Minutes for September 15, 1964.

To: Members of the Board

From: Office of the Secretary

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

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

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

Chm. Martin

Gov. Mills

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. Mitchell

Gov. Daane

Minutes of the Board of Governors of the Federal Reserve System on Tuesday, September 15, 1964. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman 1/
Mr. Robertson
Mr. Shepardson
Mr. Mitchell

Mr. Sherman, Secretary
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Sammons, Adviser, Division of International Finance
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mrs. Semia, Technical Assistant, Office of the Secretary
Mr. Poundstone, Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on September 14, 1964, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

Distributed items. The following items, copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

1/ Joined meeting at point indicated in minutes.

| | Item No. |
|---|---|
| Letter to International Banking Corporation, New York, New York, granting consent to purchase additional shares of First National City Trust Company of Canada, Montreal, Canada. | 1 |
| Letter to Continental International Finance Corporation, Chicago, Illinois, granting consent to purchase shares of ADELA Investment Company, S. A., Luxembourg. | 2 |

Application of Mellon Bank International. There had been distributed a memorandum dated September 11, 1964, from the Division of Examinations regarding the application of Mellon Bank International, Pittsburgh, Pennsylvania (a corporation organized under section 25(a) of the Federal Reserve Act), for permission to purchase 1,200,000 shares of common stock of HI-Koppers Cement Corporation, Makati, Rizal, Philippines, at a cost of approximately $300,000. Among other facts, the memorandum brought out that HI-Koppers was a joint undertaking between Koppers International C. A. (a wholly-owned subsidiary of Koppers Company, Inc.) and House of Investments, Inc. (a Philippine corporation). Originally, each of these participants planned to take 50 per cent of HI-Koppers equity. However, it was found that Philippine law limited holdings by single parties in basic mining enterprises to 15 per cent of the voting stock. Accordingly, it was decided that Koppers International would take 15 per cent of the voting stock and all of the non-voting stock, and that House of Investments also would take 15 per cent of the voting stock, and Mellon Bank International was invited also to take 15 per cent of the voting stock. It was expected that with the Edge corporation's support, Koppers International and House of Investments would be able to elect at least six of the nine HI-Koppers directors. Both Koppers International and Koppers Company were long-time and valued customers of Mellon National Bank and Trust Company, the parent organization of Mellon Bank International.

During discussion questions were raised as to the consistency of the proposed investment with the spirit of Philippine law and the appropriateness of the investment from the point of view of the broad purpose of section 25(a) of the Federal Reserve Act to further the foreign commerce of the United States. Question was raised also regarding the propriety of an Edge corporation entering into what appeared to be purely an equity transaction, whereas the operative field of Edge corporations was ostensibly finance and commerce. Comments were made that financing by Mellon Bank International might enter the picture if the entire capital for HI-Koppers was not forthcoming from the presently-contemplated sources. It was suggested that the intent of the statute might be considered to embrace the export of American expertise as well as capital.

Governor Robertson expressed the view that the export of services would not qualify the transaction as a move in furtherance of the foreign commerce of the United States.

Governor Mitchell commented that the transaction appeared to him to involve selling operating capacity abroad to the detriment of the market for a United States product. Moreover, he questioned whether

Edge corporations should engage in business unconnected with banking and finance. This appeared to be the first application for consent to such a transaction since the September 1963 revision of Regulation K, Corporations Engaged in Foreign Banking and Financing under the Federal Reserve Act.

At the conclusion of the discussion it was agreed to defer action pending the obtaining of additional information bearing on the questions that had been raised.

Messrs. Shay and Poundstone then withdrew and Mr. Young, Adviser to the Board and Director, Division of International Finance, entered the room.

Gold loan to Costa Rica (Item No. 3). There had been distributed a memorandum dated September 11, 1964, from Mr. Young regarding a request addressed to the Federal Reserve Bank of New York by Banco Central de Costa Rica for a loan on gold of $2 million for a period of three months. The request indicated that every year during September, October, and November there was a heavy outflow of foreign exchange because of heavy imports at a time when exports were seasonally low. The Costa Rican bank expected to repay the loan with the proceeds from exports of products, principally coffee, that would start to move this month but ordinarily did not reach maximum volume until later in the year. The New York Reserve Bank's officers recommended approval, and its directors, by a telephone poll, had authorized granting the loan, subject to the Board's approval, which Mr. Young recommended be given. Attached to the memorandum was a draft of telegram to the Federal Reserve Bank of New York that would indicate affirmative action by the Board.

