

Office Correspondence

FEDERAL RESERVE
BOARDDate March 4, 1935.To Mr. CarpenterSubject: History of the Steps Taken
Toward the Formation of a Federal
Credit Union Among Employees of the
Federal Reserve Board.From Mr. Kilgore

In accordance with your suggestion I am glad to present the following summary of the steps taken toward the formation of a Federal credit union among the members, officers and employees of the Federal Reserve Board:

Some months ago Mr. C. R. Orchard, Director of the Credit Union Section of the Farm Credit Administration, secured the permission of the Secretary of the Federal Reserve Board to meet with a representative group of the Board's employees to discuss with them the possibility of forming a Federal credit union among the Board's personnel in accordance with the provisions of the Federal Credit Union Act (Public - No. 467 - Seventy-third Congress - S. 1639 - Exhibit A attached). The head of each of the Board's divisions and offices selected representatives to attend. The meeting lasted for about an hour and a half, during which time Mr. Orchard attempted to describe the purposes and method of operation of a credit union. At the conclusion of his talk he stated that the signatures of only seven employees of an organization were necessary to start a credit union and asked that seven of those present sign the organization certificate without further study or investigation. This proposal was strenuously objected to by those in attendance, and a motion was passed to adjourn and meet a few days later after there had been opportunity to study the matter.

This second meeting was held in a few days, at which time a

resolution was passed for the purpose of selecting a committee of eight, not more than one of whom was to be employed in any one of the Board's divisions, to meet and determine whether it would be advisable to establish a credit union among employees of the Federal Reserve Board and, if so, to determine whether application for a charter should be made under Federal or District authority (Exhibits A and B ^{not in files} attached), to prepare suggested by-laws and all regulations deemed advisable for adoption, and to take up other matters stated in the resolution, a copy of which is attached (Exhibit E).

A few days later this committee of eight met. At the meeting it was by no means the unanimous opinion that a credit union would be beneficial to the Board's personnel, but it was felt that since only seven persons are necessary to form a credit union and inasmuch as seven people in any organization the size of the Board can be found who will join any organization regardless of its soundness, it seemed inevitable that a credit union would be formed no matter what the committee's findings might be, unless such formation was frowned upon by the Board. Therefore, the committee had but two courses open to it, namely, to disband and see a credit union formed on snap judgment with no thought or study which might well cause financial loss to unforeseeing employees of the Board who might be unfortunate enough to join or to go ahead and form a union on a sound basis to better protect the interests of those employees of the Board who might become members, even though the members of the committee themselves might have no personal interest in joining. A sense of loyalty to their

co-workers, I believe, caused them to choose the latter course. Having decided to go ahead and form the union, the committee then decided to consult Mr. Vest, Assistant Counsel of the Federal Reserve Board (who studied the two Acts when being considered by Congress) as to the relative advisability of incorporating under the Federal or District acts. (Exhibits A and B attached). Consequently a subcommittee was appointed to study the legal aspects and secure the opinion of Mr. Vest, as well as to study the by-laws suggested by the Farm Credit Administration (Exhibit C attached) for use in case it was decided to incorporate under the Federal statute and also to consider the suggested by-laws for groups incorporated under the District statute (Exhibit D attached). A second subcommittee was appointed to study matters connected with the internal organization of the credit union and to study the standard by-laws and make whatever changes it felt advisable in view of the character and working arrangements of the Board's personnel.

These two subcommittees worked for several weeks during which time the legal subcommittee attempted to secure an opinion from Mr. Vest, but due to the pressure of other work, he was unable to find time to give an opinion as to whether it was advisable to incorporate under Federal or District authority.

It was the opinion of a majority of the committee that it was inadvisable to wait longer for this opinion and consequently the second meeting of the committee of eight was held. At this meeting it was decided

that it would be preferable for us to incorporate under a Federal charter, upon advice of Miss Wainwright, law clerk (Copy attached, Exhibit F).

The committee then proceeded to consider the changes in the standard Federal by-laws proposed by the legal subcommittee and the subcommittee on organization. The two subcommittees had found what they considered to be weaknesses in the standard suggested by-laws prepared by the Farm Credit Administration and consequently had numerous recommendations to make to the committee. After working an entire evening the committee of eight finally adopted a set of by-laws (Exhibit G attached) which seemed to it to be the most sound that could be drawn in accordance with the provisions of the act and yet work well considering the character of the Board's personnel and the particular way in which it is organized. It was decided to submit these by-laws to the Federal Reserve Board or its Secretary to make certain there was no disapproval on their parts, after which it was proposed that the subcommittee of eight sign the organization certificate and submit it and the amended by-laws to the Governor of the Farm Credit Administration along with a letter (Exhibit H attached) explaining the reasons for the various changes made which the committee felt were in the interest of greater soundness or were necessary in view of the set up and character of the Board's personnel. Upon approval of these by-laws by the Governor of the Farm Credit Administration it was proposed to sign all members, officers or employees of the Federal Reserve Board

who might desire to become charter members. As soon as this was accomplished the organization meeting was to be held for the purpose of electing directors and other officers of the credit union and to commence operation.

