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Minutes for September 14, 1961

To: Members of the Board

From: Office of the Secretary

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

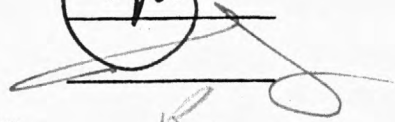
It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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

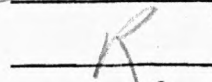
Chm. Martin



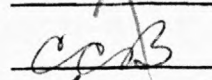
Gov. Mills



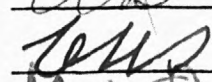
Gov. Robertson



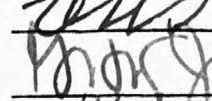
Gov. Balderston



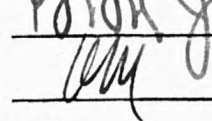
Gov. Shepardson



Gov. King



Gov. Mitchell



Minutes of the Board of Governors of the Federal Reserve System on  
Thursday, September 14, 1961. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman  
Mr. Balderston, Vice Chairman  
Mr. Robertson  
Mr. King  
Mr. Mitchell

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Thomas, Adviser to the Board  
Mr. Shay, Legislative Counsel  
Mr. Molony, Assistant to the Board  
Mr. Fauver, Assistant to the Board  
Mr. Hackley, General Counsel  
Mr. Noyes, Director, Division of Research  
and Statistics  
Mr. Solomon, Director, Division of Examinations  
Mr. O'Connell, Assistant General Counsel  
Mr. Furth, Adviser, Division of International  
Finance  
Mr. Leavitt, Assistant Director, Division of  
Examinations  
Mrs. Semia, Technical Assistant, Office of  
the Secretary  
Mr. Lyon, Review Examiner, Division of  
Examinations

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

	<u>Item No.</u>
Letter to Seattle Trust and Savings Bank, Seattle, Washington, approving an investment in bank premises.	1
Letter to the Comptroller of the Currency recommending unfavorably with respect to an application to organize a national bank at Holdenville, Oklahoma.	2

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With respect to Item No. 2, Governor Mitchell expressed the view that applications for entry into the banking field should be granted unless there was clear indication that the proposed institution would not be sound in some respect; the fact that someone was willing to put up the money for a substantial part of the capital seemed to be prima facie evidence that the promoters judged that a new bank could survive in local conditions. Mr. Leavitt then reviewed the circumstances of the case that had prompted the Division of Examinations and the Federal Reserve Bank of Kansas City to advise an unfavorable recommendation to the Comptroller of the Currency.

Report on competitive factors (Burlington-St. Johnsbury, Vermont).

There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The First National Bank of St. Johnsbury, St. Johnsbury, Vermont, with and into The Howard National Bank and Trust Company of Burlington, Burlington, Vermont.

There being no objection, the report was approved unanimously for transmission to the Comptroller of the Currency. Its conclusion read as follows:

Due primarily to the distance separating Howard National and First National, direct competition between them is nominal. The proposed merger of these two banks would enhance slightly the competitive position of Howard National in the State of Vermont and would permit its entry into an area where it is not now represented. This proposal should have little effect on banking in Burlington where Howard National is subject to keen competition from Chittenden Trust Company and Burlington Savings Bank.

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The merger would replace the smallest bank in the St. Johnsbury area with a much larger banking institution able to offer residents of that area increased banking services. Competition for the remaining small banks in St. Johnsbury and the surrounding area would undoubtedly be intensified.

Mr. Leavitt then withdrew from the meeting.

C. B. Investment Corporation (Item No. 3). At its meeting on September 13, 1961, the Board deferred decision on a request by C. B. Investment Corporation, Houston, Texas, a registered bank holding company, for reconsideration of certain requests made by the Board in January 1961 for disposal of bank shares that had been acquired without the approval of the Board of Governors as called for by the Bank Holding Company Act. A memorandum from the Legal Division dated August 25, 1961, set forth the facts in the case and summarized the stock acquisitions in question as follows:

(a) 925 shares (originally 1,520 shares, but subsequently reduced) of First National Bank, La Porte, Texas, asserted by the Corporation to have been acquired in July 1956 and January 1957 pursuant to a memorandum of agreement dated April 10, 1956. (The Division's memorandum noted that First National Bank, La Porte, had subsequently converted to a State nonmember bank and at the time of that conversion the holding company was issued 925 shares of the new bank in exchange for its shares of the old bank.)

