

AMERICAN TRUST COMPANY

SAN FRANCISCO, CALIFORNIA

20

JAMES K. LOCHEAD
PRESIDENT

January 31, 1944

Mr. Marriner S. Eccles
Chairman, Board of Governors
Federal Reserve System
Washington, D. C.

Dear Marriner -

I am enclosing a copy of the annual report
which was read at our stockholders' meeting.
It contains more information of a confidential
nature than we publish in the printed report
and I thought you would like to have a copy
for your files.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Jim", written in dark ink.

January 11, 1944

TO THE STOCKHOLDERS OF AMERICAN TRUST COMPANY:

It is my pleasure each year to make a report to you on the activities of American Trust Company for the preceding twelve months and to point out the significant changes which have taken place in the condition of the bank. The report, submitted herewith, shows that the bank had a greater growth during 1943 than in any previous year. Deposits have increased by approximately \$164,000,000. Loans increased in excess of \$2,000,000. Our United States Government Bond portfolio rose from \$141,228,042 to \$291,989,564, an increase of \$150,761,522. The abnormal increase in deposits has been offset to a substantial degree by the increase in our Government Bond portfolio in which a high degree of liquidity is being maintained.

Earnings from operations after depreciation, taxes, bond amortization and all other charges were \$2,718,830, an increase of \$585,633 over the preceding year. Other income represented by non-operating and non-recurring items and exclusive of recoveries was \$175,383, an increase of \$16,417. Total net earnings were \$2,894,214, an increase of \$602,050 over 1942.

Out of the earnings \$900,000 have been paid in dividends, \$1,000,000 added to Undivided Profits and \$994,214 added to various reserves. On December 9, 1943, the Board of Directors approved the transfer of \$3,000,000 to Surplus from Undivided Profits, bringing the Surplus account up to \$7,000,000.

We are continuing our program of giving full cooperation to the Treasury Department in the sale of Government securities. Since May 1, 1941, when the campaigns were first inaugurated, we have sold approximately \$130,000,000 maturity value of war bonds, tax notes and stamps. To further cooperate in the war effort we have extended special banking services for war workers in many of our offices and at the request of the Army and Navy authorities have already established or are about to establish banking facilities in a number of posts within the area which we now serve. In addition to these activities we are engaged in ration coupon banking which has assumed substantial proportions, and along with the other banks are acting as agent for the Treasury Department in connection with the tax withholding program.

It is with deep regret that we report the loss of two Directors during the year, one through death and the other through resignation. Mr. J. M. Mannon, Jr., who had been a Director for several years, passed away March 9, 1943. Mr. Roger D. Lapham, a Director since 1929, who recently was elected Mayor of the City and County of San Francisco, tendered his resignation as he deemed it to the best interests of all concerned to detach himself from all business activities during his term of public office. Two new Directors, Mr. Leonard C. Hammond, President of Hammond Lumber Company, and Mr. Kenneth K. Bechtel, Vice President of W. A. Bechtel Company, were elected during the year.

As of December 31, 1943, 361 members of our staff had joined the armed forces. Of these, four have lost their lives in the service of their country.

Again I wish to express to the directors, officers and staff members my deep appreciation for the splendid cooperation they have given during the past year.

JAMES K. LOCHEAD

President

AMERICAN TRUST COMPANY

STATEMENT OF CONDITION

At the close of business

DECEMBER 31, 1943

RESOURCES

Cash on Hand and in Banks	\$ 133,818,611.33
United States Government Bonds and Notes	291,989,564.14
State, County, and Municipal Bonds	27,701,018.93
Other Bonds and Securities	18,131,845.61
Stock in Federal Reserve Bank	570,000.00
Loans and Discounts	166,904,181.44
Bank Premises and Equipment	5,681,278.38
Other Real Estate	40,577.40
Customers' Liability under Letters of Credit and Acceptances	4,847,905.48
Accrued Interest Receivable and Other Assets	1,876,182.76
Total Resources	\$ 651,561,165.47

LIABILITIES

Deposits	\$ 618,252,423.30
Letters of Credit and Acceptances	4,905,908.44
Reserve for Interest, Taxes, etc.	2,021,259.56
Capital Stock	
Preferred	\$ 7,500,000.00
Common	<u>7,500,000.00</u>
Surplus	15,000,000.00
Undivided Profits	7,000,000.00
	4,381,574.17
Total Liabilities	\$ 651,561,165.47

United States Government and other securities carried at \$82,917,108.01 are pledged to secure U. S. Government War Loan Deposits of \$38,763,486.72 and other public funds and trust deposits, and for other purposes as required or permitted by law.