It is my own personal opinion that the success or failure of the proposed credit union will depend entirely upon the manner in which it is administered and that no set of by-laws could possibly be drawn which would be fool proof and a substitute for sound and conservative management of the union by its administrative officers.

It was the unanimous opinion of all members present at these meetings that it was not desirable to form the proposed credit union unless it was done with the approval of the Federal Reserve Board or its Secretary. No one felt that a credit union should be organized in case the Board disapproved and many felt that it was inadvisable to form the union if the Board remained neutral.

Copies of the minutes of the various meetings referred to are attached herewith (Exhibit I).

Office Correspondence

FEDERAL RESERVE BOARD

Date March 5, 1935.

To Federal Reserve Board

Subject: _____

From Mr. Morrill *CW*

10-852

A few weeks ago Mr. C. R. Orchard, Director of the Credit Union Section of the Farm Credit Administration, called on Mr. Clayton and requested an opportunity to present to a representative group of employees of the Board the possibility of the organization of a credit union by interested employees of the Board, under the Federal Credit Union Act which provides for the creation of Federal credit unions, or under the District of Columbia Credit Union Act which provides for the creation of credit unions under the laws of the District of Columbia. Copies of these acts are attached.

A meeting was arranged and the employees present decided to give consideration to the matter. At a subsequent meeting an organization committee was appointed to determine whether or not a credit union should be established, and the committee decided that it would be advisable to form a Federal credit union which, under the Federal Credit Union Act, may be formed by seven or more persons, who are required to execute an organization certificate which shall be presented to the Governor of the Farm Credit Administration for approval. Upon such approval the union becomes a body corporate with the powers enumerated in the statute, including the following:

"(5) To make loans with maturities not exceeding two years to its members for provident or productive purposes upon such terms and conditions as this Act and the bylaws provide and as the credit committee may approve, at rates of interest not exceeding 1 per centum per month on unpaid balances (inclusive of all charges incident to making the loan): Provided, That no loans to a director, officer, or member of a committee shall exceed the amount of his holdings in the Federal credit union as represented

[Handwritten notes and signatures on the left margin, including 'Mr. Morrill' and other illegible marks.]

"by shares thereof. No director, officer, or committee member shall endorse for borrowers. A borrower may repay his loan, prior to maturity, in whole or in part on any business day.

"(6) To receive from its members payments on shares.

"(7) To invest its funds (a) in loans exclusively to members; (b) in obligations of the United States of America, or securities fully guaranteed as to principal and interest thereby.

"(9) To borrow (from any source) in an aggregate amount not exceeding 50 per centum of its paid-in and unimpaired capital and surplus: Provided, That any Federal credit union may discount with or sell to any Federal intermediate credit bank any eligible obligations up to the amount of its paid-in and unimpaired capital, subject to such rules and regulations as may be prescribed by the Governor.

"(10) To fine members, in accordance with the bylaws, for failure to meet promptly their obligations to the Federal credit union.

"(11) To impress and enforce a lien upon the shares and dividends of any member, to the extent of any loan made to him and any dues or fines payable by him."

By-laws have been prepared which the committee proposes, in the absence of objection by members of the Board, to submit to the Governor of the Farm Credit Administration with the necessary organization certificate signed by the eight employees of the Board who are members of the organization committee. Upon approval of the organization certificate by the Governor of the Farm Credit Administration, it is proposed to extend an invitation to all employees of the Board to become members of the union, following which an organization meeting is to be held for the purpose of electing directors and other officers.

This matter is being brought to the attention of the members of the Board for their information in order that they may be acquainted with the consideration which is being given to it by the Board's employees. While it appears that any group may organize a union under the statute and the Farm Credit Administration is sponsoring actively the formation of such unions, all of the employees who are interested in the matter feel that a union should not be organized if the members of the Board have any

objection to such action. This memorandum will be circulated to the appointive members of the Board, and, if no objection to the formation of a credit union among the employees of the Board is indicated, the organization committee will be so advised.

REMARKS OF MR. FOULK AT THE ORGANIZATION MEETING
OF THE F. R. B. FEDERAL CREDIT UNION

Upon the completion of the work for which this meeting was called there will come into existence the youngest of a group of more than 5,000 Credit Unions, having a combined membership of more than 750,000, with stock subscriptions of \$45,000,000, loans of \$44,000,000 and total assets of \$60,000,000. While credit unions in this country have begun to flourish only in recent years, in other countries they have been popular for more than 50 years, and have grown to great size and importance.

The first law in the United States on this subject was passed in Massachusetts in 1909, and since then forty states have passed similar laws. The Federal Credit Union Act under which we are organizing was passed by Congress and signed by the President last June, and several hundred organizations have come to life under that Act.

The authentic definition of a Federal Credit Union is that it is "A Cooperative Thrift and Loan Association". Perhaps some of you have wondered, as I have, why the Farm Credit Administration was chosen to administer the Federal Credit Union Act. Why was an administration dealing with Agricultural Credit problems given the task of assisting a movement which has grown more rapidly in cities than in farming sections, and which is especially well suited to the needs of factory and office workers. I find that the Farm Credit Administration itself answers that question in this way. The Farm Credit Administration is a cooperative organization, its permanent institutions which lend money to farmers are built on cooperative principles, therefore because the Farm Credit Administration specializes in developing cooperative financing it was considered best qualified for the task of administering

soundly but sympathetically the provisions of the Credit Union Act.

