The Community Development Credit Union Movement in the United States

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The Community Development Credit Union Movement in the United States

by John Isbister

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Dedicated to my father-in-law,
Roy Spafford

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PREFACE

This book discusses the history, role, and accomplishments of the country's community development credit unions, or CDCUs. They number only in the few hundreds, and their assets are limited, so they constitute just a small fraction of credit union activity in the country, and a much smaller fraction of overall financial activity. Yet their importance far exceeds their size, since they are the one sector of the financial industry that is devoted solely to the improvement of living conditions in poor communities.

The persistence of desperately poor neighborhoods in the midst of a rich and growing nation is one of the most important challenges, both practical and moral, that face us at the end of the twentieth century. The reduction and eventual elimination of poverty, which had seemed to many people to be a relatively easy task when it was urged on the nation a generation ago by President Johnson, has turned out to be an almost intractable one. By most statistical measures, poverty has risen since 1975, and a whole new generation of young people has been caught in its traps. The causes are complicated, so complicated perhaps as to be beyond our complete understanding.

Yet many facts are clear. Among them is the indisputable proposition that financial institutions, whose business is the allocation of money, influence who gets money and who stays poor. As Chapter 4 will show, the principal effect of conventional financial institutions on poor communities in the United States is not to provide funds for those communities' use, but instead to drain resources out of them.

So the small cooperative community development credit unions are critically important. In their structure and their activities they are an echo of earlier generations of cooperative financial institutions, both in Europe and in North America. Their purpose is to retain a poor community's resources and direct them to that community's own productive use, as well as to attract outside funds in order to enhance those resources. They are small, and even if they were to expand greatly, they would not by themselves eliminate poverty. But they make a particularly important contribution.

I have been working in the CDCU movement as a volunteer since 1979, when I joined the board of directors of the Santa Cruz Community Credit Union. During much of that time, I have known and interacted with credit union people around the country. As a consequence, the methods used in writing this book are diverse. In part, they are conventionally academic. With the help of research assistants I gathered data from the loan files of seven credit unions in the summer of 1991. I analyzed a large data set of the financial statements of the country's community development credit unions, provided for me by economists at the Credit Union National Association. I conducted interviews with credit union leaders at their offices and at national conventions. And I read the small but interesting literature on the subject. In part, however, the methods are more personal than is usual in an academic study. I am not an outsider to the community development credit union movement in the way that most academic authors are to their subjects. I have been working in it so long that I feel just as much a part of it as do any of my informants. Much of what I know about the subject comes not from specific documents or interviews, but from years of conversation and experience, from struggling over financial decisions with my fellow board members to sharing hotel breakfasts with credit union managers at national meetings. Throughout the text I have tried to cite my sources clearly, but in places this has been difficult. Consequently, I would like to apologize in advance to any persons who believe their ideas and information are used in these pages without proper acknowledgement.

The book is intended as a gift to the people who have devoted their lives to the community development credit union movement. They are anything but the fat cats one normally associates with finance. They work for low compensation and little recognition. Even though I have mingled with them for years now, I am still frequently surprised to learn of the dedication and the accomplishments of people I had previously not known. At the risk of excluding some who should be named, I would like to thank the following, all of whom helped to create this study by sharing their experiences and knowledge with me: Carol Aranjo, Leone Baum, Angelina Boone, Marcus Bordelon, Ellsworth Brewer, James Caskey, Raquel Castillo, Michael Chan, Ricardo Garcia, James Gilliam, Tinka Gordon, Mark W. Griffith, Bill Hampel, Everett Harper, Clyde Johnson, Woodrow Keown, Sister Ann Kendrick, Christopher W. Kerecman, David Lewis, Lily Lo, Ruth Lockett, Pearl Long, Erroll T. Louis, Betty Matthiessen, Genia McKee, Robert Mumma, William Myers, Ceretha Robinson, Joyce Rogers, Marc Shafroth, Robert Shipe, Ward Smith, Mary Spink, Caryl Stewart, James Taylor, Kathryn Tholin, Darcine Thomas, Sondra Townsend-Browne, Teresa Trudeau, Jeff Wells, Mardi Wormhoudt, Jann Yankauskas, Karen Zelin and, posthumously, Annie Vamper. Thanks also to the board and staff members of the Santa Cruz Community Credit Union.

I would particularly like to acknowledge not only the help but more importantly the inspiration provided by the joint recipients of the Annie Vamper Award from the National Federation of Community Development

Credit Unions in 1993, Ernest Johnson and Clifford Rosenthal. Johnson, of the Federation of Southern Cooperatives, has devoted his life to the African American credit unions of the rural southeast, and through his talent, hard work, and extraordinarily persuasive powers has become a legend in the community development credit union movement. Rosenthal, Executive Director of the National Federation, developed the organization from a time when there was no money and no salaries, only dedication, to its present state in which it organizes credit unions, provides technical assistance, performs rescue operations on ailing credit unions, initiates programs, brings people in the movement together, and advocates effectively in Washington. Together, the two represent the heart of the movement.

Thanks to a group of undergraduate and graduate students at the University of California, Santa Cruz, who worked as research assistants on the project: Joy Agcongay, Chhorn Be, Christina Cavazos, Javier Tapia, and Robert Thompson. Thanks also to the Center for Cooperatives, which sponsored the research.

And finally, much more than thanks to my wife, Roz Spafford, who encouraged me throughout the project, edited the manuscript, and saved me from at least some of the errors of exposition and judgment that would otherwise have found their way into print. The responsibility for the remaining errors, I am sorry to concede, is mine.

—John Isbister

CHAPTER 1

COMMUNITY DEVELOPMENT CREDIT UNIONS

The choice of where we do our business is one of our most significant political and economic tools. The Alternatives Federal Credit Union lets its members determine the social consequences of the uses of our money...The Credit Union invests with a conscience.

—Mission Statement,
Alternatives Federal Credit Union
Ithaca, New York

These mostly small, hardworking and undercapitalized financial institutions are doing extraordinary work in areas deemed unprofitable by the private sector, often with minimal or no support from government, the philanthropic community or other outside sources of assistance.

—Kathryn Tholin and Jean Pogge[1]

In low-income communities throughout the country—in central cities and in rural areas, on Native American reservations and in urban settlement houses,in racially segregated housing projects and in church basements—community development credit unions provide basic financial services to poor people. In total, the CDCUs number only a few hundred—the exact figure is unknown because the definition of a CDCU is rather elastic; and compared to other financial institutions, even other credit unions, they are small and, in some cases, tiny. They are not a large enough component of the country's overall financial system to change, by themselves, the over-

1 Tholin and Pogge, 1.

whelming inequalities of American economic and social life. But for their local communities they make a difference. They offer financial services at reasonable cost and they provide loans to people who frequently could not qualify at another financial institution, or who would have to pay exorbitant rates of interest to a finance company or a loan shark.

Beyond their achievements so far, CDCUs represent a hope, a potential for economic development in communities that need it most. They are non-profit, cooperative, self-help institutions, relying predominantly upon the resources of local people. They need encouragement and support from the outside, but they do not need to be taken over and directed by outsiders. At a time when the gap between rich and poor Americans is growing, when poverty rates are increasing and racial tensions are simmering, sometimes exploding, they are part of a strategy for change.

In 1993, President Clinton placed the issue of community development banking on the country's agenda. He spoke of how local financial institutions could mobilize a low-income neighborhood's savings, draw in funds from the outside, and lend for housing and small business development to create jobs and income for needy Americans. He proposed legislation to provide seed capital to community development credit unions and to other financial institutions operating in poor communities. His initiative led to some optimism, both that the nation might commit itself in a new way to the fight against poverty and that community development credit unions might play an important role in that fight.

What is a Community Development Credit Union?

Community development credit union is a term used by people in credit unions that serve low-income people to describe their own institutions. It is not an official term, and no precise parameters, definitions, or criteria for inclusion exist. Many, but not all, of the CDCUs belong to a trade association called the National Federation of Community Development Credit Unions.

CDCUs vary widely, but still they share some common commitments, commitments that mean that together they constitute not just a series of separate institutions and not just a sector of an industry, but a movement.

Like every credit union, a CDCU is formally a cooperative: It is owned by the people who conduct their transactions with it, and it is controlled on a one-person-one-vote basis. The people who place their savings in a credit union and who borrow from it become its member-owners, not its customers. They elect the board of directors who, in turn, establish the credit union's policies.[2]

[2] See the appendix to this chapter for a discussion of the relevance of cooperative principles to credit unions.

While all credit unions are cooperatives in the legal sense, many CDCUs have more of the spirit of cooperation about them than do most mainstream credit unions. As Chapters 2 and 3 will show, credit unions began in nineteenth-century Europe as institutions committed to social change, to improving the lives of people who were in distress. Most modern American credit unions have abandoned this identity. They provide needed financial services to the employees of a company or to the members of an association, but it is no part of their purpose to change in any fundamental way the social conditions in which their members live. CDCUs, in contrast, bring their members together into a financial cooperative precisely in order to improve their lives and give them new hope. Mainstream credit unions pay attention to the wishes of their members, but they do so much in the way that any business tracks the interests of its customers, in order to develop marketing strategies that will increase revenues. CDCUs, on the other hand, typically stay closer to their members, inviting them to share in the policy direction of the institution. The members provide volunteer help, and the elected representatives typically go out of their way to make decisions that are in the members' interests.

CDCUs are established in low-income communities, usually by low-income people, for the purpose of making a contribution to the economic and social life of the poor.

Every credit union has a charter, issued by either the federal or a state government. Among other things, the charter specifies a "field of membership," or group of people who are eligible to join the credit union. One of the basic features of a credit union is that the field of membership encompasses people who are connected to each other through a "common bond." The field of membership in most American credit unions is defined by employment in a company, or by occupation, or by membership in a voluntary association. In contrast, about half of the CDCUs have a geographical or residential field of membership; all people living or working in a certain area, usually a poor area, are eligible to join. Most other CDCUs have an associational field, for example, all people served by an urban settlement house or members of certain community organizations or churches. But even in these cases, the emphasis is on defining a field of membership for the CDCU that includes people in serious economic need.

There are variations. Some CDCUs, like the one in Santa Cruz, have a mixed membership, combining middle- and low-income people. Self-Help Credit Union covers the entire state of North Carolina. Yet in these CDCUs, as in the others, the primary mission is to improve the living conditions of the poor. The presence of middle-income people in these credit unions helps to generate the resources that in turn are directed towards the poor (this point is developed further in Chapter 6). Most CDCUs have a membership that is predominantly if not exclusively low-income, minority, or disadvantaged in some way.

Like all businesses, CDCUs have their ideologies, but they are not the standard commercial ideologies. Most CDCUs combine a commitment to low-income communities with an explicitly social, or even political, purpose. They care about commercial success too, and commercial success comes hard to CDCUs because of the serious problems caused by dealing with a membership that is predominantly poor. CDCUs need to be profitable in order to survive, but they exist because their leaders want to contribute to social change in their communities.

Ideologies and attitudes differ, of course, from CDCU to CDCU. Some credit union leaders are actively political, viewing their institutions as radical agents of social change. Some CDCUs seem to embody the anger that results from generations of discrimination and oppression. But some CDCU leaders see their mission rather more as one of service to their neighbors who are in need—or even service to those who can provide jobs and housing to people who are in need. Some are not much concerned about the structural transformation of their community and are more focused on the pressing needs of their members as individuals.

CDCUs are a private-sector initiative. In contrast to most anti-poverty, welfare, and community development agencies, they are not sponsored by or controlled by the government. They are owned and controlled by their members on a private, voluntary basis.

This point needs stressing at a time when government social programs of all sorts have become suspect. The 1980s and 1990s have seen a reaction against the public programs of the New Deal and the War on Poverty that were rich in promise but seemed to many people to be less effective in reality. In fact, many of those public programs were completely effective, transforming the social landscape of the country. Nevertheless, the very idea of direct government action to eliminate poverty and rescue the central cities has fallen into disfavor.

To be sure, CDCUs have connections to the public sector. They are chartered by state or federal government agencies and, like all businesses, they must operate according to the commercial laws of the land. They are insured, examined, and regulated by government agencies. Government regulations influence the character of the CDCUs, up to and including whether they can be started in the first place and whether they can survive. Government programs sometimes provide resources for them. The question of government policy towards CDCUs is reviewed in Chapter 7. CDCUs do not depend, however, upon government funding or upon government personnel.

The most important defining feature of CDCUs is that they mobilize their communities' own resources for the needs of local people and for local economic development. Since they lend to the people who make deposits, they represent a form of community self-help.

As Chapter 4 will argue, one of the most serious problems in many low-income communities is that resources flow out of them. Conventional financial institutions contribute to the outflow; their branches accept deposits from people in the neighborhood, but they return very little of the money as loans. As a consequence, whatever savings exist in low-income communities tends to be siphoned off into the wider world of finance.

