the fiscal year 1948 than in 1940. For
the 12 States as a group, State and
local expenditures in the fiscal year
1948 were two and three-fourths times
what they were in the earlier year.
The increased appropriations made
by the lowest-income States in 1948
reflected in large measure their im-
proved economic position; the per
capita income for these States also
averaged about two and three-fourths
times more in 1947 than in 1940. The
proportion of total income payments
devoted to old-age assistance in these
States, therefore, was about the same
in both years. The upward ad-
justments of State appropriations in
approximate ratio to increased per cap-
aita incomes are evidence that the
areas of unmet need existing in low-
income States in 1940 resulted pri-
marily from the inability rather than
the unwillingness of these States to
meet the need.

Factors Underlying Decreases

The general level of employment and
other business indexes indicate that
economic conditions were better
in June 1948 than in June 1940. It
would be anticipated, therefore, that
other things being equal, the propor-
tion of aged persons who were needy
in June 1948 would be smaller than
in 1940. This assumption receives
some corroboration in the fact that
recipient rates in the wealthiest
States, where need was presumably
met more adequately in 1940, were
generally lower in 1948 than in 1940.

The growth in the number of bene-
ficiaries of old-age and survivors
insurance also has had its effect in
diminishing need among the aged.
Monthly benefits under the program
were first payable in January 1940;
in June of that year, aged benefi-
ciaries numbered less than 10 for each
1,000 aged persons in the population.
The program grew slowly during the
war period, and the rate for aged ben-
eficiaries was less than 100 per 1,000
aged population until late in 1946. By
June 1948 the number receiving ben-
efits was 133 per 1,000 aged—well over
half the recipient rate for old-age
assistance. As with the recipient
rates for old-age assistance, rates for
aged beneficiaries of old-age and
survivors insurance varied greatly
from State to State. The highest
beneficiary rate in June 1948 was
227 per 1,000 aged in the population,
and the lowest, 38 per 1,000. Inasmuch
as the proportion of covered em-
ployees tends to be higher in the
wealthier industrial States, the effect
of old-age and survivors insurance
in reducing the need for old-age as-
sistance is felt especially in those
States. In 6 of the 12 wealthiest
States in June 1948 more aged per-
sions received old-age and survivors
insurance than received old-age
assistance.

Federal Credit Unions

By Erdis W. Smith*

The United States' 4,000 Federal credit
unions were placed under the super-
vision of the Social Security Admin-
istration on July 29, 1948, when Public
Law 813 (80th Cong., 2d sess.) became
effective. A new Bureau of Federal
Credit Unions, set up as part of the
Administration within the Federal
Security Agency, charters, exami-
nes, and supervises Federal credit
unions, as specified in the Federal
Credit Union Act.

The Social Security Administration
is the third agency that has had juris-
diction over Federal credit unions.
The Farm Credit Administration
supervised the program from June 26,
1934, when the Federal Credit Union
Act was passed, to May 16, 1942. At
that time, supervision was transferred
by Executive order to the Federal De-
posit Insurance Corporation. Under
all three jurisdictions, however, the
program has had continuity of leader-
sip; Claude R. Orchard, who is now
Director of the Bureau of Federal
Credit Unions, has headed Federal
credit union administration and su-
 pervision since the passage of the Fed-
eral law.

Development of the Movement

The credit union movement in the
United States is usually considered as
dating from 1909, when Massachusetts
passed the first State credit union
law. Between 1909 and 1934, when the
Federal law was passed, 38 States
and the District of Columbia had
adopted similar legislation. Under
all three jurisdictions, however, the
program has had continuity of leader-
sip; Claude R. Orchard, who is now
Director of the Bureau of Federal
Credit Unions, has headed Federal
credit union administration and su-
 pervision since the passage of the Fed-
eral law.

