CREDIT AND THE WAR ON POVERTY: AN ANALYSIS OF THE CREDIT UNION PROGRAMS OF THE OFFICE OF ECONOMIC OPPORTUNITY

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Executive Summary

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What Were the Office of Economic Opportunity-Related Credit Unions?

When the credit union movement emerged in the United States in the early 1900s, the intent of the original organizers was to improve the lives of the working poor by providing them with the consumer credit they lacked and by promoting thrift. By mid-century, most of the 16,000 credit unions in the country served specific employee or other close-knit groups. Few were organized primarily for the benefit of low-income people.

In the late 1950s and early 1960s, the Credit Union National Association (CUNA) began demonstration projects to establish credit unions specifically for the poor. CUNA officials later spearheaded a collaboration with the Office of Economic Opportunity (OEO) to establish a large number of "anti-poverty"* credit unions. OEO sponsored and/or subsidized credit unions between 1964 and 1973.

By 1969 almost 400 OEO-related credit unions had been established of which 125 were directly funded by OEO. OEO credit unions had a stormy existence, and by 1975 only 200 remained. The rest had either merged or been liquidated. The National Credit Union Administration (NCUA) latest figures suggest that between 35 and 56 of the original OEO-related credit unions are still in independent existence.

The Major Lessons of the OEO Credit Union Program

The OEO program included characteristics that were detrimental to the new credit unions. The notion that community action agencies (the delivery mechanisms for OEO programs) would be supportive homes for credit unions was often disproved. Community action agencies had priorities other than nurturing credit unions and sometimes saw credit unions as merely a source of rental revenue. For many credit unions, OEO subsidies for staff were too large. They allowed a level of staffing that could not be sustained when grants were discontinued. Former staffers refused to do on a volunteer basis those duties they had been paid to do in the past.

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* Anti-poverty was a term coined among government agencies in reference to the programs instituted to address poverty under President Johnson's War on Poverty programs. The term "anti-poverty credit unions" was used synonymously with "low-income/limited-income credit unions."

Neither OEO nor CUNA monitored the credit unions closely enough and, in particular, failed to persuade the credit unions to develop formal plans for achieving self-sufficiency. Most state credit union associations were either indifferent to the idea of community credit unions or actually hostile. The 1970 provision for federal share insurance carried with it requirements for adequate reserves that many limited-income credit unions were unable to meet. Common bond restrictions governing credit union membership restricted some OEO credit unions to recruiting members only from low-income neighborhoods.

The critical fact of this history is that the idea for these early credit unions, CUNA's demonstration credit unions, and those established under the auspices of OEO, did not stem from grassroots organizations. Community credit unions worked when key community residents were committed to the survival of the credit union and demonstrated that commitment through intensive and long term support. The successful organizations had access to training and appropriate subsidies. They developed realistic loan policies, and added to their low-income membership base moderate- and middle-income members who allowed the credit union to develop adequate assets. Their boards insisted on a formal planning process, and they took community education and marketing seriously. With local commitment, assets and training, some community credit unions fulfilled the best hopes of the OEO vision.

OEO-Related Credit Unions and the Contemporary Community Reinvestment Debate

Memories of the OEO experiment persist in the credit union movement and in the federal government, and are still capable of generating heated debate. It would be foolish, however, to fight again a portion of credit union history that is almost 30 years old. The OEO experience has valuable lessons, but there have been many changes in low-income credit unions since the 1960s. The credit union movement has grown enormously in financial strength, diversity of services, sophistication, and in training and technical support.

Today there are over 150 credit unions designated as limited income by the National Credit Union Administration with almost $300 million in total assets.

The regulatory climate has also changed, in particular allowing community development credit unions to draw on a broader potential membership base, including (in many neighborhoods) moderate-income people.

The need, however, for community development credit unions has not changed. Low-income neighborhoods need credit today just as much as they did in the 1960s, yet the intervening years have seen a massive decline in their capacity to obtain credit. Redlining in the 1970s, bank mergers, and the closing of branch offices in the 1980s are just three factors in the disinvestment of low-income communities. Community development credit unions have a vital role to play in community reinvestment and will benefit from government assistance that responds to community-based and community-owned initiatives.

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Section One:
Introduction

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Credit unions emerged in the United States in the early 1900s, based on a nineteenth century European model of supplying short-term credit to the poor. Pierre Jay, an influential American banker, and Canadian journalist Alphonse Desjardins spearheaded the move to establish cooperative credit among the U.S. poor. Desjardins, concerned over the lack of banking opportunities available to the Canadian poor, studied the European cooperative lending model and with the help of friends and leaders in the European movement established the first credit union in the Americas in 1901.

Although Pierre Jay was a banker, he sympathized with the plight of the poor who had little or no access to affordable credit. In 1906, inspired by Desjardins's achievements in Canada, Jay solicited his help to draft legislation to establish the first credit union in the United States. By the end of 1910, Desjardins had helped to organize two credit unions.

The growth of credit unions was slow in the absence of a strong advocacy body to promote the advantages and the idealism of cooperative credit. The overall climate was not encouraging. Banks feared the competition. Employers discouraged membership in credit unions because it gave workers an alternative to companies' stock option plans. Loan sharks openly opposed the movement.

It was Edward A. Filene, a wealthy Massachusetts merchant, who galvanized the credit union movement in the United States. Filene, in concert with a young protege, Roy Frederick Bergengren, was instrumental in starting 45 or more credit unions in Massachusetts, influencing legislation to allow credit unions to be established in other states. This activity eventually led to the passage of the Federal Credit Union Act in 1934, and the establishment of a national association of state credit union leagues. The 1934 legislation provided for the establishment of a Federal Credit Union System to make credit available to low-income people "for provident purposes" through a national system of cooperative credit.

By 1955, there were 16,201 credit unions in the United States. Whereas the membership of most of these credit unions consisted of employee groups, some were sponsored by fraternal organizations, religious institutions, and trade associations. Many of the employee, fraternal, and religious credit unions served particular communities as a consequence of living patterns that required religious, social, and employment functions close to home.

Historically, the labels low-income credit unions, credit unions for the poor, and community credit unions were used synonymously for credit unions that served a predominantly poor clientele. Such credit unions have existed since the early 1900s. The Bureau of Federal Credit Unions, the predecessor to the current regulatory body, the National Credit Union Administration (NCUA), established the low-income designation for credit unions around 1965. In 1967 NCUA changed the terminology to limited-income. With the passage of deposit insurance legislation on October 19, 1970, credit unions designated as low-/limited-income were permitted to accept nonmember insured deposits to help capitalize the credit union.

This report deals exclusively with limited-income credit unions that were formed through the demonstration projects of the Credit Union National Association (CUNA) starting in 1961, and those begun during the War on Poverty up to the early 1970s.

Credit unions for limited-income people survived the haphazard government intervention of the 1960s, and continue to make financial services available to those who do not have access to traditional financial institutions. Since 1973, additional limited-income credit unions have received charters and provide regular financial services to their members. There are currently over 150 federally insured limited income credit unions with assets of about $300 million.

Many people equate the prospects of limited-income credit unions with the highly publicized failures of the 1960s. This account was written to describe the particular reasons for the failure of many of the credit unions founded under the auspices of the Office of Economic Opportunity. The high rate of failure was not inherent in the nature of limited-income credit unions nor, indeed, in the fact of government assistance for such credit unions but in the characteristics of the actual program established by OEO.

The community credit unions that survived the 1960s offer lessons in what sustains limited-income credit unions. Credit unions such as Marion County Federal Credit Union, Need Action Federal Credit Union, and Watts United Credit Union survived the inept OEO intervention in the credit union movement and have inspired the founding and growth of numerous credit unions with similar clientele and mission.

The lessons of the successful OEO-related credit unions are guides both to the necessary characteristics of sustainable credit unions and to the types of government assistance that help or hurt such institutions. The need for community credit unions has never been greater for poor communities that lack many financial services and encounter high costs for the few services that exist. The history of community credit unions under OEO offers valuable lessons for building and sustaining low-income credit unions in the future.

Section Two:

Credit Unions And Low-Income Populations Before The War On Poverty

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Credit unions experienced a significant decline in membership during World War II partly as a consequence of the scarcity of consumer goods. However, with the end of the war the need for consumer credit rebounded. As the credit union movement gained fresh momentum, credit unions became more and more middle-income based, serving predominantly employee groups. Although originally organized to provide access to credit for poor people, very few post-war credit unions were organized among fraternal, religious, professional, or trade associations. Credit union clientele had altered so much that the movement was in danger of extinguishing the original mission of making credit accessible to the poor.

In the 1950s, the Credit Union National Association (CUNA), the non-profit, dues-supported association of state and international credit union leagues, began expressing concern about the credit needs of the urban and rural poor. Reincorporating low-income people into the credit union movement would permit an avenue for credit union growth and an opportunity for the movement to reaffirm its original goals.

In 1958, CUNA launched a study of the credit problems of low-income people in the United States. The study, which included conferences with representatives of inner city and minority groups, resulted in CUNA's decision to establish and fund experimental credit unions specifically for low-income people. CUNA planned to monitor and to evaluate the project carefully with the intent of encouraging the growth of such credit unions throughout the country.

In 1961, CUNA hired an organizer to develop two demonstration credit unions, one among rural Hispanic communities in Texas and another to serve rural communities in Nebraska. CUNA identified three objectives for this project: 1) training of low-income people in credit union principles and operations; 2) convincing state credit union leagues that such institutions could succeed; and 3) developing new techniques to meet the needs of low-income credit unions.

Over the next three years, the field specialist reported that while the credit unions were growing, the pace was slow, and the organizations were encountering serious obstacles. Members of the boards of directors did not fully understand their responsibilities nor how a credit union operated. It was difficult to find volunteers to staff offices. Volunteers were not willing to commit the necessary time to learn how to operate the credit unions adequately.

As CUNA reflected on the demonstration credit unions and discussed with several state leagues such ideas as establishing credit unions in public housing developments,* the Association came to the realization that: 1) technical assistance alone was not enough to launch and successfully operate a community type credit union; 2) a cohesive common bond, such as residence in a housing project, often provided limited growth potential for the credit union; and 3) a truly "pilot" program would need to start with new credit unions and include the inner city poor.