CDCUs plug up this outflow. In almost every case, their charters restrict their membership to a small local area. They accept deposits from people in this area, and, since they are constrained to lend only to members, they pump the money back into the area, to people who can make productive use of it. It must quickly be said that not all of the deposits in a CDCU are immediately recycled back into the community. Most CDCUs have excess funds that are not yet loaned out. These are invested in other financial institutions where they earn interest for the credit union. Almost all of these investments are made outside the local area. In most CDCUs, however, investments total much less than loans, and so it is accurate to say that for the most part CDCUs act to recycle local savings for local use.

Many CDCUs also act as a conduit for funds to come into the local low-income community from outside the area. One source of outside resources is the Revolving Loan Fund of the National Credit Union Administration (NCUA), which makes low-interest deposits of up to $200,000 in some specially designated credit unions and which has recently agreed to expand the program. Some low-income credit unions are permitted by the NCUA to accept outside, "non-member" deposits in an amount not to exceed 20 percent of their assets (and exceptions to this limit can sometimes be negotiated). The non-member deposits are a way for socially responsible investors to direct funds into poor communities. A number of churches, foundations, corporations, and even banks have made these kinds of deposits in order to contribute to socially worthwhile projects while at the same time earning a return on their assets.

CDCUs can, therefore, have just the opposite effect from the one that financial institutions such as banks normally have upon a poor community. CDCUs keep local resources local, and add to this by attracting outside funds.

CDCUs lend their funds for constructive purposes in poor neighborhoods. Different CDCUs define those purposes differently. Some follow the tradition of other American credit unions and restrict themselves almost totally to personal, consumer lending. They make loans for automobiles, for home improvements, for appliances, for vacations, for education, for consumer items, for debt consolidation, and for other needs that individuals have. The CDCU is frequently the only conventional lender in the community that will deal with the local, low-income people. In the absence of the CDCU, people are forced to borrow from pawnshops, finance companies, loan sharks, and used car dealers. All of these sources tend to charge much higher interest rates than the members can obtain at the CDCU.

Other CDCUs go beyond consumer lending, to commercial business lending, and also to mortgages. CDCUs that make this choice are hampered by many state and federal regulations, because credit union laws and regulations are written with the expectation that credit unions will remain committed predominantly to consumer lending. But more and more CDCUs have shown an interest in developing the expertise to make broader, "community development" loans. They understand that their members' welfare depends upon access not just to consumer finance, but to decent jobs and affordable housing. Some CDCUs are affiliated with community development loan funds, which are unregulated, uninsured agencies specializing in affordable housing and sometimes in small business loans. The lending performance of CDCUs is examined in Chapter 6.

Most CDCUs are committed to the development of their members as people, not just as savers and borrowers. They depend to a certain extent upon volunteers, and they give their volunteers responsibilities and experience that are often valuable to them as they struggle to improve their lives.

Since CDCUs have so many goals aside from profitability, and since they operate in poor neighborhoods which have largely been abandoned by other conventional financial institutions, it will come as no surprise to learn that many of them face serious obstacles to commercial success. The financial statements of CDCUs are analyzed in Chapter 5. With some exceptions, CDCUs face higher rates of delinquency and default on their loans than do other credit unions; they have higher expenses and lower net margins. The great majority of them are successful enough to survive and grow, however, and they retain a cushion of reserves that is sufficient to see them through hard times.

Some Community Development Credit Unions

CDCUs can be introduced best by describing a few of them briefly. The descriptions are based on interviews with leaders of the various credit unions as well as visits to some of them.

The main office of the Central Appalachian People's Federal Credit

Union[3] is located in Berea, Kentucky, on the western edge of the southern Appalachian mountains. Three staff members work at old desks, surrounded by rows of file cabinets of various colors and states of disrepair.

The town of Berea is a center of Appalachian culture and education. Berea College, which dominates the town physically, was established just before the Civil War by abolitionist Christians for the purpose of educating the mountain people, and it continues that mission today. The southern Appalachian region is one of the most beautiful in the country, and rich in culture, but its people are among the most disadvantaged in terms of income, poverty, employment, housing, and health.

The credit union operates throughout the mountain region in 20 counties that stretch into Tennessee and Ohio as well as eastern Kentucky. Membership totals 2,000, with $2 million in assets. The field of membership includes people affiliated with about 35 community organizations and businesses in the region. Each of the affiliated organizations functions as a branch of the credit union. A person in each affiliated organization is available to counsel members, provide them with forms, help them with the loan application process, send in payments, and check with the Berea office on the status of their accounts. Many of the transactions are made by telephone calls between the branches and the main office; as a consequence the credit union is able to reach far across the mountains and hollows that isolate Appalachian people. The credit union makes only personal loans, but it is affiliated with a community development loan fund that does small business lending in the mountain region.

The board of directors and the credit committee are both made up of local people who meet frequently and take their responsibilities seriously. They look to the manager of the credit union, Marcus Bordelon, for guidance, but he is reluctant to give too much of it, since he wants the credit union to be a real cooperative, a vehicle for local control and for the education and development of the members.

The Southwest Germantown Association Federal Credit Union[4] of Philadelphia is located on the first floor of a building formerly occupied by a branch of the Fidelity Bank. When Fidelity closed its branch, as many banks have done in poor neighborhoods, it invited the credit union, then in a cramped brownstone, to take over the building. At first, the credit union had to refuse, since it lacked the resources even to maintain the building. Eventu-

[3] Thanks to Marcus Bordelon, Genia McKee, Joyce Rogers, and Jann Yankauskas for telling me about the credit union and for their hospitality when I visited.

[4] Teresa Trudeau, manager of the credit union and board member of the National Federation of CDCUs, described the institution to me.

ally, however, a cooperative plan was worked out with another community organization, a grant was obtained from the William Penn Foundation to cover the building's expenses, and the credit union moved in.

The credit union has assets of just under $2 million, membership of about 2,500 people, and a staff of 3. It serves the historic Germantown neighborhood, once the temporary location of President Washington's White House when Philadelphia was suffering from an epidemic of yellow fever. It is now a mixed-income and mixed-race neighborhood, with the mix changing continuously in the direction of poor and African American. The poverty rate is triple the level for all of Philadelphia and unemployment is typically high.

The credit union was founded in 1977 by a group of people concerned about high unemployment and the refusal of banks to lend in their neighborhood. As is typical with most CDCUs, the organizers had almost no background in or knowledge of financial affairs; what they had was a commitment to their neighborhood. They were particularly attracted to the credit union form since neighborhood people were already familiar with cooperatives organized for other purposes such as food buying and babysitting.

Southwest Germantown FCU makes loans for as little as $20 and as much as $20,000. In partnership with the city, it makes "action loans" of up to $15,000 for home improvements. The manager, Teresa Trudeau, maintains that it is very important for the credit union to be distinct from the banks, for the staff and board to know the members and understand their problems in a way that banks do not. "We could not be who we are if we were bank-like," she says. It is important to keep the credit union mission at the forefront, she says, and to help "the little people."[5] "If a person comes in and asks for a $20 or a $50 loan, they need it; they're not asking me for that money to squander it, they need it for some good reason, like school clothes for the kids or a prescription." She says that the credit union helps people who would never be able to get help elsewhere. Furthermore, the members understand that they are being supported by their neighbors.

Self-Help Credit Union[6] in Durham, North Carolina, is the country's largest community development credit union with over $35 million in assets in 1992 and a field of membership that stretches across the state, but it does not look like a financial institution at all. At its main office in Durham there is no lobby, no stream of members flowing in and out, just a suite of offices.

5 "The little people" was the trademark phrase of the late Father Matthew Fogarty, one of the early and most influential leaders of the CDCU movement.

6 I have learned about Self-Help mostly from presentations by and conversations with Everett Harper, and from printed material circulated by the Center for Community Self-Help. The Center has been in the news frequently, in connection with the President's initiative for community development banking.

In spite of its size in assets, Self-Help does not actually have many members, just over 1,700 at last count. The explanation is that Self-Help is not a traditional credit union at all, but rather a component of a community economic development agency.

The parent agency is the Center for Community Self-Help, a nonprofit institution that receives tax-exempt grants, and that in turn sponsors both the credit union and a community development loan fund called the Self-Help Ventures Fund. The entire complex of institutions concentrates on housing and commercial lending, with particular emphasis on what they call "socially or economically disadvantaged constituencies," in their case, low-income, rural, minority, and women borrowers.

The fact that the Center has two lending agencies allows it to segment its loans in an interesting way. The credit union, which is chartered by the state government and whose deposits are insured by the National Credit Union Administration, must adopt a more conservative stance in its lending than the Ventures Fund. Self-Help's plan is that the credit union should concentrate on loans that would not be made by a traditional bank but which would be viable with a slight liberalization of bank lending criteria. It should also make loans in cases in which traditional lenders appear to be discriminatory. But it should not fund commercial start-ups or other high-risk activities. Those are reserved for the Ventures Fund. Because deposits in the Ventures Fund are not insured by the government, the Fund does not have to answer to strict federal regulations; it is therefore free to be at least somewhat more adventurous in its lending. The tightening of federal member business loan regulations for credit unions in 1991 (described in Chapter 7) has made this plan harder to implement, however, and since that time the majority of the business loans have had to be channeled through the Ventures Fund.

When President Clinton introduced his community development banking initiative on the White House lawn on July 15, 1993, one of the speakers was Tim Bazemore, the African American manager of the Workers Owned Sewing Company in Windsor, North Carolina. He described how Self-Help had lent the workers the money to buy out the company and save their jobs in the early 1980s, and then go on to become the second-largest private employer in Bertie County.

Self-Help serves the entire state of North Carolina and receives deposits from throughout the state. It can do this because its charter permits it to accept as members any people or institutions who are members of the Center for Community Self-Help, the parent association, and the Center is a statewide organization. It has succeeded in attracting many large, "socially responsible" deposits from institutions that want to make a contribution to community development in the state while at the same time earning a return on their money. Other credit unions that try to follow this strategy have to classify such funds as "non-member deposits" because the investors are not in the credit union's field of membership, and because federal regulations severely restrict non-member deposits. Because of its charter, however, Self-Help can enroll the investor as a member and thereby avoid the limitation on outside deposits.

The D. Edward Wells Federal Credit Union[7] sits in the main square in the heart of the African American community of Springfield, Massachusetts. Its building, a former bank, was bought in 1991 by a group of friends of the credit union, who rent it to the credit union. It is a community credit union; its field of membership includes "the brotherhood" of Springfield, which the credit union's board interprets as meaning the entire population of the city. It was founded, however, in 1958 as a church credit union, drawing its members from the Mount Calvary Baptist Church, and for years it operated out of the church building. Many of the credit union's members are still from Mount Calvary and that church is the credit union's biggest supporter.

The credit union has 2,700 members and 3 employees. The manager, Carol Aranjo, says that most people have joined out of a sense of ethnic loyalty (the credit union is the only African American financial institution in Massachusetts), out of a commitment to the church community, and out of a desire to be treated fairly. They are well aware of the difficulty that minorities have in getting loans at conventional financial institutions, and they know that they will be treated fairly at Wells.

Loans are in relatively high demand at Wells, and consequently most of the deposits are loaned out to the members. Many of the loans are made without collateral, on the personal signature of the borrower. In the case of car loans, the credit union takes a lien on the vehicle. The credit union has been troubled by a fairly high and fluctuating delinquency rate on its loan repayments, largely due to layoffs and other longstanding economic problems in Massachusetts.

Wells has a youth credit union, begun in 1988, which children in the community aged 7 to 17 are eligible to join.[8] The youth credit union has its own board of directors and officers, its own tellers and loan committee. It is open for transactions one day a week after school; it accepts deposits from the children and makes small loans for purposes such as buying bicycles or birthday presents. The Wells model of a youth credit union has been replicated by many other CDCUs.

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7 For the description of the credit union I am in debt to Carol Aranjo, manager of the credit union and Chairperson of the National Federation of CDCUs.

8 On the youth credit union, see Jerving.

While Wells is no longer strictly a church credit union, its roots are still in the church. Ms. Aranjo is a champion of all sizes of church credit unions. The spirit of the credit union movement should be flexible enough, she argues, to welcome an institution of just a hundred members and a few thousand dollars, provided those people want to join together and help each other. In many minority communities the church is the most important institution, and it simply makes sense for the church to provide the common bond for financial self-help. She regrets, therefore, the pressure that many small, church-based credit unions face from their examiners to liquidate or merge into a larger institution.