The idea developed in Germany in 1848,
when social and economic disloca-
tions, accompanied by serious fam-
Ines, had caused widespread bank-
ruptcy. The proposal was made that
individual family groups that had no
credit would, by pooling their re-
sources, be able to assist themselves.
Accordingly, a number of self-help
financial cooperatives were estab-
lished. They proved to be successful,
and the plan took root and grew.

Over the years, credit unions were
introduced in most of the countries
of Europe and Asia, and in 1900 the
plan reached Canada through the ef-
efforts of Alphonse Desjardins, a Mon-
treal journalist. From there it
spread to the United States; Mr. Des-
 jardins and others, including Edward
A. Pien, a Boston merchant who
later contributed more than a million
dollars to further the credit union
idea in the United States, were in-
strumental in obtaining passage of
the Massachusetts law.

Enactment of the Federal credit
union law gave impetus to the move-
ment. At the close of 1941 there were
10,456 credit unions in the United
States and Hawaii, with a member-
ship of 3.3 million and assets totaling
$322.2 million. Federal credit unions
chartered by the Credit Union Sec-
tion of the Farm Credit Administra-
tion made up nearly half the total.

During World War II the move-
ment was greatly retarded, as the war
effort absorbed the time and energy
of many of the persons from whom
credit unions usually obtain their
leadership and as large segments of

* Bureau of Federal Credit Unions, Division of Programs and Reports.
The difficult and unsettled war and postwar years caused a substantial decline in the number of new charters granted and accelerated the rate of charter cancellations. The number of reporting Federal credit unions declined from 4,144 at the end of 1941 to 3,739 in 1945, and the membership dropped from 1.4 million to 1.2 million (table 1). The outstanding loans were cut almost in half—from $77 million—was invested in United States Savings Bonds, Series P and G, and in Treasury bonds. Federal credit unions also took an active part in the war bond program, and at one time more than half of them were qualified issuing agents for Series E bonds. During the years 1941-45 they sold approximately 12 million bonds with a total purchase price of $404 million.

### What a Federal Credit Union Is

In the act, a Federal credit union is defined as a cooperative association organized to promote thrift among its members and to create a source of credit for provident and productive purposes. Thrift is promoted by providing members convenient and safe facilities for saving from current earnings in installments as low as 25 cents each pay day and by a variety of educational efforts designed to encourage the development of regular habits of thrift. Persons within the field of membership specified in the credit union’s charter are actively encouraged to become members and, after becoming members, to make full use of the services provided.

From the funds accumulated by the savings of members, loans are made to members at reasonable rates of interest. Although the Federal law specifies maximum limits for secured and unsecured loans, the officials of a credit union have authority to adopt and change lending policies within these maximum limitations. The officials consider an application for a loan to determine that it is for a useful purpose for the member and that the proposed repayment schedule is apparently within the member’s ability to pay; they also pass on the adequacy of the security offered.

By placing emphasis on loans that will be helpful to the members and by encouraging the members to work out helping to stabilize the credit structure of the United States.”

The reference in the preamble to the marketing of Government securities has been amply justified. During the war, when savings in Federal credit unions exceeded the demand for loans, surplus funds were invested in United States bonds. At the end of 1945, more than 50 percent of the total assets of Federal credit unions—$77 million—was invested in United States Savings Bonds, Series P and G, and in Treasury bonds. Federal credit unions also took an active part in the war bond program, and at one time more than half of them were qualified issuing agents for Series E bonds. During the years 1941-45 they sold approximately 12 million bonds with a total purchase price of $404 million.

### Objectives of the Federal Credit Union Act

The Federal Credit Union Act is defined in the preamble as “An Act to establish a Federal Credit Union System, to establish a further market for securities of the United States and to make more available to people of small means credit for provident purposes through a national system of cooperative credit, thereby

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### Table 1.—Number of reporting Federal credit unions, number of members, and amount of shares and of loans outstanding as of December 31, 1935-47

