



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.

Historic, archived document

Do not assume content reflects current scientific knowledge, policies, or practices.

A280.29
F226
Cip. 2

U. S. DEPT. OF AGRICULTURE
NATIONAL ACADEMY OF SCIENCES LIBRARY

OCT 5 - 1965

CURRENT SERIAL RECORDS

RURAL
CREDIT
UNIONS
OF THE
UNITED
STATES

Farmer Cooperative Service
U.S. Department of Agriculture
Washington, D.C. 20250

Joseph G. Knapp, Administrator

The Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, merchandising, product quality, costs, efficiency, financing, and membership.

The Service publishes the results of such studies; confers and advises with officials of farmer cooperatives; and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

Contents

	Page
Summary	iv
Size of rural credit union operations	1
General characteristics.	2
Purpose	3
Thrift and savings	3
Loans.	3
Education	4
Life insurance.	4
Groups sponsoring rural credit unions.	5
Credit union associations.	7
Where rural credit unions are located	7

September 1965

Summary

In rural America, 670 credit unions, with assets of more than \$130 million, were serving 258,000 members at the end of 1963. These credit unions were sponsored by farmer cooperatives, farm organizations, rural communities, rural churches, and similar rural groups. Rural credit unions are operating in 46 of our 50 States. Credit unions are essentially finance cooperatives providing four primary services:

1. A system for promoting thrift and accumulating savings.

2. A source of credit for provident and productive purposes at reasonable interest rates.

3. A medium through which members can be educated in the management and control of their financial resources.

4. An automatic and valuable source of life-insurance protection for borrowers as well as savers.

Credit unions may be chartered under State or Federal law. Their operations must conform to specific legal requirements and they are supervised by the chartering agency.

Although not large in terms of total farm credit, rural credit unions provide substantial credit and savings benefits in those areas where they operate.

Rural Credit Unions of the United States¹

By William F. Woods

Farm Services Branch, Purchasing Division

Rural credit unions have made material contributions to the capital and credit needs of many rural communities and provided a systematic means of organized savings for some 258,000 members.

This report describes the nature and extent of rural credit unions in the United States. Statistical data is based on information assembled for the Farmer Cooperative Service by CUNA International (formerly Credit Union National Association) and on earlier FCS studies.

Data indicate that 670 rural credit unions were operating in the United States at the end of 1963. These credit unions provided services to members and employees of farmer cooperatives, members of farm organizations and rural churches, residents of rural communities, and other rural groups.

Rural credit unions are, to a considerable extent, concentrated in the North Central States. However, 1 or more rural credit unions are located in all except 4 of the 50 States.

Size of Rural Credit Union Operations

Table 1 shows the amount and percentage of growth of rural credit unions from 1956 to 1963. Comparison with 1956 data reveals noteworthy increases of 28 percent in number of rural credit unions, 78 percent in membership, 139 percent in share-savings, 139 percent in loans outstanding, and 150 percent in total assets (table 1).

During the early 1960's, the number of rural credit unions declined slightly and the number of rural credit union members showed a small net increase. On the other hand, shares and loans outstanding have shown steady growth from 1961 through June 30, 1964 (table 2).

¹An earlier summary of rural credit union activity in the United States was "Rural Credit Unions in the United States," by Arthur H. Pursell, U.S. Dept. Agr. Farmer Cooperative Serv., Gen. Rpt. No. 49, July 1958.

Table 1.--Growth of rural credit unions in the United States, 1956 to 1963

Item	1956	1963	Percentage increase
			1956 to 1963
Number of credit unions	525	670	28
Number of members	145,492	258,692	78
Value of:			
Shares	\$ 47,213,402	\$ 112,987,589	139
Loans	41,319,577	98,797,431	139
Reserves	(1)	7,007,299	(1)
Assets	52,160,894	130,250,041	150

¹ Data not available.

Source: Data for 1956 obtained by FCS from State credit union leagues.
Data for 1963 assembled for FCS by CUNA International.

