

The attached minutes of the meeting of the Board of Governors of the Federal Reserve System on August 31, 1960, which you have previously initialed, have been amended at the request of Governor King to modify the last full sentence on page 10.

If you approve these minutes as amended, please initial below.

Chairman Martin

Governor Szymczak

Governor Mills

Governor Robertson

Governor Balderston

Governor Shepardson

AM  
WMS  
[Signature]  
[Signature]  
CCB  
[Signature]

Minutes for August 31, 1960

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin

Gov. Szymczak

Gov. Mills

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. King

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## Minutes of the Board of Governors of the Federal Reserve System

on Wednesday, August 31, 1960. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman  
 Mr. Szymczak  
 Mr. Mills  
 Mr. Robertson  
 Mr. Shepardson  
 Mr. King

Mr. Kenyon, Assistant Secretary  
 Mr. Young, Adviser to the Board  
 Mr. Fauver, Assistant to the Board  
 Mr. Hackley, General Counsel  
 Mr. Noyes, Director, Division of Research and  
 Statistics  
 Mr. Solomon, Director, Division of Examinations  
 Mr. Harris, Coordinator, Office of Defense  
 Planning  
 Mr. Hexter, Assistant General Counsel  
 Mr. Rudy, Special Assistant, Legal Division  
 Mr. Sammons, Associate Adviser, Division of  
 International Finance  
 Mr. Daniels, Assistant Director, Division of  
 Bank Operations  
 Mr. Hostrup, Assistant Director, Division of  
 Examinations  
 Mr. Landry, Assistant to the Secretary  
 Miss Hart, Assistant Counsel

Items circulated to the Board. The following items, which had been circulated to the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

	<u>Item No.</u>
Letter to the Union Bank and Trust Company, Kokomo, Indiana, approving an extension of time to establish a branch at 502 North Main Street.	1
Letter to the Southern Arizona Bank and Trust Company, Tucson, Arizona, approving the establishment of an in-town branch.	2

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Report to Joint Committee on Defense Production (Item No. 3).

Under date of August 26, 1960, there had been distributed copies of a draft of reply to a letter dated July 7, 1960, from Chairman Brown of the Congressional Joint Committee on Defense Production requesting a summary of the Board's mobilization activities during the past year for inclusion in the Tenth Annual Report of the Joint Committee. The proposed report summarized the program for continuity of essential functions of the Federal Reserve System in a war emergency, the commercial bank preparedness program, and the V-loan program.

After a brief statement by Mr. Harris relating to the scope of the proposed report, there followed discussion, at the instance of Governor Mills, concerning the basis for comments in one portion of the report indicating that general agreement existed within the Government as to the policies needed to make all emergency planning in the monetary and bank credit fields consistent. Comments by Governor Robertson and Mr. Harris were to the effect that basic policies, as set forth in the report, had been agreed upon by a high-level interagency committee appointed by the President and had been cleared at the Presidential and Cabinet levels. Accordingly, it seemed accurate to say that as of this date there was general agreement on fundamental principles, although the preparation of plans to implement those principles had not been completed and differing opinions might exist in various agencies on the details of their implementation.

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In further discussion of the report, certain minor changes in language were suggested, following which the report was approved unani-mously for transmittal to the Joint Committee. Copies of the letter and accompanying report sent pursuant to this action are attached as Item No. 3.

Mr. Harris then withdrew from the meeting.

Federal Advisory Council topics (Item No. 4). Pursuant to the understanding at the meeting on August 26, 1960, copies had been distributed of a revised draft of letter to the Secretary of the Federal Advisory Council suggesting topics for discussion at the forthcoming meeting of the Council and at the Council's meeting with the Board on September 15, 1960.

During discussion of the topics, two changes in wording suggested by Governor Mills were agreed upon.

Governor Mills also raised for consideration the question whether the Board should advise the Council of the fact that the possibility of a change from two to three days in the maximum deferment time under the Reserve Bank check collection schedules was again under discussion. He noted, among other things, that the Council had previously expressed itself adversely on the matter, that there was pending before the Board a revised draft of reply to a question from the Hardy Subcommittee on this subject, and that at some point the Board's reply to the Subcommittee probably would be made public. Governor Mills further pointed out that,

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although a decision to change the maximum deferment would not involve an amendment to the Board's regulations, and therefore advance publication in the Federal Register for comment presumably would not be required, nevertheless a change in operating procedures would be involved that was of much interest to the commercial banking system and was of a controversial nature.

Discussion of this point focussed on the feasibility of taking the matter up with the Council at this particular juncture. It was brought out that the reply to the Hardy Subcommittee should be considered in conjunction with the Board's further study of actions that might be taken in the way of additional release of vault cash, changes in reserve requirements, and classification of reserve cities, that meaningful discussion with the Council of the possible change in the deferment schedule would almost require making available to the Council factual information such as contained in the revised draft of reply to the Hardy Subcommittee, and that a complete picture still would not be presented to the Council unless reference also was made to a change in the deferment schedule as one part of a package of actions affecting reserves that the Board had under consideration.

This led to various suggestions as to how the matter might best be handled, including the possibility of deferring discussion with the Council and also the possibility of distributing to the Council a portion of the material prepared in draft form for the Hardy Subcommittee with a

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statement that the Board would be glad to have the comments of members of the Council after they had had an opportunity to study the material.

During this discussion it was pointed out that the return of Chairman Martin would enable the full Board to consider the question of procedure. Accordingly, it was agreed to defer a decision on the matter pending further consideration upon the Chairman's return, with the understanding that in the meantime the staff would prepare excerpts from the revised draft of reply to the Hardy Subcommittee in order that they might be available if the Board should decide to make distribution of such material to the members of the Council.

