

Credit Unions: A History of Outstanding Service

Presented by: Tracy Vasilias
Manager of Chapters & Electronic Education, CCUL
tracyv@ccul.org
© California & Nevada Credit Union Leagues



What is a Credit Union?

A credit union is a *Cooperative*.

A cooperative is an organization that is voluntarily owned and controlled by the people who use its products, supplies, or services.

- *Democratic member control*
- *Generally operated on a not-for-profit basis*
- *Concern for community*
- *Purpose is to provide and distribute benefits to its users on the basis of their use*



Four Categories of Cooperatives

- Producer - owned by people who produce similar types of products (e.g., farmers who grow crops, raise cattle, milk cows, or by craftsmen and artisans)
- Consumer - owned by the people who buy the goods or use the services of the cooperative (e.g., food, housing, electricity, telecommunications, healthcare, and **credit unions!**)
- Purchasing/Shared Services - owned and governed by independent business owners and small that band together to enhance their purchasing power and lower their costs
- Worker - owned and governed by the employees of the business (e.g., employee-owned food stores, restaurants, taxicab companies, sewing companies)

Credit Unions are Financial Cooperatives

- Members pool their assets to provide funds for loans and other financial services
- Owned by members
- One member, one vote
- Operated on a not-for-profit basis
- Dividends are paid to members, not stockholders
- Volunteer Boards/Committees
- Often offer more favorable rates and services

European Cooperatives



In 1844, a group of textile mill workers in Rochdale, England established the **Rochdale Society of Equitable Pioneers** in 1844. They sold shares to members to raise capital to buy goods at lower than retail prices, and then they sold the goods at a savings to members. They sold butter, flour, sugar, oatmeal, and candles.

The Rochdale Society of Equitable Pioneers was one of the first groups to make a cooperative succeed.

This is all that remains today of the original Toad Lane in Rochdale---now a conservation area with the original Rochdale Pioneers' store as a museum.

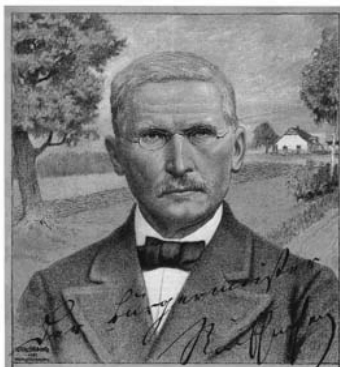
Hermann Schulze-Delitzsch

- Founded the 1st credit society in 1850 in Germany.
- After some trial & error, the initial “loan association” came to closely resemble the credit unions of today.
- Spent the rest of his life organizing “people’s banks”
- Only 9 years after launching his 1st credit cooperative, there were 183 people’s banks with 18,000 members in the German provinces of East Prussia & Saxony.



(1808-1883)

Friedrich W. Raiffeisen



(1818-1888)

- In 1864 organized the Heddesdorf CU in Germany.
- Founded rural cooperatives (loan societies) to aid poor farmers.
- Organized the first central banking association to meet the liquidity needs of member credit societies.
- Formed 425 credit societies.

Friedrich W. Raiffeisen is considered the Father of the credit union movement

The Credit Union Movement in North America

Alphonse Desjardins



(1854-1920)

- Reporter concerned about the problem of usury.
- In 1900, opened the 1st financial cooperative (*Caisses populaires Desjardins*) in Canada in his home.
- 1st deposit was 10 cents, but within 6 years, the credit union made loans totaling \$200,000, without losing a penny.
- In 1909, helped a group of Franco-American Catholics in Manchester, New Hampshire, organize St. Mary's Cooperative Credit Association--first CU in U.S.



Desjardins house & 1st Canadian Credit Union.

Only the third time ever a Canadian 10-cent coin commemorates a significant historic event!

Edward A. Filene

- Businessman and philanthropist. Built Filene's department store chain.
- While traveling, discovered financial cooperatives operating in small villages in India in 1907.
- Instrumental in helping to pass first state CU law (in Mass.), and later – with Roy Bergengren – in 26 other states
- Founder & President of CUNA



(1860-1937)

Roy Bergengren



Roy Bergengren

(1879-1955)

- In 1920, Filene hired Massachusetts attorney, Roy Bergengren to help seek increased State and Federal legislation to promote credit unions.
- Director and co-organizer of the Credit Union National Extension Bureau (CUNEB) in 1921.
- Helped launch US movement's involvement in international development.