During discussion, Governor Shepardson asked if there was reasonable likelihood that within the term of the proposed loan Costa Rica would experience a return flow of foreign exchange that would enable repayment. Staff responses indicated that there was such expectation and that the proposed loan would be consistent with the Board's policy on such loans. Comment was made that in connection with a similar loan last year the Costa Rican bank had asked for a term of four months but subsequently had revised it to three months inasmuch as the Board's policy on gold loans provided that the initial term usually would be limited to three months, although renewals had been granted for additional periods.

The telegram to the Federal Reserve Bank of New York was approved unanimously. A copy is attached as Item No. 3.

Chairman Martin then entered the room and, having been informed by Governor Robertson of the actions that had been taken, indicated his concurrence in them. Mr. Harris, Coordinator of Defense Planning, also joined the meeting at this point, and Messrs. Young, Sammons, and Goodman withdrew.

Changes in control of banks (Item No. 4). Mr. Solomon reported on steps being taken by the Federal Deposit Insurance Corporation to implement the provisions of H. R. 12267 (Public Law 88-593), which had been approved by the President on September 12, 1964. The new law provided that an insured bank must report (1) changes in the outstanding voting stock of any insured bank that would result in control or in a change in the control of the bank, and (2) any instances where an insured bank made a loan or loans, secured, or to be secured, by 25 per cent or more of the outstanding voting stock of an insured bank. Reports were to be made to the Federal supervisory agency having primary jurisdiction over the bank involved. Since an insured bank thus might have to make reports to any of the three Federal bank supervisory agencies, coordination of agency notification of insured banks would seem appropriate. The Federal Deposit Insurance Corporation planned to mail to all insured banks in the near future a packet containing a copy of the new law, background information such as legislative history and certain statements, and a request that reports to the Corporation regarding changes in control or loans on the stock of insured nonmember banks be submitted to the Supervising Examiners of the Corporation's District Offices. The Corporation had inquired if the Board would like to have included in the packet whatever request the Board might wish to make of insured banks as to the submission of reports involving State member banks. It was understood that the Corporation also was exploring the possibility of including in its packet a statement by the Comptroller of the Currency as to submission of reports involving national banks. In response to a question from Governor

Robertson, Mr. Solomon indicated that the Corporation was not devising a form for the reports, it being considered that the law itself was sufficiently explicit as to the information to be reported. The questions presented, Mr. Solomon said, were whether the Board wished to have the required reports submitted to the Federal Reserve Banks, and whether the Board wished to avail itself of the Corporation's offer to relay the Board's request to insured banks.

During discussion there was unanimous agreement among the members of the Board that reports involving State member banks should be submitted to the Federal Reserve Banks and that it would be important to share the information promptly with the State bank supervisors concerned. Several questions of procedure for handling the reports were raised, and Mr. Solomon indicated that the staff was studying the matter but had not yet resolved all administrative details.

At the conclusion of the discussion it was understood that the staff would prepare a statement indicating that reports involving State member banks were to be submitted to the Federal Reserve Banks; that the statement would be included in the packet to be mailed to all insured banks by the Federal Deposit Insurance Corporation; and that an appropriate letter would be sent later to Federal Reserve Banks regarding procedures.

> Secretary's Note: A copy of the statement by the Board sent to all insured banks by the Federal Deposit Insurance Corporation on September 18, 1964, is attached as Item No. 4. The Presidents of all Federal Reserve Banks were informed of the text of the statement in a telegram dated September 16, 1964.

Reserve Bank building procedures. In connection with an informal inquiry from Congressman Reuss as to whether designs for Federal Reserve Bank and branch buildings were selected on the basis of competition among architects, Chairman Martin asked that Mr. Daniels comment on Reserve Bank procedures relating to building projects.