Three years later, CUNA allocated $50,000 to launch a pilot program of five urban community credit unions. The money was to be used for legal expenses, manager training, office rent, and salaries. CUNA argued that with this initial infusion of financial and technical assistance, within one or two years these credit unions could build membership and operate without subsidies.

The pilot credit unions represented a variety of neighborhoods and institutions. For example, Pilsen Neighbors Federal Credit Union was located in an old immigrant neighborhood in Chicago that was 60 percent Spanish speaking. Much of the area was zoned industrial and many residents both lived and worked in the neighborhood. The credit union had the strong backing of the Pilsen Neighbors Community Council. Another example, Meridian Hill Community Federal Credit Union in Washington D.C., was located in a once fashionable neighborhood that had turned into a slum with very severe health and crime problems. (A full description of each project is in Appendix 1.)

The Need for Community Credit Unions

The pilot program helped CUNA gain valuable information about the problems of credit unions established to serve low-income communities. According to an early CUNA anti-poverty report, low income credit unions "lend money to buy food stamps -- or lend $10 to save a family from eviction -- or provide cash so a doctor will treat a sick child."[1] The models filled a vital niche in the economic life of low income families. These credit unions operated in communities where residents had little or no access to financial services. Traditional financial institutions, which were not visible in these neighborhoods, cited the high cost of serving low-income populations. Community credit unions filled this void by offering small loans for such necessities as car repairs to ensure transportation to and from work, medical bills, eye glasses, and educational expenses. They also offered affordable transaction fees, financial counseling, and underwriting criteria flexible enough to

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* The Michigan Credit Union League established three credit unions in public housing developments in the 1960s; Jeffries Community Credit Union in 1964 and Brewster-Douglas Community Credit Union and Herman Gardens Community Credit Union in 1966. Although none of these credit unions is in existence today, The History of the Michigan Credit Union Movement, Volume 1, pages 621 -626 describes how they flourished in the 1960s.

encompass a variety of employment situations, income ranges, types of loans and repayment schedules. As one credit union officer remarked, they never turned down a loan; they deferred it until the borrower was credit worthy, often providing counseling during the process.

The Lessons of the Demonstration Credit Unions

The pilot credit unions made loans that fulfilled basic needs paychecks all too often could not cover. Inevitably a few borrowers defaulted, but for the most part low-income borrowers paid back their loans.

Even so, preventing loan delinquency was time-consuming work. The follow-up involved in lending to low-income people was a large part of a manager's job. Reminders needed to be sent, and repayment schedules were often reworked to accommodate a borrower's dwindling resources. In addition, the manager spent considerable time interceding with creditors and investigating dishonest credit contracts that further drained members' income.

Another lesson CUNA learned from the demonstration projects was that low-income credit unions took longer to build an adequate deposit base than middle-income credit unions. The members of community credit unions had less disposable income and less ability to save.

Moreover, most low-income people had no experience with financial institutions, particularly credit unions. The credit union managers spent a great deal of time teaching the community the benefits of a credit union and counseling individuals about the benefits of saving.

It became increasingly apparent to CUNA that running a credit union with a low-income membership was time-consuming and complicated. Success required more than one full-time staff person and additional financial resources, especially if the credit unions were to achieve self-sufficiency in one or two years.

In 1966 CUNA expended another $50,000 to keep the credit unions operating. Simultaneously, negotiations were in progress to phase the demonstration projects into the War on Poverty.

Section Three:

The War On Poverty And The Office Of Economic Opportunity

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President Johnson, in his first state of the Union address on January 8, 1964, announced; "This administration today, here and now, declares unconditional War on Poverty in America." That first year, $500 million was set aside in the budget for the anti-poverty drive, commonly referred to as the "War on Poverty". Johnson wanted the program to be big and bold and to have a real impact on the nation with a focus on helping people in poverty to help themselves.[2]

On August 20, 1964, President Johnson signed the Economic Opportunity Act into law. The law established the federal Office of Economic Opportunity (OEO) to oversee the new anti-poverty programs, many aimed towards integrating the disadvantaged into the urban political and economic mainstream.

While the Credit Union National Association was developing its demonstration projects, CUNA officials were also communicating with the newly-formed Office of Economic Opportunity about how the anti-poverty programs and low-income credit unions could complement each others' efforts. CUNA came to these negotiations convinced that community credit unions could work and saw in the OEO initiative a chance to expand the number of credit unions far beyond what CUNA could do on its own.

OEO director, R. Sargent Shriver, agreed to cooperate with CUNA to launch anti-poverty credit unions. From the mid-1960s to the early 1970s, more than 400 credit unions were chartered in low-income areas across the country. The vehicles for this collaboration were to be the new Community Action Agencies (CAAs) administered by OEO.

CAAs were designed to serve the needs of the poor directly and were commonly known as "neighborhood service centers." Working within a designated target area, CAAs were primarily social service and advocacy agencies, many with day care centers or family planning counseling centers. Many CAAs sponsored welfare rights organizations to act as advocates for welfare recipients.

CAAs were the product of interaction between local community and government groups, in both urban and rural areas, and their task was to create joint plans to combat local poverty which would be funded with government funds. Their offices ranged from small storefronts to much larger facilities, their annual budgets from a few thousand to over a million dollars. By 1968, one or more centers operated in each of 870 communities across the country. Seventy six percent operated in urban areas and 24 percent in rural areas.

OEO spread the word about community credit unions in the official government Community Action Guide distributed to potential Community Action Agencies administered by OEO. As a result of this publicity there were approximately 5,000 requests for the CUNA Reference Guide which explained credit union organization and operations.

OEO also funded a CUNA staff assistant whose full-time job was to boost the inclusion of credit unions in community action proposals, contact established CAAs to generate interest in low-income credit unions, and supply information on model credit union programs. OEO had ten regional offices around the country to assist communities in applying for and conducting CAAs. OEO staff helped to educate CAA personnel about the potential of credit unions for helping low-income people.

The critical fact of this history is that the idea for these early credit unions, CUNA's demonstration credit unions, and those established under the auspices of OEO, did not stem from grassroots organizations. These early credit unions were the brain child of a trade association and later the federal government. The federal government and CUNA took elaborate measures to sell the idea of credit unions to the agencies that would operate them and to the population of low-income people who were not in the financial mainstream. This history proved fatal to the success of many credit unions started during this period.

Credit unions complemented the overall community action programs. Demonstration grants for expanded consumer action programs involving credit unions were available through the Office of Economic Opportunity. Two OEO grants made in 1967 were typical of these demonstration programs. In that year OEO announced a $215,450 grant to a Tulsa group and $198,383 to a program in the Appalachian Ohio area. Both projects involved credit union development as part of community-wide activities. The community agencies hired consumer aides to initiate buying club projects, organize shopping tours, teach comparative buying, and enlist support for credit unions. In these cases credit unions were an extension of the consumer credit programs. People were taught how and why to use credit unions.

Consumer education and financial planning also were addressed in Project Moneywise, a program funded by OEO and conducted by the Bureau of Federal Credit Unions (BFCU was the predecessor to the current credit union regulatory agency, NCUA). In 1966 BFCU conducted Project Moneywise training sessions for local leaders in limited-income areas in Chicago, Boston, Los Angeles, New York, and Washington. The program was designed to provide participants with the necessary expertise to operate and manage credit unions successfully. The four-week training covered consumer education, family financial counseling, and credit union operations and management. The program spread to other cities and eventually included a special program for senior citizens. Project Moneywise lasted through 1970.

Another anti-poverty program, Volunteers in Service to America (VISTA), directly affected credit union development during the War on Poverty. The Bureau of Federal Credit Unions conducted training sessions for VISTA volunteers familiarizing the volunteers with credit union operations and teaching them how to help the poor into the financial mainstream. VISTA volunteers were a significant source of support in the credit union movement, providing help in urban and rural areas. Volunteers recruited credit union membership and helped in the offices.

Despite this close cooperation between the credit union movement and OEO there were tensions in the implementation of the program which suggested some serious contradictions in the goals of the various participants. CAAs, by their mission as social service agencies, sought to assist people through grants or referrals to other social services to meet immediate needs. The credit unions, on the other hand, were in business to provide credit, and teach people how to use credit and how to repay their loans. The cultures of providing grants and providing credit were, however, often at odds in the agencies administering the credit unions and in the actions and attitudes of staff, and some members mistook repayable loans for grants.

Although community residents staffed Community Action Agencies, a certain tension existed between some CAAs and the communities they served. Many in the community accused the agency of creating dependency and perceived CAA staff as more concerned with collecting their pay checks than helping the community. Moreover, their jobs were based on community deficiency, not strength. According to Claude Andrews of the Marion County Federal Credit Union in Jefferson, Texas, "Local OEO personnel were not excited about credit unions because they fostered independence instead of dependence. OEO personnel wanted to create community activity, but not community activity that they could not totally control."[3]

Section Four:
OEO-Related Credit Unions

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Types and Numbers

Three types of credit unions related to OEO programs developed in low-income areas. The first were CUNA's demonstration projects which represented approximately two percent of the OEO-related credit unions. These credit unions were initially funded by CUNA to pay for legal expenses, manager training, office rent, and salaries. Later, they were absorbed into community action programs and received some financial support from the federal government but less than those credit unions that started under the government program.

The second type, representing at different times 30 to 40 percent of the OEO-related credit unions, were those begun under community action proposals which received financial assistance from OEO through local government agencies. The funded credit unions usually received $10,000 to $30,000 in subsidy, enough to pay the salary of one to three full-time employees and some office expenses.

The third and largest category consisted of those credit unions operating with no direct financial assistance. At various times these comprised 60 to 70 percent of the OEO-related credit unions. Non-funded credit unions had no outside funds available for salaries or office expenses. All expenses were paid from the earnings of the credit union, which were small. However, non-funded credit unions often operated in donated space, usually in CAA facilities.

OEO-related credit unions made up a small percentage of the 23,000 credit unions in the United States in 1968. Different sources including CUNA, the federal General Accounting Office, and the National Federation of Community Development Credit Unions (NFCDCU, a trade association for community development credit unions) give different numbers of OEO-related credit unions. The data indicate that between 1967 and 1968, approximately 245 to 389 OEO-related credit unions existed.