(b) 925 shares of the La Porte bank acquired in September 1960 as the result of a stock dividend.

(c) 925 shares of the La Porte bank acquired in September 1960 through exercise of stock rights without prior approval by the Board.



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(d) 873 shares of First National Bank, Port Arthur, Texas--776 shares acquired in January 1959 through exercise of stock rights without prior approval by the Board, and 97 shares received thereafter as a stock dividend on the 776 shares.

The Division memorandum, after reviewing the information offered by the holding company as a basis for requesting relief from the Board's letter dated January 30, 1961, directing that certain shares be divested, concluded that that information, even when viewed in the light most favorable to the Corporation, in no way affected the legal validity of the position taken by the Board requiring the divestment. The Federal Reserve Bank of Dallas, however, had requested that the matter be reconsidered on the basis of good faith aspects and expressed hope that retention of the stock might be permitted. The questions presented by the case were outlined as follows:

(1) Should the Board now permit retention of the remainder of the shares of the La Porte bank (925) acquired in July 1956 and January 1957 on the basis of the Corporation's arguments that they were acquired in good faith pursuant to an agreement made prior to the date the Bank Holding Company Act became effective;

(2) If (1) were answered in the affirmative, should the Corporation nevertheless be required to divest these shares on the basis of its failure to obtain the Board's prior approval of the "exchange acquisition" of the same number of shares in the newly organized State bank. (On this point, the Legal Division suggested that the Board not consider the exchange of shares as an acquisition, that position being consistent with the one the Board had taken in 1959 in regard to a substantially similar situation involving Brenton Companies, Des Moines, Iowa.);

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(3) If the Corporation were allowed to retain the La Porte bank shares that it previously had been directed to dispose of, should the Board also allow the retention of the 925 shares acquired without Board approval in September 1960 through the exercise of rights (presumably the decision on retention or disposal of the 925 shares received as a stock dividend would parallel the Board's decision on the 925 shares discussed in (1));

(4) Should the Board reaffirm its January 30, 1961, request for disposal of the 776 shares of the Port Arthur bank acquired through exercise of stock rights without Board approval, and in addition, require disposal of the 97 shares of that bank received as a stock dividend on the 776 shares.

Two alternative drafts of letter to the Federal Reserve Bank of Dallas accompanied the memorandum. Alternative "A" would permit the Corporation to retain the 925 shares of the La Porte bank acquired in July 1956 and January 1957, plus 925 additional shares acquired through a stock dividend in 1960. The same letter would require disposal of the 925 shares of the La Porte bank acquired through the exercise of stock rights in September 1960 and the 873 shares of the Port Arthur bank, 776 shares acquired in January 1959 and 97 shares acquired as a stock dividend on the 776 shares.

Alternative letter "B" would, for the reasons stated therein, deny the Corporation's request for retention of any of the shares discussed in its letter of March 15, 1961, and further, would require disposal of the additional 97 shares in the Port Arthur bank.

A third course available to the Board would be to grant the Corporation's request in its entirety and permit the retention of all

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shares now held in the La Porte and Port Arthur banks. The Legal Division recommended strongly against adoption of this alternative for the reason that the magnitude of concession reflected in such a position bore no logical or legal relationship to the facts as the Board now knew them.

Governor Robertson stated his conclusion that there was no justification for reversing the Board's previous position. It was clear that there had been a violation of the Bank Holding Company Act. The facts presented as a basis for reconsideration had been before the Board in January 1961 when it requested disposal of the shares; therefore, he would vote to send alternative letter "B", which would require divestment of all shares acquired in violation of the law.

Governor Shepardson presented questions that led to discussion of the claim by the Corporation that it was obligated to buy the shares of the La Porte bank that it acquired in July 1956 and January 1957 because of a memorandum agreement Mr. Menasco, President of the Corporation, had executed on April 10, 1956, prior to the date of the enactment of the Bank Holding Company Act on May 9, 1956. Mr. Menasco also argued that even if the Board's position was correct that title to these shares did not pass until July 1956, the acquisition should be permitted since it was completed before what he considered to be the effective date of the Act. (Mr. Menasco considered the effective date of the Act to be September 1, 1956, the effective date of Regulation Y, since that was

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the date as of which he considered himself put on notice as to the Bank Holding Company Act.)

