

Chapter I: Early Years to 1916

Origins and Solutions

"Credit Union membership is a certificate of character and a badge of honor. Let a person stay in a credit union for ten years and it changes his whole philosophy of life — it is a modern miracle. Credit unions are the soundest financial institutions in the world."

—John Sprunt Hill

It began in the country. No, not those prosperous, sprawling plantations where chivalrous gentlemen sipped mint juleps on shady verandas. Change rarely springs from such contented scenes. The problem arose among their poor neighbors, far greater in number, barely noticed in halls of power, all trapped in untenable financial straits. Loan sharks and time-merchants greedily preyed upon these small farmers, forcing them to mortgage next year's crops to pay for this year's supplies at usurious interest rates, immersing them into a seemingly endless mire of debt and deprivation from which there appeared no escape.

But there was a way out. The relief that finally grew out of the farmers' plight became the foundation of credit unionism.

At the turn of this century, more than 80 percent of North Carolina's population was rural. Of this group, the majority lived at subsistence levels. The plantation/slave labor system was long gone, industrialization had yet to take hold, and the average farm was steadily shrinking in size: from 125 cultivated acres in 1860 to less than 20 in 1925. Millions of acres were left untilled, while soil that remained in use became depleted due to one-crop agriculture. Ready cash was in short supply. Conditions were ripe for exploitation. The crop lien system became the norm, and supply merchants who charged businessmen 6 percent interest routinely charged farmers 38 percent per annum. Short-term rates ranged from 15 to 22 percent for time purchases of four to six months — meaning up to 60 percent interest per annum.

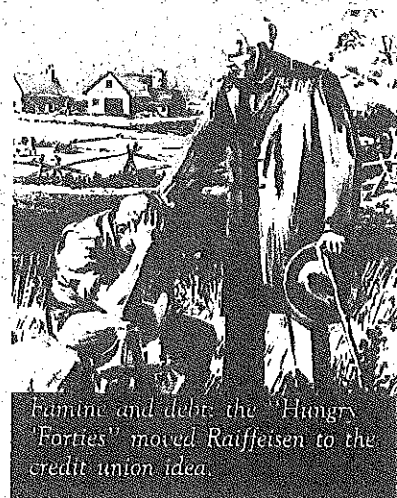
The wealthy and influential seemed blind to the farmers' woes — until John Sprunt Hill came along. Born to the largest landholder in Duplin County, wed to one of the richest heiresses in Durham, Hill could easily have followed his peers into the sanctums of luxury safely shielded from the poor. But the businessman-banker-lawyer-philanthropist felt a deep responsibility to his fellowman, and he was determined to use his education, power and connections to help them help themselves. He set out to find a working model that could be adapted to his home state.



John Sprunt Hill

Europeans were already helping themselves, by joining together into cooperative associations which had no room for loan sharks. Their system looked very promising indeed. In the spring of 1913, Hill joined a delegation of 100 Americans appointed by President Taft, which visited seven European countries to study their successful systems of cooperative finance, production and marketing. As Chairman of the Committee on Rural Credits, Hill spent six months in Italy, Germany, Austria, Hungary, France, England and Ireland learning how the farmers of those countries seized their own fates and reversed a decline that once threatened to engulf them in ruin.

He was especially struck by a bronze monument in Germany, memorializing the founder of modern credit unions, Friedrich Wilhelm Raiffeisen. One side



Famine and debt, the 'Hungry Forties' moved Raiffeisen to the credit union idea.

depicted the German farmer "Before" credit unions — "leaning upon his plowshare in despair — his wife and children in rags and tears — the ramshackle cottage — the sheriff driving away the last cow that the poor farmer possesses in order that his children might be fed." It reminded him of the poor farmers back home, on whose behalf he'd made this journey.

But on the German monument, there was a happy ending. On the "After" side, "There stands Father Raiffeisen shaking the hand of the joyous farmer . . . his wife and children are wearing good clothes, and smiling in prosperity; here are stacks of wheat, and the horse attached to the dray loaded with hay . . . happiness reigns supreme."

Thus did John Sprunt Hill learn the story of Germany's crop failure of 1848, and the subsequent solution destined to change the world. Particularly hard hit was the village of Flammersfeld, where Raiffeisen served as mayor. Starvation and destitution ravaged the populace. The only recourse open to penniless farmers was the moneylenders. But with no crops to sell to repay their growing debts, they soon began sacrificing cattle and land to pay the outrageously high interest rates lenders charged.

Finally, at the end of their ropes, they pleaded for Raiffeisen's help. A man of vision and high ideals, the mayor sought an answer through the only principle he knew would work: cooperation. Permanent prosperity could not be based upon greed, he believed; only when people take the initiative to work together for their common good will they be free.

His first attempt ended in failure, because he tried to involve the rich in his scheme of pooled funds and group purchasing. They soon lost interest, however, and the available funds dwindled to nothing. That's when Raiffeisen realized that only those with the most to gain would be willing to make the cooperative work. Under the revised plan, farmers learned that when they helped one another, they helped themselves as well. Secure in the knowledge of one another's honesty, they had no qualms in lending money to each other at far lower interest rates than what the loan sharks were charging helpless individuals. But, as they soon discovered, they were not nearly so helpless as they'd thought (or as the rich wanted them to believe) — as long as they remained united in a strong common bond of solidarity. By banding together, they virtually put the moneylenders out of business.