Mr. Daniels responded that, generally speaking, the Federal Reserve Banks did not hold design competitions for Bank and branch buildings. The usual procedure was that the Reserve Bank selected an architect, who prepared preliminary plans and later expanded them if they were approved by the Bank's directors and by the Board of Governors. The Bank was required to report to the Board the terms of the agreement with the architect, the fees charged, and so on. There was, of course, competive bidding for the construction, except for such projects as remodeling, which, under the Board's instructions, might be handled by a negotiated bid from a contractor who was already familiar with the building. Contracts not based on competitive bids also might arise from projects involving equipment, such as elevators, that was of such a nature as almost to require that the work be done by the manufacturer or its service outlets.

At the conclusion of Mr. Daniels' remarks, Chairman Martin asked that a brief memorandum be prepared regarding the status of plans for new Federal Reserve Bank and branch building projects now under consideration.

Report on mobilization activities (Item No. 5). There had been distributed a memorandum dated September 14, 1964, from Mr. Harris regarding a proposed reply to a letter of July 1, 1964, from Chairman Patman of the Joint Committee on Defense Production requesting a summary of mobilization activities for the past year. The draft report attached to the memorandum summarized developments in preparedness programs relating to the Federal Reserve System, "banking institutions," and V-loans.

In comments at the Board's invitation, Mr. Harris first summarized the nature of Governmental mandates upon the Board and other agencies relating to defense planning, and in this connection he suggested that the Board's Annual Report for 1964 include comments on preparedness and mobilization programs. He also described the shifts that had occurred in the emphasis of defense planning over the past several years; the Board's participation in interagency planning; and physical and administrative measures that had been developed for survival in the event of attack, such as the provision of shelter facilities and relocation offices, studies of the relative vulnerability of various sites, a system of delegations of authority, and emergency currency supplies. He also described problems relating to development of an equitable system for sharing of war losses, and the extent of adoption of preparedness programs by commercial banks in comparison with the banking structure.

The report was approved unanimously. Copies of the transmittal letter and report to Chairman Patman are attached as Item No. 5.

The meeting then adjourned.

Secretary's Notes: The requirements contemplated by the Board's action on May 18, 1964, in approving the issuance of a preliminary permit to Pittsburgh International Finance Corporation, Pittsburgh, Pennsylvania, having been completed, a letter was sent today to that corporation transmitting a final permit to commence business.

Governor Shepardson today approved on behalf of the Board the following items:

Telegram to the Federal Reserve Bank of Minneapolis (attached Item No. 6) approving the appointment of Phil Carl Gerber as assistant examiner.

Memorandum from the Division of Administrative Services recommending the appointment of Sanford N. Johnson as Guard in that Division, with basic annual salary at the rate of $4,005, effective the date of entrance upon duty.

Merritt Sherman
Secretary

Item No. 1
9/15/64

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 15, 1964.

International Banking Corporation,
399 Park Avenue,
New York 22, New York.

Gentlemen:

In accordance with the request contained in your letter of June 26, 1964, transmitted through the Federal Reserve Bank of New York, and on the basis of information furnished, the Board of Governors grants consent for your Corporation to purchase and hold 5,000 additional shares of First National City Trust Company of Canada, Montreal, Canada (formerly Mercantile Trust Company), at an approximate cost of US$696,000, provided such stock is acquired within one year from the date of this letter.

The Board's consent to the purchase of the additional shares is granted subject to the conditions in the Board's letter of August 29, 1963 to First National City Bank granting consent for your Corporation to purchase and hold all of the outstanding shares of Mercantile Trust Company.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

Item No. 2
9/15/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 15, 1964.

Continental International Finance Corporation,
231 South La Salle Street,
Chicago 90, Illinois.

Gentlemen:

In accordance with the request contained in your letter of August 12, 1964, addressed to Mr. Leland Ross, Vice President, Federal Reserve Bank of Chicago, and on the basis of information furnished, the Board of Governors grants consent for your corporation to purchase and hold up to 50 ordinary shares, par value US$10,000 each, of ADELA Investment Company, S.A., Luxembourg, at a cost of approximately US$500,000, provided such stock is acquired within one year from the date of this letter.

The Board also approves the purchase and holding of shares of ADELA Investment Company, S.A. within the terms of the above consent in excess of 10 per cent of your corporation's capital and surplus.