Governor Shepardson then expressed the view that there was a basis for some liberality in regard to the shares of the La Porte bank acquired in July 1956 and January 1957 and also the 925 shares subsequently acquired as a stock dividend, although he believed the Corporation should dispose of the shares acquired in 1960 through the exercise of rights. Therefore, he would be inclined to adopt alternative letter "A".

Governor Robertson observed that the existence of the April 1956 memorandum agreement had been known to the Board at the time the matter was first considered, although it did not then have the actual document. Since a contract of this type entered into prior to the date of a statute was not enforceable, he did not feel that the subsequent securing of a copy of the agreement changed the situation sufficiently to warrant a change in the Board's earlier decision.

Governor King expressed himself in favor of alternative letter "B", which reflected the Board's original position and which would be the more severe.

Governor Mitchell remarked that he did not know what he would have done when the case was originally before the Board, but since a position had been taken and there was not a clear reason for change, he would go along with reaffirmation of that position.



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Governor Balderston stated that on balance he would prefer alternative letter "A" which would ease the Board's January requirement for divestment. Among his reasons for this preference were those advanced by the Federal Reserve Bank of Dallas, which had the problem of continuing relations with member banks of its District and which recommended a modification of the Board's earlier requirement.

Chairman Martin noted that from a strictly legal standpoint, the more severe position that would be taken by alternative letter "B" was justified, although his personal preference would be to modify the Board's earlier requirement along the lines recommended by the Dallas Bank. However, he did not feel that this was sufficiently important to warrant an evenly divided vote by the Board and for that reason he would go along with reaffirmation of the original position as set forth in the alternative "B" letter.

Thereupon alternative letter "B", a copy of which is attached as Item No. 3, was approved, Governors Shepardson and Balderston dissenting.

Request by Department of Justice in Manufacturers-Hanover merger (Item No. 4). Chairman Martin referred to a letter dated September 8, 1961, from Assistant Attorney General Loevinger which requested a copy of the Board's decision and any accompanying order relating to the proposed merger of Manufacturers Trust Company and The Hanover Bank, both of New York City. Judge Loevinger's letter was not received until September 12, at which time a reply was prepared that would furnish him the same two-page



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summary of the basis for the Board's approval of the merger that had been furnished to Representative Patman on September 12. For this reason, the letter to Judge Loevinger was delivered by messenger on September 13, 1961. A copy of the letter so sent is attached as Item No. 4.

Mr. Lyon then withdrew from the meeting.

Federal Reserve membership on Bank for International Settlements board. Chairman Martin stated that he had placed on the agenda for preliminary discussion at this meeting the memorandum from Mr. Young dated August 31, 1961, relating to possible membership of the Federal Reserve on the board of directors of the Bank for International Settlements. While he would not wish to have any action taken in the matter at this time, he would find it helpful to have some discussion inasmuch as he was leaving to attend the annual meetings of the International Bank for Reconstruction and Development and the International Monetary Fund in Vienna.

The memorandum to which the Chairman referred stated that in view of the present stress on cooperation among the central banks of Europe and North America, it appeared appropriate to consider again the problem of closer ties between the Federal Reserve and the Bank for International Settlements, of which all major European central banks are members. Relationships between the Federal Reserve and the Bank for International Settlements since 1929 were reviewed in the memorandum, as were the main legal questions that presented themselves regarding the question of Federal Reserve membership on the Bank's board of directors.

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Among those questions, two were salient. First, in the Bank for International Settlements' statutes, the terms "central bank" and "governor" were so defined that in the United States they applied to the Federal Reserve Bank of New York and its President. It had always been understood that the Board of Governors would consider Federal Reserve representation on the Bank's board only if that provision of the statute were changed to substitute the Board of Governors and its Chairman for the New York Reserve Bank and its President. According to the memorandum, it appeared that it would not be difficult to arrange for such an amendment.

Second, in 1929 Secretary of State Stimson declared that the United States Government would not permit any official of the Federal Reserve System either to serve as a member of the board of the proposed institution or to select American representatives for that purpose. He based this decision on the intimate relation between the proposed bank and the problem of German reparations. However, that relation had long since passed, and in view of the postwar changes in the international situation it seemed likely that the State Department at this time would interpose no objection to Federal Reserve membership on the board of the Bank for International Settlements if the Board of Governors should deem such membership desirable.

The memorandum also commented on the advantages of membership of the Federal Reserve under present conditions, and in the light of those

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advantages recommended Board action to authorize System membership, after consultations with the Secretaries of State and Treasury.

