Federal Credit Unions: Thirty Years of Service

by EDWIN J. SWINDLER*

THIRTY years ago, on June 26, 1934, President Franklin Delano Roosevelt signed the Federal Credit Union Act, authorizing the formation of federally chartered credit unions in the United States. The new law was entitled "An Act to establish a Federal Credit Union System . . . and to make more available to people of small means credit for provident purposes through a national system of cooperative credit, thereby helping to stabilize the credit structure of the United States."

The credit unions established under the new law, like those authorized by earlier State legislation, are cooperative associations organized to promote thrift among their members and to extend low-cost credit to them. Only persons within the field of membership as defined in an individual credit union's charter may become members, and they are encouraged to join the credit union and to use its services.

The credit union idea was developed in Germany in the mid-nineteenth century, in order to provide families without sources of credit a means of pooling their resources to help themselves.[1] The movement then spread to many countries in Europe and Asia. It was introduced in Canada at the turn of the century.

The first credit union legislation in the United States was enacted in Massachusetts in 1909. By the time the Federal law was passed, 38 States and the District of Columbia had adopted legislation providing for the chartering of credit unions within their jurisdictions. Approximately 2,450 credit unions, with 427,000 members and $40.2 million in assets, were operating under State laws at the end of 1934.

The organization of Federal credit unions was stimulated in the early years by the efforts of unpaid workers who made the public aware of the advantages of credit union membership. The depressed state of economic activity during the mid-thirties, with the accompanying low incomes and lack of availability of credit from customary sources, gave added impetus to credit union growth. Interested individuals worked with Federal officials to make the financial and social advantages of credit unions widely known. The Federal Government provided the services of a staff skilled in credit union organization and management to any group interested in organizing its own credit union.

Federal credit unions now number approximately 11,200 and have 7¾ million members. Their assets amount to about $4.1 billion, members' shares to $3.7 billion, and members' loans outstanding to $3.1 billion. Table 1 shows the growth in Federal credit union membership and gives as well additional information pointing up Federal credit union development.

TABLE 1.—Selected data on Federal credit union operations as of December 31, 1934–64 [1]

[Amounts in thousands]

Year	Number of operating Federal credit unions	Number of members	Assets	Shares	Loans outstanding
1934	39	3,242	$23	$23	$15
1935	772	119,420	2,372	2,228	1,834
1936	1,751	309,700	9,158	8,511	7,344
1937	2,313	483,920	19,165	17,650	15,695
1938	2,760	632,050	29,629	26,876	23,830
1939	3,182	850,770	47,811	43,327	37,673
1940	3,756	1,127,940	72,530	65,806	55,818
1941	4,228	1,408,880	106,052	97,209	69,485
1942	4,145	1,356,940	119,591	109,822	43,053
1943	3,938	1,311,620	127,329	117,339	35,376
1944	3,815	1,306,000	144,365	133,677	34,438
1945	3,757	1,216,625	153,103	140,614	35,155
1946	3,761	1,302,132	173,166	159,718	56,801
1947	3,845	1,445,915	210,376	192,410	91,372
1948	4,058	1,628,339	258,412	235,008	137,642
1949	4,495	1,819,606	316,363	285,001	186,218
1950	4,984	2,126,823	405,835	361,925	263,736
1951	5,398	2,463,898	504,715	457,402	299,756
1952	5,925	2,853,241	662,409	597,374	415,062
1953	6,578	3,255,422	854,232	767,571	573,974
1954	7,227	3,598,790	1,033,179	931,407	681,970
1955	7,806	4,032,220	1,267,427	1,135,165	863,042
1956	8,350	4,502,210	1,529,202	1,366,258	1,049,189
1957	8,735	4,897,689	1,788,768	1,589,191	1,257,319
1958	9,030	5,209,912	2,034,866	1,812,017	1,379,723
1959	9,447	5,643,248	2,352,813	2,075,055	1,666,526
1960	9,905	6,087,378	2,669,734	2,344,337	2,021,463
1961	10,271	6,542,603	3,028,294	2,673,488	2,245,223
1962	10,632	7,007,630	3,429,805	3,020,274	2,560,722
1963	10,955	7,499,747	3,916,541	3,452,615	2,911,159
1964 [2]	11,200	7,750,000	4,120,000	3,650,000	3,100,000

[1] Data for 1934–44 partly estimated except for number of credit unions.
[2] Estimated as of June 30, 1964.

