

Federal Credit Unions: Twenty-Five Years of Self-Help Security

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The Federal Credit Union Act was signed 25 years ago, on June 26, 1934. Since that date, Federal credit unions have helped millions of families and individuals by promoting habits of thrift and by providing a source of credit for members at reasonable rates of interest. The accomplishments of the Federal credit union program and the ideals underlying it are described in the following article.

A HANDFUL of change — \$7.75 worth — pooled in 1934 by a few persons in Texarkana, Texas, provided the start of Federal Credit Union No. 1. This was the first credit union to start operating under the Federal Credit Union Act, passed in that year, and it was appropriately named for the author of the legislation, Senator Morris Sheppard. At the same time, variations of the Texarkana pattern were being worked out in communities in other parts of the country.

Not even the most enthusiastic and devoted believers in the credit union ideals of self-help security through voluntary cooperative action could have envisioned the sturdy growth that would follow and the thousands of Federal credit unions that would be in operation in 25 short years. The seed of the credit union movement,¹ planted in the fertile soil of a people struggling to overcome the ravages of a serious depression, took root and grew. Men and women whose faith in financial institutions—and in themselves — had been shaken began to build anew with institutions that they themselves owned, controlled, and managed.

The seed had to be sown, cultivated, and nurtured until its roots were strong enough to withstand droughts,

recessions, work stoppages, war, and postwar adjustment. How well the job has been done can be visualized by reviewing the growth of Federal credit unions and the achievements of their members, as shown in tables 1 and 2.

The extensive financial and social benefits of Federal credit unions have been effected through one of the finest examples of voluntary cooperation and teamwork between working people and their Government. The Government provided the services of a staff skilled in credit union organization and management to help groups of persons organize and commence operating credit unions. The people, believing they could manage their own financial affairs, contributed the use of their own money and gave many hours of their own time and effort to prove—in a modest

but effective way—the practicality of the ideal of the brotherhood of man.

As the credit unions grew in number and in membership and as they accumulated more and more dollars to meet the economic and social needs of their members, voluntary associations of credit unions increased their efforts to help other groups start credit unions. Thousands of credit unions have been organized by volunteers and by officials and members of older credit unions. The first objective of the voluntary associations of credit unions is to extend credit union service to those who need it. They have cooperated with the Federal Government in organizing new credit unions and in helping them to serve their members well. One of the noteworthy aspects of credit union work is the payment by existing credit unions of substantial financial dues to associations that spend these funds in bringing the benefits of credit union service to others.

Thus, as the credit union movement took root during the middle and late thirties, it grew stronger and spread throughout the country. The credit union associations, as well as the credit unions themselves, took

IN THE 25 years since the passage of the Federal Credit Union Act and the start of the first Federal credit union in Texarkana, Texas, more than 5 million families have benefited from their cooperative self-help action. These benefits in thrift and useful credit service have helped individuals and families to better living. The achievements of the first 25 years are only a prelude to the even greater contributions that the credit unions can make in the future. It is possible that at the end of the next 10 years there will be 25,000 Federal credit unions serving 15 million members and that they will hold assets of \$8 billion or even more.

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¹ The first State credit union law was enacted by Massachusetts in 1909. See Erdis W. Smith, "Federal Credit Unions: Origin and Development," *Social Security Bulletin*, November 1955.

over a large part of the organization work. At the same time the Government expanded its efforts to develop and maintain high standards of operation and service among Federal credit unions.

Credit union acceptance of the principle of self-help was exemplified by the support that the Federal credit unions gave to legislation raising the supervision fees they pay to the Government. This amendment to the Federal Credit Union Act set the stage for the self-financing of the Federal credit union program—without the appropriation of general funds from the Treasury of the United States. Since 1954, no appropriation of general funds has been made to finance the Government's role in the Federal credit union program.

The Federal credit unions are now in their young adulthood. It is significant to note that it took them 20 years to accumulate their first \$1 billion in assets. Attesting to their maturity is the fact that their second billion dollars was acquired in only 4 years. Now, as they reach their twenty-fifth birthday, they are already well on the way to assets of

Table 1.—Number and status of Federal credit union charters, 1934-59

Year	Number of charters			
	Issued	Canceled	Net change	Out-standing at end of year
1934	78		78	78
1935	828		828	906
1936	956	4	952	1,858
1937	638	69	569	2,427
1938	515	83	432	2,859
1939	529	93	436	3,295
1940	666	76	590	3,885
1941	583	89	494	4,379
1942	187	89	98	4,477
1943	108	321	-213	4,264
1944	69	285	-216	4,048
1945	96	185	-89	3,959
1946	157	151	6	3,965
1947	207	159	48	4,013
1948	341	130	211	4,224
1949	523	101	422	4,646
1950	565	83	482	5,128
1951	533	75	458	5,586
1952	692	115	577	6,163
1953	825	132	693	6,856
1954	852	122	730	7,586
1955	777	188	589	8,175
1956	741	182	559	8,734
1957	662	194	468	9,202
1958	586	255	331	9,533
1959 ¹	194	81	113	9,646

¹ January-March.

