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PR-75-79 (7-13-79)

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Statement on

"Bank Payment of Membership Fees and Dues
In Private Clubs and Organizations"

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Presented to

Senate

Committee on Banking, Housing, and Urban Affairs
United States Senate

by

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Office of Consumer Affairs and Civil Rights

5302 Dirksen Senate Office Building

10:00 a.m.

July 13, 1979

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CORPORATION

Mr. Chairman, I appreciate this opportunity to present our views on the matter of bank payment of membership fees and dues in discriminatory clubs and organizations.

Let me say at the outset that the FDIC is against any form of discrimination based on race, sex, national origin, religion, age, handicap or similar consideration. We strongly oppose on principle the practice of any bank paying bank officers' membership costs in a private club or organization that engages in such discrimination.

As a matter of FDIC policy, Chairman Irvine H. Sprague has issued a directive barring FDIC payment of memberships for FDIC officials in clubs with discriminatory membership practices. The directive applies not only to new memberships and renewals but to existing memberships as well.

There is no question that such discrimination is morally wrong, and even indirect support of discriminatory policies is reprehensible. One might also argue that a case could be made under existing law that support of club membership is illegal to the extent that it fosters discrimination in employment opportunities or limits access to credit by certain borrowers. There is some difficulty, however, within the context of the club membership question, in defining this particular kind of discrimination, quantifying its effects, specifying which practices should be prohibited, and establishing a means of enforcement. The lack of specific information in this area works a definite handicap.

SURVEY RESULTS

We were pleased to participate in your Committee's survey which sought to develop information on club membership practices of banks.

Our FDIC examiners delivered your questionnaire together with our formal request for response to insured nonmember banks undergoing compliance examinations in February, March, and April 1979. Examiners from the Office of the Comptroller of the Currency delivered the questionnaire and the request to national banks undergoing regular or compliance examinations in April 1979. This sampling totaled 728 banks; of these, 701 returned completed questionnaires.

Our FDIC Division of Bank Supervision and staff of the Office of the Comptroller tabulated the responses. The principal findings were as follows:

1. Of the 701 banks responding, 419 regularly pay membership dues in private clubs and organizations on behalf of their officers, directors, or employees. Correlation by asset size showed that the larger the bank the greater the likelihood that it supports such membership.
2. Of the 419 banks supporting membership, 164 reported bank policies of not paying fees and dues to private clubs and organizations that practice discrimination in membership. Seven banks said that their policies are in written form.
3. Of the remaining 255 banks, many reported that discrimination by a private club or organization would cause the bank to cease paying dues. Some banks, however, demurred on their willingness to withhold dues if discrimination was based on sex.
4. Of the 164 banks with anti-discrimination policies, 81 reported that they have some method of policy enforcement. Sixty-seven banks said their policies were reviewed by the president, chief executive officer or other management official or by the board of

directors. About 10 banks indicated that "general" knowledge" was the means of enforcement.

5. Of the 419 banks which support membership, 235 (or 56 per-cent) said they would not continue to pay dues to a private club or organization if reliable evidence were presented indicating that the club or organization maintained discriminatory membership policies on the basis of race, religion, national origin or sex. Another 105 banks said they would continue to support membership regardless of discrimination, and the remaining 79 banks did not respond.

6. Of the banks which indicated that they would continue to support membership in discriminatory clubs many said they would do so because of business considerations. These banks asserted that membership in private clubs and organizations is a business expense aimed at retaining existing customers and developing new ones and that this judgment is independent of whether or not the club discriminates.

I should note here that the statistical validity of some responses was affected by banks' treatment of contributions or donations to such organizations as the Boy Scouts or Girl Scouts. Some banks made no distinction between such contributions and the payment of membership dues to private clubs. This has had some effect on the statistics of this study.

CONSIDERATIONS IN POLICY DEVELOPMENT

However, such an occurrence does point up part of the dilemma in formulating and applying a fair policy concerning bank support of club membership.

One must ask: Is it intended that we foreclose support in professional organizations that may be tailored to such groups as women bank officials or minority bank officials? If we do, is this consistent with other Federal policies aimed at assisting minority or women's banks?

The workings of discrimination arising from support of club membership and the effects on bank employee careers and borrower access are subtle and difficult to quantify. Many persons believe that such discrimination exists and exerts force -- that a business deal developed in a club locker room after a tennis match or a job referral over cocktails at the club carry their own special priority.

Yet the FDIC has received no equal opportunity complaints nor equal credit access complaints. If we had, we would have investigated rigorously. There have been no test cases. There is lacking the assertion of injury by an affected party.

OUR RESPONSIBILITY

I have sought to show the nebulousness of the concept with which we are dealing. In no way do I intend to imply that we at the FDIC do not recognize our responsibility in this area. Far from it. We are acutely aware that in the last analysis it is we, the bank regulators and supervisors, who will be held responsible for assuring equal opportunity in the financial industry.

I want to emphasize the fact that we stand firmly behind our commitment. We are prepared to work with any agency in developing standards and guidelines and in implementing a meaningful policy.

We believe that joint action is necessary. Any policy, to be effective, must apply across-the-board. We believe that this matter

is an appropriate topic for the Federal Financial Institutions Examination Council.

Pending this, there are certain steps that we are now considering for unilateral action on the part of the FDIC.

First, we are proposing the issuance of a general FDIC policy statement putting us on record as opposed to the practice of supporting membership in discriminatory organizations.

Second, we are reviewing the possibility of FDIC board action on a resolution which would call upon bank boards of directors to adopt their own anti-discrimination policies in club membership support.

Finally, we are considering collecting information on the number of women and minority officers in individual banks. Such information would give us a more precise profile of female and minority progress in institutions.

Beyond that, we would stand ready to work with Congress in whatever course you think appropriate.

CONCLUSION

Mr. Chairman, that concludes my testimony. I will be happy to answer any questions.