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of reporting credit unions</th>
<th>Number of members</th>
<th>Amount of shares</th>
<th>Amount of loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>1935</td>
<td>724</td>
<td>1,156,000</td>
<td>$22,256,000</td>
<td>$1,800,600</td>
</tr>
<tr>
<td>1936</td>
<td>724</td>
<td>1,156,000</td>
<td>22,256,000</td>
<td>1,800,600</td>
</tr>
<tr>
<td>1937</td>
<td>2,295</td>
<td>1,398,000</td>
<td>17,741,000</td>
<td>15,772,000</td>
</tr>
<tr>
<td>1938</td>
<td>3,122</td>
<td>1,756,000</td>
<td>26,341,000</td>
<td>23,024,000</td>
</tr>
<tr>
<td>1939</td>
<td>3,789</td>
<td>1,930,000</td>
<td>34,645,000</td>
<td>27,626,000</td>
</tr>
<tr>
<td>1940</td>
<td>3,250</td>
<td>1,290,000</td>
<td>65,785,000</td>
<td>55,801,000</td>
</tr>
<tr>
<td>1941</td>
<td>4,144</td>
<td>1,566,000</td>
<td>96,816,000</td>
<td>69,349,000</td>
</tr>
<tr>
<td>1942</td>
<td>4,073</td>
<td>1,477,000</td>
<td>159,498,000</td>
<td>12,886,700</td>
</tr>
<tr>
<td>1943</td>
<td>3,850</td>
<td>1,302,000</td>
<td>116,936,000</td>
<td>35,421,000</td>
</tr>
<tr>
<td>1944</td>
<td>3,795</td>
<td>1,308,000</td>
<td>133,786,000</td>
<td>34,403,000</td>
</tr>
<tr>
<td>1945</td>
<td>3,739</td>
<td>1,303,000</td>
<td>140,613,000</td>
<td>33,153,000</td>
</tr>
<tr>
<td>1946</td>
<td>3,707</td>
<td>1,302,000</td>
<td>156,719,000</td>
<td>50,300,000</td>
</tr>
<tr>
<td>1947</td>
<td>3,845</td>
<td>1,445,000</td>
<td>192,410,000</td>
<td>91,372,000</td>
</tr>
</tbody>
</table>

1 In 1945, 1946, and 1947 the number of operating and reporting credit unions was the same. In other years the number of credit unions submitting financial and statistical reports was less than the number in operation at the end of the year.

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### Table 2.—Number of Federal credit union charters, 1935-47

<table>
<thead>
<tr>
<th>Year</th>
<th>Number granted</th>
<th>Number canceled</th>
<th>Net change in number</th>
<th>Number outstanding at end of year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1935</td>
<td>906</td>
<td>905</td>
<td>-1</td>
<td>905</td>
</tr>
<tr>
<td>1936</td>
<td>906</td>
<td>905</td>
<td>-1</td>
<td>905</td>
</tr>
<tr>
<td>1937</td>
<td>906</td>
<td>905</td>
<td>-1</td>
<td>905</td>
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<tr>
<td>1938</td>
<td>906</td>
<td>905</td>
<td>-1</td>
<td>905</td>
</tr>
<tr>
<td>1939</td>
<td>906</td>
<td>905</td>
<td>-1</td>
<td>905</td>
</tr>
<tr>
<td>1940</td>
<td>906</td>
<td>905</td>
<td>-1</td>
<td>905</td>
</tr>
<tr>
<td>1941</td>
<td>906</td>
<td>905</td>
<td>-1</td>
<td>905</td>
</tr>
<tr>
<td>1942</td>
<td>906</td>
<td>905</td>
<td>-1</td>
<td>905</td>
</tr>
<tr>
<td>1943</td>
<td>906</td>
<td>905</td>
<td>-1</td>
<td>905</td>
</tr>
<tr>
<td>1944</td>
<td>906</td>
<td>905</td>
<td>-1</td>
<td>905</td>
</tr>
<tr>
<td>1945</td>
<td>906</td>
<td>905</td>
<td>-1</td>
<td>905</td>
</tr>
<tr>
<td>1946</td>
<td>906</td>
<td>905</td>
<td>-1</td>
<td>905</td>
</tr>
<tr>
<td>1947</td>
<td>906</td>
<td>905</td>
<td>-1</td>
<td>905</td>
</tr>
</tbody>
</table>

