GIVING THE LITTLE GUY credit

Thrift institutions and credit unions gave working people access to affordable credit

Anyone who isn't old enough to need reading glasses or care about cholesterol might have trouble explaining the difference between a bank and a thrift institution. Financial deregulation has blurred most of the functional and philosophical distinctions, but there once was a very real difference between them.

Banks focused on services for business customers: commercial loans, checking accounts, letters of credit, and other financial services related to commerce and industry. Their ultimate goal was to turn a profit, and they showed little enthusiasm for dealing with small savings deposits or the credit needs of anyone who wasn't financially comfortable.

Credit unions and thrift institutions — thrifts being savings and loan associations, cooperative banks, and savings banks — first opened amid the economic change and social upheaval of the Industrial Revolution, and in many ways they represented the 19th century notions that human beings are perfectible and public service is a noble endeavor. Profit was not their primary concern. Their ultimate goals were to encourage thrift among the working class and to meet the credit needs of people who might otherwise fall prey to loan sharks and other predatory lenders.

Mutual Savings Banks

In 1810, the Reverend Henry Duncan of Ruthwell, Scotland, established the world's first mutual savings bank — the Savings and Friendly Society — for the benefit of his parishioners. Six years later, Reverend Duncan's idea took hold in the United States when the Philadelphia Fund Society and the Provident Institution for Savings (Boston) began to accept deposits.

These early mutual savings banks were thrift institutions in the truest sense. Their main goal was to give working people a secure place to set aside some money for "a rainy day." Initially, mortgage lending was not one of their primary concerns.

The mutual savings bank movement had definite moral underpinnings. Most mutual savings banks were founded and managed by people with a mission — public-spirited citizens of means who understood the ways of finance and were eager to help the "lower classes."

"The greatest good," wrote the Secretary of the Provident Institution for Savings, "is in affording the humble journeymen, coachmen, chambermaids, and all kinds of domestic servants, and inferior artisans, who constitute two-thirds of our population, a secure disposal of their little earnings, which would otherwise be squandered."

Few, if any, mutual savings banks were in business to make a profit; many even refused to accept large deposits. An officer of the Savings Bank of Baltimore proudly noted that his bank did not "take over $500 at any time, for any person. . . . We have several instances of women, who, during the summer, deposited a dollar per week. This is the most desirable kind of depositor, for all this is saved from luxury and dress."

Savings and Loan Associations

The first savings and loan associations (S&Ls) were founded during the 19th century to help wage earners become homeowners. People formed an association and regularly deposited their savings. Then, as the pool of savings grew, the association's members bid for mortgage funds.

Members of the early S&Ls usually shared a common affiliation; often they worked at the same occupation or lived in the same neighborhood. Most members of America's first S&L, the Oxford Provident Society (1831), worked in the textile trades of Frankford, Pennsylvania.

The Oxford Society was founded out of necessity. Frankford's textile workers wanted to build or buy their own houses, but few of them would have been able to borrow money from a conventional bank because the banks were primarily interested in commercial customers.

With no place else to turn, the textile workers and a few civic-minded citizens devised a system to create their own source of mortgage funding. Each member paid an initial fee of $5 and deposited $3 a month thereafter. Any member who missed 12 consecutive monthly payments could be expelled from the Society. (The 13 trustees who ran the Society were also subject to certain penalties: 25 cents for missing a scheduled meeting and 25 cents for attending a meeting in a state of intoxication.)

As the pool of savings grew, members of the Society were allowed to bid for mortgage funds. Records show that the Oxford Provident Society's first homebuilding loan went to Mr. Comly Rich, who borrowed $375 and paid a $10 premium for the loan. The premium took the place of interest.

Massachusetts developed its own S&Ls, which were called cooperative banks. The first such institution, Pioneer Cooperative Bank of Boston, opened its doors in 1877.

Credit Unions

The credit union movement began during the mid 19th century, when desperate German farmers banded together to address their credit needs. The concept was simple: Farmers purchased shares in a cooperative, and the cooperative used the money to make loans to the farmers at reasonable rates.

Rural credit unions and farmers' cooperatives enjoyed modest success. But the focus of the credit union movement ultimately shifted from the farms of Germany to the industrial centers of America, where working class and middle class people lacked access to mainstream banks.

Most credit unions were founded by people who shared a workplace affiliation, but many were also started by people who lived in the same neighborhood or belonged to the same house of worship.

The American credit union has strong ties to New England. In 1908, the first credit union in the United States began operating in New Hampshire. Massachusetts adopted credit union legislation the following year.

Boston department store owner Edward A. Filene was an early proponent of credit unions. He took the position that credit unions benefited employers as well as employees "because instead of having his workmen harassed by loan agents, the employer gets workmen, who, if they have to borrow in some emergency, borrow among the men with whom they are working and who help them get on their feet and get steady."