Chairman Martin commented that the nature of the continuing problem arising out of the present provisions of the BIS statutes was highlighted by the fact that the New York Reserve Bank had received a letter from Mr. Holtrop, President of the Bank for International Settlements, dated September 5, 1961, inviting the Federal Reserve System to participate in a meeting of central bank economists at the Bank in Basle, Switzerland, November 11-13, 1961, that had been called for the purpose of an exchange of views and experiences relating to the statistical measurement of the liquidity of the banking system and the instrument by which the central bank influences bank liquidity. The New York Reserve Bank was prepared to send a representative, and it was Chairman Martin's view that, if the System participated, the Board should be included in any such meeting. While he thought the addressing of a letter by the President of the Bank for International Settlements to the President of the New York Reserve Bank regarding Federal Reserve System participation in the meeting was an inadvertence and need cause no concern, still it illustrated the course such matters might take as long as the central banking organization of the United States was not clearly recognized as being headed by the Board of Governors in Washington.

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With respect to Federal Reserve membership on the BIS board, Chairman Martin said that he had discussed the general question briefly with Secretary of State Rusk and Secretary of the Treasury Dillon. While he would not wish to imply that either had indicated a position on the question, it was Chairman Martin's expectation that both Departments might arrive at the conclusion that it would be well for the Federal Reserve to affiliate with the Bank for International Settlements.

At the Chairman's request, Mr. Furth then commented on Mr. Young's memorandum, after which there was a general discussion. In this discussion, the point was made that the course of world events was such that it was highly desirable for the Federal Reserve to evidence the greatest possible degree of cooperation with other central banks. In recent years the Bank for International Settlements had provided a forum for exchange of views among the central bank members and, the identification of the Bank with reparations problems having long since been extinguished, it might be found that the Federal Reserve would find substantial advantages in representation on the Bank's board without necessarily incurring serious disadvantages. This was especially true since a principal duty of the System was to preserve the integrity of the dollar both at home and abroad. However, it was recognized that any move looking toward representation of the Federal Reserve on the Bank's board should be taken only after the most careful exploration of every aspect of the subject.

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Other parts of the discussion dealt with ownership of the stock of the Bank for International Settlements. There was no question of acquisition of stock by the Federal Reserve; stock ownership was entirely unrelated to board representation and, in fact, it probably would not be legally permissible for the Federal Reserve to invest in the stock under existing statutes. It was understood that at the present time the First National City Bank of New York and several other privately owned banks in the United States held shares.

The discussion also included comments on whether representation on the board of the Bank for International Settlements could be expected to increase the availability of information to the Federal Reserve, as well as on the position in which System representatives who now occasionally attended Bank for International Settlements meetings found themselves as invited guests, without System membership on the board.

Concluding the discussion, Chairman Martin suggested that in anticipation of a further meeting on the subject, it would be helpful if each member of the Board would prepare a list of any questions to which he would like to have answers in order that additional information might be developed for the next discussion. He emphasized the importance of full consideration of the matter before reaching a decision, adding that a decision to enter into active membership on the board of the Bank for International Settlements should not be taken lightly.



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Chairman Martin then referred to the letter of September 5, 1961, from Dr. Holtrop to the New York Reserve Bank inviting System participation in a meeting of economists to be held in Basle, November 11-13. The Chairman inquired whether the Board was prepared (a) to authorize the Federal Reserve Bank of New York to participate in the meeting, and (b) to send a Board representative to the meeting. The members of the Board having indicated they would favor such participation, Chairman Martin was authorized to work out with Dr. Holtrop and Mr. Hayes an arrangement under which the Board would send a representative if there was to be System participation, it also being understood that the Federal Reserve Bank of New York would be authorized to send a representative to the meeting of economists if the Board did so.

Mr. Furth withdrew from the meeting at this point.

Patman staff comment regarding Manufacturers-Hanover merger.

Chairman Martin referred to a memorandum from Mr. Shay distributed on September 13, 1961, regarding a telephone call Mr. Shay had received from Mr. Houghton of Representative Patman's staff in connection with the material relating to the Manufacturers Trust-Hanover Bank merger that had been supplied to Mr. Patman with the Board's letter of September 12 pursuant to the Board's action on September 11, 1961.