Unanimous approval then was given to a letter to the Secretary of the Federal Advisory Council in a form reflecting the two suggestions made by Governor Mills. A copy of the letter sent pursuant to this action is attached as Item No. 4.

Messrs. Young, Noyes, and Sammons then withdrew from the meeting.

Advertising space in Reserve Bank building. Pursuant to the understanding at yesterday's meeting, Mr. Daniels reported the results of the inquiry that he had made of General Services Administration as to its practices with regard to advertising the availability of space in Federal buildings. It was understood that there had been few cases of this type in recent years. In general, however, when space is declared excess, the Administration first prepares posters for display on the building and in other Federal buildings. In the event the use of posters proves to be

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unsuccessful, newspaper advertising may be used, and as a last resort the Administration might utilize the services of brokers.

In this connection Mr. Daniels commented that it might be suggested to the Federal Reserve Bank of Chicago that, if the Bank had not already done so, it might want to get in touch with the regional office of General Services Administration in that city for information as to what Government agencies were in need of space.

In the light of Mr. Daniels' report, there ensued discussion of the draft of advertising brochure that had been prepared by the Chicago Bank's agent with a view to locating tenants for available space in the head office building. It was noted that the brochure had been submitted to the Board by the Bank on an informal basis for the purpose of obtaining any suggestions that the Board might wish to offer.

It was the consensus that fundamentally the "bridge had already been crossed" earlier when the Board permitted the use of an agent by the Chicago Reserve Bank. An agent having been retained, it was felt that the agent must be given latitude to work out with the Reserve Bank such arrangements as seemed appropriate in finding tenants for the available space in the Bank building. It was understood that the agent had in mind restricting his contacts to parties of a type who might be considered suitable tenants, and it was assumed that in leasing space the Reserve Bank would be guided by the expressions concerning types of tenants set forth in the Board's letter to all Federal Reserve Banks dated June 12, 1953 (F.R.L.S. #3188.1).

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Accordingly, it was agreed that Mr. Daniels would transmit informally to the Federal Reserve Bank of Chicago the views expressed at this meeting.

Mr. Daniels then withdrew from the meeting.

Application of Northwest Bancorporation. In accordance with the understanding at yesterday's meeting, there had been distributed two memoranda from the Division of Examinations dated August 30, 1960. One memorandum presented summary information on the offices and deposits of subsidiary banks of Northwest Bancorporation and First Bank Stock Corporation, in relation to the offices and deposits of all commercial banks, for various areas within the State of Minnesota, including the primary and secondary service areas of The First National Bank of Pipestone, which Northwest had applied to acquire. The second memorandum presented certain data taken from the Division's memorandum of December 8, 1958, with respect to the application of Northwest to acquire The First National Bank at Eveleth, Eveleth, Minnesota, which application was approved by the Board on January 20, 1959.

Governor Mills stated that following review of this additional information he found no reason to change the comments on the case that he made at yesterday's meeting. He continued to believe that the application should be disapproved.

Governor Robertson said he agreed that the application should be disapproved notwithstanding the decision in the Eveleth case, where the

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facts were in some respects quite comparable to those involved in the Pipestone application. In the Eveleth case, however, it was his recollection that the Board gave weight to the possibility of liquidation of the bank and to management factors. In this case, he felt that the Board could not rely upon such factors. While, as stated in one of the memoranda from the Division of Examinations, the Minneapolis Reserve Bank had suggested certain possible actions on the part of the present ownership of the Pipestone bank if the application should be denied, it appeared from the memorandum that the Division of Examinations was inclined to discount such possibilities, and he (Governor Robertson) also was inclined to discount them. As he saw it, this was a case where a large bank holding company controlling about 26 per cent of all bank deposits in the State of Minnesota was seeking to acquire a well-run institution which was providing good competition for the subsidiary bank of First Bank Stock Corporation located in the same community. Approval of the application would permit the expansion of an already large holding company and would diminish further, although admittedly in only a small way, the competition of independent institutions with the holding company banks. The acquisition would represent a small additional accretion of power in the hands of the two principal holding companies operating in the general area, which he thought was not in the public interest in the absence of good reasons for approval.

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In reply to a question by Governor Shepardson, Mr. Hostrup said the Division of Examinations did not consider it likely that the Pipestone bank would be liquidated if the current application should be denied. Apparently the Feldman family stock would accrue eventually to a son, a professional man residing in New York State, and the present junior management might be continued by the son. Also, there was the possibility that, even if the bank were liquidated, another bank would be organized by other parties.

Governor Shepardson then stated that he had been concerned about the philosophy in certain other cases that an adverse decision was not warranted if the factors seemed about neutral. Even after studying again the views of Counsel on this subject, he found it difficult to accept such a philosophy. In this case, as Governor Robertson had pointed out, the acquisition would represent another addition to the concentration of power in the hands of the two large holding companies.

Governor Shepardson then inquired of Governor Mills whether the latter, in his comments yesterday, had not taken the position that the aggregate holdings of the companies was not the most significant factor and whether the latter's reasoning did not go more to the circumstances surrounding the particular location involved in the application.

Governor Mills replied that this was correct. He had made the statement, he said, that the dominant position of the two holding companies in the State of Minnesota should be investigated as a factor relevant to

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making a decision, in an individual case, but that this should not be the decisive factor. To him the decisive factor was found in the circumstances surrounding the Pipestone area, which in his opinion balanced out adversely. However, when there was added the overriding circumstance relating to the position of the two holding companies, his opinion that the application should be disapproved was strengthened.

Governor Shepardson then expressed the view that this particular case was similar to some others that had come before the Board, from the standpoint of local circumstances, in that the factors seemed to him to be about neutral. There did not appear to be any strong advantages flowing from approval, nor did it appear that approval would have any strongly adverse effect on local competition. However, the total power of the two large bank holding companies would be increased further, with no apparent advantages from the local standpoint. For that reason, he would favor disapproval of the application, even though the addition to the holdings of the applicant, percentage-wise, would be minor.

