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Minutes for September 15, 1961

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

M

Gov. Mills

[Signature]

Gov. Robertson

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Gov. Balderston

CRB

Gov. Shepardson

[Signature]

Gov. King

[Signature]

Gov. Mitchell

[Signature]

Minutes of the Board of Governors of the Federal Reserve System on Friday, September 15, 1961. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Robertson, Acting Chairman  
Mr. Shepardson  
Mr. King  
Mr. Mitchell

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Thomas, Adviser to the Board  
Mr. Shay, Legislative Counsel  
Mr. Molony, Assistant to the Board  
Mr. Noyes, Director, Division of Research and Statistics  
Mr. Holland, Adviser, Division of Research and Statistics  
Mr. Spencer, General Assistant, Office of the Secretary  
Mr. Yager, Economist, Division of Research and Statistics

Money market review. Mr. Yager commented on recent developments in the money market, after which Mr. Thomas presented a report on bank credit, the money supply, and related matters.

Following these reports, Messrs. Thomas, Noyes, Holland, and Yager withdrew from the meeting and the following entered the room:

Mr. Hackley, General Counsel  
Mr. Solomon, Director, Division of Examinations  
Mr. Harris, Coordinator of Defense Planning  
Mr. O'Connell, Assistant General Counsel  
Mr. Daniels, Assistant Director, Division of Bank Operations  
Mr. Leavitt, Assistant Director, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas on September 14, 1961, of the rates

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on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

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

Item No.

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| Letter to Northern National Bank of Presque Isle, Presque Isle, Maine, approving its supplemental application for fiduciary powers.  | 1 |
| Letter to The City National Bank of Millville, Millville, New Jersey, approving its application for fiduciary powers.  | 2 |
| Letter to The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania, approving an extension of time to establish a branch at 202 West Ridge Pike, Plymouth Township, Montgomery County. | 3 |
| Letter to Trust Company of Georgia, Atlanta, Georgia, approving an extension of time to establish a branch at 2160 Monroe Drive, N. E.   | 4 |
| Letter to Bank of Idaho, Boise, Idaho, approving the establishment of a branch at U. S. Highway 10 and Spokane Street, Post Falls, Kootenai County.  | 5 |
| Letter to the Comptroller of the Currency recommending favorably with respect to an application to organize a national bank at Fairhope, Alabama.  | 6 |

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Item No.

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Letter to the Comptroller of the Currency recommending favorably with respect to an application to organize a national bank at Allen Park, Michigan.

Application to organize a national bank at Wichita, Kansas.

There had circulated a copy of a proposed letter to the Comptroller of the Currency recommending unfavorably with respect to an application to organize a national bank at Wichita, Kansas.

In discussion, Governor Mitchell said his basic philosophy favored granting the right of entry into any kind of enterprise; that is, affording all parties who desired to begin business an opportunity to get started if they had the necessary funds and thought they could sell a product or service in competition with others. Banking might be a little different from other lines of business. However, unless the record clearly showed that a proposed new bank could not possibly succeed, or that the management was almost certain to be corrupt, he would be inclined to approve a charter application. In this instance, therefore, although he would be open to further arguments, he would be disposed to question whether an unfavorable recommendation was justified.

Commenting more specifically on the Wichita application, Governor Mitchell noted that in the course of the investigation officers of certain competing banks had been interviewed and had commented unfavorably. On the other hand, the management of the proposed bank apparently was regarded

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by the Reserve Bank as generally satisfactory. The local community in which the bank would be located reportedly was growing, the bank's capitalization would be adequate, and the ownership of the bank would be in the hands of a wealthy family. Although the report of investigation seemed to say that the community was adequately served by existing banking facilities, the report lacked factual information on matters such as the scope of lending services currently being provided.

In further comments, Governor Mitchell mentioned that one possible procedure for making recommendations on national bank charters would be to turn the function over to the Federal Reserve Banks, on the basis that they were closer to the scene. On the other hand, it could be said that the Board, being more remote, was in a position to render a more objective judgment. Again referring to his general philosophy, he said that he sensed an attitude of paternalism on the part of bank supervisory authorities. In his own view, if interested parties had sufficient funds and wished to invest them in a new bank, they should ordinarily be given the opportunity and vested banking interests should not be allowed to exert an influence. The fact that existing banks were already in the picture did not mean necessarily that the quality of services rendered to the community was entirely adequate, and the expressions of the existing institutions were likely to reflect a self-serving attitude.

