

## FEDERAL CREDIT UNION SYSTEM

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MARCH 20 (calendar day, MARCH 27), 1934.—Ordered to be printed

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Mr. BANKHEAD, from the Committee on Banking and Currency, submitted the following

## R E P O R T

[To accompany S. 1639]

The Committee on Banking and Currency of the United States Senate, to whom was referred the bill (S. 1639) 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 co-operative credit thereby helping to stabilize the credit structure of the United States, have considered this measure after hearings and favorable report by a subcommittee of this committee and hereby reports it to the Senate with the recommendation that it pass with an amendment eliminating section 16, which exempts credit unions organized under this bill from Federal taxation.

While the bill is necessarily somewhat long and the subject matter possibly one of first impression to many Members of the Senate, the national problems with which the bill has to do are problems with which we have been long concerned. At a time when industrial recovery depends on the buying power of the masses of the people, usurious money lending in total amounts which are now figured in billions of dollars annually, obviously destroys vast totals of buying power represented by the difference between what the average worker should pay for credit and what he does pay for credit. It is with this truly national problem that Senate bill 1639 is primarily concerned. Possibly the clearest method of explaining the bill is by the question-and-answer method. The first question, obviously, is:

(1) What is Senate bill 1639?

Senate bill 1639 is a bill which, if enacted, would authorize the organization of typical credit unions in the United States under Federal jurisdiction and would permit, in each State, the credit unions in that State to organize a central credit union. Part I of the bill is similar in tenor to a bill enacted by Congress in 1932, which

authorizes the organization of credit unions in the District of Columbia. In similar fashion, part I sets up the machinery for organizing and supervising credit unions under Federal jurisdiction. Part II of the bill provides simply for a central credit union for rediscount in each State, of particular value to the credit unions in time of industrial depression, when, many times, a credit union itself needs a normal source of credit.

(2) What is a credit union?

A credit union is a cooperative society, organized in accordance with the provisions of a specific credit-union law, carefully supervised, self-managed, limited in each case to the members of a specific group with a common bond of occupation or association (such as the employees of a given industry, farmers in a given district, members of a church parish, employees of the United States Government, groups within a well-defined neighborhood, small community or rural district, etc.), which supplies its members with (1) a simple and convenient system for saving money, which enables the members (2) with their own money and under their own management to take care of their own short-term-credit problems at a normal interest rate.

The credit union does three things for its members: (a) It enables them in good times to accumulate some savings for protection against bad times; (b) It enables them to protect themselves from high rate money lenders and, by making it possible for them to buy and pay cash for things, protects them from installment overcharges, the whole process turning interest overcharges into cash buying power; it solves for its members a problem which, since earliest recorded history, has resulted when unsolved, in usury; and (c) it educates its members in matters having to do with the sane and conservative management of their own money.

(3) How extensive is the credit-union development in the United States?

The credit-union development has always been retarded because there is no national law on the subject. Thirty-eight States have enacted such laws since Massachusetts enacted the first credit-union law in 1909; the 1932 Congress enacted such a law for the District of Columbia (which supplies the basis for part I of this Senate bill 1639, and establishes a precedent for Federal credit unions). There are 2,350 credit unions now operating successfully in various parts of the United States, some urban and some rural, with 450,000 members and resources of \$50,000,000. They now make loans of about \$65,000,000 annually at normal rates to their members.

(4) What of their record during the depression?

Credit unions now operate under the same form of examination as State banks. They are composed of average working people who have been hard hit by the depression; they develop from within their own capacity for management. In the 38 States and in the District of Columbia there have been no involuntary liquidations of credit unions. Their record for honest management is exceptional. Eligible to relief from the Reconstruction Finance Corporation, less than a dozen of them have sought any relief. They have proved their durability and they have served their members uninterruptedly during the worst depression in our history. They are capable of rapid mass development as they have to do with problems which affect the masses of the people.

(5) What of credit union history?

The first credit unions were organized in Germany 82 years ago; the plan spread rapidly throughout the world. The first credit union in North America was organized in Quebec 34 years ago; the first in the United States in Massachusetts a quarter of a century ago. There is nothing new or experimental about the credit union.

(6) Samples.