Leo H. Shapiro, Father of California's Credit Union Movement

In 1922, attorney Leo Shapiro set out to secure passage of a credit union enabling act in California. Following a five-year lobbying struggle, legislation enabling the formation of credit unions in California was passed, resulting in an economic trend that continues to strongly influence the lives of California citizens.



Someone said that Leo Shapiro once climbed all the way up a telephone pole to talk to a lineman about organizing a credit union. Those who knew him wouldn't doubt it for a minute. Passionate about getting consumers out of the clutches of loan sharks who charged 180 percent to 520 percent interest, he organized one hundred credit unions while carrying on an active law practice and serving as our chief lobbyist for more than a decade.

In 1933 he organized the California Credit Union League, and served as its first president and then chairman of its board.

He once said, "I look upon credit unions as little lighted candles, all spread over a great country like ours. There's an old saying that no amount of darkness can put out the light of any candle. This candle (credit unions) is lighting the way for people to better themselves . . ."

Shapiro also worked closely with other cooperative leaders such as Edward Filene and Roy Bergengren to make the credit union movement a national movement.

More Credit Union History

- 1924 – Fresno Postal Employees CU, Limited, was the first credit union formed in the state of California. At the time the credit union came into being there were no federal or state laws governing the operation of credit unions, and it was chartered under the provisions of Canadian credit union law, hence the designation "Limited" following the original name of the organization. Now known as First California FCU, the credit union is still thriving and will celebrate its 85th anniversary on November 18, 2009.
- 1930 – 32 states had enacted CU legislation. 1,100 credit unions had been formed
- 1933 – The California Credit Union League was formed
- 1934 – The Credit Union National Association (CUNA) was formed in Estes Park, Colorado. Roy Bergengren was the first managing director.

Federal Credit Union Act

- In 1934, Congress passed a federal credit union act, which permitted credit unions to be organized anywhere in the United States.
- The legislation allowed credit unions to incorporate under either state or federal law, a system of dual chartering that continues today.
- President Franklin D. Roosevelt signed the Federal Credit Union Act into law in June, 1934.

Credit Union Growth

- Number of credit unions in U.S.
 - 1940: 9,224
 - 1950: 10,586
 - 1960: 20,094
 - 1969: 23,866 (peak # of CUs in U.S.)

Organizational Expansion

- In 1970, the National Credit Union Administration (NCUA) was created to charter and supervise federal credit unions and the National Credit Union Share Insurance Fund (NCUSIF) was organized to insure credit union deposits. In the independent credit union spirit, the NCUSIF was created without tax dollars and capitalized solely by credit unions.
- Initial insurance coverage under NCUSIF was \$10,000.



Still More Credit Union History

- 1970 - World Council of Credit Unions (WOCCU) is formed
- 1974 - Credit unions get share drafts
- 1980 - 21,465 credit unions in U.S.
- 1990 - 14,549 credit unions in U.S.



1998 – H.R. 1151, The Credit Union Membership Access Act

Credit unions are legally authorized to operate through a federal- or state- issued charter, which – in part – helps define a credit union’s field of membership, or who it may serve. The 1934 Federal Credit Union Act limited membership to groups “having a common bond of occupation or association” or to groups within limited geographic areas.

In the 1980s, however the National Credit Union Administration expanded its definition of “common bond” so that displaced credit union members or other small businesses that lacked enough workers to form their own credit union could join an existing one.

For over eight years, bankers sued credit unions unsuccessfully in an attempt to stop field of membership expansion. One such lawsuit, however – against a federally-chartered, North Carolina credit union – was appealed all the way to the Supreme Court. In February 1998, the Supreme Court ruled that the NCUA went beyond its authority in allowing field-of membership expansion.

The decision threatened to block credit union access for 62 percent of the American workforce — 63 million working Americans employed by small businesses that do not have enough workers (at least 500) to start a credit union of their own. The 3,600 federally chartered credit unions that took in at least one additional membership group since 1982 were forced to stop that practice. The decision set a dangerous precedent that would have encouraged banker lawsuits and legislation, posing an indirect threat to millions more members and potential members of the country’s state-chartered credit unions.

Immediately, consumers reacted. Three million people petitioned, called, wrote, or visited legislators urging their support of a bill introduced to Congress in early 1997: HR 1151, the Credit Union Membership Access Act. The bill aimed at preserving people’s right to belong to a credit union by preserving rules on field-of-membership expansion. A total of 207 legislators co-sponsored the bill. The measure was passed by the U.S. House of Representatives on April 1 by a 411-8 vote, and by the Senate on July 28 by a vote of 92-6. President Bill Clinton signed HR 1151 into law on August 7, 1998.

