

ADDRESS BY PAUL C. HODGE, VICE PRESIDENT
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OF CHICAGO BEFORE THE ANNUAL CONVENTION OF
THE IOWA BANKERS ASSOCIATION, DES MOINES,
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PREPAREDNESS PROGRAM FOR EMERGENCY OPERATIONS IN BANKING

During the second phase of Operation Alert 1958 in July, 200 miles from Chicago at the National Headquarters of the Federal Civil Defense Administration in Battle Creek, Michigan about 75 representatives and regional heads of Government Agencies, including high ranking officers of the armed services met in a post attack exercise.

We were engaged there for four days in a serious play of emergency actions in Region 4 of the Civil Defense Administration following an assumed nuclear attack on the United States. I represented the Federal Reserve System for the Region which was assumed to be out of communication with Washington and other Regions during the exercise. Simulated bomb strikes had been made on many critical target cities and areas over the country. Some non-critical areas were also hit because of miscalculations or the jettisoning of bombs by the enemy.

Illustrative of the assumed destruction, there were 40,000,000 fatalities and 30,000,000 injured including those sick from radioactivity. The Seventh Federal Reserve District was hard hit with bomb strikes on a number of the critical target cities. At Chicago a ten megaton bomb hit on the south side resulting in damage to the Federal Reserve Bank of Chicago so

that access could not be obtained to the building for 24 hours and then only on an emergency basis because of the hazard from radioactivity. At Detroit two five megaton bombs fell about five miles from the downtown area. Our Detroit Branch building was so severely damaged that it had to be razed, but the vaults were intact under the rubble.

There was heavy radioactive fallout over the greater part of the Seventh District. Five bands of areas free from fallout ran in narrow strips through the District, the widest being in 57 counties in Iowa. A narrow band of free area ran north of Chicago where, fortunately, all of the large Chicago commercial banks, except one, have relocation sites with their duplicate records. Incidentally all of those banks have comprehensive plans for emergency operations and have been advising their correspondents of this fact.

In the fallout free areas 335 banks and 52 branch offices were able to open for business the morning following the attack. Others opened for business when the decay of the radioactive fallout permitted them to do so. Communications, transportation, power, fuel and water facilities were disrupted. Refugees by the thousands were moving or needed to be moved to the areas free from fallout.

Other regions of the country were similarly damaged in varying degrees of intensity. All of New England and the west coast was practically bombed out. But large geographical areas were not hit or had little damage and millions of people survived. Most of the twelve Federal Reserve Banks and their 24 branches, were in critical target areas. It should be borne in mind that large commercial banks are located in the same areas. Nine Federal Reserve offices

were practically wiped out and there was crippling but less severe damage elsewhere throughout the system. There was no damage to six Federal Reserve offices. Close by in the state of Missouri, the head offices of the Federal Reserve Banks of St. Louis and Kansas City were inoperative and they had to work on an emergency basis from their Memphis and Oklahoma City branches respectively.

During the emergency exercise at Region 4 headquarters we were startled to receive a message over the teletype about the landing by United States Marines in Lebanon. This alerted us to the fact that our play acting might become real.

From this brief description of the assumed destruction you may be able to visualize the tremendous post attack problems involved in assessing the damage and in the survival measures to be taken. To assist in this gigantic emergency task, the Government has a large electronic so-called brain or computer at its secret relocation site which is situated underground. An enormous amount of information has been fed into this electronic machine covering the nation's resources, including the location of banks, their deposits and assets. If the enemy strikes, the information as to the nature and location of the attack can be fed into the machine and within minutes it will produce estimates of the amounts and locations of resources available after the attack.

A massive nuclear attack by the enemy may cripple the nation but our retaliatory action will cripple them as well. The plans we make now for survival, both nationally and locally may mean the difference between defeat

and victory.

There has been delegated to the Board of Governors of the Federal Reserve System, with the cooperation of the Treasury Department, the Comptroller of the Currency and the Federal Deposit Insurance Corporation, the job of developing plans for economic survival and to assist and encourage preparedness planning by the commercial banks of the country.