* Bureau of Federal Credit Unions.

[1] See Erdis W. Smith, "Federal Credit Unions," *Social Security Bulletin*, October 1948, and William E. Allen, "Federal Credit Unions: 25 Years of Self-Help Security," *Social Security Bulletin*, June 1959.

State-chartered credit unions today number approximately 10,600 and have assets of about \$4.5 billion. Their 7¼ million members hold shares of \$3.8 billion, and outstanding loans amount to \$3.5 billion.

ADMINISTRATION OF THE ACT

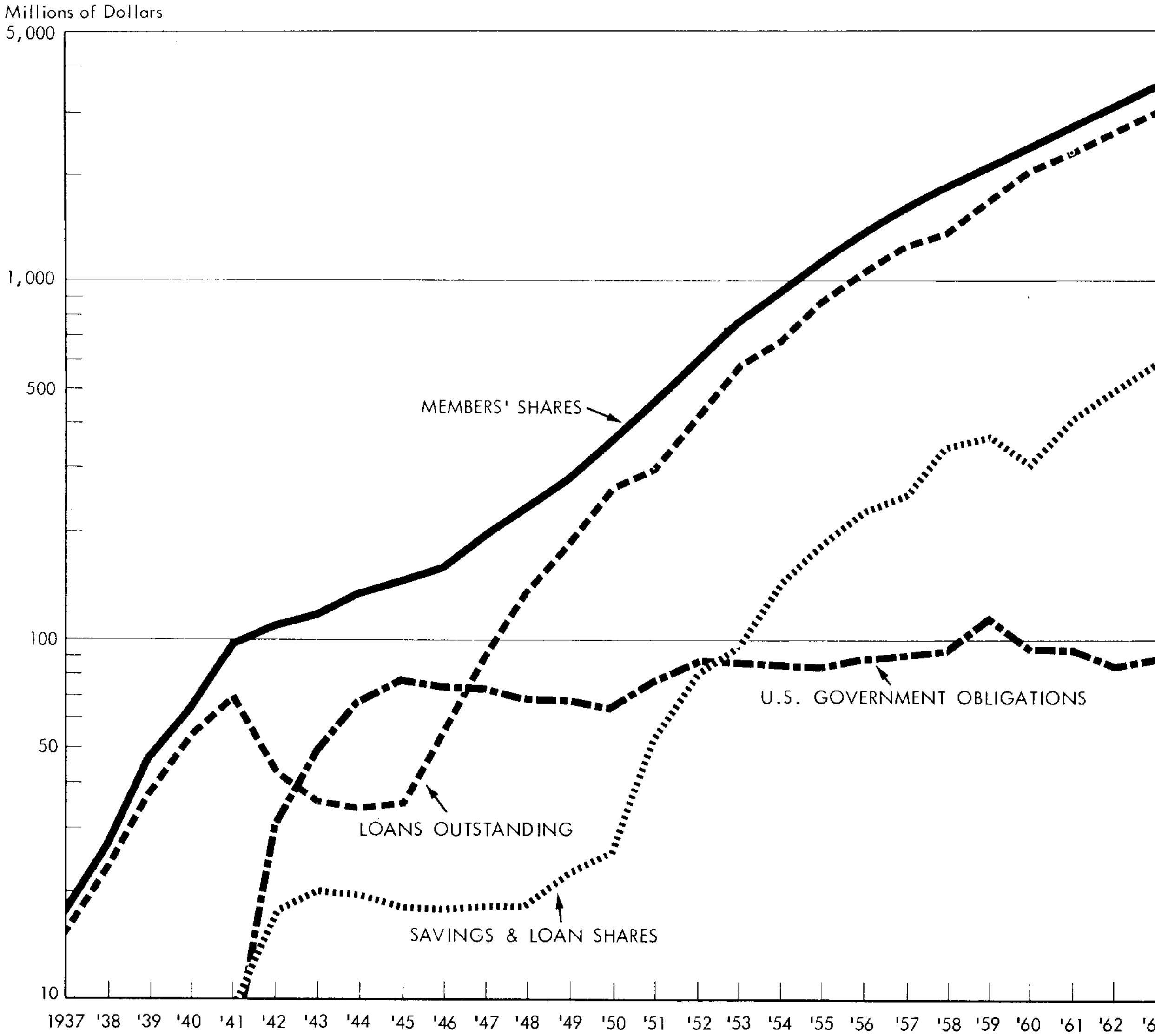
The Federal credit unions were under the supervision of the Farm Credit Administration from the beginning of the program until May 16, 1942, when administration was transferred by Executive order to the Federal Deposit Insurance Corporation. On July 29, 1948, under Public Law 813 (80th Congress, second session) the Bureau of Federal Credit Unions was established and placed in the Social Security Administration.

