

# Federal Credit Unions: Origin and Development

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THE attainments of Federal credit unions have aroused the interest of many individuals and groups during recent years. Some basic questions are being asked: Do Federal credit unions serve any useful purpose in the present-day American economy? Haven't Federal credit unions expanded their services beyond the area visualized for them by the founders of the credit union movement? Shouldn't the size of Federal credit unions be limited because some have grown beyond the point where they can continue to be a credit union as defined by the early philosophers of the movement?

Complete answers to these questions would require several volumes of sizable proportions. The fact that they are being asked, however, is evidence that a score of years and \$1 billion lay the groundwork for some intensive, scholarly research in the field. It will be the purpose of this article to sketch the background for an objective appraisal of some of these basic questions.

## European Antecedents

The genesis of an idea or of an organization's form is difficult, if not impossible, to isolate with any real certainty. Each generation of scholars casts new light on the beginnings of many social institutions. The credit union idea and form of organization are no exceptions. One writer reports, for example:

In 1732, nearly 200 years ago, 61 farmers in Connecticut organized a cooperative credit society for trade and commerce. They subscribed for stock and paid for it by giving promissory notes which were secured by mortgages on their farms. But the only borrowers from this society were its stockholders who held complete control over its management. This effort, however, was soon discontinued because of the opposition

of the colonial government to this society.<sup>1</sup>

Although American colonial farmers may have been the first to organize for cooperative credit purposes, the beginnings of present-day credit unions throughout the world can be traced to two plans that originated in Germany about 1850. These two systems were named for their founders, Schulze-Delitzsch and Raiffeisen. Detailed descriptions of their structure and operating procedures are available,<sup>2</sup> but for the purposes of this article only a few characteristic principles that influenced the development of Federal credit unions need be described.

Hermann Schulze, a judge in the Provincial court in Delitzsch, Prussian Saxony, was a student of cooperative principles as then taught in England and France and had ideas on thrift adapted from the plan of the English friendly societies. Schulze was shocked by the poverty of the working people during the famine of 1847-48, and in 1848 he organized a society for the pur-

pose of buying raw materials at wholesale and selling them to members at cost. His second society—developed to raise capital for persons who had no money or to give them credit without security—was organized in 1850. It was composed of poor mechanics and a few wealthy persons who provided the funds that were loaned to the members. The loans were to be repaid, with interest, in small monthly installments, and profits were to be used to build a fund from which further loans would be made.

The third Schulze society, organized in 1853, was founded on the principle that the capital would come from the contributions of members alone. The following year Schulze began a systematic promotional program, and a considerable number of cooperative credit societies were established. Their founder, while a member of the Prussian Parliament, started a campaign that in 1867 resulted in the adoption of Prussia's first cooperative law. Similar legislation was adopted by the North German Confederation in 1868 and by the German Empire in 1889. It is significant to note that the Schulze societies existed as voluntary associations until 1867—for nearly 20 years.

A central bureau, composed of member societies, had been organ-

<sup>1</sup> James B. Morman, *Farm Credits in the United States and Canada*, 1924, page 3.

<sup>2</sup> *Systems of Rural Cooperative Credit* (S. Doc. 574, 62d Cong., 2d sess.), Washington, 1912; and U. S. Department of Agriculture, Division of Statistics, Report No. 3 (Misc. Series), Washington, 1892.

In 1954 the Federal credit union system passed two noteworthy milestones: It became 20 years of age, and, for the first time, aggregate assets exceeded \$1 billion. Compared with the achievements of other financial institutions that concern themselves with personal savings and consumer loans, neither milestone may seem significant. Twenty years is long enough, however, to test the feasibility of a plan, and \$1 billion is a substantial amount of assets to be accumulated by working people in voluntary associations that invariably begin with no assets and with a management composed of part-time, unpaid volunteers.

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ized in 1859 by Schulze to promote the cause of cooperatives, keep members informed on the progress of the movement, obtain loans from commercial banks for members, and publish yearly statistics.

The Schulze societies drew their members from all occupations, though it is estimated that at one time as many as one-fourth of them were farm workers. The societies were better adapted, however, to the needs of workers in industry and commerce because the loans were granted for only very short periods. The average membership was about 600, but a number of the societies had more than 10,000 members. The members were carefully selected on the basis of character.

The societies were organized to obtain funds and to obtain them from individuals, rather than from banks, as borrowed capital. Each member was required to own at least one share, which could be paid for in small installments. High dividends were paid to encourage members to save; dividends of 12 percent a year were not uncommon. Deposits, on which interest was paid, were accepted from both members and nonmembers. Part of each society's net earnings was set aside in reserves, which were divided among the members in the event of the society's dissolution. In the beginning, to encourage deposits, unlimited liability of members was a feature of the societies. Although it never had to be put to the test, this feature was dropped by the societies organized after passage of the law of 1889.