The Board of Governors appointed an Advisory Committee on Commercial Bank Preparedness with John J. McCloy, Chairman of the Chase Manhattan Bank, as Chairman and the Banking Committee on Emergency Operations with G. Edward Cooper, Senior Vice President of the Philadelphia National Bank, as Chairman. These two committees, with the cooperation of the American Bankers Association and the State Bankers Association, including your own Association, are endeavoring to alert the commercial banks of the country to the need for a preparedness program. They have printed and sent to all banks five pamphlets on various phases of emergency planning for banks. If you have not read these well written pamphlets, I recommend that you do so as soon as possible. The Committees are now working on a sixth pamphlet covering emergency check and cash operations in which they will describe the emergency check and cash agent bank plans of the Federal Reserve banks. Three more pamphlets will follow and all of them constitute a blueprint for emergency planning by banks.

Going back a few years, in 1951 the Federal Reserve banks individually and as a system matter, began to work on preparedness plans. They started gradually with plans for duplication of essential records and then developed a program for emergency operations at relocation sites. Admittedly, the

successful atomic triggering of the hydrogen bomb hastened the selection of relocation sites at relatively safe distances from the Federal Reserve banks.

The first relocation site of the Federal Reserve Bank of Chicago was at Michigan City, Indiana but it was decided after three years that this was too close for comfort to Chicago and the steel mills. The relocation site was then moved and has been located for over four years in West Lafayette, Indiana about 140 miles southeast of Chicago. There we have adequate space for duplicate records and equipment 18 feet below ground level in the sub-basement of one of Purdue Universities new buildings. We also have a stand-by agreement with the University to take over the Women's Gymnasium in case of an emergency.

At the close of each day we ship to the relocation site copies of the entries for the day's transactions or new balances of accounts in the form of duplicates, listings or microfilms. Employees at the site receive this material the following day and update the files, discarding, by a retention schedule, any material which would no longer be needed to reconstruct accounts. At any time the records can be reconstructed as of the close of business the previous day and this is tested by reconstructions at quarterly intervals by employees from our Chicago and Detroit offices. The duplicate records maintained include balances in reserve accounts of member banks, approximately 105,000 IBM cards recording securities held in safekeeping and as collateral, balances in Treasury Tax and Loan accounts, balances of Series E bond accounts of Issuing Agents, and accounts of Paying Agents of Savings Bonds. Supplies, forms, and office equipment which would be essential in establishment of a Relocation Office are also stored at West Lafayette.

The directors of the Federal Reserve Bank of Chicago have designated by resolution a surviving senior officer of the bank to be the temporary chief executive officer in an emergency if both the President and the First Vice President are casualties or are unavailable. In the event all senior officers are casualties, the resolution specifies an alternative method for the selection of a temporary chief executive officer.

The Federal Reserve banks and the Commercial Bank Committees have now developed comprehensive plans for emergency operations through selected check and cash agent banks in all of the Federal Reserve districts. This program is so designed that it will decentralize and supplement the emergency operations of the Federal Reserve banks from their own relocation sites.

As suggested by the Commercial Bank Committees, the plan for emergency check and cash operations contemplates that all commercial banks, member and nonmember, will be included. The Committees also asked that the banks in the selected cities be given the opportunity to designate the check agent bank for their emergency check clearing group.

For the Seventh District the plan provides for 35 check agent banks and 16 cash agent banks. In Iowa there will be 10 check agent banks, one for each banking group, and 3 cash agent banks. In a few instances the cash agent will be in the same city as the check agent. A primary consideration for the selection of the places where agent banks will be located was the fact that they are non-critical (target) cities. At least they have been so designated by the

Civil Defense Authorities, but if, perchance, they are hit during an attack, alternate agents will be selected.

As to check agent banks, although the plan necessarily is flexible, the Federal Reserve Bank of Chicago would prefer not to designate them. We would prefer to select the cash agent banks but this part of the program is also flexible.

It is contemplated that representatives of the Federal Reserve Bank of Chicago will arrange meetings soon in the selected cities with representatives of all the banks located there in order to explain the agent bank procedure in detail. Thereafter, it is hoped that the bankers contacted will themselves decide which bank will act as the check agent for their emergency check clearing group.

When the agent banks for emergency check and cash operations have been agreed upon or selected, the Federal Reserve Bank of Chicago will enter into an agency contract with each of them. The forms of the contracts have been prepared and they provide that the Reserve bank will reimburse the agent for all expenses and will indemnify the agent against loss.

Instructions in the form of supplements to operating circulars have been prepared covering emergency check and cash operations and will be distributed to all banks. While I will not go into the details of the plan for emergency check clearing by banks within the banking groups, I would like to call your attention to the following statements in the instructions:

Because of the limited Federal Reserve emergency facilities that would be in operation, it would be desirable to utilize all correspondent bank check collection facilities which may still be available.

