Volume Title: Consumer Credit Costs, 1949-59

Volume Author/Editor: Paul F. Smith

Volume Publisher: UMI

Volume ISBN: 0-691-04116-4

Volume URL: http://www.nber.org/books/smit64-1

Publication Date: 1964

Chapter Title: Trends in Cost of Providing Consumer Credit

Chapter Author: Paul F. Smith

Chapter URL: http://www.nber.org/chapters/c1725

Chapter pages in book: (p. 98 - 116)

CHAPTER 7

Trends in Cost of Providing Consumer Credit

THE years covered by this study encompassed two periods of federal controls on instalment credit terms and three minor recessions. The period opened in the recession year of 1949 and closed in 1959, the first year of recovery after the 1958 recession. The period as a whole, however, was one of rapid growth in consumer credit. The recessions were merely interludes in a strong upward trend in outstanding credit.

The outstanding amount of consumer credit tripled during the 1950's and all segments of the industry participated in the expansion. The share of total instalment credit held by financial institutions increased somewhat at the expense of holdings by retailers. An increase in the share held by credit unions absorbed most of the gain in the total held by financial institutions. The proportion of the total held by other types of financial institutions showed little change.

The diversity of economic events and the brevity of the time span dictate caution in interpreting trends that appear in the cost data. Two general observations may be made about developments during this period. First, average charges for consumer credit were generally lower at the end of the 1950's than at the beginning. Second, the spread in average finance charges between high- and low-cost institutions was reduced during this period.

Average finance charges declined appreciably between 1949 and 1955 at sales and consumer finance companies, and rose modestly at federal credit unions (Table 35). Commercial bank data were not available for this period. Between 1955 and 1959, average finance charges of consumer finance companies and credit unions declined slightly, and those of commercial banks and sales finance companies rose. For the period as a whole, average charges of both groups of finance companies declined and the credit union charge showed a slight drop. By 1959 charges at consumer finance companies and credit unions were the lowest of any year in the period covered. The decline in sales finance company charges resulted from a decline in average charges on both automobile credit and personal loans. To a considerable extent the decline in automobile credit reflects a narrowing of the spread of charges between high- and low-cost companies in the sample, the rates of the two lowest-cost companies rising slightly and those of the high-cost companies declining appreciably. As the low-cost companies held a greater portion of receivables than the high-cost companies, a weighted average of rates of charge per dollar of receivables shows a substantially lower level and a

TABLE 35

AVERAGE FINANCE CHARGES ON CONSUMER CREDIT, 1949, 1955, AND 1959
(dollars per $100 of average outstanding credit)

							CHANGE			
	Simple Averages[a]			Weighted Averages[b]			1949 to 1959		1955 to 1959	
TYPE OF CREDIT AND INSTITUTION	1949	1955	1959	1949	1955	1959	Simple Average	Weighted Average	Simple Average	Weighted Average
All types:										
Consumer finance companies	26.10	24.20	24.00	25.00	23.50	22.40	-2.10	-2.60	-.20	-1.10
Sales finance companies[c]	20.00	16.50	16.60	14.00	13.00	13.50	-3.40	-.50	+.10	+.50
Commercial banks[c]	n.a.	8.60	10.00	n.a.	9.50	10.10	n.a.	n.a.	+1.40	+.60
Federal credit unions	n.a.	n.a.	n.a.	9.40	9.60	9.10	n.a.	-.30	n.a.	-.50
Automobile credit:										
Sales finance companies[c]	20.40	15.00	15.80	14.30	12.90	13.70	-4.60	-.60	+.80	+.80
Commercial banks, indirect[c]	n.a.	10.30	10.60	n.a.	10.10	10.00	n.a.	n.a.	+.30	-.10
Commercial banks, direct	n.a.	10.40	8.80	n.a.	9.20	8.60	n.a.	n.a.	-1.60	-.60
Other goods paper, commercial banks	n.a.	10.00	11.20	n.a.	11.00	11.40	n.a.	n.a.	+1.20	+.40
Modernization loans, commercial banks	n.a.	6.60	9.00	n.a.	6.50	10.60	n.a.	n.a.	+2.40	+4.10
Personal loans:										
Consumer finance companies	27.50	25.60	24.90	25.70	23.80	22.50	-2.60	-3.20	-.70	-1.30
Sales finance companies	25.00	24.10	21.50	24.70	24.40	22.40	-3.50	-2.30	-2.60	-2.00
Commercial banks	n.a.	9.50	10.90	n.a.	10.90	10.60	n.a.	n.a.	+1.40	-.30
Federal credit unions	n.a.	n.a.	n.a.	9.40	9.60	9.10	n.a.	-.30	n.a.	-.50

[a] Average of charges for each company with each company treated as a unit.

[b] Charges of each company were weighted by its receivables in computing average.

[c] Includes dealer's share of the gross finance charges.

smaller decline than the simple average of rates of charge from sample companies.

The trend in finance charges at commercial banks, for which data are available only from 1955, was upward. The changes in the over-all average at commercial banks reflected a variety of trends in rates and changes in the type of loan activity. Finance charges on indirect automobile paper, other consumer goods paper, and modernization loans rose from 1955 to 1959 (Table 35). The increase was largest in modernization loans where charges rose several dollars per $100 from 1955 to 1959. Rates on other consumer goods paper also rose, but the proportion of this paper held by commercial banks was sharply reduced during the period. Personal loans increased in importance while the charges on these loans reflected mixed trends at the sample banks.

A number of developments during the 1950's contributed to the reduction in charges on consumer credit by sales and consumer finance companies. An increase in the average contract size affected finance charges in two ways: (1) the larger contract size reduced the per-dollar operating costs and permitted lower charges; and (2) under the graduated rate structure applied to consumer finance companies, the increase in loan size resulted in a decrease in the average maximum legal charge. Competition from lower-cost institutions also intensified as the number of banks and credit unions engaged in consumer lending expanded.