A CUNA report on "Credit Unions Sponsored by Community Action Agencies"[4] gave the numbers described in Table 1 for both <u>funded</u> and <u>non-funded</u> OEO credit unions.

In December 1972, after the OEO program had ended, the Research Division of CUNA reported that 274 of the original OEO-related credit unions continued to operate. In 1975, approximately 200 of the original OEO-related credit unions remained. By 1986, the remaining OEO-related credit unions had dwindled to 111, 28.7 percent of the original total. It is virtually impossible to list a precise number

TABLE 1

OEO-Related Credit Unions, 1967 - 1969
(funded and nonfunded)

Year	Number of Credit Unions	Total Membership	Total Combined Assets
1967	197	50,268*	$1,542,642*
1968	269	84,328	$4,610,853
1969	387	128,649	$8,875,061

*These figures are projections based on a two-third sample of OEO-related credit unions.

As of December 31, 1969, the General Accounting Office reported 125 OEO-funded credit unions

Source: The Crisis in Limited Income Credit Unions, CUNA, 1973, p.15

of existing OEO-related credit unions due to changes in designations, mergers, changes in recordkeeping, and the demise of the Office of Economic Opportunity. But based on current NCUA data, between 35 and 56 OEO-related credit unions remain in 1992.[5]

The Effects of Subsidies and OEO Sponsorship

OEO provided subsidies to community credit unions with the best of intentions: jump-starting a large number of new institutions that would eventually become self-sufficient. But the subsidies did not have the intended effects. In some cases funding actually contributed to the difficulties the credit unions faced.

The degree of OEO support for OEO-funded credit unions varied during the course of the program. In January of 1965, when OEO began subsidizing credit unions, the Office of Economic Opportunity commonly provided enough funding for the salaries of three full-time employees per credit union. According to the General Accounting Office's 1971 study of the OEO credit unions, three full-time employees far exceeded the average number of full-time employees in federal credit unions of comparable size at the time.[6] In a letter responding to that study, an OEO representative explained that the higher number of employees was meant to provide sufficient staff to handle credit union growth and the special needs of low-income members.

From July 1970, however, OEO provided financial support sufficient only for the salary of one full-time employee for new credit unions. Those credit unions which had originally received funding for two or more full-time employees continued to receive the same level of funding for the duration of the program. This departure from the original philosophy of full funding was pushed by CUNA and OEO staff once they realized that extensive funding was detrimental. It created dependency, as well as opportunities for misappropriation of funds. The decrease in funding actually did some credit unions a lot of good. Those credit unions receiving the highest level of funding could not raise the budget needed for continued operation at that level once subsidies were withdrawn and were forced into a "natural growth" model of operation.

The General Accounting Office evaluation cited operational deficits and the high costs of salaries and space as major causes of difficulty for the OEO credit unions. "Generally," the report stated, "high operating expenses were being incurred because full-time, paid employees were carrying out credit union activities and because contributed space was not made available."[7] When OEO provided some credit unions with funding for three full-time employees, space, and other office expenses, it created a model which could not be copied by small credit unions lacking subsidy dollars.

Clearly, OEO and CUNA were under pressure to fight poverty quickly and to show they had made a difference. Government officials believed credit union funding would be necessary for only two to five years after which time the institutions would have generated enough business to support themselves. But this kind of jump start did not lead to quickened self-sufficiency. A major reason for this failure was that while the grants paid to these credit unions paid salaries and rent and bought equipment, they did not generate increased membership or a better quality or a higher volume of loans. The funds failed to spur the necessary increases in income credit unions needed to become self sufficient. Consequently, when government funding ended, so did many of the credit unions.

Mary Gonzalez, a volunteer at the demonstration Pilsen Neighbors Federal Credit Union (chartered in 1964) in Chicago in the late 1960s, explained the mixed blessing of federal funding in her credit union: "When we became federally funded, that really hurt the organization. We had a viable credit union and the federal funding totally destroyed our volunteer efforts and created many local, political problems."[8] Many of the credit union's 30 volunteers left since they were not being paid and others were. Federal funding ended in 1969, and the Pilsen credit union never recovered from the government's intervention. The credit union was liquidated in 1970. Subsidy had dramatically changed the expectations of the credit union staff, and the credit union was unable to fulfill those expectations once the outside funds were no longer available.

Funding can be a great help to beginning low-income credit unions. Additional capital allows for money to pay competent staff, to market broadly, and to make a significant volume of loans from the start. The OEO-funded credit unions, while initially growing larger and faster than those OEO-related credit unions that were not funded, were unable to maintain the momentum their start-up funding provided. A 1973 CUNA study on CAA-sponsored credit unions described growth-rate statistics on the OEO-related credit unions funded by OEO, the OEO-related credit unions not receiving funding, and those limited-income credit unions unrelated to OEO.[9] These statistics are summarized in Table 2.

TABLE 2

Average Year-End 1969 Growth Figures For Limited-Income Credit Unions

	OEO-Related Non-Funded	OEO-Funded	Not OEO-Related
Average Age	2.4 years	4.75 years	12 years
Average Shares	$7,907	$53,499	$57,532
Average Number of Members	194	773	298

Source: The Crisis in Limited Income Credit Unions, CUNA, 1973, p.15

The funding provided by OEO, although intended to boost the credit union movement by allowing credit unions to be fully operational from the beginning, ultimately proved to be a hindrance. The government attempted to start institutions that were, from the beginning, full-time, fully operational financial institutions, regardless of community capacity and commitment to support them. In doing this, they substituted money for critical grass-roots community support and involvement. While the federal government started credit unions faster, many fell apart because the foundations were less than secure.

If OEO credit unions had been better managed, however, they would have had a better chance of achieving self-sufficiency. Excessive subsidy was only one factor contributing to widespread credit union failure. The next sections describe other reasons why the OEO credit union program experienced significant failures.

Section Five:

Policies And Practices Of OEO Credit Unions

Section Five: Policies and Practices of OEO Credit Unions

Community and Consumer Education

Educating members in thrift has always been an ideal of the credit union movement. Low-income credit unions faced particular challenges in educating their members. Many credit union members had little or no concept of budgeting or the wise use of credit. Low-income credit unions across the country embarked on the slow and tedious task of helping people become more reflective and directive about their incomes. Claude Andrews, former manager of Marion County FCU in Jefferson, Texas, reflects, "We took individuals who had never saved a dime in their lives and taught them to save and take out and repay small loans."[10]

Whereas some community action programs included credit unions as part of their consumer education programs, in other instances credit unions assumed the primary responsibility for consumer education. A credit union was formed in Watts (Los Angeles), primarily to help residents who cashed checks and borrowed money from local liquor stores and paid exorbitant service charges. The credit union became an affordable alternative and a source for credit education.

Pilsen Neighbors Federal Credit Union in Chicago put a lot of effort into trying to break members' patterns of credit buying. Credit union staff taught members how to budget and to save for items. In the 1960s, budgeting was a new concept to many credit union members.

In addition to teaching thrift and the wise use of credit, it was not uncommon for credit unions to have to fight battles for their members in the process of educating them. El Centro Credit Union, chartered in 1966 in Wisconsin and liquidated in 1975, became involved in consumer issues when many of its Spanish-speaking members were being taken advantage of by a less-than-ethical language institute. The language institute persuaded people to buy an expensive tape recorder to learn to speak English from tapes. After a number of its members sought loans to pay for tape recorders, the credit union banded with local social agencies to take the language institute to court for bilking residents. From that point on, El Centro Credit Union always featured consumer education at its annual meeting.

San Antonio's SANYO Federal Credit Union, chartered in 1966, had a consumer program directed, in part, toward helping its members find appropriate agencies to help with legal and social problems. A major part of SANYO's job was knowing when to refuse a loan and refer members to other sources of help such as Legal Aid. When interviewed in 1970 for an issue of Frontline (CUNA newsletter published during the War on Poverty years), SANYO manager John Edwards said, "Very often another loan is not the answer. If we can't help them, we try to put them in touch with an agency that can."[11]

Lending Practices

While there were numerous examples of credit unions attempting to educate their members in financial matters, some credit union managers failed to educate their community about the lending role of the credit union. Many members of the communities had little understanding of how a credit union worked. To them it was a place where they could get money and not have to pay it back. Joseph Wheatley of Friendship Community FCU (Mississippi) confirms that "many people thought OEO and the federal government were pumping in resources free." [12] The borrowers' misconception that loans were grants was compounded by two other circumstances: the precarious financial circumstances of the borrowers and the attitude of some community action agencies' staff.

Although CUNA embraced the founding principle of the credit union movement to provide credit to low-income people, OEO credit unions faced considerable challenges living up to the ideal. Most members were indeed low income, with little or no history of saving. Deposits in many accounts were short-lived and loan demand was high. The volume of transactions strained staff, and members' constant borrowing activity, and limited savings strained credit union assets. In 1967, CUNA's Economic Opportunity Department sent questionnaires to credit unions related to OEO programs in low-income areas. They discovered that most low-income members borrowed money for absolute necessities. The survey results showed that borrowers with income of $4,000 or less received 4,685 loans while borrowers with income of more than $4,000 received 2,114 loans.[13]

The CUNA survey indicated that most loans were for medical expenses, clothing, and debt consolidation. Around the same time, Robert Dolan, head of CUNA International's economic opportunity department, cited similar purposes for a majority of credit union loans nationwide including loans that allowed members to pay rent to keep from being evicted, loans to pay utilities, and loans to purchase food. It was clear then, just as today, that many needy people relied on credit unions for loans that would not be granted at other financial institutions and that the loans were for necessities.

Clearly, many members of low-income credit unions used credit to sustain basic life functions. In consequence, capital was constantly at risk. People living so much on the edge were often slow pays and could easily default. Moreover, time-consuming transactions (frequent withdrawals, referrals, credit counseling, crisis intervention, etc.) dominated staff time. The risks and the time-consuming transactions might have been tolerable if the credit unions had been steadily building assets from savings. Unfortunately, the average member saved little or nothing. Assets were slow to build, yet loan demand remained high.

