

Minutes of the Board of Governors of the Federal Reserve System on Thursday, September 13, 1962. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Cardon, Legislative Counsel
 Mr. Fauver, Assistant to the Board
 Mr. Solomon, Director, Division of Examinations
 Mr. Harris, Coordinator of Defense Planning
 Mr. Hexter, Assistant General Counsel
 Mr. O'Connell, Assistant General Counsel
 Mr. Conkling, Assistant Director, Division of Bank Operations
 Mr. Daniels, Assistant Director, Division of Bank Operations
 Mr. Smith, Assistant Director, Division of Examinations
 Mr. Leavitt, Assistant Director, Division of Examinations
 Mr. Thompson, Assistant Director, Division of Examinations
 Mrs. Semia, Technical Assistant, Office of the Secretary
 Mr. Bakke, Senior Attorney, Legal Division

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

Letter to Hunterdon County Trust Company, Califon, New Jersey, approving an investment in bank premises incident to the establishment of a branch in Oldwick.

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	<u>Item No.</u>
Letter to The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania, approving an extension of time to establish a branch at Grant Avenue and Roosevelt Boulevard.	2
Letter to Peoples Bank of Sarasota, Sarasota, Florida, approving its application for membership in the Federal Reserve System.	3
Letter to the Federal Reserve Bank of Chicago waiving assessment of penalties incurred by First National Bank of Lansing, Lansing, Illinois, because of deficiencies in its required reserves.	4
Letter to The Monon Bank, Monon, Indiana, approving its application for membership in the Federal Reserve System.	5
Letter to The National Bank of Commerce of Columbus, Columbus, Mississippi, approving its application for fiduciary powers.	6
Letter to First State Bank, Odessa, Texas, approving an investment in bank premises.	7
Letter to The Merchants and Farmers State Bank of Weatherford, Weatherford, Texas, approving an investment in bank premises.	8
Letter to Wells Fargo Bank, San Francisco, California, approving the establishment of a branch in Monterey County.	9
Letter to the Federal Reserve Bank of New York authorizing it to act as fiscal agent with respect to the proposed issue of the International Bank for Reconstruction and Development's Two Year Bonds of 1962.	10
Telegram to Sidney Friedman, Esq., Cole, Friedman & Deitz, New York, New York, reaffirming a previous action by the Board denying his request to appear at the oral presentation to be held September 17, 1962, on the Marine Midland-Security National Bank matter.	11

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Item No.

Letter to the Joint Committee on Defense Production transmitting an annual report relative to mobilization activities.

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The telegram to Mr. Friedman (Item No. 11) confirmed oral advice of the Board's decision, reached at this meeting, which was conveyed to Mr. Friedman by the Board's Secretary by telephone following the meeting.

After the Board had reaffirmed its decision to deny Mr. Friedman's request, Mr. O'Connell reported that he had received a telephone call from Mr. Charles G. Blaine, Counsel for Marine Midland Corporation, requesting access to all correspondence addressed to the Board relating to Marine Midland's application to acquire Security National Bank of Long Island, Huntington, New York. Upon questioning, Mr. Blaine had defined his request more narrowly as applying to those expressions of views that would not be made known to Marine Midland in connection with the forthcoming oral presentation. Mr. O'Connell stated that Mr. Blaine had been furnished some time ago with copies of reports received from the Comptroller of the Currency and the Department of Justice. He (Mr. O'Connell) had suggested that Mr. Blaine request at the time of the oral presentation that he be furnished any other expressions of opinion that the Board had received. Mr. O'Connell suggested that, if that procedure was agreeable to the Board, Mr. Blaine then be allowed 15 days in which to file comments on any such views furnished.

During discussion it was noted that the procedure Mr. O'Connell suggested was in accord with previous practice, and it was agreed that it would be appropriate in this instance.

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Mr. O'Connell then withdrew.

Federal Reserve motion picture. There had been distributed a memorandum dated September 12, 1962, from Mr. Fauver, referring to Mr. Molony's memorandum of September 6, 1962, which had indicated that the Conference of Presidents on September 10 would consider the report of its Committee on Bank and Public Relations concerning a proposed Federal Reserve motion picture. After the Conference the Board was informed that the Conference approved the general format, shape, and tone of the treatment as suggested by the Committee and referred the matter to the Board for final approval of the project. On the basis of the background information provided in Mr. Molony's memorandum and the action by the Conference of Presidents, Mr. Fauver recommended that the Board approve the film project and, should the Board approve, suggested that a telegram be sent to President Fulton as Chairman of the Conference indicating that the Board had no objection to the Conference proceeding with the motion picture project. Mr. Fulton had indicated that the Presidents felt there was a considerable element of time in the decision, as it was hoped to take advantage of the fall coloring to begin photographing outdoor scenes.

Governor Mitchell expressed doubt that the motion picture would contribute significantly to public understanding of the System. There were two principal aspects of the System's work to which educational efforts might be directed. The first aspect had to do with the day-to-day mechanical operations such as check clearance and fiscal agency services,

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the so-called "housekeeping functions." Governor Mitchell did not believe that it was too important to educate the public with respect to those functions, although he did not particularly object to doing so. The other aspect of the System's work, and the really fundamental one, related to the significance of the role of money in the economy and the Federal Reserve's responsibilities in connection with the formulation and execution of monetary policy. An understanding of that aspect was basic to a knowledge of the System that meant anything more than lip service. Although the script for the proposed motion picture dealt primarily with the housekeeping functions, it touched to some extent upon the monetary policy function and thus might lead the public to believe that such minor references constituted an adequate treatment of monetary policy. If the script were confined to an explanation of the housekeeping functions, Governor Mitchell said, he would not object, although he had doubts that such an explanation would serve sufficient purpose to warrant the expense involved. However, the script as it stood might be taken as purporting to deal also with monetary policy, and in his view its inadequacy in that respect would only lead to public confusion.