Table 2.--Rural credit unions: Number, members, shares and loans outstanding, 1961-64

Year	Rural credit unions	Members	Shares	Loans outstanding
	Number	Number	Dollars	Dollars
1961	682	233,054	\$91,136,216	\$85,186,568
1962	681	267,856	107,345,648	97,031,266
1963	670	258,692	112,987,589	98,797,431
1964 ¹	(2)	(2)	118,006,116	109,025,051

¹ June 30.

² Data not available.

General Characteristics

A credit union is a cooperative organization, formed by a group of people with a common bond, operating under State or Federal supervision, and providing service at cost to its members.

Most rural credit unions are organized within the membership of an already existing organization. They frequently are initiated or sponsored by a cooperative, farm organization, rural church, or other rural group. Membership is open to all individuals and organizations included in the field of membership, as set forth in the credit union's bylaws.

Credit unions may be chartered under either Federal or State law.² Federal credit unions are chartered and provided regular supervisory examinations by the Bureau of Federal Credit Unions, Washington, D.C. State-chartered credit unions receive chartering and supervisory services from the State Department of Banking or other designated State agency.

² There are State laws providing for the establishment of credit unions in all States except Alaska, Delaware, Hawaii, Wyoming, South Dakota, and Nevada.

About 60 percent of the present 670 rural credit unions are chartered under State law and about 40 percent under Federal law; no major differences exist between the two systems (Federal- and State-chartered credit unions).

All credit unions are legally required to have the following three integral but separate operating or management divisions:

1. A board of directors, elected by the membership and from their number, composed of five, seven, or more persons responsible for policy-making and operations.

2. A credit committee of three or more persons elected by the members, responsible

for considering member loan applications; and

3. A supervisory committee of three persons either appointed by the board of directors, or elected by the membership, responsible for auditing and internal supervision.³

Special committees for education, membership, and other phases of the credit union program may also be appointed.

Rural credit unions differ from other credit unions only in the environment in which they operate. They are chartered under the same laws and comply with the same regulations.

Purpose

Credit unions are chartered as nonprofit organizations, primarily to serve members. The aim of the successful credit union, rural or urban, is to produce for members the maximum amount of highest-quality service for the minimum amount of cost.

Credit unions provide (1) a convenient system for accumulating savings (2) a source of credit at reasonable interest rates, and perhaps most important, (3) a medium through which its members may be educated in the management and control of their own money. Essentially, credit unions are finance cooperatives.

Thrift and Savings

Although the "credit" aspect of credit unions probably receives the most emphasis, credit unions are organized for the purpose of promoting thrift and savings among their members as well as creating a source of credit. In fact, savings must come first in credit union operations. For the most part, credit unions are required to raise their operating capital from their membership.

Credit unions encourage members to save by making it as easy and convenient as possible. No sum is too small for deposit in a credit union. Collectively, these savings can constitute an important and effective local source of capital.

Through the funds accumulated, member participation in net savings is provided. Savings--in the form of dividends and lower interest rates--accrue directly to the members for their use in the community or outside it. Indirectly the entire community benefits, from the storekeeper whose cash sales are increased to the commercial bank where the credit union funds are kept on deposit.

Loans

Credit unions are obligated to make effective use of member savings through providing loans to members needing to borrow. Loans can be

³The Federal Credit Union Act provides that the supervisory committee be appointed by the board of directors. Under the various State laws the supervisory committee may either be appointed by the board of directors or elected by the membership.

made for any provident or productive purposes, and the character of the borrower is the primary consideration for obtaining a credit union loan. Loans are often granted to individuals who lack the required security to obtain loan service from other organizations.

Credit unions lend money for a wide variety of reasons. Members may borrow for education, medical services, automobiles, farm machinery, home appliances, furniture, farm production supplies, vacations, home repairs, taxes, and debt consolidation. Generally "provident and productive purpose" is interpreted as any loan that will benefit the borrower.