Functions of the Bureau

The Bureau of Federal Credit Unions issues charters, examines, and supervises the credit unions chartered under the Federal act. The credit unions are required to keep records in accordance with prescribed forms and procedures and are subject to periodic examinations by staff of the Bureau of Federal Credit Unions.

The Bureau prescribes standard bylaws, which

CHART 1.—Loans, shares, and principal investments of Federal credit unions, 1937–63



may be amended with the approval of the Director of the Bureau. It also assists eligible domestic groups to organize credit unions and publishes operating manuals for their use and guidance, and it furnishes technical publications and assistance to groups interested in organizing credit unions in other countries.

For the first 19 years, the Federal program was supported partly by fees charged to the Federal credit unions for such services and partly by congressional appropriations. On July 1, 1953, the program became self-financing from fees, and since then no appropriations have been made from General Treasury funds. The self-financing of the program is an achievement of which Federal credit unions are justly proud.

Credit Unions Among Low-Income Groups

The Bureau of Federal Credit Unions has traditionally been interested in bringing credit union services to low-income groups that typically do not have access to other legitimate credit and savings facilities. In a recent study it was found that more than 400 Federal credit unions operated among groups with relatively low income. These credit unions made up 4 percent of all operating groups but held only ½ of 1 percent of total assets.

In line with President Johnson's call for intensified efforts to eliminate poverty, the Bureau is currently devoting more of its resources to stimulate the formation and growth of credit unions among the low-income groups of the population. To this end, it provides special organizational help to assist such groups in meeting the thrift and credit needs of their community through their own efforts.

THREE DECADES OF GROWTH

A description of the growth in assets and shares of Federal credit unions during the past three decades does not adequately measure the significant contributions to our economic and social welfare that these organizations have made. Such a report gives some indication, however, of their growing importance in the Nation's economic life.

The First Decade

Total loans and share capital of Federal credit unions grew rapidly in the late 1930's (chart 1). When World War II began there were about 4,200 federally chartered credit unions in operation, with total assets of $106 million.

During the war years the number of members and the total amount of loans declined, reflecting the greater degree of population mobility, shortages of consumer durable goods, and consumer credit regulation. Share savings, however, continued to rise, and with a reduced demand for loans the Federal credit unions contributed to the war effort by channeling a substantial portion of their available funds into U. S. Government obligations. In addition, they issued more than $400 million in Series E bonds to individuals during the war period.

The Postwar Period

With the resumption of peacetime production of consumer goods and suspension of consumer credit regulations, Federal credit union activities again expanded rapidly. Loans in 1950 were seven and one-half times what they had been 5 years earlier, and total assets and shares were both more than two and one-half times the earlier figure. Most of the loan expansion was financed by share growth, although some of it came from a moderate reduction in their holdings of U. S. Government obligations.

Expansion in credit union operations was stimulated at the beginning of the 1950's by the flurry of consumer buying and the rapid rise in disposable personal income that accompanied the Korean conflict. Total assets of the Federal credit unions increased more than $2 billion during the 1950's, the number of operating credit unions more than doubled, and the number of members tripled.

With the growing demand for consumer credit that has accompanied high levels of consumption in recent years, Federal credit unions have used an increasing proportion of the inflow of share capital to finance loans to members. The proportion invested in U.S. Government obligations has declined, and that in savings and loan shares has remained relatively stable.

Federal credit unions held only slightly larger amounts of U.S. Government securities at the end of 1963 than in 1945. Their holdings in savings and loan shares increased sharply through the 1950's and at the end of 1963 totaled $599 million, about 15 percent of total assets.