Governor King said he had always been concerned about undue concentration, whether in banking or any other field. However, the data provided by the Division of Examinations included a long list of small banks, almost all with deposits of \$1 or \$2 million, within a fifty-mile radius of the town of Pipestone. As he saw it, the mere fact that these small independent banks were in existence did not necessarily indicate that they were contributing substantially to the public interest. Turning

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to an examination of the current application in the light of the fifth factor required to be considered pursuant to the Bank Holding Company Act, he felt that the acquisition of the Pipestone bank would not give the applicant bank holding company system an undue concentration of deposits in the Pipestone area and that the proposed acquisition would be consistent with adequate and sound banking. As to the public interest, which was the factor that he would have to emphasize if he were to vote to deny the application, he could not see enough evidence that the acquisition would not be in the public interest to warrant taking such a position.

Reverting to the banking situation in the area surrounding Pipestone, Governor King again expressed the view that the existence of the relatively large number of \$1 and \$2 million banks was not preserving much in the way of competition. As he saw it, the only answer, if more competition was wanted, would be for parties to build more institutions capable of competing with the two large holding company groups. In the light of all the circumstances, he had come to the conclusion that the application of Northwest Bancorporation should be approved. In saying this he had some doubts, for he did not like to see the gradual process of concentration of power in the hands of a few parties. Nevertheless, in his own mind he could not find enough evidence in this case to warrant taking the position that approval of the application would be against the public interest.

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Governor Szymczak indicated that he would favor disapproval of the application, although he realized fully that this case, like so many that had come before the Board, was a close one. Some of these cases might go to the courts; the more that went to court, the easier would be the problem for the Board, although the courts would be faced with problems of the same kind as those confronting the Board.

Governor Balderston said that his concern in this matter was twofold. As he understood it, in the past the Board had looked upon the Bank Holding Company Act as possessing the fundamental distinction, when compared with the bank merger statute, that the Board might approve an application if it did not find positive evidence of an injurious effect on competition. If the Board denied the current application, and he thought it probably should, it seemed to him that the decision would represent a departure from the philosophy the Board had followed in cases under the Bank Holding Company Act up to this point. His second point of concern was the court decision in the Transamerica case several years ago, where the locality was made the focal point of analysis. In the Pipestone case, as he looked at the community alone, it appeared that banking accommodations might be better if the application were approved than if it were disapproved. His own position, favoring disapproval, was based on the broader consideration having to do with the whole Northwest area and the dominance in it of two bank holding companies whose growth by accretion would make the organization of new banks more difficult as

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time went on. Consequently, disapproval of the current application would indicate that the Board was looking at the broad situation in the area and not what might provide the best or most convenient banking services for the Pipestone community. In indicating that he would favor disapproval, therefore, he did so with some concern about the turn in the road that the Board was taking this morning.

Thereupon, on the basis of the views indicated by the majority of the Board, the staff was requested to prepare for the Board's consideration drafts of a Notice of Tentative Decision and a Tentative Statement denying the application of Northwest Bancorporation for prior consent to acquire shares of The First National Bank of Pipestone.

Mr. Hackley then presented certain questions with respect to the formulation of the tentative statement. He judged it would be desirable that the statement be consistent with the pattern of past decisions and not indicate a change in basic philosophy on the part of the Board. The situation could possibly be reconciled, he suggested, by taking the position that although the Board had approved certain previous applications where the factors involved were more or less neutral, in this case the size of the applicant and the aggregate size of the two bank holding companies operating in the general area were also relevant to the decision. He would not want to suggest that it was improper for the Board to consider those two facts as they bore upon the fifth factor required to be considered in a case of this kind, when that factor might be regarded as

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referring to the effect of a proposed transaction on future as well as existing competition. The decision might be based on the ground that in the Board's judgment the size of the applicant company and the size of the two holding companies combined were relevant factors in reaching a decision; and the legislative history clearly indicated that any decision under the statute was to be left to the Board's judgment after it had considered all of the factors referred to in the statute.

Reference was made to the fact that in the Congressional hearings and debate preceding enactment of the Bank Holding Company Act the two large bank holding companies (Northwest Bancorporation and First Bank Stock Corporation) had been cited as "giants" in the area in which they operate. However, this was not taken to mean that their operations should be frozen, and the suggestion was made that in the Board's statement in this case nothing be said to indicate that the Bank Holding Company Act was regarded as freeze legislation. In this connection, it was noted that certain previous applications, including the Eveleth application, had been approved, which suggested that the Board would look at the circumstances involved in each particular case.

In further discussion of the matter, Mr. Solomon noted that, depending on how the Board's statement was worded, certain problems of differentiation might be presented for the future. If emphasis were placed on the over-all position of the two bank holding companies, or even that of Northwest, it might be rather difficult to avoid the decision

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in this case being regarded as a precedent, at least as far as the acquisition of a going bank was concerned.

After a comment by Governor Robertson that the Board would have to consider each individual case on its merits, Mr. Solomon added to his previous comments by saying that the holdings of Northwest and First Bank Stock are fairly well spread out through the State of Minnesota, with no unusually heavy concentration outside the area of the Twin Cities. It was his impression that the situation around Pipestone was not significantly different from that in other areas of the State, outside the Twin Cities, from the standpoint of the holdings of the two companies.

Question then was raised whether, in view of the favorable recommendation of the Federal Reserve Bank of Minneapolis, it was the Board's desire to ascertain whether the Reserve Bank wished to submit any further views or information.

