

MCMASTER UNIVERSITY

THE CO-OPERATIVE CREDIT MOVEMENT
IN CANADA

A Thesis

Submitted to the Faculty of Arts
in Candidacy for the Degree of

Bachelor of Arts

Honour Political Economy

by

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May, 1946.

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PART I

INTRODUCTION

CHAPTER 1

The European Antecedent of Credit Unions

A credit union is "an association, united by some common bond or a community of interest, joined together in a co-operative endeavour for the following purposes:

1. To encourage thrift by providing a safe convenient, and attractive medium for the investment of the savings of its members.

2. To promote industry, eliminate usury and increase the purchasing power of its members by enabling them to borrow for productive and other beneficial purposes at a reasonable cost.

3. To train its members in business methods and self-government and bring them to a full realization of the value of co-operation".¹⁾

2)

We assume, then, that a credit union is essentially a "co-operative" society. As a background for our study, we must know something of the co-operative movement. The first difficulty to overcome, and it is truly a difficulty, is to discover an adequate definition of a "co-operative" enterprise. Most authorities are interested only in specific aspects of co-operation and therefore offer only specific definitions, based on principles which they believe to be necessary criteria to any given co-operative. In other words, inductive reasoning is employed. Therefore, it may be difficult to classify an organization as

1. Arthur H. Ham - People's Banks - page 8

2. The terms credit union, co-operative credit society, and co-operative bank, are used interchangeably. Some authors prefer to restrict the latter term to commercial banks which make use of the principles of co-operation, and use the former term to refer to institutions applying co-operative principles to the field of thrift and small credit.

co-operative from the economic point of view, although it is legally recognized as such. On the other hand, strict adherence to given principles may make an enterprise co-operative, but it may not be legally recognized as such. In the light of this, an accepted definition must be fairly broad.

We will define co-operatives, then, as "associations with economic aims, formed by, and freely open to persons having needs in common, who have an equal voice in its management, make approximately equal contributions to its capital and business,³⁾ and derive proportional services and benefits."

Association is the oldest form of organization for economic action, preceding even political organization of a given group or race. The corporation, could rise and exist only after two pre-requisites were present. First, capital had to be accumulated and individuals had to possess monetary surpluses which they were willing to entrust to enterprises over which they had no control. Secondly, consumers independent from producers were required, with sufficient purchasing power to warrant the existence of the latter class.

As the development of transportation facilities spurred on trade and commerce, and as invention and discovery led to industrial and mercantile advancement, the demand for capital grew greater. The corporation became the dominating factor in business life. Political economists, stressing the importance of wealth, advocated corporative expansion. Under this influence, European governments viewed corporations as powerful weapons in international supremacy, and therefore encouraged them by legislation that would ensure their growth. Shares were sold at a par value that

3) Margaret Digby - Horace Plunkett Foundation, London

was in reach of the smaller investors. In this way surplus wealth was tapped and directed into productive channels.

The rise and expansion of incorporated business brought drastic readjustments to social and economic conditions. "Reform" was the word upon the lips of many who voiced protest against a politically entrenched system which considered only the accumulation of wealth, and neglected the inequalities of its distribution. A new school of economists arose to defend the rights of property. Utopian planners attempted to sever society from the capitalistic system. Practical reformers attempted to repair the system from within by breaking up the intimate relation between government and vested private interest. In this way they hoped to abolish monopoly and special privilege and to assure equality and justice either by granting freedom of action under the law to all or by placing all business in the hands of the government. From these theories of reform sprang two opposing movements, namely, socialism and co-operation.

Whereas the corporation arose among the comparatively wealthy, co-operation arose among the poor. It is not surprising that it found its birthplace in England. Among its pioneers were Robert Owen and Dr. William King. Both knew of the force of amassed wealth in attaining success in a co-operative venture. Owen, who devised the principle of limited return on invested capital, invested philanthropically huge sums in co-operative experiments which subsequently failed. Dr. King based the power of wealth in the small savings of many, which, treated as a whole, constituted a sizeable amount. "Co-operation means, literally, 'working together' Union is strength in all cases and without exception.. What is possible for a few, is easy for many,

But before many can work, they must join hand in hand; for they must know their object, and feel a common interest and a common tie.....It is capital we want...Union and saving will accumulate it. We must form ourselves into a Society for this especial purpose; we must form a fund by weekly deposits⁴⁾ It is true that Dr. King did not have co-operative credit in mind in the above. However, he did propose co-operative financing, a system that is the basis of co-operative credit.

On this basis, about 300 co-operative societies were founded in England before 1830. Although they had become non-existent by the middle of the nineteenth century, they provided the inspiration for future co-operative endeavour. It was indeed the followers of Robert Owen and Dr. King that instituted on October 24th, 1844, the Rochdale Society of Equitable Pioneers, a society which formulated a code of principles that even today is accepted as the guiding rule for co-operative enterprise.

Co-operation secured its roots on the Continent in the form of credit societies. Like the consumer's co-operatives of England, it was fertilized by the Industrial Revolution, the Napoleonic Wars, and the general unsettled political and economic conditions of the day. Urban workers and rural peasants alike, caught in the scourge of famine and plague that was sweeping Europe, were sharing the bitter fruit of poverty --- a fruit within which lay the seeds of co-operative banking. Famine, which was the outcome of a drought which lasted from 1846 to 1848, was alleviated by the wealthy. Foremost among the organizers of this work in Germany were Herman Schulze-Delitzsch and Frederick Raiffeisen, both of whom subsequently took up leadership in the formation of co-

4) The Co-operator, No. 1, June 1, 1828.

operative credit societies.

Schulze-Delitzsch was the first to realize the limitations to the usefulness of alms. Aware of the history and the teachings of co-operation, he made a study of the existing co-operative associations, especially those in France and England. In addition he studied the Scottish methods of banking. As Dr. King in England, so also did Schulze-Delitzsch realize that the first necessity of a co-operative enterprise was the availability of capital. Therefore, he concluded that the basic organization should be a credit association financed by the members' thrift or savings or by capital borrowed on their collective liability. Only after this was done could co-operation be applied to other forms of business.

The Schulze-Delitzsch credit associations were adapted to the urban mercantile and industrial middle classes who had their own establishments. That is to say, his societies were ones of small producers. He encouraged workmen to join, only if they wished to save or obtain loans in order to become producers on their own account. Although they were not totally excluded, his was not a society for the poor. He admitted only those of "regular, sober and industrious habits" and with sufficient capital to prove them worthy applicants.

When these societies became fully developed, they were doing strictly a banking business, accepting deposits, offering credit, carrying on a brokerage business in securities for its members, and acting as a collection agency. Their rapid growth is somewhat astounding. Seven years after inception, there were 183 "people's banks" with nearly 19,000 members. In 1883, the year of Herman

Schulze-Delitzsch's death, there were no less than 1910 of his societies with 466,575 members in Germany, and hundreds of others of a pure or modified form of his type in other European countries. ⁵⁾

Turning now to Frederick Raiffeisen, the other leader of the co-operative credit movement in Germany, we find that he approached the problem of organisation from a purely humanitarian point of view. Confining his work to the agricultural classes, he resorted, at first, to the use of charity, without any notion of co-operation, and founded his first charitable society at Flammersfeld, in December, 1849. Discovering that alms produced no lasting beneficial effect, he reorganized his society on the model of the Schulze-Delitzsch association, making necessary changes in the by-laws in order to adapt them to rural conditions. His first reorganized society was formed at Heddesdorf, in 1864. In 1869, he made further changes by adding to his society a co-operative buying service for producers. It is from this date that Raiffeisen's rural co-operative credit movement should be dated.

It should be pointed out that Raiffeisen was not, as Schulze-Delitzsch, a student, but rather a worker. Further, in other than purpose, there is little similarity or even harmony between his credit society and that of Schulze-Delitzsch. The important thing to note is that each in his own way gave to his country and the world at large, a practical system of co-operative financing, the merits of which are incalculable.

In some countries, the German systems were unsuitable in their pure form. In Italy, Luigi Luzzatti, an economist,

5) Myron T. Herrick - "Rural Credits" - pages 266 and 268

introduced a modified form of the Schulze-Delitzsch bank in 1866, in an attempt to eliminate usury. Adapted to Italian conditions, it grew to be one of the largest financial institutions in that country. Luzzatti also aided Leon Wollemborg in forming the first rural credit society of a modified Raiffeisen type, in 1883.

In pure or adapted forms, co-operative credit societies spread rapidly in most of the countries of Europe. It is significant that in the case of each country, the leaders of the movement were always those above the necessity of borrowing from the societies which they instituted.

Before we abandon the discussion of co-operative credit in Europe, a few points should be made clear. In general, the credit societies are not operated for the poor. They demand as safe a security on loans as an ordinary bank, the rates of interest being comparable with the market rate. (Luzzatti's type of bank is an exception in so far as loans, based purely on the character of the borrower, may be made from a portion of the profits.) The societies are financed by deposits of members and non-members; money borrowed on the collective liability of the members; admission fees; share capital, in those societies that issue shares; and surpluses and reserves of the society. As the banks grow larger, their function as a source of "personal" loans becomes less significant compared with their functions as a depository for savings and a source of commercial credit. Finally, it should be stated that the societies very often bind themselves together in the form of associations, which in turn may form provincial or national

federations. Such centralization, tends to conceal the co-operative aspects of the whole system. It will be well to keep the above in mind as we proceed to discuss the co-operative credit movement in Canada.

P A R T I I

EASTERN CANADA

CHAPTER 11

Eastern Canada : Quebec-History

The history of cooperative credit in Canada may be divided into two distinct periods, the first being concerned with its history prior to 1932.

The system was introduced into North America by M. Alphonse Desjardins, a public-spirited French-Canadian journalist. Perturbed by the actions of usurious money-lenders in the province of Quebec, Desjardins sought a solution to the problem. The remedy was not to be found in the commercial bank structure, not only because their credit facilities were inadequate and outside of the reach of the small borrower, but because the French "habitants" were adverse to banking institutions. Prior to Confederation, in the absence of rigid legislation, spurious banks had perpetrated frauds by issuing worthless bank notes. These scandalous actions had caused the people to distrust all forms of banking. In order to overcome this distrust Desjardins concluded that credit must come from the people themselves, that is, the people must become their own bankers. "The people's welfare can best be secured by institutions organized by the people themselves, because these institutions are most likely to possess the characteristics that appeal to the people and therefore the stability necessary to perpetuate their services".⁽¹⁾

Before taking practical steps to form a "people's bank" he spent a number of years in making a complete study of co-operative endeavour during which time he corresponded with the leaders of the movement in Europe. The resulting society might

(1) Alphonse Desjardins - The Co-Operative People's Bank (1914)

be classed as a modified form of the Italian Luzzatti banks embodying some of the principles enunciated by Frederick Raiffeisen and others.

2)

The introduction of a people's bank (La Caisse Populaire) into Quebec was facilitated by three major factors. In the first place, Quebec was inhabited by a homogeneous population. The people had been schooled in group action and the need for working for their social betterment. Secondly, there was a dire need for such a system as proposed by Desjardins.³⁾ Lastly, the Roman Catholic Church, a religion to which the majority of the people adhered, willingly gave their approval to the system and encouraged the clergy to aid in its formation.⁴⁾

M. Desjardins organized his first caisse populaire on December 6, 1900, in his own home in the town of Levis, situated opposite the city of Quebec. On January 23, 1901, it began operations, the initial capital amounting to \$56.40 made up of ten-cent instalments payable weekly. Such insignificant beginnings were hardly of a nature to warrant optimism. The first

2) The bank act prohibits the use of the term "bank" by any institution other than a chartered bank. The term "caisse" when literally translated means "a counting-house" or "a cashier's office". It was only by common usage that the words "La Caisse Populaire" came to mean "The People's Bank". In this work, we will refer to this institution as a bank, society, association etc. synonymously.

3) "In a country such as Canada, where banking facilities and the organization of credit are most necessary for the commercial development of a young and progressive society, such an innate antipathy to the modern developments of banking in any one particular Province can not be but detrimental to it, and M. Desjardins was fully aware of the fact that his less enlightened compatriots were not reaping the benefits of modern methods of finance as were the inhabitants of the English-speaking provinces, and this disadvantage he determined to conquer" --- Prof. H. Mitchell - People's Banks In North America - Page 6.

4) Pope Leo XIII, commenting on the movement has said "La Caisse

monthly financial statement disclosed total assets exceeding \$240, which amount had more than doubled after the second month. Six months later, assets totalled in excess of \$1700. The end of the first fiscal year found that the assets totalled nearly \$5000, and only after two full years did they exceed \$15,000. These figures illustrate just how slow was the development of this first bank. Perhaps more important than the fact that the bank had little wealth to rely upon, is the statement that the success that it did obtain was not due to "exterior financial aid from moneyed interests but rather was due to "a powerful germ that needed only to be fertilized by perseverance and steady purpose" ⁵⁾ Not only was the progress of the Levis bank very slow, but so also was the development of new banks in other centres. In the words of Desjardins, "during eight long years and more we steadily refused every invitation to organize them elsewhere, with the exception of two cases, where, on account of the proximity of the ⁶⁾ localities, we could supervise personally the working of the banks.

Two reasons account for belated expansion. In the first place, during this period the banks operated without any legal authority. It was only with the passing of the Quebec Co-operative Syndicates Act on March 9, 1906 that the "caisses" attained a legal status. ⁷⁾ Secondly it was the founder's prudent desire that the principles on which the banks were based should

Populaire is a moral work, capable of protecting and safeguarding the people." - Abbe Philibert Grondin - Catechisme des Caisses Populaires Desjardins. Page 25.

5) Alphonse Desjardins - The Co-operative People's Bank (1914) Page 28.

6) Ibid - Page 30

7) This Act also allowed the incorporation of co-operative purchasing association.

stand the test of time before the movement should be allowed to spread. During this time, experience could reveal any weaknesses in the system and expansion would then be possible without hesitation, timidity, or uneasiness for the future.

After the passing of the Syndicates Act in Quebec, M. Desjardins' work attracted the interest of the Dominion government. In 1907, he was called as a witness before a Parliamentary committee, which was making investigations prior to the consideration of a Dominion act respecting Industrial and Co-operative Societies. The provisions of this act were to be similar to the legislation passed in Quebec. After an extensive hearing, the Act was passed in 1908 by the House of Commons only to be defeated in the Senate. The Senate based their decision on the "constitutional" plea that it was a matter concerning the provincial legislatures rather than the Dominion. However, it has been suggested that the opposition to the proposed bill was aimed mainly at the co-operative purchasing and distribution clauses rather than those pertaining to banking.

In 1910, M. Desjardins drafted two bills for presentation to the Senate, one concerning co-operative purchasing and distribution, the other with co-operative banking. The former was defeated, while the latter never reached a final reading. Subsequent attempts to secure legislation on the latter in 1911 and 1914 were also unsuccessful. The practical effect of the Senate's rejection of the proposed bill was a tendency to confine development of the co-operative credit movement within the Province of Quebec.

8) Of the credit societies that did spring up, outside of Quebec during the life of Desjardins, few survived for any length of time.

The death of Alphonse Desjardins on October 31, 1920 left many of his desires unaccomplished. Among these were the formation of a "union" of caisses to oversee the individual banks, and the national extension of his system.⁹⁾ With regard to the latter, we must keep in mind that the importance of Desjardins' work does not lie in its scope but in its effectiveness. He had lived to see his credit societies curb the activities of the "loan shark" within the province and educate the members in the fallacies of "credit-buying". Add to this the sense of security that his organizations must have instilled in their members, and one may see the reason why he is revered with high esteem by the people of Quebec.

In keeping with the wishes of M. Desjardins, and in order to substitute for the loss of supervision that resulted from his death, his collaborators decided to form a regional union of People's Banks. This was established at Three Rivers, on December 13, 1920, less than two months after Desjardins' death. The purpose of a "Union Regionale" was to complete the organization of caisses populaires in conformity with the desires of M. Desjardins and to preserve the spirit that had been instilled within the movement by its founder. This was to be accomplished by supervising the activities of the individual caisses and by issuing educational material relative to the formation and good

Two of the most successful were the Ottawa Civil Service Co-operative Credit Society, organized in 1908, and the Co-operative Credit Society d'Ottawa, organized in 1913. These societies were incorporated under the laws of the province in 1928 and 1929 respectively.

9) As we shall see later, the expansion of the system throughout Canada can only be attributed indirectly to M. Desjardins and the Caisse populaire Movement.

management of People's Banks. Under the regional union plan, however, each member bank was to retain its autonomy. One bank assumed no liability with regard to another. Thus, if one bank found itself in financial difficulty due to faulty administration, it had no "a priori" call on the regional union or any other bank for aid. The administration of the regional union was placed in the hands of officers elected annually by delegates of the member banks who met at a general assembly for the purpose of discussing matters pertaining to the welfare of the "caisses"

The successful formation of L'Union Regionale des Trois-Rivieres was followed in time by other such organizations in various regions of the province. In 1924, a special department called "La Caisse Regionale" was instituted within each of the then existing regional unions, namely, those at Three Rivers, Quebec, and Gaspé. As the name suggests, these regional banks became the central banks of the "caisses paroisiales", based on the same principles as those of the parochial banks and governed by the same laws, that is, those embodied in the Quebec Co-operative Syndicates Act (1906). It should be understood, however, that these regional banks carry on business with member banks only and not with individuals.

The purpose of regional banks is to absorb the excess

10) There are now eight other such organizations serving the following regions:

| | |
|-----------------|---|
| Québec | * |
| Gaspé | * |
| Montreal | * |
| Sherbrooke | * |
| Rimouski | * |
| Chicoutimi | |
| Ouest-Québécois | * |
| Saint-Hyacinthe | |

* these have central banking departments.

liquid resources or to augment by loans the available cash of any memberbank. For instance, La Caisse Populaire de X may have more cash on hand than it can employ profitably or that it thinks it can employ profitably in filling of the demand for loans. Such excess may be loaned to the regional caisse at a stated rate of interest. On the other hand, La Caisse Populaire de Y may temporarily require additional funds in order to fill the loan demand. Funds to enable it to make such loans may be secured from the regional bank at a stated rate of interest. The regional bank, then acts as an intermediary agent between the two banks in order to ensure the greatest financial and moral productivity of the invested capital of its members. The regional bank, however, will not lend to a member which is believed to be a poor risk, nor will it borrow money when it cannot employ it for a productive or provident purpose. On the face of it, we might tend to criticize this practice, since it apparently defeats one of the cardinal purposes of the parochial bank--that is, to retain the capital of its members within the community and thus conserve the community's income. This criticism may be made of the chartered banks in so far as they can withdraw the funds of their depositors to areas where they can best be utilized in the form of loans. This is particularly seen when money is withdrawn from rural communities and forwarded to the financial centres, the large cities. But the distinction between the caisse populaire system and the chartered banks in this respect lies in the fact that, in the latter, authority for withdrawal is in the hands of the central organization while in the case of the people's banks, this authority is in the hands of the individual parish banks. Funds are not provided to the central bank unless the parochial institution cannot find a present use for the money.

Again, it is merely in the form of short term loan which will soon make its way back to the area in which it originated. From this point of view, then, there can be no legitimate criticism of the use of central banks in the Caisse Populaire credit system.

Returning now to our historical approach, we find that during the period from 1924 to 1930, the expansion of the Caisse Populaire movement was slow, despite the activities of the regional unions and the prosperity of the times.¹¹⁾ The number of banks, members, and the total assets increased at approximately the same rate (40%). However, with this increase, there came also an accentuation of difficulties in administration. The need for more strict supervision and inspection became apparent. It was realized that systems of accounting and methods of operation must necessarily be unified. Regional unions advocated that the government extend financial aid to them, so that adequate inspection of the caisses might be carried out and wider educational programs could be promoted.

In 1931, representatives of the four existing regional unions met at Three Rivers and decided to form a federation of people's banks. On February 25, 1932, an official declaration was signed, which brought into existence La Federation des Caisses Populaires Desjardins. Even before this declaration had been signed, that is to say, on February 19th of the same year, at the regular session of the provincial parliament, the government recognized the work of people's banks as a service in the public interest.¹²⁾ By amendment of the Quebec Co-operative

11) It is held by some authorities, and in many cases statistically proven, that membership tends to decrease absolutely in prosperous years and increase in years of depression, due to the variation of need for credit. Such is not the case in the experience of Desjardins' societies.

12) Revised Statutes 1925, Chapt. 254, article 13; 22 George V Chapy

13)

Syndicates Act, it voted that a grant of \$20,000. be payable annually for 10 years to the Federation for the purpose of inspection of people's banks and their extension.

14)

The formation of a federation was carried out in order to complete the organizational structure of the co-operative credit banking system. Such centralization, it was believed, would bind the member banks into one homogeneous group providing unity of action in education, supervision and administration, and would tend to preserve the spirit of the founder of the movement within these banks. It was designed to establish and supervise affiliated caisses and to act as their official spokesman on public matters concerning people's banks. The federation is composed of two delegates from each regional union, who are chosen by election at their respective general assemblies and its affairs are administered by officers elected by these delegates. Although the Federation appoints and dismisses its

13) This grant was increased to \$40,000. in 1937 and subsequently increased to \$50,000. The provision terminated in 1942 but it was replaced on May 24th, 1942 by an amendment which reads in part:

"The Lieutenant-Governor-In-Council may authorize the Minister of Agriculture to grant an annual subsidy to the Federation of the regional unions of Caisses Populaires Desjardins for the diffusion, support and supervision of those Caisse Populaires in the province."

"This subsidy may be granted for an annual amount not exceeding \$80,000. during a period of five years, as follows: \$100.00 per Caisse Populaire affiliated with the said Federation up to six hundred and \$50.00 thereafter for each affiliated Caisse Populaire over and above that number, up to one thousand in all."

14) In 1938, M. C. Vaillancourt manager of the Federation, stated before the Standing Committee on Banking and Commerce that of the total grant "three-quarters is spent for inspection and one-quarter for propaganda" - Minutes of Proceedings and Evidence respecting Small Loan Companies-----Thursday March 10, 1938, No. 6, Page 166.

15) In 1945, the Federation entered the field of co-operative fire insurance operating as La Societe d'Assurance des Caisses Populaires.

inspectors at the suggestion of the regional unions, these inspectors are directly responsible to the Federation which receives and examines their reports. The appointment of those who are to be in charge of education is left in the hands of the regional unions. The Federation attempts to stimulate an active interest within the various caisses, and to correct irregular practices. Thus, it acts as a distribution centre for advice and information. However, in this capacity it does not attempt to overrule the regional unions but rather to supplement and reinforce their activities.

The formation of a federation of people's banks in 1932 coincides with the second period of the movement in Canada. It might appear that the system as it existed in 1932 was quite different from that which existed during the life of M. Desjardins. Such a conclusion is actually more apparent than real. True, a number of changes had taken place but these were evolutionary rather than radical in nature....changes which left intact the essentials of the earlier system. The formation of a federation and of regional unions might be criticized by some on the ground that such centralization tends to place co-operative banking in the realm of "big business" whereby much of its "co-operative" character is lost. Again the Federation might be criticized for accepting financial aid from the government of the Province. It might be alleged that such aid is a violation of a sound and basic principle of co-operative credit----. However, such criticisms fail to take into account the nature of the aid. Perhaps the above present-day criticisms may be summed up in the words of one who wrote at a time when M. Desjardins was still living and with whom and with whose work he was well acquainted. "M. Desjardins believes most thoroughly in a policy of decentralization. He

maintains, as indeed do all co-operations of practical experience, that successful co-operation must be primarily and characteristically a local movement, each bank standing fair and square upon its own foundation. There is no central organisation among the group of Caisses Populaires in Quebec; any attempt at such a federation or central association would be absolutely out of keeping with the spirit of M. Desjardins work. State aid of any sort or description is equally repugnant to the ideas of the founder, who declares that while he lives and has any influence, any offer¹⁶⁾ of State assistance or State interference would be rejected.

