

12. Credit Unions and Thrift Societies

Objectives

At the end of this chapter, students should be able to state the meaning and the aims of credit unions and thrift societies; how these bodies are formed and managed; identify their sources of funds; the services rendered by them to their members, and describe some of the problems of these societies.

12.1 Introduction

Credit unions and thrift societies are an American variation of the European co-operative credit institutions which are equally common in Nigeria. In Nigeria, they are run as primary societies and when they are federated, they become secondary societies, otherwise referred to as credit unions. Credit unions may vary in the way they are run from place to place, but in essence they have some features in common.

Meaning

- (a) *Credit Unions* are formed by people brought together by a strong common interest. They pool their savings together in order to make loans available to their members at very low rates of interest. This is why they are referred to as financial institutions. The emphasis here is not so much on commercial ventures as on the thrift societies. The individual periodic contributions (weekly or monthly) may be collected by a member, who is also expected to make periodic contributions equal to his total collection.
- (b) *Thrift Societies*: These are known in full as “Thrift and Credit Societies”. They are operated on the principle of the co-operative society by people whose common interest is to create funds for members at fair or reasonable low rate of interest. Here, the main emphasis is on provident and productive purposes. They are registered under the appropriate co-operative laws in their respective states as corporations with perpetual succession and limited liability as an ordinary company.

12.2 Aims and Objectives

- (i) To encourage their members to form the habit of savings.
- (ii) To assist members who are in need financially by giving them speedy loans with little or no interest at all.
- (iii) To encourage members to acquire properties of their own.
- (iv) To save members the trouble of going to the bank to borrow money with their embarrassing “collateral securities”TM and high interest rates.
- (v) They also encourage and promote interpersonal relationship among members.

- (vi) Any interest received through the loans are shared among members, according to their contributions or participation.
- (vii) They come to the help of members in times of need, like when a member is bereaved or gives birth to a baby.
- (viii) They help to improve the standard of living of members.

12.3 Formation and Membership

Credit unions and thrift societies are easily formed by homogenous groups that are closely knit and have mutual interests and occupation. They must be culturally and geographically close as well.

Such people are found among employees of small manufacturing plants, local and state government employees and educational institutions, as well as members of labour unions. Members must have paid their entrance fees as stipulated in the bye – laws and must have subscribed to at least one share. Membership is voluntary and not compulsory.

Services Provided by Credit Unions and Thrift Societies for Members

- (i) *Facilities for Regular Savings:* Credit unions and thrift societies provide opportunities which enable members to make deposits for regular thrift savings as well as selling shares to them.
- (ii) *Loans:* These two bodies create funds which they lend to their members at low interest rates. Such loans are repayable on weekly or monthly instalments or as approved by the credit committee. The rate of interest to member borrowers is limited by law. Even fines imposed on loan defaulters are minimal.
- (iii) *Dividends:* Dividends are paid on outstanding shares in credit union, while in thrift and credit societies, dividends are paid on member's savings; and total members loans are equally repaid.

Miscellaneous: These bodies also design other measures on co-operative principles to instill in their members the spirit and practice of mutual and self help.

12.4 Organization

Like the co-operatives, the ultimate authority under the law in all their affairs lies with the general body of members who meet occasionally to review and direct their affairs. In such meetings, every member, irrespective of the number of shares held, has only one vote and all matters are resolved by a majority of votes cast.

While the general administration of co-operatives is with the board of directors elected at the annual meeting, a similar body in credit unions and thrift societies is known as a management committee. A management committee consists of the president, treasurer, secretary and one or more vice-presidents who are elected for one year at an annual meeting. Other committees include the credit committee which sees to all loan applications; the supervisory committee which serves as auditors of the organization.

None of the officers is paid for his service; and by this, cost of running the organization is usually kept low.

12.5 Sources of Funds

The sources of funds for both the credit unions and the thrift societies are from some or all of the following:

- (i) *Entrance fees:* There is the small amount which members pay on entry and it varies from society, to society in accordance with the bye-laws.
- (ii) *Shares:* There is fund from the shares sold to individuals as stipulated by the bye-laws. This is the major source of funds.
- (iii) *Ordinary savings:* Members make weekly or monthly savings to the societies. The practice is that 85% of contributions by members are credited to members savings account while 15% goes to deposit. Ordinary savings constitute a major source of funds, thus members are not allowed to withdraw all their savings unless at the termination of membership.
- (iv) *Deposits:* In addition to the deposits of 15% of savings mentioned above, members can make special deposits to attract some interest payable to such depositors, who had now acquired creditorsâ€™ status (giving loans to the organization)
- (v) *Loans:* Loans can be raised from other unions and thrift societies in order to meet other urgent obligations. Occasionally, loans can be negotiated from financial institutions, for instance, from co-operative financial organizations of which they are also members.
- (vi) *Fines:* Fines imposed on default in loan repayment is another source of funds. Although such fines as provided for by the bye-laws might not always be imposed, they are a regular source of funds.
- (iv) *Ploughed-back funds:* Some of the earnings of the organization are retained instead of being paid out as dividends. About 20% of their net earnings are put into reserve fund each year before dividends are paid. For thrift societies, the figure is 25%. It is also provided that transfer to the reserve fund will continue until the reserve fund equals the total limited liability of members as contained in the bye-laws.