Available information concerning ADELA indicates that the head office of ADELA will be located in Luxembourg, and offices will probably also be maintained elsewhere in Europe, in the United States, and Latin America. In the circumstances, the Board's consent is given with the understanding that ADELA will not maintain any branch, agency, office or representative in the United States and that ADELA will not engage or participate in the underwriting, sale or distribution of securities in the United States.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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Item No. 3
9/15/64

**TELEGRAM**
LEASED WIRE SERVICE

**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**
**WASHINGTON**

September 15, 1964.

SANFORD-NEW YORK

Your wire September 10. Board approves granting of loan or loans on gold up to a total of $2 million by the Federal Reserve Bank of New York to the Banco Central de Costa Rica on the following terms and conditions:

(a) to be made up to 98 per cent of the value of gold bars set aside in your vaults under pledge to you;

(b) to mature in three months with option to repay at any time before maturity, the advances to be made in multiples of $500,000, and the repayments in multiples of $100,000;

(c) to bear interest at the discount rate of your Bank in effect on the date on which such loan or loans are made; and

(d) to be requested and made at any time during a period of 30 days beginning with the date of the Banco's acceptance of your terms and conditions.

It is understood that the usual participation will be offered to the other Federal Reserve Banks.

(Signed) Merritt Sherman

SHERMAN

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

Item No. 4
9/15/64

# REPORTS TO BE MADE TO FEDERAL RESERVE BANKS UNDER PUBLIC LAW 88-593

The measure recently passed by Congress requiring notice of changes in the control of management of insured banks was signed into law by the President on September 12, 1964 (Public Law 88-593). Under this new law, all insured banks are required to report promptly (1) changes in the outstanding voting stock of any insured bank which will result in control or in a change in the control of the bank and (2) any instances where an insured bank makes a loan or loans, secured, or to be secured, by 25 per cent or more of the outstanding voting stock of an insured bank.

Reports concerning changes in control of a State member bank are to be made by the president or other chief executive officer of that bank, and shall be submitted to its Federal Reserve Bank.

Reports concerning loans by <u>any insured bank on the stock of a State member bank</u> are to be made by the president or other chief executive officer of <u>the lending bank</u>, and shall be submitted to the Federal Reserve Bank of the State member bank on the stock of which the loan was made.

Paragraph 3 of the new law, a copy of which is enclosed, specifies the information required in the reports to be made. All reports should be addressed to the Vice President in charge of examinations of the Federal Reserve Bank involved.

Attention is invited to other provisions of the new law designed to implement the major requirements outlined above.

September 18, 1964

Item No. 5
9/15/64

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

September 15, 1964.

The Honorable Wright Patman,
Chairman,
Joint Committee on Defense Production,
Congress of the United States,
Washington, D. C.

Dear Mr. Chairman:

In response to your letter of July 1, 1964, attached is a summary of mobilization activities of the Board of Governors for the year ending June 30, 1964.

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,

Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Attachment.

# SUMMARY OF THE MOBILIZATION ACTIVITIES OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM FOR THE YEAR ENDING JUNE 30, 1964

## Introduction

This report summarizes the mobilization activities of the Board of Governors of the Federal Reserve System for the year ending June 30, 1964. 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 describes the preparations of the Board and the Federal Reserve Banks to continue their operations and to perform their essential functions, including certain Presidentially-assigned emergency functions, in the event of an attack upon the United States.

Part II describes the preparations of commercial banks, under the guidance of the Board and Federal Reserve Banks, to continue their essential banking operations in accordance with the Government's emergency financial policies, and the emergency regulations of the Treasury, the Board, and the Federal Reserve Banks in the event of an attack upon the United States.

Part III describes Regulation V-loan activities and plans for the continuation of such activities on an expanded basis in a war emergency.