In answer to the former criticism as stated above, Senator Cyrille Vaillancourt, manager of La Federation des Caisses Populaires Desjardins makes this reply. "Those who have worked with Mr. Desjardins know better than anyone else that the founder of the Caisses Populaires wished to organize them at first into a great Union in order to assure better co-operation between the Caisses and good direction and supervision of the movement. Several letters to his friends prove that Mr. Desjardins often gave his views about that plan to his collaborators. (However), Mr. Desjardins died before the execution of this plan."

"As to a Federation, as it exists today, it was not possible to conceive in the time of Mr. Desjardins; it is time that has helped to determine by degrees the general frame or structure of the whole movement. In brief, Mr. Desjardins wished a com-

16) Professor H. Michell--People's Banks in North America (1914) Page 20. It might be noted that the proofs of this treatise were read by M. Desjardins himself.

plete organization of Caisses Populaires; but he did not foresee nor determine the actual structure. He gave the idea and he prepared the mentality to a central organization during the last years of his life, when he realized the need of unity, cohesion and co-ordination of work and supervision.¹⁷⁾

Paradoxical as it may seem, it might be pointed out that the two above conflicting opinions need not be incompatible. Professor Michell wrote the above in the year 1914, while M. Desjardins died in the year 1921. There was therefore a sufficient "time lag" in order to allow for a change of opinion.

In defending the Federation against the latter criticism regarding the acceptance of state aid, Abbe Philibert Grondin in his book "Catechisme des Caisses Populaires Desjardins" quotes M. Desjardins as writing under the heading of the Federal Enquiry on Industrial and Co-operative Societies, 1906-07 (Page 183). "The legitimate role of the State is limited.....to encourage, even through subsidies, the spread of the principles and advantages of co-operation, to avoid in its economic policy all that, which would disturb the foundations of co-operative associations".

It may be held that the Federation is justified in accepting government grants, providing these funds are used for such purposes that benefit the society as a whole and not particular members of that society. If, however, the funds thus received were used in order to make loans to members, the acceptance of state financial aid would be frowned upon as being contrary to the sound principles of co-operative banking. Therefore, the

17) Grammatical errors in translation from French to English corrected.

use of subsidies for purposes of education in matters of co-operative credit, and for purposes of supervision and inspection of the banks to ensure against abuses and faulty practices, cannot be said to conflict "a priori" with the basic philosophy of Desjardins. When he formed his first bank, M. Desjardins insisted that it be non-philanthropic in nature. The entire capital must come from the members themselves. The position of any superior authority, in a very restricted sense of the term, must only be such as to provide guidance in the formation, operation, and extension of the bank. This authority must only supply the means by which the people could help themselves and not supply the financial help itself. "The means" might take the form of education or supervision and would be provided gratuitously. However, the Government by granting financial aid for and only for, the above special purposes, merely plays the role of an authority which supplies the means by which the people can help themselves. Such funds are no more philanthropic than the gratuitous services provided by the leaders of the movement by the mere fact that the grants thus received by the Federation do not enter into the financial policy of the bank, nor do they increase the total amount of capital of all or any of the banks, whether they be parochial, or regional. The use of Government grants, however, involves inherent difficulties. In the first place, the possibility is ever present that such aid might be suddenly withdrawn, producing an adverse effect on various aspects of the whole movement. Provision should be made to deal with this possibility so that the Federation could be placed on a self-supporting basis. Initially, a reserve fund could be set up to cover its conversion from a public to a self-supported organization. Thereafter, operational funds could be secured by assessing the member bank.

The second difficulty in accepting grants-in-aid is that de- 22.
pendency on government may lead to domination by government
with all its dire consequences. Nor is this a remote threat!
It is one that is very real---one that must be continually
guarded against. Such an issue as the amount of the grant-in-
aid might conceivably become "a political football" during an
election period. These criticisms, are concerned only with
possibility and not with fact or even probability. Although
we are not justified in dismissing them because of this, lastly,
we may hold that the only present and legitimate criticism of
grants-in-aid to a well established system is that they tend to
benefit a small group, that is the whole body of Caisse Popu-
laire members, at the expense of the general public.

In the period following 1932, the co-operative credit
movement in Quebec developed at an increased pace, in the
number of banks, number of members, and total assets. We may
dispense with a discussion of its growth by referring to Table
1. Before we abandon this discussion of the history of co-
operative banking in Quebec, we might take time to correct
a wrong impression concerning its development.

There has been a tendency on the part of some, especially
in the United States, to account for the slow development of
Credit Unions in Canada by pointing to the lack of a sponsor-
ing organization and the lack of financial aid for promotion.
On the other hand, the rapid development in latter years is
credited to the assistance of legislation and the Credit Union
National Association. To a certain extent this is true. How-
ever such an explanation tends to shield the truer causes.

The period of slow development can only refer to that time when only Desjardins societies were in operation, that is, 1900 - 1932. The fact that the movement in Quebec lacked a sponsoring organization and financial assistance can not be deemed to be a fault in the organization. We must remember that slow progress was an intended principle of M. Desjardins. Experience was to be the guiding hand in future development. The founder believed that the movement should expand on its own merits and not primarily on the basis of publicity and pointed propaganda. Thus growth was to be from the bottom up. In the United States, on the other hand, growth was from the top down. The formation of credit unions grew out of a national association. We might classify the growth as one of "decentralization" as opposed to the centralization process in Quebec. In the United States, the very purpose of this association was national expansion. In Quebec, national expansion was a thing to be desired, but it was of secondary importance. The leaders were mainly interested in forming a sound system within the boundaries of Quebec. Applying pressure for the development of People's Banks, with or without adequate legislation, outside of their sphere of influence, would necessitate that the leaders have little chance to act in a supervisory capacity. Therefore the probability of failure and consequent weakening of the system would be increased. The absence of adequate legislation should not be over-emphasized in importance. One will recall that the first bank began operation in the absence of legislation. Even though the repeated attempts of M. Desjardins to secure Dominion legislation were defeated by the Senate, this need not prevent

"per se," the national extension of the system, since credit unions could become incorporated in the other provinces under the Dominion Companies Act; or alternatively, they could operate without the benefit of legal sanction. Finally, to credit the national extension of credit unions to CUNA is to shield the importance of the work of the Extension Department of the University of St. Francis Xavier, in Nova Scotia. If the spread of credit unionism outside of Quebec, may be attributed to any one person, the honour should rightfully go to Mr. A. B. MacDonald, managing-director of extension in this Nova Scotian Institution.

Quebec: Operations

It is expedient that we now examine the operations, financial structure, and organization of a *Caisses populaires*.

The operations and membership of a people's bank are confined to a limited area, generally the parish. In a quasi-static society as found in rural Quebec, this limitation is of advantage. The parish is not subject to frequent or rapid changes in population and its inhabitants are likely to be well acquainted with one another. Therefore, it is less difficult for one to judge the moral and economic stability of his fellow members. In addition, the real needs of the members can be sympathetically understood. Within this "stable" social unit, all honest and industrious residents may become members regardless of race, class, creed, sex or age. It is interesting to note the strong moral conditions attached to membership, a feature that is peculiar to rural Quebec. "The following qualities are required of an applicant; he must be honest, prompt in his payments, sober and industrious. The member must also pledge himself to observe the constitution and by-laws of the association, to respect religion, family ties, and property rights." ¹⁾ Each member is given a pass-book under his own name, which must be presented at every business transaction with the society. The pass-book constitutes a shareholder's membership certificate. A member may withdraw from the association at any time, providing he is not a borrower, endorser, or guarantor of a loan and providing that he has given written notice of thirty days to the Board of Management in

1) Statuts de La Caisse Populaire.....Article 7

accordance with the Quebec Co-operative Syndicates Act. In turn, the society may expel a member for sufficient cause and return his invested capital.

The bank is primarily an institution for social betterment and as such it seeks the support of the whole group. Money is merely a secondary consideration used to secure the primary purpose. Financially, the bank is not to be considered as an institution for the investment of accumulated capital, but one for accumulating capital and placing it at the disposal of its members, with whom in all its dealings the bank is only concerned.

Capital is derived from two main sources, namely subscribed shares, and savings which are temporarily deposited. The shares form the financial foundation of the association and subscription to at least one share is a requisite of membership. The face value of these is generally five dollars payable either in small instalments over a period of one year, or in one lump sum. They differ from the usual conception of shares in so far as they are really long term deposits which can, in case of emergency, be withdrawn on short notice. Although the by-laws of the bank entitle it to a thirty day withdrawal notice, this is seldom exercised, since such action might cause a "run" on the bank. Share capital, then, is really variable capital and the society must always regard it in the nature of a call loan. This feature is essential to the system for two reasons. In the first place, the financial position of its members is generally such that funds cannot be permanently isolated. Secondly, such a feature is necessary to instill in its members the required confidence that will bring forth their financial support. However, the fact that shares are withdrawable does not hinder

the bank in its credit activities. Experience has shown that share capital rather than diminishing has increased from year to year.

Each share is subject to an entry fee of ten cents which amount is credited to a reserve fund of which we shall speak later. As for liability, "the members are responsible for the associations' liabilities only to the amount of their subscribed shares, paid or not"²⁾. Although membership is limited to the parish community, one who leaves the community may retain his shares. There is a limit to the number of shares that an individual may hold. This limit is variable, depending on the resources of the society.³⁾ The purpose of this, of course, is to prevent the possibility of the association's policy being influenced by large shareholders. This safeguard is strengthened by virtue of the fact that there is no necessity for hard-pressed shareholders to sell their shares to the prosperous, since shares are convertible into cash at the bank at any time. If the shares are transferred, however, such a transfer must have the consent of the Board of Management. No request for transfer can be granted, if the transferer is in debt to the association, either as a borrower, endorser, or guarantor. A further safeguard against the actual control of the society by large shareholders is found in the fact that each member is entitled to only one vote, no matter how great may be his holdings. It might be added that limitation on shares held, is of added advantage to the society in so far as no one shareholder can convert so

2) Statuts de La Caisse Populaire, Article 9

3) For example, in the early years of La Caisse Populaire de Levis, and at a time when its resources were small, shares were limited to twenty-five per person. Today, with increased resources, six hundred shares may be issued to an individual holder.

many shares into cash so as to affect adversely the solvent position of the bank at a time when cash is relatively scarce.

Turning now to deposits, we find that they are the short term counterpart of shares. The difference between the two methods of saving is of a moral nature rather than a physical one. Whereas shares are intended to provide a method of saving in order to meet future contingencies, deposits act as a reserve for meeting current expenses,⁴⁾ thus overcoming the ineconomies of "credit-buying". His liability is the same in either case, his shares and his deposits being alike withdrawable just as are the deposits in an ordinary banking depository".⁵⁾

All deposits are entitled to interest, payable monthly, at a rate determined by the Board of Management. However, the

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- 4) According to Prof. A. B. MacDonald, President of the Co-operative Union of Canada
A practice has been instituted recently whereby selected members are allowed to possess checking-accounts. Cheques may be issued by the member against his credit balance. These circulate freely within the province. The cheque is cleared through a local chartered bank to the bank clearing house from whence it travels to the Regional Caisse and finally back to the caisse populaire concerned. Some restrictions are imposed on individual caisses when their checking business becomes fairly substantial. In most cases they are expected to hold 30% to 40% of their funds liquid to meet withdrawals on cheques cleared through the Regional Caisse Populaire. There is agitation for this service in British Columbia at present.

This practice is severely denounced by the writer. It will either result in the pyramiding of liabilities or it will force the credit union to restrict its lending powers. In effect, a checking account amounts to a standing loan or line of credit. It therefore hinders the credit committee in determining whether the credit union is in a position to extend credit and still have a safe margin of funds on hand to take care of withdrawals.

- 5) "The Canadian Banking System" - by J. F. Johnson: Publications of the National Monetary Commission (1910), Appendix B, "Co-operative People's Banks of Canada" by M. Alphonse Desjardins.

association reserves full liberty in accepting or refusing savings from its members and the right to refund these savings in whole or in part upon notice. Capital is constantly and rapidly subject to the inflow and outflow of deposits, but the general tendency is for the former to exceed the latter.

The objective in accumulating capital in the above manner, of course, is to fulfil the main purpose of the society, that is, to loan money to its members in need. Loans are made only for productive or beneficial purposes to members in good standing. The bank, therefore, must be informed of the exact purpose of the loan. All requests for loans are filed with the manager, who turns them over to a credit committee, who, in turn, make their recommendations to the Board of Management. The maximum amount that may be borrowed by an individual member is fixed from time to time by a resolution passed at a general meeting of all members. However, the security being equally good, preference is given to the smaller loans. The rate of interest to be charged and the conditions to be attached to each loan are fixed by the Credit Committee. In general, the rate charged by a well-established association is less than that charged by one that has been newly established. At a given time, the rate varies with the size of the loan, being lower when the principal sum is large. The reason for this is that operational costs do not increase proportionately with an increase in the amount borrowed. In addition, risk is generally less in the field of large loans. Rates of interest also decrease with the type of security offered. Generally, the rate of interest for a small "personal" loan is 6 to 7%, while a loan on real estate averages 4 to 5%. If the savings of the members are not sufficient to fill all the demands for loans

that are worthy of credit, the association may borrow temporarily from non-members. "The general meeting of members may pass a resolution to authorize the Board of Management to borrow funds for the association and in its name, when they deem it necessary in the interests of the union. This resolution should determine the maximum amount of such loans and the maximum interest which may be paid. No sum shall be borrowed for the association by the Board of Management until authorized by such a resolution."⁶⁾

If this situation arises, members are considered to be pooling not only their cash but also their credit. If there is a surplus of cash over loans, the association, within the limits of the law,⁷⁾ may invest this surplus with public bodies or other approved borrowers.

At the end of the fiscal year, after all expenses, losses if any, and interest on deposits have been paid, the balance is appropriated to a special fund belonging to the society as a whole. This fund is divided into three distinct parts, the reserve, provident, and surplus funds. The purpose of the first two funds is to protect the investment of the members against all possible loss. The reserve and provident funds may only be drawn upon to pay losses, and, with one exception in the case of the provident fund hereafter noted, can in no wise be distributed among the members. They may be placed in sound investments so determined by the government, the interest on which may be added to net profits. In case of dissolution, the balance of the assets, including these funds, is applied in the territory of the association to one or more works of general public utility so designated by

6) Statuts de La Caisse Populaire (Article 34)

7) That is within the limits of the Quebec Co-operative Syndicates Act, (Article 40)

the Lieutenant-Governor-in Council. However, the question of dissolution of the association may be placed before a general meeting only on the expressed recommendation of the Board of Management, and such recommendation can not be decided upon if at least ten members object thereto.

The reserve fund is accumulated from two sources, namely, from entry fees payable on all shares, and from a deduction of at least twenty per-cent of the net profits.⁸⁾ This percentage may be changed only on recommendation of the Board of Management and by resolution passed at a general meeting of shareholders. "The reserve fund ordinarily can be decreased only by extraordinary losses exceeding the other resources at the disposal of the association. If it is decreased in this manner, it must be rebuilt to an amount (equal to) double the liabilities represented at any time by the amount paid up on the subscribed shares and the resources which the association may have procured otherwise."⁹⁾ If, due to a decrease in the liabilities, the fund exceeds this amount, such excess cannot be distributed to the shareholders.

The provident fund is formed by successive deductions of ten per-cent of the yearly net profits until such fund is equal to one-half the maximum liabilities. It might be termed the "stability fund", since it serves the following two purposes: in the first place, it is used to allow for any ordinary operational losses, and as such it is in the nature of a "cushion" to the reserve fund

8) The individual "caisses" are urged for protective reasons to apportion at least twenty per-cent of their net to the reserve fund, especially when the society is one that is newly formed. However, according to the Quebec Co-operative Syndicates Act only ten per-cent of the net profits need legally be so apportioned.

9) Statuts de La Caisse Populaire (Article 47)

proper; it is used to ensure a regular dividend policy...that is, in years when profits do not warrant payment of the regular dividend, the deficient amount may be apportioned from the provident fund so as to allow payment of the regular or average dividend based on that of the previous three years, provided such procedure is approved at a general meeting.

The surplus fund is that remaining part of the net profits that has not been allocated to the reserve and provident funds. It is credited to the savings accounts of shareholders in proportion to the number of shares paid in full, and to the time during which such shares have been paid in full during the past fiscal year. The amount of the yearly dividend cannot exceed twelve per-cent on paid-up shares, as long as requirements of the reserve, provident or other such funds have not been provided for fully...Every increase in the yearly dividend must be accompanied by a corresponding advantage in terms of the loans made to members, either by a lower rate of interest or otherwise.

Before discussing the question of administration, let us say a few words concerning the general meeting of shareholders, since this is the source of all authority within the association - the officers being subject to its direct and constant control, and responsible for any violation of its mandates.

10)

The General Meeting is held annually for the following purposes: to elect by majority vote, by secret ballot or otherwise, the members who will administer the affairs of the association subject to the condition that any members position may be revoked by a vote of two-thirds of those present; to hear the

10) Additional general meetings may be called by the President or Vice-President at any time.

report on the affairs of the association; and to deliberate and pass resolutions on everything that pertains to the interests of the association by majority vote. In case of a tie, the President or other presiding officer, has the casting vote. If persons are concerned, or at the request of at least five members, the vote is taken by secret ballot. Each member is entitled to only one vote, voting by proxy being prohibited. An exception to the latter may be made in the case of legal persons (public bodies) which may be represented by and vote through an authorized representative. The right to vote is acquired by three months' membership in the association. A member who is not in good standing is denied the right to vote. In addition, no one is eligible for office until he has been a member for six months. 11) An Extraordinary or Special General Meeting may be called by the Board of Supervision, or two of its members, by the Board of Management, and also by a request signed by ten members. At such a meeting only the topics specified in the notice calling it can be the subject of deliberations.

The administration of a Caisse Populaire is in the hands of three groups, namely, the Board of Management, the Credit Committee and the Board of Supervision. Each of these is distinct, and no member may serve on more than one of them, with the exception of the Manager who is also, ex officio, a member of the Credit Committee. At various times these committees meet, for discussion in camera, with only their decisions being made public. They are elected for a term of three years, with one third of their membership being retired annually. Retiring officers, however, are

11) Restrictions on voting rights and eligibility to hold office do not apply to the first year of the association.

eligible for re-election. Membership on these committees is on a gratuitous basis.

The Board of Management is composed of at least five members, the presence of three of whom constitute a quorum. The size of the committee is determined by the number necessary to represent adequately the interest of the whole group, by the geographical extent of the society, and the scope of its membership. Decisions are by majority vote with the President having the casting ballot. To this committee is entrusted the general management of the bank. Its powers may be classified as follows: it controls all aspects of membership; it hires and dismisses employees; it determines the investment and dividend policy; it proposes to the general meeting modifications in the statutes of the society; and, finally it exercises all the other administrative powers not specifically delegated to the two other committees.

The Credit Committee, composed of three members, deals exclusively with loans to members. An attempt is made to appoint to this committee men who are prudent, yet well acquainted with the needs and the moral character of their fellow-members. Any request for a loan, in order to be granted, must have the approval of all committee members present, providing the latter constitute a majority. However, if a loan is refused, it may be appealed to the Board of Management. The committee has the additional task of supervising the repayment of loans. This is an important function, since a system which attempts to attain the highest possible degree of productivity in making loans, must be based on punctuality of repayment. Under no circumstance can a loan be made to a member of the committee either

directly, or indirectly through a third party. It is the duty of the Credit Committee to advise the Board of Management of the necessary measures to be taken to regulate the movement of funds according to the cash requirements and needs of the society.

The Supervisory Committee, composed of three members, is faced with the duty of scrutinizing the operations of the society. Perhaps its most important task is to supervise the decisions of the Credit Committee, particularly in matters relating to loans or their renewal, and collateral securities. Also within the purview of its activities are the auditing of the books and ensuring that the statutes, rules, by-laws and decisions of the General Meeting are properly observed. Actually the Board of Supervision might be considered as a more permanent form of the General Meeting. In this position, it is within its power to dismiss members and employees, or, for sufficient cause, to convoke an Emergency General Meeting. At each General Meeting the board submits a written report of its findings. Like those on the Credit Committee, its members are neither allowed to obtain loans from the society, nor receive salaries.

The internal management of the society is entrusted to a Manager. All communication by members with the officers or committees must pass through his hands. In most cases he is the only officer who is entitled to receive a salary. He acts as the book-keeper and custodian of all funds and securities. Since he is personally responsible for the society's funds, it is customary for the Manager to deposit all money in excess of daily requirements with a chartered bank. As a further guarantee, he

is required to post surety to ensure the faithful fulfilment of his duties. He has effective control over all employees in so far as he recommends appointments and dismissals to the Board of Management. His activities are under the constant supervision of all three executive boards. He is required to make a monthly report to the Board of Management and each year he must make an attested report of the financial position of the society. This statement, in turn, is placed at the disposal of the members.

The Desjardins system of co-operative banking, as described above, forms the basis of the present credit union movement in North America. Keeping this in mind, we may proceed to a consideration of credit unions in English-speaking Canada.

Table 1 - PROGRESS OF CAISSE POPULAIRES IN QUEBEC 1915-1944

| <u>Year</u> | <u>Credit Unions</u> | <u>Members</u> | <u>Total Assets</u> | <u>Shares</u> | <u>Deposits</u> | <u>Loans Granted in last financial year</u> | <u>Loans Granted Since Inception</u> |
|-------------|----------------------|----------------|---------------------|---------------|-----------------|---|--------------------------------------|
| 1915 | 91 | 23,614 | 2,027,728 | | | | |
| 1920 | 113 | 31,752 | 6,306,965 | | | | |
| 1925 | 122 | 33,279 | 8,261,515 | | | | |
| 1930 | 179 | 45,767 | 11,178,810 | | | | |
| 1935 | 202 | 43,045 | 10,043,754 | | | | |
| 1936 | 234 | 49,890 | 10,846,755 | | | | |
| 1937 | 256 | 57,216 | 13,275,488 | | | | |
| 1938 | 338 | 75,419 | 16,057,994 | | | | |
| 1939 | 400 | 89,878 | 17,792,726 | | | | |
| (a) | 6 | 1,496 | 54,880 | 21,000 | 26,000 | 35,000 | |
| 1940 | 562 | 124,111 | 21,400,001 | | | | |
| | --- | --- | --- | --- | --- | --- | --- |
| 1941 | 601 | 146,275 | 26,796,617 | 3,047,822 | 21,421,718 | 5,700,000 | 106,061,694 |
| (a) | 8 | 1,209 | 34,822 | 29,281 | 3,538 | 44,097 | 118,185 |
| 1942 | 650 | 187,528 | 38,169,967 | 3,567,999 | 32,025,339 | 6,000,000 | 112,061,694 |
| (a) | 9 | 1,690 | 123,299 | 43,842 | 28,398 | 81,243 | 258,399 |
| 1943 | 765 | 237,078 | 60,501,514 | 4,652,638 | 52,989,247 | 10,000,000 | 122,061,694 |
| (a) | 10 | 1,930 | 158,279 | 61,226 | 28,914 | 84,015 | 331,740 |
| 1944 | 852 | 300,183 | 77,874,334 | 4,309,959 | 71,218,798 | 25,000,000 | 170,683,803 |

Source: Dominion Department of Agriculture (a) Members of Montreal Credit Union Federation Limited.

CHAPTER IV

Nova Scotia

The birth of people's banks in Canada outside of Quebec began in Nova Scotia under the sponsorship of the St. Francis Xavier University. It formed merely a part of what one writer has called a "renaissance in Acadia"¹⁾ This renaissance is beyond the scope of this enquiry except to mention its nature and connection with credit unions. It was initiated by a group of rather obscure educational leaders with the purpose of raising the impoverished people of Nova Scotia from economic dependency and exploitation. This was to be accomplished by preaching a realistic and practical philosophy of action that would educate the masses in the value of constructive self-help and co-operation. Since the masses could not come to the university, it was decided that the university should go to the people. Therefore, the teachers left the lecture halls, their home and seat of learning, and went down into the towns and villages, into the homes of the people. Here they taught them the value of study in solving their own economic problems.