12.6 Problems of Credit Unions and Thrift Societies

- (i) *Smallness of the Group:* Some groups have become so small that they are unviable. By size, some of these bodies are typically small, while only a few are big and a little reduction in number may lead to cessation of business, especially where the law provides for a minimum number of persons.
- (ii) *Waning Interest:* Some members fail to imbibe the true spirit of the credit union and thrift society by simply taking it as another commercial bank. As such, these members fail to take advantage of the services obtainable at credit unions and thrift societies. They lose interest in their membership.
- (iii) *Lack Trained Officers:* There is not always enough trained personnel to handle the work of the treasurerâ€™s office, or of the loan and supervisory committees. This may

not be a threat where members are office workers, but it is a major problem where members are mostly artisans, labourers or mechanics.

Summary

In this chapter, you have learnt that:

- (i) Credit unions and thrift societies are forms of co-operative societies formed by people brought together by common interest, who pool their savings together in order to make loans available to their members at low rates of interest.
- (ii) These organization are easily formed where members belong to homogenous groupings, such as in the civil service, employees of a plant, schools or financial institutions.
- (iii) Members pay a fee on admission as set out by the bye-laws.
- (iv) The principle of administration is one man, one vote, irrespective of number.
- (v) Sources of funds are ordinary savings or deposits of members and loans from other financial institutions, as well as fines and admission fees.
- (vi) Cost of running is low since most services and offices in use are not paid for.
- (vii) Management is by a committee, made up of the president, treasurer, secretary and vice-president who are elected every year.
- (viii) The main problems of credit unions and thrift societies are: loss of interest by members, small size and the lack of trained officers.

Revision Questions

Essay Questions

1. What are the essential characteristics of the (a) credit unions and (b) thrift societies.
2. Compare and contrast the credit union and the co-operative society.
3. What are the service provided by the thrift societies and credit unions?
4. State FIVE major sources of funds.
5. What are problems facing the credit unions and the thrift societies.

Objective Questions

1. One major advantage of a credit and thrift cooperative is that
 - A. there are no legal restrictions
 - B. each member has a vote during meetings
 - C. it can approach government for a loan
 - D. it encourages saving habits

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2. One major characteristic of credit unions and thrift societies is that
 - A. the contribution of every member depends on the member's ability
 - B. a minimum often people in the same line of business can form the union
 - C. the legal processes involved in their formation are rigid

D. membership is compulsory to people in the same line of business

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3. One of these does not belong to the group
 - A. thrift society
 - B. credit union
 - C. co-operative society
 - D. sole trade
4. The membership of a union from a homogeneous group who come together to use their periodic contributions to assist their members is known as
 - A. a joint stock company
 - B. social groups
 - C. merchant banks
 - D. credit unions and thrift societies
5. The most democratic element in the running of the credit union is
 - A. members freely come together
 - B. members' contributions are voluntary
 - C. voting is based on one member, one vote, irrespective of shares held
 - D. members are free to leave the union at anytime
6. A major source of funds for credit unions and thrift societies is
 - A. entrance fees
 - B. ordinary savings
 - C. loans from the Central Bank
 - D. fines
7. The regular services to members of credit unions and thrift societies are
 - A. big loans to undertake large scale manufacturing enterprises
 - B. provision of facilities for regular thrift savings
 - C. small loans to members at little or low interest rates
 - D. interest rates to members are not arbitrary but according to bye-laws
8. The following is not a problem of the credit unions and thrift societies
 - A. waning of interest among members
 - B. register of membership is never closed
 - C. smallness of groups
 - D. lack of trained officers
9. This is not an advantage of membership of credit unions and thrift societies
 - A. dividends are payable on shares
 - B. loans are available in periods of financial needs
 - C. because officers are not trained bookkeepers, members can be defrauded of their deposits
 - D. membership entry requirements are simple and guided by bye-laws
10. The following is regular member of the management committee in credit unions and thrift societies

- A. The president of Nigeria as life president
- B. The president of the union elected annually
- C. The treasurer elected at the annual general meeting
- D. The secretary elected at the annual general meeting
- E. One vice-president elected at the annual general meeting

Project

1. Mention any two credit unions or thrift societies to which either of your parents belong.
2. Is there any credit union or thrift society in your school?