As you have been advised the affairs of this F. R. B. Federal Credit Union will be administered from now until next January by a Board of Directors of 7, a credit committee of 3, and a supervisory committee of 3, all to be chosen by the organization committee from among those for whom you vote here this evening. While no one can now say who they will be, I am sure that the committee will keep in mind that it is important that selection should be made only of those who are interested in the success of the Credit Union and are willing to work to that end. There is no place on the Board of Directors of a Credit Union for a wooden, dummy, or honorary director. The important Credit Committee should be composed of those capable of making correct estimates of credits. The supervisory committee will make regular audits of the accounts and keep you advised. None of these will receive compensation other than the satisfaction of being engaged in work for the common good. To me it seems that a credit union above all else is a service organization. It serves as a safe and convenient place to put your savings and a reliable place to secure credit. It should stress the idea of thrift and teach the principle that we can largely avoid having to borrow if we save systematically. However, a credit union must look at the world through practical eyes. Emergencies do come in people's lives. Sickness and accident strike where it has been impossible to lay up savings against unforeseen happenings. Some of us may find that our youngster has to have his tonsils out just at the time taxes are due. Banks will talk with you about a loan but usually only in terms of collateral. The child is priceless to his parents, but he has no rating as collateral for a bank loan. All too often a hospital bill or other unavoidable expenses are paid through borrowing from private

money lending agencies and personal loan companies that charge exorbitant interest. Reliable estimates say that such lenders had \$125,000,000 out at a scandalous rate of interest last year. Records show cases in which loan sharks have collected as high as 840 per cent from borrowers of small amounts. What many of us need when an emergency comes, is a place to borrow where a reputation for paying obligations counts for collateral and where interest rates are reasonable. That is just what membership in a credit union gives you.

I have been unable to find a single case where a depositor in a credit union has suffered a loss. I wish to quote just a few lines from an editorial in the New York World Telegram of July 23d last.

"It is significant that in the United States, Credit Unions have weathered the depression bravely. Although they are self-managed, there has been recorded not a single instance of forced liquidation in the past five years."

This editor was writing about 2,350 credit unions with a total membership of 500,000 people and assets of \$65,000,000.

There are those in the Federal Reserve Board organization who have no financial problems. They have a place to invest their funds which is satisfactory to them, and they find no need to borrow. The natural answer of one of this group when approached on the subject of a credit union is "I am not interested." Mr. Chairman, I cannot believe that self-interest should be the test by which to determine whether we should join in this undertaking. There is not one in that group mentioned who would not instantly come to the aid of a fellow employee in distress and extend any reasonable help necessary, so I can see no valid reason for anyone not being willing to go along with an organization aimed entirely at rendering service to its members.

Because our potential membership is small should in no wise be a discouragement. The largest credit union in the United States with assets of over a million dollars started with less than fifty dollars.

The Armour Packing Company has fifty-five separate credit unions, the smallest having but 23 members, and the largest 1600, and all, big and little, serving the purpose for which they were created.

Finally, may I say that the promotion of credit union organizations is an unselfish public service. No one can gain to the amount of even a thin dime by the organization of a credit union except the members of it. It is purely a cooperative association in which each member has one vote and only one. It is an organization of members not of shares. There is no invested capital except the capital of members; loans are made only to members, and earnings are divided up among the members. There are no preferred stockholders and no preferred borrowers.

It is my studied opinion that the personnel of the Federal Reserve Board is such that the success of this undertaking is assured.

22207

FEDERAL RESERVE BOARD

WASHINGTON

OFFICE OF GOVERNOR

May 16, 1935.

Mr. Oliver E. Foulk,
Fiscal Agent,
Federal Reserve Board,
Washington, D. C.

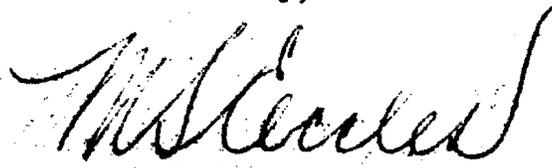
Dear Mr. Foulk:

Having been advised that the Organization Committee and prospective members of the F. R. B. Federal Credit Union are to meet this afternoon to perfect the organization and to enroll members, I desire to express myself as being in full sympathy with this movement.

These credit unions serve a two-fold purpose in that they offer an additional safe means for the encouragement of thrift among employees as well as a facility for borrowing for certain purposes permitted under the law. In general, these borrowing purposes are those arising out of unforeseen contingencies such as sickness and accident. In such situations salaried people generally are forced to borrow from so-called industrial loan companies which exact an unreasonable rate of interest.

It appears to me that the development of a credit union in this organization should have the active support of all those who would likely have need of recourse to its facilities.

Yours sincerely,



M. S. Eccles,
Governor.