Credit unions usually have flexible lending programs, designed to meet the varying needs of their members. Naturally, the lending programs of rural credit unions differ slightly from urban credit unions. Members of urban credit unions borrow primarily for the purchase of consumer goods and personal services. While rural credit union members also borrow for these reasons they tend to borrow primarily for farm production purposes including the purchase of seed, fertilizer, petroleum products, livestock, and farm machinery and equipment.

Although they do a relatively small proportion of the total farm credit business, rural credit unions are an important source of credit in those areas in which they operate.

Education

Perhaps the most valuable, and least publicized, function of credit unions is that of educating their members in the management, control, and use of their money. The underlying principle of credit-union operations is the goal of improving the economic lot of its members. The primary method of achieving this goal is educating the membership to understand and use the credit union.

Use of credit has become commonplace today, and it has become increasingly im-

portant for individuals to prudently allocate their incomes and to use care in purchasing with borrowed funds. Individuals with insufficient knowledge of financial management are particularly vulnerable to the temptations of overextending their incomes. Credit unions strive to make each member aware of his opportunities to improve his economic welfare.

The educational function is carried out by the educational committee, and by the credit-union manager, officers, and credit committee in counseling with members regarding their individual financial programs. The desired end result is not only a stronger credit union, but also better citizens of the community for the knowledge they have acquired.

Life Insurance

Credit unions have pioneered in the use of group life insurance to enhance and facilitate their savings and lending programs. In most credit unions, members are provided with life insurance equal to their shares up to a level of \$1,000 or \$2,000 without direct charge. This service promotes thrift by placing a premium on member savings.

Also life insurance is used frequently to protect loans. The lives of credit union borrowers are insured for the amount of the unpaid balance of their loan. If the borrower should die or become totally disabled, the insurance repays the loan. This feature eliminates a part of the risk in borrowing money. These share and loan insurance features of credit union operations accrue entirely to the benefit of members using their services.

One unique credit union plan combines both these insurance features into a single transaction. Under this program, commonly known as the estate loan, endowment loan, or share-loan program, a member borrows and reinvests the amount of the loan in credit union shares. He then proceeds to repay the loan on an agreed repayment schedule. Estate loans are made in amounts up to the maximum

coverage available per account under the life-savings insurance program.

The only cost of this loan is the interest cost and the loan acts as its own collateral. In return the borrower receives life insurance

equal to the amount of his loan, life insurance equal to his share-savings up to the maximum limit, and dividends regularly, as earned. Important, too, is the thrift-enforcing aspect that compels members to accumulate savings by repaying a loan.

Groups Sponsoring Rural Credit Unions

Groups seeking a credit-union charter are legally required to have as their basis a common bond or mutual interest. This common bond may be based on: (1) place of employment, (2) membership in some organization, or (3) residence in a well-defined neighborhood, community, or rural district. This prior-existing common bond relationship has been found necessary for the success of credit-union ventures.

Most urban credit unions have as their common bond a place of employment. A credit union of this type is probably easiest to organize and operate and probably has the best chance for success both because of the nature of the mutual interest and the number of ways the employer can contribute to the establishment and growth of the organization. But this type of bond is seldom found in rural areas--particularly rural farm areas--so alternative bonds must be utilized.

Numbers of rural credit unions and other selected data by type of sponsoring organization are shown in table 3.

Many of the farmer cooperatives sponsoring credit unions are themselves affiliated in some degree with general farm organizations. Examples are provided by county Farm Bureau cooperatives, Grange cooperatives, and Farmers Union oil companies. Because of the difficulty in determining whether the cooperative or the farm organization was the actual sponsor these two groups are combined in the table.

As indicated in table 3, rural credit unions sponsored by cooperatives and farm organizations are larger in terms of members, shares, loans, reserves, and assets than credit unions sponsored by rural communities and rural churches.

Farmer cooperatives are particularly well adapted to the role of sponsoring credit unions. Co-ops have found that sponsoring rural credit unions for cooperative members contributes to increasing sales volume, decreasing accounts receivable, and generally keeping daily business transactions on a sounder basis.