The spread between finance charges at the institutions with the highest and lowest charges was smaller—by $1 or $2 per $100 of outstanding credit—in 1959 than in 1949. Although charges at both the high- and low-cost institutions declined, the decrease was larger at the high-cost institutions—consumer finance companies (Table 35).

Operating Expenses

Operating expenses on consumer credit showed the same general pattern of change during the period as average finance charges shown in Chart 11, with somewhat larger year-to-year variations. The operating expenses of the two samples of finance companies declined directly with the decline in the average finance charge. Operating expenses at credit unions showed relatively little change, while those at commercial banks increased slightly from 1955 to 1959.

The operating expenses of consumer finance companies varied between 57 and 61 per cent of the finance charge, with the peak years occurring in the recession years of 1949 and 1958 (Chart 12). The fluctuations in operating expenses at sales finance companies were somewhat wider,

CHART 11

Average Finance Charges, Total Expenses, and Operating Expenses on Consumer Credit, by Type of Institution, 1949–59

(per $100 of average outstanding credit)

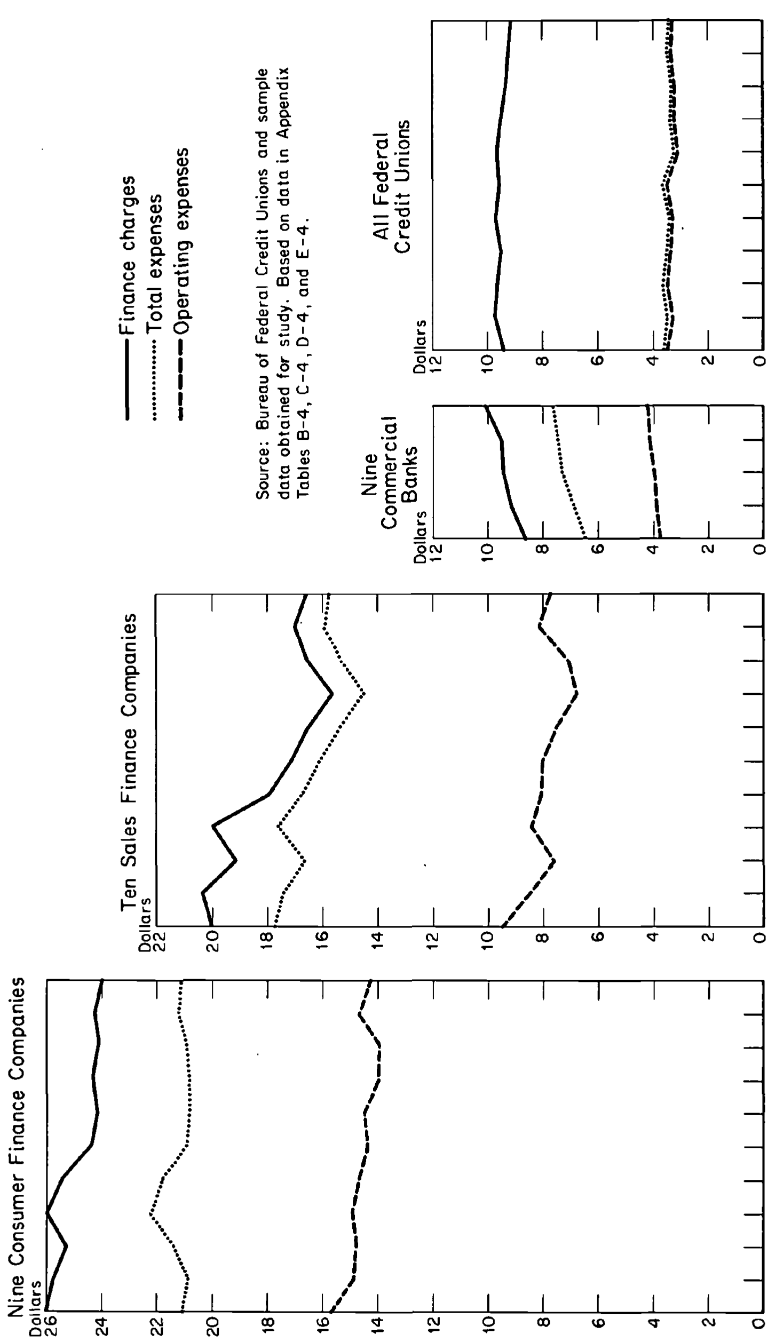
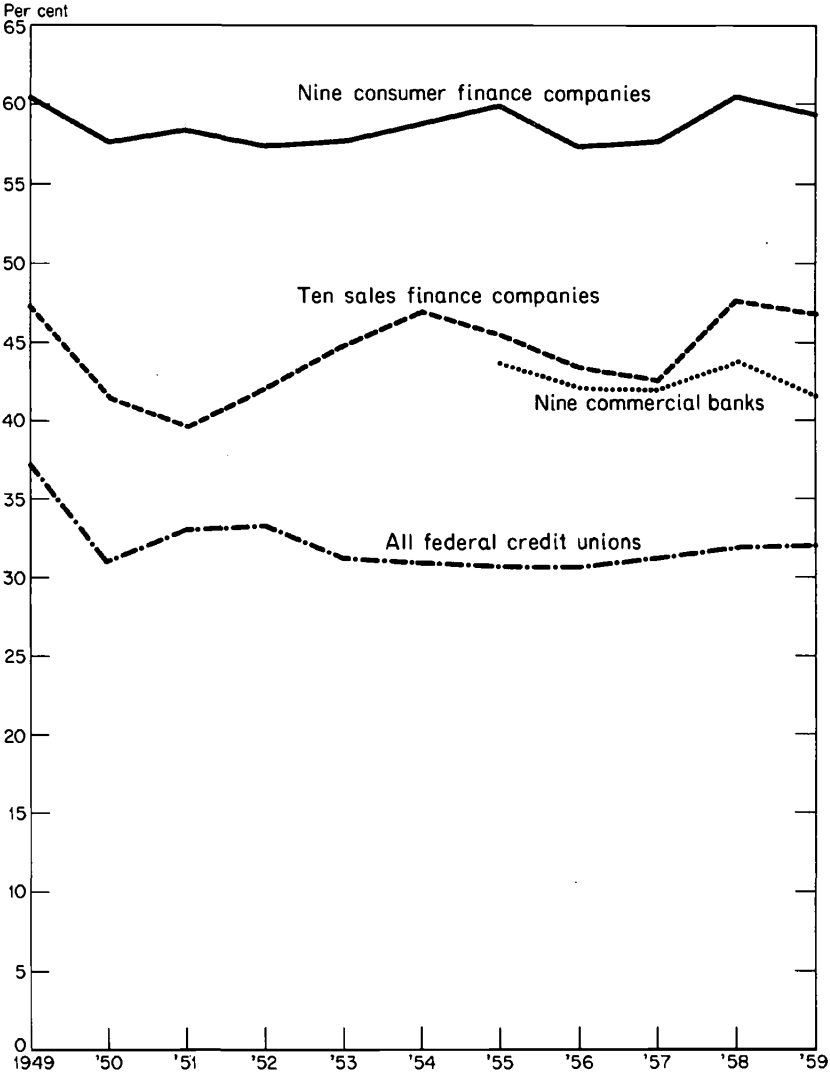