The main office of First American Credit Union[9] is in Window Rock in northern Arizona, the capital of the Navajo Nation. A branch is located in Casa Grande in the southern part of the state. First American was founded in 1962, chartered by the State of Arizona. At that time it was called Navajo Tribal Employees' Credit Union, its field of membership being the 1,500 employees of the tribe as well as members of the governing Tribal Council. In 1965 the name was changed to Navajoland Credit Union, and the charter expanded to include everyone working or living on the Navajo Reservation. In 1983, the name was changed again, to First American, and the charter amended to include members of all Indian tribes whose headquarters were located in Arizona. With $26 million in assets and 10,000 members in 1992, it is the largest Native American credit union in the country and one of the largest CDCUs.

First American serves a poor community. While some Indians on the reservation are economically comfortable, the incidence of poverty, unemployment, welfare dependence, disease, and alcoholism is significantly higher than in the rest of the country. For years, the credit union operated out of a dilapidated trailer whose doors and windows would never quite shut. Now, however, it is housed at the main crossroads of Window Rock, in a modern building with a spacious foyer and computerized services. Three tellers in the smart, attractive uniforms of the credit union meet with members in the foyer and take loan requests over the phone, while another half dozen employees work at terminals in the back office.

The credit union's successful transition from a small, marginal operation with high delinquencies and an uncertain future into a strong, growing institution is due in part to its board of directors which was able to identify the policies that needed changing, and in part to the leadership of its manager since 1974, Robert P. Shipe. Shipe grew up in the credit union movement; his father had been director of both the Credit Union National Association and

9 Thanks to Robert P. Shipe, manager, and Angelina Boone, collections officer, who welcomed me warmly on a visit to Window Rock.

the Arizona Credit Union League.

The credit union's leaders decided that the most important priority was to spread the loan money as broadly as possible among the members. As a consequence, the institution makes only small, personal loans. Once they have established a line of credit, members can borrow in amounts as small as they wish up to their credit limit, just by making a phone call. In effect, their line of credit at First American operates like a credit card. To qualify for a line of credit, they must be employed and they must sign up for automatic payroll deduction to make their loan payments.

Watts United Credit Union[10] is located in a small suite on the first floor of a two-story office building at the corner of Wilmington Avenue and 103rd Street in the heart of the Watts district of Los Angeles. Across Wilmington is the large 102nd Street Elementary School, and across the road from that is a row of boarded-over and barred shops. It is a poor neighborhood, and the site of two of the worst urban disturbances in modern American history, in 1965 and 1992. During the 1992 episode, the credit union's manager, James Taylor, stayed in the office for three straight days and nights. When the protesters came by and threatened the building, Taylor, a tall and distinguished-looking African American man, walked out front and, he says, spoke quietly to them, saying, "You're looking at the owner, please pass on," and they did.

Watts United was chartered as a response to the 1965 uprising, as part of a program to bring some hope of economic progress to local residents. Taylor recalls the credit union at that time as being a kind of "experiment," to see if people on welfare would pay their debts. Many of the loans in the early years were for $50, to tide people over between welfare checks. In some cases, he says, it was a struggle to get people to understand the difference between a grant and a loan, and the fact that the latter had to be paid back; but in the end the borrowers made good on those $50 loans and the credit union was in a position to grow. Even today, the credit union restricts itself to personal, consumer loans, many of them now for automobiles. It does not yet make business loans.

All Watts residents are eligible to join the credit union. By 1992, Watts United had over 2,000 members, approximately two-thirds African American and one-third Latino (reflecting the shifting demographics of Watts), with assets totalling $1.5 million. Initially the credit union's expenses were paid by a sponsoring agency, the Westminster Association, but it has been on its own for many years now. It is in a particularly strong financial position, with a ratio of reserves to assets of 12 percent in 1992, remarkably high for a CDCU.

[10] James Taylor, the manager, welcomed me to the credit union in 1991, and since then he has kept me posted frequently on the progress of the institution.

The Santa Cruz Community Credit Union[11] occupies an old, two-story stucco building in downtown Santa Cruz, California. When the Loma Prieta earthquake destroyed much of the commercial area of the city in October, 1989, it fortuitously spared the credit union. But even though the building was preserved, the leaders of the credit union nevertheless feared for the institution's financial future. Members might withdraw their funds, they thought, both because the downtown area was almost inaccessible and also because they would need their money for rebuilding. Businesses that were damaged might default on their loans. The credit union people need not have feared. In the weeks and months following the earthquake, the assets of the credit union grew as never before. Members added to their deposit accounts and new members joined. The tellers in the front office often heard variations on the same story: "This community needs help, and I know the credit union is committed to helping, so this is where my money is going." By the summer of 1990, the credit union's assets had grown by almost 50 percent, to about $18 million.

The credit union was founded in 1977 by a group of activists in Santa Cruz who had long been active in movements for environmental preservation and for expanding social services for the poor. From the beginning, the credit union had a political purpose, to serve as an agent of change in the county, to promote economic democracy, and the interests of poor and moderate-income people.

The emphasis in the Santa Cruz credit union is on community development, by which is meant support of local small businesses, nonprofits, other cooperatives, and affordable housing projects. For years, the credit union's goal was to lend 60 percent of its resources for community development purposes and just 40 percent for personal purposes. With the growth in assets and the restrictions on commercial lending by the examiners, the 60-40 policy had to be abandoned, but the community development portfolio continues to grow. The credit union has provided part of the financing to make possible several low-income cooperative housing complexes. It made the initial loans for an organic juice company that eventually developed a strong market position throughout northern California. It has supported Latino farmers in the southern part of the county who provide employment to some of the poorest people in the area. It has a strong record of supporting women-owned businesses and worker-owned collectives. It has become the lender of choice for businesses in the community that identify themselves as "progressive."

At the same time that it has stressed community development lending,

[11] My information on the Santa Cruz Community Credit Union comes from my experience on its board of directors.

the Santa Cruz credit union has pushed to expand financial services to its members. It is closer to being a full-service financial institution than most CDCUs are, with many different types of savings and checking accounts, automated teller machines and automated transactions services over the telephone, credit cards, money orders, traveler's checks, and other products. Its board has wanted to be able to demonstrate that the credit union could be a force for progressive social change, without having to ask its members to sacrifice in terms of convenience or return.

North East Jackson Area Federal Credit Union,[12] or NEJA, is housed in a trailer that sits on a rural route, surrounded by woods and peanut fields, on the front lawn at Mrs. Pearl Long's house outside Marianna, Florida. It is in the state's northwestern panhandle, just ten miles from the Alabama border and fifteen miles from Georgia.

NEJA is a small credit union, with about $650,000 in assets at last count and one full-time employee. Its 800 members are all African American, many of them farmers. It was founded in 1965 by the Office of Economic Opportunity, as part of the Johnson administration's "war on poverty." The founders were participants in the local civil rights struggles, and they saw the credit union as a way of freeing themselves from dependence on the white financial institutions of the region. Many of the other OEO credit unions begun at that time received financial and administrative support from a local community action agency, but NEJA was on its own from the beginning. It has therefore had to rely on volunteers most years, and only recently has been able to afford any paid help at all. The founders of the credit union included Mrs. Long's late husband, Gye Long. When he died in 1979, she took over the leadership. She is an unpaid volunteer, but she spends most days in the trailer taking care of the members' business.

NEJA has almost had to close several times, because of high delinquency rates on its loan repayments as well as low income. But each time it has managed to survive, thanks in part to the help of Ernest Johnson. Johnson, a civil rights veteran and director of credit unions for the Federation of Southern Cooperatives/Land Assistance Fund, advises, shepherds, and nurtures rural Black credit unions in the southeastern states. Over the years he has spent many weeks at NEJA reconciling the accounts, helping the board of directors develop policies, and doing battle with the federal examiners.

NEJA specializes in making crop loans to farmers, loans of between $5,000 and $20,000 with terms of about a year, for the purpose of allowing the farmer to buy seed, chemicals, fertilizer, and equipment. The credit

[12] I would like to thank Ruth Lockett and Mrs. Pearl Long for their gracious welcome when I visited NEJA. Ernest Johnson gave me further information of the credit union.

union provides better terms than the farmers can get from the local banks or from the suppliers.

Church-Affiliated Credit Unions

Many credit unions in the United States are affiliated with churches, their fields of membership being the members of a single church or, in some cases, the members of a number of churches (often of the same denomination) in a geographical area.

In mid-1991 there were 911 church credit unions, with a membership of 1.1 million people and total assets of $3.2 billion. The Baptist and the Roman Catholic churches have the largest number of credit unions.[13] No facet of American society is more segregated than the churches, and consequently most of the church-affiliated credit unions are ethnically homogeneous. Most that are CDCUs are African American. This is a result of the fact that the church is such a central institution, and church membership such an important part of one's identity, in many low-income African American communities.[14]

Not all church credit unions should be considered CDCUs. They serve their parishioners with basic banking services, but have no wider purpose of meeting the needs of low-income people or of community economic development. Some of them, however, explicitly consider themselves to be CDCUs, and others, which operate in predominantly low-income communities, perform much the same function as non-church CDCUs. Perry Henderson estimates that there were 191 black church credit unions in 1990,[15] and many of them regarded themselves as CDCUs. Other church credit unions operated in low-income Asian immigrant and Latino communities.

In 1991 the National Federation of Community Development Credit Unions conducted a "Church-Based Credit Union Study," funded by the Trinity Grants Program, followed by a "Church Credit Union Development Project," begun in 1992.[16] The study found that the leaders of the church credit unions saw themselves as providing a service essential to the mission

[13] National Federation of Community Development Credit Unions, "Interim Report: Church Credit Union Development Project."

[14] For a discussion of credit unions associated with African American Churches, see Henderson.

[15] Op. cit., 30.

[16] See "Interim Report: Church-Based Credit Union Study," 1990; "Final Report: Church-Based Credit Union Study," 1991; and "Interim Report: Church Credit Union Development Project," 1992 — all issued by the National Federation of Community Development Credit Unions, New York.

of the church. The church, they believe, is a community of people helping people, and the credit union is a concrete expression of this.

The D. Edward Wells Federal Credit Union, described above, originated in a Baptist congregation. A quite different example of a church CDCU is Family Federal Credit Union in Wilmington, California, near Los Angeles. It was chartered in 1983 and is affiliated with Holy Family Roman Catholic Church. Many of the church's—and the credit union's—members are immigrants from Latin America, attracted to the church because it offers masses in Spanish and because it sponsors an array of social services, dealing with food, jobs, children, housing, and immigration. The credit union is part of this broader program, helping immigrants establish a stake in their new country.

Tables 1.1, 1.2, and 1.3 in the next section show that church-affiliated credit unions represent about 30 percent of the country's CDCUs. They are predominantly urban, and mostly small in terms of both assets and members. Although small, they have the potential to be very important, particularly in low-income, urban, African American areas where the church is frequently the most intact, coherent voluntary institution.

A Statistical Portrait of CDCUs

This section paints a different sort of picture of the country's community development credit unions, using statistical information from the institutions' financial statements and census data from their neighborhoods. It shows the number, membership, asset size, and growth rates of the CDCUs, divided into different categories. It then looks at the income, poverty level, and racial composition of the neighborhoods in which they are located.

Comprehensive information about CDCUs can be culled from the semiannual "call reports" that each federally-insured credit union files with the National Credit Union Administration (NCUA). At various times, researchers have selected the CDCUs from this large data set in order to develop a statistical profile. The set used in this study consists of 180 CDCUs reporting as of December 31, 1991.[17]

Additional information about CDCUs comes from an extensive survey questionnaire sent to about 400 low-income credit unions in 1986 as part of a joint study by the National Federation of Community Development Credit Unions and the federal Department of Health and Human Services.[18]

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[17] For an explanation of how these credit unions were selected, see "A Note on the Data" in Chapter 5.

[18] Gore, Rosenthal, and Smith, a study prepared by the National Federation of Community Development Credit Unions and the Office of Community Services, Department of Health and Human Services.

Table 1.1
Number of Credit Unions by Category

180 Community Development Credit Unions
(Dec. 31, 1991)

	Church	Non-Church	Total
Assets up to $500K	35	54	89
Assets >$500K	19	72	91
Urban	47	67	114
Rural	7	59	66
NFCDCU	22	69	91
Non-NFCDCU	32	57	89
Total	**54**	**126**	**180**

Table 1.1 shows the distribution of the number of CDCUs by asset size, urban or rural location, membership in the National Federation, and church or non-church affiliation, at the end of 1991. Table 1.2 shows the CDCU assets in the same categories and Table 1.3 the members of the CDCUs. The three tables, plus Tables 1.4 and 1.5 were compiled by the author from the call reports.