Table 3.--Rural credit unions in the United States, by type of sponsor, selected data, December 31, 1962

Type of sponsor	Number of credit unions	Members		Shares		Loans		Reserves		Assets	
		Total	Average	Total	Average	Total	Average	Total	Average	Total	Average
Cooperatives and farm organizations	366	152,929	418	67,464,577	184,329	64,055,455	175,015	3,709,991	10,137	76,191,722	208,174
Rural communities	221	86,281	390	32,207,525	145,735	27,295,641	123,510	1,917,191	8,675	36,888,570	166,917
Rural churches	86	25,364	295	5,866,210	68,212	4,589,967	53,372	341,681	3,973	6,549,075	76,152
Other ¹	8	3,282	410	1,816,336	227,042	1,090,203	136,275	124,007	15,501	2,062,918	257,865
Total	681	267,856	393	107,345,648	157,629	97,031,266	142,484	6,092,870	8,947	121,692,285	178,696

¹ Includes 1 Indian tribal group, one parent-teachers' association, two county governments, and four agricultural businesses (other than cooperatives).

Credit Union Associations

Credit unions in all but two States-- Alaska and Nevada--have organized State credit union leagues. These State-wide service associations are set up and supported by voluntary member dues. They provide local credit unions--rural and urban--with educational, organizational, legal and technical, and general field assistance.

An international credit union association renders similar services to State and Canadian provincial leagues as well as affiliated leagues in foreign countries. In addition, it provides standard credit union supplies, a credit union bonding service, and credit union loan protection and life-savings insurance. Some State leagues and private companies also provide the latter services.

Where Rural Credit Unions Are Located

Rural credit unions were operating in 46 of the 50 States as of December 31, 1963 (fig. 1). No rural credit unions were reported operating in the States of Connecticut, Delaware, Maryland, and South Carolina.

North Carolina was the first State to initiate a strictly rural credit union program, in 1915; Minnesota was next, beginning in the early 1920's. The 10 States having the most rural credit unions at the end of 1962 are listed in table 4.

Table 4.--Rural credit unions: number in 10 leading States, December 31, 1963

State	Number
North Dakota	66
Kansas	58
Minnesota	54
Wisconsin	50
California	46
Michigan	38
Indiana	33
Montana	23
Colorado	22
Texas	20

The regional distribution of rural credit unions is shown in table 5 and fig. 1. Although they are concentrated to some extent in the North Central States, they are found in all regions.

Table 5.--Number of rural credit unions, by region, United States, December 31, 1963

Region	Number
West North Central	221
East North Central	149
Mountain	87
Pacific	57
Northeastern	66
Southeastern	38
West South Central	40
Alaska and Hawaii	12
Total United States	670

Selected data for the 670 rural credit unions mentioned in this report are summarized by State in table 6.

