Fifty Years of Credit Union Operations

by RONALD M. GARDNER*

This year—a half century after the passage of the first State credit union law and 25 years after the Federal Credit Union Act was adopted—saw the enactment by Congress of major changes (Public Law 86–354) in the Federal law. The double anniversary and the sweeping revisions made by the 1959 amendments make appropriate at this time a brief review of the progress made by credit unions in this country during the 50 years 1909–59.

THE credit union movement in the United States had its beginnings in 1909, when Massachusetts enacted the first State credit union legislation. From that year to 1934, when the Federal Credit Union Act was passed, similar laws were adopted in 38 States and by Congress for the District of Columbia. Today more than 19,000 credit unions—chartered under Federal or State laws—are in operation and have 11 million members. State-chartered credit unions are operating under the laws of 44 States, the District of Columbia, and Puerto Rico. Federal credit unions, chartered under the Federal law, are active in all 50 States, the Canal Zone, the District of Columbia, Puerto Rico, and the Virgin Islands. Although the various laws are practically identical in some respects, such as the definition of a "credit union," they differ widely in others—for example, the provision for supervision of the credit unions.

The First 25 Years

In the first few years of the credit union movement, development was slow and largely concentrated in a few States or among groups in certain occupational categories. Passage of the Massachusetts law was partly the result of the missionary work of Edward A. Filene, of Boston, who began to work for the promotion of credit union laws and the organization of credit unions early in the 1900's. In 1921 he established the Credit Union National Extension Bureau for this purpose. The Bureau campaigned actively from 1921 to 1934 for Federal and State legislation for the chartering of credit unions.

During these first 25 years, credit unions were organized in all parts of the country, but no overall plans existed for gathering information on their activities. Such information as was available came from periodic reports in the States that required such reporting. Comparable statistics on such key factors as rate of growth, liquidations, and dividends paid were practically nonexistent. Not until 1931 were data available on the total assets, membership, and number of active credit unions. These data, collected by the Bureau of Labor Statistics of the Department of Labor, show that by the end of 1931 about 1,500 credit unions were in operation; in the 1,244 credit unions that reported such information, assets totaled $33.6 million, and membership exceeded 286,000.

To overcome the lack of coordination, credit union leaders from all parts of the United States met in August 1934 to form a national association of credit unions. Their specific goals were to (1) promote the organization of new credit unions, (2) perfect legislation, (3) improve operating methods and techniques, and (4) coordinate and direct the efforts of all credit unions in their primary objective—the elimination of usury in the personal finance field. As a result of the meeting, the Credit Union National Association was formed as a nonprofit, self-supporting, working organization of credit unions. The association continues to work for the objectives defined at the preliminary meeting. Leagues of credit unions in the various States make up the membership, and their dues finance the work of the association.

Despite the lack of adequate data on the operations of the credit unions as a whole during the first 25 years, some information has been compiled for those in the pioneering State of Massachusetts.[1] The data, even though limited to operations in only one State, shed considerable light on the growth of credit unions during the earliest years of the movement. Both savings and lendings activities in Massachusetts reached a peak in the late 1920's and then tapered off, as shown in table 1, until the passage of the Federal Credit Union Act in 1934. At the time the Federal legislation was introduced, there were about 2,350 credit unions in operation in the United States, with combined assets of about $50 million. They were serving some 450,000 members and making loans amounting to about $65 million annually.

The Second 25 Years

Adoption of the Federal Credit Union Act[2] ushered in a new era in credit union operations, in which both the State-chartered credit unions and those operating under a Federal charter have made phenomenal advances. Their growth has been accompanied by a continuing effort to strengthen the credit unions through improving the periodic examinations of the individual credit unions (which include advising and counseling in sound business and accounting practices), through educational programs, and through cooperative efforts by some of the large, well-established credit unions to help the newer groups.