Credit unions are now being organized for example, within the Farm Credit Administration, the Tennessee Valley Authority, various Federal departments in Washington, etc. It is because much of this organization is truly national in character that the enactment of this bill is so essential. There are 322 credit unions of postal employees with 70,000 members, resources of 6½ million dollars, doing a per annum small-loans business of 10 million dollars. There are many credit unions within the American Farm Bureau Federation, the National Grange, the Farmers Union; in industry there are groups of credit unions in Armour & Co., the New England Telephone & Telegraph Co., Swift & Co., the International Shoe Co., the Kroger Grocery & Baking Co., etc. There are many successful credit unions within church parishes, small communities of city employees, school teachers, etc. There are several well-defined varieties of credit-union organization and credit unions are now being organized at the rate of 70 per month. The present need for much more rapid national development is, however, very great. The credit union is one form of credit organization capable of reaching the masses of the people with normal short-term-credit resources which can be done, however, only by the enactment of a Federal law which would make a uniform national development possible. Incidentally the plan is incapable of exploitation because of the limitations contained in the law and all credit-union promotion has been and is carried on as a disinterested public service.

(7) With what national problems are the credit unions concerned?

As has been indicated the credit union is geared to bring normal-credit resources on a cooperative basis to the masses of the people whose buying power is now so often dissipated in high-rate interest charges. The records of every credit union are full of cases where members have been relieved from interest overcharges. Whatever the earning power of the individual, his spending power depends exclusively on the availability of what he earns to satisfy his normal purchasing demands. It has been many times authoritatively stated that over two thirds of everything that is bought, of the products of the factory and of the soil, is bought by men and women who earn less than \$40 a week. The high rate money-lending business, now totaling more than \$2,000,000,000 annually, destroys this buying power in the exact amount of the hundreds of millions of dollars representing the difference between the present total interest charge for this credit at usurious rates and the normal rates which credit unions would have charged had the national, rapid, credit union development, under a uniform system, been possible in recent years. Senate bill 1639 seeks to make this uniform, national development under Federal supervision possible. Credit unions also have vast educational values. The fact that credit unions of working men and women, managed by fellow workers have come through the depression without failures, when banks have failed so notably, is a tribute to

the worth of cooperative credit and indicates clearly the great potential value of rapid national credit union extension.

(8) Why, with so many State laws, is a Federal law necessary?

A Federal law is necessary because—

(a) The cooperation with many groups (such as the Farm Credit Administration, nationally distributed industrial and rural groups, etc.) is now so highly desirable that it is important that it be possible to organize credit unions, under proper restrictions, anywhere. The consumer-credit problem is a national problem which has no State limitations. This problem calls for prompt solution because, unsolved, it greatly retards the recovery program.

(b) The credit-union development is in its infancy, and this is the proper time to bring it under Federal jurisdiction.

(c) In order to have a uniform development, the State laws differ in essential particulars and many of them are very imperfect, rendering normal development impossible.

(d) In order to make credit union organization possible everywhere in the United States, 10 States at the present time have no credit union laws at all.

(e) To escape overburdensome State taxation in some States and excessive organization fees in other States,

(f) Because the problems with which the credit union is concerned are truly national problems which can only be met nationally by a Federal law.

(g) Because in the great program of national relief which has brought cash loans to banks, financial aid to farmers and has involved the United States in many other forms of relief in which the Government is the primary participant, the enactment of this bill will bring credit relief to the masses of the people, (now unable to make a full contribution to industrial recovery because of the waste incidental to interest overcharges) without this service costing the United States any money at all.

(h) Because the credit unions have demonstrated during the depression their joint need in each State for a central-credit union, from which, under the proper restrictions contained in part II of this bill, they could borrow in times of necessity.

(9) What would be the cost to the United States of the administration of this law?

There would be no cost. The bill provides for annual fees, paid by credit unions to care for the costs of administration and also for the costs of examination both of credit unions established in accordance with part I of the bill and for central-credit unions provided for in part II of the bill. All that the nearly half a million people in the credit unions (who appreciate from their own credit union contacts, what rapid national credit union development in the United States would mean in the industry recovery program) seek in this legislation is the right to develop credit unions under an adequate Federal law nationally, carefully, conservatively, and rapidly under strict Federal supervision.

Because of the reasons contained in this analysis your committee recommends that the bill pass, predicating that report on the conviction that the enactment of this bill would constitute an item of extraordinary value in the recovery program and that the solution

of the national problems which the credit unions, nationally distributed and functioning under this bill will inevitably solve, will be of exceptional, permanent, national importance, and value.

This bill (S. 1639) was accompanied by two other bills relating to the same subject, to wit, S. 1640, authorizing Federal Reserve banks to receive deposits from Federal credit unions; and S. 1641, authorizing Postal Savings banks to receive such deposits.