Mr. Houghton had expressed the view that the Board's reply was not responsive to Mr. Patman's request of September 8. He felt that reports on competitive factors received from the bank supervisory agencies

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and the Department of Justice were "materials presented to the Board of Governors for consideration" within the meaning of Mr. Patman's request, and he also expected to see in some form an analysis of the evidence along the lines of the Board's report to the Comptroller of the Currency in the Continental Illinois National Bank-City National merger in Chicago, which also had been furnished to Mr. Patman. Mr. Houghton described the two-page "basis for approval" that had accompanied the Board's September 12 letter to Mr. Patman as containing only general statements of conclusions without analytical support, but he had indicated uncertainty as to whether Mr. Patman would want to press for a more expansive explanation of the Board's approval of the merger.

Governor Balderston, at Chairman Martin's request, outlined a possible procedure for supplying Mr. Patman with additional material regarding the Manufacturers-Hanover merger by sending him a copy of the staff memorandum of July 14, 1961, from which all opinion-comment had been excised.

Chairman Martin said that Governor Balderston had talked with him about the subject this morning and that he (Chairman Martin) was disposed to let the matter lie for the time being. He questioned whether it was wise to send a copy of the staff memorandum from which opinion-comment had been excised; it was his thought that if Mr. Patman desired more information regarding the Board's handling of this case, the appropriate procedure would be for him to ask for a Congressional

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investigation. The Chairman commented that basically the procedures that the Board followed in handling and announcing its actions on merger applications were involved. He also stated, in response to a question from Governor Shepardson, that no formal request had been made by Mr. Patman for additional material, Mr. Houghton's informal discussion with Mr. Shay apparently having been only an expression of his personal views.

After some further discussion, there was concurrence with Chairman Martin's suggestion that no steps be initiated to furnish Mr. Patman additional information regarding the Manufacturers-Hanover matter. In this connection, it was noted that the staff had been requested to prepare in due course a statement regarding the Board's action on this merger application in a form similar to the statements prepared in connection with Board decisions on bank holding company applications.

Governor Robertson then inquired when the Board might take action on proposed changes in the procedures followed in processing merger and holding company applications, as discussed in the Legal Division's memorandum of May 26, 1961.

Chairman Martin stated reasons why he did not feel the immediate future was a desirable time for the Board to make a major change in these procedures. He also said, in response to a question from Governor Robertson, that he felt it preferable to have all members of the Board participate in any decision to revise the procedures. He noted that there would be a few days at the end of October when all Board members expected

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to be present, and he suggested that the matter be scheduled for consideration by the Board at a meeting on one of those days, probably October 30. There was agreement with this suggestion.

At this point all of the members of the staff withdrew and the Board went into executive session. Following the meeting the Secretary was informed that during the executive session the Board took the following actions:

Approval of payment of salary to a Reserve Bank officer (Item No. 5).

The Board approved payment of salary to Mr. William H. Leedy as General Counsel and Secretary of the Federal Reserve Bank of Kansas City at the rate of \$15,000 per annum, for the period October 1, 1961, through December 31, 1961.

Secretary's Note: Pursuant to the foregoing action, the letter of which a copy is attached as Item No. 5 was sent to the Federal Reserve Bank of Kansas City on September 19, 1961.

Directors' Day--1962. In accordance with a recommendation in a memorandum from Mr. Fauver dated September 14, 1961, the Board fixed Thursday, March 15, 1962, as the date for the next Directors' Day, with the understanding that the customary dinner would be given on Wednesday evening, March 14, and that a program along the usual lines would be prepared and submitted for the Board's consideration prior to the date of the meeting.

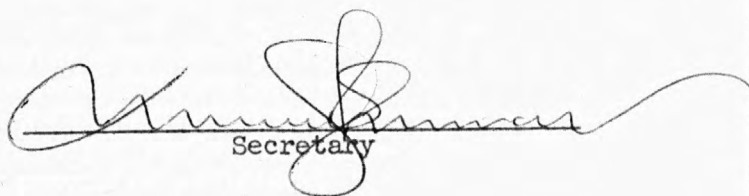
The meeting then adjourned.

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Secretary's Notes: Governor Shepardson today approved on behalf of the Board a statement relating to the re-employment or replacement of an employee who has been on maternity leave, transmitted with a memorandum from the Division of Personnel Administration dated September 13, 1961, with the understanding that a copy of the statement would be sent to each Division and a copy furnished to the employee at the time maternity leave is discussed with the individual. A copy of the statement is attached to these minutes as Item No. 6.