Mr. Fauver commented that a Conference Committee, and its Subcommittee, had been working on the motion picture project for some time. It was recognized that a completely different treatment would be necessary to deal with monetary policy adequately. However, in the absence of success in achieving a meeting of the minds as to how the monetary policy

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function might best be presented, the present script had been developed as a first step. If this motion picture was well received, it might help to crystallize thinking on what would be the most appropriate presentation of the monetary policy function.

After further discussion along these lines, Governor Robertson suggested that Governor Mitchell might meet with representatives of the Presidents' Conference Committee or Subcommittee with a view to possible changes in the script.

Accordingly, it was agreed that the Board's Secretary should inform the Chairman of the Presidents' Conference that some questions had been raised in discussion of the script of the motion picture, and suggest that President Fulton might want to arrange for representatives of the Presidents' Conference Committee on Bank and Public Relations to meet with Governor Mitchell.

Applications of Montana Shares. There had been distributed a memorandum from the Division of Examinations dated August 23, 1962, regarding the application of Montana Shares, Incorporated, Great Falls, Montana, for prior approval of the acquisition of the outstanding common stock of Central Bank of Montana, Great Falls, Montana. The memorandum presented a comprehensive analysis of the application from the viewpoint of the five factors specified for consideration under the Bank Holding Company Act.

Special attention was given in the memorandum to two circumstances involved in the situation of Montana Shares, which was a family corporation.

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The first concerned the fact that the holding company had two classes of stock outstanding. Holders of Class A stock were entitled to elect two out of seven directors; however, advantages given the Class A stock in dividends and liquidation rights made it in essence preferred stock. Almost all of the Class B stock was held by two brothers, who could thus elect five of the seven directors of the holding company. However, no dividends had been paid on the Class B stock, with one possible exception. The holding company had announced to shareholders its intention to consolidate the two classes of stock into a single class.

The other special circumstance related to the intention stated by the two brothers who controlled the holding company that new capital would be raised to finance the acquisition of Central Bank of Montana.

The Superintendent of Banks for the State of Montana had stated that although he did not object to the granting of the application, he did have doubts that any benefits would result to either the bank or to the banking industry of Montana as a whole. The Federal Reserve Bank of Minneapolis, with reservations, recommended approval, noting that for all practical purposes Central Bank of Montana was presently operated as a member of the Montana Shares group, and stating the belief that the acquisition would have little or no effect on competition in the area.

The Division of Examinations recommended approval, provided that the Board's order require that Montana Shares not acquire the shares of Central Bank of Montana unless cash to pay for the shares had been raised by issuance of the holding company's stock or the holding company, prior

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to the purchase of the bank's shares, had a firm commitment from a reliable and independent underwriter that sufficient proceeds from the sale of such stock would be available within three months of the date of the order to liquidate debt incurred in connection with the purchase of the bank's shares.

There had also been distributed a memorandum from the Division of Examinations dated August 24, 1962, regarding applications by Montana Shares for prior approval of the acquisition of more than 50 per cent of the voting shares of Citizens Bank of Montana, Havre, Montana, and up to 100 per cent of the voting shares of Liberty County Bank, Chester, Montana. Each of these applications involved an increase in a present investment, Montana Shares now owning 28 per cent of the shares of the Havre bank and 25 per cent of those of the Chester bank. The State Superintendent of Banks indicated no objection to approval, and the Federal Reserve Bank of Minneapolis recommended approval. The Division of Examinations, after setting forth in its memorandum a detailed analysis of the applications from the point of view of the five factors specified for consideration in the Bank Holding Company Act, stated the following conclusion:

Recognizing weaknesses in the two banks' asset condition and management, but also considering the facts that (1) the Superintendent of Banks feels that approval of the applications would not be harmful to the applicant or the banks concerned; (2) the Reserve Bank's opinion that approval would have no adverse effect on the financial condition or management of the two banks, but could have some good effects; (3) effectuation of the proposals would add further financial worth to the holding company; and (4) it is possible

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that with majority control, especially in the case of Liberty-Chester, the greater financial interest and actual voting control might produce betterments in the banks, it is recommended that the applications be approved.

There had also been distributed a memorandum dated September 7, 1962, in which the Legal Division stated its opinion that in each of the three applications of Montana Shares described above a decision by the Board either to approve or disapprove would be sustained upon judicial review as based on substantial evidence. The memorandum went into the fact that Montana Shares' stock was divided into two classes, with unequal voting rights, and the possibility that this might present an analogy to the situation of First Virginia Corporation, Arlington, Virginia. However, the Legal Division concluded that the circumstances were actually quite different, since Class A stock of Montana Shares had preference with regard to dividends and liquidation rights. The memorandum noted that plans had been proposed for conversion of all of Montana Shares' stock to one class, although this was so far only a proposal and not a project under way.

The memorandum also cautioned that, while a decision either to approve or deny would appear defensible in regard to each of the three applications, when viewed singly, if the Board should be disposed to approve the application relating to Central Bank of Montana, decisions to deny the applications relating to the banks in Havre and Chester would be less defensible. The holding company already had effective control of those banks, and the applications now before the Board would merely serve to make that control de jure rather than de facto, a matter that would

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probably be regarded as of less practical consequence than the addition of a new subsidiary, Central Bank of Montana, to the holding company system.