1 Includes 78 charters granted in 1934.
practical solutions to their financial problems, the credit union serves to improve the member's economic condition. Through the credit union, moreover, the member has a means of avoiding the exactions of the high-rate money lenders. Federal credit unions are prohibited from charging rates in excess of 1 percent per month on the outstanding loan balance, inclusive of all charges incident to granting the loan. In the credit union plan, persons of small means have one of the most effective methods known for combating usury and its antisocial drain on the family budget.

In actual practice, another important function is served by the Federal credit union. Management and control of the credit union's affairs are entirely in the hands of officials who are themselves members and who are elected by the members at their annual meeting. The board of directors is responsible for establishing operating policies and for managing the credit union's affairs; it also elects, from its membership, the organization's executive officers. A credit committee is elected by the members to pass on loan applications. A third group of officials is the supervisory committee, which is elected by and is responsible only to the membership. This committee makes frequent examinations of the credit union's affairs, including quarterly audits of the records maintained by the treasurer or his assistants.

These democratically selected officials, who come from all walks of life, gain experience in working together in operating a financial organization dealing with systematic saving and the wise use of credit—two fundamental elements in improving the financial stability of individuals and family units. These officials teach their successors, as well as other members of the credit union. Thus the credit union performs an important social and educational function in building an understanding of financial responsibility and in providing a means of practicing democratic self-help.

**Chartering Federal Credit Unions**

Section 4 of the Federal Credit Union Act places upon the supervisory authority the responsibility to make an appropriate investigation before granting a charter for the purpose of determining (1) whether the organization certificate conforms to the provisions of the act, (2) the general character and fitness of subscribers thereto, (3) the economic advisability of establishing the proposed Federal credit union. Section 9 provides that membership shall be limited to groups having a common bond of occupation or association, or to groups within well-defined neighborhood, community, or rural districts. As provided in section 8 of the act, standard forms of organization certificates and bylaws have been prepared and are supplied to incorporators on request. The use of these forms is required when a group decides to organize a Federal credit union.

The economic advisability of establishing a proposed credit union is determined on the basis of three factors—the availability to the group of already established and satisfactory credit union service; the practicality of operations from the standpoint of providing credit union service for the group; and the number of potential members. It is necessary that a group have a sufficient number of potential members if an organization of practical size is to be developed. Experience over the years indicates that there should be at least 100 persons eligible to become members in a proposed credit union.

The character and fitness of the subscribers are determined from information obtained through personal interviews with the subscribers or their associates. In this determination the most important factors are experience in organization work, reputation for integrity and good character, and unselfish interest in the credit union plan.

Of the charters granted under the Federal law and held by operating credit unions as of June 30, 1948, 3,314 were occupational groups, 550 were associational, and 78 residential. The 368 groups of Federal employees constitute the largest single category of the occupational type. Other categories with large numbers of Federal credit unions include the petroleum industry, stores, railroads, schools, public utilities, and State and municipal governments. Religious organizations account for almost a third of the associational groups, and rural community groups make up about two-thirds of the residential groups.

Much of the stimulus for chartering new groups results from contacts made by credit union officials who have friends associated with groups that do not have credit unions. Many inquiries also come from personnel directors and company executives whose attention has been called to the valuable contributions that credit unions can make as employee service organizations. Inquiries concerning the procedure for organizing and operating a credit union received by the Director of the Bureau of Federal Credit Unions are given prompt attention through the regional offices. An examiner is assigned to give assistance, when requested, in filing an application for a charter; he gives these applications priority in his work.