It was the consensus that this need not be done, and that the Reserve Bank should simply be informed of the Board's tentative decision when such decision had been approved by the Board and was about to be released. The principal reason given was that a Reserve Bank, having submitted its analysis and recommendation, should not be placed in a position of being asked, in effect, whether it would wish to change its position, for the Reserve Bank presumably had already given the matter careful study. The view was expressed that, for this reason, the procedure decided upon by the Board in a recent case under the bank merger

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legislation (a procedure of advising the Reserve Bank concerned of the Board's decision) would also be appropriate as a rule of general practice in cases coming before the Board under the bank holding company legislation. It was indicated, however, that the staff should feel free to raise the question in any case where it believed the circumstances to be such that the possibility of going back to the Reserve Bank should be given consideration.

In this connection, Governor Szymczak requested that the record show that although in this case he had gone along with the other members of the Board in the matter of procedure, he felt that in bank holding company cases involving the tentative decision procedure the Board should follow the general practice of checking with the Reserve Bank concerned if the Bank's recommendation was different from the action proposed to be taken by the Board.

The meeting then adjourned.

Secretary's Notes: Governor Shepardson today approved on behalf of the Board the following items:

Memorandum dated August 26, 1960, from Robert F. Emery, Economist in the Division of International Finance, requesting permission to teach a course in money and banking at Southeastern University, Washington, D. C.

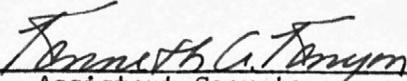
Telegram to the Federal Reserve Bank of San Francisco (attached Item No. 5) approving the appointment of Morris A. Johnson as assistant examiner.

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Letter to the Presidents of all Federal Reserve Banks transmitting forms for the use of State member banks and their affiliates in submitting reports as of the next call date, it being understood that the letter would be sent when the forms were printed.

Governor Shepardson today noted on behalf of the Board that an application for disability retirement, effective September 1, 1960, had been filed by Dorothy L. Duvall, Statistical Clerk, Division of Bank Operations.

  
Assistant Secretary

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

Item No. 1  
8/31/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

August 31, 1960

Board of Directors,  
Union Bank and Trust Company,  
Kokomo, Indiana.

Gentlemen:

Pursuant to your request, the Board of Governors of the Federal Reserve System extends the time within which Union Bank and Trust Company may establish a branch at 502 North Main Street, Kokomo, Indiana, to February 27, 1961, under the authorization contained in the Board's letter dated February 25, 1960.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

Item No. 2  
8/31/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

August 31, 1960

Board of Directors,  
Southern Arizona Bank and  
Trust Company,  
Tucson, Arizona.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Dallas, the Board of Governors of the Federal Reserve System approves the establishment by Southern Arizona Bank and Trust Company, Tucson, Arizona, of a branch near the intersection of West Prince Road and Flowing Wells Road in Tucson, Arizona, provided the branch is established within twelve months from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 3  
8/31/60

OFFICE OF THE VICE CHAIRMAN

August 31, 1960.



The Honorable Paul Brown, Chairman,  
Joint Committee on Defense Production,  
House of Representatives,  
Washington 25, D. C.

Attention Mr. Harold J. Warren,  
Clerk & Counsel,  
Room 459,  
Old Senate Office Building,  
Washington 25, D. C.

Dear Mr. Brown:

In response to your letter of July 7, 1960, attached is a factual summary covering mobilization activities of the Board of Governors for the past year.

The summary covers three programs--the program for the continuity of the essential functions of the Federal Reserve System in the event of an attack on the United States, the commercial bank preparedness program, and the V-loan program.

Sincerely yours,

(Signed) C. Canby Balderston

C. Canby Balderston,  
Vice Chairman.

Attachment.

SUMMARY OF THE MOBILIZATION ACTIVITIES OF  
THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Introduction

This report summarizes the mobilization activities of the Board of Governors of the Federal Reserve System for the past year. It is divided into three parts, each of which deals with a major mobilization program in accordance with the outline suggested by the Joint Committee on Defense Production. Part I relates to the development of plans and preparedness measures for the continuity of the essential functions of the Federal Reserve System in a war emergency. Part II relates to the development of plans and preparedness measures for the continuity of commercial banking operations in a war emergency. Part III describes Regulation V-loan activities and plans for the conduct of such activities in a war emergency.

Part I

Continuity of the Essential Functions of  
The Federal Reserve System

1. Program. The Board of Governors is responsible for the development of plans and preparedness measures to assure the continuity of the essential functions of the Federal Reserve System in the event of an attack on the United States, and for participating in the development of policies and preparedness measures in the monetary and bank credit fields to deal with the potential economic consequences of an attack.
2. Authority. The authority to develop plans and preparedness measures for the continuity of the essential functions of the Federal Reserve System and to deal with the potential economic consequences of an attack derives from the National Security Act of 1947, as amended, the Defense Production Act of 1950, as amended, the Federal Civil Defense Act of 1950, as amended, Executive Order 10346, Defense Mobilization Order I-20, and The National Plan for Civil and Defense Mobilization.
3. Activities. Beginning shortly after the enactment of the National Security Act in 1947, the Board of Governors of the Federal Reserve System initiated the development of plans for an attack situation. Over the past 12 years, these plans have been subject to continuing review and improvement.

Originally, the Board's plans were based on the assumption (1) that the money and credit system must and can be maintained, (2) that banking operations must be continued wherever physical conditions permit, and (3) that all the means to assure the continuance of banking operations in the national interest, including liquidity, credit, currency, and equitable sharing of war losses will be provided.