At Governor Balderston's request, Mr. Thompson summarized the Division of Examinations' analysis, his comments being directed principally to Montana Shares' application to acquire Central Bank of Montana. He reiterated the Division's recommendation that, if the Board approved that application, Montana Shares be required to raise new capital to finance the acquisition. He also noted the Division's further suggestion that the Board express to Montana Shares its reluctance to approve other bank acquisitions by that company until examination reports of its subsidiary banks indicated considerable improvement in their condition. He further noted that Montana Shares had informed its shareholders of its intention to acquire the controlling interest in a nonbanking organization, the Clinic Building Corporation, which in turn held the stock of First National Corporation. It appeared that First National Corporation had interests in certain residential properties, so that indirect acquisition of its stock by Montana Shares would fall within the prohibition of section 4 of the Bank Holding Company Act. In a letter to the Board dated August 31, 1962, Montana Shares stated that, immediately following acquisition of Clinic Building Corporation, action would be taken to divest the shares of First National Corporation. If that was done, Mr. Thompson said, it appeared that the transactions would meet the requirements of section 4 of the Bank

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Holding Company Act. However, he suggested that in notifying Montana Shares of the Board's decision, it be made clear that divestment of the shares of First National Corporation was expected.

Mr. Bakke then commented on the points made in the Legal Division's memorandum, emphasizing the inconsistencies that would seem to lie in a favorable decision on the Central Bank of Montana application along with adverse decisions on the applications relating to the banks in Chester and Havre. Like Mr. Thompson, he recommended that the Board make clear its expectation as to the divestment of First National Corporation stock, to preclude violation of section 4(c) of the Bank Holding Company Act.

The members of the Board then commented, beginning with Governor Mills, who stated that he would approve the applications, subject to the conditions recommended by the Division of Examinations, especially the admonition that the Board would be reluctant to allow further expansion of the holding company except under better circumstances than prevailed at present. To him, the Montana Shares situation was weak and presented a close decision; the term "fair," used by the Division of Examinations, seemed generous as far as quality of management and character of assets of the subsidiary banks were concerned. However, since Central Bank of Montana was already under the control of Montana Shares for practical purposes, approval of the application would merely formalize an existing situation and possibly strengthen it by putting that subsidiary within the Montana group in such a way that it would be under better supervisory

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control. There was present in the situation the concern the Board should have for the exposure of depositors of weak banks. Also, he considered that the Board had a responsibility that was difficult to fix as to the shareholders of the holding company. Approval of the application in a sense would indicate to the public that the operations of Montana Shares met the requirements of a Federal agency. That could attract additional investment in the holding company, especially if it undertook recapitalization. Where public interest and responsibility to shareholders were involved, Governor Mills believed that Federal agencies had a double responsibility to follow through to see that the subsidiary banks were sound and had competent management.

Governor Robertson stated that he would approve, though without enthusiasm, and that he favored following the recommendations of the Division of Examinations in every respect.

Governor Shepardson said that he would concur, for the reasons Governor Mills had expressed. In Governor Shepardson's view, there was some hope that Central Bank of Montana would be a key bank in the Montana Shares organization and lend greater assurance to the future of that organization. However, he thought that the holding company should be warned, along the lines suggested by the Division of Examinations, that the affairs of the company and its subsidiary banks should be in better shape before it applied for any further acquisitions.

Governor King asked several questions, to which the staff responded, regarding the capital structure of Montana Shares and the advantages attached

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to each of the classes of stock. He then asked if the Board's authority under the Bank Holding Company Act extended to giving an approval with a condition attached, such as the proposed requirement in the present case that additional capital be raised. Response was made that the Board could reject the application on the ground that the capital was inadequate. Then, if the capital was increased, it could approve a new application. The present recommendation was intended to provide a short-cut.

Governor King asked if it could be assumed that denial would have been recommended in the absence of any proposal to raise new capital. He shied from any bargaining process, and would prefer simply to approve or disapprove. Not that he wanted to delay processing and make the handling of applications more difficult for either applicants or the Board, but the circumstances of the present case caused him to question whether this was the way in which the Board was expected to make decisions.

Governor Mills commented that while he could understand Governor King's hesitancy, his answer to the question was that the Board had certain statutory factors to consider, among them the character of management and the financial condition of the holding company. As had been pointed out, there might be grave question about the adequacy of the financial position of the holding company as it now stood, but that inadequacy was susceptible to correction by the introduction of additional capital.

Mr. Solomon observed that the proposal that additional capital be raised did not originate with the Board; the holding company itself had declared its intention to increase its capital.

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Governor King asked whether, if the holding company had not declared that intention, the staff would have made the recommendation it did, to which Mr. Solomon replied that, if the holding company had indicated no expectation of raising more capital, conceivably the recommendation of the Division of Examinations might have been for denial of the application.

Governor King then commented that, as he now understood the situation, the Board could consider the declared intention of the holding company to raise new capital as a part of the application. In the absence of that declared intention, he felt that he would have preferred to see the Board deny the application rather than to impose at its own initiative a condition as to raising new capital. He would approve the application to acquire Central Bank of Montana only in light of the fact that the application stated the intention of the holding company to raise new capital, and he believed that the Board's statement should spell out that such intention had been read as part of the application.

Governor Mitchell stated that, while he would like to see a "home grown" holding company flourish in a State where large holding companies were so prominent, he found it difficult to reconcile the conclusions of the State Superintendent of Banks and of the Federal Reserve Bank of Minneapolis with the facts relating to the management and condition of the holding company. As he saw it, this was a poorly managed organization in an over-extended financial condition; the corporate set-up was so complicated that the true interests and equities were not apparent. He did not believe that

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it was appropriate for the Board to endorse a record and a corporate structure of that kind. Therefore, his vote would have to be adverse until and unless the corporate relationships were clearer and the probability of a better-operated organization seemed to be assured.

Governor Balderston indicated that he concurred with the recommendation of the Division of Examinations.