Table 2.—Selected data on Federal credit union operations as of December 31, 1934-59¹

Year	Number of operating Federal credit unions	Number of members	Assets	Shares	Loans outstanding
1934	39	3,242	\$23,284	\$23,120	\$15,422
1935	772	119,420	2,372,100	2,228,400	1,834,200
1936	1,751	309,700	9,158,100	8,510,900	7,343,800
1937	2,313	483,920	19,164,700	17,649,700	15,695,300
1938	2,760	632,050	29,629,000	26,876,100	23,830,100
1939	3,182	850,770	47,810,600	43,326,900	37,673,000
1940	3,756	1,127,940	72,530,200	65,805,800	55,818,300
1941	4,228	1,408,880	106,052,400	97,208,900	69,484,700
1942	4,145	1,356,940	119,591,400	109,822,200	43,052,500
1943	3,938	1,311,620	127,329,200	117,339,100	35,376,200
1944	3,815	1,306,000	144,365,400	133,677,400	34,438,400
1945	3,757	1,216,625	153,103,120	140,613,962	35,155,414
1946	3,761	1,302,132	173,166,459	159,718,040	56,800,937
1947	3,845	1,445,915	210,375,571	192,410,043	91,372,197
1948	4,058	1,628,339	258,411,736	235,008,368	137,642,327
1949	4,495	1,819,606	316,362,504	285,000,934	186,218,022
1950	4,984	2,126,823	405,834,976	361,924,778	263,735,838
1951	5,398	2,463,898	504,714,580	457,402,124	299,755,775
1952	5,925	2,853,241	662,408,869	597,374,117	415,062,315
1953	6,578	3,255,422	854,232,007	767,571,092	573,973,529
1954	7,227	3,598,790	1,033,179,042	931,407,456	681,970,336
1955	7,806	4,032,220	1,267,427,045	1,135,164,876	863,042,049
1956	8,350	4,502,210	1,529,201,927	1,366,258,073	1,049,188,649
1957	8,735	4,897,689	1,788,768,332	1,589,190,585	1,257,319,328
1958	9,030	5,209,912	2,034,865,575	1,812,017,273	1,379,722,852
1959 ²	9,300	5,400,000	2,250,000,000	2,000,000,000	1,500,000,000

¹ Data for 1934-44 partly estimated except for number of credit unions.

² Data for 1959 estimated as of June 30, 1959.

\$3 billion, and new members are being added at the rate of more than 300,000 each year.

Great as the economic and financial achievements of Federal credit unions are, perhaps their greatest contributions to our society have been in the field of social welfare. The savings of members and the credit available to them through the credit unions have provided stability and security to many families. Thousands of youngsters, and adults as well, have received higher education through Federal credit union loans. Families have received better medical, dental, and hospital care than would otherwise have been possible because they either had savings or could borrow enough to get good care. The credit unions have helped some families to stay together by relieving the burden of installment debts at high interest rates. Financial counseling, together with a loan to consolidate debts and a plan to guide future expenditures, has started many of these families on the way to a better life. In addition, they have been able to help families and individuals buy wisely for cash and thereby raise their standard of living.

Not the least of the social gains

from the Federal credit union program has been the training and experience in business management gained by thousands of persons who work in Federal credit unions. Experience in credit union management has been the stepping stone to better jobs for many volunteer workers. Employers have often discovered leadership abilities in employees who had an opportunity to show what they could do in operating a credit union.

No statistics are available to measure how many men and women, through Federal credit unions, have gained new hope and how many, as a result, were better able to fulfill their obligations as citizens, as workers, and as members of families and at the same time to acquire a real sense of economic security through their own efforts. From the stories related by credit union officials and those published in house organs and national magazines, however, it is clear that their number is substantial.