The credit unions moved during the years 1934–59 from a period of depression into wartime conditions and then into postwar periods of inflation and recession. During World War II, despite sharp rises in the number of liquidations and substantial losses in membership, the resources of the credit unions continued

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[1] Joseph L. Snider, *Credit Unions in Massachusetts*, 1939.

[2] See Erdis W. Smith, "Federal Credit Unions," *Social Security Bulletin*, October 1948, and John T. Croteau, "The Federal Credit Union System: A Legislative History," *Social Security Bulletin*, May 1956.

to grow, from assets of $323 million in December 1941 to $435 million at the end of 1945. An even sharper advance was registered after the cessation of hostilities in Korea; assets doubled in the 3 years from 1951 to 1954 and again in the next 4 years. By mid-1959, there were 19,300 credit unions in operation, with total assets of approximately $4.6 billion, and membership had reached the 11-million mark.

The credit unions operating under Federal charters expanded rapidly, both in number and resources. The first Federal charter was issued on October 1, 1934, and 77 more credit unions were chartered before the end of the year. Little information is available about the first year of operation. By the end of 1935, however, 960 Federal charters had been issued, and 772 Federal credit unions holding assets of about $2.4 million were in operation. Six years later, at the outbreak of World War II, the number of active Federal credit unions had grown to more than 4,000 and their assets were in excess of $100 million. By mid-1959, it is estimated, the number in operation had reached 9,300.

The growth of the State-chartered credit unions continued, uninterrupted by the effects of the Federal law. They numbered 2,450 at the end of 1934 and an estimated 10,000 by mid-1959. State systems, which had become entrenched in a number of States, were joined by new organizations. Even today, in many States, there is a vast preponderance of State-chartered credit unions. The Federal law, of course, was not intended to set up competition between State and Federal credit unions, and chartering policies during the past 25 years have enabled prospective new groups to decide for themselves whether they preferred to organize under a Federal or a State charter.

Most of the chartering today is accomplished through the various State leagues affiliated with the Credit Union National Association. In recent years the Bureau of Federal Credit Unions — the supervisory authority for the Federal credit unions—has done little promotional work in organizing new groups but has concentrated on its primary functions of examination, approval of charter applications, and general supervision of Federal credit unions.

The provision for organization of Federal credit unions has led to greater uniformity of operations among State-chartered groups as well. Many of the accounting techniques designed for Federal credit unions, for example, have been adopted by State supervisory authorities for use among the credit unions chartered under State laws.

Trends

A trend analysis of the past 50 years of operations must be based almost entirely on the number of active credit unions. Only fragmentary data are available for the early years of credit union operations on such items as assets, shares, membership, loans made during the year and outstanding at the year's end, and dividends paid to members. The analysis that follows is thus necessarily confined to operations since the passage of the Federal Credit Union Act. Moreover, because it has not been possible to collect State statistics in the detail made possible by the uniform Federal program, the analysis must emphasize Federal operations. The discussion of the purposes for which loans are made, for example, is based exclusively on Federal data because comparable data for State-chartered credit unions are not available.

The credit unions follow much the same pattern, whether they hold a State or Federal charter. They are organized for the same basic purposes, and they are affected to about the same degree by changes in economic conditions. The credit union movement is a dynamic one, and individual credit unions, whether operating under a State or a Federal charter, must adjust to a changing, dynamic economy or fail. Thus the analysis, though based largely on Federal credit union data, has general application to State-chartered groups as well.

Number of credit unions.—In terms of the number of active units, credit unions showed a slow but continuous growth from the adoption of the first State law in 1909 to the passage of the Federal law in 1934 (table 2). A marked increase occurred after 1934—the result not only of the addition of Federal credit unions but of increases in chartering activities among the State groups. The number continued to rise until the outbreak of World War II. During the 4 war years, the number of active groups declined, but in 1946 an upturn started that has continued without interruption, although the rate of increase has been falling off in recent years.