Pursuant to the recommendation contained in a memorandum from the Division of Research and Statistics, Governor Shepardson today approved on behalf of the Board the appointment of Kathryn H. Fortunato as Library Assistant in that Division, with basic annual salary at the rate of \$4,145, effective the date of entrance upon duty.

  
Secretary



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

Item No. 1  
9/14/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 14, 1961



Board of Directors,  
Seattle Trust and Savings Bank,  
Seattle, Washington.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an additional investment in bank premises by Seattle Trust and Savings Bank of not to exceed \$150,000 for the purpose of constructing a new building to house the bank's Des Moines Branch, including the cost of land.

In view of the continuing expansion in the volume of operations, the present capital structure of the bank is believed to be below the desired level. The Board wishes to emphasize the need for early consideration of a definite program for providing additional capital funds.

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  
9/14/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 14, 1961

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

Attention Mr. C. C. Fleming,  
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated June 30, 1961, enclosing copies of an application to organize a national bank at Holdenville, Oklahoma, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by an examiner for the Federal Reserve Bank of Kansas City indicates that the proposed capital structure would be adequate and that the general character of proposed management would be regarded as fairly satisfactory, although the chief executive officer has not yet been chosen. Future earnings prospects, however, are only fair and there has been no demonstrated need for additional banking facilities in Holdenville at this time. Accordingly, the Board of Governors does not feel justified in recommending favorable consideration of the application.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 3  
9/14/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 14, 1961

Mr. Watrous H. Irons, President,  
Federal Reserve Bank of Dallas,  
Dallas 2, Texas.

Dear Mr. Irons:

This refers to the matter involving actions by the C. B. Investment Corporation, Houston, Texas ("CB"), earlier determined by the Board to be in violation of the Bank Holding Company Act of 1956. Particular reference is made to the Board's letter of January 30, 1961, and to Mr. Pondrom's reply of April 7, 1961, previously acknowledged.

The letter of April 7 transmitted letters of March 15 and March 30, 1961, together with enclosures, from Mr. W. C. Menasco, President of CB, wherein he has set forth a description of the extent to which CB has complied with the Board's January 30 directive, and wherein Mr. Menasco reargues his case in opposition to the Board's directive that CB dispose of those shares in the First National Bank of La Porte, Texas (now La Porte State Bank), and the First National Bank of Port Arthur, Texas, determined by the Board to have been unlawfully acquired. Mr. Pondrom requests that the Board reconsider its earlier directive of divestment on the basis of the apparent good faith attending CB's acquisition of the La Porte shares. However, he concurs in the Board's original decision to require CB to divest the shares of both La Porte and Port Arthur that have been acquired through the exercise of stock rights without the Board's prior approval.

A review of CB's position as stated in the above enclosures substantiates, in the Board's judgment, the soundness of the legal position taken in the Board's letter of January 30, 1961, that the 1,520 shares of La Porte stock (now reduced in number to 925) acquired in pursuance of the understanding expressed in the April 10, 1956, "memorandum of agreement", were "acquired" in July 1956 and January 1957, subsequent to the effective date of the Bank Holding Company Act, May 9, 1956, and that the acquisition of such stock without the Board's prior approval was in violation of the Act.



Mr. Watrous H. Irons

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While the Board has given full weight to the equities attending CB's acquisition of the above-mentioned La Porte shares, the Board is unable to attribute to them sufficient weight to warrant a change in its earlier position. The Board appreciates the problems attending your Bank's day-to-day relationships with the member banks and bank holding companies in your District, particularly, as in this case, where they relate to effecting compliance with a directive of the Board. However, study of the documents submitted by CB in support of the asserted validity of its acquisitions of the La Porte shares in 1956 and 1957 warrants the conclusion that the parties concerned intended precisely that which occurred, namely, the transfer of title to and possession of the shares in July 1956 and January 1957. The fact that Mr. Menasco was, according to his statement, acting under a mistake of fact in connection with the "effective" date of the Act is not sufficiently persuasive to warrant a change in the Board's position originally taken. Nor do the facts attending CB's failure to obtain prior approval for its acquisition of stock in La Porte and Port Arthur through the exercise of stock rights warrant the Board's taking a position, different from its original position, that might subsequently be cited as precedent under equally tenuous circumstances. Similarly, the divestment order relating to shares of La Porte encompasses the 2,775 shares now held - constituting the 925 shares remaining from CB's original acquisition, 925 shares received as a stock dividend in September 1960, and 925 shares acquired in September 1960 through the exercise of stock rights.

