

Credit Unions grew from crop failures

How did a German crop failure long ago lead to the organizing of your credit union? It's a story of the curious turns of history, but even more, a story of people helping people.

The German crop failure of 1846 was followed by a hard winter. The widespread famine and suffering sparked revolutionary unrest, and it turned the thoughts of two men to social reform.

Birth of an idea—Herman Schulze-Delitzsch, a justice of the peace, was active in reform politics. Aware of the lack of low-cost credit workers and shopkeepers, he devoted much of his life to helping organize credit cooperatives. In a cooperative, people join together to purchase, repay the loan in the fall when he sold his crops.

Schulze-Delitzsch called his co-op people's banks. Members placed their savings in the cooperative and borrowed from it.

Friedrich Raiffeisen, a village mayor, drew on Schulze-Delitzsch's ideas to organize similar cooperatives among farmers and villagers. Like the people's banks, these were forerunners of today's credit unions. Although an eye disease gradually blinded Raiffeisen, with the help of his daughter, he spent the rest of his life in this work.

Members owned and controlled the people's banks and Raiffeisen co-operatives. They organized them not for profit, and not for charity, but for service. A farmer, for example, could get a loan to buy seed in the spring, repaying the loan in the fall when he sold his crops.

Profits to members—Any surplus left after the cooperative paid its expenses was put into reserves to strengthen the organization or used in other ways to benefit the members.

These cooperatives attracted worldwide attention. In those days, commercial banks weren't interested in providing financial services to ordinary working people. A working person needing a loan often turned to a loan shark who charged exorbitant rates of interest. Reformers saw the people's bank, or credit union, as a way for working people and their families to take control of their financial destinies.

Alphonse Desjardins, a French-Canadian parliamentary recorder and translator, planted the credit union seed in the New World. In

1890, he organized a credit union in his home city of Lévis, Quebec. He devoted much of the rest of his working life to the credit union cause and was honored by the pope for his work.

Desjardins helped a parish priest organize the first U.S. credit union among the French-speaking workers of Manchester, N.H. This credit union, today called St. Mary's Bank, still serves residents of that community.

Growth of the idea—The credit union movement spread to a few other states, spearheaded by public-spirited citizens like banker John Sprunt Hill of North Carolina, who encouraged credit unions among the rural poor. But the growth of the movement was slow. For one thing, most states did not have laws providing for this kind of financial cooperative. Although some bankers like Hill supported the movement, other vigorously opposed passage of laws permitting people to have their own financial institutions.

The two persons who did the most to create the nationwide credit union system you know today were an unlikely pair of reformers from the Boston area—Edward A. Filene, a wealthy merchant, and Roy Bergengren, a lawyer and failed candy manufacturer.

When his father became ill, young Filene abandoned plans to go to Harvard and assumed management of the family's five clothing and dry goods shops. He and his brother built one of the shops into a leading specialty store. Filene's, with its famous bargain basement, still serves Boston.

Filene was a shy man, a lifelong bachelor, whose abrupt manner concealed concern for the welfare of others. His employees became his family. In addition to providing benefits far ahead of the time, he gave his workers a voice in setting work hours, wages and working conditions.

But his vision extended beyond the store. He spent much of his personal fortune promoting consumer education and world understanding.

Answer to loan sharks—Filene became interested in credit unions on a world tour in 1907. He saw them as an alternative to the loan sharks preying upon American workers and as a way to bolster the economy by providing consumer credit. As he put it in a speech in 1917: "The credit union, capable of the widest use by small farmers and wage workers, creates credit at bank rates for the sort of folks who need credit the most and who are the most ready victims of the usurer (loan shark)."

To spread the credit union movement nationwide, Filene hired Bergengren, a lawyer and civic reformer who recently had seen his fledgling candy manufacturing business fail due to rising sugar prices.

The credit union idea seized Bergengren's imagination. He turned it into a lifelong crusade. He crisscrossed the country by train, spreading the credit union idea and lobbying for state credit union laws. Thanks to the dynamic duo of Filene and Bergengren, and the work of countless other individuals, credit unions sprang up in dozens of states. In 1934, with the blessing of credit union supporter President Franklin

Roosevelt, Congress passed a law permitting formation of credit unions in every state.

With Bergengren's assistance, credit unions strengthened their position by forming state associations, called leagues, and the Credit Union National Association (CUNA). Bergengren became the first managing director of CUNA in 1934. Filene died in 1937; Bergengren guided the national movement for another eight years.

Pragmatic kinship—These and many other credit union pioneers were people of deep moral convictions. "The real job of the credit union," Bergengren said, "is to prove, in modest measure, the practicality of the brotherhood of man."

The two men admired the free enterprise system. Filene, after all, helped found the chamber of commerce. Filene and Bergengren had nothing against for-profit banks, but saw credit unions as an alternative, democratic way for people to provide themselves with financial services at reasonable cost. Filene called credit unions "a moral supplement to the banking system."

Today, more than 14,000 credit unions serve the financial needs of 62 million Americans in the United States.

