



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

49

S-540

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

August 6, 1942

Dear Sir:

For your information in case a similar question should arise in your district, there is enclosed a copy of a letter we have addressed to one of the Federal Reserve Banks with regard to the eligibility of credit unions for membership in the Federal Reserve System. If you should receive any indication in your district of an interest in or need for membership by credit unions in the Federal Reserve System, we shall be glad to have you advise us for our information.

Very truly yours,

L. P. Bethea,  
( Assistant Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS



S-540-a

August 6, 1942

Mr. \_\_\_\_\_, Vice President,  
Federal Reserve Bank of Minneapolis,  
Minneapolis, Minnesota.

Dear Mr. \_\_\_\_\_:

This refers to your letter of July 1, 1942, and its enclosures, relating to the question whether credit unions organized under the laws of the State of Minnesota are eligible for membership in the Federal Reserve System.

Since no credit union has applied for membership and the only inquiry on this subject which has been received in recent years was a very general one, the Board has not had occasion to rule upon the eligibility of such institutions. It is not clear that you have in mind a particular credit union which is definitely interested in membership and your Counsel is of the opinion that it would require an amendment to the State law to enable Minnesota credit unions to become members of the Federal Reserve System. In the circumstances, you will understand that we are merely making certain observations for your information and are not attempting to express a final conclusion.

It is understood that credit unions organized under the laws of the State of Minnesota are authorized to accept deposits (as well as payments on shares), and that at least some of them do so. Referring to this power to accept deposits, the power to make loans, and certain other powers, your Counsel expresses the view, with apparent justification, that such credit unions are incorporated banking institutions. On this basis, he concludes that they might be admitted to membership under the first paragraph of section 9 of the Federal Reserve Act, if the State law were amended to authorize them to purchase Federal Reserve Bank stock.

Your Counsel states that such credit unions have capital stock represented by shares issued to their members. However, such an institution has no fixed amount of capital stock, the amount being subject to daily fluctuations as members make payments into and withdrawals from their share accounts. It does not have any charter requirement that it maintain a stated minimum capital and withdrawals may be made in any amount at any time, subject only to the right to require notice. Obviously, the credit union capital stock is of a different character from the capital stock of national banks; and, considering the statutory provisions with respect to capital required for admission to membership, withdrawal of capital by member banks, determination of the amount of Federal Reserve Bank stock to be held

by member banks and other pertinent matters, it might be urged that the capital stock of such a credit union is not of the kind which it is contemplated that banks admitted to membership under the first paragraph of section 9 will have.

Generally speaking, credit unions are more comparable to mutual savings banks than to commercial banks with capital stock. On the other hand, they do have a type of capital stock which carries with it certain proprietary interests which differ from the rights attaching to deposits. Exhaustive consideration of the question whether they could be admitted as mutual savings banks probably is not worth while since it is doubtful whether they could meet the requirement contained in paragraph 15 of section 9 that, in order to be eligible, a mutual savings bank or similar institution must have surplus and undivided profits not less than the amount of capital required for the organization of a national bank in the same place. We do not have information with respect to individual credit unions in Minnesota but a statement issued by the State Commissioner of Banks giving consolidated information for all such institutions as of December 31, 1941, appears to support this conclusion.

While provision has been made in paragraph 15 of section 9 for the admission of some banking institutions organized on a cooperative basis, there is no indication that in enacting these provisions Congress had credit unions in mind and, if it is desirable that such institutions be admitted to the Federal Reserve System, it would seem preferable that an amendment be added to the Federal Reserve Act specifically providing for their admission to membership which would conform more nearly to their organizational requirements than do the existing provisions.

As you know, the provision for admission to membership of mutual savings banks and other cooperative institutions was enacted in 1933 but up to this time there has been very little active interest by such institutions in becoming members of the Federal Reserve System. As stated above, the Board has received only one general inquiry with regard to eligibility of credit unions for membership in the System and it is not apparent at this time that there would be any substantial need for or interest in an amendment specifically making such institutions eligible for membership. If you have received any indication in your district of such an interest or need, we would like to be advised of it and if you have in mind a credit union which definitely desires to be a member we will be glad to consider any further presentation which you or your Counsel may wish to make with reference to it in the light of this letter.

Very truly yours,  
(Signed) L. P. Bethea  
L. P. Bethea,  
Assistant Secretary.