The plan for adult education was not new to Nova Scotia. It had been proposed and successfully practiced on a small scale for a number of years by Dr. J. J. Tompkins, vice-president of the university. In fact it was he who brought matters to a climax. Through his efforts, the Dominion Parliament was forced to acknowledge the existing conditions in the Maritimes, and as a

1) Bertram B. Fowler "The Lord Helps Those...."

result, appointed a Royal Commission in 1927 to conduct an investigation. Included in the Commission's Report were recommendations for the organization of fishermen for group action, the formation of co-operatives, and a definite plan for adult education. The conclusions of the commission supported the teachings of Dr. Tompkins and supplied the impetus which brought about the addition of an extension department to the university in 1930 under the direction of Dr. M. M. Coady, for the express purpose of adult education. In the search for a simple project that would be applicable to the whole of Eastern Nova Scotia, and yet serve as a firm basis for co-operative enterprise, the educational leaders decided to investigate the feasibility of credit unions. Although they were familiar with the work of Alphonse Desjardins in Quebec they turned to The United States²⁾ for assistance.

It is difficult to understand the reason for overlooking the system in operation in Quebec. It would seem that it would be more readily adaptable in Nova Scotia than that operating in the United States. The economic and social conditions in the small villages in the Maritimes and in rural Quebec were not beyond comparison. Again, both provinces were dealing with relatively homogeneous groups, (especially on the ground of race and creed). Furthermore, the Quebec movement dated back more than thirty years, and thus offered a wealth of experience on which sound principles might be formulated. However, the fact that Nova Scotia did turn to the United States may be explained in many ways. In the first

2) In order to appreciate the linking nature of the credit union movement in the United States between that of Quebec and Nova Scotia, a very brief history of co-operative credit in that country is given in Appendix A

place, a political and racial barrier existed between Nova Scotia and Quebec. The displacement of industry from the coast westward into Quebec could hardly fail to produce a sense of hostility. The inhabitants of the Maritimes blamed many of their problems on the "exploitation" carried on by the commercial interests of central Canada. Such barriers as these did not exist between the Maritimes and the United States. The second explanation, involves the question of economic dependency. The people of Nova Scotia found more suitable markets for their primary products in the United States than they did in Quebec, and their economy was dependent to a large extent on these markets. It might be expected, therefore, that the American sphere of influence would extend into the Maritimes. Lastly, we might ^{have} expected the adaptation of the American system because it was more "popular" that is, more publicized, than the French-Canadian system. In Quebec, the interest of the leaders of the movement was confined to the French-speaking areas of Canada. On the other hand, the key-note of the credit union movement in the United States was national expansion, and every available means was employed in securing this end.

In 1931, the St. Francis Xavier University invited Mr. Roy F. Bergengren to come to Nova Scotia for the purpose of explaining the essentials of co-operative credit. Favourably impressed by his testimony, the educational leaders decided to introduce the credit union movement to Nova Scotia. Mr. Bergengren assisted in writing the legislation which was enacted in 1932. In December of the same year, this American organizer returned and established the first two credit unions in that province. In January 1933, the credit unions received their

charters, and thus initiated a movement that today has spanned the Dominion.

To the cause of adult education, the credit union was "the proof of the pudding". In the credit union movement, the people could see a concrete and practical embodiment of the principles that were being advanced by their educators. The two mutually benefited one another. Adult education was concerned with solving the economic problems of the people, and in Nova Scotia the main problem was that of credit. In many communities, credit agencies did not exist. In others where they did exist they were not financially within the reach of the small borrower. Here in Nova Scotia was the same lack of sound credit that had moved Raiffeisen, Luzzatti, and Desjardins to action. However, in Nova Scotia the main problem was not one of driving out the loan sharks, although the illegal lender was able to operate in some industrial areas. But a more serious problem was the widespread use of sales-credit---a situation that placed the farmers, fishermen, and miners at the mercy of the merchants. Because of the low prices received by the primary producer for his goods, and the relatively high prices he was compelled to pay for necessities, it was necessary for him to rely on the credit extended to him by the local merchant. It was not uncommon for the interest rate on such credit to exceed thirty per-cent. The result was that the personal property of the small producer was subject to a lien possessed by the merchant.

The problem was essentially one of teaching the people a method whereby they might regain control of the economic system. This, then, was the ultimate goal of the Nova Scotian educational

movement. In achieving this goal, credit unions were to play a major part. In the first instance, they would be employed to solve the problem of short-term credit. As the individual's need for it decreased, and as assets increased, the credit union could then enter the more general field of banking. Loans could be made available not only to the individual but also to co-operative organizations. As these in turn expanded, the need for consumer short-term credit would be reduced to a minimum. The peak of development would be reached at that point where the people themselves owned the banks, the stores, and the factories, and controlled to the highest possible degree, the economy under which they lived.

The position of the credit union is peculiar in so far as it is supplementary and even complementary to other forms of co-operative endeavour. In many cases, it is not being used as an end in itself, but only as a means to an end---a co-operative economy. We need not enquire into the efficiency of the co-operative method of business. Nor were the co-operators of Nova Scotia concerned with the efficiency of their system. We must remember that co-operation was introduced to Nova Scotia not by reason of expediency, but of necessity. And what is important to this treatise is the fact that the whole co-operative movement in that province is based on the credit union as a necessity. 3)

3) Perhaps the facts:

- 1) that there is a close and necessary connection between credit unionism and other forms of co-operation in Nova Scotia;
 - 2) that consumers' and producers' co-operation in various fields including credit, was introduced for purposes of necessity rather than expediency;
- may best be illustrated by the following excerpt, written in 1938 by a co-operative enthusiast.

The whole co-operative movement in Nova Scotia has as its strong foundation, and for its very strength relies upon, preliminary study. The development of credit unions themselves was preceded by and grew out of the organization of study clubs to investigate the intricacies of money and credit. This novel technique, that of seeking and understanding the problem before attempting to remedy it, accounts for much of the success of "The Nova Scotian Experiment". It taught the people the philosophy that the credit union was not an established financial panacea to be applied to their economy, but rather a system to be studied and understood by the people, and to be formed by and for them. Above all, it taught them the value of self-applied discipline in solving their problems.

"Let us consider the primary purpose of a Credit Union - the promotion of thrift. Are our people unthrift? Yes: last year in one county in eastern Nova Scotia over \$100,000 worth of liquor was sold at a government shop. Yet in that same county only about one-half the taxes were collected - teachers remained unpaid. In our province in the last few years millions have been squandered on liquor, on needless motor cars, etc, yet practically all the profit on the same has gone to Ontario, Quebec auto plants, distilleries in England, Scotland, Ireland, Italy, France, etc.

"Millions of Nova Scotians' money have been taken by our banks and invested in Ontario and Quebec industries to furnish employment to Central Canadian people. We supply much of the money to do this, and then complain of the lack of provincial industries with resultant unemployment.

"Co-operative lobster factories, stores, and community industries have difficulty in securing capital. Nova Scotians must realize that the financing of our own ventures must be done by ourselves. The Credit Union furnishes the medium."

- Joseph MacIsaac, B.A., - "Credit Unions" - page 10
Extension Department, St. Francis Xavier University,
Antigonish, Nova Scotia (Sept. 1938)

Generally speaking, Farming in Nova Scotia had been forsaken by the rising generation of the past few decades. Those who did occupy themselves as farmers, employed antiquated methods. Agricultural products, therefore, were of an inferior grade, and because of this, no organized system of marketing was possible. A situation arose where the farmers were poverty-stricken through lack of markets, while the urban centres were importing agricultural products from other provinces. In an attempt to remedy this situation, study clubs were formed in order to teach the farmers methods of agricultural improvements and marketing. The study clubs were furnished by the government with material concerning the improvement and grading of stock. The farmers were urged to study the co-operative marketing methods of the Scandinavian countries. Armed with knowledge, the study groups planned farming and marketing procedures which would suit their own needs. The individual then turned to his credit union which had been formed during the study period, for assistance in financing payment for seed, fertilizer, and cattle. Marketing pools financed by the credit union were then organized. These graded and sent the goods directly to Halifax, the ultimate market. Needless to say the farmers efforts were rewarded by increased sales and selling prices.

Credit unions, employing the educational technique, had even greater success among the fishermen. The fishing industry had also been subject to decline in the late 1920's. In the early part of the century, the fish had been sold directly to the larger dealers who came from Halifax during the fishing season. Competitive bidding tended to keep prices at a relatively high level. In addition, and as a service to the fishermen, the dealer

usually supplied fishing gear at below retail prices. As the business of the wholesale dealers increased, they found it unprofitable to come or send representatives to the fishing hamlets to buy. Gradually a new system evolved whereby local agencies sprang up to purchase the fish and forward them to the large wholesalers in Halifax. In most cases the local agent was the village merchant who also supplied the fishermen with his required gear at retail prices. By extending credit, the local merchant, over a period of years, was able to place the fishermen in an adverse credit position. This enabled him to set the prices at which he would buy the fishermen's catch. Very often the latter would receive less than one-third the going market price.

Again it was the study club and the credit union that raised the fishermen from their poverty. Savings made within the credit union allowed them to buy their equipment for cash on a co-operative basis, thus affording a marked reduction in cost. Fish shipped by a marketing co-operative directly to the Boston market brought the highest prices. Credit union financing allowed the erection of storage warehouses, so that fish products could be stored until market prices were most suitable. During this storage period, individual fishermen could carry on by means of a credit union loan.

In the cases above, we have seen the use of credit unions in providing funds for productive purposes. However, a very large proportion of loans are made for non-productive yet provident purposes. Let us note a few examples of these from the experience

4) Ibid - pages 8-9

of credit unions in eastern Nova Scotia.

"A member of one Credit Union wished to purchase a stove. The time price was \$75.00. An appeal was made to the Credit Union, the credit committee of which asked the member to offer the merchant \$55.00 cash. The stove was purchased at that price - the loan being granted after the credit committee was fully satisfied that a new stove was an absolute necessity for the members. Another member wished to make some necessary repairs to his house. The contractor's price was \$150.00. On applying to the Credit Union for a loan, the credit committee (one of whom was a carpenter) thinking the price asked excessive, told the member to offer \$82.00 for the job. The contractor agreed to the price and the loan was made, saving about \$70.00 to the member. The child of another member was suddenly stricken ill. The doctors found that an operation, which could be performed only at the Victoria General Hospital in Halifax, was necessary to save its life. A few hours after the members application for a loan of \$40.00 was received, the child was on the train for Halifax.

"A member of one Credit Union found that he could not meet the payments on his mortgage. He was about to lose his home which he had purchased just before the depression. He appealed to his Credit Union for assistance. The Credit Union was young and could not meet the total indebtedness, but the officers immediately got in touch with the loan company and were successful in negotiating a settlement that enabled them to make a reasonable loan to the member as well as arranging monthly payments within his means. The home was saved for the member."

We must not jump to the conclusion that because of the co-operative movement, Nova Scotia has been lifted from its poverty. Indeed it has happened in very few sections. Even until the outbreak of World War II we find cases of fish being thrown into the sea while coal miners go hungry; of apples being dumped into the ocean while fishermen buy imported fruits; of coal-mining machinery rusting while foreign coal is piled on the Halifax docks; of farms lying abandoned while tens of millions of dollars of foodstuffs are imported annually. All this prevailed because of lack of markets and more basically, because the people did not have financial control of the economy in which they lived. To gain control was the primary aim of the Antigonish Co-operative Movement.

In analysing the Credit Union Societies Act of Nova Scotia we find that it is quite similar to the legislation found in Quebec. One striking difference is found in the distribution of the reserve fund.⁵⁾ We have seen that in Quebec it may not be distributed among the members under any circumstances. In Nova Scotia it may be distributed among the members on dissolution along with the other assets of the credit union. Any disadvantage in the provision lies in the fact that a credit union might surrender its charter with the consent of three-quarters of its members at a time when money was scarce and thus prevent the credit union from operating at a time when its services were needed most. The short-run gain that would materialize with dissolution might outweigh the long-run gain afforded by continued operations. Such a provision

5) Some credit union officials criticize the fact that reserve funds tend to become too large under government legislation. These funds cannot be put into productive use and are lost to the contributing members. On dissolution, it may be another generation that will receive the benefit of the distribution of these funds.

then might affect the permanency of the organization.

Sections 34 and 35 of the Act, are also open to criticism.

They provide the following:

Section 34: "A credit union may borrow from any sources in a total sum which shall not exceed fifty per cent. of its capital, deposits and surplus upon a resolution of the directors but for any amount over twenty-five per cent. of its capital, deposits and surplus only after such resolution has been confirmed as provided in Section 35 of this Act, but in each case only with the consent of the Registrar."

Section 35: "No resolution referred to in Section 34 of this Act shall take effect if the amount to be borrowed is over twenty-five per cent. of its capital, deposits and surplus unless and until it has been confirmed by a vote of not less than three-quarters of the members present at a general meeting of the credit union which number shall not be less than a quorum duly called for considering such resolution, by notice specifying the terms of the resolution to be confirmed, or until unanimously sanctioned in writing by the members of the credit union."

The directors then may borrow, without the consent of the members, up to twenty-five per cent. of its capital, deposits and surplus, and with their consent up to fifty per cent. of this amount. Let us consider a case where an amount equal to twenty-five per cent. of the capital, deposits and surplus is borrowed. For sake of simplicity small and convenient amounts are chosen. Although the amounts may be far removed from reality, the example is given merely to illustrate a principle.

| | |
|----------------------------|-----------------|
| Total value of shares..... | \$10.00 |
| Total deposits..... | 70.00 |
| Surplus..... | 20.00 |
| | <u>\$100.00</u> |

Total amount that may be borrowed under Act-\$25.00
without the consent of the members.

| Members | Value of Shares | Deposits | Total Investment | | Share of Risk | |
|---------|--------------------|----------|---------------------|-----|------------------|----|
| | \$ | \$ | \$ | % | \$ | % |
| A | 4. | 0. | 4. | 5 | 10. | 40 |
| B | 3. | 25. | 28. | 35 | 7.5 | 30 |
| C | 1. | 25. | 26. | 32½ | 2.5 | 10 |
| D | 1. | 20. | 21. | 26¼ | 2.5 | 10 |
| E | 1. | 0. | 1. | 1¼ | 2.5 | 10 |

Number of members - 5

Per value of shares \$1.

From the table we see that member A, although his capital investment comprises only 5% of the total investment, he shares 40% of the risk involved. In contrast to this, member C, although his total investment comprises 32½% of the total investment he shares only 10% of the risk. The criticism of this practice lies in the fact that although the amount borrowed depends on the total investment of the members plus the amount of the surplus, the risk involved depends on the number of shares held. The writer holds that the amount that may be borrowed should only depend on the amount of paid-up share capital. If a credit union should fail, this provision, in effect, penalizes the shareholder, the "backbone" of the organization. The problem is accentuated in three ways. In the first place, there is a tendency, in the long run, for the amount of the deposits to outgrow the amount of shares. As the credit union grows larger, the number of new and potential members tends to decrease. Older members increase deposits in preference to shares, and in many cases, they are limited in the number of shares that they may hold by the credit union by-laws.

Secondly, depositors are general creditors of the society, and as such receive preference on liquidation. Thirdly, loans made to finance the purchase of shares are a common practice. The credit union's assets may become inflated. Thus, funds that may be legally borrowed may be based on "ledger" capital, that is capital created by a mere book-keeping entry.

Another difference between the legislation in Quebec and in Nova Scotia lies in the right of the officers of the association to borrow from the society. In Quebec, no officer may apply for a loan while he is holding office. In Nova Scotia, an officer may borrow up to an amount equal to his holdings in the society made up of shares, deposits and accumulated earnings. Any amount in excess of this must be approved by a vote of two-thirds of the other members of the Board of Directors, and the Credit and Supervisory Committees sitting together.

All credit unions in Nova Scotia must be incorporated under the provision of the Credit Union Societies Act being Chapter 11 of the Nova Scotia Laws, (1932), as amended in 1935, 1938, 1939 and 1940. The growth of credit unions in the province since the passing of the Act is seen in Table 2.

The need for a central organization of credit unions was recognized early in their development in Nova Scotia.⁴⁾ It took the form of the Nova Scotia Credit Union League. The league, formed in 1934 was incorporated under the Statutes of Nova Scotia,

4) Much of the material that follows is embodied in a brief presented on behalf of the Nova Scotia Credit Union League to the Royal Commission on Taxation of Co-operatives at Halifax, Nova Scotia, March 5, 6, 7, 1945.

5) 1938, with its by-laws being approved by the Lieutenant-Governor-in-Council on September 9th of that year. Membership is voluntary and open to all credit unions in the province upon payment of an entrance fee of \$2.00 and upon approval of the Board of Directors of the League. 6) Of the 213 credit unions in the province, 185 are members of the League. With reference to liability of its members, Section 10 of the Act of incorporation states "no Credit Union holding membership in the League shall be liable for the debts or liabilities of the League to a greater amount in the whole than its unpaid fees, dues or assessment, unless such Credit Union has rendered itself liable for a greater amount by becoming surety for the debts of the League."

The Board of Directors is appointed at an annual meeting of the delegates representing member credit unions, each credit union being entitled to send two voting delegates to this meeting.

The objects and purposes of the League as set forth in the Act of Incorporation are:

(a) To promote the organization and development of Credit Unions in the Province of Nova Scotia, and to encourage co-operation among the Credit Unions;

(b) To disseminate information regarding Credit Unions and their methods of organization and operation; and to foster by every lawful means the common good and welfare of Credit Unions;

(c) To improve the internal management of Credit Unions and to co-ordinate their operating methods and practices;

5) 2 Geo. VI - Chapter 72 - An Act to Incorporate The Nova Scotia Credit Union League

6) At an annual meeting of the League held on July 20, 1944, the Managing Director, Prof A. B. MacDonald reported that the League after ten years in operation was not yet on a self-supporting basis.

(d) To approve and copyright all book-keeping forms and records used or to be used by Credit Unions, with a view to maintaining a uniform system of Credit Union book-keeping and other office supplies for the purpose of re-sale to Credit Unions, and to use any profits resulting from such business activities for the general purposes of the League;

(3) To arrange for the group bonding or insurance of Credit Union employees holding positions of trust, in order to protect Credit Union funds against loss;

(f) To accept and administer any voluntary contribution or other subsidy that may be received by the League;

(g) "To receive such moneys as may be deposited with the League by Credit Unions holding membership therein, and to loan the moneys so received to Credit Unions borrowing under Sections 34 and 35 of Chapter 11 of the Acts of 1932, and in the absence of such loan demand to invest the said moneys in the investments provided for in Section 12(c) ⁷⁾ of the said Chapter, or to deposit the said moneys in the chartered banks of Canada."

The activities of the League are carried on by three departments the educational and promotional department, the printing department, and the deposit and loan department. The first of these, as the name suggests, provides the educational and promotional facilities necessary to the formation and organization of new Credit unions. Special attention and guidance is given to those credit unions which have not had the benefit of advanced leadership. This is particular the case in rural areas. The department finances its activities by

7) This section permits a credit union "to invest in any legal investments authorized by law for trust funds in the Province of Nova Scotia".

the funds provided by membership fees and such annual dues assessed to members as may from time to time be agreed upon at the annual convention of the League.

The Printing Department was set up in March 1941, due to the difficulty encountered by credit unions in obtaining book-keeping supplies and other printed matter. Previous to the formation of this department, there had been two sources of supply, one in Quebec, and the other in the United States. The League had acted as purchasing agent on behalf of its members. Due to war conditions and other causes, the League had difficulty in obtaining deliveries. For this reason, the department was founded. Today it prints all book-keeping forms, special forms and educational literature, and acts as a central supply house for all credit unions in the Maritime Provinces.

The Deposit and Loan Department was inaugurated on March 21, 1939 for the express purposes of accepting for deposit Guarantee and surplus funds of credit unions in the province and providing a source from which the member societies might borrow. This department then, acts as a central credit union for its member societies. Loans are made at a rate of one-half per centum per month. At December 21, 1944, \$8,400.00 had been so loaned. The total invested in liquid securities as at December 31, 1944 amounted to \$288,790.34. In addition to its investments in liquid securities, loans have been made available to credit union members on the security of first mortgages on improved real estate at a rate of interest of 5% per annum calculated half yearly and not in advance, the principal and interest being amortized over the term of the mortgage. The first of these loans, in an amount of \$2800.00

was granted on March 29, 1943 and at December 31st., 1944, a total of \$128,265.00 had been loaned to sixty-three credit union members in the province. Up to date no default on instalment payments had been made by any borrower. As a protective measure, each mortgagee is advised to effect upon his life a Single Premium Decreasing Term Insurance Policy with the Cuna Mutual Insurance Society in an amount equal to the principal of and the interest on the loan, and for a term equal to the term of the mortgage. The policy is made payable to the League and the premium is payable in advance. In the event of the death of the mortgagee during the term of the mortgage, the policy provides protection to an amount equal to the balance of the principal and interest due and payable on the mortgage at the date of death. Of the mortgages that are outstanding eight are held on properties situate and being in rural communities, twenty-eight in mining towns, and twenty-seven in urban centres. In addition to the services provided by the above three departments, the League also supervises the bonding of Treasurers and Sub-Treasurers of all credit unions in the province. A charge of fifty cents per thousand is made for this service. The revenue is placed in a Bonding Reserve account in anticipation of the time when the League can set up its own bonding department.

The surplus earnings of each department, after provision for salaries and expenses of management, are retained or distributed in the following manner. The surplus earnings of the educational department are held in reserve for future educational needs and deposited in a chartered bank. At the end of the fiscal year, June 30, 1944, these surplus earnings amounted to \$6,494.59. The earnings of the printing department are placed in a reserve set up for future

contingencies. During the first three years of its existence, this department operated at a loss, but at the end of the fiscal year ending June 30, 1944 there was an earned balance of \$114.18. At the end of the fiscal year, June 30, 1944 the surplus earnings of the Deposit and Loan Department amounted to \$8,973.80 and they were allocated as follows:

| | |
|-----------------|---|
| \$ 443.79 | 5% of the total placed in Educational Fund |
| 6,630.30 | 3% interest paid on surplus funds accepted from members for deposit |
| 802.27 | 2% interest paid on Guarantee funds accepted from members for deposit |
| <u>1,094.44</u> | Balance carried into a reserve fund |
| \$8,975.80 | Total earnings of Deposit and Loan Department. |

Before concluding our discussion of the Nova Scotia Credit Union League, and the general treatment of credit unions in Nova Scotia we might make note of the League's affiliation with the Credit Union National Association (CUNA)

At the Annual Convention of the League held in July, 1940, the delegates present unanimously voted to affiliate with the American association. Among the benefits that were derived was the right of credit union members to take advantage of the low rate types of insurance offered by the Association. Through this affiliation, the League has obtained permission to print and distribute in Canada the standardized book-keeping forms for credit unions. In addition, the League is furnished with information with respect to legislation and supervision affecting the movement in the United States and Canada.

Two delegates from the League are entitled to attend the Annual Meeting of the Association and to vote on all matters brought before the Association.

