

Honorable Joseph C. O'Mahoney, Chairman,  
Committee on Interior and Insular Affairs,  
United States Senate,  
Washington, D. C.

My dear Mr. Chairman:

It is understood that there are now pending before your Committee bills providing for the admission to Statehood of the Territory of Alaska (H.R. 331) and the Territory of Hawaii (H.R. 49) which passed the House of Representatives on March 3 and March 7, 1950, respectively.

When bills on this subject were previously under consideration by Congress, the Board of Governors recommended to your Committee in January 1948 and again in May 1949, an amendment relating to membership in the Federal Reserve System of national banks located in any Territory which is admitted to Statehood. This is a matter which affects the banking structure of the United States and is of direct interest to the Board and the Federal Reserve System. Accordingly, the Board wishes to renew its recommendation in connection with the Alaskan and Hawaiian Statehood bills now pending.

The Federal Reserve Act contains in section 19 a provision which makes membership in the Federal Reserve System optional in the case of national banks which are located in Alaska, in dependencies and insular possessions, and in "any part of the United States outside the continental United States". This provision was enacted in 1913 when it was apparently the feeling of Congress that national banks in the Territories and dependencies were so distant and remote as to make it unnecessary to require them to be members of the Federal Reserve System. Because of this provision, membership in the System of national banks located in Alaska and Hawaii would continue to be optional if those Territories should become States in accordance with the provisions of the pending bills H.R. 331 and H.R. 49, as those bills now read.

Since the enactment of the Federal Reserve Act in 1913, the tremendous progress of air transportation has brought both Alaska and Hawaii so close that today it cannot be said that the economic and banking structures of Alaska and Hawaii are unrelated to those of the United States proper. Travel and transportation to these Territories are now a matter of hours instead of weeks as was the case in 1913; and, consequently, the advantages and privileges of membership in the Federal Reserve System would now be much more readily available to banks in Alaska and Hawaii. Moreover, banking conditions in these Territories have changed considerably since the enactment of the Federal Reserve Act. The total deposits of Hawaiian banks are many times as great as they were in 1913; and their total resources today are more than those of all banks in some of the States of the Union. While there is only one national bank in Hawaii at the present time, that bank is larger than any bank in 23 of the existing States. At the present time, there are four national banks in Alaska with total deposits of over \$30 million. None of the national banks in either Alaska or Hawaii is now a member of the Federal Reserve System.

It is the feeling of the Board, therefore, that if Congress should decide that the Territories of Alaska and Hawaii may now properly be admitted to Statehood, national banks in the proposed States of Alaska and Hawaii should be subject to the same responsibilities and obligations as national banks located in any other State of the Union. The pending bills provide that, upon becoming States, Alaska and Hawaii shall be on an equal footing with the other States. It would seem logical that this equality should exist in the field of banking as well as in other respects and that, consequently, the proposed new States should be included in the Federal Reserve districts and that national banks in Alaska and Hawaii should be subject to the same requirements as other national banks.

Under present law, all national banks in the existing States of the Union are required to be members of the Federal Reserve System and, as such members, to be insured banks and to be governed by the many important statutory limitations and restrictions which by their terms are applicable to member and insured banks. These restrictions and limitations are not at present applicable to national banks in Alaska and Hawaii; and they would continue to be inapplicable if these Territories should become States in accordance with the provisions of the pending Statehood bills unless the bills are appropriately amended.

In the Board's opinion, there is no sound reason why any national banks located in a new State of the Union, enjoying the prestige and privileges conferred by organization under the National Bank Act, including the right to act as depositories of Government funds, should be exempt in this manner from the obligations and responsibilities which must be assumed by national banks in other States.

The Board recommends, therefore, that there be included in these bills a section which would have the effect of requiring national banks in any Territory to become members of the Federal Reserve System upon the formal admission of such Territory as a State of the Union. A draft of a brief amendment which would have this effect is enclosed herewith.

When a bill providing Statehood for the Territory of Hawaii was under consideration in 1948, the Board consulted with the Federal Deposit Insurance Corporation and the Comptroller of the Currency regarding the amendment proposed by the Board. Both of those agencies advised that they concurred in the Board's opinion that national banks located in any Territory should be required to become members of the Federal Reserve System upon the admission of the Territory to Statehood.

The Board hopes that this matter will receive favorable consideration by your Committee. We have heretofore been advised by the Bureau of the Budget that the Bureau has no objection to the submission of this recommendation by the Board.

Very truly yours,

S. R. Carpenter,  
Secretary.

Enclosure

cc: Comptroller of the Currency  
Federal Deposit Insurance Corporation  
Senate Banking and Currency Committee



PROPOSED AMENDMENT TO H.R. 49 AND H.R. 331

Insert in the bill H.R. a new section reading as follows:

SEC. \_\_\_\_\_. The first paragraph of section 2 of the Federal Reserve Act (U.S.C., Title 12, secs. 222 and 223) is amended by striking out the last sentence thereof and inserting in lieu of such sentence the following:

"When any State is hereafter admitted to the Union the Federal Reserve Districts shall be readjusted by the Board of Governors of the Federal Reserve System in such manner as to include such State. Every national bank in any State shall, upon commencing business or within 90 days after admission into the Union of the State in which it is located, become a member bank of the Federal Reserve System by subscribing and paying for stock in the Federal Reserve Bank of its district in accordance with the provisions of this Act and shall thereupon be an insured bank under section 12B of this Act, and failure to do so shall subject such bank to the penalty provided by the sixth paragraph of this section."