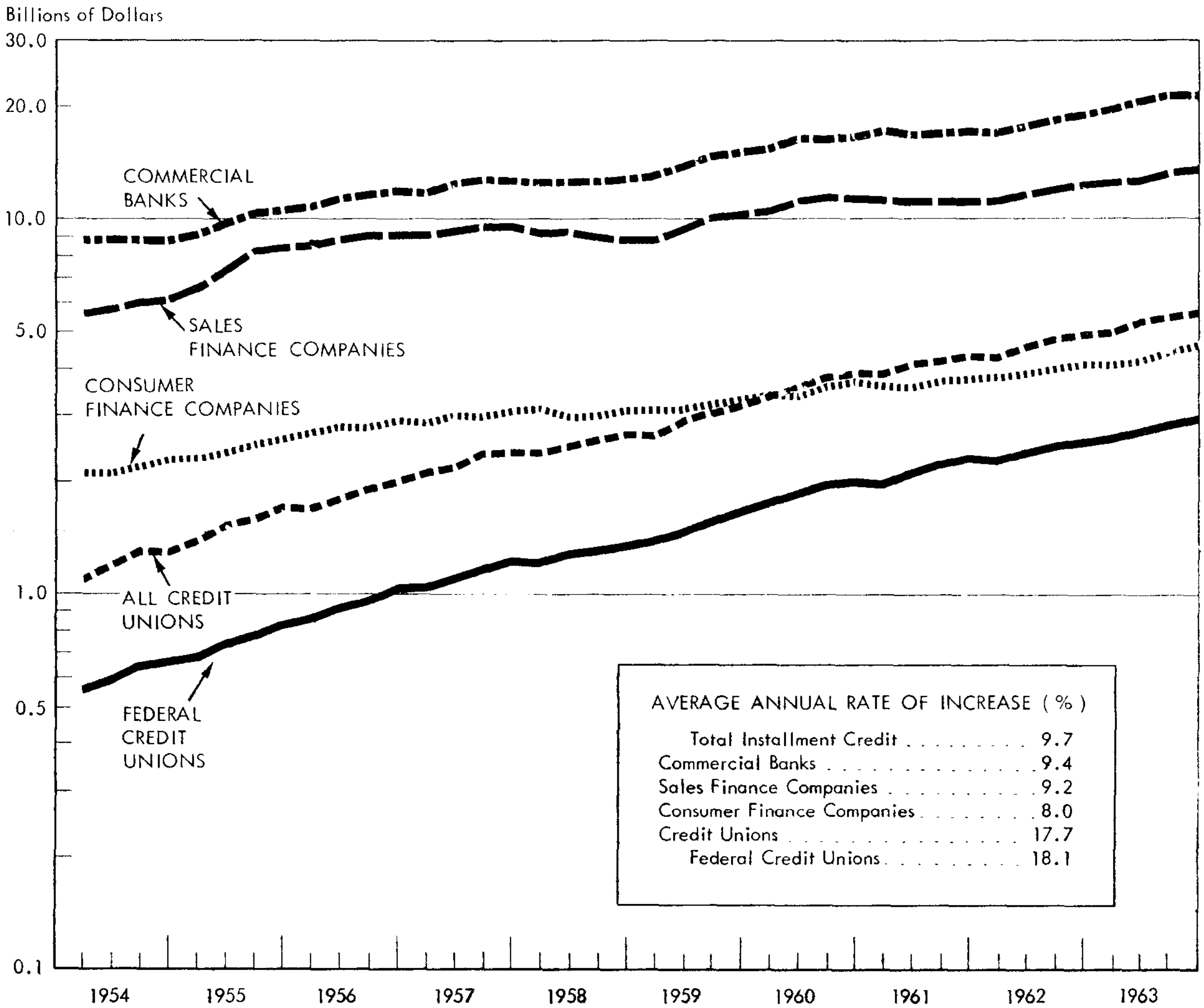
Since 1950, shares have increased more than loans in every year except 1959 and 1960. In those 2 years, total consumer installment loans made by all types of financial organizations rose $8.5 billion, a record amount for any 2 consecutive years up to that time. Stimulated in part by changes made in the law in 1959, Federal credit unions showed an increase of $640 million in loans to members—about 7 percent of the total increase in consumer installment credit at such institutions. At the same time they made up for the smaller inflow of share capital, mainly by increasing their notes payable and reducing their shareholdings in savings and loan associations.