At the request of the Board, Mr. Leavitt summarized the factors that in this case had led the Division of Examinations to concur in the

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unfavorable recommendation of the Kansas City Reserve Bank. One was that an application by the same parties for a State charter had been denied earlier this year. Further, there were already two banks in the area, with total deposits of only about \$17 million, and a third bank was to begin operations shortly. It appeared that a part of the deposits of the third bank would have to come from the existing banks, and it was felt that the injection of a fourth bank might create an unduly competitive situation.

Mr. Solomon commented that it was the practice of the Division of Examinations to begin its review of each application with a philosophy in mind such as had been suggested by Governor Mitchell. In addition to the reasons cited by Mr. Leavitt, however, in this case it was noted by the Division that the over-all Wichita area had not shown appreciable growth in the past six to ten years and that the volume of bank deposits was almost stagnant. Hence, there seemed no reason to expect that the proposed new bank could obtain any large amount of deposits. Although some of the adverse comments in the report of investigation were supplied by existing banking interests, as Governor Mitchell had pointed out, for other reasons it had seemed to the Division that it probably would not be a good thing to open another bank at this particular time.

In further discussion, it was brought out that the Board's recommendations on national bank charters are not required by statute. However, over a long period of time it had been the practice of the

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Comptroller of the Currency to request such recommendations from the Federal Reserve, particularly out of recognition that the new banks would become automatically members of the Federal Reserve System. Although the record showed that in some cases the action taken by the Comptroller was different from that recommended by the Board, percentagewise the number of such cases was not too great. General agreement was expressed with a statement that the Board's recommendations, even if not required by statute, should be thought out carefully and conscientiously.

Governor Shepardson indicated that in the present circumstances, as described, he would regard the reasoning of the Reserve Bank and the Division of Examinations on the Wichita case as valid, while Governor King stated that in view of the discussion today he would appreciate an opportunity to study the file further.

Governor Robertson commented that he did not feel the record established sufficient justification for an adverse recommendation on the application. The two banks now in the area were operating favorably, and the community surrounding the site of the proposed bank was said to be growing. Also, the individuals principally concerned with supplying capital for the new institution had substantial means and were able to take the risk. The question that bothered him most, he said, was the action of the State authorities in turning down an application by the same parties. He felt that this question should be referred back to the Reserve Bank with the request that, if possible, it supply the Board with information as to the basis for the State's refusal.

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After further discussion, it was agreed that the recommendation to the Comptroller would be deferred pending receipt by the Division of Examinations of additional information from the Kansas City Bank, including, if they were available, the reasons why the State authorities had turned down the application by the same parties for a State charter.

Mr. Leavitt then withdrew from the meeting.

Defense planning activities (Item No. 8). A summary of mobilization activities of the Board for the past year, prepared in response to a letter of August 2, 1961, from Senator Robertson, Chairman of the Joint Committee on Defense Production, had been distributed. The report had been requested for inclusion in the Eleventh Annual Report of the Joint Committee to the Congress.

Following comments on this subject by Mr. Harris, the Board approved unanimously the transmittal of the report to Senator Robertson, with a letter in the form attached as Item No. 8. The Board also expressed agreement with a suggestion that, with some editing, the report be included in a future issue of the Federal Reserve Bulletin, recognizing that this might involve a budget overexpenditure.

During a further discussion of preparedness activities, Governor King raised a question regarding the status of plans for constructing an underground fallout shelter on property owned by the Board and located across "C" Street.



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Mr. Harris recalled that when this matter was discussed at the meeting on June 23, 1959, the Board approved a recommendation that the project be laid on the table indefinitely. This decision was influenced by the thought that it would be desirable to hold the plans in abeyance until there was tangible evidence of the approval by the Congress of a national shelter policy. Within recent weeks, the Congress had approved funds for a shelter program and, although it appeared that these funds would be spent largely on surveys, nevertheless the appropriation of this money might be regarded as justifiable cause for giving further consideration in the near future to the question of implementing the available plans of the Board. In the meantime, however, an investigation was being made of the possibility of clearing sufficient space to make a fallout shelter available in the sub-basement of the present Board building, in the thought that this could be accomplished more quickly than any project that might be decided on at the location across "C" Street.

