

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, April 19, 1945, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. Draper
Mr. Evans

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Thurston, Assistant to the Chairman

The action stated with respect to each of the matters herein-after referred to was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on April 18, 1945, were approved unanimously.

Memorandum dated April 13, 1945, from Mr. Paulger, Director of the Division of Examinations, recommending that, effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination, John C. Deskin be appointed on a temporary basis for an indefinite period as an Assistant Federal Reserve Examiner, with basic salary at the rate of \$2,300 per annum, and with official headquarters at Washington, D. C. The memorandum stated that Mr. Deskin would become a member of the Board's Retirement System.

By unanimous vote, Mr. John C. Deskin was appointed on a temporary basis for an indefinite period as an examiner to examine Federal Reserve

4/19/45

-2-

Banks, member banks of the Federal Reserve System, and corporations operating under the provisions of Sections 25 and 25(a) of the Federal Reserve Act, for all purposes of the Federal Reserve Act and of all other acts of Congress pertaining to examinations made by, for, or under the direction of the Board of Governors of the Federal Reserve System, and was designated as an Assistant Federal Reserve Examiner, with official headquarters at Washington, D. C., and with basic salary at the rate of \$2,300 per annum, all effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination.

Letter to Mr. Hill, Vice President of the Federal Reserve Bank of Philadelphia, reading as follows:

"In accordance with the request contained in your letter of April 14, 1945, the Board approves the appointment of Edward D. Kerns as an assistant examiner for the Federal Reserve Bank of Philadelphia. Please advise us of the date upon which the appointment becomes effective."

Approved unanimously.

Letter to Mr. Stewart, Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"The Board of Governors approves the changes in the personnel classification plan of the Little Rock Branch, involving increases in maximum annual salaries for eight positions as submitted with your letter of April 10, 1945."

Approved unanimously, together with a letter to the Commissioner of Internal Revenue, Salary Stabilization Unit, transmitting a certificate of the Federal Reserve Bank of St. Louis with respect to salary increases at the Little Rock Branch.

4/19/45

-3-

Letters to the "Sellersburg State Bank", Sellersburg, Indiana, and the "First State Bank of Uvalde, Texas", Uvalde, Texas, reading as follows:

"The Board is glad to learn that you have completed all arrangements for the admission of your bank to membership in the Federal Reserve System and takes pleasure in transmitting herewith a formal certificate of your membership.

"It will be appreciated if you will acknowledge receipt of this certificate."

Approved unanimously.

Letter to the Presidents of all the Federal Reserve Banks prepared in accordance with action taken at the meeting on April 13, 1945, reading as follows:

"In recent months there have come to the attention of the Board of Governors from several districts instances of borrowings by member banks from Federal Reserve Banks on Government securities as collateral, under circumstances which indicated that one of the purposes, if not the principal one, might be that of increasing 'borrowed capital' in order to lessen or avoid excess profits taxes. It may be observed in this connection that the regulations of the Bureau of Internal Revenue provide that 'Indebtedness included in borrowed capital must be bona fide. That is, it must be incurred for business reasons and not merely to increase the excess profits credit.'

"Illustrations of the kind of transaction that raised the question have been presented by reports that member banks had discounted with Reserve Banks their notes for very large amounts secured by short-term Government obligations currently purchased in the open market. Aside from any profit due to the difference between the discount rate and the yield upon the securities used as collateral, it was apparently thought that the amounts borrowed would enable the borrowing banks in their income tax returns to set up average indebtedness that would be sufficient to produce some savings in, or to eliminate entirely, excess

4/19/45

-4-

"profits taxes which otherwise would be applicable.

"While the practice mentioned above appears to be in its infancy, it has the possibility of further growth as member banks approach from an earning standpoint the exposure to the excess profits tax. The Board of Governors, in bringing this matter to your attention, suggests that you arrange to review any unusual application for discount facilities and ascertain before granting the discount whether the reasons for such application are consistent with the proper needs of the bank for replenishing reserves. The application may come after the applicant bank has purchased or committed itself to purchase new securities. Under such circumstances, you may feel that it is advisable to grant the accommodation temporarily in order to avoid undue embarrassment to the applicant bank. If so, a maturity date should be fixed which will allow the applicant only sufficient time to liquidate the purchases in an orderly manner."

Approved unanimously.

Letter to Mr. Davis, Vice President of the Federal Reserve Bank of Philadelphia, reading as follows:

"Your letter of April 12, 1945, explaining the loss of \$212.25 charged to profit and loss on a loan under Section 13b, has been brought to the attention of the Board. It is noted that the settlement resulting in this loss was approved by your board of directors under date of April 6, 1945."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

W. S. ...

Chairman.