After the founding of the first successful credit union in 1849, Raiffeisen went on to refine the basic ideas of thrift and loans for provident purposes secured primarily by the borrower's good character and community status. He spent the rest of his life spreading his message of hope, cooperation and economic democracy. In 1859, the first national

association of credit unions was founded by 38 delegates gathered in Weimar. Before he died, Raiffeisen had organized 423 credit unions in his homeland . . . and by the time the American Commission arrived, there were over 17,000 credit unions operating successfully in both rural and urban Germany.

"The strength of the great German nation today is due more to its 17,000 cooperative credit unions than to any military organization that it may have," Hill would declare in 1915. It was one of many speeches he would deliver in his zeal to follow in Raiffeisen's honored footsteps. For he had seen first-hand how credit unions had raised the standard of living and revitalized the national economies — not only in Germany, but the rest of Europe as well — and he also saw clearly that a similar system could be established on this side of the Atlantic, with comparable results.

His first order of business upon returning home was to convince state government of the advantages of credit unions, so the necessary law could be passed in their favor. At the same time, he hit the "lecture circuit," addressing farmers' groups at every opportunity to explain how the new method could free them from financial bondage. By the time he was finished, he had earned the title of "Father of Rural Credits in North Carolina."

Hill himself drafted, almost unaided, what became known as the McRae Credit Union Bill, which passed the General Assembly by unanimous vote on March 6, 1915. Formally titled "An Act Relating to the Incorporation, Maintenance and Supervision of Credit Unions and Cooperative Associations," it provided for local deposits, sale of shares to establish base capital, small entrance fees, membership control, and loans only to member-farmers, those over \$50 secured by endorsed notes, for productive purposes. Interest was fixed at a maximum of 6 percent, or no more than one percent more than bank rates. Unpropertied tenant farmers still had to give liens on their crops as security for loans, which enabled them to buy supplies for cash and escape the average 50 percent interest rates they had previously been compelled to pay. It also established the one-man, one-vote principle, for the election of credit and supervisory committees and a board of directors, all but the secretary-treasurer serving without pay. The latter position was often filled by the local school teacher, who received as much as \$50 per year for a few hours of bookkeeping per week.

Only loan sharks saw the new law as a threat. As Hill pointed out, "The Credit Union wages eternal war on usury, and finally exterminates it. Show me a business man in North Carolina discrediting cooperation, and, as a rule, I will show you a man

who is practicing usury and exploitation." Merchants were happy for the increased business it would generate, and bankers felt no danger at all, since they never did business with small farmers anyway. Later, they would be quite willing to welcome their credit unions as customers.

Five other states had already passed Credit Union Laws by this time, and many others would follow, but North Carolina was the only one which placed its Credit Union Division under the jurisdiction of the Department of Agriculture, where it remained until 1971. For nearly 20 years, this unit of state government played a large and active role in getting credit unions started — again in contrast to other states, many of which merely mailed out literature to inquirers and left the rest up to them. The General Assembly of North Carolina went so far as to appropriate money sufficient to cover all the expenses of a specialist who traveled the state organizing and assisting credit unions.

With such strong support from state government, Hill gladly accepted the evangelistic role he had fashioned for himself. On December 9, 1915, he spoke persuasively to a group of farmers gathered at the Farm Life School in the Durham County village of Lowe's Grove. Later that month, he brought the same message to Mecklenburg County in clear, unmistakable terms:

"One small farmer, without property, but possessing good character and willing to work, has no ability to borrow money from ordinary joint stock banks in North Carolina. Two or three such farmers, working together, have no

standing in such banks. But the experience of mankind . . . shows that when you put two or three hundred of these small farmers together, and solidify their responsibility, and organize them into a cooperative union, the power of this cooperative credit union is as good as that of any commercial or industrial institution . . . **The strength of a credit union is like that of a twisted rope . . . many times stronger than the small threads that compose it.**

"The *first step* in bringing back into a state of cultivation the millions of acres of abandoned farm lands in North Carolina is *organized credit* for the farmers. The *first step* in bringing back some of the comforts and pleasures of life is *organized credit*. The *first step* in lifting the oppression of the usurer from the neck of our country folk is *organized credit*. The *first step* in abolishing the disgraceful crop lien system is *organized credit*. The *first step* in devising ways and means of giving the farmer of North Carolina a fair share of the profits of his labor is *organized credit*."

The following month, 20 farmers from Lowe's Grove took that first step. On January 20, 1916, with \$212 worth of stock and \$101.75 on deposit, they were chartered as the first credit union in North Carolina. The secretary-treasurer saw it as the focal point around which the whole community could be organized. Little did they realize how far their successors would carry this bold new idea of financial self-determination.



(Courtesy of "Gottler's")

EXTERIOR—LOWE'S GROVE RURAL CREDIT UNION, LOWE'S GROVE—NORTH CAROLINA



(Courtesy "Southern Agriculturist")

INTERIOR LOWE'S GROVE CREDIT UNION.