Following discussion of this subject, it was agreed that in the light of present conditions, plans for constructing a fallout shelter on the "C" Street property should be brought back to the Board for consideration, and that in the meantime the plans for providing a fallout shelter in the sub-basement should proceed expeditiously, with such budget overexpenditure as might be necessary.

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Governor Robertson stated that the Advisory Committee on Commercial Bank Preparedness was to hold a meeting at the time of the forthcoming annual convention of the American Bankers Association in San Francisco. At this meeting the Committee would wind up its activities in pressing the bank preparedness program and turn over the function to the Bank Management Commission. He and Mr. Harris expected to attend the meeting and to assure the Commission of Federal Reserve cooperation.

Mr. Daniels withdrew from the meeting at this point.

First Virginia Corporation. On September 5, 1961, the Board issued an order and statement authorizing the acquisition by The First Virginia Corporation, Arlington, Virginia, of 80 per cent or more of the voting shares of Richmond Bank and Trust Company, Richmond, Virginia. It was understood, however, that arrangements would be made for representatives of First Virginia to come to the Board's offices at a mutually convenient time for the purpose of informing them of the Board's desire to have complete disclosure of all facts pertaining to any future applications by that holding company, and also to advise that the Board was in receipt of information alleging the indirect acquisition by First Virginia of shares of the Southern Bank of Norfolk, Norfolk, Virginia.

Mr. O'Connell now reported on a visit of Mr. Edwin T. Holland, President of The First Virginia Corporation, and Mr. Ralph Beeton, Executive Vice President, with Chairman Martin on September 12, 1961, at which time he and Mr. Hackley were also present. Mr. O'Connell stated

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that the aforementioned matters were discussed and that assurances were given about providing full information in the future. Messrs. Holland and Beeton disclaimed any intention on the part of First Virginia to misrepresent or to withhold information in connection with past applications, and their statements with respect to the matters on which questions had been raised at the time of consideration of the Richmond application were along the lines that had previously been anticipated. As to the future, Mr. Holland made clear the intent of the corporation to expand further and indicated that feelers were out more or less continuously with a view to the possible acquisition of additional banks. Neither he nor Mr. Beeton felt that there was an obligation to keep the Board informed of such activities. However, when Chairman Martin outlined the problems of the Board in dealing with holding company applications and the need of the Board for full information, both gentlemen expressed an awareness of the Board's problem and gave assurances of cooperation.

Pan American Bank. Governor Robertson reported on recent developments looking toward the sale of the Pan American Bank of Miami, Miami, Florida, including advice from the present ownership which indicated that the sale might be consummated at the close of business today.

The meeting then adjourned.

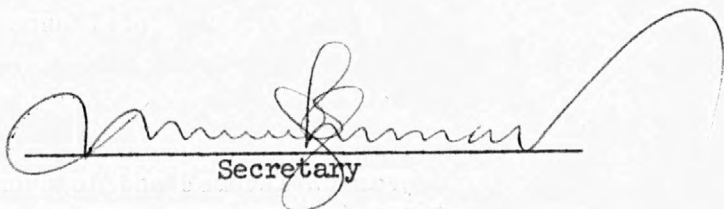
Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

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Memorandum from the Division of International Finance recommending the reinstatement following maternity leave of Kay J. Auerbach as Research Assistant in that Division, with basic annual salary at the rate of \$5,520, effective September 25, 1961.

Letter to Professor Edwin S. Mills of Johns Hopkins University, Baltimore, Maryland, regarding arrangements for him to conduct a course in mathematical economics as an activity of the Board's Employee Training and Development Program beginning September 21, 1961, with compensation in the amount of \$2,000 for each of two 20-week semesters, payable monthly for sessions completed during the month.



Secretary

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

Item No. 1  
9/15/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 15, 1961

Board of Directors,  
Northern National Bank of Presque Isle,  
Presque Isle, Maine.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of Maine. The exercise of such rights shall be subject to the provisions of Section 11(k) of the Federal Reserve Act and Regulation F of the Board of Governors of the Federal Reserve System.

In addition to the fiduciary powers herein authorized, the bank was granted authority on January 30, 1936, to act as trustee, executor, and administrator.