Federal Credit Union Operations

With the exception of the 3 war years — 1943, 1944, and 1945 — the

number of Federal credit unions has increased every year since the Federal Credit Union Act became law on June 26, 1934. Although during some of the war years the number of Federal credit unions in operation, the number of members, and the amount of loans outstanding declined, in no year have total assets failed to increase. In 1958 the increase in total assets was more than the amount of assets accumulated during the first 13 years of operation.

Since their beginning, Federal credit unions have granted loans to their members totaling approximately \$13 billion. In 1958 alone, they made loans amounting to more than \$2 billion. These loans, made for "provident and productive" purposes, not only helped individuals and families to use money and credit wisely but they covered almost every kind of need that they may encounter. Some of the major purposes for which the \$2 billion was loaned by the Federal credit unions in 1958 and the estimated total amounts are shown in the following tabulation.²

	Amount (in millions)
Consumer durable goods, homes and home improvements, and automobiles	\$370
Consolidation of debts	333
Medical, dental, and hospital expenses	122
Current living expenses	62
Vacations	56
Home maintenance	46
Taxes	38
Education	20
Insurance	20

Credit Unions in Today's Economy

Credit unions have grown to the point where they play an important role in the Nation's economic life. In evaluating their place in the economy, those chartered by the States must be taken into consideration. They outnumber those under Federal charters by a few hundred and have about \$200 million more in assets.

In 1941, all credit unions—Federal and State—held only 3.1 percent of all consumer installment loans (totaling \$5.5 billion) in the United States

Table 3.—Consumer installment credit, end of selected years, 1940-59

[Amounts in millions]

Year	Total amount	Held by credit unions			
		Amount			Percent of outstanding installment credit
		Total	Federal credit unions	State credit unions	
1940	\$5,514	\$171	\$52	\$119	3.1
1945	2,462	102	33	69	4.1
1950	14,703	590	252	338	4.0
1951	15,294	635	285	350	4.2
1952	19,403	837	395	442	4.3
1953	23,005	1,124	549	575	4.9
1954	23,568	1,342	652	690	5.7
1955	28,958	1,678	827	851	5.8
1956	31,827	2,014	1,004	1,010	6.4
1957	34,105	2,472	1,222	1,250	7.2
1958	33,865	2,664	1,312	1,352	7.9
1959 ¹	33,943	2,700	1,322	1,378	8.0

¹ As of March 1959.
Source: Federal Reserve Board.

(table 3). The proportion has grown most years since then. When unemployment rose in late 1957 and 1958, there was no slackening in the rate of increase in the proportion of loans held by credit unions. This may be an indication that, when unemployment rises, the credit unions are less apprehensive than other sources of consumer credit. The credit unions continued to serve their members even when plants were closed for many months. It is possible that their stabilizing influence may have had a small part in speeding the national recovery from the recession.

To realize the extent to which the use of installment credit has expanded, it should be noted that at the end of 1957 the credit unions, holding only 7.2 percent of all consumer installment credit, had more loans outstanding than all forms of consumer installment credit in the Nation only 12 years earlier.

The unwise use of credit can be injurious not only to individuals but to the entire economy. When individuals are encouraged to extend themselves beyond their ability to pay and are charged high legal rates of interest—or usurious rates—their spendable income may be reduced to a point that may mean dependence on public assistance or private charity. Credit unions, by their very nature, charge no high rates of interest and do not add to the individual's burden of debt but help to lift it. The motto of the credit unions is "Not for profit, not for charity, but for service."

More and more credit unions are giving careful thought to the provision of family financial counseling. Some of them are giving training in counseling to those who interview loan applicants. Others are giving close attention to the preventive aspects of financial counseling—that is, they are working to help men and women adopt a financial plan that will prevent monetary problems from arising. Promotion of thrift through regular, systematic, voluntary savings is a primary goal of Federal credit

Table 4.—Savings of individuals in savings accounts and in U. S. savings bonds selected years, 1939-58

[Amounts in millions]

Type of savings	1939		1944		1949		1954		1957		1958 ¹	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Total	32,860	100.0	82,477	100.0	120,232	100.0	152,460	100.0	180,298	100.0	194,418	100.0
Savings accounts:												
Savings and loan associations	4,118	12.5	6,305	7.6	12,471	10.4	27,334	17.9	41,912	23.2	47,900	24.6
Mutual savings banks	10,481	31.9	13,332	16.2	19,269	16.0	26,285	17.2	31,652	17.6	34,000	17.5
Commercial banks	14,865	45.2	23,871	28.9	35,145	29.2	44,746	29.3	53,751	29.8	59,600	30.7
Postal savings	1,315	4.0	2,406	2.9	3,302	2.7	2,240	1.5	1,401	.8	1,200	.6
Credit unions ²	181	.6	373	.5	745	.6	2,022	1.3	3,382	1.9	3,900	2.0
United States savings bonds	1,900	5.8	36,200	43.9	49,300	41.1	50,000	32.8	48,200	26.7	47,800	24.6

¹ Preliminary estimates, Federal Home Loan Bank Board.
² State-chartered and Federal credit unions.
Source: Federal Home Loan Bank Board, release dated February 1959.