During the past year, general agreement has been reached among all the Federal financial agencies on basic policies needed to make all emergency planning in the monetary and bank credit fields consistent. These policies are:

- a. The money, credit, and financial system can and must be maintained. This is essential in order (1) to maximize the mobilization of all economic forces, (2) achieve the maximum utilization of surviving resources, both human and material, (3) provide the immediate military needs and requirements for human survival, and (4) be ready at the first opportunity to reactivate the economy in areas temporarily immobilized by fallout.
- b. Banking operations vital to the maintenance of the financial system must be continued, and provision must be made for liquidity and credit. The Federal Government will offer assurance that those dealing with financial institutions may do so without risk of the insolvency of such institutions by reason of war losses.
- c. The Federal Government will assure the equitable sharing of war losses throughout the economy to the extent possible. This policy did not grow out of any consideration as to whether the Government should compensate individuals for war losses, or should let such losses lie where they fall. Rather, it was in recognition of the interrelationship of all parts of our economy and the need to find the most practical means for maintaining a "going concern" concept for that part of our economy which survives an attack. Only "going concerns" can distribute surviving resources, generate more resources, and reconstruct the economy in the national interest.
- d. Bank deposits and currency will be made available in proportion to the needs of postattack economic activity, with due regard to local conditions in severely damaged, marginal, and undamaged areas, and subject to controls prescribed by national authority.
- e. New bank credit will be made available for essential purposes such as the support of military, emergency relief, and salvage operations and national reconstruction.
- f. The Federal Government will guarantee private financing for essential purposes to the extent that it is not otherwise available on reasonable terms.

- g. Provision will be made for the clearance of checks, including those drawn on destroyed banks, subject to such limitations and controls as may be necessary to assure the maintenance of the monetary and credit system.
- h. Supplies of currency will be decentralized to the extent possible in order to provide for local needs, and will be made available in accordance with the needs of postattack economic activity.
- i. There will be no general moratorium on the payment of preattack debts, but limited moratoria may be authorized for hardship cases.
- j. The issuance and use of scrip as a substitute for currency will be avoided except as it may be necessary due to the unavailability of currency.

The Board has provided for the continuity of its essential functions. The principal measures for this purpose are:

- a. The Board has established and maintains a relocation office in constant readiness. The relocation office has a fair degree of protection against radioactive fallout. It is supplied with emergency food and medical stocks, and is equipped with adequate communication facilities. Provision has been made for the billeting of personnel in the relocation office should radioactive fallout conditions make this necessary. Operating records are maintained at the relocation office and kept current daily. The relocation office is staffed with personnel trained in Federal Reserve operations and trained in radiation detection and communications.
- b. The Board has provided for a line of succession, including a provision for an "interim Board" to be drawn from officers of the Federal Reserve Banks in the event that the entire Board should be incapacitated, and has provided for the automatic delegation of all necessary authority to surviving members of the Board and to the interim Board.
- c. The Board has provided the Federal Reserve Banks with emergency policy guidelines, and has provided for the automatic delegation of authority to any Federal Reserve Bank to take such action as may be necessary on matters which would otherwise require Board approval, in the event any such Bank should be unable to communicate with the Board or the interim Board.

The Federal Open Market Committee, whose membership consists of each member of the Board of Governors and five representatives of the Reserve Banks, has adopted comparable plans for its emergency operations. The plans provide for a line of succession, authorization to Reserve Banks to take action in the event they are out of communication with the Committee, and guidance to Reserve Banks in reconstructing open market accounts and in providing special financing for the Treasury in an emergency.

The Federal Reserve Banks have taken actions similar to those of the Board of Governors.

- a. They all maintain relocation offices with current records and emergency operating manuals.
- b. They have provided for a line of succession among their officers and made delegations of authority to be effective in an emergency. They have provided for the appointment of acting Federal Reserve agents, and for the continuity of fiscal agency and foreign operations.
- c. They have built up an emergency supply of Federal Reserve notes, and have made some progress in the decentralized safe storage of currency.
- d. They are providing for the decentralization of check collection and currency distribution operations by the selection of check agents and cash agents to carry on these functions in all areas; particularly in those areas which might be temporarily isolated and where human activity might be permissible immediately following an attack. Most of the Federal Reserve Banks have completed the development of emergency operating instructions for carrying out check collection and currency distribution operations. In some instances, they have already distributed these emergency instructions to commercial banks in their districts.

4. Effectiveness. The effectiveness of the program has been tested during six annual Operations Alert against a variety of possible attack patterns. These tests have demonstrated the validity of emergency plans which provide for flexibility in their application to areas of great damage, marginal areas, and relatively undamaged areas, and which provide for delegation of authority and decentralization of operations to overcome the effects of loss of banking facilities and disruptions in communications and transportation. For example, under the attack pattern assumed for Operation Alert 1960, the capabilities of designated Check Agents and Cash Agents to continue operations postattack were three times greater than the commercial banking industry as a whole.

5. Current Need. The program will be needed as long as any potential enemy has the capability of launching a massive nuclear attack upon the United States. The program contributes to the overall defense posture of the nation, to the effectiveness of the family of deterrents to attack, and to the nation's preparedness to maintain the money and credit system if attacked.

6. Small Business. The program relates to the entire economy, to small business as well as large. Since it is assumed that the large cities, the industrial-population concentrations, and financial centers might be the natural objects of attack with weapons of mass destruction, emphasis has been placed on the utilization and preparation of small banking institutions outside of the more vulnerable target areas to serve the smaller business enterprises upon which reliance must be placed to support military, civil defense, and reconstruction operations.

7. Major Problems. The major problems in improving the effectiveness of this program are (1) the need to provide additional fallout protection at the regular and relocation offices of the Board, the Federal Reserve Banks, and their branches, (2) the need to complete emergency planning documents and to provide commercial banks with sufficient information on emergency planning policies to permit them to complete their own preparations, and (3) the need for a greater number of commercial banks to undertake and improve their preparedness.