A formal certificate indicating the fiduciary powers that your bank is now authorized to exercise will be forwarded in due course.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

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

Item No. 2  
9/15/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 15, 1961

Board of Directors,  
The City National Bank of Millville,  
Millville, New Jersey.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants The City National Bank of Millville authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of New Jersey. The exercise of such rights shall be subject to the provisions of Section 11(k) of the Federal Reserve Act and Regulation F of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers that your bank is now authorized to exercise will be forwarded in due course.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

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

Item No. 3  
9/15/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 15, 1961

Board of Directors,  
The First Pennsylvania Banking and Trust Company,  
Philadelphia, Pennsylvania.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors has approved an extension until February 27, 1962, of the time within which The First Pennsylvania Banking and Trust Company may establish a branch at 202 West Ridge Pike, Plymouth Township, Montgomery County, Pennsylvania. The establishment of this branch was authorized in a letter dated September 27, 1960.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.



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

Item No. 4  
9/15/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 15, 1961

Board of Directors,  
Trust Company of Georgia,  
Atlanta, Georgia.

Gentlemen:

The Board of Governors of the Federal Reserve System has approved an extension until April 6, 1962, of the time within which Trust Company of Georgia may establish a branch at 2160 Monroe Drive, N. E., Atlanta, Georgia. The establishment of this branch was authorized in a letter dated October 6, 1960.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.





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

Item No. 5  
9/15/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 15, 1961

Board of Directors,  
Bank of Idaho,  
Boise, Idaho.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch at the southwest corner of the intersection of U. S. Highway 10 and Spokane Street, Post Falls, Kootenai County, Idaho, by Bank of Idaho, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

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

Item No. 6  
9/15/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 15, 1961

Comptroller of the Currency,  
Treasury Department,  
Washington 25, D. C.

Attention: Mr. W. M. Taylor,  
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated April 25, 1961, enclosing copies of an application to organize a national bank at Fairhope, Alabama, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by an examiner for the Federal Reserve Bank of Atlanta indicates generally favorable findings with respect to each of the factors usually considered in applications of this nature. Accordingly, the Board of Governors recommends favorable consideration of the proposal.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

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

Item No. 7  
9/15/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 15, 1961

Comptroller of the Currency,  
Treasury Department,  
Washington 25, D. C.

Attention: Mr. W. M. Taylor,  
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated January 12, 1961, enclosing copies of an application to organize a national bank at Allen Park, Michigan, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by an examiner for the Federal Reserve Bank of Chicago indicates that a capital structure of \$600,000 is to be provided rather than \$400,000 as originally proposed. The capital structure of \$600,000 appears adequate and all other factors usually considered in applications of this nature were found to be satisfactory. Accordingly, the Board of Governors recommends favorable consideration of the proposal.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 8  
9/15/61

JAMES LOUIS ROBERTSON  
MEMBER OF THE BOARD

September 15, 1961

The Honorable A. Willis Robertson,  
Chairman,  
Joint Committee on Defense Production,  
Congress of the United States,  
Washington 25, D. C.

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

Dear Senator Robertson:

In response to your letter of August 2, 1961, 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 program for bank preparedness, and the V-loan program.

Sincerely yours,

(Signed) J. L. Robertson

J. L. Robertson.

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 Board of Governors of the Federal Reserve System and the Federal Reserve Banks in a war emergency. Part II relates to the development of plans and preparedness measures for the continuity of essential operations of "banking institutions" 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 Board of Governors of  
The Federal Reserve System, and  
The Federal Reserve Banks

1. Program. The Board of Governors is responsible for the development of plans 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 government policies 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 of 1947, the Board initiated the development of preparedness plans applicable to both limited and general war situations. Major emphasis has been given to preparations for a general war situation involving nuclear attack on the United States.

Last year, it was reported that general agreement had been reached among all Federal financial agencies on basic policies needed

to make all emergency planning in the monetary and bank credit fields consistent. Since then, the policies have been reproduced in Annex 27 to The National Plan for Civil and Defense Mobilization and distributed by the Federal Reserve Banks to all commercial banks. The policies require that provision be made for the following:

- a. The maintenance of the money, credit, and financial system.
- b. The continuance of banking operations including provision for liquidity and credit.
- c. The equitable sharing of war losses.
- d. The decentralization of adequate supplies of currency.
- e. The availability of bank deposits according to post-attack needs.
- f. The clearance of checks including those drawn on destroyed banks.
- g. The availability of new bank credit for essential purposes.
- h. Government guarantee of private financing for essential purposes, if not otherwise available on reasonable terms.