Loans were made by the Schulze societies to members only at rates charged by commercial banks for loans to business concerns. Liquidity was emphasized in granting loans, and for this reason real estate loans were discouraged. Maturities were usually limited to 3 months, and small loans were preferred.

The Schulze societies cashed checks, discounted bills of exchange, and engaged in other, similar activities regarded then as now as banking functions. Large size in membership and assets was encouraged in order to attain standing in the community. Many of the societies owned their own buildings, main-

tained regular office hours, and had paid employees. Management was by officers and committees, elected to carry out policies adopted by the members in their periodic meetings. They were paid by the society but were not permitted to borrow from it. Biennial inspections were made by inspectors appointed by one of the 32 Provincial federations of societies; such inspections were compulsory after 1889.

Frederick W. Raiffeisen, like Hermann Schulze, was stimulated to action by the 1847-48 depression. He was then mayor of Weyerbusch, in the Rhineland, and was a reformer who worked to improve the character as well as the economic status of the people. His first cooperative society was organized in 1848 to distribute bread and potatoes among the poor. The following year he organized a society of wealthy men to sell cattle to poor farmers on easy terms—a kind of cooperative bank; a second society of this type was established in 1854. His third cooperative bank, which was an adaptation of the Schulze plan, was established in 1862 at Anhausen. It was this third cooperative credit society that was the beginning of the Raiffeisen system, which had spread by 1920 to most countries of the world.

These societies were first organized to serve small groups of poor farmers. The average society had fewer than 100 members, and some had only 15 or 20 members; members were admitted on the basis of character. It was important to the plan that each society serve a small group of persons who knew each other well. Raiffeisen visualized a cooperative credit society serving each parish or village, and to this end he sought the assistance of the parish priests. Although his rationale furnished the basis for the limited field of membership that characterizes the credit union of today, his early societies were actually open to all.

Unlimited liability of members was the essential principle of the Raiffeisen societies; capital was obtained from the wealthy on the understanding that the credit and personal resources of all members were pledged to make good the loan made to any member. Before 1876

none of his societies issued shares of any kind. When it became necessary for all German cooperatives to have shares, the Raiffeisen societies issued shares of nominal value. No dividends were paid. Net profits remaining after transfers to reserves were earmarked for educational purposes and for community welfare projects. Upon dissolution of a society, members received the amount of their shares but did not participate in the distribution of the reserves. Raiffeisen feared the influence of selfish speculators, and the plan for his societies was designed to remove all possible temptation. Savings deposits on which fixed rates of interest were paid were accepted from both members and nonmembers.

Small loans were made to members at reasonable rates of interest for maturities of up to 5 years. The loans were usually secured by liens on personal property and were repayable in five annual installments. The purpose of the loan was closely scrutinized; it was recallable if the proceeds were used for other than the approved purpose. This concern with the use of funds borrowed from the society reflected Raiffeisen's emphasis on morality and his conviction that a loan obtained for a productive purpose and repaid in small installments would improve the economic status of the member. The member would become a capitalist, but his capital would be in the form of land, cattle, or equipment.

A small number of members and a limited amount of assets were considered desirable under the Raiffeisen plan. Business was transacted after church, on holidays, or during the evening hours in the basement of the church, in the treasurer's home, or in a corner of the treasurer's barn. There was one paid official, the accountant, who was often the village priest, a local public official, or the schoolteacher; his salary was nominal. There were no paid employees, at least partly because none were needed. Management was by an executive committee and a supervisory council elected by the members and required to serve without compensation. The custom was to have a majority of each com-

mittee composed of wealthier members who joined because of their interest in furthering the society's objectives, whose participation added to the prestige of the organization, and who did not need to borrow from it. The elected officials supervised not only the lending activities of the society but also the cooperative buying and distribution of feed, fertilizer, cattle, and farm equipment, which was carried on by most of the Raiffeisen societies.

The Raiffeisen societies were grouped in Provincial federations, which were organized in turn into three national federations—a central bank, a general supply agency for rural cooperatives, and the firm of Raiffeisen & Co., which published a paper, operated a printing office and a savings bank, and used the profits for the benefit of the societies. Supervision and inspection of the individual societies were provided by the Provincial federations.

The Schulze societies and the Raiffeisen societies flourished side by side. The former engaged in banking activities, emphasized materialistic and financial aims, avoided all connection with religion and charity, promoted the improvement of the members' economic status by encouraging saving, and refused outside aid of any kind. The Raiffeisen societies engaged in a variety of cooperative distributive activities; emphasized humanitarian and moral reform aims; organized in connection with churches wherever possible; worked to improve the economic status of members through the proper use of credit; and accepted aid from any source. Both were organized to combat the evils of usury among people of small means.

When the two plans spread to other countries of Europe the Schulze plan was usually introduced first, but these societies were soon outnumbered by those organized along the lines of the Raiffeisen plan. Both plans were spread by public-spirited persons who felt, after studying results accomplished in Germany, that one or the other was suited to the needs of their countries. There is no evidence that the Schulze plan was ever introduced by a poor resident of a city or that

the Raiffeisen plan was ever introduced by a poor farmer.