CHART 12
Operating Expenses on Consumer Credit as Percentage of Finance Charges, by Type of Institution, 1949–59



Source: Bureau of Federal Credit Unions and sample data obtained for study. Based on data in Appendix Tables B-4, C-4, D-4, and E-4.

varying between 40 and 48 per cent of total charges. The highest ratios occurred in the recession years of 1949, 1954, and 1958.

The decline in operating costs at finance companies resulted primarily from a decline in wage and salary payments. This decline was particularly striking in view of the general upward trend of wage rates during the period. Although data are not available on wage rates at finance companies, the average wage rate in retail trade rose by 50 per cent from 1949 to 1959 while salary payments per $100 of credit outstanding at sales finance companies declined by 15 per cent and those at consumer finance companies by 10 per cent (Chart 13). The reduction in salary costs indicates substantial savings on labor during this period.

Salary payments at commercial banks, however, rose slightly from 1955 to 1959 with the peak cost in 1958. The increase in salaries was not as large as the growth in wage rates during this period, so that some of the improved efficiency reflected in finance company operations was apparently enjoyed by banks.

The trend in advertising and promotional costs per $100 of credit outstanding varied widely among different types of institutions. The sample consumer finance companies reported a decline of 36 per cent during the period covered by the study, while sales finance companies reported an increase of about the same relative size (Table 36). The increase at sales finance companies probably reflects in part the extension of their direct lending. Consumer finance companies were still spending nearly three times as much on advertising as sales finance companies in 1959. The sample commercial banks reported a sizable increase in advertising expenditures in 1955–59 and during this period passed sales finance companies in expenditures on advertising per $100 of credit.

Actual losses on bad debts and provision for losses varied so widely from year to year that no clear trends for the over-all period were apparent. Actual losses (net of recoveries) were highest in 1949, 1953, and 1958. Provision for losses, as would be expected, were much more stable than actual losses, but conformed in general to the pattern of actual losses.

Nonoperating Expenses

Sizable year-to-year fluctuations in nonoperating expenses made it difficult to confirm any trends in the data. Some downward trend appeared to exist in the nonoperating expenses of finance companies, as the averages of these expenses for the last few years of the study were

TABLE 36
OPERATING EXPENSES ON CONSUMER CREDIT, BY TYPE OF EXPENSE AND INSTITUTION, 1949–59
(dollars per $100 of average outstanding credit)

Item	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
Total operating expenses:											
Nine consumer finance companies	15.72	14.87	14.77	14.94	14.66	14.36	14.46	13.94	13.93	14.64	14.25
Ten sales finance companies	9.45	8.46	7.56	8.37	8.04	8.03	7.52	6.78	7.03	8.06	7.74
Nine commercial banks	--	--	--	--	--	--	3.76	3.86	3.96	4.14	4.17
All federal credit unions	3.48	3.28	3.49	3.39	3.26	3.52	3.07	3.23	3.21	3.34	3.30
Salaries:											
Nine consumer finance companies	7.12	6.70	6.79	6.91	6.82	6.57	6.65	6.47	6.40	6.69	6.45
Ten sales finance companies	4.16	3.93	3.68	3.86	3.57	3.70	3.36	3.12	3.30	3.54	3.47
Nine commercial banks	--	--	--	--	--	--	2.11	2.23	2.33	2.38	2.33
All federal credit unions	2.10	1.93	2.05	2.06	1.90	1.85	1.82	1.80	1.80	1.79	1.77
Occupancy costs:											
Nine consumer finance companies	1.21	1.08	1.07	1.08	1.08	1.05	1.07	1.05	1.03	1.10	1.09
Ten sales finance companies	.43	.47	.41	.37	.40	.42	.40	.38	.39	.45	.43
Nine commercial banks	--	--	--	--	--	--	.22	.21	.22	.23	.23
All federal credit unions[a]	--	--	--	--	--	--	--	.06	.06	.06	.06
Advertising:											
Nine consumer finance companies	1.38	1.25	1.24	1.14	1.03	.87	.97	.93	.85	.80	.89
Ten sales finance companies	.22	.25	.27	.26	.26	.28	.27	.28	.28	.30	.31
Nine commercial banks	--	--	--	--	--	--	.24	.24	.23	.30	.34
All federal credit unions[a]	--	--	--	--	--	--	--	.08	.07	.07	.07
Provision for losses:											
Nine consumer finance companies	2.03	2.13	1.88	1.86	1.81	1.79	1.84	1.70	1.72	2.02	1.98
Ten sales finance companies	2.01	1.36	1.04	1.57	1.59	1.44	1.39	1.11	1.12	1.68	1.46
Nine commercial banks	--	--	--	--	--	--	.31	.28	.31	.28	.28