A realistic loan policy is vital to the success of low-income credit unions. Those interviewed for this report seem to concur that the more successful credit unions tended to require a membership period before applicants could apply for loans, rather than allowing people to borrow immediately after joining. They also required a reasonable relationship between a member's account balance and the amount he or she could borrow.

Many OEO-related credit unions, however, had difficulty balancing their idealistic community service goals with sound lending principles. "If managers saw the credit union's role as that of a financial institution, they were all right. If, however, they saw its principal role as community service, or were proud of giving away money, they were in trouble," says Peter Livingston, former head of CUNA's Research and Development Division, who also provided technical assistance to many OEO-related credit unions.[14]

Johnnie Lyles, who helped start three OEO-related credit unions in North Carolina, said "loans were often made to help people who clearly couldn't pay them back. The feeling was that the credit union was helping them, and there was no real obligation to pay." Many of these credit unions could make unsecured loans of up to $300 and often did so. In some cases interest was not charged on loans. As Mr. Lyles added, "the concept OEO had was a good one, to help people. But the way the credit unions lent money led to problems."[15]

Whether as a result of extreme idealism or lack of business sense, weak loan policies contributed to the downfall of many OEO credit unions. Bob Von der Ohe, who worked with OEO-related credit unions in the mid-70s through NFCDCU, saw that for many of them, "having a social purpose without having a sound business background was a disaster."[16]

Sometimes weak loan policies permitted abuse by middle-income members. A study of the outstanding loan list at one liquidated OEO credit union showed the delinquent list included: the former director of the local CAA, the former associate director of the local CAA, the director of the local community council, and an employee of the department of parks. The credit committee apparently had difficulty denying loans to members with jobs when the credit union lent money to those who may not have been employed, or had very low incomes.

The basic problem was not that most borrowers were poor, although that retarded the growth of assets. The problem was inappropriate lending policies and that was a function of management intentions and styles. There is evidence that with effective management policies credit unions could do business in low-income communities without undue risk of default. The General Accounting Office's report (1971) of their evaluation of OEO credit unions states "delinquency was not a major problem and that relatively few loans had been written off as uncollectible."[17]

The study of low-income credit unions in New York (1973) found that "the publicly assisted members of the credit union tend to pay back almost religiously."[18] Joseph Wheatley, chairman of the board for 20 years at OEO-related Friendship Community Federal Credit Union in Clarksdale, Mississippi, when interviewed for this publication concurred that "these credit unions did not fail as a result of serving economically under-privileged people."[19]

Staff Training and Technical Assistance

The community credit union movement did not have, on the whole, the luxury of formal training programs despite the need for such skills as loan collection techniques, long range plans for growth, bookkeeping, and establishing an effective loan policy. Training, aside from that provided by the trade associations, usually occurred on the job by trial and error. During the OEO years, most people who started credit unions had little or no experience running a credit union. Credit union boards of directors only infrequently included members with marketing or management skills.

Several programs were established, however, in the 1960s and 70s to provide some of the needed training. OEO contracted with three organizations to provide technical assistance and training to credit unions: the Credit Union National Association (CUNA), the national trade association for credit unions; Technical Assistance Services, Inc. (TAS, Inc.), a consulting company of former CUNA and OEO employees; and the National Credit Union Administration (NCUA), the federal government supervisory body.

CUNA's Technical Assistance

In April 1966, OEO entered into a technical assistance contract with CUNA. The contract included plans to assist the Community Action Agencies in the design of credit union programs and to encourage state credit union leagues and established credit unions to become more active in the anti-poverty effort. CUNA and OEO entered into a second contract in April 1967, under which CUNA was to provide assistance to credit unions in areas of credit union operations.

OEO's contracts with CUNA expired June 30, 1970. By this date, OEO had paid a total of $612,000 for technical assistance to credit unions and consultative services to CAAs. While this sum purchased an array of technical services, the training program had its shortcomings. It was understaffed from the beginning. The first contract (1966-1967), allowed CUNA only one technical specialist. The second contract period, ending in 1968, only provided five specialists, one for each of five geographical regions. The lack of service personnel made the time intensive follow-up support for individual credit unions impossible.

The lack of resources was exacerbated by the reluctance of some CUNA administrators and some state credit union leagues to support low-income credit unions. The leagues in particular were cautious about becoming involved with limited-income credit unions and were often less than enthusiastic about giving assistance. A criticism levied against CUNA in a 1971 report noted:

> "CUNA had a [total] staff of 12 to 15 people working on their OEO contract. According to their own testimony their efforts to aid minority groups to promote and develop credit unions were received with hostility and obstruction in numerous state leagues and, in fact, the CUNA personnel were sometimes excluded from working with credit unions in some states altogether because the state credit union leadership opposed limited income credit unions." [20]

The combination of some state leagues' hostility and CUNA's lack of enthusiasm, resources, and effectiveness meant that many limited-income credit unions received inadequate training and support from their trade organizations.

When the OEO contract came up for renewal in 1970, both OEO and CUNA hesitated about continued involvement with limited-income credit unions. Government support was weakening for the program, and CUNA was experiencing internal disagreements about the appropriateness of funding limited-income credit unions. Disgruntled by the environment at CUNA and fueled by the non-renewal of the OEO contract, several employees left CUNA, founded TAS, Inc., bid on, and won the new OEO contract.

TAS Inc.'s Technical Services

The TAS, Inc. and OEO contract began at the end of 1970 and was renewed for 1971-72. TAS, Inc. provided technical assistance to credit unions to help them develop realistic business plans and to train staff in credit union management and business procedures. TAS, Inc. was a strong advocate for credit unions building their assets from low-interest loans rather than from grants. Based on an analysis of the credit unions they serviced, TAS, Inc. concluded that low-interest loans to credit unions would generate larger membership growth and loan capabilities, as well as harness community interest. Faced with repaying loans, credit union staff would be forced to "hustle" the credit union to their members and the community.

NCUA's Training

OEO credit unions also received training from the National Credit Union Administration and its predecessor, the Bureau of Federal Credit Unions (BFCU). (NCUA is the federal agency responsible for chartering and regulating federal credit unions.) This program, though again short-lived, was established on a more appropriate scale.

In March 1965, OEO contracted with BFCU to run a training program for inexperienced credit union staff and board members, for which OEO paid BFCU $272,000. This program, designed to supplement CUNA's technical assistance, had three main components. BFCU educated OEO staff in the value of credit unions for low-income areas. BFCU also trained local Community Action Agencies in organizing, budgeting, and administering low-income credit unions. Finally, BFCU provided intensive courses for managers and treasurers of low-income credit unions in fiscal operations, financial counseling, and legal services.

Between 1966 and 1968 BFCU and then NCUA trained about 500 staff of OEO-sponsored credit unions. The program was then discontinued for lack of funds but revived for one more year in 1970 when NCUA trained another 400 people.

The Problems Between Credit Unions and Community Action Agencies

The relationship between credit unions and CAAs was fundamental to the OEO blueprint. The credit unions were to be a vital component of the agencies' community rebuilding effort. In return, the CAAs were to be the vehicle for a massive expansion of low-income credit unions. In practice, however, the CAAs, the dominant partner, sometimes hindered the purposes of the credit unions. CAAs typically exercised a great deal of control over the credit unions although they lacked an understanding of the credit union movement. Nor did they comprehend the importance of community volunteer involvement. Yet, they administered the OEO funds, often sat on the board of directors, and had direct contact with and influence on members who were often CAA clients.

OEO-related credit unions faced problems when their boards of directors were not independent of the sponsoring agency. Dick Saul, formerly Chief of OEO's Consumer Action and Cooperative Programs, says there were often disagreements between a board and its Community Action Agency over credit union policies. For example, the CAA would hire a manager to run the credit union rather than having the board of directors select someone. Since the voluntary board of directors is responsible for setting and implementing all credit union policy, CAA interference was a violation of credit union regulations and compromised the effectiveness of the total credit union operation.

Many CAAs were committed to welfare rights advocacy aimed at increasing the welfare payments to their constituents. This agenda, which emphasized people's rights to an adequate level of resources, sometimes came into conflict with the credit union's lending activities. CAA staff did not always make clear to their clients the purpose and needs of the credit union as a financial institution (which staff did not always understand themselves). As a result, it was not uncommon for credit union members to think of the money they borrowed as grants that did not have to be repaid. The CAAs were sometimes responsible for sending these mixed messages.

Although CAAs sponsored credit unions, sometimes they did little to make them visible and accessible. It was not uncommon for a credit union to occupy space within a Community Action Agency facility. Most credit unions were located in CAA offices or in other CAA property in close proximity to the main facility. CAA facilities varied from small storefronts to larger professional-type offices. One account describes the cramped quarters of one credit union placed at the end of a confusing route of stairways in a CAA office and nearly impossible to find. The lack of visibility, convenient access, and separate identity from the CAA were definite disadvantages in marketing the credit union.

The practical issue of how much CAAs charged credit unions for rent illustrates the complexity of the relationship. More often than not, OEO-funded credit unions rented their space from CAAs. In lieu of strategic plans about how best to use government subsidies, excessive amounts of money went for rental fees. Rents reflected market value and were a source of income for CAAs. According to the General Accounting Office, many OEO-financed credit unions "experienced higher costs for space occupied -- rent, utilities, and maintenance -- than other Federal credit unions of similar size, primarily because most of them paid rent for space whereas many other credit unions which were not OEO-financed were provided with space free of charge or at relatively low rentals."[21]

OEO's response to the GAO criticism pointed out that many OEO-financed credit unions paying rent were located on property owned by or leased to organizations also receiving federal assistance, such as a CAA. If the credit unions were allowed to pay reduced rents to community action agencies, an OEO spokesman argued, the organizations would lose income and might in consequence require additional federal assistance.