Most credit unions serve employees and their families. But there are credit unions serving members of the armed forces, churches, associations, and farm groups. Some serve a community or neighborhood. Through elected boards of volunteers, members own and govern their credit unions. And they still are dedicated to services, not profit, and not charity. Credit unions exist to serve their members, not to make profits for stockholders.

And the credit union movement has not stopped growing. Your credit union and credit unions across the nation support the work of the World Council of Credit Unions, which encourages formation of credit unions in many countries, including developing nations like Bangladesh and newly free countries like Poland. Credit unions are now, as they always have been, democracy in action.

Credit Unions: Safe and strong

"Because they play it safe with their loans and investments, credit unions are relatively healthy," according to Lou Dobbs, host of Cable News Network's "Monday Line."

Credit unions have avoided the trouble encountered by banks and S&Bs, he reported, because they make safe consumer loans rather than loans to third-world countries or commercial real estate loans. In addition, he said, the fund that insures credit union deposits is "solid."

As in the case of banks and thrifts, deposits are insured up to \$100,000. But the credit union insurance fund, administered by the National Credit Union Administration, is better capitalized at \$1.26 for every \$100 insured as compared with \$20 for every \$100 at the Federal Deposit Insurance Corporation which insures banks and thrifts.

Credit unions have a "pay as you

go" insurance fund. It expands proportionally to their rate of growth. Because credit unions deposit an amount equivalent to 1% of their insured deposits into their insurance fund, they have a vested interest in the health of the fund, and thus, the activities of other credit unions. Strong regulatory agencies require yearly examinations and credit unions are the only federal insured financial institutions that have never received taxpayer dollars.

"Although still a small industry relative to commercial banks, credit unions, with \$200 billion in assets, have exhibited strong growth in recent years and are a viable part of the financial services sector," reported Standard & Poor's, the rating service.

S&P said in a report to business editors that "credit unions are unique providers of financial ser-

vices, distinct from (banks and savings and loans)." S&P explained that credit unions are cooperative, member-owned, not-for-profit, tax-exempt institutions, with "market niches" defined by common bonds.

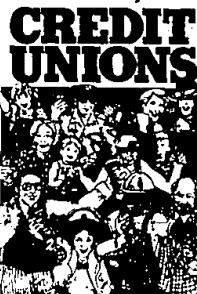
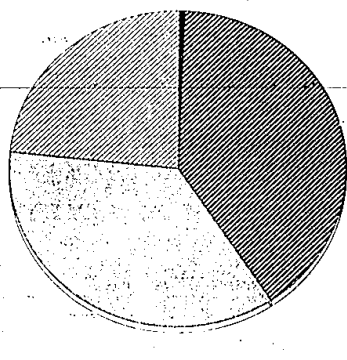
S&P also said that "despite their growth and expansion, credit unions maintained, overall, a relatively low level of losses in the 1980s and are now in a good state of health."

An average capital to asset ratio of 7.6 percent, the highest ever recorded, was achieved by the nation's 14,544 credit unions in 1990. Some of that increase reflects the apprehension of depositors following threat failures, but a good part of it also comes from awareness of the strength of the credit union federal insurance fund. The \$2.1 billion National Credit Union Share Insurance Fund is backed by the full faith and credit of the federal government.

The credit union fund is sound, with reserves near the maximum required by law. In fact, the fund holds a higher level of reserves than the level proposed by President Bush in his S&L reform plan to congress.

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Michigan Credit Union Assets Top \$11 Billion

A review of final year-end statistics shows Michigan's credit unions have continued their success and stability despite the economic challenges of the last decade.

"It's the mid tale of the tortoise and the hare," said Kenyan E. Rixley, President and CEO of the Michigan Credit Union League. While many people's attention was elsewhere, Michigan credit unions have been one of the success stories of our era."

Membership in Michigan credit unions reached an historic high of more than 3.6 million people, surpassing one out of every three people in Michigan is a member.

Credit unions assets continued their pattern of steady growth, passing the \$11 billion mark last year compared with \$4 billion at the end of 1980.

The capital-to-asset ratio for Michigan credit unions at the end of 1990 was a solid 8.7 percent. Shares hit \$9.9 billion, a dramatic climb from 1980's \$3.6 billion.

Year-end figures show that only one half of 1 percent of Michigan credit union loans were in the commercial category. Home mortgages

accounted for 23.1 percent, and other consumer loans, 40.1 percent.

Michigan credit unions have more active volunteers (7,955) than either full time or part time employees (6,687 and 1,779, respectively). Year-end figures indicate that Michigan credit unions' fields of membership are 18.5 percent residential or multiple group, 23.7 percent associational, and 57.8 percent occupational.

Credit unions hold 7.7 percent of the total assets in Michigan depository institutions. Commercial banks hold 65.8 percent and savings & loans, 26.5 percent.

The 25-year trend of credit union consolidation continued during 1990, with the number of separate institutions shrinking to 600, down from 630 in 1989. The decline was just slightly less among state-chartered than federally-chartered credit unions. In 1990, there were 571 state-chartered CUs; today there are 385, a dip of 32.6 percent. Federally-chartered CUs saw their numbers dip 35.9 percent, from 250 to 161.

Figures are drawn by the Michigan League from the 1990 Year End Call Reports gathered by the National Credit Union Administration.