Table 1.2
($ in Millions)

Total Assets in 180 Community Development Credit Unions
(Dec. 31, 1991)

	Church	Non-Church	Total
Assets up to $500K	6.6	9.7	16.3
Assets > $500K	26.0	260.5	286.5
Urban	29.4	155.4	184.8
Rural	3.1	114.8	117.9
NFCDCU	20.8	175.5	196.3
Non-NFCDCU	11.8	94.7	106.5
Total	**32.6**	**270.2**	**302.7**

Table 1.3
(Thousands)

Membership in 180 Community Development Credit Unions
(Dec. 31, 1991)

	Church	Non-Church	Total
Assets up to $500K	10.4	16.4	26.7
Assets > $500K	19.2	143.2	162.5
Urban	25.9	89.5	115.4
Rural	3.7	70.1	73.9
NFCDCU	18.6	97.4	115.9
Non-NFCDCU	11.0	62.2	73.3
Total	**29.6**	**159.6**	**189.2**

CDCUs are only a small portion of the credit union industry. At the end of 1991, the 180 CDCUs identified in these tables constituted just 1.3 percent of the country's 13,977 credit unions. Their 189,000 members were only 0.3 percent of the total credit union membership of 62.4 million. And their assets, $302.7 million, were a smaller portion yet, just 0.12 percent of total credit union assets, which stood at $244.5 billion.[19]

Table 1.1 shows that half of the CDCUs have less than a half million dollars in assets, and half more. A half million dollars is a very small size for a financial institution. With a gross rate of return of roughly 10 percent per annum, a credit union of that size generates an annual income of just $50,000, and that sum has to be divided among dividend payments to the savers, salary and other operating expenses, provision for loans that go into default, and reserves for the institution. There is not much to go around in a half million dollar credit union—and many CDCUs are much smaller than a half million, as Table 1.4 below shows.

About a third of the CDCUs are rural. Credit unions were classified by the author as rural if they were located in the countryside, or if they were located in a small town and their field of membership included a significant rural population. The majority of the CDCUs are urban, and of these, most are located in the centers of the country's large cities.

Half of the credit unions included in this data set are affiliated with the National Federation of CDCUs and half are not. Those that are affiliated tend to be somewhat larger.

[19]The industry-wide data are from Credit Union National Association, *Operating Ratios and Spreads: Year-End 1991*.

Table 1.4 allows a more detailed look at the size of the country's CDCUs. It shows the percentage distribution of the CDCUs by asset size, and, for comparison, the final column shows the size distribution of all credit unions in the United States as of December 31, 1991.

Table 1.4
(Percentages Total to 100)

Distribution of CDCUs by Asset Size
(Dec. 31, 1991)

Asset Size ($ in Millions)	**All**	**Urban**	**Rural**	**Church**	**Non-Church**	**All CUs in the US**
0.0 – 0.1	16	17	15	22	14	–
0.11 – 0.25	21	17	27	28	18	–
0.26 – 0.5	13	12	14	15	12	–
0.0 – 0.5 (total)	*49*	*46*	*56*	*65*	*43*	*16*
0.51 – 1.0	19	20	18	20	19	11
1.01 – 2.0	14	18	9	9	17	13
2.01 – 5.0	11	12	8	6	13	19
5.01 – 10.0	2	1	5	0	3	14
10.01 – 20.0	3	3	3	0	4	10
20.01 – 50.0	1	1	2	0	2	10
50.01 +	0	0	0	0	0	7

Almost half of the CDCUs had assets of less than a half million dollars at the end of 1991, compared to only 16 percent of the almost 14,000 credit unions in the country. Only 6 percent of the CDCUs had more than $5 million, compared to 41 percent of all credit unions. Within the CDCUs, the rural credit unions tended to be smaller than the urban, and the church-affiliated credit unions smaller than the secular. Taken as a whole, and with a few exceptions, community development credit unions are very small financial institutions.

In recent years, CDCUs have grown at rates roughly comparable to the rates of growth of other credit unions in the country. Table 1.5 shows annual growth rates for five- and ten-year periods ending in 1991. The rates are for the total assets of 152 CDCUs that existed throughout the decade. For comparison, the growth rate of assets in all federal credit unions over the same periods is shown.[20]

[20] The figures in the last row of Table 1.5 are simply the growth rates of all credit union assets, not matched to the CDCUs by size of credit union. Thus the figures are dominated by the largest credit unions in the country, credit unions larger than any CDCUs. See National Credit Union Administration, *1991 Annual Report*.

Table 1.5
Average Annual Percentage Growth Rates

Growth in CDCU Assets, 1981–1991

	1986–91	1981–91
Assets up to $500K	4.5	6.0
Assets >$500K	9.8	14.7
Church	4.4	8.9
Non-Church	8.2	13.8
Urban	10.3	14.1
Rural	8.3	13.6
Total CDCUs	9.4	13.9
All U.S. Federal CUs	8.2	12.3

Table 1.5 shows that the larger CDCUs grew faster than the smaller ones, the non-church faster than the church, and the urban a little faster than the rural. The calculated CDCU growth rates that are shown in the table have a bit of an upward bias,[21] and it is likely, therefore, that the true CDCU growth rates were even closer to the industry rates than the table shows.

Tables 1.6, 1.7, and 1.8 explore the income and racial characteristics of CDCU members. This is quite hard to do, and numerous difficulties arise in the interpretation of these tables. The problem is that credit unions keep no comprehensive records of the income and race of their members. Income but not race is recorded by borrowers on their loan applications, but this information remains in the loan files and is not compiled and revealed by the credit unions.

The strategy used in this section is to look at the characteristics not of the members themselves, but of the populations living in the neighborhoods where the credit unions are located.[22] This information is easily available from the national census. The procedure is valid to the extent that the credit union members are representative of the neighborhood population.

Two principal problems exist with this method. First, the author had to use the 1980 census, since the detailed compilations from the 1990 census were not available at the time the research was done, and therefore the infor-

[21] They are based on the records of 153 credit unions that existed continuously over the decade 1981-1991. Yet over that same period the total number of CDCUs fell. Using the same methods for identifying CDCUs as were used in 1991, there were 222 CDCUs in 1981, 219 in 1986, and 180 in 1991. In other words, of the 222 CDCUS that could be identified in 1981, 72 had been liquidated or merged by 1991, and only 27 new ones had been chartered.

[22] Thanks to Chhorn Be for her help in compiling the data on CDCU neighborhoods.

mation is dated. Second, the information on the rural neighborhoods is not at all comparable with the information on the urban neighborhoods. In these tables the rural income levels are significantly higher, and the poverty rates and non-white proportions significantly lower, than is doubtless the case for the actual CDCU memberships.[23] Nevertheless, Tables 1.6 through 1.8 give at least an indication of the characteristics of the CDCU members.

In 1980, the median family income in the country was $19,917, the poverty rate 12.4 percent, and the non-white population 15.1 percent of the total. Table 1.6 shows that the 114 urban credit unions serve neighborhoods that were significantly poorer than the rest of the country, with higher poverty levels and non-white populations. All of these tendencies are accentuated in the case of the church-affiliated credit unions, most of which are in African American, central-city neighborhoods.

Table 1.7 shows similar information for the 66 rural CDCUs, although, as noted above, Table 1.7 is not directly comparable with Table 1.6. It does show, however, that the rural CDCUs are located in relatively poor and non-white communities.

Table 1.8 compares the CDCUs' neighborhoods to the national averages. In the case of the urban CDCUs, 90 percent are in neighborhoods whose median family income was less than the national median family income in the 1980 census, and 40 percent are in neighborhoods whose me-

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[23] In the cities, the census presents information by census tract. The tracts are quite small neighborhood areas, with generally just a few thousand people. Census tracts are not specified for most rural areas or small towns, however, and so in the case of the rural credit unions the neighborhood was taken to be the small town, or in some cases the county, in which the institution was located. Thus the information on rural populations is not directly comparable to the information on urban dwellers in Tables 1.6, 1.7, and 1.8. In particular, a naive use of these tables would seem to indicate that the rural credit union members are somewhat better off than the city dwellers. As Chapter 6 shows, this is probably not the case. There is another difficulty in comparing the rural and urban areas. Central cities tend to be quite segregated by race and by income levels, while rural areas are not. Nevertheless, many of the rural credit unions serve a specific racial or income group. One may compare, for example, the St. James AME Credit Union in Newark, New Jersey, an urban, church-affiliated organization, with NEJA, the North East Jackson Area Federal Credit Union, located outside Marianna, Florida. St James is an African American church, and the membership of the credit union is almost totally African American. This is reflected in the census tract in which it is located, where in 1980, 95.1 percent of the population was non-white (compared to the national average of 15.1 percent), the median family income was $5,417 (compared to a national average of $19,917), and 68 percent of the people were living in poverty (compared to the national average of 12.4 percent). In the case of the Florida credit union, the closest neighborhood described by the census is Jackson County, where the 1980 population was 33.7 percent non-white, with a median family income of $13,212, and 23.9 percent of the population in poverty. One expects that the Newark census tract figures reflect the St. James membership reasonably accurately (although no doubt some church members commute from a distance), but the Jackson County figures do not reflect NEJA's membership at all closely. In fact, the NEJA members are entirely African Anerican and, as Chapter 6 shows, quite poor. In sum, the figures for the urban credit unions in the tables probably reflect those credit unions' memberships fairly well, while the rural figures represent significant overestimates of the members' incomes, and underestimates of the poverty levels and the proportion that are non-white. The rural figures are included nonetheless because, even with those significant biases, they show that the rural credit unions are in relatively poor communities.

dian family income was less than half the national median. The other urban numbers are even more striking. Almost two-thirds of the CDCUs are in neighborhoods with greater than twice the national average poverty rate, and three-quarters are in neighborhoods with twice the national average of non-white population. The rural figures show a similar picture, although, again, they are not directly comparable with the urban figures.

Table 1.6
(Average Neighborhood Characteristics, 1980)

114 Urban Community Development Credit Unions*

	All	Church	Non-Church
Median family income	$12,348	$10,792	$13,458
Persons in poverty	31.7%	37.6%	27.4%
Non-white	64.2%	79.6%	53.3%

* Source, 1980 Census of Population.

Together, Tables 1.6, 1.7, and 1.8 demonstrate that CDCUs are located in neighborhoods that are significantly poorer and more non-white than the rest of the country. On the reasonable assumption that their members come largely from the surrounding neighborhoods, it is clear that they serve people who are in particular need.

Table 1.7
(Average Neighborhood Characteristics, 1980)

66 Rural Community Development Credit Unions*

	All	Church	Non-Church
Median family income	$13,558	$15,717	$13,298
Persons in poverty	24.1%	18.6%	24.7%
Non-white	36.4%	22.2%	38.1%

* Source, 1980 Census of Population.

Other sources of information confirm this. Chapter 6 reports the results of extensive sampling in the loan files of seven CDCUs, conducted by the author and several research assistants. The reported incomes of the borrowers were quite low in most of the credit unions. A 1986 survey by the National Federation of CDCUs asked the managers of 400 low-income credit unions to estimate their members' incomes. While the estimates were probably based on rough impressions from loan applications, still, in a year in which the national median household income was $23,618, and the median household income in all of the country's credit unions was $32,360, the low-income credit unions reported that 75 percent of their members' household incomes were under $20,000, and 44 percent were under $10,000. They reported that 14 percent of their members were unemployed, 20 percent received public assistance, and over 60 percent were non-white.[24]

Table 1.8
(Percentage of Credit Union Neighborhoods)

Comparison of CDCU Neighborhoods to National Averages*

Neighborhood Characteristic	Urban	Rural
Median family income < $9,959	40	15
Median family income < $19,917	90	92
Poverty rate > 24.8%	66	38
Poverty rate > 12.4%	88	82
Non-white population > 30.2%	76	55
Non-white population > 15.1%	83	78

* Source, 1980 Census of Population.

Information from a variety of sources makes it clear beyond a doubt, therefore, that the members of CDCUs are much poorer than Americans generally.

In summary, community development credit unions are a very small component of the nation's financial structure, but their growth is keeping pace with the growth of other credit unions. The majority of CDCUs are secular; a minority are church-affiliated. The majority are urban, a minority rural. They serve people who are poorer than other Americans, and their members are largely, although not exclusively, non-white.

The next two chapters explore the history of community development credit unions.

[24] Gore, Rosenthal, and Smith.

Appendix: Cooperative Principles and Credit Unions

This chapter asserts that credit unions are cooperative institutions, and so they are. Some difficulties arise, however, in applying the classical cooperative principles to the credit union form.

As Chapter 2 will discuss, credit unions developed in the nineteenth century as a part of the more general European cooperative movement. Many of the original German credit associations had close connections to other kinds of cooperatives, particularly of producers. While there were tensions between the different types of cooperatives and their leaders, there was also a good deal of mutual support. In twentieth-century United States, however, credit unions developed apart from other cooperatives.