Activities during the past year have been directed largely toward increasing capabilities to carry out the policy requirements. Significant examples of such activities are as follows:

- a. The Board and the Federal Reserve Banks have continued to maintain and to improve the operating capabilities of their respective relocation sites.
- b. Provision for fallout shelters has been included in all new building projects and steps have been taken to improve the protective features of shelter areas in a number of existing buildings.
- c. In December 1960, the Board compiled and distributed to Federal Reserve Banks its Emergency Plan for an Attack Situation. Supporting documents needed to complete the Plan have been added from time to time as developed. Some of these documents are listed below.
- d. With the concurrence of the Board, the Secretary of the Treasury, on January 10, 1961, issued an order

delegating to the Board authority and power to take such action as necessary to maintain the operation of banking institutions (Exhibit A), and issued Treasury's Emergency Banking Regulation No. 1 (Exhibit B). Both the order and the Regulation are effective immediately following an attack on the United States. The Regulation requires all banking institutions to continue operations, prohibits abnormal withdrawals and hoarding of currency, and restricts the use of deposit balances and the extension of credit to essential purposes. The Regulation authorizes, if warranted by postattack conditions, the use of temporary banking quarters, the making of loans without regard to normal limitations, and the rationing of currency.

- e. On May 15, 1961, the Board approved and distributed to Federal Reserve Banks Guidelines for Emergency Monetary Policy (Exhibit C). They are intended for the use of Federal Reserve Banks in the interval immediately following an attack and until communications can be re-established. Their objectives are to provide liquidity and confidence, and to curb excessive inflationary pressures.
- f. The Board's 1956 Emergency Documents have been redrafted for consistence with the Treasury Documents and the Board's Guidelines above mentioned. The Board's Emergency Regulations Nos. 1 and 2 (Exhibits D and E, respectively), and the Federal Open Market Committee Guidelines on Emergency Operations are currently in the process of clearance.
- g. Plans have been developed to take full advantage of any warning which might be received in advance of a tactical warning of an attack. Five degrees of Defense Readiness Conditions (DEFCONs) have been established which will go into effect simultaneously with corresponding degrees of military readiness. The preparedness actions to be taken automatically with respect to each DEFCON have been listed.
- h. Last year, it was reported that some progress had been made in the decentralized storage of currency. During this reporting period, over \$1-1/2 billion in Federal Reserve notes has been decentralized from Washington to Federal Reserve Bank vaults selected on the basis of available space and relative security in the event of an attack. In addition, one Federal Reserve Bank has substantially completed its program of making a

further partial decentralization of currency to its emergency Cash Agents.

4. Effectiveness. The effectiveness of the program has been tested against a variety of possible attack patterns. The results indicate that an effective plan for the continuity of banking operations in a postattack emergency must include readiness to take the extraordinary actions contemplated in the accompanying Documents.

5. Current Need. There has been a discernible increase in preparedness activity since the increase of international tensions over Berlin. 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 over-all 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: (a) the need to provide additional fallout shelter protection, (b) the need to provide several strategically located underground depositories for the storage of emergency currency supplies, (c) the need to complete emergency planning documents, and (d) the need for a greater number of banking institutions to undertake or improve their preparedness.

As indicated above, progress has been made in providing fallout protection, but more is needed. Activity in this field should be increased as the result of Congress' support of the shelter program as evidenced by its recent appropriation to the Department of Defense.

Problems associated with the decentralization of currency to emergency Cash Agent Banks make it highly unlikely that such decentralization will be made uniformly throughout the country pre-attack; therefore, the Board, in collaboration with the Treasury and the Office of the Comptroller of the Currency, is investigating the feasibility of utilizing several underground facilities for the storage of currency so that emergency Cash Agents might be supplied from these depositories in the event the vaults of the Federal Reserve Banks should become inaccessible.



Attention needs to be given to the completion of several key documents. No tangible progress has been made during the past year in reaching Government-wide agreement on a plan for the equitable sharing of war losses. Such a plan is basic to all plans for the maintenance of the financial system and a "going concern" economy. A new interagency committee is being established to pursue this unfinished task.

Without minimizing the far-reaching authority contained in the Trading with the Enemy Act of October 6, 1917, as amended, Executive Order 9193, the Executive Order which it is assumed will be promulgated in the event of an attack, and the Delegation to the Board from the Secretary of the Treasury pursuant to the foregoing, the Board has favored obtaining some expression of Congressional approval of the extraordinary measures which it might be necessary to take in order to maintain banking operations in a postattack emergency. Drafts of standby legislation are being prepared which would give general authorization or confirmation for the kinds of emergency actions contemplated in the attached Documents. More specifically, the draft legislation would suspend during any period of emergency proclaimed by the President as the result of an enemy attack on the United States the proviso contained in section 14(b) of the Federal Reserve Act placing a \$5 billion limitation on the aggregate amount of certain United States obligations which may be held by all Federal Reserve Banks at any one time.