These three bills were referred to the Post Office Department, the Federal Reserve Board, and the Treasury Department, and the following replies came.

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OFFICE OF THE POSTMASTER GENERAL,  
Washington, D.C., May 20, 1933.

HON. DUNCAN U. FLETCHER,  
*Chairman Committee on Banking and Currency,  
United States Senate.*

MY DEAR SENATOR FLETCHER: In reply to your letter of May 13, I have to inform you that Senate bill 1641, which provides for the acceptance of Postal Savings deposits from credit unions has been given very careful consideration.

The provision of the bill is contrary to the true mission of the Postal Savings, as contemplated in the original Postal Savings Act, which was enacted primarily to promote thrift and economy and for the purpose of taking money out of hiding and putting it into circulation through local banks, as well as to prevent millions of dollars earned here from being sent out of the country by foreign-born people for deposit in government depositories in their native countries.

The framers of the organic act never intended that the Government should go into the banking business or in any way compete with financial institutions. For that reason individuals only were permitted to make deposits; such deposits are limited to the amount of \$2,500; and the opening of accounts in the name of a corporation, association, society, firm, partnership, or in the names of two or more persons jointly, is prohibited.

The extension of the service to include credit unions would also necessitate the taking on of additional administrative personnel in view of the technical and legal difficulties resulting from such a course, which must be avoided at this time if the Budget is to be balanced. Accordingly, we must consistently guard against any action which would in any way affect the financial and economic recovery of the country.

It is therefore suggested that the bill be not favorably considered at this time.  
Very truly yours,

JOSEPH E. O'MAHONEY,  
*Acting Postmaster General.*

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FEDERAL RESERVE BOARD,  
Washington, May 25, 1933.

HON. DUNCAN U. FLETCHER,  
*Chairman Committee on Banking and Currency,  
United States Senate, Washington, D.C.*

MY DEAR MR. CHAIRMAN: Reference is made to the letter dated May 13, 1933, from the acting clerk of your committee, requesting a report on S. 1639, a bill to establish a Federal Credit Union System, and for other purposes, and on S. 1640, a bill to amend section 13 of the Federal Reserve Act by authorizing Federal Reserve banks to receive deposits from credit unions.

The bill S. 1639 provides for the organization of Federal credit unions which would be authorized to receive deposits from their members and to make loans to them for provident or productive purposes under certain terms and conditions, and also for the organization by State or Federal credit unions of Federal central credit unions which would be authorized to receive deposits from and make loans to their member credit unions. The credit unions organized under the provisions of this bill would be subject to the supervision of the Comptroller of the Currency, but certain duties of a supervisory character in connection with their organization and operation would be required of the officers and directors of the Federal Reserve banks. Federal credit unions would be authorized to make deposits in

Federal Reserve banks, and Federal central credit unions would be authorized to make deposits in or to rediscount assets with Federal Reserve banks.

The bill S. 1640 would authorize a Federal Reserve bank to receive deposits from credit unions operating under State or National laws and to make loans to credit unions in amounts not exceeding the par value of the United States securities assigned as security therefor plus the total of such deposits.

As the subject is one which has not fallen within its province, the Federal Reserve Board is without adequate information upon which to base a study of the advisability of the establishment of a Federal system of credit unions, and accordingly the Board does not feel prepared to express an opinion in the matter. It is assumed, however, that a report from the Federal Reserve Board with respect to these bills has been requested because of the relationships between credit unions and Federal Reserve banks provided for in the bills, and that the Board's views are desired only with regard to the provisions affecting the Federal Reserve banks.

The provisions authorizing Federal central credit unions to rediscount with Federal Reserve banks would, it is felt, be inconsistent with the purposes for which the Federal Reserve System was established. Under the Federal Reserve Act, the Federal Reserve banks may discount paper which is issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which are used for such purposes, and it is evident from the provisions of the act that it was the intention of Congress that paper eligible for rediscount should be self-liquidating in character and of short maturity. In other words, it was contemplated that the paper should arise out of commercial or agricultural transactions which ordinarily will be consummated within a comparatively short period of time and out of which will be derived funds to pay the paper at maturity. Presumably, the paper of Federal central credit unions would not ordinarily be of this character.