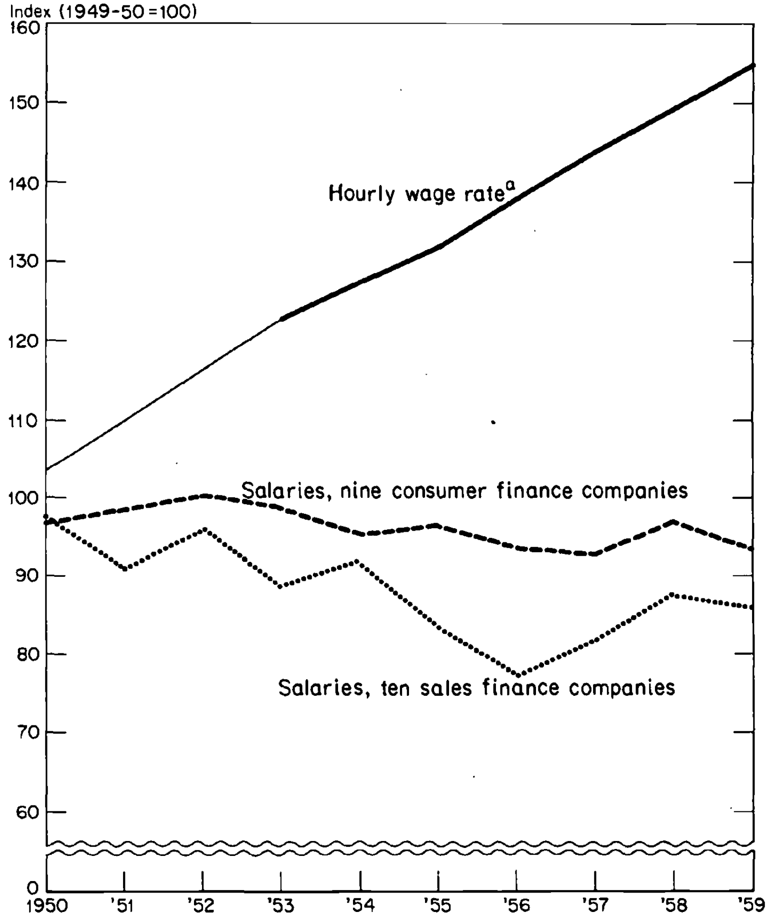
(continued)

TABLE 36 (concluded)

Item	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
Actual losses (net of recoveries):											
Nine consumer finance companies	1.47	1.42	1.51	1.38	1.43	1.50	1.39	1.15	1.39	1.71	1.70
Ten sales finance companies	1.16	.73	.88	1.17	1.41	1.23	.83	.97	.95	1.77	1.11
Nine commercial banks	-	-	-	-	-	-	.13	.28	.33	.17	.15
All federal credit unions	.30	.27	.32	.23	.25	.56	.12	.31	.30	.41	.38
Miscellaneous expenses:											
Nine consumer finance companies	3.98	3.71	3.79	3.95	3.92	4.08	3.93	3.79	3.93	4.03	3.84
Ten sales finance companies	2.63	2.45	2.16	2.31	2.22	2.19	2.10	1.89	1.94	2.09	2.07
Nine commercial banks	-	-	-	-	-	-	.88	.90	.87	.95	.99
All federal credit unions[a]	1.08	1.08	1.12	1.10	1.11	1.11	1.13	.98	.98	1.01	1.02

[a] Separate figures for occupancy and advertising costs were not available for federal credit unions prior to 1955. Before that date costs of these items are included in miscellaneous expenses.

CHART 13
Salary Expenses Per $100 of Average Outstanding Consumer Credit and Hourly Wage Rate, 1950–59



SOURCE: Bureau of Labor Statistics and sample data collected for study.
[a] For retail establishments.

below those of the earlier years. In contrast, the nonoperating expenses of commercial banks increased in most years between 1955 and 1959.

The distribution of these costs, however, changed markedly during the 1950's. The proportion of nonoperating costs going into nonequity funds increased sharply, while the share going to income taxes and to equity funds decreased accordingly. This trend was most pronounced at the two finance company groups but was visible to a lesser extent in the data for commercial banks (Chart 14). The cost of nonequity funds at consumer finance companies increased from 22 per cent of total nonoperating expenses in 1949 to 41 per cent in 1959. The increase at sales finance companies was almost as large, from 40 to nearly 70 per cent. The cost of nonequity funds also increased slightly in importance at commercial banks during the last five years of the 1950's.

Although this shift in the components of cost had relatively little effect on the total cost of credit to consumers, it had important implications for the lending institutions. The decline in costs of equity funds as a percentage of the total finance charge resulted in a decline in the lenders' earnings on consumer credit receivables.

COST OF NONEQUITY FUNDS

The sharp rise in interest rates in the 1950's was the principal factor in the increase in the cost of nonequity funds. The prime commercial paper rate rose from less than 1 per cent in 1949 to an average of 4 per cent in 1959. The prime bank rate rose from 2.5 to 4.5 per cent and longer-term market rates rose as well.