Luigi Luzzatti, who later became Finance Minister and then Prime Minister of Italy, introduced the Schulze plan of cooperative credit into his country by organizing a society in Milan in 1866. He made certain minor changes in structure and operating procedure to meet the needs then prevailing in northern Italy. One change is pertinent to the purpose of this article. His society made some character loans to members—that is, loans that were not secured by pledges, assignments of personal property, or cosigners. He is important for another reason as well; through personal correspondence he aided Alphonse Desjardins to evolve the first credit union plan in America.

### *Credit Unions in North America*

Building and loan associations began as special purpose cooperative thrift and credit societies in Germantown, Pennsylvania, in 1831. This development, however, apparently had no influence on the establishment of credit unions as they are known today.

In 1870 and 1871, Josiah Quincy and others attempted to get a law patterned after the Schulze plan passed by the Massachusetts Legislature. The attempt failed in spite of favorable committee reports in both houses of the legislature. These bills provided for the incorporation of several kinds of cooperatives. Since legislation was subsequently passed to cover cooperatives other than those dealing with credit, it may be concluded that the Massachusetts Legislature was not ready for credit unions in the early 1870's.

After the German legislation of 1868, numerous articles describing the cooperative credit societies of Germany appeared in banking journals, literary magazines, and cooperative journals in the United States. It was not until 1892, however, that such a society was organized. In that year the employees of the *Boston Globe* established the Globe Savings and Loan Association. The success of this association was the inspiration for four other employee groups in Boston that organ-

ized successful societies during the next 16 years. The first general law authorizing the organization of credit cooperatives in North America, however, was passed by the Quebec Parliament in 1906 through the efforts of Alphonse Desjardins.

Desjardins was distressed by the suffering caused by usurious money lenders among the French-Canadians in the Province of Quebec. After studying the cooperative credit societies of Europe and the savings bank system of New England, he evolved a plan that was geared to the needs of the people he wanted to help. While the plan was based on the Luzzatti system, it included some of the distinctive features of the Raiffeisen system. The result was a new kind of cooperative credit society. Desjardins put about equal emphasis on thrift and on loans for useful purposes and thus combined the basic methods of the Schulze and Raiffeisen plans. He provided for limited liability and limited fields of membership and adopted the Raiffeisen principle that all officials except the treasurer should serve without compensation. His first society was established among the Catholic parishioners of Levis near the city of Quebec in 1900, the second in 1901, and the third in 1905. All three were successful. In 1906 the Quebec Syndicates Act, as drafted by Desjardins, passed Parliament without a dissenting vote. Enactment of this law stimulated great interest in cooperatives in Quebec and in the United States as well.

In December 1908, Desjardins organized a society among the French-Canadians who had emigrated to Manchester, New Hampshire. A special charter was granted for this society by the State Legislature on April 6, 1909.

In the 1908 report of Pierre Jay, bank commissioner for the Commonwealth of Massachusetts, reference was made to the five cooperative credit societies then operating without legal authority in Boston. Mr. Jay recommended legislation to encourage them and to continue their existence. He also called attention to the societies then operating in Europe and India with a combined membership of 3 million members

**Table 1.—Federal credit unions operations in 10 States, <sup>1</sup> December 31, 1954**

State	Number	Member-ship	Assets	Shares	Loans out-standing
Total, all States.....	7,227	3,598,790	\$1,033,179,042	\$931,407,456	\$681,970,336
10 States:					
Total.....	4,630	2,459,548	724,819,097	653,819,809	467,782,650
As percent of all States.....	64.1	68.3	70.2	70.2	68.6
New York.....	753	346,481	87,468,254	79,023,327	53,498,734
Pennsylvania.....	739	361,801	88,458,769	78,794,799	52,587,992
California.....	672	424,985	143,361,422	129,811,590	102,666,996
Texas.....	499	255,520	81,831,222	73,184,277	62,665,610
Michigan.....	452	280,080	83,720,552	75,200,731	60,748,979
Ohio.....	448	219,468	63,182,678	57,199,530	39,380,617
New Jersey.....	369	192,203	51,064,985	46,051,947	28,582,768
Connecticut.....	260	172,292	62,220,678	57,160,724	30,431,421
Indiana.....	250	133,306	44,471,495	40,408,769	23,322,570
Louisiana.....	188	73,412	19,039,042	16,984,115	13,896,963

<sup>1</sup> States with the largest number of operating Federal credit unions.

and \$1 billion in assets. Through his efforts, Desjardins came to Boston to confer with the banking committees of the Massachusetts Legislature. An act embodying the principles he advocated was enacted and signed by the Governor on April 21, 1909. The credit union movement in the United States was begun, and the pattern was set.

The extension of credit unions in the United States was stimulated by the studies and reports of Presidential commissions that were appointed primarily to deal with problems of agricultural credit. Missions to Europe between 1908 and 1914 studied the systems of Schulze, Raiffeisen, and Luzzatti. The subject of cooperative credit was discussed in 1910-12 at annual meetings of the American Bankers Association in several States.

