



**FIRST BANK & TRUST COMPANY
OF SOUTH BEND**

South Bend, Indiana

November 26, 1947

TRUST DEPARTMENT

R. FLOYD SEARER
Vice President and Trust Officer

MURRAY C. TRESPCOTT
Vice President

LEO R. BOYLE
Assistant Trust Officer

LAURENCE J. DENNERT
Assistant Trust Officer

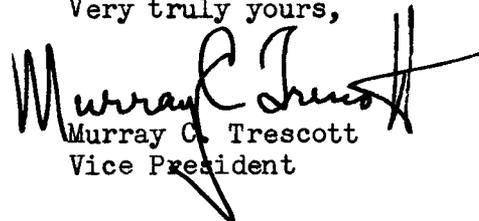
Mr. Marriner S. Eccles, Chairman
Federal Reserve Board
Washington 25, D. C.

Dear Mr. Eccles:

A letter the same as that attached has been directed to Mr. C. S. Young, President, Federal Reserve Bank of Chicago, and we have taken the liberty to address you in this matter as we believe our case may be somewhat typical of commercial banks throughout the country. It is also possible that the thinking as well as the fears as outlined in the attached inquiry may be typical of that of similar bank managements today.

I might add that in recent weeks we have been on the verge of selling some medium and longer term bonds which we purchased some time ago for income. Your candid opinion would be very much appreciated.

Very truly yours,


Murray C. Trescott
Vice President

MCT:njs

December 4, 1947.

Mr. Murray C. Trescott, Vice President,
First Bank & Trust Company of South Bend,
South Bend, Indiana.

Dear Mr. Trescott:

I have your letters of November 26 with regard to the investment policies of your institution. You will appreciate, I am sure, that I could not undertake to offer advice as to the risk position of a bank, for apart from the impossibility of doing so in one case without being obligated to do so in others, it would require more time for analysis than I could give to the matter and would involve an obligation on my part that I feel no one in my position should assume.

As to my present thinking and convictions with respect to long-term Government bonds, I would suggest that you note the marked portion of the enclosed copy of the statement I presented before the Joint Committee on the Economic Report on November 25.

Sincerely yours,

M. S. Eccles,
Chairman.

Enclosure

ET:b



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Mr. Marriner S. Eccles, Chairman
Federal Reserve Board
Washington 25, D. C.

Dear Mr. Eccles:

There is attached schedule of our U. S. Treasury holdings as of October 31, 1947. It will be noted our maturity schedule is broken down into a 1-to-3-year group, a 4-through-10-year group and an over-10-year group. This bank has followed this formula for a number of years and, as shown at the bottom of the page, the formula calls for 40% of the bond account maturing under 3 years; 30% 4 through 10 years; and 30% over 10 years. It will be further noted that the present actual breakdown is 57% under 3 years; 28% 4 through 10 years; and 15% over 10 years.

We have purposely followed a more conservative maturity programing since the end of the war for two reasons: (1) to take care of our loan demand which has grown substantially and (2) to be purposely heavy in short maturities during this period when it is logical to expect some transition in money market rates.

There has been a rather rapid adjustment in U. S. Government Bond prices, especially in the medium and longer term maturities in recent weeks, by virtue of which the question has been raised with our management as to the advisability of maintaining as many medium and longer term bonds as we presently hold. With respect to the longer term bonds, it was decided in 1944 to invest approximately 50% of the savings of the bank in longer term Governments to hold for income. Our savings deposits are now in the neighborhood of \$11,700,000. Thus, you will see we have only 30% of our savings deposits invested in long-term bonds. In June of 1947 when the cash needs of the bank increased as a result of additional loan demand, we did bring about some adjustment in the medium and long-term group by the sale of \$500,000 U. S. Treasury 2½'s of 12-15-72/67 and \$1,000,000 U. S. Treasury 2's of 9-15-53/51. We mention this to point out our medium and long-term holdings have been reduced some in the last six months.

During 1946, income from the bank's investment account constituted 46.25% of the bank's total gross income, and for the first ten months of 1947, investment income has amounted to 33.30% of total gross income. This decline in the contribution of investment income to the total income is the result of a decline in total holdings of U. S. Treasury obligations and a substantial increase in loans.

Mr. Marriner S. Eccles

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November 26, 1947

It has been our feeling our maturity arrangement is well on the conservative side and that it is so constituted as to adequately meet our foreseeable cash needs, as well as to continue to be an important source of bank revenue. It also has been our belief that the risk position insofar as medium and longer term Treasury Bonds are concerned is not too great a risk to assume. However, the decline in medium and longer term Governments in the last few weeks has again raised questions in the minds of some as to whether or not longer term Governments will break through par, in which case they might go further.