Banks which under normal conditions send items to correspondent banks are therefore encouraged to continue to send checks to correspondents with offices in undamaged areas.

If a correspondent bank in a damaged area has previously instructed its bank depositors to send checks to an undamaged alternate bank in an emergency, it is suggested that such banks send checks to the designated alternate.

In order to facilitate operations of the banking system during the emergency, this bank will suspend until further notice the time schedules for availability of cash items.

I would like to call your special attention to one other statement to be made in the emergency check collection circular because it is most important to the effective functioning of the banking system in a war emergency.

The Board of Governors of the Federal Reserve System assumes that, when the Government's plans for dealing with a national emergency due to enemy attack are developed by the Congress and the Administration at some future time, they will comprehend measures to preserve the monetary system. On that assumption, Federal Reserve plans contemplate that Federal Reserve banks will give credit for cash items received by them, or held for them by commercial banks, even though, because of conditions arising from any enemy attack, the items are uncollectible, either because the drawee banks have suspended operations or because transportation facilities are not available. Such items will be held by the Federal Reserve banks or held for them by commercial banks until they can be presented for payment. The plan contemplates that after presentation, only those cash items would be returned by the Federal Reserve banks to their depositors as would be returned in normal circumstances for reasons of nonpayment unrelated to the emergency, such as insufficient funds, no account, forgery, etc.

After the emergency occurs, it is likely that currency may become a scarce commodity, therefore it will be necessary to see that all banks are supplied by cash agent banks with adequate amounts of currency and coin.

Commercial banks cannot operate, even on an emergency basis without currency and coin. The Federal Reserve banks have surplus currency stored in their vaults and the Treasury Department has a large amount of surplus currency stored at a site outside of Washington. We also plan to store surplus currency with some of the Cash Agent banks.

The emergency cash operations plan contemplates that banks in the same community will help each other so that one will make excess currency available to those near by in need of currency. Emergency shipments of currency and coin may be ordered by both member and nonmember banks from the cash agent bank designated for their territory. Likewise, shipments of currency and coin may be obtained by member and nonmember banks from the Cash agent. Nonmember banks will receive credit or pay for currency shipments through credit or debit entries in the accounts of their correspondent member banks.

During the emergency the Federal Reserve Bank of Chicago will pay the expenses on shipments of money to and from member and nonmember banks and will assume war risks, as well as the ordinary risks of loss, of such shipments.

Other provisions of the plan for emergency cash operations are described in detail in the emergency circular. Because of the emergency conditions, which will exist, cash agent banks will be instructed to handle shipments of money by any satisfactory means of transportation available.

Sometime soon representatives of the Federal Reserve Bank of Chicago will be making the necessary arrangements with the selected cash agent banks in the designated 16 cities in the district.

I would like to emphasize that the plans for emergency check and cash operations and the manner of selection of the agent banks are not inflexible. Substantially the same plans will be used in all of the Federal Reserve districts but there may be variances because of local conditions. In this district we recognize that some changes may need to be made in our plans. For example, we arbitrarily selected the emergency check clearing groups to coincide with existing banking groups. But, if any bank feels that it should be in another clearing group for more effective delivery or handling of its checks, such a change in the plan may be made.

One question which might arise is with reference to the determination of when an emergency exists. In order to meet this situation the Federal Reserve banks have agreed to define "National Emergency" in their circulars to mean an emergency in which the United States is involved in war or which may be proclaimed by the President of the United States to be a national war emergency or in which the Federal Reserve bank puts into effect its plan for emergency operations. Under the last alternative a Federal Reserve bank might, for example, at a given time, feel the threat of war was so great that it would notify all banks to place the emergency program in effect at once.

It is difficult for me, as I know it must be for you, to realize that there is the possibility of this country being attacked by an enemy. But reluctant as we may be to think of this possibility, chilled as we are by the very thought of hydrogen bombs falling here, we are compelled to face the reality of world powers increasing their arsenal of destruction.

The chairmen of the Commercial Bank Committees sent a letter to each bank, dated September 5, 1957. Since that time we have had the Lebanon crisis and the one in the Far East which has not ended. The first paragraph of their letter should cause all of us to think more than we have in the past about emergency planning. It reads as follows:

"In this jet and atomic age, supersonic planes and guided missiles can reach any point in the world in a matter of hours or minutes. The possibility of destruction on an almost cataclysmic scale is closer to us than we dare to think. The time has come to think realistically about it and what we, as bankers, should do to meet that possibility and thus contribute to the preservation of the country."

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