Thereupon, the applications of Montana Shares (1) to acquire up to 100 per cent (except directors' qualifying shares) of the outstanding shares of Central Bank of Montana, Great Falls, Montana; (2) to acquire more than 50 per cent of the voting shares of Citizens Bank of Montana, Havre, Montana; and (3) to acquire up to 100 per cent of the voting shares of Liberty County Bank, Chester, Montana, were approved, Governor Mitchell dissenting, subject to the condition recommended by the Division of Examinations and with the understanding that the Board's letter to Montana Shares advising of its favorable action on the applications would contain statements along the lines suggested by the Division. It was understood that the Legal Division would prepare orders and statements reflecting the Board's decisions, and that a dissenting statement by Governor Mitchell also would be prepared.

All of the members of the staff except Messrs. Sherman, Kenyon, Fauver, Solomon, and Smith then withdrew.

Inter-Agency Bank Examination School. Governor Robertson reported a conversation that had occurred yesterday between Mr. Leavitt and a

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representative of the Office of the Comptroller of the Currency which indicated that the Comptroller was contemplating withdrawal of his Office from further participation in the Inter-Agency Bank Examination School. In order to facilitate plans for future sessions of the school, Governor Robertson requested permission to write to the Comptroller and ask for advice as to whether the information given to Mr. Leavitt was accurate. Governor Robertson stated that if it were determined that the Comptroller had decided no longer to participate in the school, the plan would be to continue the school under the sponsorship of the Board and the Federal Deposit Insurance Corporation. This would also mean that more latitude would be available to accommodate representatives of State Banking departments, and he indicated that he would present to the Board shortly for consideration a proposal whereby financial assistance would be offered to State banking departments to facilitate the attendance of their personnel at the school.

There being no objection, it was understood that Governor Robertson would write to the Comptroller of the Currency for the purpose of ascertaining the accuracy of the report that the Comptroller's Office would no longer participate in the Inter-Agency Bank Examination School.

Report of examination of Philadelphia Bank. The report of the examination of the Federal Reserve Bank of Philadelphia made by the Board's examining staff as of May 17, 1962, had been circulated to the Board, along with the usual accompanying memorandum.

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At the Board's request, Mr. Smith commented on the information disclosed by the examination, and it was agreed that there appeared to be no matters requiring action by the Board at this time.

With reference to an earlier indication, as discussed at the Board meeting on July 23, 1962, that the Audit Committee of the Philadelphia Board of Directors contemplated retaining an outside accounting firm for the purpose of reviewing the audit function at the Philadelphia Bank, Mr. Smith replied to a question by saying that Chief Federal Reserve Examiner Schaeffer had discussed the subject with the Audit Committee, using as an illustration the survey made by the Audit Committee of the Richmond Bank. It was understood that the Philadelphia Audit Committee had now discarded the thought of retaining an outside accounting firm for this purpose. It was noted, however, that such firms had been retained for a similar purpose by the New York and Chicago Reserve Banks.

All members of the staff except Mr. Sherman then withdrew.

Appointment of President at St. Louis Bank (Item No. 13). Governor Balderston reported that it was understood that the Board of Directors of the Federal Reserve Bank of St. Louis, at their meeting today, would appoint Harry A. Shuford, now First Vice President of the Dallas Reserve Bank, as President of the St. Louis Bank, effective October 1, 1962, for the unexpired portion of the five-year term that began March 1, 1961, with salary at the rate of \$35,000 per annum for the period October 1 through December 31, 1962, subject to the approval of the Board of Governors.

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After discussion, it was agreed unanimously that if advice should be received that such action had been taken by the Board of Directors, Chairman McBride would be advised of approval by the Board of Governors.

Secretary's Note: Advice of Mr. Shuford's appointment having later been received, a letter expressing the Board's approval of his appointment and the payment of salary to him at the rate set by the Board of Directors was sent to the Federal Reserve Bank of St. Louis on September 14, 1962, in the form attached as Item No. 13.

Appointment of First Vice President at Dallas Bank (Item No. 14).

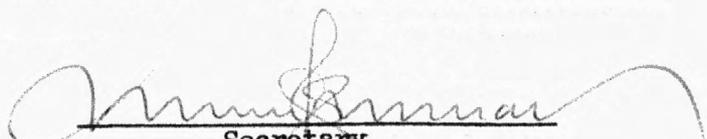
Governor Balderston stated that it was understood that the Board of Directors of the Federal Reserve Bank of Dallas, at their meeting today, would appoint Philip E. Coldwell, now Vice President, as First Vice President of the Bank, effective October 1, 1962, for the unexpired portion of the five-year term that began March 1, 1961, with salary at the rate of \$25,000 per annum for the period October 1 through December 31, 1962, subject to the approval of the Board of Governors.

After discussion, it was agreed unanimously that in the event advice should be received that such action had been taken by the Board of Directors, Chairman Anderson would be advised of approval by the Board of Governors.

Secretary's Note: Advice of Mr. Coldwell's appointment having later been received, a letter expressing the Board's approval of the appointment and the payment of salary to him at the rate set by the Board of Directors was sent to the Federal Reserve Bank of Dallas on September 14, 1962, in the form attached as Item No. 14.

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The meeting then adjourned.



Secretary

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

Item No. 1
9/13/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 13, 1962



Board of Directors,
Hunterdon County Trust Company,
Califon, New Jersey.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, pursuant to Section 24A of the Federal Reserve Act, an additional investment of \$91,236 in bank premises incident to the establishment of a branch in Oldwick, New Jersey, by Hunterdon County Trust Company, Califon, New Jersey. It is noted that efforts are being made to sell the excess portion of the land acquired for the branch site and it is assumed that the proceeds will be applied to reduce the bank's investment in bank premises.