**Assistance to Newly Chartered Credit Unions**

As soon as a new charter is granted, an examiner is assigned by the Bureau's regional office to meet with the incorporators and arrange for the organization meeting. The examiner usually serves as the chairman for this meeting, at which officials are elected and operations of the credit union are explained. After the meeting the examiner instructs each officer, director, and committee man in his duties. In addition, certain instructional material—manuals, handbooks, and so on—is furnished by the Bureau. An examiner keeps in touch with each new Federal credit union during its first few months for the purpose of giving any necessary additional instructions to the officials.

**Supervision**

The principal supervision exercised by the Bureau is the regular examination made by field examiners, who work in assigned districts out of one of the eight regional offices. This examination is usually made once each year, but special examinations may be made at any time when discrepancies in the accounts are evident or suspected. After auditing the records and reviewing the credit union's
operations since the last examination, the examiner conducts formal meetings of the officials. At these meetings he reports his findings, makes any necessary recommendations for improving operations and service, and gives needed instructions to the officials. A written report of the examination goes to the credit union and to the Director of the Bureau. The examiner may follow up the examination to determine if his recommendations have been carried out and if there has been improvement.

The objectives in all this work are to develop in the officials of the credit union a sense of responsibility for the operation of their organization, to give instructions in sound operating procedures, and to interpret provisions of the act, bylaws, and regulations issued by the Bureau. When criticism of conditions or procedures is necessary, every effort is made to obtain compliance and improvement by persuasion and instructions; the authority provided in the act to suspend operations is used sparingly and only as a last resort.

The Washington and regional offices of the Bureau perform additional supervisory functions for Federal credit unions. They provide informational service on credit union problems and procedures in response to requests from credit union officials, community groups, and other government agencies; review proposed changes in the standard accounting and operational procedures, including accounting forms and amendments to charter and bylaws; and review and compile statistics from semiannual financial and audit reports received from each Federal credit union. They also supervise the conduct of voluntary liquidations to protect the interests of creditors and members; prepare and issue manuals of instructions for credit union officials; study the problems of persons of small means in obtaining credit at reasonable rates of interest and the operations of Federal credit unions; disseminate the information developed by these studies to interested persons and organizations; and develop group instruction programs designed to increase the effectiveness and efficiency of credit union officials.

**Standardization of Procedures**

In the administration of the Federal Credit Union Act, the Bureau's objective is to extend the benefits specified in the act to persons and groups designated as eligible. To this end, chartering policies and procedures, as well as policies and procedures relating to examination and supervision, have been adopted; they are revised when necessary to meet new conditions in the system's development.

Since more than 5,800 Federal charters have been granted and since all Federal credit unions operate under the same basic law, it has been necessary to establish standard forms and procedures for their day-to-day operations. This standardization has made it possible to use the same supervisory and examination methods in Federal credit unions from Maine to Hawaii, and it has served to keep down costs of examination and supervision and to facilitate the rendering of good service to interested persons and groups.

**Place in Social Security**

Through the examining, supervisory, and informational programs of the Bureau of Federal Credit Unions, efforts are made to assist officials to improve and extend the services provided by credit unions to their members. These services, rendered on a democratically controlled self-help basis, increase the economic security of the family by encouraging the development of thrift habits and by providing credit at reasonable rates. Thus the objectives of the Bureau of Federal Credit Unions are related to the objectives of the other parts of the Social Security Administration, and the services provided complement those provided by the other Bureaus of the Administration.

(Continued from page 2)

in Tennessee, increases in allowances for food and clothing to bring them more nearly in line with the prices found in March through the agency's annual pricing study raised the average payments of old-age assistance and aid to the blind substantially. The fact that maximums for aid to dependent children were lower than those for the other programs explains an increase per family ($2.37) that was only as large as the increase per blind recipient and lower than that per aged recipient. Average payments for aid to the blind showed similar increases in Minnesota and Oklahoma, as did also the averages for aid to dependent children in Nebraska and Texas.

Total expenditures for assistance for the month, $145 million, were 0.9 percent higher than in July.

**United Nations Day**

Arthur J. Altmeyer, Commissioner for Social Security, summarized briefly the social welfare achievements of the United Nations in a