TABLE 2**Progress of Credit Unions in Nova Scotia (1935 - 1944)**

| Year | Number of Credit Unions | Number of Members | Total Assets | Shares | Deposits | Loans Granted in Last Financial Year | Loans Granted Since Inception |
|----------|----------------------------|----------------------|-----------------|-----------|----------|--|-------------------------------------|
| 1935 (a) | 50 | 9,000 | 130,243 | | | | 520,000 |
| 1936 (a) | 71 | 12,178 | 269,045 | 244,448 | 3,000 | 374,924 | 894,924 |
| 1937 (a) | 105 | 17,173 | 446,403 | 405,439 | 7,642 | 646,350 | 1,541,274 |
| 1938 (a) | 148 | 22,869 | 605,459 | 555,410 | 7,472 | 752,672 | 2,293,946 |
| 1939 (a) | 182 | 27,113 | 748,269 | 678,598 | 12,108 | 589,441 | 2,833,387 |
| 1940 (a) | 199 | 27,941 | 924,751 | 828,854 | 18,132 | 939,848 | 3,823,235 |
| 1941 (a) | 201 | 28,144 | 1,055,731 | 943,606 | 19,294 | 938,690 | 4,761,925 |
| 1942 (a) | 202 | 28,553 | 1,225,098 | 1,096,417 | 33,005 | 892,174 | 5,654,099 |
| 1943 (a) | 204 | 28,850 | 1,469,281 | 1,317,744 | 38,984 | 1,065,812 | 6,719,911 |
| 1944 (a) | 213 | 31,796 | 2,026,798 | 1,532,987 | 58,325 | 1,321,283 | 4,482,131 |

(a) Calendar Year

(b) Nine Months

(c) Year Ending September 30th

Source: Canada Year Book and Other Dominion
Government Publications.

CHAPTER V

New Brunswick and Prince-Edward Island

Credit Unionism in New Brunswick arose directly from the demand of rural and urban groups within the province, which had learned of its success in Nova Scotia. The New Brunswick Council of Labour, the Trades and Labour Council, the Farmers' and Dairy-mens' Association, and other interested bodies, demanded that legislation be passed to allow the incorporation of credit unions within the province. Such a bill was drafted and under an order of the Governor-in-Council of May 23rd, 1936, the New Brunswick Credit Union Societies Act was brought into force on June 1, 1936. For the most part the Act was based on that in existence in Nova Scotia.

In analysing the Credit Union Societies Act of New Brunswick, there are two or three sections that are of special interest.

Under Section 5, which is concerned with the objects and purposes for which a credit union may be incorporated, sub-section "d" states that a credit union may be incorporated "to buy for re-sale to members, such articles (and those only) as are necessary for the support of life or for the carrying on of their industry." In effect, then, this provision allows the credit union to enter into the field of consumers' co-operative business. Such a provision, if implemented to any extent, could become very dangerous to the stability of the credit union. One would not strongly object to a practice which allowed the credit union, on behalf of its interested members and by deduction from their individual savings accounts, to buy producers' goods or necessities of life in large quantities, or as one unit, in order to effect a saving to those members. However, if we analyse the

provision of sub-sections "d", Section 5, we find that it allows for something quite different. The phrase "to buy for re-sale to members" allows the credit union, in the first place, to purchase goods with the general funds of all members, whether they are interested in purchasing such goods or not. The money need not come specifically from the capital supplied by members intending to purchase goods, in the form of a deduction from their savings accounts. In the second place, such a provision allows the credit union to set up stock-in-trade to be resold to members as their needs for goods arise. In this way, one of the primary purposes of the credit union is defeated -- the pooling of the resources of those members who are not in present need of them for the purpose of loaning these amounts those members who are in need of funds. Obviously, money cannot be loaned if it is in a non-liquid state in the form of consumers' goods. Again, poor management may lead to the acquisition of goods which, due to unforeseen circumstances, may not be readily bought by members. An element of risk is involved in the purchasing of consumers' goods in large quantities for re-sale to a public whose demand is unstable and ever-changing, and this risk has no place in the activities of a credit union whose main purpose is to supply credit. It is difficult enough to secure the services of an inexperienced layman who is capable of prudently conducting the affairs of a credit union. But it is folly to expect him, in addition, to foresee the demand of credit union members for consumers' products and, in general, to conduct and efficiently manage the affairs of a retail store.

It might be argued, however, that the credit union is

restricted in its co-operative buying and selling activities by the fact that it may only sell "such articles (and those only) as are necessary for the support of life or for carrying on their industry." But what articles does this statement include and exclude? Undoubtedly, the articles necessary for the support of life within the meaning of the Act are those which allow us to maintain or improve our present "standard of living". But this again is a vague phrase. Should a credit union be allowed to stock farm implements, seed, fertilizer, groceries, refrigerators, and automobiles? Where should the line be drawn? In the last analysis, we must admit that the necessities of life and those things necessary for the member to carry on his industry must be restricted to include only those articles for which there is a sufficient demand to warrant purchase in the first instance. However, this is not a restriction in any sense of the word, because it leaves the decision entirely up to the purchasing agent as to what does or does not constitute a product in demand and as to how great is the extent of this demand.

The thesis that co-operative retailing of consumers' goods and the activities of a co-operative credit society should remain separate and distinct is supported by the principles and philosophy of co-operation itself. One principle of co-operation in any form is that of self-financing where possible for a definite purpose. Ideally, the purpose of financing a consumers' co-operative is to provide its members with consumers' goods. Ideally, the purpose of financing a credit union is to provide its members with a mode of saving and a source of credit. In both cases, the member finances the venture because he intends

to partake of the services that such an organization should provide. In both cases the actual services should be financed by the consumers of those services. In the case of a consumer co-operative, this is true. However, in the case if the member's invested capital of a credit union is diverted from the original and primary purpose, and used for co-operative buying, then, the services of the credit union are not necessarily being financed by the consumer of those services alone.

One of the basic principles of consumers' co-operatives, in fact, one of the famous Rochdale principles referred to in Chapter 1, is that all transactions should be on a cash basis. On the other hand, the business of the credit union is to extend credit. When these two organizations are merged, however, there might be a tendency for the financial success of the consumers' co-operative to be dependent on the credit union. In other words, at a time when the co-operative branch has a large stock on hand, and when many of its members lack sufficient purchasing power to procure these goods, then there might be a tendency for the organization to extend credit to the consumer in order to reduce the stock of goods and thus keep the co-operative branch from failing. In effect, then, the consumers' co-operative branch of the credit union would be selling goods on credit by a mere book-keeping entry, transferring the funds from the credit union branch to the consumers' co-operative branch of the same organization.

Again may it be pointed out that the capital of a consumers' co-operative is in the form of non-liquid assets, while the capital of a credit union should be for the larger part in the form of readily liquid assets. For one type of a co-operative enterprise to

carry on the functions of the other type is to weaken the effectiveness of the former.

Before leaving this discussion, it might be pointed out that, although the writer strongly objects to a linking of these two types of co-operation into one organization, there is no objection to a credit union, under certain circumstances, financially assisting another separate and distinct co-operative society having membership in the credit union. ¹⁾ There are times when such assistance is financially sound as a means of investing surplus assets. There may be instances where the memberships in either organization is composed of the same individuals. There is no objection to this, providing each operates as a separate and distinct unit and not as a single unit under one policy.

On further analysis, the writer is perturbed by Section 10 of the Act under discussion, which reads as follows:"

"Upon the Board approving of an application for membership, or an application for the withdrawal from membership, the secretary shall make due entry of such decision in the membership and share book. Upon a member withdrawing, he shall be paid for his share or shares such price as the Board may decide is a fair value for the same, and any certificate or certificates of shares that have been issued to such a member shall be returned to the credit union and marked cancelled. Payment need not be made until the expiration of ninety days after notice of withdrawal has been given."

1) We might here refer to the Credit Union Societies Act of Nova Scotia, Section 12, which allows a credit union "to make loans to a co-operative society or other organization having membership in the credit union."

In a voluntary organization such as a credit union, there is only one fair value that should be paid for shares that are redeemed by the credit union at the request of the member and that is the par value. Those who join such an organization do so with the object of accumulating capital by small payments and at the same time for the purpose of being able to rely on the credit union for funds in case of emergency. They have no intention of entering a risk-taking enterprise for the purpose of earning large dividends on their invested capital. Indeed, the income of the average member does not allow for such risks. There should be no doubt as to the redeemable value of the members shares. Such a provision in the legislation concerning a system that should be based on mutual confidence can hardly be said to call forth that confidence. It is held, therefore, that this portion of the above section of the Act should be amended to read as follows: "Upon a member withdrawing, he shall be paid for his share or shares the par value of the same." Such an amendment would add to the clarity of the member's position, would tend to give added confidence to the prospective member, and would thus tend to swell the ranks of credit union membership in the province of New Brunswick.

Section 18 of the Act suffers from the same difficulty pointed out in the previous chapter in discussing Section 34 of the Nova Scotia Credit Union Societies Act concerning borrowing powers.

In concluding this analysis of the Credit Union Societies Act of New Brunswick, it might be said that the material therein would seem to indicate that the framers of the Act were a little uncertain of the value and future of credit unions in that province. Indeed, a large proportion of the contents of the Act (approximately one-

quarter) is concerned with the penalties against and the dissolution of credit unions (namely sections 19, 21, 22, 23, 23 and 27). In comparison with the province of Quebec, dissolution in New Brunswick is a far more simplified process. Further, the assets of the society, including the reserve funds, may be divided ratably among the members on liquidation. Taken as a whole, then, there is apparently lacking within the Act that aim toward stability that is present in the legislation in Quebec. Further, although the conditions in New Brunswick are similar to those in Nova Scotia, there seems to be lacking that firm foundation for credit union development that is present in the latter province.

Let us look at the growth of the co-operative credit movement in New Brunswick, since the inception of the first credit union in September 1936. The first credit union in New Brunswick was organized in September 1936. Table 3 illustrates the growth of the movement since 1937. However, a more detailed study of credit union experience in 1944 would better indicate the present position of credit unions in the province.

Four credit unions were incorporated during the fiscal year ending September 30th, 1944, three of which served rural communities, the other being an employees' industrial credit union. Of the one hundred and fifty societies incorporated since 1936, three of these have surrendered their charters, five are at present inactive, and four failed to make a report to the Registrar before the required date, leaving one hundred and thirty-eight credit unions to be included in this survey. Of this number only fifty-two provided deposits in the amount of \$59,994.69. The average share capital per member was \$58.00, while the average total holdings per member

amounted to \$60.00. Total loans handled during the year amounted to \$1,265,986.05, a monthly average of \$105,500.00. The loans outstanding at the end of the year accounted for 57% of the assets. During the year 12,207 loans were granted, the average loan being \$103.00 and the average time seven months. Loans recorded during the period 1937-1944 totalled \$4,482,131.20. The total loans written off amounted to \$37.30 or approximately 1/53 of 1% of the yearly turnover. Loans written off to date total \$1,065.30 or 1/42 of 1% of the loans over the entire period of operation.

The total reserves on September 30th, made up of the guarantee fund, special reserve fund, education fund, and undivided earnings, amounted to \$50,562.56. The education fund amounted to \$3,878.75, \$2,496.11 of which was placed in this fund during the fiscal year 1944. The amount carried forward from the preceding year was \$2,922.12. These figures would indicate that only \$1,539.48 was spent on education during the year. As the Registrar of Credit Unions points out, "there is a tendency for many credit unions to let their education funds accumulate despite the regulation which states that 'all moneys set aside for the education fund shall be expended within three years from the date they are set aside.' Dividends payable of \$22,850.00 and total distributable surplus of \$36,271.66 as indicated in the balance sheet makes the amount expended for education look insignificant, and accentuates on the part of many boards of directors, indifference to educational requirements."

2) The material that follows is the most recent information available and is taken from the 1944 report of S.W. Keohan, Registrar of Credit Unions, New Brunswick Department of Agriculture.

Of the 138 credit unions covered in this survey, 110 were able to pay dividends and of the 52 credit unions that accepted deposits, 29 of these paid interest on these deposits.

The following table indicates the rate of dividend on shares and the rate of interest on deposits paid during the fiscal year 1944:

| Number of Credit Unions | Share Dividend Paid % | Number of Credit Unions | Deposit Interest Paid % |
|-------------------------------|--------------------------------|-------------------------------|----------------------------------|
| 1 | 5 | 3 | 3 |
| 2 | 4 | 6 | 2 |
| 1 | 3½ | 16 | 1½ |
| 36 | 3 | 3 | 1 |
| 11 | 2½ | 1 | 1 |
| 42 | 2 | <u>29</u> | |
| 2 | 1½ | | |
| 10 | 1½ | | |
| 5 | 1 | | |
| <u>110</u> | | | |
| Average Rate 2½% | | Average Rate 1½% | |

The rate of interest charged by credit unions to their members may be seen from the following table:

| Number of Credit Unions | Rate of Interest on Loans to Members |
|----------------------------|--|
| 100 | 1% per month on unpaid balance (legal maximum) |
| 1 | 5/6 of 1% per month on unpaid bal. |
| 1 | 4/3 of 1% " " " " " |
| 1 | 2/3 of 1% " " " " " |
| 7 | 1/2 of 1% " " " " " |
| 5 | 7% per annum |
| 3 | 8% " " |
| 2 | 9% " " |
| 16 | 1% to 1/2 of 1% per month on unpaid balance as loans increased in size. 3) |
| <u>Total 138</u> | |

3) Many consider it contrary to good credit union practice to vary the rate of interest charged with the size of the loan.

CONSOLIDATED BALANCE SHEET OF 138 CREDIT UNIONS IN NEW BRUNSWICK 1944

| <u>ASSETS</u> | | <u>LIABILITIES</u> | |
|----------------------|----------------|----------------------|----------------|
| Loans Outstanding | \$ 912,684.56 | Shares | \$1,596,679.76 |
| Investments | 365,102.48 | Deposits | 59,994.69 |
| Furniture & Fixtures | 8,531.16 | Guarantee Fund | 33,920.84 |
| Real Estate | 3,901.74 | Education Fund | 3,878.75 |
| Cash | 252,514.47 | Special Reserve | 1,929.42 |
| Other Assets | 1,527.40 | Undivided Earnings | 10,833.35 |
| | | Dividends Payable | 22,850.00 |
| | | Rebate to Borrowers | 658.69 |
| | | Interest on Deposits | 855.87 |
| | | Other Liabilities | 12,660.24 |
| | <hr/> | | <hr/> |
| | \$1,744,261.81 | | \$1,744,261.81 |
| | <hr/> | | <hr/> |

The value of the above consolidated balance sheet in appraising the credit union movement in New Brunswick is very limited. The figures contained therein cannot be related to one another, since the nature of the assets and liabilities of the various individual credit unions do not necessarily correspond.

In concluding this survey of the position of credit unionism in 1944, and the treatment of the province of New Brunswick as a whole, we might note that of the 147 incorporated credit unions 110 of these serve community groups, 98 of which are in rural areas and 12 are in towns, villages, or suburban areas. Of the remaining credit unions still holding charters, 36 of these serve occupational groups and one serves a parish or associational group.

PRINCE EDWARD ISLAND

A lengthy discussion of credit unions in Prince Edward Island is unnecessary. We might only mention that they are essentially rural in nature. The ratio of credit-unions to population is very

high. However, during the war, expansion has been slowed by population exodus to the armed services and to industrial areas. As a matter of interest, we note that Prince Edward Island is the only province in which the activities of a credit union are unlimited geographically.

Statistics relating to the growth of credit-unions in the province are found in Table 4.

Table 3--PROGRESS OF CREDIT UNIONS IN NEW BRUNSWICK (1937-1944)

| YEAR | NUMBER OF CREDIT UNIONS | NUMBERS OF MEMBERS | TOTAL ASSETS | SHARES | DEPOSITS | LOANS IN PAST YEAR | LOANS SINCE INCEPTION |
|---------|----------------------------|-----------------------|--------------|-----------|----------|-----------------------|--------------------------|
| | | | \$ | \$ | \$ | \$ | \$ |
| 1937(a) | 24 | 1,600 | 20,000 | | | 25,000 | |
| 1938(a) | 67 | 6,203 | 91,060 | | | 144,630 | |
| 1939(a) | 116 | 11,533 | 195,132 | | | 251,950 | |
| (b) | 119 | 13,137 | 238,000 | 214,000 | 7,885 | 375,000 | |
| 1940(c) | 132 | 16,509 | 377,380 | | | | |
| 1941(c) | 133 | 18,765 | 487,533 | 445,029 | 11,776 | 472,232 | 1,629,856 |
| 1942(c) | 140 | 20,648 | 709,783 | 640,371 | 22,322 | 697,695 | 2,322,000 |
| 1943(c) | 145 | 23,446 | 1,142,115 | 1,031,240 | 46,866 | 872,321 | 3,194,456 |
| 1944 | 136 | 27,558 | 1,744,262 | 1,596,680 | 59,995 | 1,265,986 | 4,482,131 |

Source - Canada Year Books & other government publications

- (a) Fiscal year ending October 31st.
- (b) Fiscal year ending December 31, 1939.
- (c) Fiscal year ending September 30th.

Table 4 - PROGRESS OF CREDIT UNIONS IN PRINCE EDWARD ISLAND (1937-1944)

| <u>Year</u> | <u>Credit Unions</u> | <u>Members</u> | <u>Assets</u> | <u>Shares</u> | <u>Deposits</u> | <u>Loans Last Year</u> | <u>Loans Since Inception</u> |
|-------------|----------------------|----------------|---------------|---------------|-----------------|------------------------|------------------------------|
| 1937 | 25 | 240 | 15,341 | ..... | ..... | ..... | ..... |
| 1938 | 38 | 3,577 | 37,392 | ..... | ..... | ..... | ..... |
| 1939 | 44 | 4,731 | 71,135 | 59,848 | 5,073 | 124,656 | ..... |
| 1940 | 46 | 5,313 | 87,497 | ..... | ..... | ..... | ..... |
| 1941 | 45 | 5,539 | 99,647 | 82,171 | 6,241 | 99,742 | 369,087 |
| 1942 | 45 | 5,580 | 126,665 | 100,732 | 13,194 | 95,067 | 518,067 |
| 1943 | 47 | 6,116 | 207,082 | 152,536 | 41,399 | 115,773 | 633,840 |
| 1944 | 50 | 6,880 | 334,757 | 234,207 | 84,317 | 197,657 | 831,497 |

Source:--Canada Year Book & other government publications

CHAPTER VI

Ontario

Ontario was the first English-speaking province to enact credit union legislation. This was embodied in the Co-operative Credit Societies Act, 1922, proclaimed and coming into force in 1928, under which 26 credit unions received their charters. The Act made no provision for supervision and control of the credit societies by the administering department of government, and, moreover, it provided no penalties for offenses against the Act. The result was that a number of credit unions, credit societies, and various modifications of each came into existence. Of these, some operated with charters, while others had no legal status. Unfortunately, the absence of uniformity and adequate supervision allowed abuses to creep into the movement and therefore, in 1935 the Province ceased granting charters. Of the credit unions incorporated prior to this date, 11 have ceased operations. Of the remaining fifteen, supported by 8,809 members, eleven were of the associational type, and four were of the occupational type.¹⁾ They had assets amounting to \$1,657,909.13 over a million dollars of which were in the form of deposits and they had loaned nearly a million dollars to 4309 borrowing members.

No credit unions were incorporated after 1935 until the passing of the Credit Unions Act, 1940, which rescinded all preceding legislation. Although charters had not been available during the period 1936-1940 this did not prevent the formation of unincorporated organizations which called themselves "credit unions". Prior to 1940, there were 45 of these organizations, with a membership of 4,462 and assets of \$154,212. They may be classified under the

1) Two of the latter type, serving the Twine Division and Works Division respectively of the International Harvester Company

following types: 15, industrial; 23, associational; 2, professional; and 5, governmental. When charters became available, it became necessary for these 45 societies to be incorporated. It is of interest to note that the leadership in the credit union movement in Ontario, and the pressure for organization of a centralized federation of credit unions has arisen from this group. Credit union Chapters, or local federations, were established in the cities of Hamilton, Toronto, and Windsor. From these, in 1941, came the Ontario Credit Union League composed of all chapter organizations and the individual credit unions operating in areas where chapter affiliation was not feasible. Today in addition to the above, there are chapter organizations in Barrie, London, Midland, Niagara District, Ottawa, Port Arthur, and Fort William, and in the Simcoe and Muskoka District.

The Ontario Credit Union League was formed by accredited delegates and members of 41 credit unions, on May 24, 1941 in the City of Hamilton, and on June 27, 1942 came into legal existence. On January 30, 1946 the League consisted of 178 member credit unions. Since the purposes and functions of the Ontario Credit Union League, (which is affiliated with CUNA,) are similar to those of the league in Nova Scotia, they need not be discussed.

Table 3 indicates the growth of credit unions in Ontario since 1939.²⁾ The large growth in 1940 is primarily due to the incorporation of credit unions in existence prior to that year. It might be pointed out that until the end of 1943, the large increases in membership gradually reduced the average savings per member that amalgamated in 1944.

2) The latest statistics show that as of January 31, 1946, there were 277 credit unions in Ontario.

were attained by the well-established group operating in 1939. By 1944, the newer credit unions were in a stronger financial position. This may be attributed to the increased income of members due to the prosperity occasioned by war conditions. If such is the case, one might expect a decline in the average savings per member after 1946. We might also note that the amount invested in Victory Bonds during the war years is an indication of the fact that credit unions, in many cases, could not find an outlet in the form of loans to members for their liquid assets and were forced to make investments at very low rates of interest.

In comparing the credit unions in Ontario with those of Quebec and the Maritimes, one will notice one marked difference between them. While development in the latter case was essentially rural in nature, in Ontario, credit unions sprang up and thrived in the urban areas. In fact, it was not until 1940 that they began to serve rural districts. Although many rural credit societies have been formed since this time, the trend is still toward urban development. Without denying the merits of credit unions, it must be admitted that their practicability in industrial areas is to be questioned. It appears that a distinction must be drawn between rural and urban credit unions.

The largest "common bond" groups of credit unions in Ontario are the industrial and religious types. Although not so numerically important, the government employee, or public service group is also worthy of note. As in the industrial credit union, its members are bound together by a common occupation. However, they have a stability of employment that cannot be assured the

3)

members of an industrial credit union.

An example of an industrial credit union is the Steelco Employees' Credit Union Limited (Hamilton Works) which serves employees of the Steel Company of Canada, Limited in Hamilton. It was organized in May, 1939 and as of December 31, 1945 it was supported by 910 members with total assets of \$122,236.50. (See table 6). Until that time no loan had been written off as a loss. 4) It is commendable to note that in this society a practice has been set up whereby a patronage dividend in the form of a rebate of interest to borrowers is paid, theoretically at least, before a share dividend is proclaimed. Before this was introduced in 1943, it was customary to pay a 3½% dividend on shares. With the payment

3) In view of the fact that it has been held by the courts that an assignment of unearned salary of a public officer is void, there arises difficulty for public service employees in obtaining credit. This applies only to civil servants of the Dominion or provinces. For these groups, then, a credit union, can be of great value.

4) It should be noted that uncollectible loans are not to be considered as "losses" until they are actually written off on the records of the credit union. Loans are written off, at the discretion of the management, only when it is believed that there is no further possibility of collecting them.

There is disagreement as to just what does constitute a "loss". Appearing before the Standing Committee on Banking and Commerce in 1938, Professor A. B. MacDonald stated that bad loans charged against the Guarantee Fund would not be considered as "losses". (Minutes of Proceedings and Evidence Respecting Small Loan Companies, No. 8, Page 234) Questioned on this statement by the writer Mr. MacDonald writes, "Losses reported by individual credit unions in Canada or figures compiled by Government officials or provincial credit union organizations usually list losses as charges against the Guarantee Fund. I know of no case where the Guarantee Fund has been exhausted and hence we may say that there is actually no loss in credit unions. You will find no actual loss recorded in credit union statistics."

of an average patronage rebate of 10%, the share dividend was decreased to approximately 2½%. An additional cause for the decreased dividend may arise from the difficulty of the credit union in employing its liquid assets in the form of loans. It might also be noted here that loan protection insurance, to which this and many other organizations subscribe, is in effect a patronage rebate since it applies to all loans, without additional cost to the borrower, and is included in the general operating expenses of the credit union.