Assets.—Numbers alone do not reveal the full extent of growth; possibly more significant is the trend in assets. Although the rate of increase in the number of credit unions indicates the extent to which new groups are added over and above those that cease operations through liquidation, the trend in assets takes into account the added factor of age. The size of a credit union is, as might be expected, closely associated with age. Because there is no legal limit on capitalization, there is no limit—in theory at least—on the total resources a credit union may hold. Some practical limitations operate, however, to control the size of a credit union. Perhaps the most important are (1) the potential membership, which is restricted by the field of membership specified in the credit union's charter, and (2) the maximums on sav-

Table 1.—*Credit union operations in Massachusetts, selected years, 1909–34*

Item	1909	1914	1919	1924	1929	1934
Number of credit unions	[1] 1	45	61	89	299	305
Number of members	------	6,149	22,987	50,849	107,044	109,434
Number of borrowers	------	2,109	7,872	19,993	52,853	55,417
Total assets	------	$269,431	$2,769,948	$7,460,810	$16,153,521	$12,575,661
Value of shares:						
Amount	------	177,657	1,372,322	3,777,918	10,261,960	7,107,920
Average per member	------	29	60	74	96	65
Total loan balance	------	224,360	2,295,832	5,706,018	12,628,949	8,752,279
Average amount of loan	------	106	292	285	239	158

[1] Chartered but did not start operations.

Table 2.—*Number of credit unions, 1909–59*

Year	Total	State[1]	Federal
1909	1	1	----------
1910	2	2	----------
1911	17	17	----------
1912	26	26	----------
1913	34	34	----------
1914	47	47	----------
1915	62	62	----------
1916	91	91	----------
1917	110	110	----------
9118	118	118	----------
1919	141	141	----------
1920	167	167	----------
1921	190	190	----------
1922	240	240	----------
1923	290	290	----------
1924	350	350	----------
1925	419	419	----------
1926	500	500	----------
1927	600	600	----------
1928	750	750	----------
1929	974	974	----------
1930	1,200	1,200	----------
1931	1,500	1,500	----------
1932	1,612	1,612	----------
1933	2,016	2,016	----------
1934	[2] 2,500	2,450	[2] 50
1935	3,372	2,600	772
1936	5,241	3,490	1,751
1937	6,105	3,792	2,313
1938	7,059	4,299	2,760
1939	7,964	4,782	3,182
1940	9.023	5,267	3,756
1941	9,891	5,663	4,228
1942	9,767	5,622	4,145
1943	9.223	5,285	3,938
1944	8,808	4,993	3,815
1945	8,680	4,923	3,757
1946	8,764	5,003	3,761
1947	9,000	5,155	3,845
1948	9,331	5,273	4,058
1949	9,922	5,427	4,495
1950	10,586	5,602	4,984
1951	11,279	5,881	5.398
1952	12,287	6,362	5,925
1953	13,674	7,096	6,578
1954	15,041	7,814	7,227
1955	16,193	8,387	7,806
1956	17,251	8,901	8,350
1957	18,198	9,463	8,735
1958	18,824	9,794	9,030
1959	[2] 19,700	10,200	[2] 9,500

[1] Data for 1909–20 from Edson L. Whitney, *Cooperative* Credit Societies (*Credit Unions*) *in America and Foreign Countries*, Bureau of Labor Statistics Bulletin No. 314; for 1921 from Credit Union National Association, *The Credit Union Yearbook*, 1958 (p. 22); for 1925, 1929, and 1931–58 from Bureau of Federal Credit Unions, *State-Chartered Credit Unions in 1958;* for other years estimated.

[2] Estimated.

ings, imposed by the directors of some credit unions in the form of ceilings on the amount any one member may save in a month, or on the aggregate amount he may save, or some combination of these two restrictions.

The real growth in assets began after World War II. The total amounted to $500 million in early 1947; it doubled in about 3½ years and passed the billion-dollar mark late in 1950. In another 3½ years total assets again doubled and amounted to $2 billion in mid-1954. Although the rate of increase was slowed somewhat by the recession that began in the summer of 1957 and carried over into 1958, total assets held by credit unions again doubled in the 4 years from June 1954 to June 1958 and amounted to almost $4.6 billion by mid-1959.

