

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 improved 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 adjustments of State appropriations in approximate ratio to increased per capita incomes are evidence that the areas of unmet need existing in low-income States in 1940 resulted primarily 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 proportion 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 beneficiaries of old-age and survivors insurance also has had its effect in decreasing need among the aged. Monthly benefits under the program were first payable in January 1940; in June of that year, aged beneficiaries 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 beneficiaries was less than 100 per 1,000 aged population until late in 1946. By June 1948 the number receiving benefits 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, 36 per 1,000. Inasmuch as the proportion of covered employees tends to be higher in the wealthier industrial States, the effect of old-age and survivors insurance

in reducing the need for old-age assistance is felt especially in those States. In 6 of the 12 wealthiest States in June 1948 more aged persons received old-age and survivors insurance than received old-age assistance.

Federal Credit Unions

*By Erdis W. Smith**

THE COUNTRY'S 4,000 Federal credit unions were placed under the supervision of the Social Security Administration 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, examines, and supervises Federal credit unions, as specified in the Federal Credit Union Act.

The Social Security Administration is the third agency that has had jurisdiction 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 Deposit Insurance Corporation. Under all three jurisdictions, however, the program has had continuity of leadership; Claude R. Orchard, who is now Director of the Bureau of Federal Credit Unions, has headed Federal credit union administration and supervision since the passage of the Federal 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. Operating under these laws in 1934 were approximately 2,450 credit unions, with 427,000 members and \$35.5 million in assets.

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The concept of credit unions preceded the Massachusetts law by 60 years, however, and this year the movement is celebrating its hundredth anniversary. The original idea developed in Germany in 1848, when social and economic dislocations, accompanied by serious famines, had caused widespread bankruptcy. The proposal was made that individual family groups that had no credit would, by pooling their resources, be able to assist themselves. Accordingly, a number of self-help financial cooperatives were established. 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 efforts of Alphonse Desjardins, a Montreal journalist. From there it spread to the United States; Mr. Desjardins and others, including Edward A. Filene, a Boston merchant who later contributed more than a million dollars to further the credit union idea in the United States, were instrumental in obtaining passage of the Massachusetts law.

Enactment of the Federal credit union law gave impetus to the movement. At the close of 1941 there were 10,456 credit unions in the United States and Hawaii, with a membership of 3.3 million and assets totaling \$322.2 million. Federal credit unions chartered by the Credit Union Section of the Farm Credit Administration made up nearly half the total.

During World War II the movement 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

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

Year	Number of reporting credit unions ¹	Number of members	Amount of shares	Amount of loans
1935.....	762	118,665	\$2,224,610	\$1,830,489
1936.....	1,725	307,651	8,572,776	7,399,124
1937.....	2,296	482,441	17,741,090	15,772,400
1938.....	2,753	631,436	26,869,367	23,824,703
1939.....	3,172	849,806	43,314,433	37,663,782
1940.....	3,739	1,126,222	65,780,063	55,801,026
1941.....	4,144	1,396,696	96,816,948	69,249,487
1942.....	4,070	1,347,519	109,498,801	42,886,760
1943.....	3,859	1,302,363	116,968,974	35,228,153
1944.....	3,795	1,303,801	133,586,147	34,403,467
1945.....	3,757	1,216,625	140,613,962	35,155,414
1946.....	3,761	1,302,132	159,718,040	56,800,937
1947.....	3,845	1,445,915	192,410,043	91,372,179

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.

the population shifted to military and war production centers. Later, re-conversion to peacetime activity forced a number of established credit unions to go into voluntary liquidation. 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 3,757 at the end of 1945, and the membership dropped from 1.4 million to 1.2 million (table 1). The outstanding loans were cut almost in half—from \$69.2 million in 1941 to \$34.4 million in 1944—as a result of conditions imposed by the war and the restrictions on consumer credit contained in Regulation W administered by the Federal Reserve

System. There has been, however, an uninterrupted growth in the volume of members' savings in Federal credit unions, and since 1945 the number of operating Federal credit unions, the number of members, and the volume of loans outstanding have also increased continuously. A continuation of this upswing is predicted by many leaders in the movement.

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

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 F 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

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

Year	Number granted	Number canceled	Net change in number	Number outstanding at end of year		
				Total	Inactive credit unions	Operating credit unions
1935.....	1,906	—	1,906	906	134	772
1936.....	956	4	952	1,858	107	1,751
1937.....	638	69	569	2,427	114	2,313
1938.....	515	83	432	2,859	99	2,760
1939.....	529	93	436	3,295	113	3,182
1940.....	666	76	590	3,885	129	3,756
1941.....	583	89	494	4,379	151	4,228
1942.....	187	89	98	4,477	332	4,145
1943.....	108	321	-213	4,264	326	3,938
1944.....	69	285	-216	4,048	233	3,815
1945.....	96	185	-89	3,959	202	3,757
1946.....	157	151	6	3,965	204	3,761
1947.....	207	159	48	4,013	168	3,845

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 all 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 398 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 committeeman 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 semi-annual 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 de-

velop 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.

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participation also influenced the timing or extent of changes in some other States. In New Mexico, reductions in State maximums for assistance payments and in the proportion of need met were not so large as would have been necessary if Congress had not increased the Federal share. Even so, average payments decreased nearly \$4 per aged recipient, more than \$4.50 per blind recipient, and nearly \$7 per family receiving aid to dependent children.

The Utah law provides that semi-annual changes in the maximums for payments shall be in direct ratio to changes in the consumers' price index of the Bureau of Labor Statistics. August increases in payments reflected an increase in the maximums and in the allowance for personal requirements for all recipients. Average payments increased by \$2-3 for old-age assistance and aid to the blind, by \$3 for general assistance, and by more than \$5 per family for aid to dependent children.

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