FIGURE 1
LOCATION OF RURAL CREDIT UNIONS IN THE UNITED STATES
JANUARY 1964

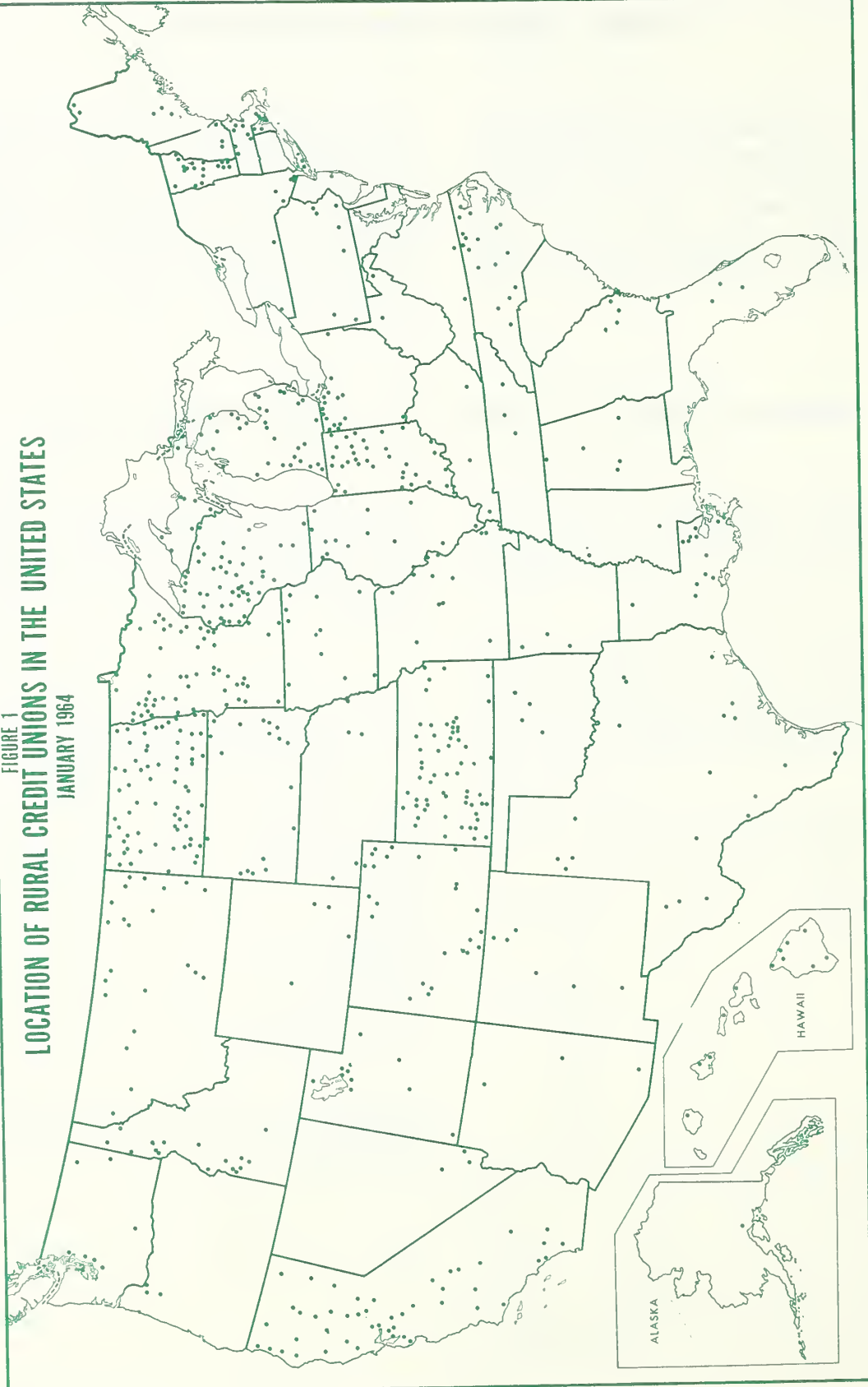


Table 6.--Rural credit unions by State, summary of selected statistics, December 31, 1963 and June 30, 1964

State	Number of credit unions Dec. 31, 1963	Number of members Dec. 31, 1963	Share/savings Dec. 31, 1963	Share/savings June 30, 1964	Loans outstanding Dec. 31, 1963	Loans outstanding June 30, 1964
Alabama	4	1,040	57,993	61,648	55,577	62,974
Arizona	3	436	52,665	(1)	60,480	(1)
Arkansas	3	370	113,489	117,223	80,311	89,467
California	46	15,696	7,911,517	8,413,161	7,523,106	8,208,951
Colorado	22	9,498	2,993,611	3,073,899	2,662,978	2,798,877
Florida	4	1,600	671,846	650,467	633,428	635,164
Georgia	5	880	65,754	67,643	55,072	62,070
Idaho	17	4,300	1,632,883	1,690,340	2,200,424	1,792,519
Illinois	13	2,116	523,180	560,000	460,066	603,071
Indiana	33	20,226	11,249,944	11,440,346	9,754,011	10,067,263
Iowa	12	2,267	1,019,337	1,020,174	960,226	1,034,260
Kansas	58	26,213	16,133,150	18,006,187	14,353,417	18,336,115
Kentucky	4	531	133,406	158,027	132,302	151,941
Louisiana	13	1,827	174,812	220,419	118,042	136,531
Maine	9	1,694	330,363	377,715	284,867	329,709
Massachusetts	12	6,726	3,063,779	2,827,136	63,142	63,380
Michigan	38	16,296	6,431,828	6,841,278	5,402,772	5,765,096
Minnesota	54	18,743	6,998,047	6,616,644	6,836,574	7,270,146
Mississippi	2	911	218,506	255,430	126,575	200,333
Missouri	9	1,359	201,092	169,755	181,989	150,206
Montana	23	8,557	3,758,234	3,963,608	3,211,875	3,731,457
Nebraska	5	2,163	820,183	839,137	689,794	726,932
Nevada	3	864	155,833	175,565	154,605	222,080
New Hampshire	3	1,367	375,273	386,171	379,393	389,454
New Jersey	1	309	25,126	23,270	9,653	8,315