The experience of the Need Action Federal Credit Union in Waterbury, Connecticut, chartered in 1967, illustrates just how large an impact CAA rent levels could have on a credit union. After Need Action's original OEO funding was discontinued in 1968, Need Action rented space in a privately owned building. A few months later the credit union was successful in obtaining federal funds through the Department of Community Affairs for staff salaries. The funds were administered by the local CAA. In the early eighties, credit union board members who were employed by the local CAA were responsible for the credit union moving into a CAA-owned building. The credit union went from spending $250 a month rent in the privately owned building to $1,300 a month in the CAA owned building. The high rent caused the credit union, already struggling with the inherent problems of a low-income membership base, increasing financial difficulties, but the credit union board members who worked for the CAA and the board members who were friends of the CAA remained loyal to the community action agency and maintained the high rent. The credit union eventually purged the board, bringing in new board members who had no ties to the agency and moved to a building that charged a more reasonable rent. The year before its CAA funding ended, Need Action paid to the agency $17,160 in rent while receiving only $15,000 in federal funds.

A central issue between credit unions and their host community action agencies was the degree to which CAA staff was committed to the credit union. Non-funded OEO credit unions could not afford paid staff. In many cases individuals responsible for running the credit union, working in such capacities as clerk, teller, or bookkeeper, also had full-time jobs with the local CAAs and took on the credit union as a second job, without commensurate compensation. When people assumed credit union responsibilities through their employment with the community action agencies, CAA work came first.

The earlier history of the Need Action FCU was a powerful lesson in the need for loyalty. When the credit union received its charter in 1967, it also received OEO funds for three full-time employees who were provided through the local Community Action Agency. But this initial credit union management arrangement was short lived. All three employees left their positions out of fear in the chaos following the riots spurred by the death of Martin Luther King, Jr. Volunteers who remained with the credit union questioned whether the three CAA-provided employees had the vision and grassroots commitment needed for establishing and maintaining a community financial institution.

When the CAA-sponsored employees left, OEO discontinued its funding of Need Action. For all intents and purposes the credit union closed. However, Claude Ligon, a local community activist and visionary, was absolutely committed to the maintenance of a community financial institution. He knew there were no other options for meeting the credit needs of the community. With Ligon as manager and three board members who were not deterred by OEO's abandonment, the credit union continued to operate, raising "sunshine funds", money raised from small fund raisers such as bake sales, dinners, and raffles to pay the manager's salary.

Positive Experiences with CAAs and VISTA Workers

While some credit unions had negative experiences with OEO, some experiences were positive. Clarke Community FCU, a non-funded OEO credit union, chartered in April, 1969, continues to operate in Athens, Georgia. Although the credit union received no OEO funds, it accepted free operating space at the local CAA, Area Committee to Improve Opportunities Now (ACTION). The credit union remained at the ACTION facility rent free until 1987.

Along with free space from ACTION, several ACTION employees sat on the credit union's board. Unlike Need Action's experience, Clarke experienced no conflict of interest from the ACTION-employed board members. Overall, Clarke Community FCU found the ACTION employees very helpful. ACTION employees even took in deposits and loan payments when credit union volunteers were not available to service members.

Need Action FCU also demonstrated that a creative credit union could turn around a bad experience with federal funding. The Need Action board, realizing they could not continue to pay the manager from their meager fund raising and corporate charitable contributions, submitted a request for funding to the Connecticut Department of Community Affairs (DCA). DCA received federal funds in the form of Community Development Block Grants which it distributed to local CAAs. Need Action's request to DCA to fund a manger's position was denied, but Need Action was allowed to hire two budget counselors with DCA funds granted through a community action agency. Thus Need Action FCU, once again, was funded through the local CAA, and Claude Ligon became a budget counselor and some time later a second budget counselor was added to assist him. This arrangement continued through the mid eighties when funding ended permanently. Since then the credit union has struggled to pay staff from earnings.

In a few instances, VISTA workers staffed OEO credit unions, an arrangement made possible because OEO administered both the CAA and the VISTA programs. Some VISTA workers gave technical assistance, working directly with the boards of directors and credit union committees and promoting credit union services to the community. Others worked directly in credit union operations. The first treasurer of the Clarke Community FCU was a VISTA volunteer who had worked in a credit union in Brooklyn, N.Y. He set up the books and worked in the credit union for six months. "The credit union would have been lost without him," says Janet Pomeroy, a charter member of the credit union.[22]

Community Interest and the Sustenance of Credit Unions

Community credit unions could only survive with the intense, long term commitment of local activists. Once the newness of operating a credit union wore off, declining interest often resulted in sparse attendance at meetings of committees absolutely essential to the survival of the credit union. The credit committee, supervisory committee, and board of directors require consistent attendance to be effective. When irregular participation affected the functioning of these committees, the entire credit union operations were jeopardized.

Although enthusiastic about beginning credit unions, the initial leadership often had little or no concept of the time and energy required to run a successful credit union, particularly a low-income credit union. Once the novelty wore off, credit unions fell prey to ineffective managers and inactive board members.

A 1973 study of nine New York state OEO-related credit unions notes: "The actual reasons for the initiation of the credit union in some of these cases are quite vague. It is very apparent that, after the credit union was established, local members of some of the sponsoring agencies seemed to lose interest in its further development."[23] Most people involved in the OEO-related credit unions interviewed for that study said they had underestimated the amount of time necessary to run the credit union.

The boards and committees of credit unions are much more important to their organizations than the boards of some other not-for-profit organizations. The credit union board literally runs the organization. The board of directors controls the general direction of the credit union, setting aside reserves, declaring dividends, hiring officers and employees, planning and holding annual meetings, arranging for physical security, establishing services, marketing the credit union, and setting lending policies. The credit committee is responsible for extending individual loans, avoiding uncollectable loans while at the same time meeting the credit needs of the community. It must investigate each prospective borrower's ability to repay and establish that each loan is intended for a productive purpose. The supervisory committee conducts a yearly audit of the credit union, and makes periodic spot checks of its financial status to watch for signs of poor management and embezzlement.

A credit union cannot run itself. Potential loans must be examined, services marketed, late payments tracked down, and state and federal rules and regulations carefully followed. Often low-income credit unions cannot afford paid staff to perform these functions. For this reason, the energy level of managers and board members can determine the life span of volunteer-operated credit unions. The mass-produced, top-down nature of the OEO credit unions did not take into account the absolute necessity of local enthusiasm for the project.

There were, however, plenty of examples of OEO-related credit unions that commanded the necessary loyalty and energy. "For so long, blacks and other minorities had such a hard time obtaining loans. This credit union means so much to the community that we just had to have the determination to survive," says Bobbie Johnson, manager of the Friendship Community Federal Credit Union in Clarksdale, Mississippi, which continues to operate today.[24]

Pauline Spears of the OEO-related Ninth Ward Federal Credit Union in New Orleans praised its continued strong board of directors: "They were community people and fought for the interests of the people living here. Best of all, they stayed in the community and kept their commitment to the credit union."[25]

Johnnie Lyles, a founding member of the National Federation of Community Development Credit Unions, the trade association for CDCUs, and advisor to some OEO credit unions, believes most surviving credit unions had one key person who loved the credit union and stayed there for years. That person, usually a manager or possibly the head of the board of directors, dedicated him- or herself to seeing the credit union through any crisis.

At the still-operating C.O. Federal Credit Union, chartered in 1966 in Charleston, South Carolina, Manager Alma Simmons also cited one person whose dedication was essential to the survival of the organization and who instilled dedication in other board members and staff. This community leader was an activist in the 1960s, took the initiative in contacting OEO for a grant to start the credit union, and remained with it while it grew.

Section Six:
Regulatory Restrictions

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Common Bond Restrictions

Two aspects of the regulations governing credit unions caused particular difficulties for OEO credit unions. The first were the rules governing membership.

Slightly less than half the OEO-related credit unions had a common bond of membership restricted to people employed by or participating in the local Community Action Agency. The remaining OEO credit unions had geographic common bonds allowing any community resident in the defined area to join.

The first low-income credit unions associated with Community Action Agencies in both rural and urban areas had difficulty choosing a common bond which would allow them sufficient membership potential. In rural areas, the geographic region encompassed by the CAA was often too large to qualify for a common bond under then-current regulatory standards. Neighborhood charters in urban areas were considered inappropriate, because they were thought too large to represent resident's actual sense of their community. On the other hand, narrowly-drawn common bond areas limited assets, because average deposits were small and money did not accumulate fast enough to sustain the credit union. The common bonds most acceptable to regulators--membership in a community action agency--proved too restrictive for the financial needs of the credit unions.

J. Orrin Shipe, then managing director of CUNA International, testifying in October, 1968, before the Senate Subcommittee on Financial Institutions of the Committee on Banking and Currency, advised:

> "Chartering authorities should not be guided by outmoded criteria which held, for example, that a residential community charter should not encompass more than 7,500 people.... What is needed is a sufficiently flexible approach to the common bond to grant inner-city credit unions access to a broad spectrum of business and professional people and the relatively affluent residents of surrounding areas possessing adequate income to make substantial investments in credit unions."[26]

Pauline Spears, current manager of the surviving OEO-related Ninth Ward Federal Credit Union in New Orleans noted the particular problems of credit unions whose boundaries were public housing developments. Of the six OEO-related credit unions started in the New Orleans area, three merged with other credit unions and two were ultimately liquidated. Both liquidated credit unions served only residents of public housing developments who had too little income to save.

Although enthusiastic charter members sometimes invested substantial sums to help credit unions get started, the preponderance of members were low-income people with insufficient deposits to build a credit union to the point where it could operate without subsidies. Registered CAA volunteers and other moderate-income residents could not provide sufficient deposits to meet the credit needs of the credit unions.

After Shipe's testimony to the Senate Subcommittee in 1968, NCUA responded to this problem by adding a residential urban charter which included in the common bond residents of, and workers in a city or county, as well as members of organizations providing economic assistance to people in that area. The more flexible charter gave credit unions a greater potential for growth.

The first low-income credit union in the country to serve the entire inner-city area of a large city was chartered in 1969. The credit union, SEAL (Savings, Education, Action, Loans), was sponsored by the Albany County Opportunities, Inc. (ACOI) in Albany, N.Y. All the residents of Albany's low-income core area were eligible for membership.

By 1970, many of the CAA-based credit unions had converted to the more expansive community charter. The expanded community charter allowed credit unions to recruit members with a range of incomes and so gave credit unions the opportunity to establish a large asset base.