— *The Wisconsin Credit Union League & Affiliates Fact Sheet*

Tax Exemption

In 1937, Congress decided to exempt credit unions from federal income taxes because they are non-profit, mutually-owned, democratically controlled institutions that have no capital stock and rely heavily on volunteer leadership.

Congress reviewed and reaffirmed this exemption in 1951 and again in 1998.

Some other financial institutions claim that the tax exemption gives credit unions an unfair competitive advantage. They claim that credit unions are getting “too big,” are growing “too fast,” and are making “huge” market share gains. They claim that their beef is not with small credit unions, but with large credit unions that “look and act” like banks. They believe these large credit unions should be taxed.

However, Congress granted credit unions tax exemption because of their cooperative nature (i.e., democratically controlled, non-profit, etc.), and their commitment to serve those of modest means, not because of size or services provided.

In the words of Alphonse Desjardins . . .

“A credit union is not an ordinary financial concern, seeking to enrich its members at the expense of the general public. Neither is it a loan company, seeking to make a profit at the expense of the unfortunates... The credit union is nothing of the kind; it is the expression in the field of economics of a high social ideal.”

The Credit Union Difference: Words to Live By

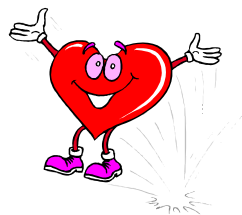
*“Not for profit, not for charity,
but for service.”*

Credit Union Philosophy:

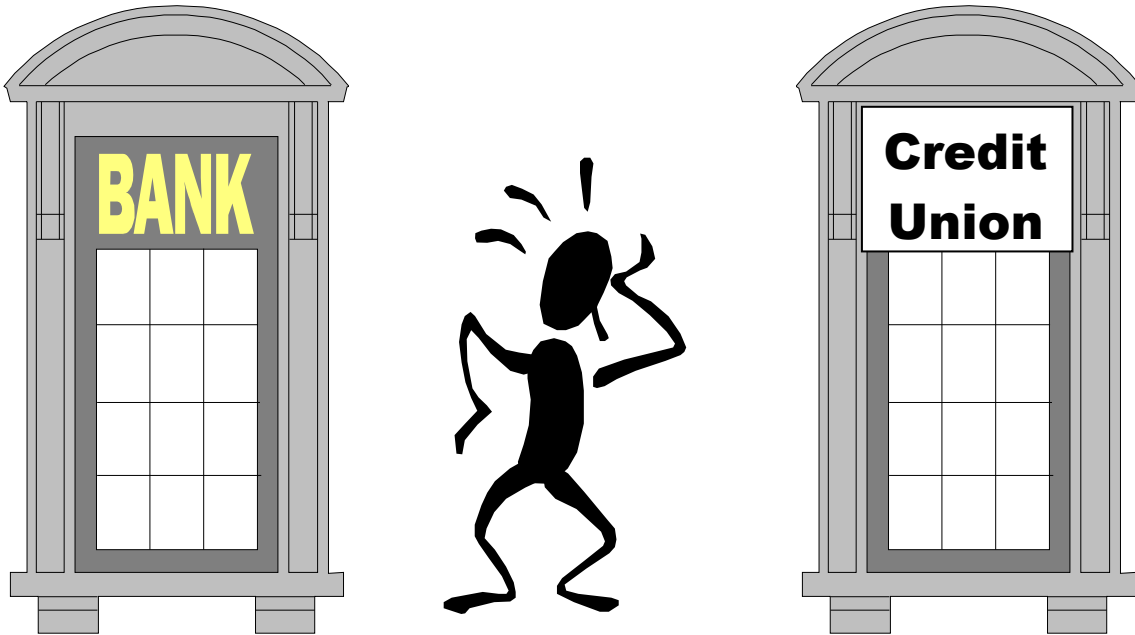
People Helping People



*A credit union is a
financial institution
with a heart.*



How Are Credit Unions Different from Banks?