With the foregoing background to our situation, it would be of considerable interest and help to us to have your thinking as to (1) whether of not you believe we are in too large a risk position for our bank, (2) if so, what suggestions would you make for its correction without too great a loss of investment income, and (3) what is your present thinking (and convictions) as to whether or not the long-term Treasuries will be allowed to drop below par. Our assumption is that should long-term Governments for any reason be allowed to break through par, it would only be a matter of time before the medium-term maturities might also follow suit, thereby bringing about even greater depreciation.

There also is enclosed copy of our June 30, 1947 statement. Total deposits are now about \$50,000,000 and total loans in the neighborhood of \$18,900,000.

Very truly yours,



Murray C. Trescott
Vice President

MCT:gl
Enclosures

U.S. GOVERNMENT BOND INVESTMENT ACCOUNT

OCTOBER 31, 1947

Amount 1-3 Yrs.	ISSUE	Cost	Gross Yield @ Cost	Market 10-31-47	Approx. Annual Income
500M	Treas. 7/8 12-1-47	100.02	.84	100.	4,200.
10M	Svgs. Ser. C 12-1-47	75.	2.90	98.	400.
1,500M	Treas. 7/8 1-1-48	100.02	.84	100.	12,600.
10M	Svgs. Ser. C 1-1-48	75.	2.90	98.	400.
1,500M	Treas. 7/8 2-1-48	100.03	.80	100.	12,000.
2,000M	" 1 1/4 6-15-48	100.41	1.27	100.16	25,400.
62M	" 7/8 7-1-48	100.	.875	100.	542.50
2,000M	" 1 1/2 9-15-48	100.4	1.46	100.16	29,200.
2,750M	" 1 10-1-48	100.	1.00	100.	27,500.
10M	Svgs. Ser. D. 1-1-49	75.	2.90	93.	400.
400M	Treas. 2 9-15-51/49	100.	2.00	101.12	8,000.
100M	" 3-1/8 12-15-52/49*	110.27	1.60	104.12	1,699.
200M	" 2 1/2 12-15-53/49*	106.14	1.60	103.	3,186.
10M	Svgs. Ser. D 1-1-50	75.	2.90	89.	200.
1,500M	Treas. 2 3-15-52/50	100.29	1.84	101.16	27,704.
300M	" 2 1/2 9-15-52/50*	107.17	1.31	104.	4,132.
1,000M	" 2 9-15-52/50	100.	2.00	101.22	20,000.
<u>13,852M</u>	Par Value Costing	\$14,926,397.91	yielding approx.	1.28%	177,563.50

4-10 Yrs.					
1,500M	Treas. 1 1/2 12-15-50	101.4	1.25	100.16	18,750.
300M	" 2 3/4 6-15-54/51*	108.19	1.72	105.20	5,409.
1,300M	" 2 9-15-53/51	100.	2.00	101.30	26,000.
1,200M	" 2 6-15-54/52	103.31	1.34	102.3	16,100.
1,000M	" 2 12-15-54/52	100.	2.00	102.8	20,000.
300M	" 2 6-15-55/53*	102.11	1.77	104.22	5,424.
300M	" 2 1/4 6-15-56/54*	104.15	1.85	106.24	5,711.
56M	" Dep. 2 9-15-55	100.	2.00	100.	1,120.
300M	" 2 1/2 3-15-58/56	102.7	2.30	106.4	7,004.
300M	" 2 3/4 9-15-59/56*	109.25	1.99	111.16	6,292.
200M	" 2 1/4 9-15-59/56	100.	2.25	104.16	4,500.
10M	" Dep. 2 7-1-57	100.	2.00	100.	200.
<u>6,766M</u>	Par Value Costing	\$6,912,625.00	yielding approx.	1.69%	116,510.

Over 10 Yrs.					
1,000M	Treas. 2 3/4 12-15-65/60*	112.26	1.81	113.24	19,347.20
500M	" 2 3/4 3-15-71/66	100.	2.50	102.16	12,500.
2,000M	" 2 1/2 9-15-72/67	100.15	2.47	105.8	49,575.
<u>3,500M</u>	Par Value costing	\$3,637,968.75	yielding approx.	2.24%	81,422.20

24,118M Par Value costing \$24,476,991.66 yielding approx. 1.53%
on the whole account. 375,495.70

*Partially tax exempt issues. Maturity schedule computed to option date.

	Program	Present Account	Per Cent	Difference
40% under 3 years	9,648M	13,852M	57%	4,204M (Over)
30% 4 thru 10 years	7,235M	6,766M	28%	469M (Under)
30% over 10 years	7,235M	3,500M	15%	3,735M (Under)
	<u>24,118M</u>	<u>24,118M</u>	<u>100%</u>	<u>-0-</u>