See footnote at end of table.

Table 6.--Rural credit unions by State, summary of selected statistics, December 31, 1963 and June 30, 1964 (Continued)

State	Number of credit unions Dec. 31, 1963	Number of members Dec. 31, 1963	Share/savings Dec. 31, 1963	Share/savings June 30, 1964	Loans outstanding Dec. 31, 1963	Loans outstanding June 30, 1964
New Mexico	7	775	84,610	124,708	87,123	123,885
New York	8	3,953	1,304,786	1,441,615	1,096,816	1,224,046
North Carolina	15	7,894	891,118	808,352	793,423	775,407
North Dakota	66	23,540	12,775,194	13,700,653	11,895,159	12,945,901
Ohio	15	4,756	1,259,450	1,259,542	897,977	939,144
Oklahoma	4	1,610	727,573	748,619	746,079	868,876
Oregon	3	386	52,553	50,375	47,781	56,440
Pennsylvania	6	687	95,649	98,131	92,478	106,568
Rhode Island	4	3,132	1,143,475	1,117,553	770,386	1,052,781
South Dakota	17	4,230	1,306,478	1,400,412	1,275,352	1,437,272
Tennessee	4	661	167,011	180,433	162,763	177,355
Texas	20	10,239	3,996,174	3,918,107	2,605,167	2,704,774
Utah	8	2,123	572,462	674,430	778,940	879,506
Vermont	19	4,574	1,251,741	1,342,662	1,342,798	1,458,716
Virginia	2	275	11,834	10,821	8,692	14,186
Washington	8	3,512	1,470,345	1,558,686	1,158,605	1,557,096
West Virginia	2	830	314,877	342,509	289,577	311,512
Wisconsin	50	26,933	13,474,623	14,227,040	12,369,343	13,462,361
Wyoming	4	829	242,028	266,624	158,232	188,490
Alaska	1	733	230,050	232,580	256,161	263,333
Hawaii	11	11,031	7,503,707	6,524,748	5,573,900	5,620,032
Total U.S.	670	258,692	112,987,589	118,006,116	98,797,431	109,025,051

¹ Not available.

Other Publications Available

Rural Credit Unions in Indiana, General Report 47, Arthur H. Pursell

The Romney Federal Credit Union and Its Contributions to the Community,
Information 42, James A. Black

Rural Credit Unions in Nine Midwestern and Great Plains States, General
Report 94, Arthur H. Pursell

Rural Credit Unions in Southern Indiana, General Report, 116, Arthur H. Pursell

Using Your Rural Credit Union, Educational Circular 16, William F. Woods

Keys to Effective Rural Credit Unions, Information 19, Arthur H. Pursell

How Cooperatives Use Credit Agencies to Meet Patron's Needs, General
Report 52, John M. Bailey, Arthur H. Pursell, and Russell C. Engberg

UNITED STATES DEPARTMENT OF AGRICULTURE
WASHINGTON, D.C. 20250

POSTAGE AND FEES PAID
U.S. DEPARTMENT OF AGRICULTURE

OFFICIAL BUSINESS