In addition, there were a number of direct promotional efforts. Massachusetts, after the passage of the 1909 act and again in 1914, issued pamphlets explaining credit unions. North Carolina appointed a superintendent of cooperatives and credit unions in 1915; his job was to promote and organize these associations. The Russell Sage Foundation did effective promotional work in New York and published some materials on credit unions that had a much wider circulation and impact. The Massachusetts Credit Union Association was incorporated in 1917 to promote and organize credit unions. In 1919, credit unionists from Massachusetts and New York organized the National Association of Credit Union Banks for the purpose

of sponsoring Federal credit union legislation. In 1920 this association prepared a draft of a proposed uniform State credit union law. In 1921 Edward A. Filene and Roy F. Bergengren organized the Credit Union National Extension Bureau to promote the adoption of credit union laws and the organization of credit unions. The Bureau was succeeded by the Credit Union National Association in August 1934, with Mr. Filene as the first president and Mr. Bergengren as the first managing director. Between 1934, when the Federal Credit Union Act was passed, and 1937, the chartering and organization of Federal credit unions was directly and actively promoted by the Federal Credit Union Section of the Farm Credit Administration.

Today State laws authorizing the chartering of credit unions are in force in the District of Columbia, Puerto Rico, and in all States except Delaware, Nevada, South Dakota, and Wyoming. These laws and the Federal Credit Union Act vary in their provisions concerning loan maturities and permitted investments and in a few other minor re-

spects; basically, however, they all follow the pattern of the Massachusetts law of 1909. At the end of 1954 there were an estimated 7,840 credit unions operating under the various State laws, with total membership of 3.7 million and total assets of \$1.2 billion.

State-chartered and Federal credit unions have common antecedents. They have flourished side by side in most areas of the United States. This duality is not unique among financial institutions. There are State-chartered banks and national banks; there are State-chartered building and loan associations and Federal savings and loan associations; and there is a national system for agricultural credit as well as State-chartered institutions that specialize in providing the kind of credit services that are required by farmers.

Federal credit unions are to be found today in every State and in the District of Columbia, Hawaii, Alaska, the Canal Zone, Puerto Rico, and the Virgin Islands. They serve many kinds of groups but are most numerous, and in some respects more successful, when organized to serve a group of employees working for the same establishment. Some of the associations are small and some are very large, but all are chartered, operate, and are supervised in accordance with the provisions of one law—the Federal Credit Union Act. In terms of number of units, membership, and assets the sample is of sufficient size to warrant the serious attention of students of finance, sociology, economics, and administration. Of interest, too, is the fact that operating Federal credit unions outnumber any other type of financial institution chartered and super-

**Table 2.—Federal credit unions, by category of members served, December 31, 1954**

Category	Number	Average membership	Average assets	Average shares per member	Average loan granted in 1954
Total.....	7,227	498	\$142,961	\$259	\$394
Associational groups.....	1,080	298	71,830	213	519
Government employee groups:					
Federal.....	707	642	141,944	199	352
Local.....	298	577	207,525	321	497
State.....	101	378	90,328	218	330
All other employee groups.....	4,886	526	158,362	272	384
Residential groups.....	155	273	67,897	222	508

vised by any one agency of government, State or Federal.

### Federal Credit Unions, 1954

The 20 years since the passage of the Federal Credit Union Act have been almost entirely a time of growth and development. Only in the war and early postwar years was the upward movement checked, and even in those years the growth in the amount of members' savings was uninterrupted. Since 1945 there have been continuous increases in the number of operating Federal credit unions, the number of members, and the volume of loans outstanding. At the end of 1954 there were more than 7,200 Federal credit unions, and the 3.6 million members owned shares worth \$931.4 million (table 1). Loans outstanding amounted to \$682.0 million, and assets totaled more than \$1,033.2 million.

More than 64 percent of the credit unions operating under a Federal charter at the end of 1954 were in 10 States. These 4,630 units had 68 percent of the total membership, 70 percent of all assets and shares, and 69 percent of the total amount of loans outstanding. California, although ranked third in number of units, led in size and activity as measured by membership, assets, shares, and loans outstanding. The differences among the States reflect the kinds of groups being served. Large Federal credit unions in the aircraft and petroleum industries materially influence the totals for California.

When Federal credit unions are grouped by type of membership, striking differences are disclosed. The plan has had greater appeal for employee groups than for associational or residential groups. Units serving employee groups are larger and in general serve more members than those serving other types of groups. Only in average size of loans granted during 1954 did the units serving associational and residential groups exceed the averages for all Federal credit unions (table 2).