Record increases have been established in shares and loans during the 1960's. In 1963, assets rose $487 million and shares $432 million—both more than in any other year. Loans increased $350 million, only slightly less than the record rise in 1960.

Relation to Other Financial Institutions

The amount of loans outstanding at credit unions rose as a proportion of all consumer install-

CHART 2.—Installment loans to consumers by selected financial lenders, 1954–63[1]



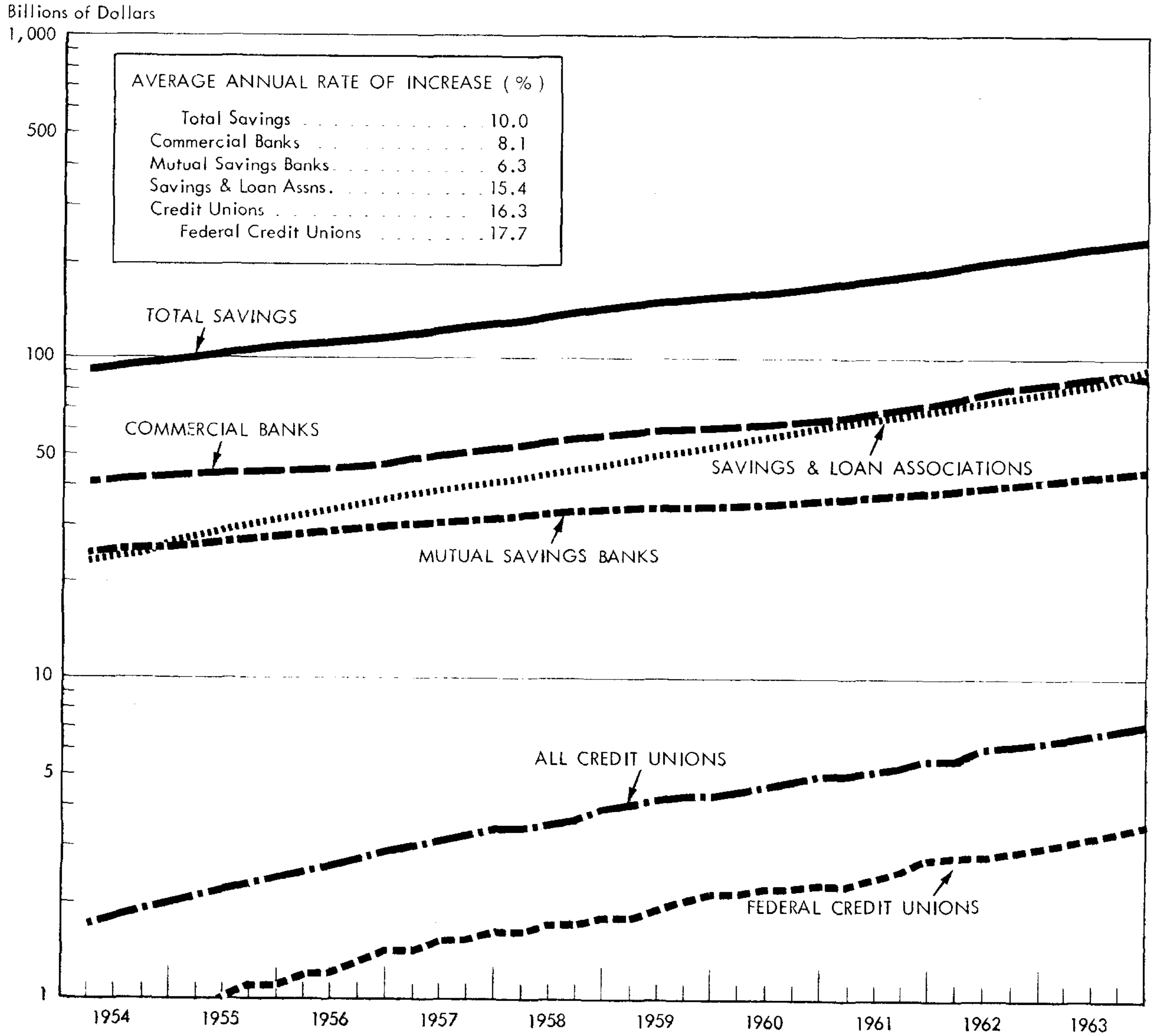
[1] Includes holdings of "other" financial institutions; excludes holdings of retail outlets.
Source: Board of Governors of the Federal Reserve System and Bureau of Federal Credit Unions.

ment credit handled by financial institutions from 5 percent in 1950 to 12 percent at the end of 1963. Growth rates in credit union loans have substantially exceeded those of other major lenders (chart 2). Despite this rapid growth, their operations in the consumer credit field remain on a relatively modest scale, compared with those of commercial banks or those of sales finance companies.