The impact of the increase in interest rates fell most directly on finance companies because of their dependence on debt financing. That they did not pass all of the increased costs of funds on to the consumers is suggested by a decline in the cost of funds' share of the average finance charge paid by consumers. As a result, the higher costs of nonequity funds was reflected by a reduction in profits and was absorbed in a reduction in the cost of equity funds and tax payments.

The average cost of nonequity funds rose by 73 per cent from 1949 to 1959 at consumer finance companies and by 56 per cent at sales finance companies. This rise reflected both higher interest rates and the increase in the proportion of nonequity funds used.

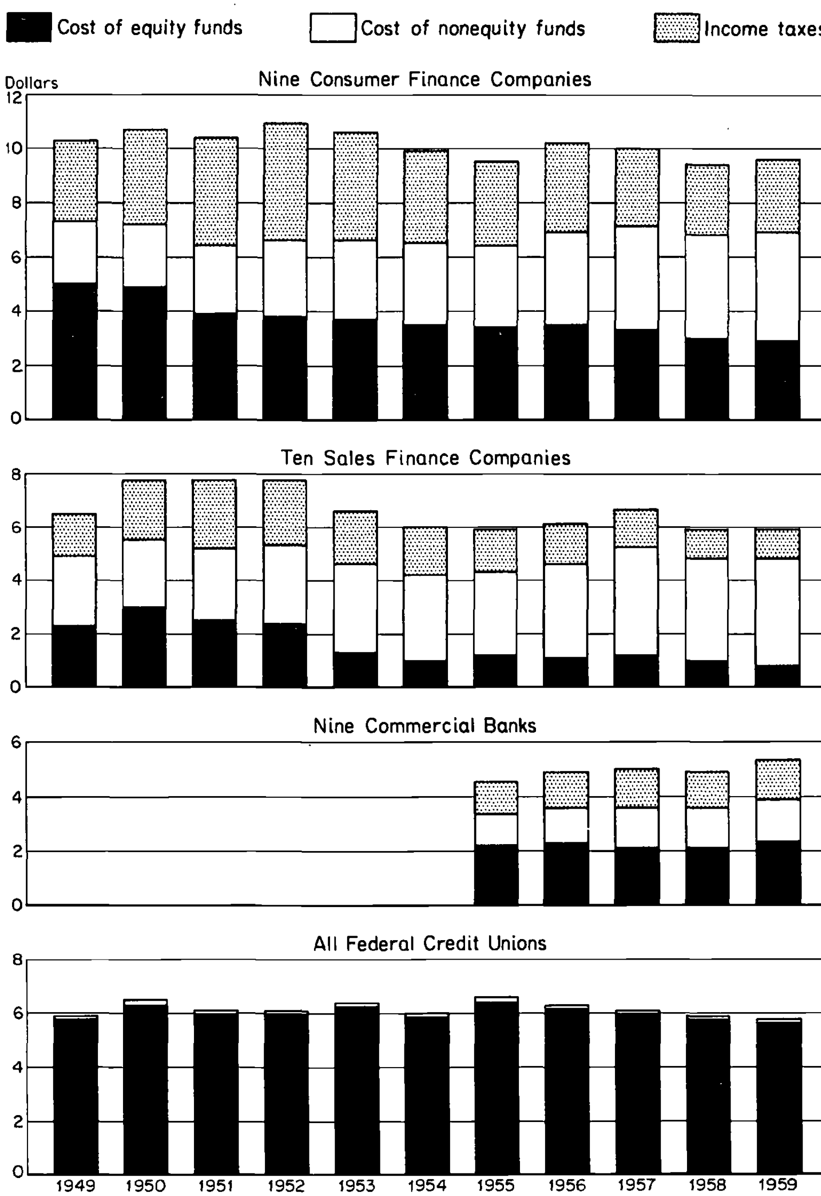
The impact of higher interest rates was much less pronounced on commercial banks. Their costs were affected only insofar as they increased rates paid on time deposits. The average rate paid on time deposits by the sample commercial banks rose from less than 1.2 per cent in 1955 to 2.7 per cent in 1959, but their average cost of nonequity funds only increased from .9 to 1.2 per cent during the last five years of the 1950's.

Credit unions escaped the pressure of higher rates largely because nonequity funds played such a small role in their total operations. The rates that they paid for nonequity funds increased from 2.2 to 3.1 per

CHART 14

Nonoperating Expenses on Consumer Credit, by Type of Expense, 1949–59

(per $100 of average outstanding credit)



Source: Bureau of Federal Credit Unions and sample data collected for study. Based on data in Appendix Tables B-4, C-4, D-4, and E-4.

cent. The over-all effect of higher interest rates on the cost of their lending operations was small.

COST OF EQUITY FUNDS

Chart 11 shows the cost of equity funds as the difference between the gross finance charge and total expenses; it illustrates the changes during the period and the institutional differences in the importance of the cost of equity funds as a component of the gross finance charge. The decline in cost of equity funds (lender's profit) at finance companies was one of the most pronounced changes in the components of cost during the period. The cost of equity funds dropped from $4.97 per $100 of outstanding credit in 1949 to $2.92 in 1959 at consumer finance companies and from $2.31 to $.81 at sales finance companies. These declines stemmed largely from the increased use and cost of nonequity funds.

The sample banks and federal credit unions showed quite different trends in the cost of equity funds. These costs rose slightly at banks from 1955 to 1959 and were relatively stable throughout the eleven-year period at credit unions. The cost of equity funds at credit unions averaged $6 per $100 of credit outstanding with a year-to-year variation of plus or minus 6 or 7 per cent.