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
9/13/62



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 13, 1962

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

Gentlemen:

The Board of Governors of the Federal Reserve System extends to October 19, 1963, the time within which The First Pennsylvania Banking and Trust Company may establish a branch at the southeast corner of Grant Avenue and Roosevelt Boulevard, Philadelphia, Pennsylvania.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Item No. 3
9/13/62

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 13, 1962

Organization Committee,
Peoples Bank of Sarasota,
Sarasota, Florida.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the application of Peoples Bank of Sarasota, Sarasota, Florida, for stock in the Federal Reserve Bank of Atlanta, effective if and when the bank opens for business under appropriate State authorization, subject to the numbered conditions hereinafter set forth.

1. Such bank at all times shall conduct its business and exercise its powers with due regard to the safety of its depositors, and, except with the permission of the Board of Governors of the Federal Reserve System, such bank shall not cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership.
2. The net capital and surplus funds of such bank shall be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities.
3. At the time of admission to membership, such bank shall have paid-in and unimpaired capital stock of not less than \$400,000, and other capital funds of not less than \$150,000.

In connection with the foregoing conditions of membership, particular attention is called to the provisions of the Board's Regulation H, regarding membership of State banking institutions in the Federal Reserve System, with especial reference to Section 208.7 thereof. A copy of the regulation is enclosed.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Peoples Bank of Sarasota

If at any time a change in or amendment to the bank's charter is made, the bank should advise the Federal Reserve Bank, furnishing copies of any documents involved, in order that it may be determined whether such change affects in any way the bank's status as a member of the Federal Reserve System.

Acceptance of the conditions of membership contained in this letter should be evidenced by a resolution adopted by the board of directors after the bank's charter has been issued and a certified copy of such resolution should be transmitted to the Federal Reserve Bank. Arrangements will thereupon be made to accept payment for an appropriate amount of Federal Reserve Bank stock, to accept the deposit of the required reserve balance, and to issue the appropriate amount of Federal Reserve Bank stock to the bank.

The time within which admission to membership in the Federal Reserve System in the manner described may be accomplished is limited to six months from the date of this letter, unless the bank applies to the Board and obtains an extension of time. When the Board is advised that all of the requirements have been complied with and that the appropriate amount of Federal Reserve Bank stock has been issued to the bank, the Board will forward to the bank a formal certificate of membership in the Federal Reserve System.

The Board of Governors sincerely hopes that you will find membership in the System beneficial and your relations with the Reserve Bank pleasant. The officers of the Federal Reserve Bank will be glad to assist you in establishing your relationships with the Federal Reserve System and at any time to discuss with representatives of your bank means for making the services of the System most useful to you.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Enclosure

Item No. 4
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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 13, 1962

Mr. Laurence H. Jones,
Vice President and Cashier,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Jones:

This refers to your letter of August 31 regarding penalties of \$7.67, \$17.26, \$30.68, and \$36.44 incurred by the First National Bank of Lansing, Lansing, Illinois, on deficiencies of 2 per cent or less, in its required reserves for the bi-weekly computation periods ending May 30, June 13, June 27, and July 25, 1962.

It is noted that deposit differences were discovered in the mid-year comparison of condition reports with deposit reports; the bank had been excluding the amounts of its Treasury Tax and Loan Account from its reports of deposits since the bi-weekly period ended May 16; it had inadvertently left off this account when it devised a new work sheet for computation of reserve requirements; over the past eleven years the bank has incurred no penalties for insufficient reserves; and that the penalty of \$7.67 can be waived by your Bank under Paragraph "E" of the Board's instructions (S-1123; F.R.L.S. #6120).

In the circumstances, and in view of your recommendation, the Board authorizes your Bank to waive assessment of the penalties for the periods ended June 13, June 27, and July 25, 1962.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 5
9/13/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 13, 1962



Board of Directors,
The Monon Bank,
Monon, Indiana.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the application of The Monon Bank, Monon, Indiana, for stock in the Federal Reserve Bank of Chicago, subject to the numbered conditions hereinafter set forth:

1. Such bank at all times shall conduct its business and exercise its powers with due regard to the safety of its depositors, and, except with the permission of the Board of Governors of the Federal Reserve System, such bank shall not cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership.
2. The net capital and surplus funds of such bank shall be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities.

In connection with the foregoing conditions of membership, particular attention is called to the provisions of the Board's Regulation H, regarding membership of State banking institutions in the Federal Reserve System, with especial reference to Section 208.7 thereof. A copy of the regulation is enclosed.

If at any time a change in or amendment to the bank's charter is made, the bank should advise the Federal Reserve Bank, furnishing copies of any documents involved, in order that it may be determined whether such change affects in any way the bank's status as a member of the Federal Reserve System.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

The Monon Bank

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It is noted that under its charter the bank may exercise trust powers, and although such powers are not currently being exercised, it is understood that the bank intends to accept fiduciary business upon admission to membership. It will be expected, of course, that when such business is undertaken your bank will be equipped to handle it in conformity with recognized principles of sound fiduciary administration.

Acceptance of the conditions of membership contained in this letter should be evidenced by a resolution adopted by the Board of Directors and spread upon its minutes, and a certified copy of such resolution should be filed with the Federal Reserve Bank. Arrangements will thereupon be made to accept payment for an appropriate amount of Federal Reserve Bank stock, to accept the deposit of the required reserve balance, and to issue the appropriate amount of Federal Reserve Bank stock to the bank.

The time within which admission to membership in the Federal Reserve System in the manner described may be accomplished is limited to 30 days from the date of this letter, unless the bank applies to the Board and obtains an extension of time. When the Board is advised that all of the requirements have been complied with and that the appropriate amount of Federal Reserve Bank stock has been issued to the bank, the Board will forward to the bank a formal certificate of membership in the Federal Reserve System.