Loans to members.—One of the purposes of the credit unions is to make loans to members for provident and productive purposes. In the original Federal law, provision was made to limit unsecured loans to $50; amendments increased the maximum to $100 in 1940, $300 in 1946, $400 in 1949, and $750 in 1959. When the limit was raised to $400 in 1949, the average loan made by Federal credit unions was $260. By 1958 the average loan—secured and unsecured—had increased to $535.

During these years the purposes for which credit union members borrow have been shifting. The trend has been from the small, short-term remedial loan to the longer-term loan for the purchase of consumer durable goods. A study by the Bureau of Federal Credit Unions made in 1948 revealed that 7½ percent of the loans made were for the purchase of automobiles; a later study showed that 13.1 percent of the loans made in 1956 were for the purchase of automobiles and summarized other indications of the change in reasons for borrowing, as follows:

> The shift towards purchase of hard goods was accompanied by a corresponding shift away from the remedial type of loan. Medical, hospital, and dental expenses, for example, accounted for less than 10 percent of the loans made in 1956; eight years earlier, more than 15 percent of the loans were made for such purposes. In 1948, about 16 percent of the loans were made for the purpose of paying current living expenses; by 1956, however, loans granted for this reason had declined to only 6 percent of the total.

The growing importance of the large credit unions during this time is evidenced by the fact that more than 40 percent of the Federal credit unions in operation at the end of 1957 had assets in excess of $100,000; 10 years earlier, only 13.7 percent of the Federal groups were of this size. At the end of 1947, only 0.2 percent of the Federal groups had more than $1 million in assets; at the end of 1957, 3.9 percent were in this category.

Credit unions (Federal and State-chartered) held $2,664 million, or 7.9 percent, of the total installment credit in the United States in December 1958. Ten years earlier they held only $334 million, or 3.7 percent of the total.

Members' shareholdings.—Not all members join a credit union for the sole purpose of borrowing. Little data are available on this point, but it is generally believed that many members are exclusively savers and rarely have need to borrow. At the other extreme are the chronic borrowers.

Characteristics of the members, including their savings and borrowing habits, is an area in which there seems to be a need for information as an aid in planning and developing the credit union program. At present, however, about the only information available is on the number of members and the amount of their savings in credit unions. No studies have been made, as far as is known, on why members save in credit unions in preference to banks, say, or the postal savings system, or on the proportion of their savings represented by credit union shares.

The growth of savings in credit unions has outpaced the rise in membership, with the result that average savings per member have increased each year since the beginning of the Federal program. From a low of $19 in 1935, the average increased to $324 in 1957 and to an estimated $350 by the middle of 1959.

Most share accounts are small, but shareholdings are concentrated in a few large accounts. A study made of the size distribution of members' share accounts as of June 30, 1953, showed that 27 percent of the savers accounted for only 1 percent of the shareholdings and that, at the other extreme, 6½ percent accounted for almost 51½ percent of the shares.

Conclusion

The prognosis for continuing growth of the credit unions is bright as these cooperative associations move for-

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Table 4.—*Status of the unemployment trust fund, by specified period, 1936–59* [1]

[In thousands]