Progress has been made in providing additional fallout protection in existing facilities and including fallout protection in new construction projects. Fallout protection involving major expenditures not related to new construction projects has been deferred pending Congressional approval of this kind of preparedness with respect to other Government agencies.

During the past year, drafts of emergency planning documents have been prepared or revised. It is possible that current drafts may become agreed upon as standby documents before the end of the calendar year.

The progress of commercial banks in undertaking and improving their preparedness is dealt with in Part II.

8. Program Changes. No program changes are contemplated at this time, however, some change of emphasis may be needed to meet possible changes in enemy capabilities. In anticipation of the time when the delivery of missiles might prevent successful relocation, study is now being given not only to improving shelter areas in all existing Federal Reserve facilities but also to the designation and training of organizational units within the System to become automatic successors to incapacitated units and to have the capability of continuing operations "in place."

9. Standby Programs. One of the basic requirements for the maintenance of the money and credit system and for the postattack financial and economic rehabilitation, is to provide some means for the indemnification or the equitable sharing of war losses. In 1957, a Federal Reserve staff committee prepared a memorandum on the subject, "Preattack Planning for Postattack Financial and Economic Rehabilitation," which dealt extensively with possible means for the equalization of war losses. During 1959, the staff committee prepared a revised report dealing with techniques and methods for maintaining the monetary and credit system, expediting financial and economic rehabilitation, and providing for the equitable sharing of war losses. A standby program for the indemnification or equalization of war losses, which can be put into effect immediately following an attack, is to be developed by the Federal financial agencies acting under the chairmanship of Office of Civil and Defense Mobilization. During the past year, the Federal Reserve has participated in this program.

10. Organizational Changes. There have been no organizational changes for administering this program during the past year. Heretofore, the Board designated one of its members to be primarily responsible for defense planning activities. The Board established as a separate unit an Office of Defense Planning which is responsible for the coordination of defense planning and mobilization activities among all staff units of the Board and between the Board and the Federal Reserve Banks. The Office of Defense Planning is supported by a staff committee composed of the heads of the principal offices and divisions of the Board. The Board also has a Liaison Office at the Relocation Site of the Office of Civil and Defense Mobilization which is staffed by a permanent Liaison Officer and a representative on temporary duty from a Federal Reserve Bank.

The Conference of Presidents of the Federal Reserve Banks has established a permanent Committee on Emergency Operations. This Committee is supported by Subcommittees on Emergency Cash Operations, Emergency Check Operations, Emergency Treasury Operations, and the Subcommittee of Counsel on Emergency Operations. Each Federal Reserve Bank has designated a senior officer to be responsible for its emergency planning program.

11. Future Objectives. This program is a continuing program, therefore, our future objectives are to keep our preparedness measures current and to constantly improve our readiness. On the basis of foreseeable needs to cope with increasing missile capabilities and decreasing warning time, emphasis will be placed on: (a) improving fallout protection in existing facilities; (b) completing and pre-positioning standby documents; (c) developing standby plans for the equitable sharing of war losses; (d) continuing the decentralization of currency to Federal Reserve Banks, Cash Agent banks, and selected underground depositories; and (e) developing plans for the continuity of the essential functions of the Federal Reserve System in the event there should be insufficient warning of attack to permit successful relocation.

12. Availability of Funds. Funds are made available as needed to carry on the preparedness responsibilities of the Board and the Federal Reserve Banks. Since the operating funds for the Board and the Banks are not derived from Congressional appropriations, the Board has sought to limit expenditures to those kinds of needs which Congress has approved in making appropriations to other Government agencies.

## Part II

### Commercial Bank Preparedness

1. Program. The Board is responsible for the development of plans, in cooperation with the Department of the Treasury, including the Comptroller of the Currency, and the Federal Deposit Insurance Corporation, to encourage preparedness measures by the commercial banking system designed to assure continuity of operations of the banking system in the event of enemy attack, including the preservation of essential records.

2. Authority. The authority for the conduct of this program is derived from Defense Mobilization Order I-20, February 15, 1956.

3. Activities. This program seeks to accomplish its purposes (1) by acquainting commercial banks with the importance of making plans for preservation of essential records and continuation of operations in the event of attack, and (2) by providing guidance as to how this might be done.

Two committees of bankers are working on the program--an Advisory Committee on Commercial Bank Preparedness and a Banking Committee on Emergency Operations, the latter a committee composed of senior operating officers.

As reported last year, the committees have prepared and distributed to all commercial banks five Booklets on preattack preparedness measures. During 1959 and 1960, the committees have been working on additional Booklets concerning operations following a destructive attack. A draft of Booklet No. 6, "Collection of Cash Items and Noncash Items," which includes guidance on the collection of checks, was distributed to the Supervisory Authorities for clearance in June 1959. Clearance was obtained in August 1960 and the committees so advised. A draft of Booklet No. 7, "Emergency Currency Distribution," was distributed to the Supervisory Authorities for clearance in June 1960, and the committees were advised of its clearance in August 1960. With the publication of Booklets Nos. 6 and 7, the general guidance to all commercial banks will have been completed. The general guidance is being supplemented with more detailed instructions in the form of emergency circulars or letters issued by the Federal Reserve Banks to all commercial banks in their respective districts.

In addition to the Advisory Committee on Commercial Bank Preparedness, the Banking Committee on Emergency Operations, and both Federal and State Advisory Authorities, the commercial bank preparedness program is being promoted by the American Bankers Association, State Bankers Associations, the National Association of Supervisors of State Banks, National Association of Bank Auditors and Comptrollers, and others. In April 1959, the State Association Section of the American Bankers Association appointed a special national committee of State Association Secretaries to work on the preparedness program for emergency operations in banking. Practically all State Bankers Associations have appointed similar emergency preparedness committees to promote the program.