The Board of Governors sincerely hopes that you will find membership in the System beneficial and your relations with the Reserve Bank pleasant. The officers of the Federal Reserve Bank will be glad to assist you in establishing your relationships with the Federal Reserve System and at any time to discuss with representatives of your bank means for making the services of the System most useful to you.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Enclosure.

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

Item No. 6
9/13/62



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 13, 1962

Board of Directors,
The National Bank of Commerce
of Columbus,
Columbus, Mississippi.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants The National Bank of Commerce of Columbus 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 Mississippi. 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. 7
9/13/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 13, 1962

Board of Directors,
First State Bank,
Odessa, Texas.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an investment in bank premises by First State Bank, Odessa, Texas, of \$325,000. It is understood that the capital accounts will be increased by \$340,000 through the sale of new stock for cash in January 1963.

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. 8
9/13/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 13, 1962

Board of Directors,
The Merchants and Farmers State Bank
of Weatherford,
Weatherford, Texas.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an investment in bank premises by The Merchants and Farmers State Bank of Weatherford, Weatherford, Texas, of \$50,000. It is understood that capital funds will be increased by \$200,000 through the sale of new stock for cash in January 1963.

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. 9
9/13/62



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 13, 1962

Board of Directors,
Wells Fargo Bank,
San Francisco, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Wells Fargo Bank at 1160 Forest Avenue in the unincorporated area of Monterey County adjacent to the city of Pacific Grove, California, 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. 10
9/13/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 13, 1962



Mr. Harold A. Bilby,
Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Bilby:

This refers to your letter of September 7, 1962, and its enclosures, concerning the proposed issue by the International Bank for Reconstruction and Development of its Two Year Bonds of 1962, due October 1, 1964. In that letter you state that it is proposed to amend Schedule A of the Fiscal Agency Agreement, dated as of February 6, 1950, between the International Bank and your Bank to include the Bonds in question.

The Board of Governors approves of your Bank acting as Fiscal Agent in respect of the proposed issue by the International Bank of its Two Year Bonds of 1962, due October 1, 1964, and approves the execution and delivery by your Bank of an Agreement with the International Bank in the form or substantially in the form of Supplement No. 22 to the Fiscal Agency Agreement, dated as of February 6, 1950, between your Bank and the International Bank, enclosed with your letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

TELEGRAM
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 11
9/13/62

September 13, 1962.

Sidney Friedman, Esq.,
Cole, Friedman & Deitz,
40 Wall Street,
New York 5, New York.

Reurtel September 12, 1962 requesting reconsideration of request to appear at September 17 oral presentation on Marine Midland - Security National Bank matter, which request was denied by the Board on September 10, 1962. Upon reconsideration of request, including reasons submitted by you in support of such request, Board has affirmed its original action in denying your request to appear. Your attention is directed however to advice contained in Board's September 10 letter that due consideration will be given to any views which you may care to submit in writing if received on or before September 20, 1962.

(signed) Merritt Sherman

Merritt Sherman, Secretary,
Board of Governors.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 12
9/13/62

OFFICE OF THE VICE CHAIRMAN

September 13, 1962

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 July 23, 1962, attached is a summary of mobilization activities of the Board of Governors for the year ending June 30, 1962.

The summary covers three major preparedness 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) C. C. 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 year ending June 30, 1962. It has been prepared at the request of the Joint Committee on Defense Production, Congress of the United States, and follows the outline suggested by the Committee. The report is divided into three Parts, each of which deals with a major preparedness program.

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, Executive Order 10346, Defense Mobilization Act of 1950, as amended, Executive Order 10346, Defense Mobilization Order I-20, The National Plan for Civil and Defense Mobilization, and Treasury's Order, January 10, 1961, Delegation to the Board of Governors of the Federal Reserve System of Emergency Authority.

3. Activities. Activities during the past year can best be described within the context of (1) the basic financial policies applicable to a general war situation involving a nuclear attack on the United States and a war damaged economy, (2) what has been accomplished toward achieving a satisfactory degree of preparedness, and (3) what remains to be done.

The basic financial policies needed to make all emergency planning in the monetary and bank credit fields consistent were approved in 1959 by all Federal financial agencies and set forth in the 1960 report to the Committee. 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.

Heretofore, the Board, the Federal Open Market Committee, and the Federal Reserve Banks established emergency lines of succession to fill war-caused vacancies until such time as such vacancies could be filled in the normal manner. There has been no need to modify these arrangements.

Also, heretofore, the Board, the Federal Open Market Committee, and the Federal Reserve Banks provided for the emergency relocation of their operations in the event their normal places of business should become inoperable as a result of an attack. In this connection, duplicate records essential for wartime operations continue to be maintained on a regularly scheduled basis at relocation sites. During the past year, it became necessary to change two relocation sites because of the location of a Strategic Air Command facility

nearby one site, and the location of a missile launching facility nearby the other site. These changes have been completed. Currently, consideration is being given to the selection of an alternate relocation site for the Board due to the increasing vulnerability of its present relocation site.

The National Shelter Policy, announced in 1958 and reaffirmed in 1961, encourages the incorporation of fallout shelter in all new Federal buildings and in all existing Federal buildings where feasible at reasonable cost. This policy has been applied to Federal Reserve facilities in order to provide all reasonable means for assuring that the System will be capable of performing its essential wartime functions. At present, fallout shelters meeting Government standards have been completed in thirteen buildings, are in the process of completion in four buildings, and are being planned for fourteen additional buildings. Much of this progress was made during the past year. It was encouraged by the action of the Congress in making appropriations for this purpose with respect to Federal buildings generally in fiscal year 1962.

