

Minutes for August 20, 1956.

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, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

|                 | A           | B            |
|-----------------|-------------|--------------|
| Chm. Martin     | _____       | x <u>mm</u>  |
| Gov. Szymczak   | _____       | x <u>ms</u>  |
| Gov. Vardaman   | x <u>VP</u> | _____        |
| Gov. Mills      | x _____     | _____        |
| Gov. Robertson  | x _____     | _____        |
| Gov. Balderston | _____       | x <u>CCB</u> |
| Gov. Shepardson | x <u>SP</u> | _____        |

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, August 20, 1956. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Vardaman, Acting Chairman  
Mr. Mills  
Mr. Robertson  
Mr. Shepardson

Mr. Carpenter, Secretary  
Mr. Sherman, Assistant Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Thurston, Assistant to the Board  
Mr. Riefler, Assistant to the Chairman  
Mr. Thomas, Economic Adviser to the Board  
Mr. Solomon, Assistant General Counsel  
Mr. Molony, Special Assistant to the Board

Messrs. Young, Noyes, and Garfield, Miss Burr, and Messrs. Dembitz, Eckert, Jones, Miller, Weiner, Allen, Altmann, Flechsig, Pickering, and Trueblood of the Division of Research and Statistics

The representatives of the Division of Research and Statistics presented a review of business and financial developments at the conclusion of which they withdrew from the meeting along with Messrs. Thurston, Riefler, Thomas, and Molony and Mr. Nelson, Assistant Director, Division of Examinations, entered the room.

Consideration was given to a proposed letter to the Federal Reserve Bank of Richmond, which had been circulated to the members of the Board, relating to a suggested waiver of the requirement for an increase

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in the capital of the Randallstown Bank, Randallstown, Maryland, which was prescribed in connection with the establishment of a branch of that bank at Woodmoor in Baltimore County. At the time the branch was approved in 1954, the capital structure of the bank was to be increased \$50,000 prior to the opening of the branch and another \$50,000 within six months after the branch was established. The branch was established on December 12, 1955, and the bank now proposed, in lieu of providing the second \$50,000 of additional capital, to bring in \$225,000 of new money following a stockholders' meeting in January 1958. The Federal Reserve Bank of Richmond recommended acceptance of the proposal. However, the draft of letter to the Reserve Bank would state that after considering all available information relating to the condition of the bank and the reasons for postponing the sale of additional capital stock, the Board did not feel that it would be justified in consenting to a delay in increasing the bank's capital. The letter would request the Richmond Reserve Bank to advise the management of the Randallstown Bank to proceed promptly to comply with the condition prescribed in connection with the establishment of the branch.

When the file on the matter was in circulation to the members of the Board, Governor Shepardson affixed a note in which he questioned taking the proposed action without additional information, since it

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would go contrary to what seemed to him to be persuasive arguments presented by the Federal Reserve Bank of Richmond. Inasmuch as it appeared that the member bank actually needed \$175,000 of additional capital, he asked where the matter would stand if the Board only insisted on a capital increase of \$50,000.

After the facts of the case had been summarized, Governor Shep-ardson stated that if, as appeared from the information furnished by the Division of Examinations, the Randallstown Bank was now in need of additional capital in the amount of approximately \$175,000, there would seem to be a question as to the advisability of insisting upon the bank's providing \$50,000 of capital in fulfillment of its previous com-mitment, since this might lessen the possibility that the bank could be prevailed upon to provide the further amount of capital deemed to be desirable.

Governor Robertson commented that the attitude of the Randalls-town Bank was typical of banks in such a position, there being quite frequently a tendency to feel that some time in the future will be more propitious from the standpoint of raising additional capital funds. However, he said, it is impossible to predict what the situation may be in the future and ordinarily it is best to obtain capital at the earliest time that the sale can be accomplished. While \$50,000 of additional capital would not complete the job in this instance, the bank was

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obligated to supply that much and, in the circumstances, he doubted whether it would be advisable to release the bank from its commitment. In other words, he did not feel that the Board would be giving up anything by insisting that the bank comply with the previous commitment. The bank agreed, he pointed out, that it was in an undercapitalized position, and efforts should be made to encourage that idea. At the same time, he felt that the Board should be cautious in expressing itself as to the exact amount of capital needed because of the elements of judgment involved.