Lender's Rate of Profit

The cost of equity funds used in consumer lending is affected by the profit rate that is required to keep the lender in the business of providing credit to consumers and by the effectiveness with which the lender can convert the return from consumer credit into a satisfactory return on equity funds. The decline in the cost of equity funds to consumers at finance companies implied a reduction in their profits or compensating changes in earnings or costs. The over-all profitability, as noted earlier, depends on other uses of funds as well.

RETURN ON OTHER EARNING ASSETS

All of the companies in the samples had income from nonconsumer activities. The contribution of these activities to profits depends upon the return on the funds thus employed and on the proportion of funds used in these activities. Since it was beyond the scope of the study to analyze nonearning assets in detail, the impact of these activities on profits can only be indicated by a comparison of the average return on all earning assets and the average return on consumer receivables (Table 37).

TABLE 37

COMPARISON OF RETURN ON CONSUMER ASSETS AND ALL EARNING ASSETS BY TYPE OF INSTITUTION, 1949-59
(per cent of average outstanding balances)

Item	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
1. Net operating income on all earning assets:											
Nine consumer finance companies	10.8	11.2	10.9	11.5	11.2	10.5	10.4	11.0	10.9	10.2	10.4
Ten sales finance companies	7.8	9.0	8.5	8.5	8.2	8.1	7.5	7.3	7.6	7.0	7.2
Nine commercial banks	-	-	-	-	-	-	2.5	2.9	3.3	3.4	3.4
All federal credit unions	4.8	5.4	5.0	5.2	5.5	5.3	5.7	5.5	5.5	5.3	5.3
2. Net operating income on consumer assets:											
Nine consumer finance companies	10.3	10.7	10.4	10.9	10.6	9.9	9.5	10.2	10.0	9.4	9.6
Ten sales finance companies	6.5	7.8	7.8	7.8	6.6	6.0	5.9	6.1	6.6	5.9	5.9
Nine commercial banks	-	-	-	-	-	-	4.5	4.9	5.0	4.9	5.3
All federal credit unions	5.9	6.5	6.1	6.1	6.4	6.0	6.6	6.3	6.1	5.9	5.8
3. Difference between items 1 and 2:											
Nine consumer finance companies	.5	.5	.5	.6	.6	.6	.9	.8	.9	.8	.8
Ten sales finance companies	1.3	1.2	.7	.7	1.6	2.1	1.6	1.2	1.0	1.1	1.3
Nine commercial banks	-	-	-	-	-	-	-2.0	-2.0	-1.7	-1.5	-1.9
All federal credit unions	-1.1	-1.1	-1.1	-.9	-.9	-.7	-.9	-.8	-.6	-.6	-.5

Finance companies of both types showed a higher return on total earning assets than on consumer assets. At consumer finance companies during the period studied, the spread between net operating income on all earning assets and on consumer assets increased from .5 to .8 of a percentage point from 1949 to 1959. This improvement in return from other activities reduced the effects of the loss of earnings per $100 of outstanding balances from their consumer activities. Sales finance companies showed a higher spread between their total earnings and consumer earnings than consumer finance companies, but there was no noticeable trend in the sales finance differential over the period.

Both commercial banks and credit unions showed a considerably smaller return on all earning assets than on consumer credit. The difference reflects in large part the liquidity and solvency requirements imposed by the nature of their liabilities and the legal restrictions on the investments of these institutions.

The rise in market interest rates permitted both commercial banks and credit unions to improve their earnings on total assets relative to consumer credit during the 1950's. Both types of institutions showed some reduction in the spread between net operating income on consumer assets and on all earning assets during this period (Table 37).

COST OF NONEARNING ASSETS

Finance companies and credit unions were able to reduce the proportion of nonearning assets to total assets during the 1950's, and thus to reduce the burden of these funds to their other operations (Table 38). Commercial banks, however, did not show any reduction in the relative size of their nonearning assets for 1955–59.

The imputed cost of these funds can be indicated by the difference between net operating income on earning assets and net operating income on total assets. The cost of these funds measured in this way declined at all types of lenders except commercial banks during the 1950's. Finance companies were able to reduce this cost by about 25 to 30 per cent by reducing the proportion of resources held in nonearning assets. This reduction was in part possible because of their reduced dependence on commercial bank borrowing with its compensatory balance requirements. The more effective use of their funds added to overall profits on total resources.

FINANCIAL ADVANTAGE OF USE OF NONEQUITY FUNDS

The net return to equity from the use of nonequity funds declined at both groups of finance companies during the fifties. This resulted from

TABLE 38

COST OF NONEARNING ASSETS BY TYPE OF INSTITUTION, 1949-59
(per cent of average outstanding balances)

Item	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
1. Net operating income on all earning assets:											
Nine consumer finance companies	10.8	11.2	10.9	11.5	11.2	10.5	10.4	11.0	10.9	10.2	10.4
Ten sales finance companies	7.8	9.0	8.5	8.5	8.2	8.1	7.5	7.3	7.6	7.0	7.2
Nine commercial banks	--	--	--	--	--	--	2.5	2.9	3.3	3.4	3.4
All federal credit unions	4.8	5.4	5.0	5.2	5.5	5.3	5.7	5.5	5.5	5.3	5.3
2. Net operating income on total assets:											
Nine consumer finance companies	9.1	9.5	9.3	9.8	9.6	8.9	8.9	9.5	9.3	8.9	9.1
Ten sales finance companies	6.4	7.6	7.2	7.3	7.1	7.0	6.6	6.4	6.6	6.1	6.3
Nine commercial banks	--	--	--	--	--	--	1.9	2.1	2.4	2.5	2.5
All federal credit unions	4.3	4.8	4.5	4.6	4.9	4.7	5.1	5.0	5.0	4.8	4.9
3. Difference between items 1 and 2:											
Nine consumer finance companies	1.7	1.7	1.6	1.7	1.6	1.6	1.5	1.5	1.6	1.3	1.3
Ten sales finance companies	1.4	1.4	1.3	1.2	1.1	1.1	.9	.9	1.0	.9	.9
Nine commercial banks	--	--	--	--	--	--	.6	.8	.9	.9	.9
All federal credit unions	.5	.6	.5	.6	.6	.6	.6	.5	.5	.5	.4
4. Nonearning assets as percentage of total assets											
Nine consumer finance companies	15.6	15.1	14.9	15.1	15.1	15.2	14.5	13.9	13.7	13.5	12.8
Ten sales finance companies	16.4	14.9	14.1	13.8	13.2	12.6	12.0	11.9	12.0	12.4	12.0
Nine commercial banks	--	--	--	--	--	--	22.4	23.6	23.7	22.6	22.9
All federal credit unions	11.4	10.9	12.3	11.9	10.2	9.9	9.5	8.8	8.5	8.5	7.8