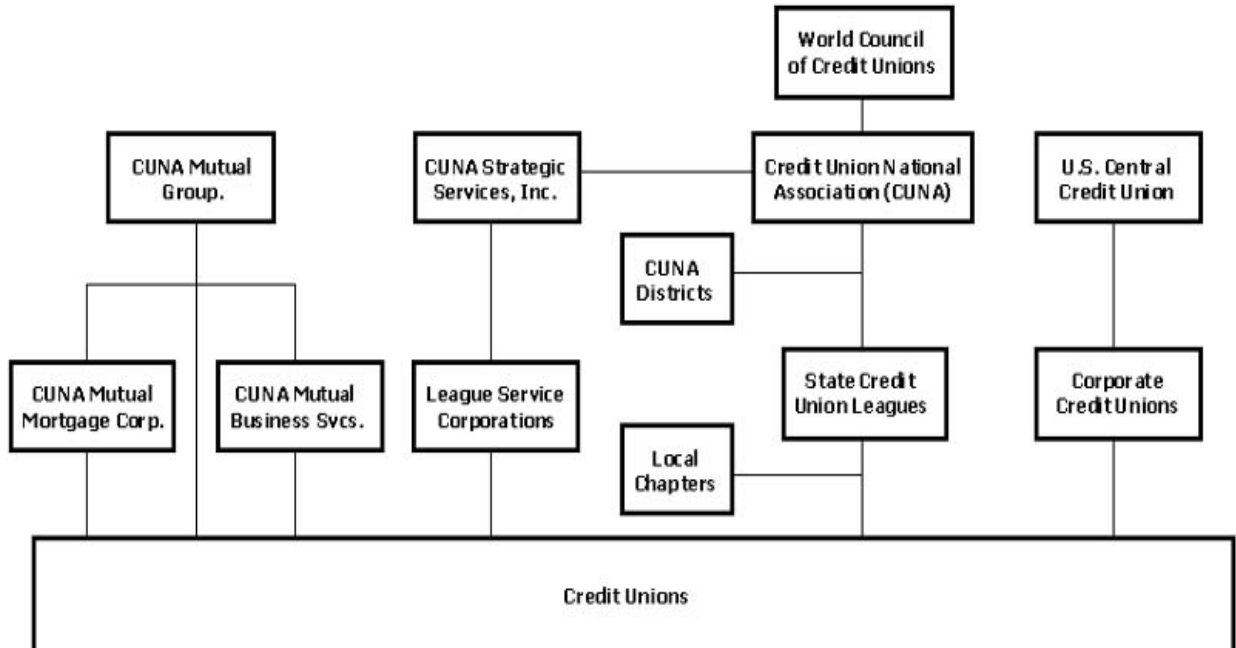


<u>Banks</u>	<u>Credit Unions</u>
✓ Customers	_____
✓ Paid Board of Directors	_____
✓ For Profit Corporations	_____
✓ Owned by Stockholders	_____
✓ Regulated by FDIC	_____
✓ Higher Fees & Less Favorable Rates	_____
✓ Lower Savings Rates	_____

Credit Unions Today

CREDIT UNION STATISTICS CREDIT UNIONS IN CALIFORNIA		CREDIT UNION STATISTICS U.S. CREDIT UNIONS	
State-Licensed:	171	Credit unions:	7,978
Federally-Chartered	291	Credit union members:	92 million
Number of Credit Union Members:	10,005,909	Total assets:	\$908.8 billion
Total Assets:	\$122.9 billion	<i>Source: CUNA and Associates, 2009</i>	
CREDIT UNIONS IN NEVADA		INTERNATIONAL CREDIT UNIONS	
State-Licensed:	8	Credit unions worldwide:	53,689
Federally Chartered:	14	Credit union members worldwide:	185.8 million
Number of Credit Union Members:	451,162	Total assets:	\$1,193,811,863,723 (US dollars)
Total Assets:	\$3.88 billion	<i>Source: World Council of Credit Unions, Inc., 2009</i>	
<i>Source: California & Nevada Credit Union League 2010</i>			

Credit Union System



Credit Union Abbreviations and Acronyms

- CU – Credit Union
- CCUL – CA Credit Union League
- CLSC – CA League Service Corp.
- CO-OP – CO-OP Financial Services
- CUDL – Credit Union Direct Lending
- CUES – Credit Union Executive Society
- CUMIS – Credit Union Mutual Insurance Society
- CUNA – Credit Union National Association
- CUSO – Credit Union Service Organization
- DFI – Department of Financial Institutions (CA)
- E&T – Education and Training (CCUL/NCUL)
- FCU – Federal Credit Union
- FID – Financial Institutions Division (NV)
- FOM – Field of Membership
- FRB – Federal Reserve Bank
- FSCC – Financial Service Centers Cooperatives
- NAFCU – National Association of FCUs
- NCUL – Nevada Credit Union League
- NCUSIF – National Credit Union Share Insurance Fund
- NCUA – National Credit Union Administration
- R&I – Research and Information (CCUL/NCUL)
- SEG – Select Employee Group
- Wescorp – Western Corporate Federal Credit Union
- WOCCU – World Council of Credit Unions
- WesPay – Western Payments Alliance