At the end of 1954, 19.6 percent of the operating Federal credit unions had assets of less than \$10,000; 35.7 percent had assets of less than \$25,000; and 68.2 percent had

Table 3.—Federal credit unions, by amount of assets, December 31, 1954

Amount of assets	Number	Average membership	Average assets	Average shares per member	Average loan granted in 1954
Total.....	7,227	498	\$142,961	\$250	\$394
Less than \$1,000.....	154	35	452	12	105
1,000-2,499.....	245	69	1,700	23	114
2,500-4,999.....	379	90	3,727	38	114
5,000-9,999.....	639	118	7,474	57	156
10,000-24,999.....	1,167	169	16,812	89	194
25,000-49,999.....	1,140	240	36,174	134	267
50,000-99,999.....	1,207	352	71,828	182	342
100,000-249,999.....	1,233	586	156,636	239	377
250,000-499,999.....	609	1,092	342,843	282	425
500,000-999,999.....	313	1,818	676,582	356	450
1,000,000 or more.....	141	4,359	1,881,250	394	486

assets of less than \$100,000. The 31.8 percent with assets of \$100,000 or more accounted, however, for 85.1 percent of the total assets and 71.6 percent of the total membership of all Federal credit unions. As shown in table 3, the larger units had a larger average membership, higher average savings per member, and granted larger loans during 1954.

Variations in size, generally speaking, follow variations by age groups. In table 4, Federal credit unions operating at the end of 1954 are grouped by the year in which they were chartered. A comparison of table 3 with table 4 indicates a positive and high degree of correlation between size and age. There are exceptions, of course. Some units grow very rapidly, and some units remain small after a long period of operation. On the basis of national averages, however, the smaller units tend

to be the younger ones. Available data do not indicate an optimum size or optimum age for Federal credit unions; the largest units that are among the oldest continue to grow. The exceptions to the general trend, although relatively few in number, constitute a serious administrative problem under the present mandate that sufficient fees shall be collected to cover the total cost of the program.

### Administration of the Federal Act

There are no precedents in the early history of credit unions that are particularly pertinent or applicable to the administration of a national law like the Federal Credit Union Act. In Germany, Italy, and in Quebec at the time of Alphonse Desjardins, the Government did not supervise or examine the affairs of

Table 4.—Federal credit unions, by number of years in operation, December 31, 1954

Years in operation	Number	Average membership	Average assets	Average shares per member	Average loan granted in 1954
Total.....	7,227	498	\$142,961	\$259	\$394
Less than 1.....	734	149	10,218	62	184
1-2.....	781	220	27,719	112	236
2-3.....	621	279	45,236	146	283
3-4.....	473	400	83,976	189	374
4-5.....	476	395	93,809	216	335
5-6.....	432	422	107,028	228	396
6-7.....	274	574	143,643	226	337
7-8.....	167	742	213,272	258	427
8-9.....	108	566	142,309	227	383
9-10.....	64	444	112,644	227	325
10-11.....	36	600	198,440	302	383
11-12.....	51	700	184,861	234	354
12-13.....	97	505	141,625	254	394
13-14.....	300	696	223,869	292	423
14-15.....	391	596	180,850	274	399
15-16.....	332	625	204,027	294	399
16-17.....	321	542	182,232	304	430
17-18.....	373	774	268,832	311	424
18-19.....	561	773	282,870	330	498
19-20.....	605	891	307,290	311	431

the societies. These services were provided by district federations, whose memberships consisted of the societies themselves.

For the purposes of this article, only two of the problems of administration that arise from the nature of credit unions need be cited. The first concerns the method of financing the operations of the unit of government charged with the responsibility of chartering and supervision; the second relates to the scope and standards of supervision.

In the hearings that preceded the passage of the Federal Credit Union Act, it was stated by the proponents that the program would not only be self-supporting but in time would bring revenue into the United States Treasury. An original grant of \$50,000 was made to launch the program. In the period 1935-41, however, the people of the United States were working their way back from the depths of a major economic depression, and the emphasis was on the development of social welfare programs of various kinds. It was not a propitious time to enforce a provision requiring a group of struggling, small organizations like the credit unions to pay their way.

In 1942, when administration of the Federal Credit Union Act was transferred from the Farm Credit Administration to the Federal Deposit Insurance Corporation, two factors combined to postpone attention to the question of whether Federal

credit unions should pay their way: (1) World War II was being fought, and (2) because the Federal Deposit Insurance Corporation was a self-supporting agency, no questions were raised about the deficit in the Federal credit union operations before congressional appropriations committees.

Six years later, when the bill to transfer the administration of Federal credit unions to the Federal Security Agency was being considered, the question of financing came up for serious review. The cumulative deficit for 7 years was a factor of some consequence. In the settlement, the Federal Deposit Insurance Corporation was in effect reimbursed for the deficit, and the new Bureau of Federal Credit Unions in the Social Security Administration was faced with the prospects of becoming self-supporting. Through a series of increases that began in 1949 in the fees charged Federal credit unions for examination and supervision, the Bureau progressed to the point where, in the fiscal year 1953-54, it was unnecessary to request an appropriation to cover an operating deficit.