Requirements for Deposit Insurance

Another federal requirement, an amendment to the Credit Union Act in October 1970, created an immediate crisis for OEO credit unions. The amendment provided for federal share insurance for deposits in credit unions and established new requirements for federal charters. The requirements included adequate reserves, safe and sound policies and financial condition, fit management, and operations consistent with credit union principles. NCUA had to be able to insure credit unions "without undue risk to the fund." Once insured, credit unions were subject to periodic examination by NCUA and had to pay fees for those examinations. The credit unions were also required to pay insurance premiums to NCUA of one-twelfth of one percent of their total share accounts.

Credit unions that had never been held to specific standards were suddenly subject to strict regulation. Many credit unions could not comply with the new standards and closed their doors. "Share insurance was a big factor in closing down the credit unions," says Dick Saul, former Chief of Consumer Action and Cooperative Programs at OEO. "There were very tough standards set.... The government claimed [the high maintenance, low-income credit unions] would jeopardize the solvency of the insurance fund."[27]

The credit unions found the requirements for reserve accounts to cover defaults on loans particularly onerous. Most low-income credit unions did not make enough money to cover operations, much less to build reserves.

Some attempts were made to soften the blow. NCUA and OEO entered into a financial assistance contract on June 28, 1971 for the amount of $504,000. The contract enabled NCUA to defer insurance requirements for some limited-income credit unions and to provide a continuance for other credit unions until they could build reserves to acceptable levels.[28] An amendment to the share insurance provision was passed on December 23, 1971, providing federal credit unions with two additional years in which to meet share insurance requirements and insuring credit unions during that two-year period. The law charged NCUA to make "every reasonable effort to prevent the closing of any federal credit union which is insured for a period of two years." This effort was to include technical assistance, management training, and management counseling for the credit unions. While the contracted assistance and the two-year reprieve helped some low-income credit unions survive, many of the struggling OEO credit unions could not meet the stringent requirements for share insurance, and were liquidated by NCUA.

The two-pronged reform of share insurance and stricter regulation strengthened the regular credit union movement and allowed the better established employee-based institutions new opportunities for growth. Most credit unions could attract additional members and deposits now that shares were insured up to $20,000. The new regulations provided the structure for ensuring sound management and lending practices, but the insurance requirements held many OEO credit unions to an unattainable standard. While the regulations probably weeded out some credit unions that should not have survived, the absence of special provisions for OEO credit unions and the lack of sufficient transitional support closed some credit unions that might otherwise have survived.

Section Seven:

Expectations For OEO Credit Union Self-Sufficiency And The Reality

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OEO credit unions were conceived to improve the economic condition of low-income areas and the residents of those areas. As means to this end OEO-related credit unions sought to educate their members in financial matters, promote savings and thrift, and provide basic financial services. Membership consisted primarily of people who could not obtain credit from traditional institutions but who needed loans for mid-term goals such as home improvement, the development of small businesses, education, and for essentials such as paying rent, buying food, and paying medical bills.

The credit unions themselves had to be stable before they could affect the economy of a neighborhood. The key to a credit union's stability is the acquisition of sufficient capital. Credit unions need capital to make loans, to conduct promotional or educational programs, and to pay dividends. As far as CUNA was concerned the standard for stability was self-sufficiency. Self-sufficiency for a credit union requires sufficient deposits and reserves to generate enough income from investments and loans to cover the institution's expenses and dividend rate. A self-sufficient credit union is not dependent upon outside financial support for paying office rent, salaries, equipment costs, promotional costs, or periodic dividends. Today, a credit union could probably not be self-sufficient with less than $1 million in assets unless its staff are all volunteers.

Long-Term Goals for Self-Sufficiency

While the primary responsibility for planning lay with the individual credit unions, OEO and CUNA had responsibilities for training and technical assistance. Neither OEO nor CUNA actually required credit unions to develop formal plans or projections for self-sufficiency, and OEO made no systematic checks on the progress of the credit unions. The government assumed that the provision of minimal funding would result in self-sufficiency in a brief amount of time. Self-sufficiency could not occur, however, without a plan and without continuous monitoring.

In an August 1970 report to OEO, CUNA defended the fact that every credit union had not established long-term goals. In a revealing comment, the report cited CUNA's lack of experience with low-income credit unions and expressed doubts about what such credit unions could be expected to accomplish. This ambivalence revealed the existence of a double standard. Low-income credit unions were not subject to as rigorous a standard as regular credit unions. The report actually implied that the act of demonstrating the failure of the credit unions to achieve a predetermined goal would be discouraging to limited-income people. [29]

Peter Livingston, a former CUNA official who provided technical assistance to OEO credit unions, commented in his report "Crisis in Limited Income Credit Unions" that many of the credit unions eventually laid out some formal plan for becoming self-supporting. However, neither OEO or CUNA applied sanctions when credit unions failed to meet their goals. Livingston added that, when OEO credit unions did make plans with financial goals "they ended up being...not much more than an on-paper balancing act," full of unrealistic assumptions.[30] Since OEO did not systematically monitor credit unions, few people thought OEO would withdraw support from a credit union for not meeting its goals.

The General Accounting Office came to the same conclusion, reporting that without formal plans, OEO was unable either to check adequately the credit union's progress or to "initiate actions to alleviate problems that might be causing the credit union to experience a less than anticipated rate of progress."[31] This view was shared by Dick Saul, former chief of Consumer Action and Cooperative Programs at OEO, who said that, "the credit unions should have had benchmarks to follow." [32]

Unrealistic Expectations for Self-Sufficiency

The lack of planning was merely part of the problem. Credit union sponsors were also unrealistic about conditions for self-sufficiency. CUNA's demonstration projects, according to a report from the association:

> "were designed to test the proposition that a credit union initiated on a full-time basis through a subsidy would be able to sustain full-time operation on its own in a comparatively short time (originally estimated at three years). This method would thus bridge the period of high liquidation risk."[33]

A basic flaw in this proposition was the inference that subsidy alone would be enough to make a credit union self sustaining. The report's drafters failed to recognize other factors that are critical to the success of a community financial institution. These include: a dedicated staff, committed to providing a variety of help to low-income people; training; a board of directors that assumes fiscal responsibility for the operations of the credit union; the establishment of policies that are fair, consistent, and uniformly enforced; and active outreach, marketing, and community education.

Time is clearly essential for developing characteristics of a self-sustaining credit union, but time was not on the credit unions' side. CUNA officials wanted results as quickly as possible. The CUNA Anti-Poverty Report for 1964-66 stated:

"Some of us [at CUNA] feel it would be better to start with two or three volunteers in each group, and let them build a credit union slowly and solidly, a dollar at a time. But the anti-poverty program wants the benefits of a credit union launched in full operation -- perhaps even capitalized -- ready to meet immediate needs which cannot wait." [34]

OEO had extremely unrealistic expectations for the financial support necessary to launch fully operational limited-income credit unions. Officially, OEO set two years as the maximum time credit unions could expect certain operating and administrative costs to be financed by OEO. This highly optimistic estimate of when credit unions could achieve self-sufficiency proved to be far off the mark; the extraordinary results OEO expected from credit unions could not be achieved in one or two years.

Those at CUNA who wanted the credit unions to grow slowly but consistently were overwhelmed by pressure from OEO to obtain quick results. This understandable, but impatient, attitude showed a lack of awareness of the nature of low-income credit unions, which require widespread community support for survival. Temporary subsidies cannot substitute for starting a credit union with strong grassroots support and building it "slowly and solidly" with dedicated management and shareholders. If a subsidy runs out before a consistent pattern of savings has been established, the credit union's asset base decreases and less money is available for loans.

OEO and CUNA had different expectations for credit unions with common bonds based on association with Community Action Agencies (CAAs). OEO officials expected the middle-income Community Action Agency employees to provide enough capital through their deposits to meet the immediate loan needs of low-income members. This rapid build-up of assets was projected to occur while the low-income members were slowly increasing their share level in the credit union with their smaller deposits. However, CAA staff did not make deposits at anywhere near the projected rates.

A Model for Credit Union Self-Sufficiency

While OEO and CUNA failed to ensure that credit unions had a formal and closely monitored plan for achieving self-sufficiency, such a plan existed at least in theory. CUNA's publication "Community Credit Unions in Community Action Programs -- A Model Program" set out a model for achieving self-sufficiency. The CUNA report to OEO for July 1968 to June 1969 included a description of a credit union projected to be self-supporting at the end of five years.[35] The projection is summarized in Table 3.

TABLE 3

ACCUMULATION OF ASSETS IN CUNA MODEL FOR CREDIT UNION SELF-SUFFICIENCY

Year	Total Deposits/Assets
End of First Year	$12,000
End of Second Year	$48,000
End of Third Year	$100,000. Credit union open full-time, income from loans to pay for office staff, other operating expenses pay for themselves.
End of Fourth Year	$190,000. Switch to volunteer leadership.
End of Fifth Year	$300,000. Self-sufficiency achieved.

Source: Final work report to OEO, CUNA, 1969

unions, the model described a "basic guide" based on an urban neighborhood community-based credit union with a potential membership of 20,000 members. The success of the model presupposed that in the fourth and fifth years, the credit union would be staffed by skilled volunteers. The plan made the questionable assumption that paid staff would stay on as volunteers to give the credit union a chance to grow. By the end of the fifth year, the member deposits would total approximately $300,000. Each year the amount of subsidy was to be reduced by 20 percent of the previous year's gross.

The CUNA report listed five requirements for the success of each credit union model:

1. There must be a credit union development and promotion specialist. "Such a role must continue until the credit union volunteer leadership can itself take over these roles."

2. There will be a one-time $1,000 subsidy for training expenses from some outside source.

3. There will be a one-time $1,000 subsidy for promotion and education from some outside source.

4. Office space will be provided free of charge.

5. Equipment will be provided free of charge.[36]

By the end of the fifth year, with $300,000 in deposits, the credit union was supposed to generate $30,000 in income. Half of this money would be set aside for reserves and used to pay dividends. The other half could be broken down into $7,500 for salaries and $7,500 for operating expenses. The report concludes, "it is expected that no further financial assistance would be needed after the credit union reaches $300,000 in assets."