## Part I

### Preparations of the Board of Governors of The Federal Reserve System and the Federal Reserve Banks For a War Emergency

1. Program. This program consists of preparations undertaken by the Board and Federal Reserve Banks pursuant to assignments from the President and the Director, Office of Emergency Planning, requiring the Board to:

   a. Participate in the development of the Government's emergency policies and plans, including (1) emergency financial and stabilization policies, (2) The National Plan for Emergency Preparedness (for all contingencies), (3) Federal Emergency Plan C (for a limited war situation), and (4) Federal Emergency Plan D-Minus (for an attack situation);

b. Develop emergency plans and a state of readiness for the continued or resumed operation of the Board and Federal Reserve Banks, including provisions for (1) the protection of personnel and records, (2) the temporary filling of war-caused vacancies, and (3) delegation of authority; and

c. Develop plans and a state of readiness for the maintenance of the money, credit, and banking system in accordance with national emergency financial policies, including provisions for (1) the supply and control of currency, (2) the extension and control of credit, (3) the collection of cash items and noncash items, and (4) the conduct of fiscal and foreign financial operations.

2. Authority. The authority for this program is derived from the National Security Act of 1947, as amended, the Federal Civil Defense Act of 1950, as amended, Reorganization Plan No. 1 of 1958, Executive Order 11094[1/], The National Plan for Emergency Preparedness, promulgated by the President, and the Defense Mobilization Orders, and Circulars issued by the Director, Office of Emergency Planning, pursuant to Executive Orders 10952 and 11051.

3. Activities. Activities during the past year in support of this program have involved all three of its principal elements. While participation in the rewriting of The National Plan was extensive, primary attention was focused on improving the state of readiness of the Board and Federal Reserve Banks to continue their operations and to perform their emergency functions as assigned by the President in the event of an attack upon the United States.

a. Interagency participation. Last year, it was reported that The National Plan was being rewritten. The task, now nearing completion, has resulted in a major reorganization of the Plan and a substantial reduction in its volume--from 719 pages to less than 300 pages. The interagency participation required in making this revision has been extensive.

On November 20, 1963, the Board and other agencies having emergency responsbilities were directed by the Director, Office of Emergency Planning, to advise and assist him in preparing and maintaining a Digest of Federal Executive Branch Nonmilitary Emergency Measures. The purpose of the

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1/Executive Order 11094 provides that the Board of Governors of the Federal Reserve System shall: (1) participate in the formulation of emergency financial policies; (2) prepare national emergency plans covering functions assigned by this order; and (3) develop a state of readiness for all conditions of national emergency including attack upon the United States. It further provides that the assignments shall be undertaken as an integral part of the Board's activities on the basis that it will have responsibility for them in an emergency, and that it shall be prepared to implement its plans.

Digest is to facilitate (when time is of the essence) the identification and selection of courses of action for all emergency situations. To assist the Office of Emergency Planning, the Board prepared an index of the objectives and measures for which it would be responsible in an attack situation, together with descriptions of such measures,-- their probable effects, alternatives, requirements, and readiness to put such measures into effect.

b. Plans for the continued operation of the Board and Federal Reserve Banks. These plans are set forth in the Board's Emergency Plan and in the emergency manuals of Federal Reserve Banks. A review of these plans and the actions taken to make them effective has been made to determine the System's readiness to survive an attack.

Provision has been made for the receipt and dissemination of warnings of Defense Readiness Conditions (DEFCONs). DEFCONs represent various degrees of military readiness. They are declared by the Joint Chiefs of Staff or higher authority on the basis of the seriousness of any war threat. They are designed to afford an opportunity to expedite final preparations to survive an attack. For example, during the Cuban Crisis of 1962, DEFCON No. 3 was declared and preparations moved at a pace commensurate with the threat. The Board and Reserve Banks maintain lists of actions to be taken on receipt of DEFCON warnings. These actions include steps to activate alternate offices for postattack operations in the event the use of regular offices should become untenable. A special communications system, known as DEFCORD, has been established to expedite the transmission of DEFCON warnings. The DEFCORD receiving device at the Board is located in the Guard's Headquarters where it has coverage at all times. The system is tested at least once every 24 hours.

Provision has been made for the protection of personnel. The National Shelter Policy has been applied to all Federal Reserve buildings. At present, 36 of the System's 37 buildings contain areas having adequate shielding to be utilized as fallout shelters. Facilities to improve the habitability of shelter areas have been completed in 22 buildings and are planned for the remainder of buildings having adequate shielding. Personnel located in the one building not having a suitable area for shelter purposes have been instructed to use a nearby shelter in the event of an emergency.