Preparations are being made to review with Treasury its memorandum of December 10, 1956, on fiscal agency operations in an emergency with a view to clarifying a number of contingencies identified since the memorandum was issued.

Problems in connection with the preparedness activities of banking institutions are discussed under Part II.

8. Program Changes. No changes are contemplated other than the additions and revisions, above described, needed to meet possible changes in enemy capabilities. One example is the establishment of Defense Readiness Conditions (DEFCONs), alerting procedures, and lists of automatic actions so as to be ready to take advantage of any advance warning of an attack.
9. Standby Programs. There are two programs which might properly come under this heading. One pertains to the equitable sharing of war losses, mentioned above; the other pertains to the postattack utilization of bank examiners. The three Federal supervisory agencies, together with the Federal Reserve Banks, have agreed to look to their examination personnel as the primary source of reserve manpower. They have further agreed that this manpower should be utilized in a

cooperative manner to meet the most urgent needs, including staffing requirements of Federal Reserve Banks, emergency Check Agents and Cash Agents, and banking institutions which may have difficulties in continuing or re-establishing operations.

10. Organizational Changes. There have been no organizational changes for administering this program during the past year.

11. Future Objectives. 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) Defense Readiness Conditions (DEFCONS) procedures, (b) improving fallout protection, (c) completing and repositioning emergency documents, (d) developing standby plans for the equitable sharing of war losses, (e) continuing the decentralization of currency to Federal Reserve Banks, Cash Agent Banks, and selected underground depositories, and (f) 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

### Preparedness of Banking Institutions

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. The program has been extended to include "banking institutions" as that term is defined in the Secretary of the Treasury's order delegating emergency authority to the Board (Exhibit A). Thus, the program includes, not only every commercial bank, but also every trust company, private bank, savings bank, and mutual savings bank.

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 encompasses (a) providing guidance to

banking institutions on preparedness measures, and (b) encouraging banking institutions to take effective action on the guidance given.

Guidance has been given in the form of Booklets prepared and distributed to all commercial banks by the Advisory Committee on Commercial Bank Preparedness and the Banking Committee on Emergency Operations. The first five Booklets deal with preattack preparedness measures and were distributed several years ago. Last year, it was reported that a draft of Booklet No. 6, "Collection of Cash Items and Noncash Items," and a draft of Booklet No. 7, "Emergency Currency Distribution," were in the process of clearance. Since then, these Booklets have been distributed. The general guidance contained in these seven Booklets is being supplemented with more detailed instructions in the form of emergency circulars issued by the Federal Reserve Banks to all commercial banks in their respective districts. All but two Federal Reserve Banks have distributed such circulars.

The Federal and State Bank Supervisory Agencies, the American Bankers Association, and State Bankers Associations have continued to encourage banks to take preparedness actions.

On August 2, 1961, in a joint letter addressed to all banks, the Board, the Federal Deposit Insurance Corporation, and the Comptroller of the Currency, brought to the attention of all banks a memorandum from the Secretary of the Treasury re-emphasizing the need for accelerated emergency planning to provide for operational continuity of our banking system in the event of an enemy attack on the United States. The supervisory agencies urged that every bank which has not established such a program give immediate consideration to doing so, and stated that during future examinations, examiners will discuss and emphasize the importance of adequate preparedness.

Beginning in June 1961, the Advisory Committee on Commercial Bank Preparedness has been making a special effort, through personal contacts, to get all banks with \$100 million or more deposits to initiate a preparedness program if they have not already done so. This special effort is being made first, to get effective action by banks located in areas which might be relatively most vulnerable, and second, to set an example for banking institutions generally. The responses thus far received to the Committee's special effort have been most encouraging. Approximately 92 per cent of those replying indicate that they have initiated action, will initiate action immediately, or are giving the matter serious consideration.