An example of a credit union carried on by members of a religious group is the St. Ann's Parish Credit Union of Hamilton. This organization grew out of a religious study club. In April, 1940, after seven months of study of religious and economic subjects, the credit union was formed. The organization was carried on entirely apart from, yet with the approval of the parish church. It might be noted that the parish is so situated that it is supported by persons of widely varying incomes and racial descent. The credit union, however, with the exception of its officers, is most actively supported by those of the lower income group. With this in mind, Table 7, which is concerned with the development of the society, illustrates how it is possible by the co-operative method of pooling savings to do good work within a small urban area.

Finally, we might take as an example of a credit society serving a public service group, the Hamilton Municipal Employees' Credit Union Limited. Organized in 1936 by a group of eight employees, it now has 1,545 members holding assets of nearly \$290,000.00. (See Table 8) The volume of business has warranted the maintenance of a full-time office staff. The feature of the

society is its extremely active membership, and many schemes have been introduced to provide a maximum service to its members. During the years of war it has been faced with a problem common to other such organisations--that of employing its surplus liquid assets, and caused mainly by the decreased need for loans and the restrictions placed on loaning policy by the Wartime Prices and Trades Board. This, along with its war-time policy of paying dividends at a rate not exceeding that on Victory Bonds, has decreased the rate of dividends on shares. Two methods have been used by the municipal credit union to overcome this difficulty. In the first place, it has entered the field of mortgage loans, interest being charged at a rate of four or six per cent per annum, dependent on whether the member or the credit union pays the insurance premium to secure the risk of the loan. Secondly, the credit union has encouraged the purchase of Victory Bonds by making loans available to members in low-income groups to finance the purchase of these on an instalment basis. The rate on loans for this purpose now stands at one-third of 1% per month. This business has been so large that the credit union, taking advantage of a low interest rate, has made a bank loan, now standing at \$88,900.00, to finance this service. The bonds thus financed are held as security until the loan is repaid.

TABLE 5**Progress of Credit Unions in Ontario (1939 - 1944)**

| ITEM | 1939 | 1940 | 1941 | 1942 | 1943 | 1944 |
|---------------------------------|-------------|-----------|-----------|-----------|-----------|-----------|
| No. Incorporated (accumulative) | 25 | 57 | 83 | 120 | 162 | 219 |
| Charters Dissolved | | 9 | | | 1 | 1 |
| Total Membership | 8,809 | 14,461 | 18,670 | 23,699 | 32,290 | 44,840 |
| Number of Borrowers | 4,309 | 6,296 | 7,994 | 9,046 | 12,266 | 16,495 |
| Total Assets | \$1,657,909 | 1,936,932 | 2,193,355 | 2,645,460 | 3,483,789 | 4,998,582 |
| Total Guarantee Fund | \$ 159,228 | 178,346 | 197,832 | 212,163 | 216,760 | 240,580 |
| Victory Bonds Purchased | \$ | | 23,313 | 240,000 | 248,000 | 352,380 |
| Victory Bonds on Hand | \$ | | 39,650 | 280,050 | 528,050 | 880,430 |
| SAVINGS OF MEMBERS | | | | | | |
| Share Savings | \$ 390,838 | 600,746 | 901,943 | 987,343 | 1,354,713 | 2,042,471 |
| Deposit Savings | \$1,041,371 | 1,057,695 | 1,130,373 | 1,315,514 | 1,722,510 | 2,445,574 |
| Total Savings | \$1,432,209 | 1,658,441 | 1,932,317 | 2,302,858 | 3,077,224 | 4,488,046 |
| Savings per Member | \$ 162 | 114 | 103 | 97 | 95 | 100 |
| LOANS | | | | | | |
| Amount Loaned | \$ 995,726 | 1,424,603 | 1,710,696 | 1,869,602 | 2,398,674 | 3,466,480 |
| No. of Loans | | | | | 23,079 | 29,336 |
| Average Loan | \$ | | | | 103 | 118 |
| Average Loan per Borrower | \$ 231 | 226 | 214 | 206 | 195 | 210 |
| Bad Loans Written Off | | 355 | 770 | 92 | 92 | 708 |
| Losses | \$ | .025 | .045 | .005 | .0039 | .0204 |

Source: Ontario Department of Agriculture.

TABLE 6

**Progress of Steele Employees' Credit Union, Ltd.,
(1939-1945)**

| <u>Year</u> | <u>Number of Members</u> | <u>Total Assets</u> |
|-------------|------------------------------|-------------------------|
| 1939 | 380 | \$ 4,688.30 |
| 1940 | 503 | 15,772.50 |
| 1941 | 572 | 28,118.53 |
| 1942 | 635 | 43,652.82 |
| 1943 | 764 | 75,353.81 |
| 1944 | 859 | 98,189.83 |
| 1945 | 910 | 122,236.50 |

TABLE 7

**Progress of St. Anne's Parish Credit Unions, Ltd.,
(1940-1944)**

| <u>Year</u> | <u>Number of Members</u> | <u>Total Share Savings</u> | <u>Number of Loans</u> | <u>Amount Loaned During Year</u> |
|-------------|------------------------------|--------------------------------|----------------------------|--------------------------------------|
| 1940 | 75 | \$ 1,103.15 | 20 | \$ 1,044.00 |
| 1941 | 98 | 2,514.27 | 37 | 3,374.00 |
| 1942 | 116 | 4,579.69 | 44 | 3,939.00 |
| 1943 | 128 | 6,031.03 | 52 | 5,063.00 |
| 1944 | 144 | 7,315.18 | 52 | 5,274.00 |

TABLE 8

**Progress of Hamilton Municipal Employees' Credit Union, Ltd.,
(1936-1945)**

| <u>Year</u> | <u>Membership</u> | <u>Share Savings of Members</u> | <u>Loaned to Members During Year</u> |
|-------------|-------------------|-------------------------------------|--|
| 1936 | 73 | 1,266.50 | 1,600.00 |
| 1937 | 118 | 7,354.97 | 12,000.00 |
| 1938 | 291 | 18,512.45 | 32,000.00 |
| 1939 | 461 | 40,934.04 | 66,793.00 |
| 1940 | 532 | 55,221.25 | 75,412.62 |
| 1941 | 684 | 74,265.04 | 93,101.59 |
| 1942 | 1,181 | 97,463.97 | 167,584.20 |
| 1943 | 1,310 | 122,847.67 | 209,352.57 |
| 1944 | 1,342 | 147,742.29 | 244,461.20 |
| 1945 | 1,545 | 186,381.94 | 336,377.92 |

P A R T III

WESTERN CANADA

CHAPTER VII

WESTERN CANADA

The most recent development of credit unions in Canada has taken place in the provinces west of the Great Lakes. With the exception of Saskatchewan, these provinces will be dealt with very briefly. The rapid expansion of the movement in Saskatchewan, the most co-operatively organized province in the Dominion, requires a more detailed analysis. The Western credit union movement east of the Rocky Mountains is predominantly rural in nature and is closely linked with the whole co-operative movement.

MANITOBA

In studying the credit union movement in Manitoba, one is reminded of its growth in Nova Scotia. The conditions under which it arose and flourished are quite different, partly because we are dealing with an inland province. The similarity lies in the close integration of credit unions and other forms of producer and consumer co-operation. However, in contrast to Eastern Canada, those in the West, generally speaking, were preceded by and to an extent grew out of producers' and consumers' co-operatives.¹⁾ In Manitoba, indeed in all the Western provinces, the co-operative movement is more political in nature than in the East. One of the primary purposes of co-operatives and co-operative federations in the West is to guard the interests of their agrarian members by acting as lobbyists, and by outright

1) The first co-operative legislation in Canada was passed by the provincial legislature of Manitoba in June, 1887. Co-operation in Canada 1941 - J. E. O'Meara and L. M. Lalonde, Economics Division, Dominion of Canada Department of Agriculture. publication 740, circular 173, page 4

2)
political action.

Legislation with respect to credit unions was first passed in March, 1937, and came into effect in the following September. Credit Unions were then allowed to incorporate under "part VIII of the Companies Act, Respecting Credit Union Societies". During this month, La Caisse Populaire de Saint Malo received the first charter of incorporation. Prior to 1940 expansion of the movement was slow and suffered from inadequate supervision. Promotional efforts were made on the part of the Manitoba Federation of Agriculture but these were not very successful because inadequate appropriation had been made for this work. Since 1940, progress has been more rapid and this is largely due to the activities of the Department of Agriculture, and the stress that has been laid on adult education by the Manitoba Federation of Agriculture. The Federation operates an organized system of study groups and leadership schools under the direction of a full-time staff. Promotional work is also carried on by the Manitoba Credit Union League which was organized in 1943 for purposes similar to the leagues in other provinces.

The majority of the credit unions in Manitoba are of the

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- 2) Political action was particularly noticeable and effective in the period after World War I when the Manitoba Grain Growers' Association, which after 1920 became known as the United Farmers of Manitoba, secured from the provincial government such measures as Women Suffrage, the Manitoba Temperance Act, the Farm Loans Act and the Rural Credit Act. More recently this organization was instrumental in the passing of the Debt Adjustment Act. In June, 1939, it amalgamated with the Manitoba Co-operative Conference to form the Manitoba Federation of Agriculture, an organization which represents the interests of farmers. This was expanded into the Manitoba Federation of Agriculture and Co-operation on June 29, 1945, an organization which was intended to unify the co-operative movement in the province and thus bring together urban and rural, consumer and producer co-operatives.

rural type and this trend will likely continue. In 1942, of the 76 societies in operation, 19 of these were of the urban type controlling 38% of the total assets of all credit unions, and 57% were of the rural type controlling 62% of the total assets. In 1943, of the 80 credit unions in operation, 20 were of the former type controlling 28% of the total assets and 60 of the latter type controlling 72% of the assets.

Of the urban credit unions now in operation, 18 of these are located in Greater Winnipeg. The youngest is the Co-operative Wholesale Employees' Credit Union with 37 members. The largest in point of membership is the Cross Town Credit Union with 600 members and total assets of \$22,000. The strongest in point of assets is the Carpathia Credit Union with 379 members and nearly \$30,000.00 in assets. The 18 credit unions had a combined membership of 4,640 with total assets of \$200,633 at the period ending July 30, 1943.

Many of the credit unions in rural communities are among French-speaking persons. It is interesting to note the manner in which they fall back upon the fundamental principles and operational procedures of M. Desjardins that are practiced in Quebec. Since their membership is confined to closely knit groups, we find that many of these retain the principle that reserve funds must not revert to the members even upon liquidation but must be employed for the common good of the community. Again the fact that many rural credit unions charge an entrance fee of .10¢ per subscribed share is characteristic of the Desjardins system. La Caisse Populaire de St. Malo is a case in point. It was organized a short time before credit union legislation was

enacted, by a Catholic priest, Father Benoit, in the village of St. Malo about 40 miles southeast of Winnipeg. When the priest first arrived in the village, he found a community of one-crop farmers, a church, small and inadequately equipped, and a people desperately poor. He decided that since the community as a whole was poverty-stricken, the remedy must come from the people as a whole. The people must be put to work, mentally as well as physically. Under his direction, the inhabitants by their own labour built a church, not only cutting the timber and laying a foundation, but also erecting the completed structure and manufacturing its furnishings. Later, a parish house was built. To remedy the peoples' reliance upon one-crop farming, he interested them in dairying. At the same time, he organized study groups which met two nights each week. The average attendance was one hundred and thirty-five, coming from an area of twelve miles radius. A portion of each meeting was devoted to attempts to solve the social problems of the farmers, particularly financial ones. It was fourteen months after the study club plan had been inaugurated that the members decided to form a credit union. When funds were adequately built up, the credit union financed a cheese factory to handle the production of the now thriving dairy farming. Unemployment slowly decreased and the community began to get back on its feet. One person was reported to have lost his job because of the credit union--the relief officer. When the credit union began, there were some eighty persons on relief in the district. Within two years, there was only one case of a person on the dole and in this case the person being blind. Even the school children supported the credit union. After three years they had invested over a thousand dollars in the society, and their elders had invested an accumulative amount totalling

nearly \$12,000. After three years, the community not only boasted of a store, a lumber yard and a wood-working mill, each conducted on a co-operative basis, but it was also laying plans for the introduction of sheep-raising to the farmers economy, the product to be marketed through another co-operative to card wool and make blankets. After three years, the little village of St. Melo had undergone a complete transformation, based on community interests, co-operative principles and in the words of Father Benoit, "the willingness to set 'We' above the 'I'".

We have discussed a rural credit union among a closely knit group. In conclusion, let us now turn to one that does not offer this advantage, yet has attained a great deal of success under the Desjardins system. The rural district of Starbuck appears to be an unpromising locale for community co-operative endeavour of any description. It supports five churches and from eight to ten different races and nationalities and this tends to divide the district into several separate and distinct groups. The difficulty of securing the support of these groups was increased by their knowledge of the fact that previous co-operative endeavours had failed. In the winter of 1938-39, a religious, Reverend Brunet, began the organization of study groups. At no time was the project a complete failure. A faithful few maintained their support from the beginning. It was only after a year of effort that twelve groups were active with a membership of approximately one hundred and twenty-five persons. Gradually, the individualism and group consciousness was broken down and a unified co-operative community began to emerge. This alone was worthy of the effort. With the ground work of twenty-two lessons based on credit unions, the members banded together to form the Starbuck

Credit Union Society in the spring of 1940. Fifty-four members subscribed for a total of one hundred shares at a par value of five dollars, and the credit union was launched with slightly more than two hundred dollars in capital. Progress at first was very slow. At the end of three months of operation, only one member had been added, the share capital had increased by less than sixty dollars, the deposits totalled thirty-five dollars and eight loans had been granted which totalled \$225.00. In October, 1940, a winter educational program was inaugurated with weekly study group activities and a general meeting of all groups once a month. The net result was increased credit union membership. At the end of the calendar year, and after six months of operations, the credit union was supported by 101 members with nearly \$1000.00 in paid up capital and deposits exceeding \$300.00 and twenty-five loans had been granted for more than \$1200.00. The initial difficulties overcome, the credit union of Starbuck waxed and grew strong.

TABLE 9

Progress of Credit Unions In Manitoba (1937-1944)

| Year | Credit Unions | Members | Total Assets | Shares | Deposits | Loans Granted in Last Finan- cial Year. | Loans Granted Since Inception |
|------|------------------|---------|-----------------|---------|----------|---|--|
| 1937 | 1 | 480 | | | | | |
| 1938 | 10 | 1,300 | 22,885 | | | | |
| 1939 | 19 | 2,406 | 49,991 | 31,219 | 16,352 | | |
| 1940 | 31 | 3,630 | 90,535 | | | | |
| 1941 | 44 | 5,112 | 142,882 | 83,638 | 51,388 | 186,305 | 424,181 |
| 1942 | 60 | 6,448 | 238,265 | 122,345 | 103,040 | 262,686 | 678,520 |
| 1943 | 80 | 8,625 | 488,288 | 200,035 | 266,977 | 395,092 | 1,076,679 |
| 1944 | 94 | 14,401 | 897,517 | 350,802 | 497,593 | 700,000 | 2,145,591 |

Sources: Canada Year Books and Other Government Publications.

CHAPTER VIII

Saskatchewan

The first credit union in Saskatchewan was organized in August, 1937, under the Credit Union Act, of the same year. At the end of that year there were five credit unions supported by two hundred and sixty-eight members holding assets of \$2236. In 1940 the legislation of 1937 was replaced by a new Credit Union Act. It is worthy of note that since the first society was incorporated, there have been no loans written off in the province although it is expected that a number of small loans totalling less than \$300.00 will have to be written off in the near future. The progress of credit unions is illustrated in Table 10.

Until 1944, the general development and supervision of the movement has been under the direction of the Co-operation and Markets Branch of the provincial government. In that year, by Act of Legislature, the Department of Co-operation and Co-operative Development was created to take up the duties of encouraging and assisting in the organization of co-operative enterprise. In order to carry out this function, the Department provides for careful administration of co-operative legislation; for the consideration of the desire for organization in order to determine whether or not it is in response to a genuine demand for co-operative effort based on a definite need for service; assistance to interested groups once organization has been decided upon; such supervision and inspection of co-operatives and credit unions as may be agreed upon with co-operative leaders and mainly to assist the co-operatives in complying with the provisions of the legislation under which the incorporation has taken place; the provision of technically trained extension workers in community

service fields and in new fields of development where the need for such service is apparent; the provision of a research service to analyse present problems and to suggest future policy for the betterment of the whole movement; the provision of statistical and general information; and finally, the co-ordination through governmental and other channels of the work of co-operatives and credit unions throughout Canada and on an international basis. The Department has been divided into three services, namely, Administration, Organisation and Supervision, and Research Services, in order to fulfil to the greatest extent possible the functions outlined. The work of this department is to be highly commended, and offers a good example to the other provinces.

Forms of centralization are three in number, namely, the Credit Union Federation of Saskatchewan, the Saskatchewan Co-operative Credit Society Limited, and a number of city credit union leagues. The federation, instituted in 1939, carries on similar work to that of other provincial leagues and at the end of 1944 had a membership of 157 credit unions. It is worthy of note that the Federation was awarded the CUNA Plaque for 1944. Each year the Credit Union National Association awards a plaque to the provincial or state league or federation which organizes the most credit unions per thousand of population and which has the least percentage of liquidations in relation to the number of existing credit unions. Since scoring rules are based on growth, coupled with stability of organization, the award speaks highly for the credit union movement in Saskatchewan.

The Co-operative Credit Society, incorporated in April 1941,

carries on the work of a central credit union for both member-credit unions and other co-operative associations. In order to commence operations it was necessary to secure capital stock subscriptions of at least \$15,000. with \$10,000 paid in cash. This requirement was met and on September 24, 1941 the society secured a license to do business. At the close of the first fiscal year the subscribed capital amounted to \$22,790. of which \$16,360 was paid up. In addition to capital stock, which is more or less permanent in nature, the society may accept deposits from its members. The experience with regard to deposits has been that such funds have been available only during the winter months, and therefore they had to be kept in a liquid state. During the first year of operations, there were sixteen applications for loans, twelve of which were granted. In addition, lines of credit were extended to two credit unions for limited amounts. This again necessitated funds being kept liquid to meet the potential demand on these lines of credit. At the close of the first fiscal year, membership numbered forty-nine, eighteen of which were credit unions. In addition, the society held eight applications on hand, five of which concerned credit unions.

City credit union leagues resemble the chapter organizations in Ontario. The first league was formed at Regina in 1942, followed by similar organizations at Prince Albert and Saskatoon in 1943. They are mainly concerned with the discussion and solution of a local nature. It might be pointed out that, of late, there has been some consideration given to the formation of rural leagues. It is realized that such a plan presents difficulties, but it is believed that it might be possible in areas where a number of credit

unions are located within reasonable travelling distance from each other.

Let us turn now to a statistical and explanatory analysis of the operations of credit unions in 1944. The growth of the movement showed a marked increase during the year. In comparison with the year 1943, there was an increase of 27% in the number of credit unions, a 44% increase in membership, a 207% increase in total assets, and a 99% increase in the amount of loans granted. During the year 35 credit unions were incorporated, three of which organized at a late date, had not commenced operations. The average membership of those in operation numbered 131, with the largest having a membership of 781 and the smallest having a membership of 30.

Cash assets amounted to \$854,942 or 37% of the combined total value of shares and deposits. While cash holdings usually decline in the spring and summer months,¹⁾ the demand for loans by members has not been keeping pace with the rapid growth of credit union resources. The percentage of idle cash in relation to total assets may be expected to increase at least until such time as the wartime restrictions on loans for consumer goods are removed and

1) Variations in cash holdings, rising in the winter and falling in spring and summer, are due to the fact that over 60% of the population is engaged in agriculture, a seasonal industry. This results in seasonal income and expenditure on the part of the farmer. Since most of the credit unions are of the rural type, this seasonal influence has a great effect on the combined cash holdings of the societies in Saskatchewan.

such goods are made available in quantity to fill the demand. How then have credit unions invested their funds? In addition to \$93,601.91 deposited for shares and \$226,890.00 in current deposits in the Saskatchewan Co-operative Credit Society, local credit unions had invested nearly \$731,300.00 in Government Bonds²⁾ and \$34,712.21 in other negotiable securities at December 31, 1944. Until the demand for loans to members increases in relation to assets, credit unions may be expected to increase these investments. As for loans to credit union members, we again see the effect of wartime restrictions and lack of consumers' goods, in the increase in the demand for, and the granting of intermediate and long-term loans.³⁾ A study of the breakdown of loans of all credit unions in

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- 2) It might be noted that individual credit unions still handle a large proportion of their investments, rather than place this task in the hands of the Saskatchewan Co-operative Credit Society, and much of this investment has been in Government Bonds. It is also significant that one explanation of the increase in investment in Government Bonds is the Amendment to the Credit Union Act in April 1, 1944. Among other things, it provided for the repealing of Section 18, Clause (c) which had allowed an investment of only 25% of the capital of a credit union in the stocks, bonds, and securities of the Government of Canada or Saskatchewan. The amending Act removed all limitations on this form of investment.
- 3) While there is no objection to the practice of credit unions extending their loan services in every way that appears sound and feasible, such extension must be made in the light of expected future economic conditions and the expected future demand for the short-term credit services for which a credit union is fundamentally founded. Intermediate and long term loans should not jeopardize the fulfilment of the demand for short-term credit which undoubtedly will arise in the near future. Therefore, under what conditions and the extent to which a credit union should make loans of this type is open to question. It is up to the individual credit unions to place their finances in a position to meet the new economic conditions which must inevitably follow in the resumption of "normal" ways of life in the post-war period at hand. There will be a large demand for short-term loans for the purchase of cars, radios, washing machines and other commodities not now available in large quantities. In addition there will be withdrawals of deposits for these same purposes. A strong indication of this trend is seen

1944 shows that 34.2% of these were granted to assist the financing of land payments, home improvements, buildings, and to discharge mortgages. The total of these loans amounted to \$558,399.38 and is equal to 22.8% of the total assets of credit unions. A further breakdown shows that loans of this type comprised 40.3% of the total amount loaned by 17 associational groups, 33.5% of the total amount loaned by 128 rural community groups and 17.3% of the total amount loaned by 18 occupational groups. Total loans in force at the end of the fiscal year amounted to \$718,981.29 or 29% of the total assets of the credit unions.

Let us turn our attention now to a study of dividends
4)
and interest.

from the fact that many people have already placed orders for these goods now in short supply and are only waiting delivery before approaching the credit union to make loans or withdraw deposits. If credit unions are not impressed with the fact that a "boom" in operations is awaiting them and if they do not prepare their finances for this boom, then much business will be lost to finance companies who are ready to loan money for these purposes and are constantly advertising the fact in our daily newspapers and over our radio networks.

4) The relative decrease in the demand for loans as compared with increased resources of credit unions is having the effect of lowering the rates of dividends paid on shares and interest paid on deposits.

DIVIDENDS ON SHARES

One hundred and one credit unions paid dividends on shares amounting to \$21,341.42.

| <u>Number of Credit Unions</u> | <u>Dividend Rate</u> |
|------------------------------------|--------------------------|
| 17 | 4% |
| 8 | 3½% |
| 1 | 3½% |
| 44 | 3% |
| 7 | 2½% |
| 17 | 2% |
| 6 | 1½% |
| 1 | 1% |
| Total 101 | Average 2.9% |

PATRONAGE DIVIDENDS ON LOANS

Thirty-nine credit unions (represented by 94% of the associational and occupational types, 21% of the rural community type,) paid patronage dividends amounting to \$2,075.75.

| <u>Number of Credit Unions</u> | <u>Dividend Rate</u> |
|------------------------------------|--------------------------|
| 1 | 33 1/3% |
| 1 | 30% |
| 4 | 25% |
| 6 | 20% |
| 1 | 18% |
| 4 | 15% |
| 1 | 12½% |
| 15 | 10% |
| 2 | 6% |
| 3 | 5% |
| 1 | 2% |
| Total 39 | Average 14.1 % |

INTEREST ON DEPOSITS

Seventy-four credit unions paid interest on deposits amounting to \$5,240.54.

| <u>Number of Credit Unions</u> | <u>Interest Rate</u> |
|------------------------------------|--------------------------|
| 3 | 3% |
| 3 | 3½% |
| 31 | 2% |
| 19 | 1½% |
| 12 | 1% |
| 2 | ¾ of 1% |
| 2 | ¾ of 1% |
| Total 74 | Average 1.7% |

INTEREST RATE ON LOANS

With few exceptions, the associational and occupational types of credit unions charge the maximum rate of interest (on small loans) permitted by law. In the case of larger loans, rates of interest paid by borrowers vary from ½ to ¾ of 1% per month, usually depending on the size of the loan, terms of repayment and the nature of the security held. In residential or rural community areas where loans are generally repayable in a lump sum, the majority of the credit unions charge a rate of 8% per annum, while a limited number charge graduated rates from 6 to 8% per annum decreasing with the size of the loan. There is a tendency, especially among rural credit unions to lower the rate of interest on loans.