REPORT OF EARNINGS FOR THE YEAR ENDED DECEMBER 31, 1943

Operating Income after amortization of premium on securities	\$12,131,012.35
---	-----------------

Operating Expense, including provision for income and franchise taxes payable in 1944 and depreciation on bank premises and equipment	9,412,181.44
	<hr/>

Net Operating Income	\$ 2,718,830.91
----------------------	-----------------

Other Income, including profit on sale of investments and miscellaneous recoveries all of which are non-recurring in nature	175,383.24
	<hr/>

TOTAL EARNINGS	\$ 2,894,214.15
	<hr/> <hr/>

Compared with 1942:

	<u>1942</u>	<u>1943</u>
Net Operating Income	\$ 2,133,197.24	\$ 2,718,830.91
Other Income	158,965.99	175,383.24
	<hr/>	<hr/>
TOTAL EARNINGS	\$ 2,292,163.23	\$ 2,894,214.15
	<hr/> <hr/>	<hr/> <hr/>

DISPOSITION OF TOTAL EARNINGS \$2,894,214.15

1. DIVIDENDS PAID

Preferred stock	\$300,000.00	
Common stock	600,000.00	\$ 900,000.00

2. ADDED TO UNDIVIDED PROFITS \$1,000,000.00

3. ADDED TO THE FOLLOWING RESERVES

Valuation Reserves:

Savings loans	\$233,929.87	
Monthly payment loans	1,630.29	
Other real estate	10,000.00	
Depreciation on securities	347,947.00	\$ 593,507.16

Other Reserves:

Bank premises	\$235,506.61	
Foreign Department losses	50,000.00	
Trust Department losses	15,200.38	
Reserve for salaries	100,000.00	<u>\$ 400,706.99</u>

TOTAL DISTRIBUTED EARNINGS \$2,894,214.15

STATUS OF RESERVES

Aside from \$593,507.16 added to valuation reserves from current earnings, recoveries amounting to \$335,849.08 were credited directly to these reserves and, therefore, not included in income. This represents a change in accounting procedure since in previous years recoveries were credited to "Other Income." Total additions to valuation reserves from both sources amounted to \$929,356.24. During the year losses and write-downs aggregating \$591,007.07 were charged against these reserves. Of this amount, \$300,000.00 represents the write-down to \$1.00 of the office building and other real estate acquired in connection with the purchase of the First National Bank of Stockton. A substantial portion of the remaining write-downs resulted from the policy of carrying non-bankable assets at \$1.00 even though satisfactory future recoveries are indicated.

Total valuation reserves as of December 31, 1943 were in excess of \$5,800,000 and are being maintained against possible post-war adjustments. These reserves do not appear on the published statement of condition as they are deducted from the respective resources against which the reserves are carried.

During the year reserves were accrued from earnings, sufficient, in our opinion, to cover all taxes payable in 1944 predicated on 1943 earnings and present tax laws.

INCOME AND EXPENSE

Total operating income for the year 1943 amounted to \$12,131,012.35, representing an increase of \$1,137,906.83 over 1942.

Interest and discount increased \$789,129.74. The major portion of this increase was accounted for by our enlarged portfolio of bonds and securities and a slight increase in Commercial loans. These two items were more than sufficient to offset the decrease which took place in interest on Real Estate and Monthly Payment loans.

Banking service income increased \$262,743.29. This increased income was due to increased use of various banking services, including special checking accounts. Fees received for the handling of ration banking accounts during 1943 totaled \$26,156.27. Safe deposit rentals increased \$63,984.62 over 1942 while trust department fees and bank premises income both showed increases.

During the same period, total operating expense increased \$552,273.16. Of this increase, \$482,234.09 was in salaries and overtime due to increased banking activity and the longer work week. Taxes paid or accrued increased \$315,539.89.

BANK PREMISES

On June 30 the account "Bank Premises and Equipment" was reduced by \$230,043 through the writing down to \$1.00 of all improvements and fixtures on leased properties. On September 30, when the business of The First National Bank of Stockton was taken over, we acquired a very valuable office building containing banking quarters at a net cost of \$242,000. This property was written down to \$1.00 and taken into the Bank Premises and Equipment account. This, together with the writing off of the leasehold improvements, represents in effect a reduction in the carrying value of our land, buildings and equipment of \$472,000.

It is the opinion of the management that this reduction, plus the \$1,000,000 written off in 1941 and the regular depreciation charges, places our Bank Premises and Equipment account on a very conservative basis.

Because of war conditions it has not been possible to maintain our usual standard of upkeep for bank premises and equipment. To meet this condition we are setting up out of earnings \$15,000 each month in a special reserve account. This accumulation, together with other funds which from time to time have been placed in this reserve, amounted to approximately \$385,000 at the end of the year.

COMMERCIAL LOANS

Total commercial loans and discounts at the close of the year, amounting to \$67,237,622.13, showed an increase since the first of the year of \$8,772,902.78.

Installment loans in the Monthly Payment Loan Department showed a further decline as is shown in the paragraph under Monthly Payment Loans, while loans to finance industry and agricultural production for war purposes were in good demand and accounted for most of the increase.

As of December 31, 1943, our commitments outstanding, partially supported by Government guarantees under provisions of Regulation "V", amounted to \$18,723,000.00. Total borrowings under these commitments amount to \$6,762,205.00. With the peak needs of the Government having been met, we do not look for a further expansion in this type of credit.