In reference to the 776 shares of Port Arthur, it has come to the Board's attention that subsequent to the acquisition of these shares, CB received an additional 97 shares of Port Arthur as a stock dividend on the 776 shares. In the Board's judgment, the considerations that have compelled divestment of the shares unlawfully acquired by rights equally compel divestment of any shares received in connection with those unlawfully acquired and retained. Accordingly, the Board's present order of divestment of Port Arthur shares relates to the total of 873 of the shares of Port Arthur now held by CB.

CB should be advised that within three months from the date of receipt of the Board's views herein expressed, it must dispose of all shares unlawfully acquired in La Porte and Port Arthur as herein directed. CB should be asked also to advise your Bank of the fact and date of compliance with the Board's present directive. Further, you are requested to make whatever restatement of the remainder of the Board's January 30, 1961, directive as may be considered appropriate.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.





BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 4  
9/14/61

OFFICE OF THE CHAIRMAN

September 13, 1961.

The Honorable Lee Loevinger,  
Assistant Attorney General,  
Antitrust Division,  
Department of Justice,  
Washington 25, D. C.

Dear Judge Loevinger:

This will acknowledge your letter dated September 8, 1961, received in my office on September 12, requesting a copy of the decision and any accompanying order related to the Board's action in approving the merger of Manufacturers Trust Company and The Hanover Bank, both of New York City.

There is enclosed a copy of the letter addressed to the Board of Directors, Manufacturers Trust Company, announcing the Board's consent to the proposed merger, a copy of the Board's press release in the matter, and a copy of a statement of the Board's basis for approval of the application that has been prepared for publication in the Board's Annual Report and is supplied to you in advance of such publication.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosures



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

Item No. 5  
9/14/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 19, 1961.



CONFIDENTIAL (FR)

Mr. George H. Clay, President,  
Federal Reserve Bank of Kansas City,  
Kansas City 6, Missouri.

Dear Mr. Clay:

The Board of Governors approves the payment of salary to Mr. William H. Leedy as General Counsel and Secretary of the Federal Reserve Bank of Kansas City, for the period October 1 through December 31, 1961, at the rate of \$15,000 per annum, the rate fixed by your Board of Directors as reported in Mr. Boysen's letter of September 14, 1961.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

Policy for Reemployment or Replacement of  
Employee on Maternity Leave

3147  
Item No. 6  
9/14/61

I. When an employee states she plans to apply for reemployment:

(a) The position held by her will be reserved for her, with the approval of the head of her Division, and no permanent replacement will be made.

(b) The Division ordinarily will be expected to absorb the work of the employee during maternity leave. Any recommendation for temporary replacement involving a disbursement of Board funds will require approval by the Office of the Controller.

II. When an employee states she does not plan to apply for reemployment unless some unforeseen circumstance arises:

(a) With her application for maternity leave, the employee must submit to her supervisor a written statement to the effect that she does not plan to return to duty unless some unforeseen circumstance arises.

(b) The employee's name will be retained in her present position, with the approval of the head of the Division, until expiration of the stipulated period of maternity leave (under leave regulations current at the time) or until resignation is received if prior to that date.

(c) Replacement can only be effective on the date of incumbent's physical separation from position, even though dual occupancy may result.

(d) Should an unforeseen circumstance arise whereby the employee wishes to apply for reemployment, and she is favorably considered for reemployment, arrangements will be made by the Division of Personnel Administration to place her in a position at the same level as previously occupied. However, the Board does not assume any obligation to place her in her previous position.

III. When an employee states she does not plan to apply for reemployment:

(a) The employee's name will be retained in her present position, with the approval of the head of the Division, until expiration of the stipulated period of maternity leave (under leave regulations current at the time) or until resignation is received if prior to that date.

(b) Replacement can only be effective on the date of incumbent's physical separation from position, even though dual occupancy may result.

IV. When an employee does not wish to apply for maternity leave but expects to resign:

The employee must report pregnancy and must resign in accordance with current leave regulations (i.e., employee will not be allowed to remain on duty longer than the period stipulated in the leave regulations.)

NOTE: In all the foregoing instances, the employee must report pregnancy in accordance with current leave regulations and must submit the attached form indicating her intentions.

In all instances, failure to resign or apply for reemployment before the period terminates (as provided for in current leave regulations) automatically terminates employment with the Board.

This policy is meant to implement the Board's leave regulations and is in no way intended to change or be substituted for any part of those regulations.