Moreover, the Reconstruction Finance Corporation is authorized under the law to make advances under certain conditions to credit unions, and the security which it may accept for such loans is not confined to paper which would be eligible for discount at Federal Reserve banks. It is also to be noted, in connection with the provision of S. 1640 which would authorize Federal Reserve banks to make loans to credit unions on the security of United States securities, that Federal Reserve banks are authorized, under the provisions of section 13 of the Federal Reserve Act, as amended by the act of March 9, 1933, to make advances secured by direct obligations of the United States for periods not exceeding 90 days to any individual, partnership, or corporation. In the circumstances, there would appear to be no necessity for authorizing Federal Reserve banks to discount the paper or other assets of credit unions or to make loans to them.

With regard to the provisions which would authorize credit unions to deposit funds with Federal Reserve banks, it would seem that if this privilege were extended to credit unions, it should be accorded also to building and loan associations and other similar institutions. The receipt of deposits from institutions of this kind, however, would seem clearly to be beyond the scope of the purposes of the Federal Reserve Act and the collection of items deposited by such institutions would be both expensive and burdensome to the Federal Reserve banks.

In view of the character of the Federal Reserve banks and the nature of their functions under the law, it is felt that it would also be inappropriate for the Federal Reserve banks or their directors and officers to perform duties of a supervisory character in connection with the organization or operation of credit unions.

For the reasons stated, the Federal Reserve Board does not favor the enactment of the bill S. 1640 or the provisions of the bill S. 1639 which have to do with the Federal Reserve banks.

Very truly yours,

E. R. BLACK, *Governor.*

THE SECRETARY OF THE TREASURY,  
*Washington, June 2, 1933.*

HON. DUNCAN U. FLETCHER,  
*Chairman Committee on Banking and Currency,  
United States Senate, Washington, D.C.*

MY DEAR MR. CHAIRMAN: Reference is made to the letter dated May 13, 1933, from the acting clerk of your committee, requesting a report on certain bills including S. 1640, a bill to amend section 13 of the Federal Reserve Act by authorizing Federal Reserve banks to receive deposits from credit unions.

Under the provisions of this bill, a Federal Reserve bank would be authorized to receive deposits from credit unions operating under State or National laws, and to make loans to credit unions in amounts not exceeding the par value of the United States securities assigned as security therefor plus the total of such deposits.

As you know, Federal Reserve banks are authorized, under the provisions of section 13 of the Federal Reserve Act as amended by the act of March 9, 1933, to make advances secured by direct obligations of the United States for periods not exceeding 90 days to any individual, partnership, or corporation. Moreover, the Reconstruction Finance Corporation is authorized under the law to make advances under certain conditions to credit unions, and the security which it may accept for such loans is not limited to any particular class of collateral. In the circumstances, there would appear to be no necessity for authorizing Federal Reserve banks to make loans to credit unions.

With respect to the provision regarding the deposit of funds in Federal Reserve banks, it would seem that if the privilege of making such deposits were extended to credit unions, it should be accorded also to building and loan associations and other similar institutions. The receipt of deposits from institutions of this kind, however, would seem clearly to be beyond the scope of the purposes of the Federal Reserve Act and the collection of items deposited by such institutions would be both expensive and burdensome to the Federal Reserve banks.

The Treasury Department, therefore, does not favor the enactment of the bill S. 1640.

Very truly yours,

W. H. WOODIN,  
*Secretary of the Treasury.*

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TREASURY DEPARTMENT,  
*Washington, June 16, 1933.*

HON. DUNCAN U. FLETCHER,  
*Chairman Senate Committee on Banking and Currency,  
Washington, D.C.*

MY DEAR MR. CHAIRMAN: Reference is made to your request for report on S. 1639, a bill to establish a Federal Credit Union System, and for other purposes.

The bill provides for the organization of Federal credit unions which would be authorized to receive deposits from their members and to make loans to them for provident or productive purposes under certain terms and conditions, and also for the organization by State or Federal credit unions of Federal central credit unions which would be authorized to receive deposits from and make loans to their member credit unions. The credit unions organized under the provisions of this bill would be subject to the supervision of the Comptroller of the Currency, but certain duties of a supervisory character in connection with their organization and operation would be required of the officers and directors of the Federal Reserve banks. Federal credit unions would be authorized to make deposits in Federal Reserve banks, and Federal central credit unions would be authorized to make deposits in or to rediscount assets with Federal Reserve banks.