a slight decline in the return on total assets and a sharp increase in the cost of nonequity funds. As shown in Chart 15, the net return on nonequity funds declined from 6.3 to 4.5 per cent from 1949 to 1959 at consumer finance companies and from 3.8 to 2.1 per cent at sales finance companies.

At the same time both types of company were able to increase the proportion of nonequity funds used in their lending operations. This enabled them to reduce the impact of the decline in net return on nonequity funds on profits. Nevertheless, the profit from the use of nonequity funds declined at both types of finance company. The decline was sharper at sales finance companies where the added income from leverage in 1959 was only 70 per cent of that of the early 1950's. Consumer finance companies were able to hold their position somewhat better and showed a smaller decline in profits from this source.

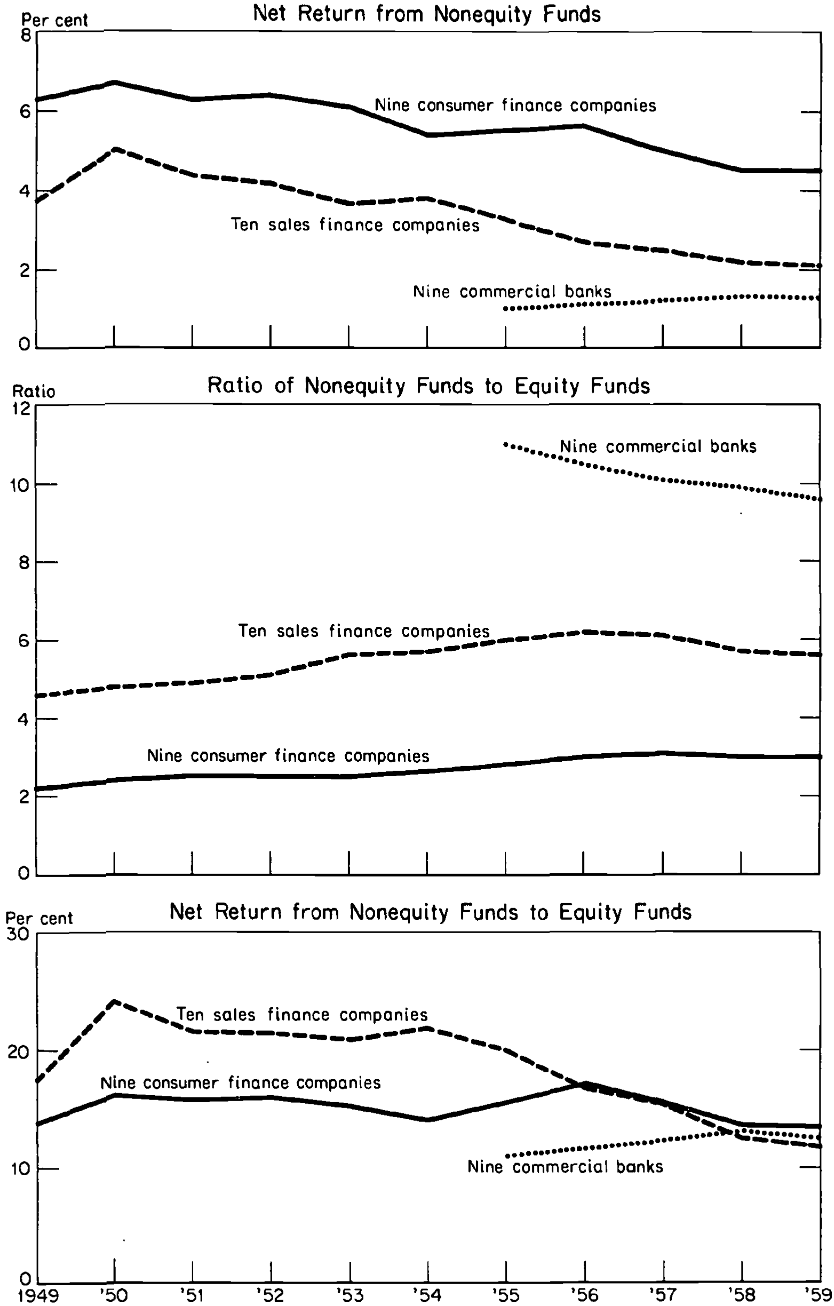
During the five-year period from 1955 to 1959, the sample banks were able to improve their return on nonequity funds. This improvement resulted largely from a gain in net operating income on total assets and reflected primarily the increase in general market rates on nonconsumer loans and investments. The gain in net return on nonequity funds was offset in part, however, by a slight decline in the ratio of nonequity funds to total funds. Their nonequity funds declined from eleven times net worth in 1955 to 9.6 times in 1959.