4. Effectiveness. In April 1958, the three Federal supervisory agencies and a number of State banking departments added to their bank examination reports a questionnaire regarding actions taken on recommended preparedness measures. The answers are tabulated from time to time so that all concerned may be kept aware of the status of commercial bank preparedness. The first tabulation, based on an examination of 5,109 banks prior to October 31, 1958, indicated 118 banks had taken some action. The second tabulation, based on an examination of 9,000 banks prior to April 10, 1959, indicated 538 banks had taken some action. The third tabulation, based on an examination of 12,208 banks prior to April 30, 1959, indicated that 641 banks had taken some action. The fourth tabulation, based on an examination of 13,095 banks prior to December 31, 1959, indicated that 735 banks had taken some action. The fifth and latest tabulation, based on an examination of 13,464 banks prior to June 30, 1960, indicates that 826 banks have taken some action. Practically all commercial banks are represented in the last two tabulations. While the total number of banks having taken some action leaves much to be desired, the rate of increase as reflected by the last two tabulations is approximately 20 per cent. All but two banks with deposits of \$1 billion or more have a program.

5. Current Need. An effectively functioning banking system would be essential to the nation in time of war. Adequate preparedness measures are needed to assure the continued functioning of bank operations in the event of nuclear attack.

6. Small Business. The program relates to the entire economy, to small business as well as large.

7. Major Problems. The major problems in carrying out the program are (1) lack of realization on the part of many banks of the need for preparedness measures, and (2) a general belief that an adequate preparedness program will cost too much.

The need for preparedness measures is being brought to the attention of all banks through various banking associations, Federal and State supervisory agencies, and publications. Responses by commercial banks to survey letters sent out by the Advisory

Committee on Commercial Bank Preparedness and some State Bankers Associations indicate far greater interest in the program than is indicated by the tabulation of examiners' reports on what has actually been accomplished. Cost studies have been completed by the New York State Bankers Association, the Connecticut Bankers Association, and the Pennsylvania Bankers Association, which indicate that the cost of an adequate preparedness program is not excessive. A prototype plan for a small bank developed by the Pennsylvania Bankers Association has attracted wide interest throughout this country and abroad.

It is hoped that the dissemination of information as to the need for and the cost of an adequate preparedness program, together with the publication of Booklets Nos. 6 and 7 on postattack banking operations, will help to overcome the major problems.

8. Program Changes. No program changes are contemplated at this time.
9. Standby Programs. The entire program is a standby program. It is directed toward preparedness for any future emergency.
10. Organizational Changes. There have been no organizational changes during the past year.
11. Future Objectives. The future objectives are to continue the promotion of the program, largely by overcoming the major problems set forth above.
12. Availability of Funds. There has been no lack of funds for the promotion of this program.

### Part III

#### Guaranteed Loan Program

1. Program. The Federal Reserve Banks, under regulations of the Board of Governors, act as fiscal agents of the United States in connection with the V-loan program for Government guarantees of defense production loans. The Board of Governors, after consultation with the guaranteeing agencies, prescribes fees, rates, and procedures to be utilized in connection with such guarantees.
2. Authority. The present V-loan program was inaugurated under authority of the provisions of section 301 of the Defense Production Act of 1950, approved September 8, 1950, and the President's Executive Order 10161, dated September 9, 1950. The original Executive Order was superseded by Executive Order 10480, dated August 14, 1953, and

Executive Order 10819, dated May 8, 1959. Under the law, as amended by the Defense Production Act Amendments of 1960, authority for the program, unless further extended, will terminate on June 30, 1962.

3. Activities. Pursuant to the law and Executive Orders of the President, certain designated procurement agencies of the Government are authorized to guarantee loans made by private financing institutions to finance contractors, subcontractors, and others engaged in the performance of Government defense contracts for the purpose of expediting production and deliveries or services for the national defense. By an amendment made by the Defense Production Act Amendments of 1953, guarantees may also be issued with respect to loans made to finance contractors and subcontractors or other persons in connection with or in contemplation of the termination of their defense contracts.

At the outset of the program the designated guaranteeing agencies were the Departments of the Army, Navy, Air Force, Commerce, Interior, and Agriculture, and the General Services Administration. In 1951 the Atomic Energy Commission and Defense Materials Procurement Agency were also designated as guaranteeing agencies. By Executive Order 10480 of August 14, 1953, the Defense Materials Procurement Agency was abolished and its functions transferred to the General Services Administration. By Executive Order 10819, dated May 8, 1959, the National Aeronautics and Space Administration was designated as a guaranteeing agency.

On June 30, 1960, credit available under guarantee agreements outstanding totaled \$378,528,000. Of this amount, approximately 71 per cent on the average was guaranteed by the Government. On June 30, loans outstanding amounted to \$303,144,000, and there was available to borrowers an additional \$75,384,000. Available credit under the guarantee agreements outstanding by the various agencies was as follows:

Department of the Army	\$24,079,000
Department of the Navy	117,021,000
Department of the Air Force	202,070,000
General Services Administration	35,358,000

From the beginning of the program to June 30, 1960, net income of the guaranteeing agencies from guarantee and commitment fees and interest on purchased loans, after deducting established losses and expenses of the Federal Reserve Banks as fiscal agents, was as follows:

Department of the Army	\$5,342,000
Department of the Navy	9,797,000
Department of the Air Force	12,853,000
General Services Administration	5,992,000
Atomic Energy Commission	509,000
Department of Commerce	6,000
Total net income	<u>\$34,499,000</u>

The Department of the Army estimates that of the loans it has purchased approximately \$2,251,000 is uncollectible. The Department of the Navy estimates that of the loans it has purchased approximately \$14,000 is uncollectible. Assuming these estimated losses are realized, the net income to the Government at this time on the guaranteed loan program is over \$32 million. The relatively small net incomes of Atomic Energy Commission and Department of Commerce, neither of which has any guarantee agreements now outstanding, reflect smaller activity in the program rather than unsatisfactory experience.