Provision has been made for an orderly transfer of operations from regular offices to alternate offices in the event it should not be possible following an attack to use the regular offices. In this connection, duplicates of all records needed for wartime operations and communication facilities are maintained at the alternate offices. The alternate offices have been selected with a view to their being reasonably accessible to the regular offices to facilitate relocation, yet sufficiently distant from all target areas to avoid the blast and thermal effects of weapons detonated in such areas. These principles for selecting alternate offices require that their locations be periodically reviewed in the light of nuclear attack hazard studies "NAHICUS" prepared by the Department of Defense. Heretofore, it has been necessary to change the location of alternate offices in five instances due to the nearby location of SAC bases, and ICBM sites, or due to the need to improve the accessibility of the alternate office to the regular office. At the present time, changes are being made in the location of two alternate offices.

Provision has been made for the temporary filling of war-caused vacancies according to established emergency lines of succession. Vacancies would be filled in this manner until such time as they can be filled in the normal manner. A review of these arrangements for a temporary "care-taker" type of administration indicates that there are no satisfactory alternatives to this solution and that there is no need to modify present arrangements.

In order to further assure that the functions of the Board and Reserve Banks would continue to be performed -- even if all of the measures described above should fail -- the Board has made contingent delegations of its authority to surviving members of the Board, the interim Board, and the Federal Reserve Banks when communications between the Board and the Federal Reserve Banks are disrupted. The Federal Reserve Banks have made contingent delegations to other Reserve Banks and, for certain purposes, to emergency Cash Agents and Check Agents.

c. Plans for the maintenance and control of the money, credit, and banking system. These plans are set forth in the Government's emergency financial policies, Treasury's Emergency Banking Regulation No. 1, emergency plans and regulations of the Board, and in the emergency plans and circulars of the Federal Reserve Banks. They have been reviewed to determine the state of readiness for making them effective.

Executive Order 11094, section 2, provides that emergency financial plans shall be developed in consonance with national emergency financial policies. The national emergency financial policies require that provision be made for the following:

(1) The maintenance of the money, credit, and financial system.

(2) The continuance of banking operations including provision for liquidity and credit.

(3) The equitable sharing of war losses.

(4) The decentralization of adequate supplies of currency.

(5) The availability of bank deposits according to postattack needs.

(6) The clearance of checks including those drawn on destroyed banks.

(7) The availability of new bank credit for essential purposes.

(8) Government guarantee of private financing for essential purposes, if not otherwise available on reasonable terms.

As a partial implementation of these policies, the Secretary of the Treasury has issued Emergency Regulation No. 1[1/] requiring the continuance of banking operations, authorizing loans between banking institutions without regard to normal restrictions (to provide liquidity), and limiting withdrawals of cash, transfers of bank balances, and extensions of credit (to adjust availability of currency, bank balances, and new credit to postattack needs).

To further implement the emergency financial policies, the Board has issued to Reserve Banks its Emergency Regulations Nos. 1 and 2 and has provided them with additional guidance on emergency monetary policy.

1/ The Secretary of the Treasury has delegated to the Board ". . . authority and power to take such action consistent with regulations issued by the Secretary of the Treasury . . . as may be necessary to maintain, regulate, limit, or suspend the operation and functioning of any banking institution."

The Federal Open Market Committee has provided the Federal Reserve Banks with guidance on the purchase and sale of Government securities.

During the past year, progress has been made by Federal Reserve Banks in preparation and distribution of emergency instructions to all banking institutions. They have now completed this task. The emergency instructions are designed to keep the whole banking system operating in the immediate postattack period. They include Emergency Circulars on (1) the distribution of currency and the use of emergency Cash Agents, (2) the collection of checks and the use of emergency Check Agents, (3) the collection of noncash items, and (4) the emergency credit and discount policies.

An emergency supply of currency has been accumulated. At the close of the reporting period, 81 per cent of unissued Federal Reserve notes had been decentralized to Federal Reserve Banks and branches, while 19 per cent remained in Washington, D. C. In addition, a total of $239.8 million had been prepositioned in the vaults of selected emergency Cash Agents as a part of a program of maximum readiness to overcome the hazards of disrupted communications and transportation. Of this amount, $94.8 million was prepositioned with emergency Cash Agents during the last year.