Credit unions have been established in many States under the provisions of State laws and are in their very nature small local associations which should be supervised and regulated by State law. For this reason and for the reason that the Treasury knows of no reasons which would make the establishment of such a system necessary or advisable, it would be opposed to the enactment of this bill into law. Moreover, the Federal Reserve Board has reported adversely with respect to this bill in connection with the portion thereof which affects the Federal Reserve System for the following general reasons: First, that to allow Federal central credit unions to rediscount with Federal Reserve banks would be inconsistent with the purposes for which the Federal Reserve System was established; second, because in view of the character of Federal Reserve banks and in the nature of their functions under the law it is felt it would be inappropriate for the Federal Reserve banks or their directors and officers to perform duties of a supervisory character in connection with the organization or operation of credit unions; and third, that if the provisions of the bill with respect to depositing of funds in Federal Reserve banks by credit unions were adopted, it would seem that the privilege should be accorded to building and

loan associations and other similar institutions which would clearly be beyond the scope or purpose of the Federal Reserve Act and be both expensive and burdensome.

For the reasons given the Treasury recommends that this bill not be favorably reported.

Very truly yours,

DEAN ACHESON,  
*Acting Secretary of the Treasury.*

Of these 4 letters, 2 have nothing to do with the bill under consideration; Mr. O'Mahoney's letter has to do with S. 1641 and Secretary Woodin's letter with S. 1640; neither of them comments on S. 1639 which is the pending bill. We are concerned therefore with but 2 of the letters, 1 from Gov. E. R. Black of the Federal Reserve Board and the other from Acting Secretary of the Treasury Dean Acheson.

In his letter Governor Black notes that—

As the subject is one which has not fallen within its province, the Federal Reserve Board is without adequate information upon which to base a study of the advisability of the establishment of a Federal system of credit unions and accordingly the Board does not feel prepared to express an opinion in the matter.

Thereafter the following objections to the bill are raised in Governor Black's letter: That the rediscount privilege would be inconsistent with the purposes of the Federal Reserve System, pointing out that the power of the Federal Reserve banks to rediscount paper drawn for agricultural, industrial, or commercial purposes contemplates that paper offered for rediscount should be "self-liquidating and of short maturity." All credit-union notes are not only short-term notes but (a) they are in constant amortization on a weekly or semimonthly installment basis and (b) are established as the best sort of security by the extraordinary record of credit unions operating without failures under supervision of 38 State banking departments during the depression and by the further fact that they have required very little assistance from the Reconstruction Finance Corporation. Their paper is, on the record, much more nearly self-liquidating than either agricultural or industrial paper. They make no long-term loans; they require weekly or semimonthly amortization.

The second objection raised by Governor Black is that Federal Reserve banks can now already extend the credit to credit unions provided for in the act, which obviously is not a serious objection. The third objection is against the right in the bill to make deposits in Federal Reserve banks. It is difficult to see the justification for this objection as the sole purpose in the bill is to protect credit unions from further losses from the failure of banks which constituted the greatest source of loss to credit unions during the depression. This privilege is no longer necessary, however, because of the passage of the deposit insurance law since this bill was drawn. All connection with the Federal Reserve bank could be eliminated from the bill without greatly injuring its primary purpose, which is to eliminate the loss of buying power which now results from the fact that the masses of the people are obliged to look to high-rate money lenders in time of credit necessity, a process which destroys hundreds of millions of dollars of buying power annually. Mr. Black's final objection has to do with giving the Federal Reserve bank directors in the various district jurisdiction in the matter of granting charters. Obviously this must vest somewhere and if it can be transferred to

some other department—the Farm Credit Administration in the district land banks for example—it would not injure the bill.

Incidentally this would not be a serious problem for the Federal Reserve banks' boards of directors; State departments now find this a simple matter, calling simply for an intelligent system of administration and for the right delegation to someone to handle the routine work. Incidentally this bill calls for annual license fees, examination fees, etc., and the administration of the bill will cost the United States nothing.

Mr. Acheson's letter is of similar tenor and raises the question as to the need for such a law. The great need for Federal legislation is outlined in detail in the report as drawn; the problem is a truly national problem; there are no credit union laws at all in 10 States; some of the laws were so mutilated in process of enactment that they cannot be used; States fees and taxes are becoming excessive and this development should be uniform, under uniform rules and supervision, and national in character.

Practically every criticism of the bill could be eliminated by removing from it the contacts with the Federal Reserve System, which could be done without material injury to the bill. We raise the question, however, of the great worth to the Federal Reserve System of contact with the average working people in credit unions which would result from leaving jurisdiction in the Federal Reserve banks.