The reality turned out to be very different from the theory. In 1971, the General Accounting Office examined a sample of seven OEO-funded credit unions. Table 4 shows the actual total assets of each of the seven credit unions at the end of each year and how the actual asset growth compared to the CUNA model. [37]

The history of each of these credit unions demonstrates the problem. For example, at the time of this analysis, credit union A had been in operation four years and 11 months. If it had lived up to CUNA's model, it should have accumulated $291,000 in assets. The credit union, however, had only accumulated $156,000. Credit union G was projected to have $164,000 at the time of the analysis, but it fell far short of expectations, with only $26,000 in assets.

These examples illustrate how unrealistic the growth model proved to be, even for those credit unions which received funding. They were simply unable to live up to OEO's expectations and CUNA's projections. While most of the sample credit unions accomplished substantial growth (especially in the last couple of years shown), they did not grow at a pace that would allow them to survive without subsidy after five years even assuming that they could have accomplished the transition from a paid to a volunteer staff. The expectation that a five year-old growing credit union would only use volunteer help was an unreasonable assumption, and symptomatic of the OEO and CUNA's lack of understanding of the realities of operating a limited-income credit union.

TABLE 4

Comparison of Credit Union Assets with CUNA Model

Credit Union	Date OEO Financing Initiated	Projected Total Assets for 1969 Based on CUNA Model (Thousands)	Total Assets at December 31 (Thousands) 1969	1968	1967	1966	1965
A	Jan. 1965	$291	$156	$48	$33	$24	$16
B	Jan. 1965*	$282	$127	$96	$49	$31	$31
C	Apr. 1966	$164	$103	$50	$28	$11	--
D	Sep. 1966	$129	$ 73	$54	$31	$16	--
E	Nov. 1966	$115	$ 30	$13	$ 5	**	--
F	Mar. 1967	***	$ 29	$31	$ 6	--	--
G	Jan. 1966	$164	$ 26	$25	$16	$ 4	--
H	Jan. 1967	$108	$ 11	$ 3	$ 3	--	--

*Credit union was chartered in July 1961 and had total assets of $12,000 when OEO began to provide financing.

**Less than $500.

***Credit union is located in a rural area for which the CUNA model was not intended to apply.

Source: Woodstock Institute from data in GAO study of limited income credit unions, 1971.

Section Eight:

Lessons Of The OEO Credit Unions and Implications for Contemporary Limited-income Credit Unions

Section Eight: Lessons of the OEO Credit Unions and Implications for Contemporary Limited-income Credit Unions

Despite the high expectations the government and CUNA had for limited-income credit unions, more OEO credit unions failed than succeeded. The draft title of the General Accounting Office report evaluating the OEO credit union program was "Dim Prospects that Credit Unions Benefiting the Poor Will Become Self-Supporting."[38] Today, between 35 to 56 of the over 400 OEO-related credit unions remain.* Three-quarters of the credit unions started under the OEO program were eventually liquidated or merged with other credit unions.

The history of OEO credit unions and the more recent history of credit unions designated as limited income by NCUA demonstrate the difficulties of establishing credit unions in low-income communities. Both histories also include success stories, and the 1970 CUNA report on limited-income credit unions was a partial reading of the evidence. The OEO credit union programs illuminate many of the reasons why OEO-related credit unions failed or succeeded.

Community Commitment

Community Action Agencies were often the wrong vehicles for starting credit unions. CAAs were primarily social service and welfare advocacy groups with little or no understanding of economic or community development. Some CAAs were staffed by community residents who strived to build a sense of community and who remained responsive to their fellow residents. At other CAAs, staff did not represent the people of the community or community development initiatives, and did not or could not relate to community residents. Another group of CAA staff were "leading community citizens" who used CAAs and their credit unions as stepping stones out of poverty, often leaving behind a leadership void. All CAAs depended on other federal programs for their existence, creating mixed allegiances. At worst, the marriage of credit unions and CAAs burdened the agencies, confused the different rules governing welfare and credit programs, and denied credit unions the grassroots leadership they needed to survive.

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*An accurate number of remaining OEO-related credit unions is difficult to provide due to changes in credit union designations, mergers, and changes in NCUA and CUNA recordkeeping.

Where credit unions succeeded their staff clearly had a commitment to the community and knew community needs first hand. These credit unions were committed to empowering people regardless of age, sex, race, or economic status. Staff knew the membership, and they knew who would pay back loans. Personal knowledge of and experience with borrowers permitted staff to make loans that regular financial institutions were unable to make.

Clarke Community FCU in Georgia reported a classic example of such lending. An eighty year-old member lived in a trailer, tended goats, and primarily lived off the land. This woman regularly obtained loans from the credit union and always paid the loans back. She had no collateral, but the credit union knew she would pay off her loans.

Marion County FCU in Texas reported a similar illustration of responsiveness to community needs. An eighty nine year-old woman, who had lived on her property since birth, discovered one day that her well had caved in. Local banks and the FHA refused to lend money to her. The credit union established her membership, made the loan, and helped her fix the well and add indoor plumbing. The loan was made for 24 months. The woman rebudgeted her public assistance income, paid the loan off in twelve months, and asked for another loan to stabilize her house.

In some cases the credit union was formed in response to a direct expression of community needs. In other cases the credit union staff worked hard to sell the credit union to the community. Often, the credit union was staffed by people active in the community. Watts United FCU in Los Angeles was formed as a direct result of the 1965 summer riots in Watts. Residents in the area started the credit union because they knew the credit needs of the community were not being met. Their guiding principle was that people on welfare needed access to credit and would pay back loans. Originally the credit union made $25 - $50 loans to welfare recipients to keep them solvent until welfare payments were received.

Implications for Success

Limited income credit unions are grassroots financial institutions that require community initiative and support to survive. A community sponsored credit union may well need resources from outside the community but have a better chance of surviving than a credit union imposed on the community from outside. Within a context of fiscal responsibility, community credit union decisions and members' needs are best determined at the local level. It may take years of marketing and community education to build effective working relationships, but once those relationships are formed they become a vital part of the economic fibre of the community.

Commitment of Key Staff and Board Members

Some credit unions ran into difficulties when local leaders became aware of the enormous time commitment required to make credit unions succeed and lost interest. Even though many local organizers displayed considerable enthusiasm when their credit unions were established, that enthusiasm often waned when managers and board members realized the extent of the work load. OEO's strategy of covering the country with limited-income credit unions ignored the degree of staff and board effort required for a successful operation.

Most successful credit unions, on the other hand, attribute their success to a single person or persons who believed so fervently in the credit union that they worked in whatever way necessary to ensure its survival. These persons were often the manager or a board member and remained with the credit union over a long period of time. The Watts credit union had such a supporter. James Taylor of Watts United Credit Union, chartered in 1967, was an original board member of the credit union. Today, Taylor is president of the board and manager, conversant with the day-to-day operations of the credit union, and actively seeks solutions to the problems and credit needs of the community.

Need Action FCU in Connecticut, chartered in 1967, had a similar key supporter. Claude Ligon became the manager in 1968 and continues in that position today. Through the years Ligon has spearheaded fund raisers, taken cuts in salary and benefits, and worked extraordinarily long hours to keep the credit union open. Ligon remains committed to meeting the needs of the community. According to Ligon, "The credit union has lasted so long because of the dedication and determination of staff and board members."[39] Another charter board member remains active on the board.

<u>Implications for Success</u>

Active volunteers should be regarded highly. They are critical to the work that precedes the chartering of a new credit union, as well as its continued operation. The presence of paid staff does not negate the importance or the usefulness of committed volunteers. While the OEO experience presented examples of the unrealistic intention of turning paid help into volunteers, successful credit unions realize the importance of recruiting volunteers based on interests and goals consistent with credit union philosophy and mission. The all-volunteer board of directors has a tremendous responsibility in directing all credit union affairs. In addition to a volunteer board, contemporary credit unions use volunteers on such committees as the supervisory committee, the credit committee, the marketing committee, and others. They enlist volunteers based on talent, commitment, and shared vision. Volunteering creates a stake in ownership and makes possible services credit unions otherwise could not afford.

Funding

While financial assistance is important for start-up costs, training, and the accumulation of assets, the OEO subsidy program was inappropriate in scale and disbursement. OEO's initial funding for three full-time staff and other expenses was excessive, misdirected, and created staffing levels which could not be sustained without continued funding. Unfortunately, OEO funds were designated for administrative purposes rather than allocated to help build assets that would in turn contribute to increased income and membership growth. There were no incentives for improved performance that would lead to self-sufficiency.

Other forms of government aid were more useful, including Comprehensive Employment Training Act (CETA) funds used to pay staff; Project Moneywise, which provided consumer and financial education; and VISTA volunteers who worked in credit union offices and recruited members. Free rent was another valuable form of government financial assistance. Credit unions that did not have the expense of rent could use income to pay higher dividends, increase services, or increase the number of paid staff.

In establishing OEO credit unions, government dictated an expensive top-down model that wasted money and ignored the importance of building local capacity in fighting poverty. However, government can play a vital role in supporting independent, emerging, or developing credit unions in conjunction with grassroots organizations that are truly responsive to the community. Financial assistance designed to develop staff and volunteers' skills and build assets would be very beneficial.

Implications for Success

Appropriate financial assistance is essential for an emerging credit union. Grants and low-interest loans that allow a credit union to hire professional staff and to use the money to promote loan volume and membership growth are good investments in community economic development. Most credit unions have not had the advantage of being well-funded in their formative periods. As a result, many credit unions take five to ten years to evolve into institutions that can do more than meet basic savings and loan needs. With grant funds or low-interest loans, a well-managed credit union with strong community support can accelerate its economic impact on the community.

Planning and Management

OEO and CUNA failed to require credit unions to make formal plans for achieving self-sufficiency and failed to inculcate the practice of conducting regular, systematic progress evaluations. Despite the absence of these guidelines from the sponsoring organizations, many successful OEO credit unions worked out their own long-term strategic plans for marketing, development, service delivery, and personnel training.

"Management is the key to everything we've done," says John Brown of the OEO-related South East Alabama Self-Help Association, which merged in 1990 with another Alabama credit union but remained independent through the 70s and 80s.[40] Other credit unions echo Brown's sentiments.