The mandate to become self-supporting meant a schedule of fees that would recover on an overall basis the total costs of administration. Did this mean that each and every Federal credit union should pay its way? If not, at what age or size should they begin to pay total

costs plus enough to cover the costs of the new or small units that were not to be required to pay their way? When it is remembered that each new Federal credit union starts with no assets and no income and that the potentialities of some groups that need the services of such an organization are severely limited, an even more basic question arises: Does the mandate to be self-supporting mean that Federal credit unions have moved beyond the reach of otherwise eligible groups at the lowest economic level? Does there now exist a need for a subsidized program to provide cooperative thrift and credit societies for the benefit of persons of very small means? Answers to these questions may require not only research but also the judgment of Congress in the form of definitive legislation. The questions are fundamental to the future role of a national system of credit unions.

Determining the scope and standards of operation of Federal credit unions requires administrative judgment of a high order. Some officials who serve as part-time volunteers are unschooled in the techniques of financial management. To teach them the techniques essential to sound operations without destroying their sense of responsibility for management and control is not easy; to curb the enthusiasm of the few officials who come up with overambitious ideas without destroying their interest in credit unions is even more difficult. In some respects the Federal Credit Union Act is specific—limited field of membership, service to members only, type of investment, maximum interest rates, maximum loan limits, and organizational structure; in other respects, its provisions are subject to interpretation. The latter area includes the definition of incidental powers—the so-called “basket clause” under the powers of Federal credit unions. As the system matures, clarifying amendments to the act may be required.

### *Federal Credit Unions in Today's Economy*

As a group, Federal credit unions have made an outstanding record of success. Their growth in numbers,

**Table 5.—Investments of individuals in savings accounts, U. S. savings bonds, and life insurance reserves, selected years 1944-54**

[Amounts in millions]

Type of investment	1954 <sup>1</sup>		1953		1949		1944	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Total.....	\$221,960	100.0	\$207,731	100.0	\$170,463	100.0	\$116,699	100.0
Savings accounts:								
Savings and loan associations.....	27,259	12.3	22,778	11.0	12,471	7.3	6,305	5.4
Mutual savings banks.....	26,285	11.8	24,345	11.7	19,269	11.3	13,332	11.4
Commercial banks.....	44,746	20.2	42,001	20.2	35,145	20.6	23,371	20.5
Postal savings.....	2,240	1.0	2,466	1.2	3,302	1.9	2,406	2.1
Credit unions <sup>2</sup> .....	2,030	0.9	1,691	0.8	745	0.4	373	0.3
Savings bonds, U. S. Government.....	49,900	22.5	49,300	23.7	49,300	29.0	36,200	31.0
Reserves of life insurance companies.....	69,500	31.3	65,150	31.4	50,231	29.5	34,212	29.3

<sup>1</sup> Preliminary.

<sup>2</sup> Includes State-chartered and Federal credit unions. Total savings in Federal credit unions: 1954, \$931 million; 1953, \$768 million; 1949, \$285

million; and 1944, \$134 million.

Source: Home Loan Bank Board, release dated April 1955.

**Table 6.—Consumer installment credit, by type of financial institution, selected years 1939–54<sup>1</sup>**

[Amounts in millions]

End of year	Total	Commercial banks		Sales finance companies		Credit unions <sup>2</sup>		Other	
		Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
1939.....	\$3,065	\$1,079	35.2	\$1,197	39.1	\$132	4.3	\$657	21.4
1940.....	3,918	1,452	37.1	1,575	40.2	171	4.4	720	18.3
1941.....	4,480	1,726	38.5	1,797	40.1	198	4.4	759	17.0
1945.....	1,776	745	41.9	300	16.9	102	5.7	629	35.5
1946.....	3,235	1,567	48.4	677	20.9	151	4.7	840	26.0
1947.....	5,255	2,625	50.0	1,355	25.8	235	4.5	1,040	19.7
1948.....	7,092	3,529	49.8	1,990	28.1	334	4.7	1,239	17.4
1949.....	9,247	4,439	48.0	2,950	31.9	438	4.7	1,420	15.4
1950.....	11,820	5,798	49.1	3,785	32.0	590	5.0	1,647	13.9
1951.....	12,077	5,771	47.8	3,769	31.2	635	5.3	1,902	15.7
1952.....	15,410	7,524	48.8	4,833	31.4	837	5.4	2,216	14.4
1953.....	18,758	8,998	48.0	6,147	32.8	1,124	6.0	2,489	13.2
1954.....	18,935	8,633	45.6	6,421	33.9	1,293	6.8	2,588	13.7

<sup>1</sup> Estimated amounts outstanding at end of year.

<sup>2</sup> Includes both State-chartered and Federal credit unions. Total Federal credit union loans outstanding: 1939, \$38 million; 1940, \$56 million; 1941, \$60 million; 1945, \$35 million; 1946, \$57 million; 1947, \$91

million; 1948, \$138 million; 1949, \$186 million; 1950, \$264 million; 1951, \$300 million; 1952, \$415 million; 1953, \$574 million; and 1954, \$682 million.