There has existed since the inauguration of the V-loan program complete cooperation and understanding between the guaranteeing agencies, the staff of the Board of Governors, and the Federal Reserve Banks. Any differences that have arisen have been promptly settled and the primary purpose in the minds of all connected with the program has been to facilitate the financing of defense contractors as provided in section 301 of the Defense Production Act of 1950 as amended, and the implementing Executive Orders.

4. Effectiveness. The guaranteed loan program was successful and fulfilled a useful purpose during World War II and during the Korean conflict. It has continued to be useful in support of defense production, but on a more limited scale. It provides a mechanism whereby defense contractors and subcontractors, particularly small business concerns, can arrange to borrow the funds necessary to finance their defense production through their local banks by means of Government guaranteed loans rather than through the advance of Government funds or direct Government loans.

Since the enactment of the Defense Production Act of 1950 through June 30, 1960, 1,568 loans totaling \$3,272,284,000 were authorized by the procurement agencies which guarantee such loans.

5. Current Need. The current need for this program may be drawn from its current activity and the desirability of being ready to support an expanded procurement program when needed.

The following tabulation shows the number and amount of guaranteed loans authorized at the end of each month in the period July 1959 through June 1960.

	Guaranteed loans authorized to date	
	Number	Amount (In thousands of dollars)
<u>1959</u>		
June 30	1,557	3,169,911
July 31	1,557	3,169,911
August 31	1,558	3,174,076
September 30	1,560	3,174,426
October 31	1,561	3,178,876
November 30	1,562	3,179,029
December 31	1,563	3,189,214
<u>1960</u>		
January 31	1,565	3,192,434
February 29	1,565	3,195,144
March 31	1,565	3,201,894
April 30	1,565	3,215,894
May 31	1,568	3,272,264
June 30	1,568	3,272,284

On June 30, 1960, credit available to borrowers under guarantee agreements outstanding totaled \$378,528,000 compared with \$453,538,000 at the end of June 1959, indicating that during the year new guarantees authorized about equaled the amount of those terminated. In the year ended June 30, 1960, disbursements on V-loans, most of which are revolving credits, amounted to \$824,456,000, compared with disbursements of \$1,057,375,000 during the preceding twelve months, showing a somewhat lesser activity in the use of funds provided by the program.

6. Small Business. Classifications of guaranteed loans by size of borrower have been discontinued because of the relative inactivity of the program. It is believed that the summary figures in the statement as of the end of 1959 enclosed with the January 20, 1960, letter (report for last quarter of 1959) have not significantly changed.

7. Major Problems. There are no major problems confronting the Board and Federal Reserve Banks in carrying out this program.

8. Program Changes. The Federal Reserve Banks have plans to conduct the essential operations of the banks from relocation offices in the event of an emergency. The Reserve Banks plan to continue to perform such fiscal agency functions under the V-loan program as the situation then prevailing permits.

During the year, discussions were held between representatives of the Board of Governors and the guaranteeing agencies on the plans of the agencies for decentralization of authority to certify loans in a national emergency.

9. Standby Programs. Plans contemplate that the Federal Reserve Banks

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and the Board will be prepared to participate in an expanded program suitable to any future emergency needs.

10. Organizational Changes. There have been no organizational changes in the conduct of this program during the past year.

11. Future Objectives. As stated in section 301 of the Defense Production Act, the objective of the guaranteed loan program continues to be "to expedite production and deliveries or services under Government contracts."

12. Availability of Funds. The guaranteeing agencies are authorized to use any monies appropriated to them for defense purposes to meet any costs and expenses in connection with the V-loan program. The availability of funds is adequate.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

Item No. 4  
8/31/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

August 31, 1960.

Mr. Herbert V. Prochnow, Secretary,  
Federal Advisory Council,  
c/o The First National Bank of Chicago,  
Chicago 90, Illinois.

Dear Mr. Prochnow:

The Board suggests the following topics for inclusion on the agenda for the meeting of the Federal Advisory Council to be held on September 14, 1960, and for discussion at the joint meeting of the Council and the Board on September 15:

1. What are the views of the Council regarding the current economic situation and prospects for business activity during the next six months? The Council's impressions as to expectations of the business community and the general public and the impact thereof on capital expenditures, inventory policies, and consumer expenditures would be appreciated.
2. With respect to the demand for credit: (a) How does the current situation compare with the situation at this season of other recent years? (b) Are there indications that the demand for bank loans and other credit will strengthen over the remainder of this year? (c) How have borrowers responded to the recent change in the prime rate? (d) Have the demands for consumer credit and mortgage credit improved?
3. In recent weeks there have been large differences between short-term interest rates in the United States and those in other countries. There has also been some increase in the outflow of gold from this country. The Board would be glad to have any views the members of the Council might care to express on this subject, particularly with regard to the relationship between the international situation and current monetary policy.
4. The Board would be glad to have the views of the Council regarding the appropriateness of recent monetary and credit policy.

Very truly yours,

(Signed) Kenneth A. Kenyon  
Kenneth A. Kenyon,  
Assistant Secretary.



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**T E L E G R A M**  
LEASED WIRE SERVICE

Item No. 5  
8/31/60

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON

August 31, 1960

MANGELS - SAN FRANCISCO

Reurlet August 24, 1960, Board approves appointment of  
Morris A. Johnson as assistant examiner for Federal  
Reserve Bank of San Francisco. Please advise date  
appointment is made effective.

(Signed) Kenneth A. Kenyon

KENYON