Period	Assets at end of period [2]			State accounts				Railroad unemployment insurance account [5]			
	Total assets	Invested in U.S. Government securities [3]	Cash balances	Deposits and transfers [4]	Interest earned	With-drawals	Balance at end of period	Deposits and transfers	Interest earned	With-drawals	Balance at end of period
Cumulative, January 1936–September 1959	$6,960,841	$6,906,396	[6] $6,702	$27,273,125	$2,932,005	[7,8] $23,252,762	$6,952,369	$1,581,398	$220,810	$1,796,604	[7,9] $5,604
Calendar year:											
1957	9,108,651	9,098,092	8,316	1,618,328	220,398	1,744,111	8,640,919	85,672	7,405	148,225	262,270
1958	7,124,037	7,113,981	8,691	1,642,198	198,989	3,541,352	6,940,754	103,858	4,441	282,330	88,240
Fiscal year:											
1957–58	7,769,721	7,720,602	44,826	1,574,516	219,651	2,926,370	7,359,603	90,442	6,459	222,660	168,396
1958–59	6,719,017	6,709,422	5,946	1,946,469	179,133	2,796,920	6,688,285	114,832	2,396	256,290	29,334
1958											
July–September	7,393,832	7,336,571	6,035	600,929	47,855	841,773	7,166,614	31,066	973	66,870	133,565
October–December	7,124,037	7,113,981	8,691	328,699	45,875	600,434	6,940,754	26,715	710	72,750	88,240
1959											
January–March	6,534,576	6,484,998	4,463	234,104	42,972	834,127	6,383,703	26,358	425	60,590	54,432
April–June	6,719,017	6,709,422	5,946	782,737	42,431	520,586	6,688,285	30,693	288	56,080	29,334
July–September	6,960,841	6,906,396	[6] 6,702	629,583	45,901	411,400	6,952,369	88,198	69	111,997	5,604

[1] Beginning 1949, not strictly comparable with data for earlier years because of differences in accounting methods in source materials used.

[2] Beginning 1949, total investments plus cash balances differ from total assets on a ledger basis by the sum of items in transit or suspense at the end of period. Beginning December 1954, includes transactions and assets of the Federal unemployment account, under the Employment Security Administrative Financing Act of 1954; beginning September 1956, includes undistributed appropriations.

[3] Includes accrued interest purchased, and repayments on account of interest on bonds at time of purchase.

[4] Includes, when applicable, loans and transfers from the Federal unemployment account and/or transfers from undistributed appropriations.

[5] Beginning July 1947, includes temporary disability program. Beginning September 1958 includes transactions and assets of the railroad unemployment insurance administration fund. Beginning September 1959, includes loans from and repayments to Railroad Retirement Account.

[6] Preliminary.

[7] Includes transfers from State accounts to railroad unemployment insurance account amounting to $107,161,000.

[8] Includes withdrawals of $79,169,000 for temporary disability insurance benefits.

[9] Includes transfers to the account from railroad unemployment insurance administration fund amounting to $106,187,199, and transfers of $12,338,198 out of the account to adjust funds available for administrative expenses because of retroactive credits taken by contributors under the Railroad Unemployment Insurance Act Amendments of 1948.

Source: Unpublished Treasury reports.

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ward on a solid basis founded on a half century of experience. The Federal Credit Union Act, as amended in 1959, is probably the most modern of credit union laws and will permit Federal credit unions to better serve their 5½ million members. The amendments were approved by Congress without a dissenting vote.[3]

The credit unions, having weathered the economic crises of the past 50 years, are today in a favorable position for expanding their services not only to new groups but to the existing membership as well. They will, however, be faced with an increasing demand for larger loans as the cost of goods and services continues to climb and consumer buying habits continue to shift toward purchase of durable goods. The present distribution of members' savings accounts, with its preponderance of large accounts held by relatively few members, might lead to future difficulties for some credit unions unless action is taken to encourage systematic savings by a larger proportion of the membership.

The anticipated growth in the credit unions will also result in a corresponding increase in the need for information about many aspects of credit union operations for which there are now no data. Worthwhile studies could be made on the characteristics of the membership as well as on management problems, loan policies, the effects of changing industrial composition, and the like. Comparison of the growth of Federal credit unions and State-chartered organizations should be made to ascertain the effects the different provisions of the various State laws and the Federal law have, for example, on lending and savings policies and administrative costs. Information derived from studies of this sort should prove of great value in guiding credit union officials in planning a long-range program for the credit unions of tomorrow.

[3] For a brief summary of the legislation, see the *Social Security Bulletin*, November 1959, page 1.