In a further discussion, Governor Shepardson suggested that the draft of letter to the Federal Reserve Bank of Richmond be strengthened so as to make it clear that further steps toward improvement of the member bank's capital position would be expected after the bank had complied with the condition imposed incident to the establishment of the Woodmoor branch.

Language having been submitted by Governor Robertson to meet the point raised by Governor Shepardson, unanimous approval was given to a letter to Mr. Armistead, Vice President of the Federal Reserve Bank of Richmond, reading as follows:

Reference is made to your letters of July 17 and August 2, 1956, relative to the waiver of the requirement for an increase in capital of the Randallstown Bank, Randallstown, Maryland, prescribed in connection with the establishment of a branch at Woodmoor. At the time this branch was approved in 1954, the capital structure of the bank was to be increased \$50,000

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prior to the opening of the branch, and \$50,000 within six months after the branch was established. The branch was established on December 12, 1955, and, in lieu of providing the latter \$50,000 of capital, the bank proposes to bring in \$225,000 of new money following the stockholders' meeting in January 1958.

For several years the capital structure of this bank has failed to keep pace with its growth in deposits and risk assets, and this situation has been called to the attention of the management by the supervisory authorities on numerous occasions. It was on the assumption that the capital structure of the bank would be improved that the establishment of a branch was approved, and it is apparent that the bank and the supervisory authorities agree that by reason of the expansion in the bank's business more capital is now needed than the amount prescribed by the Board in 1954.

After considering all of the information submitted relative to the condition of the bank and the reasons for postponing the sale of additional capital stock, the Board feels that it would not be justified in consenting to a delay in increasing the capital of the bank as proposed by the management. It is requested that you advise the management of this bank to proceed promptly to comply with the condition prescribed in connection with the establishment of this branch. Furthermore, the management should be informed that even this additional amount of capital will not adequately capitalize the institution even at this time, and, consequently, consideration should be given to further improvement of the capital position at an early date.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendations contained in memoranda from appropriate individuals concerned, Governor Robertson, as alternate to Governor Shepardson, approved the following items on behalf of the Board on August 16, 1956:

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Appointment

William J. Smith, Jr., as Economist in the Division of Research and Statistics, with basic salary at the rate of \$5,845 per annum, effective the date he assumes his duties.

Leave without pay

Cynthia C. Jester, Clerk-Typist in the Division of Examinations, for the period August 19 through September 1, 1956.

Helen L. Sweeney, Clerk in the Division of Administrative Services, for the period August 20 through December 31, 1956.

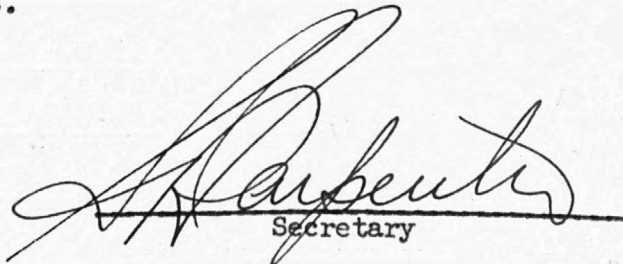
Acceptance of resignations

Philip M. Webster, Economist in the Division of Research and Statistics, effective August 30, 1956.

Madeleine Verdonck, Clerk-Stenographer in the Division of Personnel Administration, effective September 5, 1956.

Nellie G. Tobler, Elevator Operator in the Division of Administrative Services, effective October 4, 1956.

Pursuant to the recommendation contained in a memorandum dated August 14, 1956, from Mr. Bethea, Director, Division of Administrative Services, Governor Robertson approved on behalf of the Board on August 17, 1956, the appointment of Beverly K. McDaniel as Telegraph Operator in that Division, with basic salary at the rate of \$3,415 per annum, effective the date she assumes her duties.

  
Secretary