Claude Andrews cites the management oversight from a strong board as a major factor in the success of Marion County FCU in Texas. From its inception the board acted independent of the OEO umbrella. They refused OEO funds because "they did not want outside forces telling them what to do or pulling strings."[41] All members of the board were community people with a stake in the credit union.

Implications for Success

The OEO experience exposed a general lack of planning and effective management. High quality planning and management are critical to the effectiveness of credit unions. Most successful credit unions incorporate some form of strategic planning to forge new visions and to keep the credit union focused on its goals and mission. Management from the board of directors is key. The board sets the course of the credit union and monitors all credit union operations and activity. Effective local leadership must be in place for a credit union to be successful.

Realistic Loan Policies

Surviving OEO credit unions developed sound loan policies and usually adhered to them. They were not, however, above making exceptions if they were sure of repayment. Exceptions to policies were made to members staff and board members knew well.

Staffers were trained to understand credit union loan policy which usually required a membership period before an application for a loan could be submitted. Some credit unions had a policy requiring loans to be secured by a member's account balance.

Policies varied from credit union to credit union, but the expectation was that those reviewing loan applications would exercise sound judgment. In contrast, staff members of some Community Action Agency-based credit unions often failed to distinguish clearly between welfare grants and credit union loans. Many staffers were apparently uninformed about credit union loan policies and the principles of financial safety and soundness.

Implications for Success

Effective loan policies are the basis for the success of credit unions. Effective policies require adequate planning, implementation, and the continuing training of staff and board.

Education and Marketing

In the United States, credit unions are familiar primarily to people who have had access to them through their place of employment. Most people in low-income neighborhoods have little or no concept of a credit union. Extensive community education is necessary for a credit union to succeed. The Watts credit union had to start from scratch in educating its community. Many people thought the credit union was a poverty program and sought social service assistance. They thought loans were grants. Credit union staff and volunteers had to work hard to educate members.

Marion County FCU marketed the credit union as an ownership proposition. As owners of the credit union, members took exceptional pride in its operations. Claude Andrews marvels at the success the credit union has had with "taking individuals who had never saved a dime in their lives and teaching them to save and to take out small loans."[42]

Many managers of OEO credit unions failed to market their organizations and educate their communities. Effective community education about limited-income credit unions was key to survival. Although community outreach was time-consuming and difficult, successful credit unions realized the necessity of marketing and providing education in budgeting, savings, and credit to develop a credit-worthy membership.

Implications for Success

It is clear from the OEO experience that if a credit union is established, "they" won't necessarily come. It takes considerable marketing and education for people, especially those who have little or no experience with financial institutions, to understand how the credit union can benefit them. Marketing and community education are continuing necessities for successful credit union operations.

Technical Assistance and Training

Too little technical assistance was provided to limited-income credit unions. The resources CUNA received from OEO were insufficient and the attitude of state credit union leagues toward low-income credit unions ranged from inconsistent to uncooperative. The suspension of NCUA training for two years between 1968 and 1970 was particularly harmful. Many credit union managers received no training.

Low-income credit unions require consistent, long-term technical assistance for staff for day-to-day operations such as bookkeeping, making loans, and marketing. In addition, management training is essential. Management training should consist of setting policies, supervising staff, and long-term strategic planning.

Successful OEO credit unions recognized the role training played in their success. Claude Andrews cited Marion County FCU's early and continued affiliation with the Texas Credit Union League as a factor in the credit union's success. The credit union received scholarships from the league to attend CUNA Management School, and an extensive three-year training program for credit union personnel. According to Andrews, this training was invaluable.[43]

Claude Ligon of Need Action FCU recognized the value of the technical assistance he received from the Connecticut Credit Union League and the grant from the CUNA Foundation to support operations and added, "people should use the leagues more; they're paying dues."[44]

Janet Pomeroy of Clarke Community FCU gave a lot of credit to NCUA for help the credit union received early in its development. Early NCUA examiners were particularly helpful. They spent long hours with credit union staff, helping them solve problems.

Clarke FCU also enjoyed the help of a VISTA worker. Their first treasurer was a VISTA worker who previously worked in a Brooklyn, N.Y. credit union. The VISTA worker set up the credit union's books and worked in the credit union for six months. According to Pomeroy, "The credit union would have been lost without him." [45]

<u>Implications for Success</u>

All staff, boards of directors, and other volunteers must have sufficient, continuing training in credit union operations, marketing, and delivery of new services. Limited-income credit unions may use a variety of resources for the technical assistance and training including the National Federation of Community Development Credit Unions, state leagues, the Credit Union National Association, and the National Credit Union Administration.

Regulatory Effects on Credit Unions

Some OEO credit unions were unable to meet the requirements for insurance on deposits, and NCUA created no separate standards for limited-income credit unions when it initiated requirements for deposit insurance. Some OEO credit unions were liquidated because they could not meet the government's standards in the allotted time. Yet these same credit unions were solvent at the time of liquidation and had been serving their communities well.

The initial OEO credit unions had difficulty choosing an effective common bond. The association-based bond was often too limiting, and many geographic charters were unacceptable to the government because of their large size. Many credit unions could not supplement their low-income deposit base with a middle-income membership because of their restrictive common bonds.

While the membership of a limited-income credit union should be composed predominantly of low-income people, the common bond should not limit potential members so severely. Middle-income members can boost the deposit base, increase the loan activity, and allow a credit union to expand more quickly. The current designation of "Limited-income" credit unions eases this problem somewhat by allowing these credit unions to take some nonmember deposits.

Implications for Success

The safeguards that government regulations provide to credit unions and to members are crucial but must also recognize the context in which credit unions operate. Regulations should be fair and consistent not only with safety and soundness, but also with the mission of limited-income credit unions. Limited-income credit unions cannot be viewed in the same light as credit unions of dissimilar mission and clientele. Whereas they must be held fiscally responsible, they should be allowed to be creative in terms of membership and in addressing members needs in ways such as taking character into consideration for loan applicants; accommodating slow payments; and maintaining low loan amounts.

Conclusion

Under the right conditions, limited-income credit unions can be a viable strategy for economic development in low- and moderate-income communities. Some credit unions that were started or supported by OEO have become first rate community financial institutions. Since the end of the OEO era, other credit unions that service poor people and people who do not have access to traditional financial institutions have been chartered and have succeeded.

Successful credit unions demonstrate that varying combinations of good management, operations, and planning contribute to prosperous credit unions. The primary responsibility for success lies with the credit union, but government and the private sector can make valuable contributions in the form of grants, low-interest loans, and technical assistance. But any such assistance must rest on the base of community support for the credit union, should offer equity infusions and capacity building rather than operating grants, and should promote and reward performance.

Appendix I

Appendix I

The following description of the demonstration credit unions is excerpted from an internal CUNA report circulated in 1966. All five demonstration credit unions have been liquidated or merged.

Demonstration Credit Union Program[46]

1. **Pilsen (city neighborhood project)**

   Pilsen is the old immigrant section of Chicago, the closest neighborhood to downtown. The area now includes about 40,000 people of mixed origins, mostly white, approximately 60 percent Spanish-speaking. Because of its factories, the area has been zoned industrial, and its homes could not be improved for 40 years. Many residents work as well as live in the area.

   In this relatively stable and self-contained (but not depressed) neighborhood, the **Pilsen Neighbors Federal Credit Union** is strongly backed by the neighborhood improvement association called the Community Council. Founded in November, 1964, the credit union is now negotiating for transfer to the Chicago Community Action Program. Meanwhile, it is our principal showcase for those interested in credit union anti-poverty programs -- but it desperately needs CUNA support to continue operation after May '66.

   Assets: $59,000 Members: 511 Potential: approximately 40,000

2. **Prairie-Halsted (church group project)**

   Prairie-Halsted is a federation of church groups, formed to establish the credit union. The overlapping parishes contain almost 40,000 people on the far south side of Chicago. By contrast with Pilsen, this is a marginal group bordering on middle income, all Negro, with its office in a suburban-like shopping neighborhood.

   Prairie-Halsted Federated Church Credit Union was founded in November, 1964. It is our only demonstration credit union among church-based groups. Within a reasonable time, it probably can become self-sustaining, but now it urgently needs CUNA support.

   Assets: $26,000 Members: 344 Potential: approximately 40,000

3. **Meridan Hill (slum area project)**

Meridian Hill is located in a city slum in Washington, D.C., a really poor neighborhood with the worst health and crime records of any area we have attempted to serve. This is a once-fashionable area of old decaying buildings, close to Embassy Row and downtown Washington, all Negro in population. Membership base was a census tract of 10,000 people, rather than a self-contained area, but was later extended (new census tracts were added) to form an area containing about 40,000 people.

Meridian Hill Community Federal Credit Union was founded in June, 1964. It is now based on a high school district and related to other neighborhood development projects. This was the first of our demonstration projects to be "phased out".

Recently it was transferred from CUNA's support to the Washington Community Action Program, which includes eight credit unions to date, and now operations will be expanded with federal funds.

Assets: $12,000 Members: 233 Potential: approximately 40,000

4. **West Wilmington (small city project)**

West Wilmington is located in the smaller city of Wilmington, Delaware, in an area of mixed population which includes Negro, Latin American, and white elements. Incomes range from extremely low to mid-level. In contrast to Meridian Hill, the area is a collection of small brick buildings near downtown, which look fairly prosperous.

West Wilmington Federal Credit Union was started in May, 1965. Membership is based on an association of four community councils, which support the credit union energetically. As of May, 1966, this credit union will be transferred to the Wilmington Community Action Program, and operations will be expanded with federal funds.

Assets: $10,000 Members: 238 Potential: approximately 15,000

5. **San Juan (Puerto Rico project)**

The so-called Buena Vista project is our only demonstration project outside the continental United States. It is located in a city slum, in the Hato Rey section of San Juan. It is an interesting experiment in converting an existing limited membership organization into a full-scale credit union.

Buena Vista Credit Union was organized as a housing group in 1958, but later converted into a credit union. The emphasis is steadily shifting away from real estate.

Assets: $40.000 Members: 350 Potential: undetermined

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