The Federal Reserve Banks have designated 261 emergency Cash Agents and 423 emergency Check Agents.

The Treasury Department has provided the Reserve Banks with emergency instructions on fiscal agency operations, and has prepared Fiscal Service Emergency Regulation No. 1, a stand-by document, which provides the terms for granting relief to owners of destroyed or inaccessible United States bearer securities.

Guidance for the conduct of foreign operations in an emergency has been prepared by the Federal Reserve Bank of New York. Duplicate records of its foreign operations as well as the duplicate records of the International Bank ~~of~~ for Reconstruction and Development, and the International Finance Corporation are maintained at the Board's alternate office.

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. The lack of a plan for the equitable sharing of war losses, one of the emergency financial policies, was mentioned in our report to the Joint Committee dated September 15, 1963, as the only major problem. During the past year, the interagency Committee on War Loss Sharing agreed that, pending the development of a definitive operational plan for the sharing of war losses, the following documents should be prepositioned at appropriate relocation sites:

(a) The proposed "War Disaster Act of 1951."

(b) Board staff paper, "Preattack Planning for Postattack Financial and Economic Rehabilitation," revised April 16, 1959.

(c) Treasury staff paper, "War Loss Sharing," January 19, 1963.

(d) A statement of existing interagency agreement on war loss sharing.

Treasury staff is now working on ways and means for financing the postattack operation of loss sharing, while the Board's staff is working on ways and means for establishing preattack values, confirmation of loss or damage claimed, and the form of claim application.

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) modifying relocation arrangements as necessary to meet changing estimates of vulnerability, (4) developing standby plans for the equitable sharing of war losses, and (5) continuing the decentralization of currency to Federal Reserve Banks and Cash Agent Banks.

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 Commercial Banks For a War Emergency

1. Program. The Board is responsible for the development of plans, in cooperation with the Department of the Treasury and the Federal Deposit Insurance Corporation, to encourage preparedness by "banking institutions" in order to assure the continuity of their operations in the event of enemy attack.

2. Authority. The authority for the conduct of this program is derived from Executive Order 11094, February 26, 1963.

3. Activities. Activities under this program relate to (1) providing guidance to banking institutions on preparedness measures, (2) encouraging banking institutions to take effective action on the guidance given, and (3) monitoring such action.

General guidance on both preattack preparedness measures and postattack banking operations, contained in seven booklets prepared by the Banking Committee on Emergency Operations 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 or emergency operating letters issued by the Federal Reserve Banks, more particularly described in Part I.

Since heavy reliance is placed upon the willingness of all bankers to take the preparedness actions needed for the continuation of banking operations following a nuclear attack, commercial banks repeatedly have been urged to establish suitable preparedness programs on a voluntary basis. One of the most important elements of commercial bank preparedness is the maintenance of duplicate records which would be essential for postattack operations. In order to establish procedures for the initiation of duplicate records programs, and to overcome a prevailing impression that the cost of such programs is excessive, several Federal Reserve Banks and State banking associations have conducted pilot programs in commercial banks of various sizes. These pilot programs have demonstrated that actual costs are not excessive; in one case they amounted to $200 annually for a $5 million bank.

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 inquire as to what is being done in the course of regular examinations. The emergency preparedness information contained in the examiners' reports (13,582 in 1963-1964) is collated and tabulated by the Board of Governors according to the classification, location, and size of banks.

4. Effectiveness. Progress over the past five years is indicated by the following table:

| Yr. Ending June 30 | Banks Reporting | Banks with Preparedness Programs Number | % of Banks | % of Deposits |
|---|---|---|---|---|
| 1960 | 13,464 | 826 | 06.1 | 58 |
| 1961 | 13,364 | 916 | 06.9 | 60 |
| 1962 | 13,345 | 1410 | 10.6 | 70 |
| 1963 | 13,466 | 2007 | 14.9 | 74 |
| 1964 | 13,582 | 2471 | 18.2 | 83.4 |

Based on the latest tabulation, the number of banks having emergency preparedness programs increased by approximately 23 per cent between June 30, 1963, and June 30, 1964. Banks now participating in the program represent 83.4 per cent of the total deposits of all banks, as compared with 74 per cent on June 30, 196~~4~~3. For the first time, all banks having deposits of $1 billion or more are reported as having preparedness programs, as are also 93.6 per cent of all banks with $100 million or more deposits, and 48 per cent, or approximately one-half, of all banks with $10 million or more deposits. While the number of banks participating is small compared with the total number of banks, these statistics indicate that for the most part large banks in the vulnerable metropolitan areas are making preparations for the continuance of banking operations following an attack.