In concluding our treatment of credit unions in Saskatchewan, we might discard our statistical analysis and turn our attention to two miscellaneous topics. The first concerns the bonding of credit union treasurers. It is noticeable in Saskatchewan that most credit unions carry only a one thousand dollar fidelity bond regardless of their total assets. It is felt that some graduated scale should be adopted so that bonding may be brought more in line with total assets of a credit union. As for the second topic, education, we find the same difficulty that is present in the credit union movement as a whole. There is a tendency among many credit unions to discontinue their educational endeavours after they become established. On the contrary, a continuous educational program should be maintained. A well-informed membership, which understands the purposes, aims and operations of a credit union, is one that is more willing to share in the responsibilities of management. It is the duty of credit union leaders within each credit union to see that every effort is made to ensure a membership that is well-informed.

Table 10 - PROGRESS OF CREDIT UNIONS IN SASKATCHEWAN, DECEMBER 31, 1938, TO DECEMBER 31, 1944.

| | <u>Dec. 31/38</u> | <u>Dec. 31/39</u> | <u>Dec. 31/40</u> | <u>Dec. 31/41</u> |
|---|-------------------|-------------------|-------------------|-------------------|
| 1. Number of Credit Unions----- | \$ 19 | \$ 32 | \$ 52 | \$ 72 |
| 2. Number of Members----- | 1,644 | 2,862 | 4,481 | 6,273 |
| 3. Total Assets----- | 20,882.44 | 67,705.23 | 130,316.53 | 139,286.58 |
| 4. Shares----- | 17,077.44 | 57,034.79 | 101,358.31 | 140,182.79 |
| 5. Deposits----- | 2,760.68 | 6,290.13 | 19,573.00 | 34,425.90 |
| 6. Cash----- | 3,774.12 | 14,633.59 | 34,226.91 | 44,757.85 |
| 7. Dominion of Canada Bonds----- | - | - | 1,791.75 | 2,661.75 |
| 8. Shares in S.C.C.S. and Other Investments----- | - | - | - | 5,211.40 |
| 9. Loans in Force----- | 16,854.29 | 52,305.05 | 92,976.87 | 133,212.36 |
| 10. Reserve for Bad Loans----- | 457.88 | 1,356.09 | 3,103.72 | 5,400.99 |
| 11. Number of Loans Made----- | 765 | 1,812 | 3,119 | 3,656 |
| 12. Amount of Loans Made----- | 36,882.75 | 117,218.19 | 223,976.45 | 295,104.99 |
| 13. Average Size of Loans----- | 48.21 | 64.69 | 71.81 | 80.72 |
| 14. Loans Made Since Inception (Cumulative Totals)----- | 39,454.00 | 156,683.00 | 380,659.00 | 675,765.00 |
| 15. Interest Paid on Deposits----- | 15.54 | 71.37 | 187.19 | 446.00 |
| 16. Dividends Paid on Shares----- | 242.80 | 1,423.91 | 3,347.42 | 4,931.09 |
| 17. Patronage Dividend Paid----- | - | - | 83.11 | 411.95 |
| 18. Total Gross Revenue----- | 1,358.71 | 4,149.83 | 9,205.14 | 13,304.55 |
| 19. Net Surplus Available for Distribution to Members (After Transferring 20% of Net Earnings to Reserve for Bad Loans)----- | 342.76 | 1,739.66 | 4,171.83 | 6,212.55 |
| 20. Portion of Gross Earnings available to Members----- | 19% | 36% | 39.3% | 43.5% |
| 21. Average Members' Equity in Total Assets-- | 12.70 | 23.66 | 29.08 | 30.17 |
| Average Membership | 87 | 89 | 86 | 87 |

Source -- Department of Co-operation and Co-operative Development

Table 10 - PROGRESS OF CREDIT UNIONS IN SASKATCHEWAN -- CONT.

| | <u>Dec. - 31/42</u> | <u>Dec. 31/43</u> | <u>Dec. 31/44</u> |
|---|---------------------|-------------------|-------------------|
| 1. Number of Credit Unions----- | \$ 92 | \$ 128 | \$ 163 |
| 2. Number of Members----- | 9,179 | 14,539 | 20,988 |
| 3. Total Assets----- | 312,124.51 | 797,797.03 | 2,449,851.50 |
| 4. Shares----- | 227,325.97 | 483,433.14 | 1,302,221.63 |
| 5. Deposits----- | 64,443.68 | 280,343.40 | 1,007,721.85 |
| 6. Cash----- | 85,548.63 | 337,371.00 | 854,942.59 |
| 7. Dominion of Canada Bonds----- | 9,361.75 | 85,262.29 | 731,299.56 |
| 8. Shares in C.C.C.B. and Other Investments----- | 9,202.80 | 11,490.00 | 128,314.12 |
| 9. Loans in Force----- | 204,084.47 | 356,597.44 | 718,981.29 |
| 10. Reserve for Bad Loans----- | 8,432.33 | 13,190.53 | 22,580.70 |
| 11. Number of Loans Made----- | 5,127 | 6,491 | 7,581 |
| 12. Amount of Loans Made----- | 435,668.00 | 821,642.95 | 1,631,858.83 |
| 13. Average Size of Loans----- | 84.98 | 126.58 | 215.26 |
| 14. Loans Made Since Inception (Cumulative Totals)----- | 1,111,433.00 | 1939,555.00 | 3,571,414.00 |
| 15. Interest Paid on Deposits----- | 778.07 | 1,594.86 | 5,240.54 |
| 16. Dividends Paid on Shares----- | 6,256.54 | 9,149.23 | 21,041.42 |
| 17. Patronage Dividend Paid----- | 695.06 | 1,169.85 | 2,075.75 |
| 18. Total Gross Revenue----- | 18,219.87 | 28,618.37 | 62,375.42 |
| 19. Net Surplus Available for Distribution to Members (After Transferring 20% of Net Earnings to Reserve for Bad Loans)----- | 7,776.95 | 11,468.50 | 26,558.54 |
| 20. Portion of Gross Earnings available to Members----- | 42.4% | 41.6% | 45.5% |
| 21. Average Members' Equity in Total Assets-- | 34.00 | 34.87 | 116.73 |
| Average Membership | 100 | 114 | 131 |

Source -- Department of Co-operation and Co-operative Development

CHAPTER IX

ALBERTA

Credit Unions arose in Alberta under conditions similar to those existing in Manitoba and Saskatchewan. The first two societies were incorporated on September 28, 1938 under the Credit Union Act of the same year. Development has been under the guidance of the Department of Trade and Industry and, primarily, the successful progress of credit unions is due, directly or indirectly, to this government department. It is realized that future growth must come from the rural areas and much of the promotional work in these districts is being carried on by the Extension Department of the University of Alberta, with the assistance of a provincial grant. A secondary reason for rapid development may be traced to the fact that leaders of other forms of co-operation, realizing the benefits of co-operative credit, are advising the adoption of credit unions among their members. 1) Because of the growing conflict between co-operative and corporative enterprise, which has been crystallized publicly in taxation issues, there is fear, in a few cases, that normal sources of credit may be cut off from co-operative business in rural areas. In other cases, credit unions are being promoted with the hope of replacing existing commercial credit institutions. Credit union extension promoted by propaganda of a destructive nature is certainly not based on precedent, and in principle is not to be commended.

As of December 31, 1944, there were 168 incorporated credit unions, 19 of which were in various stages of organization and not

1) The use of credit unions has allowed many co-operatives to the practice of doing business on a "cash basis", a fundamental co-operative principle, and thus to shift the burden of financing to the local credit unions.

yet reporting their financial activities. The statistics for this and preceding years are embodied in Table 11. The most recent balance sheets available show assets in excess of one million dollars.

TABLE 11**Progress of Credit Unions in Alberta (1939 - 1944)**

| Year | Credit Unions | Members | Total Assets | Shares | Deposits | Loans Granted in Last Financial Year | Loans Granted Since Inception |
|-------------|--------------------------|----------------|-------------------------|---------------|-----------------|---|--|
| 1939 | 23 | 2,226 | 47,806 | 40,681 | 5,405 | | |
| 1940 | 35 | 3,371 | 103,483 | | | | |
| 1941 | 43 | 4,564 | 161,494 | 127,693 | 21,904 | 121,724 | 328,691 |
| 1942 | 74 | 6,283 | 245,222 | 192,678 | 34,260 | 354,872 | 883,563 |
| 1943 | 129 | 10,066 | 469,021 | 355,077 | 87,021 | 362,028 | 1,445,591 |
| 1944 | 149 | 14,790 | 972,484 | 711,232 | 203,082 | 1,113,653 | 2,559,244 |

Source: Canada Year Book and Other Government Publications.

CHAPTER X

British Columbia

British Columbia was the last provinceⁿ to enact legislation for the incorporation of credit unions. This took the form of the Credit Unions Act, 1938, which came into effect on January 31, 1939. Credit unions came under the jurisdiction of the jurisdiction of the Department of the Attorney-General. Interest was first aroused among the urban groups, who although acquainted with the Antigonish Movement, were influenced by the success of credit unions in adjacent areas of the United States. Growth has been quite steady both in the number of societies and members. (Table 12) Membership in credit unions ranges from sixteen in the smallest to fourteen hundred in the largest and the assets vary from a few hundred dollars to nearly \$150,000.00 according to latest available statistics. Until January, 1945, there had been 135 societies incorporated, 127 of which were in operation. The societies incorporated may be classified as follows: 58, community; 43, occupational; 25, organizational; and 9, religious.

Perhaps the most noteworthy aspect of credit unionism is the Credit Unions Act itself. In the opinion of the writer it is the best legislation concerning co-operative credit in existence in Canada. This is partially due to the fact that since it is the most recent Act, it has taken advantage of the experience of all the other provinces. More important, however, it appears that, rather than merely copying the legislation of Nova Scotia as in the case of the other provinces, the framers of the Act made an objective and detailed study of the credit union move-

ment and embodied the results of this in the legislation.

Let us note a few of the unique features of the British Columbia legislation respecting credit unions. In the first place there is a striking distinction between shares and deposits and the use to which these funds may be put. Section 13 of the Act states:

(1) "A credit union may receive from its members only money on deposit and may allow interest thereon, subject to the following conditions:-

(a) Moneys received on deposit and all securities representing any investment thereof shall not be liable for or used to pay any other obligation of the credit union:

(b) The claims of members entitled as depositors shall rank equally with the claims of other creditors of the credit union against all its other assets, notwithstanding the special security for depositors provided by clause (a):

(c) The credit union shall at all times have on hand in lawful money of the Dominion or on deposit with a bank or central credit union at least twenty-five per centum of all deposits which are withdrawable on demand.

(d) All deposits paid by the credit union into a bank or central credit union shall be placed in a separate account, and the accounts and transactions relating to moneys received on deposit shall be kept separate and distinct from the general business of the credit union.

(2) The Minister may make such regulations as may seem advisable to define or determine for the purposes of this section what is a deposit or when a deposit is withdrawable on demand."

In addition to the cash reserve for deposits, rule 84 of Rules and Constitution of Credit Unions provides that "a cash reserve equal to at least five per centum, or such greater percentage as may be required by the Supervisory Committee, of the paid-up share capital shall be maintained at all times to meet the withdrawals of shares". These reserves are exclusive of a Guarantee Fund.

Section 14, relating to borrowing powers states:

(1) "A credit union may borrow and raise money in such a manner as it thinks fit, and in particular by the issue of debentures, and may secure the payment of any such money by mortgage or charge on its real or personal property, including sums unpaid on its shares.

(2) The total amount at any time outstanding of money so borrowed by a credit union shall not exceed twenty-five per centum of its assets, exclusive of sums unpaid on its shares and of the value of property of the credit union already mortgaged or charged by it.

(3) The rules of a credit union shall state whether or not the credit union shall be authorized to borrow, and to what extent and in what manner, and that no issue of debentures shall be made without the sanction of an extraordinary resolution."

In connection with sub-section (2) of this section Rule 66 of Rules and Constitution of Credit Unions states further that "no sum of money payable to the Credit Union in arrears of more than.....shall be deemed an asset of greater value than the value of any security held by the Credit Union therefore."

It is true that Sections 14 and 15 may work a hardship on some credit unions, but for their well-being in general they are very necessary and important.

An amendment in 1944 to Section 22 of the Act is interesting in so far as, in effect, it allows a credit union to demand that at least five shares be held by each member at the end of five years of membership. If a member does not hold five shares, and during any one fiscal year does not subscribe for at least one share, he may be notified that he must subscribe for one share within a month or be subject to expulsion. This regulation tends to assist the member into the habit of "systematic saving" and eliminate parasitic members who join the society and continue to hold only one share with the view of borrowing and not saving.

Clause (a) sub-section (2), Section 33 is unique in so far

as it limits the rate of dividend that may be paid. Sub-section 2 provides that after twenty per centum of the net earnings have been credited to a Guarantee Fund, the remainder may be apportioned according to the wishes of the members at the annual general meeting. One way that this amount may be distributed is "by payment of a dividend on the share capital paid up to the end of the preceding fiscal year, but not exceeding six per centum per annum, or the amount recommended by the directors, whichever is less." Five per centum of the net earnings may be placed within an educational fund, and the remainder may be distributed as a patronage dividend and/or retained as undistributed earnings. Actually, in British Columbia it has been the practice of credit unions to limit the rate of dividend to 3% and return a large portion of the remainder to the borrowing members. The above merely are a few of the better features of the Credit Unions Act, which tend to remedy some of the aspects of credit union legislation that have been criticized.

There are two centralized institutions that serve credit unions in British Columbia, namely, the British Columbia Credit Union League, and the British Columbia Central Credit Union. The first of these was incorporated in 1944. Before this time it operated without legal status, under the same name and earlier under the name of the B. C. Credit Union Association. Actually, the organization is a co-operative, and therefore, is incorporated under the Co-operative Associations Act rather than the Credit Unions Act. Although the latter Act allows co-operatives to join credit unions, the B. C. Credit Union League is the only co-operative to which credit unions may belong, and its membership is restricted to them. Of the one hundred and twenty-seven

credit unions operating, one hundred and twenty-one of these were members of the League at January 1943. Capital is obtained by the sale of shares valued at five dollars to member credit unions, which may hold a maximum of one share for every \$10,000 of the members' own capital. The League is not a credit union in any sense of the word but merely a service organization. It is divided into three departments: Publication, Stationery Supplies, and General Services, and each department is financially autonomous. Surpluses in the hand of either of the two former are returned to the patrons of that department. The general operation of the League is financed by dues paid by its members on a percentage of income or per capita basis, whichever is the greater. In other than central credit functions, it is similar to the Leagues in other provinces.

The B. C. Central Credit Union, came into being in May, 1944. Membership is open to credit unions and co-operative associations. In August, 1945, there were 82 members who had invested over \$50,000.00 in the organization. At this time membership and capital were increasing rapidly. After one year of operations, the central credit union had received 27 applications for loans. One of these was not granted by the Credit Committee; another was granted by the Committee to a co-operative group but refused by the Credit Union Inspector; and a third was granted but not acted upon. Thus 24 loans were made totalling nearly \$30,000. Although membership in the organization is open to co-operative associations, there are difficulties in gaining the support of the latter. In the first place, there are restrictions with regard to loans to co-operatives. All such loans must have the approval of the Inspector of Credit Unions. In the absence of

proper supervision and inspection of co-operatives, it is often risky to make loans to these associations. ¹⁾ In comparison to a credit union, then, a co-operative has less incentive to join the central credit union. The second reason why co-operatives are not giving full support to the organization is the fact that a member of the central credit union must subscribe to the share capital of the credit institution in proportion to its assets. To a credit union this may not be a limiting factor in membership. But to the larger co-operatives, many of which have assets exceeding one million dollars, an expenditure that is based on assets that are, for a large part, in a non-liquid form, is a serious limiting factor.

The capital of the central credit union consists of shares and deposits. Members must purchase shares on the basis of \$5.00 for every \$1,000.00 of their total assets at the end of the preceding calendar year. Deposits accepted from the members bear interest at 1½% per annum. They come from three main sources; credit union reserve accounts which tend to be of a permanent nature; credit union cash reserves, made up of 5% of the share capital and 25% of the deposit capital of credit unions, which also are fairly steady; and lastly, seasonal cash surpluses of both credit unions and co-operatives. The capital thus received is loaned out to its members at a rate of 4% per annum on unpaid balances.

1) As of January, 1945, only one loan had been made to a co-operative association.

TABLE 12**Progress of Credit Unions in British Columbia (1939 - 1944)**

| Year | Credit Unions | Members | Total Assets | Shares | Deposits | Loans granted in Last Financial Year | Loans Granted Since Inception |
|-------------|----------------------|----------------|---------------------|---------------|-----------------|---|--------------------------------------|
| 1939 | 6 | 500 | | | | | |
| 1940 | 43 | 1,320 | 18,790 | | | | |
| 1941 | 71 | 3,912 | 69,426 | 63,157 | 2,652 | 83,942 | 132,467 |
| 1942 | 85 | 6,376 | 176,040 | 162,702 | 5,265 | 237,077 | 362,247 |
| 1943 | 109 | 10,686 | 503,281 | 448,817 | 20,970 | 600,561 | 1,077,573 |
| 1944 | 118 | 15,665 | 948,583 | 851,639 | 41,537 | 1,038,896 | 2,071,850 |

Sources: Canada Year Book and Other Government Publications.

PART IV

CHAPTER XL

Credit Unions - Nationally and Internationally

It is difficult to discuss credit unions in Canada on the national plane because the largest group that may be classified under one heading is provincial in nature, that is, on the basis of the leagues, which exist in every province. Even so, each member union is completely autonomous. In September, 1943 at the Lévis Conference in an attempt to institute a national brotherhood of credit unions, a Canadian Credit Union Committee (affiliated with CUNA), was formed. It is highly doubtful whether the formation of a national organization will ever be successful while a Dominion Act respecting credit unions is lacking. To speak of a national organization such as that which exists in Finland is impossible in the presence of political, racial, geographical and other barriers.¹⁾ However, realizing that there does not exist a Canadian credit union movement, in the narrow sense of the word, in order to consolidate our picture of credit unionism nationally,

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- 1) Rather than allowing credit unions to spread by local growth, Finland employed the method of centralization by forming the Co-operative Agricultural Credit Societies. After 1907, due to mistakes in organization and management, the co-operative credit movement found itself in difficulties. Growth had been too rapid; local societies were not supported by a sufficient number of peasants; and capital funds were inadequate. A central bank was formed, the capital of which was furnished partly by the societies and partly by the government. Since 1930, the central bank has tended to bring about consolidation and re-organization of the less efficient units. This resulted in enlarging the sphere of local societies, increasing membership, capital resources, and reserves, and rendering additional services at decreasing costs with the savings going to the members in the form of lower interest rates. The representation of the societies in the central bank is determined by the number of shares held. However, no society may have more than six votes. The bank is managed by twelve directors, nine representing the societies, and three representing the government.

statistics relating to type and growth of the societies in Canada are given in Tables 13, 14, and 15. If it is difficult to conceive of a national organization how much more difficult is it to conceive of an international organization. CUNA has often been classed as such and Madison, Wisconsin, the home of CUNA has often been described as "the credit union capital of the world" - an exaggerated statement. Purely for matter of interest it is pointed out that an international credit organization based on "co-operative" principles is being contemplated. This would take the form of the International Bank for Reconstruction and Development, as outlined in the Bretton Woods Proposals. While this cannot be enlarged upon in this survey, the interested reader is asked to compare the principles embodied within co-operative credit with an explanation of the proposed international bank forwarded by Alvin H. Hansen in his book "America's Role in the World Economy, especially pages 33 to 47.

- 2) In November, 1945, the Canadian Federation of Credit Unions was formed in Winnipeg. It is made up of representatives of each of the provincial leagues. In May, 1946, it is expected that Canada will be elected to a vice-presidential seat on the national board of directors of the Credit Union National Association. Following this, a Canadian office is to be opened in order to co-ordinate credit union efforts throughout Canada. The office of the Canadian Federation will then be the national headquarters of all credit unions in Canada.

TABLE 13**Comparative Position of Credit Unions in Canada****1900 - 1944**

| Year Ending | Credit Unions No. | Members No. | Assets \$ |
|------------------------|----------------------------------|------------------------|----------------------|
| 1900 | 1 | | 26 |
| 1915 | 91 | 23,614 | 2,027,728 |
| 1920 | 113 | 31,752 | 6,306,963 |
| 1925 | 122 | 33,279 | 8,261,515 |
| 1930 | 194 | 45,767 | 11,178,810 |
| 1935 | 277 | 52,045 | 10,173,997 |
| 1940 | 1,167 | 201,137 | 25,069,685 |
| 1941 | 1,314 | 238,463 | 31,230,813 |
| 1942 | 1,486 | 295,984 | 43,971,925 |
| 1943 | 1,780 | 374,069 | 69,219,654 |
| 1944 | 2,007 | 479,131 | 92,401,652 |

Source: Dominion Department of Agriculture.

TABLE 14...Credit Unions in Canada----1944

| Province | Credit Unions | Members | Assets | Shares | Deposits | Loans granted in last financial year | Loans granted since inception |
|-------------------------|------------------|---------|------------|-----------|------------|--|--|
| | No. | No. | \$ | \$ | \$ | \$ | \$ |
| Prince Edward Island | 50 | 6,880 | 334,757 | 234,207 | 84,317 | 197,657 | 831,497 |
| Nova Scotia | 213 | 31,796 | 2,026,798 | 1,532,987 | 58,325 | 1,321,283 | 8,041,194 |
| New Brunswick | 138 | 27,558 | 1,744,262 | 1,596,680 | 59,995 | 1,265,986 | 4,482,131 |
| Quebec | | | | | | | |
| Desjardins | 852 | 300,183 | 77,874,334 | 4,309,959 | 71,218,798 | 25,000,000 | 170,683,803 |
| Other | 10 | 1,930 | 158,279 | 61,226 | 28,914 | 84,015 | 331,740 |
| Ontario | 220 | 44,840 | 4,998,583 | 2,042,471 | 2,445,575 | 3,466,481 | 19,986,384 |
| Manitoba | 94 | 14,401 | 897,517 | 350,802 | 497,593 | 700,000 | 2,145,591 |
| Saskatchewan | 163 | 21,088 | 2,445,555 | 1,301,684 | 1,006,572 | 1,635,995 | 3,571,645 |
| Alberta | 149 | 14,790 | 972,484 | 711,232 | 203,082 | 1,113,653 | 2,559,244 |
| British Columbia | 118 | 15,665 | 948,583 | 851,639 | 41,537 | 1,038,896 | 2,071,580 |

In the Quebec Desjardins figures, assets of \$14,258,196 in caisses regionales not included. In other Quebec credit unions 1943 figures have been used and in the case of Manitoba some of the figures have been estimated.

Source: Dominion Department of Agriculture.