The Board's Emergency Regulations Nos. 1 and 2 (attached in draft form as Exhibits D and E to the 1961 report) were promulgated on January 15, 1962, and are to become effective automatically in the event of an attack on the United States. Among other things, the Regulations require or authorize, as appropriate, Federal Reserve Banks to (1) continue operations where physically possible, to resume operations as soon as possible, and to operate from temporary substitute quarters if necessary, (2) to perform the functions of any other Reserve Bank, and to perform certain functions of the Board and the Federal Open Market Committee, when out of communication with the Board and the Committee, (3) to assure the effective and equitable distribution of available currency and coin, and to designate emergency Cash Agents for this purpose, (4) to facilitate the receipt and collection of checks, other cash items and noncash items, and to designate emergency Check Agents for this purpose, (5) to make credit available to both member and nonmember banks, and to individuals when credit for essential purposes is not otherwise available to individuals, (6) to purchase and sell U. S. Government securities on their own account, to buy and sell due bills and to pledge due bills as collateral for Federal Reserve notes, (7) to raise or lower reserve requirements, and (8) to take such action as fiscal agents of the United States as authorized by the Secretary of the Treasury.

Guidance has been prepared to aid the Federal Reserve Banks in the performance of certain functions normally reserved to the Board and the Federal Open Market Committee, and in the performance of fiscal agency functions in an emergency.

In 1961, Guidelines on Emergency Monetary Policy were approved and distributed to Federal Reserve Banks for providing

-4-

necessary liquidity and curbing inflationary pressures.

In 1962, the Federal Open Market Committee approved and distributed to Federal Reserve Banks a revision of its Guidelines on Emergency Operations for providing the Treasury with funds and conducting transactions in United States Government securities.

During the past year, Treasury's 1956 instructions on fiscal agency emergency operations were reviewed, and on July 17, 1962, revised instructions were issued which complement the objectives and techniques applicable to emergency monetary policy and dealings in United States Government securities.

The Federal Reserve Banks have made substantial progress during the past year in the preparation and distribution of emergency instructions to banking institutions. All have completed the distribution of (1) Treasury's Emergency Banking Regulation No. 1, requiring the continuance of banking operations, and regulating the withdrawal of currency, transfer of account balances, and the extension of credit, and (2) Treasury's delegation of authority to the Board to take such action as necessary to maintain the operation of banking institutions. All Reserve Banks, with two exceptions, have completed the distribution of Emergency Circulars on the distribution of currency. They have designated 261 Cash Agents, and have issued special instructions to such Agents. All Reserve Banks, without exception, have completed the distribution of Emergency Circulars on the collection of checks, other cash items, and noncash items. They have designated 423 Check Agents, and have issued special instructions to such Agents. Eight of the twelve Reserve Banks have prepared Emergency Circulars containing instructions on the extension of credit and the administration of the discount function in accordance with the Guidelines on Emergency Monetary Policy.

It was reported previously that a supply of Federal Reserve notes had been built up (equivalent to a 2-1/2 years' supply based on current use) as a hedge against the possibility of damage to the facilities of the Bureau of Engraving in the event of an attack. Progress has been made in the decentralized storage of such notes in the vaults of Federal Reserve Banks and branches, selected on the basis of relative security of such vaults from attack damage, availability of vault space and convenience. At the close of the reporting period, approximately 85 per cent of such notes had been decentralized to Federal Reserve Banks.

Consideration is still being given to the provision of one or more strategically located, highly secure underground depositories for the storage of emergency currency supplies. In addition, a total of \$121 million of issued Federal Reserve notes and silver certificates has been prepositioned in the vaults of sixteen selected emergency Cash Agents as a part of a program of maximum readiness to overcome the hazards of disrupted communications and transportation.

The Board and the Federal Reserve Banks maintain lists of Defense Readiness Actions applicable to various degrees of international tensions and defense emergencies. It is our objective to progressively reduce these lists by doing in advance insofar as possible those things which would need to be done once the emergency was declared. During the past year, satisfactory progress was made toward this objective.

4. Effectiveness. The effectiveness of the program has been tested against a variety of possible attack patterns. The results indicate that the measures being taken give reasonable assurance that the essential wartime functions of the Federal Reserve System in support of the money, credit, and financial system can be maintained in a postattack emergency.

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 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 for the continuity of the essential wartime functions of the Federal Reserve System relates directly to the Board and Federal Reserve Banks, and indirectly to banking institutions and other businesses large and small capable of making a contribution to the war effort and reconstruction. 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. There is only one major problem which stands in the way of improving the effectiveness of this program. It is the problem of reaching Government-wide agreement on a plan for the equitable sharing of war losses. The need for such a plan was recognized in the adoption of basic financial policies for a postattack situation. It is the sine qua non to all plans for the maintenance of the financial system, and a "going concern" economy. In December 1959, an interagency committee was established by the Director of the Office of Civil and Defense Mobilization to implement the policy. It identified the essential elements which should be contained in an implementing plan. In September 1961, the Director of the Office of

Emergency Planning established a new interagency committee to pursue the unfinished task, but no tangible progress has been made during the past year.

8. Program Changes. No change in the program is contemplated. Changes in ways and means for furthering the program will be made as needed, particularly as needed to meet changes in enemy capabilities.

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: (1) Defense Readiness Conditions (DEFCONs) procedures, (2) improving fallout protection, (3) completing and prepositioning emergency documents, (4) developing standby plans for the equitable sharing of war losses, and (5) continuing the decentralization of currency to Federal Reserve Banks, Cash Agent Banks, and selected underground depositories.

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. 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. Activities under this program relate to (1) providing guidance to banking institutions on preparedness measures, and (2) encouraging banking institutions to take effective action on the guidance given.