² Estimates are based on a survey of loan purposes made in 1956.

unions. Providing a source of tailor-made credit for members at reasonable rates of interest is a concurrent goal. At the same time members are learning the art of personal financial management.

The rate of increase of individual savings in credit unions was greater for the period 1939-58 than that of any other institutions accepting savings accounts. During these years the net rise in individual savings held by credit unions was 2,055 percent. At the same time individual savings in U.S. savings bonds increased 2,416

percent. The increase in savings held by savings and loan associations amounted to 1,063 percent, in commercial banks to 301 percent, and in mutual savings banks to 224 percent. Postal savings deposits declined almost 9 percent.

Although credit unions now hold only 2 percent of all individual savings in savings accounts and U.S. savings bonds, in 1934 they had only about 0.015 percent and in 1939, 0.6 percent. From 1953 to 1958, credit unions showed a net increase in their savings accounts of 131 percent —

higher than that for financial institutions of any other type.³

The credit union movement continues to be virile, progressive, and dynamic, as shown by the fact that during the first quarter of 1959 more new Federal credit unions were organized than in the first quarter of the 2 previous years. In addition the rate of growth of credit unions still is greater than that of all other types of financial institutions.

³ Federal Home Loan Bank Board, release of February 1959.

SOCIAL SECURITY IN REVIEW

(Continued from page 2)

than in the first quarter of 1958.

● Unemployment among workers covered by the State unemployment insurance programs and the program for Federal employees dropped in March. Initial claims, representing new unemployment, dropped 11 percent from the February total to 1.1 million, and insured unemployment—2.1 million in an average week—was 12 percent less than in February. The declines from the preceding year were sharper, amounting to 37 percent for initial claims and 36 percent for insured unemployment. Benefits paid to jobless workers totaled \$255.6 million—about the same as in February but less by \$114.6 million than in March 1958. The average weekly check for total unemployment was \$30.38. In an average week, 2.0 million workers received benefits; in February the average was 2.2 million, and in March 1958 it was 3.0 million. About 193,000 workers exhausted benefit rights under the regular programs. Insured unemployment under the temporary unemployment com-

pensation programs dropped 9 percent during March to a weekly average of 312,000. Benefits under this program fell off \$2 million to about \$42 million. Benefits paid under the new program of unemployment compensation for ex-servicemen rose \$1 million to a total of \$8.7 million.

Advisory Council on Child Welfare Services

The Secretary of Health, Education, and Welfare announced on April 25, 1959, the appointment of an Advisory Council on Social Welfare Services. The Council was established at the direction of the Eighty-fifth Congress to study the effect of the 1958 amendments to the child welfare provisions of the Social Security Act. It is to report its findings and recommendations to the Secretary and to Congress by January 1, 1960. At its first meeting, May 4 and 5, the Council concerned itself chiefly with determining the scope of future deliberations and devising procedures for carrying out the congressional directive.

Members of the Council include representatives of public, voluntary, civic, religious, and professional wel-

fare organizations and groups, as well as the general public.

Federal Council on Aging

The first meeting of the reconstituted, Cabinet-level Federal Council on Aging was held on April 10, 1959, with Arthur S. Flemming, Secretary of Health, Education, and Welfare, as chairman. The Secretary of Agriculture, the Secretary of Commerce, the Secretary of Labor, the Secretary of the Treasury, the Administrator of the Housing and Home Finance Agency, and the Administrator of Veterans Affairs are permanent members of the Council.

The Council is immediately undertaking an analysis and appraisal of existing Federal programs for older citizens, and it has been directed by the President to report its findings by September 30. The Council will also, Mr. Flemming said, "at the direction of the President, pinpoint what new steps should be taken to extend the period of productive, healthy, and comfortable lives for older people," and it "will assist in planning and coordinating the White House Conference on Aging," to be held in January 1961.