Over the years, a set of cooperative principles has emerged from the experiences of the cooperative movement. They are sometimes referred to as the Rochdale Principles, since they were derived from the practices of the consumer cooperative that was founded in Rochdale, England in 1844. In fact, however, the Rochdale pioneers never established a definitive set of principles to guide their store; the closest they came was a very long list of rules, some of them completely specific to their own situation. It was left to contemporary and later writers to try to codify the Rochdale experience into principles. These principles have been widely accepted within the various cooperative movements, but they have changed considerably over time. The International Cooperative Alliance brought some order to the subject in 1931 by adopting seven principles that a committee of inquiry thought to have been at the heart of the Rochdale store almost a century earlier. In 1966 these principles were amended by the ICA into a group of six that were "to be considered as essential to genuine and effective cooperation practice both at the present time and in the future as far as can be foreseen."[25] They are:

1. Open, voluntary membership. There is to be no discrimination and no coercion in joining the cooperative. All who are able and willing to participate are welcome.
2. Democratic control, or one person, one vote. Voting is by person, not by number of shares held.
3. Strictly limited rate of interest on share capital. Members buy shares in the cooperative in order to provide the capital it needs, not in order to speculate on profits.
4. Patronage refund. Surplus earnings, above the return to shares and above the funds set aside for the cooperative's reserve and for

[25] Bonner, 309.

common services, are returned to the members in proportion to their patronage, or transactions with the cooperative. The patronage refund is a way of protecting the financial stability of a consumer cooperative while keeping costs to the members low. The cooperative initially charges the same price on goods as other stores; if it makes a profit, however, the patronage refund has the effect of reducing prices retroactively.

5. Member education. A cooperative has the responsibility to educate its members in the principles of cooperation, both economic and democratic.
6. Cooperation among cooperatives. Just as individuals cooperate within an institution, so do the institutions cooperate among themselves, to develop the cooperative movement.

The first two principles define the cooperative as a democracy, the second two ensure that the cooperative's earnings are used for its members' benefit, and the last two provide for the development of the cooperative movement.

The adoption of these principles by the ICA did not end the controversy about the definition of a cooperative because a number of cooperative associations violate one or more of the rules. As an example, the first principle, open membership, is difficult for many producers' cooperatives to adhere to, and impossible for a workers' or a housing cooperative. A less constraining set of guidelines has been proposed by the United States Department of Agriculture, as defining cooperatives:[26]

1. Services at cost to member-patrons.
2. Democratic control by member-patrons.
3. Limited returns on equity capital.

The USDA guidelines eliminate the first, fifth, and sixth Rochdale Principles, and interpret the fourth, the patronage refund, more broadly as simply services at cost. Yet even this broader set of principles is of almost no relevance to a worker cooperative, with the exception of the provision for democratic control. And financial cooperatives—credit unions—adhere to the first two USDA guidelines but would appear to violate the third.

How well can credit unions fit within these defining cooperative principles? The first two ICA principles present no problems. Credit unions are voluntary associations, open to everyone within a defined field of membership, with the exception of those who have demonstrated that they are inca-

[26] Schaaf, 12.

pable of or unwilling to undertake the necessary responsibilities. They are democratic organizations, with a board of directors elected by the members.

The third and fourth ICA principles seem problematic for credit unions. People who deposit money in the credit union become the owners of the credit union, and the tradition in the United States is that the deposits are consequently called "shares." The rate of interest on share capital is not fixed and strictly limited, as the third ICA principle would appear to call for. Members receive a variable dividend on their shares, a dividend which is not fixed by contract but which depends instead upon the surplus earnings of the credit union. This would seem to violate the very idea of a cooperative, that the proceeds of the business should not accrue to capital but rather to the members.

The interpretation of the third and fourth principles in a financial cooperative is, however, ambiguous. The fourth principle is that the surplus earnings of the cooperative should be returned to the members in proportion to the transactions they have conducted with the association, thus in effect retroactively reducing the price of those transactions. But a principal way in which members transact business with a credit union is by depositing funds in it. The other principal way of conducting business is by borrowing. And credit union law permits the surplus earnings of a credit union to be returned to the members in proportion to their deposits, and/or in proportion to the interest that they have paid on their loans. Thus the distribution of the surplus could be seen to be a patronage refund, and not a variable return on shares. If the structure of a credit union is interpreted generously, therefore, the institution can be seen as falling well within the classical definition of a cooperative.

In fact, however, the ICA principles are strictly appropriate only for a consumer cooperative, while most other types of cooperatives have to stretch a little or a great deal to fit completely under their tent. The USDA principles are completely appropriate for agricultural producer cooperatives, but not for all others.

It may be impossible to find a set of principles that would comprehend worker cooperatives as well as all of the other types. The difficulty is that the basic purpose of a worker cooperative is to generate income for its members, not to provide services at cost. The following three principles will probably suffice to describe the other types of cooperatives, and to distinguish them from other forms of business organizations:

1. Ownership. A cooperative is an institution owned by the people who use its services.
2. Democracy. Control is exercised on a one-person-one-vote basis.

3. Services are provided to the members at cost.

If these three principles are the essence of a cooperative, then the nineteenth-century German "people's banks," and also the modern credit unions that evolved from the German antecedents, fit well within the cooperative movement.

CHAPTER 2

THE ORIGINS OF COOPERATIVE FINANCE

Credit unions were born of adversity.
—Jack Dublin[1]

The credit unions, if they are to win lasting success, must absolutely not get themselves mixed up with charity cases; for they are not designed to support the poor, but what is more important—to prevent poverty.
—Hermann Schulze-Delitzsch[2]

The credit granted by the [Schulze-Delitzsch] cooperative unions should be eminently a "productive" credit, to be employed in carrying on or extending one's business, and not to be eaten up in unproductive consumption.
—Richard T. Ely, 1881[3]

Most community development credit unions in the United States were formed within the last several decades. A few were founded in the 1940s, but the first major development came with the War on Poverty in the 1960s. The history of cooperative financial institutions goes back much earlier, however. The first American credit union was established in New Hampshire in 1909, and before that the first credit union on the North

1 Dublin, 142.

2 Quoted in Tucker, 50.

3 Ely, 220.

American continent appeared in Levis, Quebec, in 1900. The North American credit unions trace their roots, in turn, to the cooperative credit societies that were begun in Germany in 1850 and grew rapidly throughout Europe in the second half of the nineteenth century.[4]

It is useful to consider the historical evolution of credit unions, and not just for reasons of antiquarian curiosity. The early cooperative credit societies had a distinctive purpose; they were established in order to protect groups of people whose livelihoods were threatened by economic forces over which they had no control. As credit unions grew and prospered, however, their social contexts, their structures, and even their basic purposes changed, never abruptly but slowly and relentlessly. From agents of social change they evolved into institutions that provided a useful service to members, but they did not challenge the economic and social structures in which they were embedded. In fundamental ways, modern CDCUs are rejecting many of these recent changes and are attempting to return to at least some of the original principles of the credit union founders.

Nineteenth-Century Cooperatives

Credit unions are cooperative financial institutions. While in the late twentieth-century United States most of them stand quite separate from other types of cooperatives, in mid-nineteenth-century Europe they were part of the cooperative movement more generally.

Cooperatives began as a response to the excesses of free market capitalism. Capitalism broke apart the traditional bonds that had connected people to their workplaces and to rural and urban communities. These bonds had often been exploitative—for example, the bond between a lord and his serf—but they had created what seemed at the time to be unbreakable connections between people. The capitalist, industrial revolution shattered those bonds, creating individual workers, or "hands," who were free to sell their labor for whatever it could bring, but for whom the society as a whole had no specific responsibility. Industrial capitalism brought with it individual freedom, both the freedom to rise above the ocean and the freedom to sink beneath it. It brought newly-prosperous mill owners and traders, and it brought stinking cities, child labor, epidemics, and early death.

To a large extent, therefore, the history of social movements in nineteenth-century Europe is a history of attempts by people to join together, to combine their resources to create safe havens against the onslaught of individualism. Some aspects of the movements were reactionary, in the sense that they were defensive and ultimately futile attempts to preserve social

4 The history of American credit unions and their predecessors is outlined in Moody and Fite.

relationships that were inexorably passing. Other parts were progressive, pointing the way to forms of collective organization that would thrive in the twentieth century. Among these social movements, all of which were at the same time reactionary and progressive, were the beginnings of the welfare state, the beginnings of trade unionism, and the beginnings of cooperatives.

Cooperatives appeared in different sectors. The leaders of the various cooperative associations knew of each other and had some personal connections, but the movements they established were separate, and they led to quite different types of cooperatives in the twentieth century, including communal societies as well as consumer, producer, worker, housing, and financial cooperatives.

Robert Owen's community at New Lanark in Scotland and his subsequent colony at New Harmony in Indiana were early examples of planned communal societies in which all components of social life—not just work, purchasing, selling, or borrowing—were organized collectively. The early utopian socialist experiments such as Owen's failed eventually, but they had a strong influence on twentieth-century communes, ranging from the highly structured Israeli kibbutzim to back-to-the-earth settlements of young Americans in the 1960s and after. The other types of nineteenth-century cooperatives, more limited in scope than the communes, can point to a more continuous chain of success. Modern consumer cooperatives trace their origins to the Rochdale, England, cooperative store, founded in 1844. Producer cooperatives, formed predominantly by independent farmers, were created throughout Europe and later North America, for the purposes of purchasing supplies jointly and/or selling produce. Worker cooperatives—firms owned and controlled by their laborers—arose in France and Italy, and to a lesser extent in other countries of continental Europe.

At the same time that consumer, producer, and worker cooperatives were first appearing, financial cooperatives originated in Germany. Initially they were associated with producer cooperatives.

Schulze-Delitzsch and Raiffeisen

Two visionaries were responsible for the founding of the German credit unions, F. Hermann Schulze-Delitzsch (1808-1883) and Friedrich Wilhelm Raiffeisen (1818-1888).[5] The Schulze-Delitzsch credit unions, called Volksbanken, or people's banks, were urban, while the Raiffeisen credit unions, called loan associations, were rural. Both types of associations grew substantially in the second half of the nineteenth century in Germany; both created national organizations and both spread to other countries of conti-

[5] On the origins of cooperative credit in Germany, see Ely; Wolff; Tucker; and Aschhoff and Henningsen.

nental Europe. They shared a number of characteristics, but in some important respects they differed.

Schulze-Delitzsch was at times a judge and a liberal political leader from a part of eastern Germany that was originally in Saxony but was incorporated in his lifetime into Prussia.[6] Moved by the distress of his countrymen in the economic crash of 1846-47, he searched for ways to improve the lot of craftsmen and shopkeepers. His first project was a cooperative insurance fund for craftspeople; his second, a cooperative leather-buying club for shoemakers. Both were producers' cooperatives, associations of independent producers who joined together for certain limited commercial goals. The shoemakers discovered that if they bought their leather in bulk they could achieve a price reduction of about 15 percent, even after paying the administrative expenses of the buying club. They faced a barrier, however; they lacked the funds to make the bulk purchase. They required credit, and had no access to it. As a consequence, Schulze-Delitzsch turned his attention to the question of credit.

At this point, he made the first of many decisions that were to have an important impact on the subsequent development of the credit union movement. The shoemakers' buying cooperative could have extended its operations into the area of credit, but Schulze-Delitzsch decided that the two functions, purchasing and credit, should be kept completely separate. The shoemakers would get the best price on their purchases of leather if they paid cash, if the seller did not have to assume any risk. The risk inherent in borrowing should be isolated in a separate institution. Schulze-Delitzsch therefore established the first people's bank in 1850 at Delitzsch, the precursor to what is now known as a credit union. Thus the pattern was set for the credit union movement to develop separately from the more general cooperative movement.

The main problem to be confronted was the source of the funds. Those in need of loans, the craftsmen and artisans, did not have surplus savings to lend to each other. Schulze-Delitzsch's first solution to this problem was to solicit the equivalent of $140 in capital from several of his well-off friends, who were given the title of honorary members. The funds were then available for lending to those who needed them, called the beneficiaries, with the proviso that the beneficiaries were required to contribute five cents a month to the capital of the institution.

This first scheme was not successful, but in its structure it anticipated

6 Born Hermann Schulze, he added Delitzsch, the name of his home town, to his surname when he became a member of Parliament at Berlin, in order to distinguish himself from the many other Schulzes he encountered in political life (Tucker, 29). The account of Schulze-Delitzsch's banking innovations from 1850 to 1852 in the paragraphs that follow comes from Tucker.

the later cooperative credit associations. Two features distinguished it from the charitable loan associations that existed at the time in Germany. The borrowers were required to be members of the association, not just customers of it, and they were required to save as a condition of borrowing. So from the beginning, the Schulze-Delitzsch banks were cooperatives established for the purpose of saving as well as borrowing.