TABLE 15

**Urban and Rural Credit Unions in Canada
by Provinces (1943)**

| Provinces | Credit Unions | | | Percentage of Assets | | |
|-------------------------|---------------|-------|-------|----------------------|-------|-------|
| | Total | Urban | Rural | Total | Urban | Rural |
| | No. | No. | No. | % | % | % |
| Prince Edward Island... | 47 | 5 | 42 | 100 | 11 | 89 |
| Nova Scotia..... | 204 | 89 | 124 | 100 | 73 | 27 |
| New Brunswick..... | 145 | 48 | 97 | 100 | 41 | 59 |
| Quebec..... | 775 | 131 | 644 | 100 | 39 | 61 |
| Ontario..... | 163 | 141 | 22 | 100 | 98 | 2 |
| Manitoba..... | 80 | 20 | 60 | 100 | 28 | 72 |
| Saskatchewan..... | 128 | 35 | 93 | 100 | 25 | 75 |
| Alberta..... | 129 | 59 | 70 | 100 | 77 | 23 |
| British Columbia..... | 109 | 67 | 42 | 100 | 82 | 18 |
| Canada..... | 1,780 | 586 | 1,194 | 100 | 43 | 57 |

Source: Dominion Department of Agriculture

CHAPTER XII

Other Sources of Consumer Credit

Actually the portion of consumer credit handled by credit unions is relatively small as yet. Although their business has increased absolutely, the demand for short-term loans from all agencies of credit has also increased. What are these other sources of consumer credit? They include sales finance companies, retail merchants, personal finance companies, pawnbrokers, "loan sharks" and commercial banks. Those taking advantage of these agencies are generally in the lower income groups - those who save little. The criteria which determines the income group into which a person falls is determined partly by the individual's age, sex, race, residence and his skill and training, but more basically it is determined by the quality and quantity of the service rendered as a producer. It is the productivity of the worker that determines his direct income.¹⁾ It is merely a truism to say that as income rises, expenditure for consumptive purposes increases absolutely at a decreasing rate and the need for consumer credit decreases. It is therefore the person whose productivity is low, and consequently, whose bargaining power is weak, who must rely upon consumer credit agencies.

1) No reference is made here to indirect or secondary income which arise from services provided by the government and which in proportion to income taxes paid is not of proportionate benefit to the high income group.

Sales finance companies are often the organizations that make it possible for retail merchants to extend credit. At one time all retail stores handled their own instalment sales along with "charge accounts". In many cases the business became so large that it was unwieldy and was put, therefore, in the hands of sales finance companies. In effect, they buy the instalment contracts that have been made by the customers of the retail merchants. The finance company itself secures most of its working capital from the commercial banks. However, many retail merchants still carry on their own customer-financing. Indirect or direct financing, then, makes possible the various forms of selling on an instalment or hire-purchase basis. It is difficult to say whether such a practice is commendable or not. It can be argued that instalment selling, actually a system of "forced saving", has helped to promote mass production of consumer goods by directing expenditures into these channels and thereby reducing costs of production and making for lower prices. In periods of prosperity, this is no doubt true. Future income is made available to current markets. However, in periods of falling prices and unemployment, the reverse is true. Current income is unavailable to current markets. The net result is a prolongation and accentuation of the movements of the business cycle. No matter what stand one may take on the advantages of consumer credit, it does not deter from the fact that, as far as the individual is concerned, his expenditure is less productive under a hire-purchasing system. When consumer credit ceases to be an emergency measure and comes to form a large part of the individual budget, a serious situation arises. Unfortunately, many people fail to realize that instalment buying differs little from cash borrowing. A cash loan to consolidate instalment debts

is actually a refinancing of merchandise debt. The mere fact that the terminology of deferred payment contracts may omit any mention of a loan, of interest, or of a carrying charge is beside the point. Merchandise debts, as well as monetary debts, inflict a financial burden on the consumer in some form. The cost of extending credit is partially paid by the general body of consumers if it is not paid entirely by the "time" purchaser, and this is reflected in a "mark up" in the cash price itself. Under such a system, the cash customer pays to a large extent for the credit made available to the instalment buyer. The cardinal feature of the hire-purchase contract is that while the buyer obtains possession of the article, the seller holds either control of the article, or of the buyers source of income.

Another form of retail credit is the "charge account" or "open account". It differs from instalment purchasing in so far as there is no down payment, no carrying charge, no contract and, therefore, no right of repossession. Interest is merged within the cash price. However, this plan tends to take the form of instalment buying if accounts are not collected at the end of each month. A modification of the above forms of retail credit is the "budget account" or "coupon-book plan". A book of coupons is purchased and these may be used as cash within the store. A down payment is required as well as a small service charge. The balance is payable within a specified time. In cases where charges are levied as part of the cash price it must be stressed that the consumer pays for all services provided to the few. This includes payment for credit managers, office equipment, the interest lost on credit outstanding, bad debt losses, and the cost of providing such services as C.O.D., automobile parking, etc. A good argument for

a two-price system - (i.e.) cash price and credit price - may be made in view of this.

Personal finance companies are a popular source of short term loans. The effective rate of interest is quite high - from 18% to 24% - because of the high operational costs. Experience in the United States has shown that rates below 2% per month on unpaid balances have caused legal lenders to cease business. Presumably they would not do this if the business was profitable at this rate. The largest demand for loans is for the consolidation of debts, followed by medical bills, clothing, fuel, food, rent and automobiles. Under government regulation, malpractices are few. At present they are the greatest single threat to the "loan shark", since they are the first line of defence against illegal lenders. Generally, a personal finance company can extend any loan that an illegal lender will extend.

The role of pawnbrokers in Canada is quite small but they do serve a distinct economic need. Their clientele is made up of those with the least bargaining power. The hazards of pawnbroking and cost of operating is reflected in their rates which are above those of the personal loan company. Credit from a pawnbroker offers many advantages. In the first place, since the pledge is the security, there is no need of co-signors or wage assignments. Loans are made without reference to income and are determined by the appraised auction value of the pledge. In effect, the borrower is selling an article, reserving the right to buy it back within a specified time at a specified higher price. Loans are quickly made and carry no obligations on the part of the borrower. Failure to repay is not subject to fines or lawsuit and the one penalty is the loss of the pledge. Therefore, if there is

little chance for one to redeem the pledge, it is wiser to sell it outright to a second hand dealer. Since the lender has no power over the borrower, problems of regulations are not so acute. Failure on the part of the pawnbroker to sell the forfeited pledge for as much as the redemption price cannot result in a deficiency judgment.

Loan sharks are those lenders who charge illegal and excessive rates of interest. Few businesses are less publicized yet more vicious than that of the loan shark. Although they are not prevalent in Canada to-day to any large extent, "vest-pocket" lenders still operate on a small scale in such places as factories and large offices. Rates of interest varying from 200 - 500% per annum are the rule. The most common method of floating a loan is by "salary - buying" whereby the lender purchases the borrower's salary at a discounted price.

There was a time when it could be truthfully said that credit unions did not compete with chartered banks, but on the other hand filled a gap in the operations of credit institutions in Canada. Today, at least in certain areas, credit unions and chartered banks do compete with one another in the field of "personal loans". One chartered bank is making approximately the same interest charges as credit unions while the others operate at lower rates. There are several reasons why the banks entered the small loan business. In the first place, they wished to meet the criticism that bank services were not being made available to the wage-earner. In other words they wished to supplement existing services. In addition, it was believed that such a plan would bring the bank a certain amount of good will and collateral business. Finally, it was believed that small loans could be put

on a profitable basis.

2)

Pioneering in the "personal loan" field by a chartered bank was carried out by the Canadian Bank of Commerce which set up its personal loan departments in June 1936 at Halifax, Montreal, Toronto, Winnipeg, Calgary and Vancouver. This system is still in operation. Branch banks are not allowed to make personal loans themselves, but merely act as agents for the personal loan department. The branches are allowed a small commission on all such business. The effects of this are threefold. It does not leave the decision on loans in the hands of a person unacquainted with the highly specialized personal loan business.³⁾ However, the commission paid on all loans granted encourages the manager to develop a large personal loan business within his branch. Secondly, since the commission is smaller than the interest which the branch bank would receive if the loan were made as an ordinary loan through the branch itself, there is little likelihood that the ordinary small loan business⁴⁾ will suffer by way of an attempt to get high rate of interest by classing a loan as a "personal" one. Lastly, this system has made it possible for personal loans to be made available in any community where a branch exists.

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- 2) Personal loans are not to be confused with small loans. The latter have always been extended by the banks. Personal loans are made on the character, integrity and earning ability of the borrower. Small loans, on the other hand, require security.
 - 3) It might be expected that such an impersonal relationship between borrower and lender would result in many loan refusals. Actually, the number of refusals for personal loans have amounted to only 7.66% of the total applications.

Now let us analyse the system, paying particular attention to the effective rate of interest embodied in the total charge made to the borrower. First of all, we should realize that rates are computed on a discount basis and not on an interest rate. Under this plan the amount paid for the use of the money is deducted from the loan for which one applies. The Canadian Bank of Commerce would make no serious objection to rates being computed on an interest basis but such a charge would result only in a slight increase in the cost of operation because of the necessity of additional bookkeeping entries. The discount rate charged amounts to 6%. However, included within the total charge made for a loan is a charge of 25 cents per hundred dollars loaned for insurance loan-protection in case of the death of the borrower, and an investigation charge that varies from fifty cents to three dollars dependent on the size of the loan. The borrower, however, is told that "this protection is paid for by the Bank". Loans are repaid by depositing each month $1/12$ th of the principal sum. Interest is allowed on these deposits at a rate of $1-1/2\%$ per annum. In addition, if the borrower has complied with the terms of his agreement with the bank, he receives a rebate of $1/12$ th of the interest paid. What has been the effective rate of interest? This of course depends not only on the method employed in computing interest but also on whether one considers that the borrower receives value for insurance protection. According to one

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- 4) Since the inauguration of the personal loan plan the ordinary small loan business has increased about 25%. This shows that the personal loan department is providing a supplementary service rather than replacing a service.

5) authority, assuming that the borrower receives value, the effective rate of interest on a loan of \$120.00 discounted is 11.782% and, assuming that he does not receive value but that the insurance is effected to protect the bank, the rate is 12.790%

| Loan for which borrower applies | Discount at 6% | Investigation | Insurance |
|------------------------------------|-------------------|---------------|---------------------------|
| <u>\$120.00</u> | <u>\$7.20</u> | <u>.50</u> | <u>25¢-\$100. .30</u> |

| Loan received | Int. due | Cost of Loan |
|------------------|-------------|--------------------|
| <u>\$112.00</u> | <u>.82</u> | <u>\$7.18</u> |

The writer establishes a present day rate of approximately 12% per annum. The question arises concerning the legality of charging approximately 12% interest, when the Bank Act states that the maximum charge must not exceed 6%. The method of surmounting this limitation is embodied in the fact that the loan is repaid by monthly deposits that do not apply to the liquidation of the loan. The net effect is that the interest rate is raised. The bank claims that the borrower is merely setting up a deposit account on which interest is earned, which will be equal to the principal sum at the end of twelve months if the instalments are deposited promptly each month. At this time the loan will be written off. However "there is no provision for interim payments." The question, then, is not the legality of

5) Mr. Finlayson, an actuary of the Dep't of Insurance, with whose rates the Canadian Bank of Commerce agrees.

6) The formula used is $\frac{2MI}{B(N+1)} \times 100$: where M is the number of payments in 1 year (i.e. monthly = 12); I is the total carrying charge or interest in dollars; B is the unpaid balance at the beginning of the credit period (the cash price less any down payment); and N is the number of payments made, exclusive of a down payment.

charging 12% interest, but the legality of the instalment deposit basis of repaying loans. Whether or not such a practice is illegal, it was certainly not the intention of Parliament that it should be employed. But are these so-called "deposits" really such? The bank stipulates that they cannot be withdrawn by the depositor, and that they may be used by the bank while on "deposit", yet they are not to be considered as repayments of the loan. However, in ordinary banking terminology, the word itself implies an amount placed in the care of the bank in trust, which may be withdrawn on demand. The bank, by stopping the depositor's right of withdrawal is following a policy, the legality of which is to be questioned. If it is considered desirable, such a system can only be remedied by legislating that amounts repaid in any form, must apply against the loan.

The fact that we cannot defend the bank's method of securing an effective rate of interest in excess of the legal maximum, does not mean to say that we condemn the high rate of interest charged. Such a rate is necessary to make the operations of the personal loan department profitable. Further the bank is justified in demanding that the charge for borrowing, cover the cost of lending. If personal loans are not only unprofitable, but result in heavy losses, there will be a tendency for the banks to abandon this business. Any legislation, which by lowering the interest rates, drives the personal departments out of business is defeating its own

7) Testimony of Mr. James Stewart, Assistant General Manager of the Canadian Bank of Commerce, before the Standing Committee of the House of Commons on Banking and Commerce (1944-45)

purpose and is forcing the borrower to pay even higher rates of interest to other loaning agencies. The banks should not be forced out of the personal loan field, if only for the reason that few businesses operate on a higher ethical plane in the public interest, than the chartered banks of Canada.

When we speak of personal loans, it is understood that no collateral is required, other than the fact that the borrower must be of good character,⁸⁾ steadily employed, and if⁹⁾ required, able to provide guarantors. If collateral is furnished, the loans are classed as ordinary small loans and are entitled to a lower rate of interest. Personal loans are confined for the most part to industrial areas. Very few loans are made in rural areas and none are made to farmers. The reason for this is, that farmers generally have some assets that will serve as collateral and are generally well known to the local branch manager and therefore can negotiate ordinary small loans at lower rates of interest. In some areas, it is true, small loans in the ordinary course of business are charged a high rate of interest, but this is due to the risk involved and has no connection with geographical location.

It might be assumed at first sight that, since the rates of interest on personal loans are high, there must either be

8) The bank obtains credit reports from the Retail Credit Association on borrowers and guarantors.

9) In the period 1936-1939, $\frac{1}{3}$ of 1% of the guarantors were called upon to pay the original amount of the debt. After 1940, this rose to an average of $\frac{1}{3}$ of 1%.

large losses or large profits. Such is not the case. The Canadian Bank of Commerce has found that losses have amounted to approximately 1/20 of 1% of the amount loaned. This is perhaps partially due to the fact that the personal loan business was started during a period of rising employment. This does not mean that higher losses are necessarily expected at a future date. Losses were also held at a minimum by employing a policy of strict investigation of all potential loans. This makes for high cost of operation. Profits then, tend to be low in spite of high interest rates. It is merely a question of lower operational costs and greater losses, or higher operational costs and fewer losses. In either case, the cost to the borrower will be comparatively high. As a matter of bank policy, the latter alternative is favoured. As previously mentioned, a large profit was not the primary reason for setting up the personal loan development. However, the bank has found by experience that the profits in this department compare favourably with other forms of banking service. There were losses during the first two years, as might be expected in any new organization. The average profits during the first 7½ years of operation were \$13,185.¹⁰⁾ It is to be expected that profits in the future will rise as the demand for loans increases. (see Table 16)

There are two methods of conducting a personal loan business carried on by the chartered banks. The first is that employed by the Canadian Bank of Commerce, whereby it is segregated from other forms of banking and made to stand on

10) This figure is reached after charging the department with the cost of money at 2½% prior to 1939 and 2% thereafter.

its own feet financially. It is for this reason that the costs of personal loans is high. It is held by the bank authorities that this does not discriminate against the small borrower. On the contrary, if the personal loan field was considered part of the ordinary small loan business in which collateral is required, this policy would be a discrimination against the ordinary borrower.

This suggests the second method of doing business in the personal loan field. Under this plan, the business is operated at a loss if necessary, as a part of the general banking business, and such losses are charged against gross earnings. A number of the chartered banks have seen fit to operate in this manner for the sole purpose of offering a service, thus securing a certain amount of good will and collateral business. It is not the lure of profits that is drawing them into the field. As far as can be determined, this is the only type of loaning agency whose cost of operation tends to exceed the cost to the borrowers. Such a system is carried on by the Bank of Montreal. Loans are entirely in the hands of the local branch managers. The bank authorities hold that this is to be preferred since the manager has better knowledge of the needs, financial position, and character of his clients than the staff of the head office. Charges are made at a rate of 6% interest or discount as the borrower may prefer. The bank favours the latter, because it involves less book-keeping and lower costs of operation. The borrower should favour the former, because it involves a slightly smaller charge. This lower charge is accounted for by the fact that under the discount system interest is paid on the principal

sum plus interest, while under the interest system it is paid merely on principal. The interest rate is all-inclusive. No charge is made for investigation and loan insurance protection is not required. In some cases collateral may be demanded.

In comparing the two personal loan systems in operation by the chartered banks, two striking facts are portrayed: In the first place there is no question as to which system is more sound; and secondly, there is no question as to which system is more favourable to the borrower. In addition, as far as it can be determined, the number of loan refusals and the percentage of losses compare favourably under the two systems.

COMPARISON OF RATES OF TWO CHARTERED
BANKS, AND CREDIT UNIONS

Rates charged by the Canadian Bank
of Commerce

| Amount Needed | Apply Net For | Proceeds | Monthly Deposits |
|------------------|------------------|----------|---------------------|
| \$ 50. | \$ 60. | \$ 56.37 | \$ 5. |
| 100. | 108. | 101.46 | 9. |
| 200. | 216 | 202.98 | 18. |

Effective rate 11.72%

Rates charged by
Credit Unions

| Amount Loaned | Cost of Loan |
|------------------|-----------------|
| \$ 50. | \$ 2.75 |
| 100. | 5.50 |
| 200. | 11.00 |

Effective rate 12%
Less patronage rebates
in many cases.

RATES CHARGED BY BANK OF MONTREAL

| <u>DISCOUNT</u> | | | <u>INTEREST</u> | | |
|-------------------|-----------------|-----------------------|-------------------|-----------------|-----------------------|
| Amount of Loan | Cost of Loan | Monthly Instalment | Amount of Loan | Cost of Loan | Monthly Instalment |
| \$ 50. | \$ 1.57 | \$ 4.17 | \$ 50. | \$ 1.63 | \$ 4.30 |
| 100. | 3.15 | 8.34 | 100. | 3.25 | 8.60 |
| 200. | 6.29 | 16.67 | 200. | 6.50 | 17.20 |

Effective rate slightly
in excess of 6%

Effective rate 6%

Let us now summarize some of the main things that follow from this chapter. Without doubt, the least costly source of consumer credit including credit unions is the chartered banks. In the case of a bank operating on the "deposit plan" principle, the effective rate of interest is slightly less, or at the most approximates the rate of maximum and regular interest rate charged by credit unions. 11) In the case of a chartered bank operating on the "interest on outstanding monthly balances" principle, the effective rate of interest is much lower than that of most credit unions. Credit unions not only pay dividends on shares which to some extent return to the borrowers and in many cases allow patronage rebates to borrowers, but they also leave the member with an equity in its assets.

Taken as a whole, consumer credit agencies have been extending at a faster rate than either population or consumers income. New agencies enter the field and apparently develop new business. Either the demand for consumers funds is continually enlarging, or has never been satisfied, or both. In addition, with the exception of the loan sharks, all sources of consumer credit, serve a separate economic need and it depends on the security that can be offered, which of the credit sources will be used. It is on the basis of economic need that consumer credit can alone be justified. For such purposes as emergency, necessity or increased productivity, a loan may be deemed expedient. Even a loan at high rates of interest for purposes of consolidation or re-

11) Except in the case of credit unions in Quebec, where a large number charge an effective rate of 6% per annum.

financing of debts can be justified. The whole question of whether one should borrow does not depend alone on the rate of interest charged, but whether the advantages received exceed the cost of borrowing in the eyes of the borrower. This applies to any type of consumer credit. It is not only the rate of interest or the total cost of borrowing that is significant, it is also the purpose for which one borrows. This, however, must not be carried too far. Deficit financing as a continuing method, finds its proper place only in the hands of government. Particularly for the consumer, credit is not a substitute for income. It tends to weaken the productivity of income and in effect, merely postpones the time of expenditure.

What should be the legal rate of interest on small loans? This question has been the cause of much parliamentary debate. Undoubtedly an over-all rate cannot be advised. It must vary for the different types of credit agencies and it must vary with operational costs, taking into consideration, risk and security. A legal rate of interest that is too high for any particular agency permits faulty lending policies, discriminates against the honest borrower and harms all borrowers in general. A legal rate that is too low makes lending unprofitable and denies the service to many borrowers. It should be a rate that will encourage legal lending and drive out the loan shark. What illegal lenders fear the most, is competition from legitimate loaning agencies. For this reason they oppose all legislation that provides workable small loan laws and support all legislation that provides for low interest rates. To prevent faulty practices within licensed credit agencies

and among retailers who extend credit, the government should demand that effective interest rates including all charges be reported to them, that they appear in all advertising, that they be calculated on a single standard and that this calculation be included in all loaning contracts. However, one of the chief hindrances of government action is allocation of powers to the Dominion and the provinces. The Dominion does not possess complete control over loans. Companies wishing to avoid undesirable Dominion legislation can incorporate under provincial charter. In addition, attempts to regulate the effective interest and other charges are hindered because the Dominion has jurisdiction over interest rates while the provinces have control over "charges".

TABLE 16

All Personal Loan Departments of the Canadian Bank of Commerce by Years Since Inception (1936-1943)

| Year | Amount of Loans Made \$ | Number of Loans | Operating Profit or Loss \$ |
|---------------------------|-------------------------------|--------------------|-----------------------------------|
| 1936 (approx 6 months) | 1,837,469 | 12,684 | (L) 77,353 |
| 1937 | 5,643,273 | 37,907 | (L) 44,708 |
| 1938 (11 months) | 8,283,333 | 53,442 | (P) 14,184 |
| 1939 | 12,463,153 | 78,224 | (P) 46,291 |
| 1940 | 11,822,590 | 72,387 | (P) 71,609 |
| 1941 | 11,434,740 | 67,058 | (P) 34,433 |
| 1942 | 8,881,777 | 52,426 | (P) 33,644 |
| 1943 | 8,121,992 | 47,292 | (P) 20,773 |

TABLE 17

Personal Loans Made by Canadian Bank of Commerce
From Inception, June 1936, to April 30, 1944,
By Geographical Divisions.

Person Loans

| | Number | Amount |
|---------------------------|----------------|----------------------|
| Maritimes | 24,776 | \$ 3,777,585 |
| Quebec | 100,451 | 14,984,387 |
| Ontario | 227,037 | 39,651,680 |
| Manitoba and Saskatchewan | 32,341 | 4,963,960 |
| Alberta | 17,039 | 2,783,206 |
| British Columbia | 38,223 | 5,701,594 |
| | <u>439,867</u> | <u>\$ 71,864,412</u> |

TABLE 18**Personal Loans Made by the Canadian Bank of Commerce**

Loans made since Inception of Scheme - June
1936 to October 31, 1942 by Classification
of Occupation and Purpose from Monthly State-
ment Figures.

| | Number | Per Cent. of Number | Amount | Per Cent. of Amount |
|--|----------------|---------------------------|-------------------|---------------------------|
| By Occupation - | | | | |
| Labourers and Artisans | 176,970 | 42 .00 | 25,560,601 | 37.31 |
| Office, Clerical and Others | 117,093 | 27 .79 | 18,429,805 | 26.90 |
| Non-Manual Workers | | | | |
| Foremen, etc. | 42,570 | 10 .10 | 9,262,907 | 13.52 |
| School Teachers, Salesmen, Sundries | 84,757 | 20 .11 | 15,256,014 | 22.27 |
| Total | 421,390 | 100 .00 | 68,509,327 | 100.00 |
| By Purpose - | | | | |
| Medical, Dental and Hospital Bills | 72,194 | 17.13 | 9,027,435 | 13.18 |
| Consolidation of Debts | 106,437 | 25.25 | 14,903,647 | 21.73 |
| Outside Loan Liquidation | 10,764 | 2.55 | 2,105,548 | 3.07 |
| Taxes, Real Estate, Mortgages and Interest, Insurance | 37,438 | 8.88 | 6,475,709 | 9.45 |
| Travel and Education | 26,357 | 6.25 | 3,285,387 | 4.79 |
| House Improvement, Expenses Furnishings and Equipment | 59,713 | 14.17 | 9,264,984 | 13.52 |
| Clothing | 12,512 | 2.97 | 1,432,153 | 2.09 |
| Motor Cars | 27,381 | 6.50 | 5,256,592 | 7.68 |
| Miscellaneous | 68,594 | 16.30 | 16,757,872 | 24.49 |
| Total | 421,390 | 100.00 | 68,509,327 | 100.00 |

CHAPTER XIII

Conclusion

Having completed an analysis of credit unions and other forms of consumer credit in Canada, we will conclude by discussing the former keeping in mind their relation to the general field of consumer credit, with the hope of arriving at an evaluation of the whole credit union movement.