RATE OF PROFITS[1]

Finance companies faced a number of developments that reduced their return on equity funds during the 1950's: (1) a decline in their gross earnings on consumer credit; (2) a decline in net operating income from consumer credit; and (3) a sharp rise in the cost of nonequity funds. A number of favorable developments improving their profitability helped balance the unfavorable factors: They were able: (1) to maintain or increase their earnings on nonconsumer credit and other activities; (2) to reduce the cost of nonearning assets; and (3) to increase the use of nonequity funds. They were unable to stem the adverse developments on profits completely, however, and the rate of return on equity was smaller in the late 1950's than in the earlier part of the decade (Chart 16). The decline in the return on equity funds was most pronounced at the sample sales finance companies whose return declined to 10 per

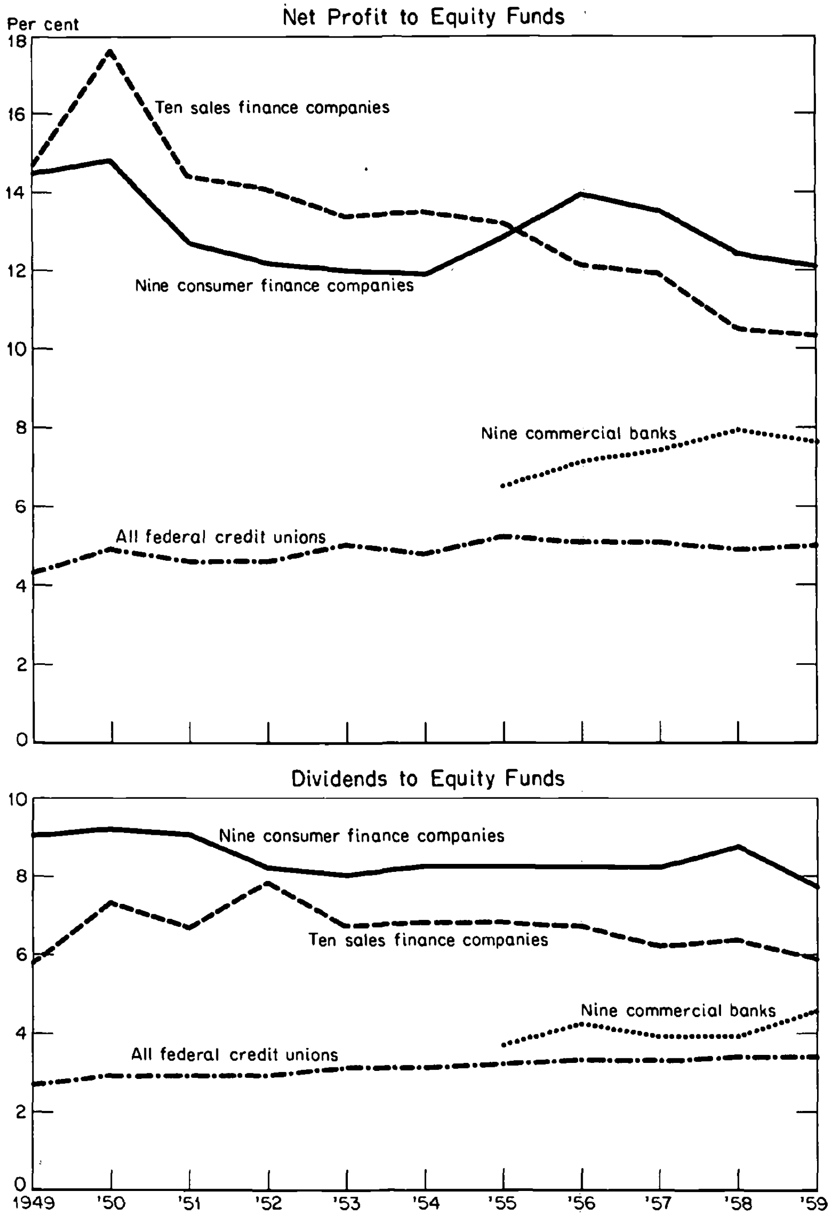
[1] The term "net income" has been used to indicate the return after expenses for federal credit unions instead of net profits because of differences in the ownership and objectives of credit unions.

CHART 15
Financial Advantage of Use of Nonequity Funds, by Type of Institution, 1949–59



SOURCE: Sample data collected for study. Based on data in Tables 6, 13, and 20.

CHART 16
Return on Equity Funds by Type of Institution, 1949–59



SOURCE: Bureau of Federal Credit Unions and sample data collected for study. Based on data in Appendix Tables B-5, C-5, D-5, and E-5.

cent on equity in 1958–59, compared with a return of about 15 per cent in the early 1950's and even higher rates in the mid-1930's.[2] Consumer finance companies showed only a slight decline in the rate earned on equity during the 1950's.

The net income of federal credit unions was relatively stable throughout the period. They were unaffected by many of the adverse factors affecting stockholder-owned institutions. Rising interest costs increased their return from nonconsumer investments and were of minor importance as a factor in higher costs because they made little use of nonequity funds. They also maintained relative stability in the gross earnings on their consumer credit receivables.

Commercial banks were able to improve their profits during the last five years of the 1950's. The increase in interest rates was more important as a source of additional profits than as a cost. They were able to increase their return on consumer credit and other earning assets and, despite some rise in the cost of funds, their net return on the use of nonequity funds increased in contrast to the experience of finance companies. They were able to increase their over-all return from nonequity funds even while expanding their proportion of equity funds.

The pattern of cash payment to owners differed widely among the four types of institutions (Chart 16). Consumer finance companies reduced their cash payments as a percentage of equity throughout the eleven-year period. Credit unions increased their payments as a percentage of equity funds, while sales finance companies and banks showed sizable year-to-year variations with no distinct trend.

[2] Ernst Dauer, *Comparative Operating Experience of Consumer Instalment Financing Agencies and Commercial Banks, 1929–41,* New York, NBER, 1944.