The first Delitzsch people's bank failed because a number of the loans were not repaid, and because the honorary members, the benefactors of the bank, gradually withdrew. Schulze-Delitzsch was absent for about a year on a judicial assignment in another town; he returned to discover that the only remaining members were the beneficiaries and that the bank had collapsed.

He then turned to the example of a similar financial cooperative, founded, also in 1850, by a colleague in the nearby town of Eilenburg. At Eilenburg, wealthy patrons were not allowed; the only members were working and small business people, each of whom was required to make a more substantial contribution to the bank's capital.

In 1852, then, Schulze-Delitzsch founded the people's bank in Delitzsch, the model on which subsequent credit unions would be based. The initial requirement was an entrance fee equivalent to $2.50, and each member pledged eventually to purchase a $12.00 share in installments. In other words, there was considerable emphasis upon member savings. The funds saved by the members were still insufficient to meet the loan demand, however, and so the bank had to borrow additional money. The decision was made not to depend upon the charity of wealthy benefactors, but instead to borrow on commercial terms from regular banks and depositors.

In order to secure these loans, the association adopted the principle of unlimited liability. Under normal corporate law, the doctrine of limited liability means that an investor is liable only for the amount of his or her share investment, and cannot be held personally responsible for the debts of the corporation. Under unlimited liability, as practiced in the Schulze-Delitzsch banks, the members were collectively responsible for the outside debts. With the pledge of unlimited liability, the cooperative was able to secure all the loans it needed.

The Schulze-Delitzsch people's banks were democratic unions, each member having one vote. They were regarded as non-profit institutions, and as such were not taxed.

Schulze-Delitzsch spent the rest of his life, until his death in 1883, promoting his people's banks. From his seat in the Prussian House of Representatives, and then in the German Reichstag, he advanced the legal framework for cooperative banking. He wrote books and newspaper columns advocating the banks. He organized the Universal Federation of German Cooperative Societies, of which the largest number of member organizations were his people's banks. The banks grew in number to more than a thousand by the end of the century, and membership was more than half a million.

Friedrich Wilhelm Raiffeisen's rural loan associations began at the same time as those of Schulze-Delitzsch and developed more slowly, but his movement eventually became considerably larger.[7] Raiffeisen, born in poverty, rose to become mayor of several towns in the western Rhineland area, but he retired in 1863 at the age of 45 because of poor eyesight. Both before and after his retirement, he devoted most of his energy to the development of institutions to help small farmers. Like Schulze-Delitzsch's first efforts, Raiffeisen's initial institutions were based upon the charity of the well-to-do. In 1849 in Flammersfeld, where he was mayor, he organized a union of 60 wealthy citizens who held themselves jointly liable for borrowed funds which they in turn lent to poor farmers. This model was repeated several times, but Raiffeisen eventually lost faith in it. Under this scheme it was the wealthy patrons, not the poor farmers, who controlled the institution, and while the institution was useful to some of the farmers, it was not a cooperative. In 1862, Raiffeisen turned to the organizational structure that had been pioneered by Schulze-Delitzsch, and founded the first German rural credit cooperative. The Raiffeisen movement expanded quickly in the 1880s, and it eventually became substantially larger than the Schulze-Delitzsch movement.

The Social Bases of the Early German Credit Unions

The Schulze-Delitzsch and the Raiffeisen banks were both directed towards people who were being victimized by the economic changes in nineteenth-century Germany. They were established for the purpose of changing social relationships. One should not leap from this to the conclusion, however, that they always represented the interests of poor people, for their role was rather more ambiguous than that.[8]

Their leaders were not poor people. Schulze-Delitzsch was born into a substantial family in a small village, and was well educated in preparation for a career in the law and politics. Raiffeisen came from a once well-off background—his father had been a minister and village mayor—although his father's alcoholism and early death left the family in difficult circumstances. Interestingly, the subsequent founders of national credit union movements—Luigi Luzatti and Leone Wallemborg in Italy, Louis Durand and Charles Rayneri in France, Alphonse Desjardins in French Canada, and Ed-

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7 The material on the Raiffeisen rural loan associations comes primarily from Wolff.

8 On the social bases of the early German cooperative associations, see Fairbairn and Rudin.

ward Filene in the United States—were men of commerce or the professions.[9] Credit union movements were not founded by the poor.

To understand the role of the early cooperative credit associations, it is helpful to know something about how German society was changing in the middle of the nineteenth century. The Germany into which the credit associations were introduced was socially backward by comparison with England, France, and the United States in the same period. Not only was the population poorer, its social structure was much closer to medieval feudalism. The country of Germany did not even exist. A unified state was created under Prussia by Count Bismarck's wars of 1864, 1866, and 1870. Prior to that time, "Germany" consisted of a series of rival principalities. While the strict feudal division of labor of earlier centuries had broken down somewhat, the remnants were still very strong.

Until the beginning of the nineteenth century, production in the German towns was organized in rigid guilds, membership in which was compulsory for craftspeople. The guilds enforced detailed rules about apprenticeship, product design, working hours, and all other aspects of economic and even social life, for the purpose of achieving security and equality for the guild members. In the countryside, the land was controlled by the nobility and worked by the semi-free serfs. Between those two classes was a "petite bourgeoisie" of small-scale commercial and professional people, dependent upon the powerful landholders. The legal basis of feudalism was abolished only at the beginning of the nineteenth century. Freedom of trade was allowed in the cities, and in the countryside serfdom was replaced by land ownership. It was one thing to change the legal system, however, and quite another to transform the social system. In the towns, the guilds still survived well into the nineteenth century, and artisans still carried on their trades. In the agricultural sector, serfdom was replaced by overwhelming debt in many cases, since the newly independent farmers were required to pay for their land. In England, feudalism had been dissolved by the industrial and commercial revolutions, but in Germany the artisan and peasant populations still predominated. Barrington Moore has made the argument that fascism emerged in twentieth-century Germany because industrial technology was imposed on a social structure that was still feudal.[10]

If mid-nineteenth-century Germany was still influenced by feudalism, however, that feudalism was not secure; it was under sharp challenge by the forces of corporate capitalism. The new freedoms of movement and associa-

9 See Rudin.

10 Moore.

tion were eroding the guild and peasant economies. Large-scale production in factories was threatening the livelihoods of the urban artisans, and commercial farming was beginning to squeeze out the small farmers and peasants. The clash between two economic systems — the feudalism of the past versus the capitalism of the future — was leaving victims in its wake, people whose way of life, while never comfortable, had at least been secure in the recent past.

The cooperative credit movement was a response to this social conflict. It was an unclear and ambiguous response by people who could not fully understand the character of the social change that was buffeting them. In part, the movement can be understood as an attempt to restore the certainties of the feudal world, but in part it was an attempt to soften the hard edges of corporate capitalism. It was not primarily a movement of poor or working-class people, but of threatened intermediate classes. A German historian, Erwin Hasselmann, writes:

> *...the first German attempts at cooperation were made by farmers, peasants and artisans whose outlook was typically middle-class and whose main concern...was the defense of their independent middle-class existence against the overpowering competition of large scale capitalist enterprises.*[11]

Schulze-Delitzsch was a man of strong humanitarian bent. He was by no means a revolutionary, however; as Fairbairn shows, he saw his people's banks as a way of forestalling radical social movements. He actively opposed working-class cooperative movements,[12] whether of producers or consumers, finding them too radical. The members of his banks were not the urban poor, but rather the class of craftspeople whose livelihoods were under attack. They were in danger of losing their shops and falling into poverty, but they were not poor. The contemporary English writer Henry Wolff, while an admirer of most aspects of the people's banks, nevertheless sensed that they were not established for the benefit of the poor in the way that the English consumer cooperatives were. Referring to the share requirement that was a condition of membership, he wrote:

[11] Quoted in Fairbairn, 69. Note that Hasselmann uses the term "middle-class" not in the modern American sense of comfortably salaried employees, but to refer to the feudal classes of artisans and producers who were situated socially between the aristocracy and the serfs.

[12] Ibid.

> *...it is altogether contrary to our idea of co-operation, that the humblest classes, the working men proper, should be excluded and bidden to wait outside until they have accumulated sufficient funds to qualify themselves for membership...There are working men, no doubt, in the Schulze-Delitzsch associations; but only in very small proportion...The bulk of the members is nearly everywhere made up of small tradesmen, small landowners, and men of similar independent or quasi-independent position...*[13]

Schulze-Delitzsch should not be libeled as the reactionary that some of his countrymen were, however. He was not calling for the restoration of the feudal guilds and manors. He was rather of the school of the English classical economists, believing in capitalism, technology, markets, and competition. Like the classical economists, he believed that the public welfare was best promoted by a large number of small enterprises, not by a few monopolistic giants. He saw the loans made by the people's banks as a way of promoting small-scale capitalism.[14] Of course, small-scale capitalism was destined to lose out to large-scale corporate capitalism by the end of the nineteenth century, but to argue for it was not at all the same as to argue for the restoration of feudalism.

Raiffeisen was more backward looking than Schulze-Delitzsch. It is true that his rural loan associations were accessible to a poorer group of people because they imposed no share requirements on members. Rudin argues, however, that in Germany, as later in France and then in Quebec, the leadership of most rural cooperative credit associations was largely in the hands of the petite bourgeoisie, the men of the professions, commerce, and the church. Their motive was to keep small farmers on the land, because their own social position depended upon the continued existence of a subservient agricultural class.[15] They really did yearn for an earlier era, in which they imagined their own positions were more comfortable.

In keeping with this backward, quasi-feudal orientation, Rudin argues, the Raiffeisen associations were imbued with a conservative, moralistic, Christian ethic, quite different from the secularism inherent in modern business. It was an ethic which glorified hard work and sober habits as well as deference to authority. It called for neighborly love. An important feature of the Raiffeisen associations was that they were usually restricted to a single

[13] Wolff, 102.

[14] Tucker, 51-55.

[15] Rudin, op. cit.

rural parish, and were sponsored by and reinforced the position of the pastor.

The Raiffeisen associations were also imbued with the sexism and the anti-Semitism that were endemic to German rural life. They did not allow membership by married women because they were restricted to people who were independent. As to their anti-Semitism, they did not have the explicitly racist political agendas that some other German rural cooperative groups had. But they saw their mission as that of combating usury, and the usurer they identified was the Jew. A pastor in the province of Kurhessen who led a Raiffeisen association said in 1881, "How much do the Jews here want to take part in our cooperative? I will never offer them my hand, for that would violate the purpose of the cooperative."[16] Completely blind to the implications of what he was hearing, the good English cooperator, Henry Wolff, wrote in 1893 of his travels in Raiffeisen's area, "...from one and all, here, there and everywhere, have I heard the self-same, ever-repeated bitter complaint, that the villages were being sucked dry by the 'Jews.' Usury laws, police regulations, warnings and monitions have all been tried as remedies, and tried in vain."[17] In 1903, a German political leader remarked, "As far as I know, all Raiffeisen men are anti-Semitic."

Thus humanitarian motives were mixed with class self-interest and racism in the early German credit unions in ways that were complicated. The credit unions were partially a reactionary attempt to restore a social order that was being defeated, and they were partially a progressive attempt to provide resources for people who were threatened by the new capitalist order. They were partially a self-interested movement by people of some position who felt those positions threatened, and partially a disinterested movement on behalf of the poor. The ambiguous class basis and ideology of the early credit unions are relevant to this study, because in some ways today's community development credit unions are echoing the principles of the founders—although not necessarily consciously—and rejecting some of the deviations from those principles that have been made by modern mainstream credit unions. CDCUs focus on community development, and many of them lend for the purpose of promoting small businesses. They attempt to bring outside resources into their communities. Their leaders are committed to social change. They would do well to remember, therefore, that when these ideas were put into practice in an earlier era they were accompanied by attitudes and practices that are frightening, at least from the perspective of the twentieth cen-

[16] On anti-Semitism in the rural credit unions, see Peal. This quote, and the last one in this paragraph, come from this source.

[17] Wolff, 112.

tury. The German cooperative loan associations led to modern credit unions, but the anti-Semitism they professed led to the Holocaust.

Needless to say, rural Alabama and central Philadelphia in the 1990s are very different places from a German agricultural village or town of the 1850s. So the parallels are not exact, but they are suggestive. No evidence exists at all that modern CDCUs are anti-Semitic, but they may need to guard against ethnic chauvinism that merges into discrimination. They are certainly not trying to restore a feudal order, but they may need to remind themselves at times that all of their members have equal rights. CDCUs have been strongly influenced by the Civil Rights movement and by other egalitarian movements for social change, and it was often for that reason that their founders chose the form of a cooperative credit union, with its promise of democracy and universality. Still, the danger exists that the narrowly-defined common bond of a credit union can lead to parochialism.