4. Effectiveness. In order to keep abreast with the progress being made by commercial banks in improving their readiness to serve the nation in the event of an attack, bank examiners, in the regular course of their examinations, make inquiry as to what is being done. The preparedness information contained in examiners' reports is tabulated once every six months. The last six-months' report indicated

that 91 per cent of all banks with deposits of \$1 billion or more have a preparedness program; 86 per cent of banks with deposits of \$1/2 billion or more have a program; 76 per cent of banks with deposits of \$250 million or more have a program; and 58 per cent of banks with deposits of \$100 million or more have a program. The percentage falls off very precipitously among the smaller banks removed from the large financial centers, but the banks which have a preparedness program represent approximately 60 per cent of the total deposits of all banks. Considering that this is a voluntary program, that the banking system is composed of approximately 14,000 independent institutions, and that the banks representing 60 per cent of the deposits of all banks have a preparedness program, it may be concluded that the program is effective, but not complete.

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. Small banks located in less vulnerable areas must be prepared to assume a larger role as the result of possible damage to large banks in more vulnerable areas.

A prototype plan for a small bank developed by the Pennsylvania Bankers Association has attracted wide interest throughout this country and abroad.

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 belief on the part of some that an adequate preparedness program will cost too much.

8. Program Changes. Heretofore, bank examiners have simply made inquiry as to the status of a bank's preparedness. Hereafter, examiners will discuss and emphasize the importance of adequate preparedness with the bank's management.

9. Standby Programs. The entire program is a standby program. It is directed toward preparedness for any future emergency.

10. Organizational Changes. The Banking Committee on Emergency Operations was dissolved following the completion of preparedness guidance and the distribution of its last two Booklets. The Advisory Committee will be dissolved following the completion of its special effort to get effective action by all banks having \$100 million or more deposits. The Bank Management Committee, and the State Association Section of the American Bankers Association will continue the work of the Advisory Committee with other banks.

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, 1961, credit available under guarantee agreements outstanding totaled \$310,414,000. Of this amount, approximately

67 per cent on the average was guaranteed by the Government. On June 30, loans outstanding amounted to \$256,450,000, and there was available to borrowers an additional \$53,964,000. Available credit under the guarantee agreements outstanding by the various agencies was as follows:

|                                 |              |
|---------------------------------|--------------|
| Department of the Army          | \$23,188,000 |
| Department of the Navy          | 74,109,000   |
| Department of the Air Force     | 185,067,000  |
| General Services Administration | 28,050,000   |

From the beginning of the program to June 30, 1961, net income of the guaranteeing agencies from guarantee and commitment fees and interest on purchases loans, after deducting established losses and expenses of the Federal Reserve Banks as fiscal agents, was as follows:

|                                 |                     |
|---------------------------------|---------------------|
| Department of the Army          | \$5,425,000         |
| Department of the Navy          | 10,273,000          |
| Department of the Air Force     | 13,625,000          |
| General Services Administration | 6,204,000           |
| Atomic Energy Commission        | 509,000             |
| Department of Commerce          | 6,000               |
| Total net income                | <u>\$36,042,000</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 \$11,000 is uncollectible. Assuming these estimated losses are realized, the net income to the Government at this time on the guaranteed loan program is over \$33 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.

From the beginning of the program in September 1950 through June 30, 1961, 1,581 loans totaling \$3,339,670,000 were authorized by the procurement agencies which guarantee such loans.

During the 12 months ending June 30, 1961, there was disbursed on outstanding loans approximately \$564,620,000, most of which was revolving credits.

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 1960 through June 1961.

|              | Guaranteed loans<br>authorized to date |  |
|--------------|--|--|
|              | Number                                 | Amount<br>(In thousands<br>of dollars) |
| <u>1960</u>  |  |  |
| June 30      | 1,568                                  | 3,272,284                              |
| July 31      | 1,571                                  | 3,283,644                              |
| August 31    | 1,573                                  | 3,283,890                              |
| September 30 | 1,573                                  | 3,283,890                              |
| October 31   | 1,574                                  | 3,283,990                              |
| November 30  | 1,574                                  | 3,284,990                              |
| December 31  | 1,574                                  | 3,290,990                              |
| <u>1961</u>  |  |  |
| January 31   | 1,576                                  | 3,331,390                              |
| February 28  | 1,578                                  | 3,335,450                              |
| March 31     | 1,578                                  | 3,335,950                              |
| April 30     | 1,580                                  | 3,339,050                              |
| May 31       | 1,581                                  | 3,339,340                              |
| June 30      | 1,581                                  | 3,339,670                              |

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

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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.

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

Attachments