General guidance on both preattack preparedness measures and postattack banking operations, contained in seven booklets prepared by bankers for bankers with the approval of Federal and State bank supervisory agencies, has been distributed to all banks. This general guidance has been supplemented with detailed instructions on postattack banking operations contained in Emergency Circulars issued by the Federal Reserve Banks as more fully described in Part I.

Activities related to encouraging banks to take effective action on the guidance given have been the concern of Federal and State bank supervisory agencies, Federal Reserve Banks, the American Bankers Association, State Bankers Associations, and others.

In August 1961, at the time of increasing tensions in Berlin, the Federal supervisory agencies in a letter to all banks (1) re-emphasized the need for accelerated emergency planning, (2) urged every bank to initiate a preparedness program, and (3) advised that in future bank examinations the adequacy of preparedness will be emphasized.

Between June and October 1961, the Advisory Committee on Commercial Bank Preparedness made a special effort through personal contacts to get all banks with \$100 million or more deposits to initiate a preparedness program if they had not already done so. The responses to this special effort, inspired at that time by public concern with growing international tensions, were most encouraging.

During the past year, the Board and Federal Reserve Banks have participated in thirteen Mobilization Conferences--twelve regional and one National, sponsored by the Office of Emergency Planning--at which plans for the maintenance of money, credit, and banking were discussed with State and local officials and with representatives of business and industry. The plans met with understanding and approval, and the continuance of banking operations in a postattack emergency is being relied upon in support of all other plans for the mobilization of surviving resources.

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 periodically. Based on such tabulations, it appears that the number of banks initiating a preparedness program increased over 50 per cent between June 30, 1961, and 1962. Banks now participating in the program represent approximately 70 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 banks representing 70 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. The current need for this program is based on the belief that a functioning banking system would be essential to the nation in time of war, and that the achievement of adequate preparedness in time of peace is needed to assure the continued functioning of bank operations in the event of nuclear attack.

6. Small Business. The program relates directly to banking institutions, large and small, and indirectly 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 in a postattack emergency as a result of possible damage to large banks in more vulnerable areas.

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 because of their seemingly secure locations, (2) a belief on the part of some that an adequate preparedness program will cost too much, and (3) a tendency to let preparedness activities drag during periods of quiescence in international tensions.

8. Program Changes. No program changes are contemplated.

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

10. Organizational Changes. No organizational changes for the promotion of the program are contemplated.

11. Future Objectives. The future objective is 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, 1964.

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, 1962, credit available under guarantee agreements outstanding totaled \$181,949,000. Of this amount, approximately 75 per cent on the average was guaranteed by the Government. On June 30, loans outstanding amounted to \$144,606,000, and there was available to borrowers an additional \$37,343,000. Available credit under the guarantee agreements outstanding by the various agencies was as follows:

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Department of the Army	\$24,386,000
Department of the Navy	89,155,000
Department of the Air Force	68,408,000

From the beginning of the program to June 30, 1962, 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	\$5,467,000
Department of the Navy	10,699,000
Department of the Air Force	14,178,000
General Services Administration	6,266,000
Atomic Energy Commission	509,000
Department of Commerce	6,000
Total net income	<u>\$37,125,000</u>

The Department of the Army estimates that of the loans it has purchased approximately \$2,273,000 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 \$34 million. The relatively small net incomes of Atomic Energy Commission and Department of Commerce 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, 1962, 1,593 loans totaling \$3,422,075,000 were authorized by the procurement agencies which guarantee such loans.

During the 12 months ending June 30, 1962, there was disbursed on outstanding loans approximately \$313,304,000, 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 June 1961 through June 1962.

	Guaranteed loans authorized to date	
	Number	Amount (In thousands of dollars)
<u>1961</u>		
June 30	1,581	3,339,670
July 31	1,582	3,340,870
August 31	1,585	3,347,470
September 30	1,585	3,347,770
October 31	1,586	3,392,970
November 30	1,587	3,393,170
December 31	1,587	3,393,670
<u>1962</u>		
January 31	1,587	3,394,670
February 28	1,589	3,401,200
March 31	1,590	3,401,850
April 30	1,590	3,402,850
May 31	1,591	3,403,850
June 30	1,593	3,422,075

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 the 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.

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.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 13
9/13/62

OFFICE OF THE CHAIRMAN

September 14, 1962.

CONFIDENTIAL (FR)

Mr. Pierre B. McBride, Chairman,
Federal Reserve Bank of St. Louis,
St. Louis 66, Missouri.

Dear Mr. McBride:

The Board of Governors approves the appointment of Mr. Harry A. Shuford as President of the Federal Reserve Bank of St. Louis effective October 1, 1962, for the unexpired portion of the five-year term that began March 1, 1961.

The Board of Governors also approves the payment of salary to Mr. Shuford as President for the period October 1 through December 31, 1962, at the rate of \$35,000 per annum, the rate fixed by the Board of Directors as reported in your letter of September 13, 1962.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 14
9/13/62

OFFICE OF THE CHAIRMAN

September 14, 1962.

CONFIDENTIAL (FR)

Mr. Robert O. Anderson, Chairman,
Federal Reserve Bank of Dallas,
Dallas 2, Texas.

Dear Mr. Anderson:

The Board of Governors approves the appointment of Mr. Philip E. Coldwell as First Vice President of the Federal Reserve Bank of Dallas effective October 1, 1962, for the unexpired portion of the five-year term that began March 1, 1961.

The Board of Governors also approves payment of salary to Mr. Coldwell as First Vice President for the period October 1 through December 31, 1962, at the rate of \$25,000 per annum, the rate fixed by the Board of Directors as reported in your letter of September 13, 1962.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.