Principles of the Early Credit Unions

The bank that Schulze-Delitzsch reorganized in 1852 had a set of six principles,[18] and these principles stayed at the defining core of his movement:

1. The exclusion of charity. The bank was to be operated as a business.
2. The joint and unlimited liability of all members for the bank's debts.
3. Outside funds to be borrowed by the bank on the basis of this joint liability.
4. Loans made only to those who could use the funds productively.
5. Regular contributions by the members to the bank's working capital.
6. A broad membership, not limited by area, occupation, or class (this principle was added later).

The first four principles, but not the last two, were eventually adopted by the Raiffeisen loan associations. A consideration of these principles will help to show the relevance of these early credit unions to the community development credit unions of today.

[18] See Tucker, 48.

The first principle—the exclusion of charity and its replacement by business practices—was central to the associations. Without this principle, they would not have developed as cooperatives. It is doubtful that they would have developed much at all since the scope of charity is inherently limited, while in the century and a half since the founding of the movement, people's own resources have grown at an extraordinary rate.

That both movements began by depending upon charity is, however, telling. Both Schulze-Delitzsch and Raiffeisen turned naturally to people of their own class to help alleviate the social distress they saw around them. And their friends came through, motivated, one suspects, both by compassion and by self-interest. It was only after the experience of depending upon the charity of the rich that both movements decided to exclude charity. The rich were too fickle, the founders discovered. They might withdraw their funds at any time, if repayment problems arose or if the political fashions of the moment took a reactionary tilt. The people's banks excluded charity not because help was unneeded but because the need was too great to depend upon dilettantes. People in distress would have to obtain the resources they needed not by supplication but by contractual agreement.

Today's CDCUs do not reject "charity." They sometimes receive grants from foundations, and they often receive deposits from socially responsible investors that are at below-market interest rates and therefore have a component of charity. Charity never dominates, however; CDCUs are first and foremost private businesses whose success depends upon their ability to keep their income in balance with their expenses. While they do not adopt the first German principle exactly, they are still business entities run on commercial principles.

The second and third principles, adhered to by both German movements, were that the members were jointly and completely liable for the repayment of the funds that were borrowed by the association. This was at the heart of the organizations.

It was completely clear to both Schulze-Delitzsch and Raiffeisen that groups of small, struggling artisans or farmers required outside funds.[19] Whether or not they could contribute some capital themselves, the amounts they would be able to provide would not be sufficient to meet their needs, and they would have to look beyond their own resources. Self-sufficiency was not an option. A principal purpose, therefore, of the early people's banks was to draw outside funds into communities that needed them—not as charitable donations, but as loans to be repaid.

This purpose is foreign to most modern American credit unions. They

[19] See Tucker; Wolff.

are permitted to borrow outside funds, under strictly defined terms, but few make much use of this. Under current laws, most are expressly forbidden from accepting non-member deposits, deposits from people and institutions that are outside their fields of membership. An exception is made in the case of a small number of low-income credit unions which are permitted to accept non-member deposits in an amount not to exceed 20 percent of assets (occasionally, higher waivers are granted). These exceptions are insignificant, however, compared both with the use that the German pioneers made of outside funds, and with the potential that CDCUs could make of outside funds were they permitted to do so.[20]

Once the German credit unions had excluded charity from the well-to-do as a source of outside funds, they had no option but to borrow money on commercial terms from banks and other lenders and depositors. Borrowing required the pledging of some form of security, however, and this the members lacked as individuals. They came to the conclusion that the associations could have access to the funds they needed only if the members jointly pledged to repay those funds. In 1866, Raiffeisen wrote:

> *The members' most important duty, upon which the existence of the societies is based, is liability. In order to obtain the credit-worthiness for the funds needed by the societies for their operation it is inevitable that liability be shared by the members on the basis of solidarity, and that among them all be liable for one and one for all.*[21]

Unlimited liability did not mean that each member was responsible for each other member's loan from the cooperative. An individual loan to a member was the responsibility of that member, and in some cases it was also the responsibility of one or more co-signers. Unlimited liability applied rather to the loans and deposits that the association received. Even here, however, the members had some protection. If a cooperative loan association was unable to pay back a loan to a creditor, the creditor could institute legal proceedings against the association and might force the credit union into bankruptcy. Such a procedure did not, however, place the individual members in a state of bankruptcy. If the association could not pay off its loan, then a bankruptcy court would allocate responsibility for repayment among the individual members.[22]

What unlimited liability really meant, therefore, was that a member

[20] The topic of non-member deposits in CDCUs is taken up in more detail in Chapter 7.

[21] Quoted in Aschhoff and Henningsen, 20.

[22] For an explanation of unlimited liability in the German credit societies, see Ely, 215-216.

could be held responsible for his fair portion of the cooperative's borrowed funds, a portion that might exceed his holding of shares—but it did not mean what unlimited liability means in modern American law, that each member could be held responsible for the entire loan. In other words, unlimited liability was a risk for the members, but not an unmanageable risk.

By joining a loan association, members assumed unlimited liability for funds borrowed not only from outsiders but also from other members. The distinction between shares and borrowed funds in the early German people's banks was not quite the same as the distinction between member shares and non-member deposits in modern American credit unions. In a credit union today, all of a member's deposits—in a savings account, a checking account, a money market account, or any other form—are called shares. Non-member deposits, when permitted, are made by people and institutions that are outside the credit union's field of membership. In contrast, in the original German credit unions, a member might be required to purchase one share, and in fact was usually restricted to purchasing only one share. In addition to this, members could make savings deposits which were separate from their share. The legal status of these savings deposits was similar to that of the association's borrowed funds: they carried a fixed contractual rate of interest and the association's members assumed unlimited liability for the obligation to repay. As opposed to the fixed interest rate on the savings deposits, each year the association declared a variable dividend on the shares, a dividend that in many cases was quite high.

As an example of the relative magnitudes, Table 2.1 shows the capital and liabilities for 948 Schulze-Delitzsch people's banks in 1878.

Table 2.1
(Percentages)

Capital and Liabilities in 948 People's Banks, 1878*

1) Member shares	22.2
2) Reserves	3.0
3) Savings deposits	26.1
4) Borrowed from private individuals	44.9
5) Borrowed from banks and unions	3.8
Total	**100.0**

*Calculated from the table in Ely.

According to the German way of accounting, the capital of the banks consisted of the first two items, amounting to just one quarter of the total. These were the shares held by the individual members, plus the reserves that were held by the members collectively. The liabilities of the bank, the last three items, were three-quarters of the total. These included the funds owed to the members (item 3) as well as the funds owed to other private individuals and institutions (items 4 and 5). The members pledged unlimited liability in the repayment of all three categories.

In a modern American credit union, the first three items would constitute the capital because there would be no distinction between the first and the third items; all would be counted as shares.

The great advantage of unlimited liability was that it provided the security that a group of people with scant means needed if they were to bring significant funds into their community. Without unlimited liability, the loans would not have been forthcoming. Unlimited liability implied risk for the members, and as a consequence existing members were careful about whom they admitted to the association as new members. New members could be admitted only when the existing members were convinced of their character, their industry, and their commitment to back up their debts. Schulze-Delitzsch wrote:

> *Your own selves and characters must create your credit, and your collective liability will require you to choose your associates carefully, and to insist that they maintain regular, sober and industrious habits, making them worthy of credit.*[23]

The concept of unlimited liability did not spread from the German cooperative banks to the rest of the world. In modern American credit unions, unlimited liability would be completely unnecessary for two reasons: first, because they are permitted to borrow only in an amount up to 50 percent of their unimpaired shares and capital, and second, even when a few of them are allowed to accept non-member deposits, those deposits are insured by the National Credit Union Share Insurance Fund, just as the member deposits are. But the doctrine of unlimited liability was dropped well before the cooperative credit movement hit American shores.

Cooperative credit spread from Germany first into Italy, spearheaded by a young scholar, Luigi Luzzatti. Luzzatti adopted most of the features of the German people's banks, but he rejected unlimited liability since he judged that Italian people would not accept it. As the movement expanded into

[23] Moody and Fite, 4.

Switzerland, Austria, Belgium, and other countries, new laws permitted the associations to adopt limited liability—the legal doctrine that members are liable to lose their share contributions but no more—and most chose to do so.

Even within Germany a reaction arose against unlimited liability, and when the cooperative law was amended in 1889, associations were allowed to opt for limited liability. Schulze-Delitzsch fought against the abandonment of what he thought was the central feature of cooperative credit, but he lost the battle. He argued that joint liability improved the ability of an association to borrow at lower cost. He also argued that unlimited liability led members to pay closer attention to the affairs of their association.

He was met with the argument that while unlimited liability might once have been necessary for cooperatives to secure loans, this was no longer true. Credit unions now had sufficient capital and sufficient reserves to secure a loan adequately, without putting their members' individual assets at risk. Furthermore, since member capital was growing, outside loans were no longer as essential as they once had been. These arguments were advanced by the leaders of the larger and more secure cooperative banks at the time.

Both observations were doubtless true, but they can be seen as steps in the gradual transformation of cooperative credit from an agent of social change into a convenient service for the middle classes. The cooperative banks became more highly capitalized as their members participated in the economic expansion of the times and became better off. As their own resources grew, they had less need of loans from the outside. For both reasons, unlimited liability became less of an advantage and more of a hindrance as credit unions tried to persuade people to join. Eventually a credit union became, almost by definition, a closed community, a community in which members pooled their own resources for the purpose of making loans to one another. This actually became the strength of the credit union movement, that it was a means by which communities could use their own assets to support themselves.

At the same time, however, credit unions lost some of their relevance to people whose economic positions were threatened. People who were in danger of losing their livelihoods did not have the resources they needed even when what resources they had were pooled. As credit unions moved away from unlimited liability, then, they began a gradual migration away from a social-change movement to a predominantly middle-class institution.

I would not propose that today's community development credit unions return completely to the old German notion of unlimited liability. Such an idea would not be accepted and it is unnecessary. The desirability of bringing outside funds into a poor community has not disappeared, however. Modern CDCUs could serve as a conduit for outside funds were they not impeded in this function by federal regulations. I think, therefore, that a careful consideration of the German example might lead CDCUs in some creative directions. For example, a new category of member shares might be designated which would not be federally insured, which would be used as collateral against loans to the credit union from outsiders, and which might receive a higher return than the normal dividend rate.[24]

The fourth principle of the people's banks was that loans were to be made only to those who could use the funds productively. Loans were not to be used for personal, consumer purposes. Rather the Schulze-Delitzsch and Raiffeisen loans were almost exclusively what one today would call small business loans—for working capital, cash flow, seed, materials, tools, small buildings, and so forth. This was what the small farmers and artisans needed, and furthermore such loans were the most conservative, sensible ones that the credit union could make. A loan for a productive purpose, if invested wisely, would generate the income with which the loan could be paid back. In contrast, consumer loans were thought to be "unproductive" and even frivolous, and were to be avoided. As early as 1850, Schulze-Delitzsch wrote:

> *Do not forget that your object should be to borrow to produce, that is, to give a plus value to the money you have borrowed so that you may be able to pay it back with interest and some profit. But never borrow for consumption, as is frequently the case with wage-earners who render themselves liable to default. Let your union be strictly a credit association among producers, and small producers if possible.*[25]

The emphasis on business lending should be understood in the context of the class structure within which the cooperatives found themselves, as discussed in the previous section. The purpose of the associations was to combat the destructive growth of large-scale corporate capitalism that left a trail of human victims in its wake. The early credit union pioneers may have thought they were fighting this new order by trying to restore an idealized version of feudalism or (like Schulze-Delitzsch) they may have been trying to promote decentralized, small-scale capitalism. They must frequently have been confused about their ultimate goal. In any case, the pressing need was to provide large numbers of ordinary people with tools, equipment, and other means of production. Consumer lending would have been beside the

[24] I am grateful to Clifford Rosenthal for suggesting that CDCUs might think creatively about ways of using the liability of their members to advance their communities' interests.

[25] Quoted by Herrick, 272.

point; it would have contributed nothing to the particular struggle at hand.

Henry Wolff, the contemporary English cooperative leader who thought that Schulze-Delitzsch's people's banks were too little concerned with the poor, was equally critical of their neglect of consumer lending:

> *Schulze, when adopting co-operation as a form, did not at the same time adopt with anything like sufficient fullness what we now everywhere recognize as the co-operative principle—to wit, consideration, above all things, for the* consumer.[26]

This sharp difference of opinion between Schulze-Delitzsch and Wolff about the proper use of credit union loans reflects the difference between the German and the English class structures in the nineteenth century. While capitalism was just beginning its entry into German society and was still confronted with the independent artisans and peasants whose position derived from the medieval era, by the late nineteenth century capitalism had completely transformed English society. The majority of the English people were by this time members of the working class who labored for wages for an employer. The society with which Wolff was familiar was one divided quite sharply into capitalist producers on the one hand and wage employees, who used their earnings for consumption, on the other. Hence his conviction that an institution dedicated to improving the lot of the victims of the economic system should concentrate on consumption. A bank that specialized in small business loans in England would have left the working class completely untouched.