The role of credit unions in the consumer savings field has also expanded. Savings in credit unions have grown faster, in percentage terms, than savings in other types of financial institutions during the past decade (chart 3). The average rate of increase for consumers' savings in credit unions was 16.3 percent a year, in savings accounts at commercial banks the rate was 8.1 percent, and in savings and loan associations it was 15.4 percent.

Savings in all credit unions, which totaled $7 billion at the end of 1963, made up a relatively small proportion of consumer savings at all financial institutions; they amounted to only 3 percent of aggregate consumer savings accounts in com-

CHART 3.—Consumers' savings accounts at savings institutions, 1954–63



[1] For Federal credit unions, amount was less than $1 billion before June 1955.
Source: Board of Governors of the Federal Reserve System and Bureau of Federal Credit Unions.

mercial banks, mutual savings banks, savings and loan associations, and credit unions.

Types of Loans

During their history, Federal credit unions currently in operation have granted loans to their members totaling approximately $28 billion, and those now liquidated loaned an estimated additional $2–$3 billion. During 1963, operating groups made loans amounting to more than $4 billion that covered a wide variety of family and personal expenditures. Some of the major purposes for which loans were made in 1963 are shown below.

[Estimated on basis of survey of loan purposes in 1961]

Item	Loans made	
	Amount (in millions)	Percent
Total	$4,000	100.0
New automobiles	688	17.2
Used automobiles	548	13.7
Consolidation of debts	596	14.9
Homes, home improvements, and maintenance	552	13.8
Furniture, household appliances, and other durable goods (boats, house trailers, etc.)	304	7.6
Holiday and recreation expenses (vacations, gifts, etc.)	204	5.1
Medical, hospital, dental, and funeral expenses	192	4.8
Current living expenses	128	3.2
Educational expenses	76	1.9
All other	712	17.8

Regional Growth

As might be expected, the regional distribution of Federal credit union assets has tended to correspond closely to the regional distribution of personal income. In 1939, for example, the New England and Mideast States accounted for almost 39 percent of total personal income and for 46 percent of Federal credit union assets. At the end of 1963, personal income in these States had declined to 31 percent of the total and Federal credit union assets had dropped to 30 percent.

Thus, although credit union activity has increased in all regions since 1939, expansion in the Southeast-Southwest, Rocky Mountain, and Far West regions has been relatively faster than in other areas of the country. The proportion of Federal credit union assets accounted for by these regions increased from 36 percent in 1939 to 49 percent in 1963, and the proportion of income from 30 percent to 40 percent.

FUTURE GROWTH OF CREDIT UNIONS

According to all indications, the demand for consumer installment credit will continue to rise in coming years, and credit unions will participate in the expansion on about the same scale as they have in the past. Experts expect a rather large increase in disposable personal income by 1970. Accordingly, if consumers continue to use 13–14 percent of their disposable personal income to pay installment debt (as they have in recent years), the amount available for paying such debts will increase substantially. Moreover, the Bureau of the Census estimates that the number of families headed by persons aged 44 or under, who are the heaviest users of installment credit, will increase to about 28 million by 1970—16 percent more than in 1962—and will show another sharp rise by 1980.

If these projected developments occur, consumer installment credit outstanding at the close of this decade may reach $80 billion. If so, and if credit unions account for the same proportion of the total as they do now, they would hold about $8.5 billion in outstanding loans to members. This amount would represent a 40-percent increase from credit union loans as of the end of 1963. If recent trends toward a rising proportion of credit accounted for by credit unions continue, the estimate of $8.5 billion would turn out to be conservative.

All in all, there seems to be good reason to expect credit unions to continue to play an important role in supplementing the Nation's savings and credit facilities as the economy expands in coming years.