Source: Basic data from *Federal Reserve Bulletin*, June 1955, p. 690.

membership, and assets, particularly since 1948, has been vigorous. Shareholdings (members' savings) and the volume of consumer installment loans reported by these organizations indicate that they are promoting thrift among their members and are providing a source of credit at reasonable rates for them. Has this growth been at the expense of other financial institutions that deal in savings and consumer credit? There is no easy answer to this question in 1955.

Because of the convenience of Federal credit union facilities and the missionary zeal of their officials and advocates, the members have learned to save regularly from current earnings. Others have learned that there is a better way to save money than to drop an occasional coin in the unused sugar bowl or put a spare dollar bill under the mattress. Federal credit unions have undoubtedly made savers out of some persons whom the other institutions would not have reached and have mobilized for useful purposes funds that would otherwise have been sterile hoardings. Commercial banks have changed their attitude toward consumer installment loans since 1935. Federal credit unions may have contributed to this change in attitude and thereby increased the source of this kind of credit at legitimate rates. Even today, however, there are many persons who do not

have a favorable credit rating at a bank and still more who assume they would not. In addition, Federal credit unions make some loans to their members that no commercial bank would grant.

That credit is made possible by accumulated savings is an economic principle unknown to some persons. The idea of capital, whether in the form of industrial equipment or durable consumer goods, is seldom associated with the practice of individual thrift. Because of institutional specialization and great size the relationship between savings and credit is not always obvious. It is in this area that the Federal credit union makes a contribution that redounds to the benefit of all institutions that deal in personal thrift and credit. It not only makes capitalists out of the members in terms of personal possessions but also teaches them some of the basic principles of a free capitalistic system. It combines in a direct and understandable way personal thrift and credit. It is an adult education laboratory in personal finance.

Table 5 shows the growth of personal savings in Federal credit unions and in other institutions. Table 6 compares the growth in the volume of outstanding loans in Federal credit unions and in other institutions that extend installment consumer loans. These comparisons indicate that Federal credit unions

have done only a little better than hold their relative position since 1945 and that today they have but a small proportion of the total personal savings and the total installment consumer loan business.

It is significant, however, that during 1954, 852 eligible and qualified groups voluntarily took advantage of their rights under the law to apply for Federal credit union charters. This was the second highest number of charters granted in any year since the Federal Credit Union Act was passed, exceeded only by the total of 956 granted in 1936. There was direct promotional work by the supervising agency for Federal credit unions in 1936 but none in 1954. If it is assumed that, under conditions of freedom of choice among a number of available alternatives, men and women will select what they believe is best for them, it seems clear that Federal credit unions have a place in the economy in 1955 as they did in 1934, when the law was passed.

The question of size of Federal credit unions has come up for discussion quite frequently since 1953, when total outstanding loans of all credit unions in the United States (as reported in the series on installment credit prepared by the staff of the Federal Reserve System) exceeded \$1 billion for the first time. Both the critics and the advocates of credit unions have contended that the large units are no longer credit unions—that they have outgrown the remedial-loan concept of the social philosophers who were the founders. While it is true that Raiffeisen and Desjardins advocated small cooperative societies, Schulze did not. Hermann Schulze believed that size had virtue because it enabled the society to accomplish its purpose more effectively. There have been two schools of thought on that issue from the very beginning.

There is nothing in the Federal Credit Union Act that limits directly the size of a credit union organized under its provisions. No maximum capitalization is fixed, and the incorporators are not required to adopt any such self-imposed limita-

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**Table 5.—Public assistance in the United States, by month, August 1954–August 1955<sup>1</sup>**

[Except for general assistance, includes vendor payments for medical care and cases receiving only such payments]

