209	55,264	1,010,003	26,641,526
1954	61,169	63,376	1,220,789	31,636,968
1955	72,396	76,149	1,445,634	37,620,104
1956	83,419	89,439	1,613,620	42,920,742
1957	93,562	100,909	1,798,235	48,130,279
1958	106,637	131,928	2,060,019	55,075,353
1959	118,845	160,771	2,369,148	63,454,253
1960	128,366	179,516	2,655,729	71,355,263
1961	145,755	210,544	3,107,631	82,101,672
1962	162,260	239,122	3,630,110	93,756,045
1963	181,096	275,242	4,068,158	107,580,218
1964	197,649	307,979	4,527,963	119,518,369
1965	211,286	324,187	5,007,809	129,616,364
1966	217,893	290,205	5,133,585	133,820,797
1967	229,602	271,621	5,542,009	143,555,400
1968	241,264	278,307	5,739,350	153,049,684
1969	253,319	291,117	6,145,570	162,180,883

*In thousands of dollars.

**Comprised of Montana, Idaho, Wyoming, Utah, Idaho, Oregon, Washington, Hawaii, and Alaska.

Source: United States Savings and Loan League, Savings and Loan Annals (Chicago, Illinois: annual publications, 1951-1970).

SAVINGS DEPOSITS OF SAVINGS AND LOAN ASSOCIATIONS*

Dec. 31	Montana	Idaho	Western District	U. S. A.
1950	28,786	33,761	546,697	14,078,181
1951	33,516	37,241	626,951	16,019,973
1952	40,101	42,768	735,533	19,302,600
1953	46,655	47,824	887,842	22,828,477
1954	55,953	53,965	1,059,229	27,320,942
1955	—	—	—	—
1956	75,866	77,117	1,413,198	37,241,876
1957	85,011	87,697	1,561,540	41,799,665
1958	96,397	116,931	1,783,090	47,966,479
1959	107,444	138,971	2,009,569	54,537,436
1960	116,408	161,109	2,273,032	62,056,080
1961	132,984	172,456	2,636,901	70,949,019
1962	145,896	190,316	3,059,221	80,349,134
1963	161,547	238,772	3,442,155	91,356,234
1964	178,026	265,936	3,847,034	102,009,419
1965	189,195	277,354	4,195,599	110,357,673
1966	194,794	246,199	4,301,672	113,863,377
1967	205,972	235,912	4,753,305	124,475,316
1968	216,944	244,563	4,906,495	131,748,103
1969	224,692	251,179	5,088,652	135,594,527

*In thousands of dollars.

Source: United States Savings and Loan League, Savings and Loan Annals (Chicago, Illinois: annual publications, 1951-1970).

MORTGAGE LOANS OUTSTANDING AT SAVINGS AND LOAN ASSOCIATIONS*

Dec. 31	Montana	Idaho	Western District	U. S. A.
1950	26,449	32,684	514,809	13,834,883
1951	29,877	34,031	573,737	15,684,888
1952	35,287	38,673	670,578	18,495,650
1953	40,810	43,641	800,142	22,051,693
1954	49,488	50,544	984,531	26,285,389
1955	—	—	—	—
1956	69,567	73,912	1,318,857	35,929,181
1957	76,792	82,803	1,455,236	40,152,013
1958	88,796	110,450	1,670,340	45,729,466
1959	101,723	139,030	1,949,154	53,481,226
1960	108,996	154,869	2,195,081	60,366,747
1961	120,301	178,479	2,575,466	69,319,421
1962	135,697	206,984	3,050,137	79,421,322
1963	152,859	240,213	3,444,140	91,483,971
1964	166,965	271,555	3,828,652	101,463,639
1965	180,189	281,508	4,241,658	110,722,667
1966	186,309	250,526	4,357,782	114,478,485
1967	194,065	237,069	4,708,472	121,800,116
1968	206,829	240,774	4,922,456	131,031,749
1969	221,378	253,839	5,303,726	140,243,950

*In thousands of dollars.

Source: United States Savings and Loan League, <u>Savings and Loan Annals</u> (Chicago, Illinois: annual publications, 1951-1970).

INCOME AMOUNTS*
MONTANA SAVINGS AND LOAN ASSOCIATIONS

Year	Gross Operating Income	Net Income
1950	1,225.	873.
1951	1,413.	1,001.
1952	1,617.	1,161.
1953	1,920.	1,415.
1954	2,338.	1,771.
1955	2,833.	2,134.
1956	3,379.	2,577.
1957	3,973.	3,025.
1958	4,779.	3,667.
1959	5,753.	4,346.
1960	6,340.	4,892.
1961	7,120.	5,509.
1962	8,127.	6,439.
1963	9,092.	6,941.
1964	10,318.	7,940.
1965	11,329.	8,632.
1966	12,046.	9,255.
1967	12,723.	9,790.
1968	13,603.	10,736.
1969	15,163.	11,838.

*In thousands of dollars.

Sources: Federal Home Loan Bank, <u>Combined Financial Statements</u> (Washington, D. C.: annual publications, 1955-1969).

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