The preparedness program has been less effective among the small banks. Only 16.5 per cent of the 2,682 banks in the $5-$10 million category, 8.8 per cent of the 4,368 banks with deposits between $2 and $5 million, and 2.7 per cent of the 3,298 banks with less than $2 million in deposits, have taken even the initial steps toward establishing a preparedness program.

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, 1966.

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. By Executive Order 11062, dated November 19, 1962, and a directive of the Department of Defense, dated December 8, 1962, the Defense Supply Agency of the Department of Defense was designated as a guaranteeing agency.

On June 30, 1964, credit available under guarantee agreements outstanding totaled $92,969,000. Of this amount, approximately 78 per cent on the average was guaranteed by the Government. On June 30, loans outstanding amounted to $71,997,000, and there was available to borrowers an additional $20,972,000. Available credit under the guarantee agreements outstanding by the various agencies was as follows:

| | |
|---|---|
| Department of the Army | $12,517,000 |
| Department of the Navy | 37,386,000 |
| Department of the Air Force | 43,066,000 |

From the beginning of the program to June 30, 1964, 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 | $ 5,343,000 |
| Department of the Navy | 11,866,000 |
| Department of the Air Force | 14,693,000 |
| Defense Supply Agency | -1,000 |
| General Services Administration | 6,266,000 |
| Atomic Energy Commission | 509,000 |
| Department of Commerce | 6,000 |
| Total net income | $38,682,000 |

The Department of the Army estimates that of the loans it has purchased approximately $2,040,000 is uncollectible. The Department of the Navy estimates that of the loans it has purchased approximately $280,000 is uncollectible. The Department of the Air Force estimates that of the loans it has purchased approximately $200,000 is uncollectible. Assuming these estimated losses are realized, the net income to the Government at this time on the guaranteed loan program is over $36 million. The relatively small net incomes of Atomic Energy Commission and Department of Commerce, as well as the excess of expenses of the Defense Supply Agency, 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, 1964, 1,624 loans totaling $3,486,340,000 were authorized by the procurement agencies which guarantee such loans.

During the 12 months ending June 30, 1964, there was disbursed on outstanding loans approximately $152,216,000, 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 cumulative number and amount of guaranteed loans authorized from the beginning of the program to the end of each month in the period June 1963 through June 1964.

| | Guaranteed loans authorized to date | |
|---|---|---|
| | Number | Amount (In thousands of dollars) |
| **1963** | | |
| June 30 | 1,611 | 3,458,740 |
| July 31 | 1,613 | 3,463,940 |
| August 31 | 1,614 | 3,465,340 |
| September 30 | 1,614 | 3,466,540 |
| October 31 | 1,614 | 3,467,640 |
| November 30 | 1,616 | 3,469,215 |
| December 31 | 1,618 | 3,472,890 |
| **1964** | | |
| January 31 | 1,619 | 3,475,640 |
| February 29 | 1,620 | 3,476,340 |
| March 31 | 1,621 | 3,476,415 |
| April 30 | 1,623 | 3,477,465 |
| May 31 | 1,623 | 3,483,540 |
| June 30 | 1,624 | 3,486,340 |

6. Small Business. Classifications of guaranteed loans by size of the borrower were discontinued beginning 1960 due to the relative inactivity of the program. At that time, (see report for last quarter 1959) approximately three-fourths of the number of loans authorized were to borrowers having less than 500 employees. It is believed that this proportion of loans to small business has 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.

September 15, 1964.

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

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 6
9/15/64

September 16, 1964.

DEMING - MINNEAPOLIS

Reurlet September 10, 1964, the Board approves appointment of Phil Carl Gerber as assistant examiner for the Federal Reserve Bank of Minneapolis, effective today.

(Signed) Elizabeth L. Carmichael

CARMICHAEL