Year and month	Total <sup>2</sup>	Old-age assistance	Aid to dependent children		Aid to the blind	Aid to the permanently and totally disabled	General assistance	Total	Old-age assistance	Aid to dependent children (families)	Aid to the blind	Aid to the permanently and totally disabled	General assistance					
			Families	Recipients														
				Total										Children				
Number of recipients													Percentage change from previous month					
1954																		
August.....		2,578,682	584,715	2,093,489	1,577,953	101,456	217,432	303,000	( <sup>3</sup> )	+0.6	+0.2	+1.2	+2.0					
September.....		2,578,207	588,088	2,109,981	1,590,409	101,759	219,752	308,000	( <sup>3</sup> )	+0.6	+0.3	+1.1	+1.7					
October.....		2,569,458	590,975	2,121,879	1,599,738	101,954	221,265	312,000	-0.3	+0.5	+0.2	+0.7	+1.4					
November.....		2,565,342	594,562	2,137,257	1,611,647	102,193	222,631	322,000	-0.2	+0.6	+0.2	+0.6	+3.0					
December.....		2,564,767	604,172	2,173,772	1,639,947	102,441	224,391	351,000	( <sup>4</sup> )	+1.6	+0.2	+0.8	+8.9					
1955																		
January.....		2,558,246	610,518	2,197,927	1,658,102	102,583	225,855	370,000	-3.2	+1.0	+0.1	+0.7	+5.6					
February.....		2,553,776	617,692	2,227,501	1,680,549	102,804	227,490	380,000	-0.2	+1.2	+0.2	+0.7	+2.5					
March.....		2,552,881	624,235	2,253,174	1,699,626	103,045	229,894	381,000	( <sup>5</sup> )	+1.1	+0.2	+1.1	+0.4					
April.....		2,550,724	626,182	2,261,283	1,706,164	103,382	232,346	357,000	-0.1	+0.3	+0.3	+1.1	-6.2					
May.....		2,547,965	625,430	2,260,962	1,705,832	103,654	234,649	330,000	-0.1	-0.1	+0.3	+1.0	-7.7					
June.....		2,548,593	620,349	2,239,477	1,691,733	103,906	236,840	310,000	( <sup>5</sup> )	-0.8	+0.2	+0.9	-5.9					
July.....		2,550,101	611,578	2,209,299	1,668,914	104,140	238,763	298,000	+0.1	-1.4	+0.2	+0.8	-3.9					
August.....		2,551,663	607,856	2,199,223	1,661,913	104,164	240,306	297,000	+0.1	-0.6	( <sup>5</sup> )	+0.6	-0.2					
Amount of assistance													Percentage change from previous month					
1954																		
August.....	\$221,015,000	\$132,934,770		\$49,743,774	\$5,675,905	\$11,638,641	\$15,886,000	+0.4	+0.1	+0.4	( <sup>5</sup> )	+0.7	+2.6					
September.....	222,969,000	133,470,469		50,293,374	5,704,478	11,805,299	16,555,000	+0.9	+0.4	+1.1	+0.5	+1.4	+4.1					
October.....	222,765,000	132,371,000		50,775,470	5,732,141	12,037,489	16,910,000	-0.1	-0.8	+1.0	+0.5	+2.0	+2.2					
November.....	224,483,000	132,502,142		50,948,452	5,746,741	12,110,814	17,776,000	+0.8	+0.1	+0.3	+0.3	+0.6	+5.1					
December.....	229,361,000	133,103,960		52,083,695	5,774,614	12,324,863	20,079,000	+2.2	+0.5	+2.2	+0.5	+1.8	+12.9					
1955																		
January.....	229,831,000	132,947,773		52,337,556	5,795,835	12,280,061	20,949,000	+0.2	-0.1	+0.5	+0.4	-0.4	+4.4					
February.....	230,496,000	132,053,661		53,192,939	5,822,423	12,421,584	21,518,000	+0.3	-0.7	+1.6	+0.5	+1.2	+2.7					
March.....	232,702,000	132,378,590		54,078,960	5,848,702	12,647,701	21,908,000	+1.0	+0.2	+1.7	+0.5	+1.8	+1.8					
April.....	230,874,000	132,351,618		54,273,669	5,873,069	12,808,950	19,922,000	-0.8	( <sup>5</sup> )	+0.4	+0.4	+1.3	-9.1					
May.....	229,468,000	132,674,197		54,229,682	5,898,355	12,895,336	17,947,000	-0.6	+0.2	-0.1	+0.4	+0.7	-9.9					
June.....	228,490,000	133,297,014		53,835,897	5,965,151	13,010,262	16,674,000	-0.4	+0.5	-0.7	+1.1	+0.9	-7.1					
July.....	227,683,000	134,267,369		52,998,023	5,906,557	13,188,555	15,941,000	-0.4	+0.7	-1.6	-1.0	+1.4	-4.4					
August.....	226,877,000	133,652,764		52,775,240	5,887,947	13,301,477	15,710,000	-0.4	-0.5	-0.4	-0.3	+0.9	-1.5					

<sup>1</sup> For definition of terms see the *Bulletin*, January 1953, p. 16. All data subject to revision.

<sup>2</sup> Total exceeds sum of columns because of inclusion of vendor payments for medical care from general assistance funds and from special medical funds; data on such expenditures partly estimated for some States.

<sup>3</sup> Includes as recipients the children and 1 parent or other adult relative in families in which the requirements of at least 1 such adult were considered in determining the amount of assistance.

<sup>4</sup> Decrease of less than 0.05 percent.

<sup>5</sup> Increase of less than 0.05 percent.

**FEDERAL CREDIT UNIONS**

(Continued from page 9)

tion. If a Federal credit union attains a large size by operating within its specified field of membership and engaging in only those activities permitted by law, its officers and mem-

bers point with pride to their success. Why should this accomplishment be judged by standards different from those applied to mutual savings banks or building and loan associations, both of which made their modest beginnings in this country more than 100 years ago? Perhaps in an-

other 20 years these cooperative thrift and credit societies will have been more widely accepted, both by the public and by the other financial institutions whose services they supplement, as a well-founded and justifiable part of the American way of life.