First we may criticize the philosophy of co-operative credit on the ground that it is theoretical, idealistic, and for all practical purposes, not upheld in the credit union movement. At the outset of this thesis, we assumed that a credit union was a "co-operative" enterprise according to our definition (see Page 2) and we set this out against corporate enterprise. ¹⁾ Is a credit union a true "co-operative"? The answer is in the negative. A credit

- 1) The difficulty in arriving at a legal distinction between a co-operative and a corporate enterprise was vividly brought out in the hearings of the Royal Commission on Taxation in 1945. Interesting as it may be, the taxation issue is beyond the scope of this inquiry, except to mention the summary of the Commission's recommendations regarding credit unions.

" 1. That the income of credit unions or Caisses Populaires continue to be excepted from taxation under section 4, paragraph (g) of the Income War Tax Act.

2. That section 4 (g) of the Income War Tax Act be amended to make it clear:

- (a) that it includes federations whose membership may comprise other credit unions, co-operative associations, parishes, school districts and other similar bodies.
- (b) That organizations excepted thereunder must derive their revenue primarily from loans made to members.

union is "an association with economic aims". It is not, however, "formed by, and freely open to persons having needs in common". Its membership is not only selected, but it is composed of persons with varying needs. It is restricted to persons united by a common bond into a homogeneous group. This is not only a cardinal principle of the credit union movement, but in Canada, it is strengthened by legislation. The existence of "open credit unions" in urban Canada are unknown. Have the members "an equal voice in the management"? This is the principle of "democratic control" the justice of which we are not concerned with at present. It is doubtful if democratic control does exist in all credit unions. This is based on the premise that there is a tendency for the management to be composed of persons

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- 2) "Open" credit unions are those which demand no common bond of membership other than mere residence. The fact that a person resides in a fairly well defined area, and is of reputable character, makes him eligible for membership. Open credit unions have been attempted in the United States, invariably with disastrous results. The difficulty inherent in this type in urban areas, is that they are more likely to encounter financial difficulties. Members will have greater difficulty in obtaining co-signers. Its operations are likely to be extended to the general public. As such it will tend to be supported by the least financially secure element of the population. As such it will become a commercial agency, operating, at best, on a slender profit....a profit which will not allow the employment of capable managers. How can the very existence of an urban "open" credit union ever be justified? Its primary purpose of existence is the encouragement of thrift. Yet it endangers this purpose when it risks the investment of its members by entering the most hazardous of all loaning fields and charging interest rates far below those of competitive commercial institutions.

Unless credit unions of this type are established on a wide scale, it will never be possible to make co-operative credit potentially available to more than a small percentage of the population, nor to more than one income group. We have seen that this is not possible. Mere association in a credit union is not a sufficient common bond of interest to install co-operative action.

who do not find it necessary to partake of the loaning services of the society. It tends to be formed by an investing class----- a capitalistic class. The constitution of most credit unions either excludes or limits the personal borrowing powers of its officers. It also calls for persons who have leisure time to devote to the society to assume office and who can do so without financial reimbursement. Do the members "make approximately equal contributions to its capital and business"? The answer is in the negative. There tends to be various extreme types of membership. One type strongly supports the society financially in view of the relatively high rate of return on his deposit or investment. Another, the true co-operator, supports it financially and morally. His interest in the society is far from self-centred. Still another lends neither financial nor moral support, but is interested only in the privileges accompanying membership. In the same way it can be shown that the contributions to the business of credit unions are unequal. "Do the members derive proportionate services and benefits"? For equally obvious reasons, we can see that the answer to this is also negative. An attempt to remove certain financial inequalities within the membership is seen in the increasing use of patronage rebates (a Roddale principle). Such a practice helps remove any barrier between the borrowing and lender groups. Some enthusiasts, however, will argue that (in a credit union) there is not this dividing tendency in membership, since both classes are the members and exclusive owners of the society. To show that there is a split in member-

3) If it is true that the investing class tends to be the ruling class, it is probably as it should be. However, it should not be disguised by saying that we have "democratic control".

ship, and that the credit union is not essentially "cooperative" in nature, the writer proposes the following simile. A credit union is like a state. All within the state are citizens and, in a sense, are owners of the state and its assets. All citizens are required to support it morally and financially as far as possible. Financially, they support the state by payment of taxes. Taxation between individuals is not equal, or even approximately equal. Taxes are returned to the citizens in the form of benefits and services, after the cost of operations has been provided for and after a portion of the taxes are expended to make the position of the state secure. Geographically, these benefits and services are distributed unequally, and more basically, without relation to the contribution made by the taxpayer. The whole project, although co-operative in aim, is not co-operative in effect. Such is the conclusion we arrive at with respect to credit unions. Although they are co-operative in their economic aims, they are not truly co-operative in effect.

If, realistically, such a method exists, why can a credit union never hope to be a true co-operative? The answer to this lies in the conviction that the "profit motive" will ever be present, and inherent in credit unions. The same profit system that erected a barrier between the consumer and producer in the corporative system, erects a barrier between the borrower and the lender in the credit union. One of the earlier co-operative credit enthusiasts has said that "a co-operative bank does not aim at profits at all, but at the cheapest possible banking service for its members".⁴⁾ Enlarging upon this statement, one could go a step further, and say that, because

4) Henry W. Wolff - A Co-operative Credit Bank Handbook (1909) p. 10

of the profit motive, profits must not only be realized to pay the actual costs of operation, but also to pay such dividends as are necessary to bring forth investment capital. Here we have the co-operative principle being applied to so-called "co-operative enterprise". Admitting this co-operative aspect, then, in order to retain the highest degree of co-operation within the credit union, dividends should either be held below a maximum level, or even better, be paid at a fixed rate of interest (a Rochdale principle). The remainder of the profits should be returned to the borrower after cost of operation have been provided for. The writer holds that large dividends are objectionable and dangerous from a co-operative point of view. For the most, they come from the borrowing member, adding to his difficulties, and creating a conflict of interest within the credit union. The co-operative philosophy as stated by the Idealist, is "that each may make a good living without doing so at the expense of others" Under this philosophy, only a charitable credit organization could exist, certainly not a credit union. Assuming that there are two motives for supporting a credit union, "brotherly love" and "profit", the writer holds that only through the latter can a credit union instill the former. It is all very well to define a credit union as a union of members rather than a union of capital but let it only be said that capital pre-supposes members, while members do not pre-suppose capital.

Briefly, let us turn our attention to "democratic control". It is embodied in the fact that the officers are elected by the members, each of which has only one vote. We have forwarded the principle that control tends to remain in the hands of the investing

group who have little need to partake of borrowing privileges. However, let us assume, as many credit unionists do, that the control of the society rests entirely in the hands of the members, who have one vote independent of the number of shares held. Assuming this, is the control still "democratic"? Control is based on membership rather than on the members' stake in the society, or his share of ownership in the resources of the society. However, his risk or liability is based on ownership and not membership. The member who joins the society, and, because it is a prerequisite of membership, purchases the minimum number of shares (1) for the sole purpose and intention of becoming a borrowing member----such a member has a voice in the control of the society equal to one who invests his entire savings. In addition he assumes only a negligible risk or liability. It is difficult to concede that "one member-one vote" is more "democratic"--whatever that term may mean--than control based on shares held. It is held that the risk-taker should have proportional control over the funds that are being risked. To overcome the possibility of undue control over the policy of the business, the splendid credit union principle of limiting the number of shares that may be held by one member would continue to serve a useful purpose. "Democratic control" is a misnomer. Its rightful name is "communistic control". The fact that we criticize the philosophy of a co-operative credit on the grounds that it is idealistic, theoretical, and impractical, does not infer that we disapprove of the credit union itself. We do so merely to point out an error in thought, and with no thought of attacking the motives and benefits of these institutions.

In order to evaluate the advantages and disadvantages

of credit unions, it has become apparent that a distinction must be drawn between the various types. For analytical purposes, we will divide the types of credit unions into the following classification:

| <u>Urban</u> | <u>Rural</u> |
|---------------------|--------------|
| Industrial | Farm |
| Government Employee | Religious |
| Religious | |
| Associational | |

Urban credit societies might be called the American modification of the European type, in so far as the Americans were the first people to attempt to apply an essentially rural practice to an urban population. Many characteristics common to the European system were lacking in the United States and substitutions were necessary. For instance, occupational bonds of interest replaced social or community interest bonds and existence for consumer needs replaced existence for producer needs. In Canada, urban credit unions are the smallest type. The proportion will probably grow even smaller in the future. The reasons for this are twofold; in the first place, the provincial credit union movement, except in Quebec and the Maritimes, began in the cities, and growth tends to move out to the rural areas; secondly, there has been an absolute decline in urban credit unions and an absolute increase in rural ones. The city type must adapt itself to meet the needs of consumers. Loans are made for the expenses of living and are, therefore, more or less evenly distributed throughout the year. Since the city dwellers income is uniform in most cases, loan repayments are made on an instalment basis. The societies themselves must be organized on group or class lines since geographical barriers do not enclose the people with a common line of interest.

The most important type of credit union in urban areas is the

industrial one. There are many reasons for their success. In general, employers welcome credit unions and in many cases donate the use of office space to them. Some employers hold that these societies tend to instill loyalty to the company and relieve the employer of the necessity of confirming the employment position of the workers to commercial credit institutions. Another reason for their success is, that funds are readily available on pay day. Losses are very often unknown. At the request of the credit union, the employer can exercise a certain amount of authority to procure the payment of delinquent loans; but more important, wage assignments and garnishes can be very easily brought into play. All risk is eliminated since the repayment of loans is as assured as the payroll of the industry itself. The overall difficulty of industrial credit unions is, that they must of necessity be confined to the larger industries and companies.

However, there are inherent difficulties in industrial credit societies. The employee, in order to obtain a loan, must admit his financial embarrassment and disclose his affairs to his fellow workers who are members of the credit committee. Rather than do this, many employees will not join the credit union and many members will seek credit from independent commercial sources. In addition, non-members feel that decisions on loans may be influenced by politics, bigotry, whims, suspicions, likes and dislikes, when they are in the hands of fellow workers. Still other workers will not join a credit union because of the fear that employers will learn of their favourable financial position and attempt to decrease their wages. This is probably an unfair criticism of company credit unions, but it is a limiting factor in membership. Another handicap that an industrial

credit society must bear is the difficulty in keeping a balance between loan demand and savings. In general, this arises because there is a business cycle and it is accentuated in extremely prosperous or depressing times. To overcome this difficulty, assuming that, in the best interests of the members, the society is endeavouring to encourage thrift, the credit union must either develop a class of habitual borrowers or find some exterior field of investment. Perhaps the greatest restriction on industrial credit unions is the fact that membership must be confined to the group, coupled with the fact that the turnover of labour is very large. The reasons for the latter are that industrial workers are very often transient workers, and their employment is uncertain and seasonable in many cases. This may not affect the size and total assets of the credit union to any extent, but it does require that credit unions be ever alert to find replacing members. Because of this the credit union must rely on internal and external promotion. ^{The latter} comes from philanthropic and governmental sources or ⁵⁾ from centralized and overhead organizations. The new members, in most cases must exceed the number of retiring members because the latter very often drain the societies resources of fairly substantial funds, while the new members take a long time in building up large interests in the society. This difficulty is accentuated when we realize that the loss of aged members through death and retirement may mean withdrawal of large sums from the credit union. Unfortunately, if new members are not secured, the result is a

5) Often, governments find credit unions useful for the absorption of their securities, and in their legislation make this possible.

decrease of assets and service which may lead to dissolution.

Government employee credit unions overcome some of the difficulties included above, because their members tend to be continuously employed.⁶⁾ Seasonal unemployment is minimized. The members tend to form closely knit groups and this results in the rise of many group services. Members are very well known to one another and loaning is practically devoid of risk. Government employee credit unions have the additional advantage of having an impersonal employer. They are of special value to the group since wage assignment cannot be made by a Civil Servant, and commercial credit may make this a condition for a loan. The extension of credit union services to government employees however, is often hindered in other than large cities because the local group is not large enough to support a credit union.

A large percentage of the credit unions in Europe were originally planned to centre around the Church. When they were introduced to Canada, into the province of Quebec, this method was retained to a large extent. However, when credit union was introduced to the United States and subsequently into the English speaking provinces, in most cases they were divorced from ecclesiastical institutions. The parish credit unions that sprang up in urban areas were not strictly of the Desjardins type. One advantage they enjoy, is solidarity or clanishness. The members generally are instilled with a moral obligation to help and encourage those fellow parishoners who are financially weak. A

6) The environment of the Government employee credit union is also found in most public utility credit unions.

member is less hesitant then, to endorse the note of another member. Such faith has tended to overshadow the varied non-religious interests of the members and has been maintained by a very low rate of losses. The urban parish credit union does suffer, however, from the fact that it is primarily religious centre. In some cases the employee-employer animosity does arise between the member and the pastor. This is often due to over-zealous clerics, who in their enthusiasm for the success of the society, attempt to act as an intermediary or "referee" in collecting bad debts or preventing bad loans. The citizen has come to be suspicious of any attempt of the religious to encroach upon the material. Especially is this true in financial matters.

Associational credit unions are similar to religious societies except in their form of common bond. They are relatively unimportant. It need only be mentioned that such societies are more subject to dissolution because in most cases they do not arise out of necessity. An exception might be one that is found within a trade union.

Rural

Rural credit unions, as far as North America is concerned, might be classed as the Canadian type. Credit unions were introduced to Canada as rural societies and it was to the rural population that they were intended to apply. They are the closest imitation of European co-operative credit societies that are found in North America to-day. Credit unions were confined to small villages, an ideal location for co-operative effort. In the small villages lived families whose forefathers in many cases had

never ventured beyond the social, occupational or geographical boundary in which they were born. Leisure time could only be spent in self-organized, social activities of a local nature. Before the introduction of credit unions, banking facilities were almost unknown. The credit union was treated, not merely as a financial institution, but as a social centre which provided diversion from daily routine. Election to the board of management was a privilege and not merely a task to be avoided. It was an open-type association with permanent membership and not a restricted consumers society. Growth in every case was internal and by local demand and not occasioned by external promotion. It was this type of credit union, only slightly modified in form, that was introduced into Quebec forty six years ago. To-day, however, in that province the modification is greater. However, for Canada as a whole, the above tends to be the environment in which the rural credit unions are formed, and in which they thrive. The member is primarily a producer who borrows large sums to provide for the needs of the farm proper. Borrowing is an aid to earning a living, rather than to pay the expenses of living. In some cases he may borrow for consumptive purposes. In either case he generally repays his loan in a single lump sum. This in itself is a hardship on rural credit unions because total demand tends to be seasonable and assets tend to remain idle in the winter months. In areas where forestry is carried on or where "multi-crop" farming is practiced this hardship is alleviated. It is significant, that in rural areas, is the closest approach to the desirable open credit union, a form that is impossible in urban areas, because of the lack of community of interest. Here also is the only area where a credit union can enter into a non-competitive field of

banking, an area where commercial banks have little economic justification for existence. In attempting to provide a service, they may be harmful if their presence is a hindering factor to the rise of co-operative credit. In principle banking in rural areas should be on a local basis. Otherwise, the bank's assets tend to be transferred to the industrial and heavily populated areas where funds can be advantageously employed. No rural area can endure the withdrawal of a large portion of created wealth from its confines. No area can prosper when it loses effective control of its liquid assets. Bank managers in rural areas are generally non-residents who are unacquainted with the character, habits, and needs of the farm population and are unable to offer the farmer advice on farm matters. A credit union can do this. Another advantage of the credit union is that it feels a sense of responsibility to its members. In fact, its success depends on the success of its members. In the case of a national bank, it may withdraw its branch from the area if poverty threatens and still continue in existence. Parish credit unions, if they can be successfully formed, are perhaps the best type. However they generally call for the majority of the population to embrace the same religious faith and speak the same language. Herein then lies their limitation. The diversity of social and religious interests in one community might not give rise to groups large enough to make credit unionism effective. The least limited agency is the chartered bank. It is the most secure agency since all others depend on it to a large extent for their capital requirements.

Where does the credit union fit into the general field of

credit? We have seen that each of the various forms of credit agencies are limited in their field and that each fills an economic need in their respective fields. In spite of the fact that all agencies are limited in form there is an attempt by many officers of credit unions to fill all credit needs. In the interest of the members, credit unions should realize these limitations and act accordingly. The limitations vary among different societies and different types of societies. Generally they are as follows:

1. Credit unions can never hope to replace other credit agencies. In particular, they will never eliminate their closest competitors, the personal finance companies. They should function according to their design---to fill any gap in small loan credit facilities.
2. They can only serve a small proportion of the population since they are fitted to serve small closely-knit groups. In effect they can never remove the necessity of small loan laws as a remedy to the problems of usury.
3. They can only serve areas or people that have a definite need for co-operative effort. They should, therefore, be a product of a public demand that is isolated from any promoting group.
4. Because of their nature, they are restricted to small loans which are unprofitable to ordinary loaning agencies.
5. In order to satisfy the desires of their shareholders, they may be forced to enter the broader field of investment. Investments tend to be long-term in nature. This may hinder the society's ability to provide short-term credit when it is needed.
6. The credit union must always reckon with the business cycle in

balancing its assets with the demand for loans. In the small scale operations of credit unions, this may result in incurable difficulties.

7. Their success depends on the continued existence of a group interest rather than interest in personal gain. However, the credit union tends to attract a disinterested membership who seek only loans at low rates of interest or high dividends on shares and who have no interest in the management of the society.

8. Finally, credit unions are not of a nature to call forth the most efficient management. Administration tends to be left in the hands of interested co-operative enthusiasts who may let their zeal influence their prudence.

In spite of these limitations, a credit union is able to offer great advantages to its membership. Because of these advantages, their growth is to be encouraged. They can provide a mode of investment and security to the lower-income groups who without a method of forced or "systematic" savings would remain in their poverty. The more isolated is the group, the greater the possibilities become. They can provide loans at low rates of interest to those who have insufficient income or resources to enable them to secure loans from commercial institutions, providing these loans are to the ultimate advantage to the member. They can teach the true meaning of "thrift". Thrift, on the part of an individual member

7) The term "thrift" constitutionally embodies all the purposes for which a credit union is formed. It is unfortunate that the term "credit union" in itself is misleading; "thrift society" would be more appropriate.

is not always achieved by building up large reserves. It is the economical management and employment of one's resources to secure the maximum advantage. Credit unions should not minimize the aspect of thrift in order to maximize their own assets. In this respect, many credit unions could well afford to recall a subtle but necessary distinction. The society exists for the members and not the members for the society. In the words of another, heretofore quoted, credit unions must show "the willingness to set 'We' above the 'I'". Credit unions should morally and financially aid the member in achieving the goal of thrift. In so doing they would be fulfilling the functions for which they were created. Philosophically, a credit union, can be of great advantage in preparing a good mentality within its membership. Those within a movement that is based upon self-help will not easily fall prey to the philosophy of the dictatorial social planner.

It is fitting that we conclude this thesis with a prophetic note regarding the future of credit unions in Canada. Co-operative credit activity appears to run in a cycle that moves from a peak period of rapid success and great ambition to a low period of reverses and declining interest. Undoubtedly, there is some correlation between this and the business cycle. At this time we appear to be in the upper portion of the rising phase of co-operative activity. This upward trend will be accentuated and prolonged by the activities of various external promotional groups. However, it is not believed that there will be an indefinite expansion. In the opinion of the writer, the present expansion is too rapid. In many cases, there is not a distinct need for credit unions. Many are being pampered into existence

by promotional groups. Others are rising out of need, but in their expansion they are failing in their co-operative purpose. In the period of declining interest that will follow the present trend, it is believed that most dissolutions will occur in the urban industrial and associational groups. The writer can see no possibility of credit-unions eliminating other sources of consumer credit and no serious encroachment on these fields. For the most part they will continue to provide service only to those to whom ordinary consumer credit agencies are unavailable. Among other things, urban extension will be limited by the instability of the population and the opposition to collectivism. The proportional decrease of urban credit unions in relation to the whole movement will likely lead to amalgamations of individual societies into organizations which, in effect if not in theory, will tend to resemble the corporation in business methods and management. The chief growth then, will be in the rural areas where it will increase as the distrust for banking institutions decreases, and as government agencies withdraw from the rural credit field. Finally, there will be a tendency for the rural credit unions to return to the principles preached and practiced by M. Alphonse Desjardins and to function as they were intended to function.

As noted in Chapter II, Alphonse Desjardins had little direct influence in Canada outside of Quebec. In fact, the growth of credit unionism in the Dominion was not a direct extension of the Desjardins system. The development of "caisses populaires" was projected into the United States, particularly into the French-Canadian areas of New England. M. Desjardins organized the first "caisse" in that country in 1909, at Manchester, New Hampshire by special charter of the legislature. It was a parish society known as La Caisse populaire de St. Marie. In Massachusetts, he assisted in drafting a bill to be presented to the legislature, and appeared before a banking committee to give evidence. The bill was enacted and Massachusetts became the first state in the United States to enact a credit union law. Among the leaders of the American movement were Edward A. Filene, a merchant, and Roy F. Bergengren, a lawyer. The latter introduced the term "credit union" to North America, a name which is now in common usage in all English-speaking areas. Prior to 1921, and under the leadership of the aforementioned, the credit union movement enjoyed only a staggered growth. With credit union legislation existing in only four states, it was a period of experimentation.

The chief difficulty was to transplant an institution from Europe, or even near-by Quebec, into a new environment and expect it to develop into anything like its forbears. For instance, the leaders of the earlier institutions had emphasized that the soundness of credit societies depended to a large extent on making loans for productive purposes only. This was feasible only because the members were farmers or small tradesmen. However, in the United States, the intended membership was to be composed largely of wage-

earners. Would this necessitate the altering of loaning procedure ? Further, cohesion of membership, another essential of earlier systems, would not be as great. Thus, the period of experimentation disclosed the necessary adaptations that would have to be made. On the basis of this experience, the credit union laws were later re-written to suit the needs of the members.

In 1921, Mr. Filene and Mr. Bergengren organized the Credit Union National Extension Bureau, the former supplying financial assistance, ^{a)} the latter in charge of administration. The objectives of the bureau have been stated by Mr. Bergengren: "1) that we would get the needed laws, (2) the necessary sample credit unions, (3) that we would bring the credit unions in number to the point where (4) it would be possible to organize self-sustaining state leagues and combine them in a National Association". ^{b)} After thirteen years, only the fourth objective remained unaccomplished. In June 1934, the Federal Credit Union Act was passed, which allowed for organization of credit unions anywhere within the territorial limits of the United States. As a result, the fourth objective was attained, the formation ^{c)} of the Credit Union National Association, otherwise known as CUNA. Two affiliated organizations were later developed, namely, the CUNA Supply Co-operative, to manufacture and distribute accounting forms and printed material, and the CUNA Mutual Society, to supply loan and life insurance service to its member credit unions.

a) Edward A. Filene granted financial assistance until 1940, at which time CUNA, the outgrowth of the bureau, became self-supporting.

b) Roy F. Bergengren - Credit Union North America - Page 100

c) copyrighted.

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