While Wolff criticized Schulze-Delitzsch for ignoring the laboring classes, he himself and the English cooperative movement are vulnerable to the charge of ignoring the truly poor in England. Fairbairn points out that the English cooperatives did not organize the "dangerous poor" of London, people who were unemployed or semi-employed, but rather the working poor of the northern industrial cities.[27] It is doubtful that a consumer cooperative would have been of much help to the dangerous poor.

The nineteenth-century dispute between the proponents of production-oriented and consumer cooperatives is interesting in view of the role of credit unions in the United States, which do almost no business lending. In 1991 only 1.3 percent of the dollar amount of American credit union loans

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[26] Wolff, 105 (emphasis in original).

[27] Fairbairn.

were directed to member businesses.[28] It would not be too much to say that mainstream credit unions in the United States are by definition consumer lenders. They are a component of an economic system in which most people are salary or wage employees of companies and other organizations.

One reason why the early German credit unions are such an interesting model for today's community development credit unions is, however, the current dearth of good employment opportunities in poor American neighborhoods. In many low-income areas the issue of jobs is at least as important, if not more important, than consumer finance, and therefore some low-income credit unions are turning back to small business loans as a way of generating an employment base. As they do so they are returning, whether knowingly or not, to the old German model.

The fifth principle—regular contributions by members towards the cooperative's working capital—was important to the Schulze-Delitzsch associations but not to Raiffeisen's. Raiffeisen's banks did not require any member contribution until the German cooperative law of 1889 made member shares mandatory. At that point the Raiffeisen societies instituted a share requirement much smaller than that of most of the Schulze- Delitzsch banks. The issue of shares was a point of acrimonious contention between the two movements.

The Schulze-Delitzsch associations had a relatively high membership fee as well as a rule that each member had to purchase a share at a substantial price. Most members purchased their share in small amounts, over time, and thus the bank operated as a cooperative savings club. This was deemed important for several reasons. To protect the soundness of the bank, the aim should be to have one-half members' capital, matched by one-half borrowed funds, although few banks ever reached this portion of member capital. The other reason for requiring share purchases was to encourage the accumulation of wealth by the members.

Raiffeisen's institutions placed much less emphasis on member shares than did Schulze-Delitzsch's. The principal reason was that the membership tended to be significantly poorer in the former than in the latter. Most members of the Raiffeisen banks could not have come close to affording the entrance fee and share that was required in the urban credit unions. Wolff argued that the Raiffeisen institutions were much closer to the true cooperative spirit because they related to the needs of genuinely poor people. Furthermore, he argued, the Schulze-Delitzsch banks violated cooperative principles by paying a substantial dividend to members on their share. At times the dividend rate got as high as 20 percent. The purpose of a cooperative, he

[28] Credit Union National Association, 1991 Operating Ratios and Spreads, Mid Year Edition, Table 3.

argued, should be to provide service at cost to people who need it, not to promote financial speculation in shares.[29]

Whether or not Wolff's opprobrium is deserved, the urban Schulze-Delitzsch institutions were indeed different in their orientation from their rural Raiffeisen counterparts. The former served independent business people who could afford to provide some of the capital for the bank. The small farmers who were the members of the Raiffeisen banks were close to the bottom of the social and economic scale in the rural villages and could provide very little of the needed funds.

The dispute over member shares, which so divided the two German movements, is scarcely an issue in today's American credit unions. There is no question but that the great majority of a credit union's funds, if not all of them, must be provided by the members. Yet few credit unions set a membership requirement so high as to exclude poor people, as many of the Schulze-Delitzsch banks did.

The sixth principle, adopted at a later date by Schulze-Delitzsch's institutions, but never by Raiffeisen's, was that the membership should be broad and inclusive of different occupations, classes, and areas. This is consistent with the differences just noted. The Schulze-Delitzsch members were on the whole better off, with more resources, than their rural counterparts. The principal threat to their institution was that a price fall or some other particular event might threaten a group of businesses in the same sector. A hedge against this danger was to have a varied membership, so that one sector's hard times might be balanced by another sector's good fortune. The poorer Raiffeisen members had to be more concerned with just staying solvent in normal times. Because of the feature of unlimited liability, they needed to know, and be able to trust, their fellow members with their collective debt. As a consequence, Raiffeisen institutions were generally confined to just a single rural parish, or occasionally two.

As noted in the previous section, the confinement of a Raiffeisen association within a parish served the additional purpose of reinforcing the social position of the people in authority in that small area, including but not confined to the pastor.

Quebec's *Caisses Populaires*[30]

The credit union idea entered the United States in the early twentieth century not directly from Europe but indirectly from the Province of Quebec

[29] Wolff.

[30] The source of most of the material in this section is Rudin's excellent study, *In Whose Interest?*

in Canada. It was from a Canadian, Alphonse Desjardins, that Edward Filene and Pierre Jay learned the rudiments of cooperative banking.

There is a certain irony to this circuitous route, for Quebec in 1900 was a far more backward, agrarian, and feudal society than Germany or any other western European country at the same time. New England, in contrast, was a completely commercial, capitalist region, with barely a trace of the old European class system. A credit union could not possibly serve the same purpose in both societies. And yet the Americans believed they communicated well with the French Canadian and that in large measure they adopted his principles.

Desjardins (1854-1920) was a parliamentary (or "Hansard") reporter, taking verbatim notes in legislative debates, first in the provincial Legislative Assembly in Quebec from 1879 to 1890, and then from 1891 to 1915 in the federal House of Commons in Ottawa. While working in Quebec, he lived across the St. Lawrence River in the town of Levis, and even after moving to Ottawa he kept Levis as his home base. Levis became the site of the first credit union, or *caisse populaire* (in English, people's bank), and eventually the center of the provincial movement.

While listening to the debates in Ottawa in 1897, Desjardins was struck by the speech of a member of Parliament from Montreal, Michael Quinn, who described the victimization of his constituents by loan sharks. "There was one notable case in Montreal within the last few days," said Quinn, "in which a man obtained a loan of $150, and was sued for, and was compelled to pay in interest, the sum of $5,000, for the loan of $150.[31]

Desjardins spent the next three years learning about the European people's banks, corresponding with their leaders, and forming a planning group in Levis. The Caisse populaire de Levis opened for business in 1900 in Desjardins' house. Since he was absent much of the time in Ottawa, it was managed by his wife, notwithstanding the fact that as a married woman she was ineligible for membership. The movement spread slowly over the next few years, until enabling legislation was passed by the Province of Quebec in 1906. Thereafter, Desjardins spent his time promoting new *caisses*, starting about 200 by the time of his death in 1920. The movement gathered speed in the 1940s, and eventually became one of the strongest financial sectors in the province. By 1986 there were 1,400 *caisses*, with aggregate assets of $23 billion. Fully one-third of the savings of Quebec's population were held in the *caisses*.[32]

[31] Quoted in Rudin, 9.

[32] Ibid., x.

The journey of the *caisses* from their humble beginnings to their powerful present position in Quebec's financial sector was not simply a matter of growth; it was also a matter of class transformation. Rudin has shown that Desjardins and his associates occupied a place in Quebec's society at the turn of the century similar to that of Raiffeisen in Germany's a generation before. The founding members of the early *caisses* were invariably men of a certain social position, particularly in rural areas. At Levis, for example, the organizing group was made up not predominantly of the workers who constituted the majority of the town's population, but of professionals and people of commerce. Their status was under attack from the forces of large-scale capitalism that were invading their communities, and they sought to defend their positions through the use of the *caisses*. As members of the French Canadian traditional elite, they were hostile not only to capitalism, but to the English who were the purveyors of capitalism. One of the attractions of the *caisses* was that they were completely controlled by the French, whereas the banks that were spreading their tentacles throughout the province were controlled by English Canadians. Almost every *caisse* was supported by a parish priest, and only French Catholics—not English-speaking Protestants or, needless to say, Jews—were welcomed as members. "Do not forget that each member must receive the approval of the board of directors," wrote Desjardins in 1910, "this is your guarantee against the invasion of Protestants that you fear."[33]

In other words, Desjardins' *caisses populaires* played the same role as the German loan associations. Desjardins and many of his associates were genuine humanitarians, concerned for the well-being of their countrymen. At the same time, and without contradiction in their minds, they were participants in the battle for the survival of the French Canadian people, not only their survival as a linguistic group but their survival as a separate society based on a rural, feudal class structure, dominated by the unreconstructed clergy.

Quebec changed in the twentieth century, from a closed, defensive, rural, feudal, clerical society to an open, capitalist, secular, well-educated, urban, and dynamic society. The change was mirrored by a struggle within the *caisses*. By the end of the Second World War, a group of business-oriented liberals took control of the institutions and transformed them into one of the principal financial components of the startling capitalist growth that transformed the province. As they did so, however, a group of more traditional *caisses* stayed closer to the original vision of Desjardins and split from the main movement.

All this was to happen, however, long after the conversations between

[33] Ibid., 11.

Desjardins and the Massachusetts leaders in the first decade of the twentieth century that led to the founding of the first American credit unions. The *caisses populaires* that Desjardins described to Jay and Filene were small institutions based for the most part in a parish. They were operated as democracies, with each member having a vote. They were ostensibly open to all, although in fact all of the members were French-speaking Catholics. With the blessing of the clergy, they promoted traditional social and spiritual values. They made small loans for business purposes, discouraging and generally even rejecting loans for consumption. They encouraged regular savings by their members.

The Legacy for American CDCUs

Modern American CDCUs can look back to the origins of the cooperative credit movement for precursors and lessons. They cannot and should not emulate the early credit unions in all particulars, but they can learn from their experience. The most striking points of comparison are:

- The goal of social change. The German and Quebec cooperative credit associations were established to help rescue groups of people who were under assault by changing economic and social conditions. The nature of those conditions is different in the United States of the late twentieth century, but the ultimate goal of bringing people together in the struggle for their betterment against long odds is the same. In this respect, the early associations and the CDCUs share a purpose that has been largely forgotten by most American credit unions.
- The importance of attracting funds from outside the community. For all of the Schulze-Delitzsch and Raiffeisen associations, this was central. It has been abandoned as a goal by most modern American credit unions because it is not needed. Those credit unions serve mostly middle-class members who collectively have enough savings to meet their own needs. But CDCUs operating in poor communities need to return to the German tradition by attracting non-member deposits.
- Independent control, not charity. The German cooperative banks began as charities, but soon converted to the form of independent associations controlled by their borrowers and savers. While they accepted outside funds, they did so on a commercial, contractual basis, without yielding authority to the outsiders. So also the strength of CDCUs is that they are owned and controlled by

their members who, for the most part, are low-income people. It is important that, as CDCUs deal with government regulators and outside investors, they not surrender this control.

- Loans for a productive purpose. History shows that the most important use of borrowed funds in a poor community depends upon the class and employment structure of that community. Where established employers are providing jobs, as in late nineteenth-century England, low-income people need access to credit for consumption. Where employers are scarce and people must fend for themselves, as in Germany at the same time, the priority need is for business loans. Today's CDCUs find themselves in both positions. Some of their members have jobs with incomes, albeit low ones, and need access to loans at reasonable rates for consumer purposes, lest they fall into the clutches of informal-sector loan sharks and other high-interest lenders. But most of their communities lack good jobs, and so business loans are also important.

Some of the points of comparison between today's low-income credit unions and the early associations are ambiguous:

- Access of poor people. The Schulze-Delitzsch banks included for the most part business and crafts people who were not at the bottom of the social ladder, and they actually excluded the poor by setting a share requirement for membership. The Raiffeisen associations attracted poorer people, in part because they set no requirement for saving. The dilemma is one that frequently faces CDCUs. To survive at all, they must attract their members' savings, but to meet their social purpose they must be relevant to the needs of people who have little if any savings. CDCUs reject either of the rather extreme German solutions—no poor people, or no savings—and instead they continuously face trade-offs and compromises as they try to meet the twin goals of access on the one hand and commercial viability on the other.
- Unlimited liability. This feature was critical to the success of the early associations, as the way of securing outside loans, but it is not used by today's credit unions. The need for drawing outside funds into poor communities still exists, however, while the flow of such funds is impeded by federal credit union regulations. It is possible that a creative use of members' liability could increase the availability of outside monies.