Classification of Commercial Loans

Loans unsecured	\$ 43,686,646.41
Loans on collateral	15,286,642.65
Loans on installment plan	5,941,528.87
Bills of exchange and Acceptances discounted	2,322,804.20
	<hr/>
Total	\$ 67,237,622.13

REAL ESTATE LOANS

Real estate loan activity has been curtailed during the past year, with the exception of war housing, due to the restriction on civilian home construction. In addition, competition for real estate loans has been very keen and higher income and wages have increased the rapidity of payoff on existing loans, resulting in a decrease in our portfolio from \$109,945,000 to \$103,800,000. During the year payments made on loans totaled \$24,600,000. This was offset to the extent of \$18,500,000 by new loans made, making a net decrease of \$6,100,000.

Real estate loan classification is as follows:

	1942	1943
City	\$105,979,000	\$100,700,000
Farm	3,068,000	2,600,000
Unimproved	<u>898,000</u>	<u>500,000</u>
	\$109,945,000	\$103,800,000

The number of real estate loan borrowers decreased from 30,904 to 29,219. \$94,975,572, or approximately 89% of our loans are below \$10,000 in amount while \$72,050,597, or 68% are below \$5,000 in amount. Our average loan stands at \$3,630.00. We have but nine loans over \$100,000 with a ledger balance of \$1,190,786. Approximately 75% of our loans are insured under the provisions of the National Housing Act.

Our collection record has continued to improve and there are but \$650,000 in loans delinquent ninety days or more as compared to \$1,450,000 one year ago. Favorable conditions in this respect have resulted in only six foreclosures where the Bank has taken title to the property compared to twelve for 1942.

Elsewhere in this report is a table showing the classification of all real estate loans by size.

OTHER REAL ESTATE

The book value of Other Real Estate as of December 31, 1943 was \$72,988.44 consisting of:

8 pieces of city property	\$ 8.00
2 pieces of country property	<u>72,980.44</u>
	\$72,988.44

Against these properties there is a reserve of \$32,411.04, leaving a net balance of \$40,577.40, as shown on our published statement.

MONTHLY PAYMENT LOANS

The lack of consumer goods and the continued effect of the operation of Regulation W on Consumer Credit is reflected in a further decline in loans in the Monthly Payment Loan Department.

As of December 31, 1943, total monthly payment loans outstanding on our books were \$5,949,970 as compared with \$9,480,541 on December 31, 1942.

Since 1934, when the department was established, we have made \$101,078,393 of loans from which we have taken gross earnings of \$6,690,126 with net losses of \$88,450.

During 1943 losses of \$16,680 were charged against reserves previously provided and \$22,341 of soldiers and sailors loans were written down to \$1.00. Recoveries during the year on loans other than soldiers and sailors were \$13,519 and on the latter \$20,821. At the end of the year these amounts were restored to maintain the reserve at \$1,000,000.00.

It is expected that the volume of loans in the post-war period will substantially exceed the high point of \$18,000,000.00 outstanding in 1941 before the production of consumer goods was curtailed.

INVESTMENT ACCOUNT

The securities in our investment portfolio have increased approximately \$146,000,000 during the year and now total \$340,000,000. This figure includes \$291,000,000 in United States Government securities as compared to \$141,000,000 on December 31, 1942.

The appraisal of our investments on December 31, 1943 indicates a total market value of \$341,952,025.68 as compared with a book value of \$340,392,428.68, or an appreciation of \$1,559,597.00. The total of the appreciation and the \$2,000,000 reserve for losses on securities afford us a protection of \$3,559,597 against market decline.

The maturity calendar of the bond account as of December 31, 1943, is as follows:

<u>Maturity</u>	<u>Par Value</u>	<u>Percent of Total</u>	
		<u>For Year</u>	<u>Cumulative</u>
1944	\$143,642,900	43.05	43.05
1945	47,758,880	14.32	57.37
1946	30,042,325	9.00	66.37
1947	59,108,500	17.71	84.08
1948	39,317,500	11.78	95.86
1949	9,683,000	2.90	98.76
1950	268,000	.09	98.85
1951 *	3,839,500 *	1.15	100.00
	<hr/>		
	\$333,660,605	100.00	
	<hr/>		

* 1951 and subsequent

X | Bonds maturing within a five year period total \$319,870,000, or 95.86% as of December 31, 1943, as compared to \$174,034,000, or 91.60% at the end of 1942.

There are included in the \$3,839,500 par value of bonds maturing in 1951 and subsequent, \$2,269,000 United States 2% Depositary Bonds. These bonds are redeemable at our option at any time upon thirty days' notice and can accordingly be considered as short term securities.

* bond 1/1/21 =

Our portfolio of \$18,131,845 of Other Bonds and Securities as shown on the statement includes \$11,586,000 par value of obligations of Federal Land Banks, Federal Intermediate Credit Banks, Federal Home Loan Banks and United States Housing Authorities. While these bonds are not guaranteed by the United States Government, they are the obligations of instrumentalities of the Government.

Of the \$27,701,000 state, county and municipal bonds, \$22,106,000 are the obligations of California municipalities and the balance are out of state bonds.

The net income from securities owned at December 31, 1943 afforded a yield of 1.049% on the total amount invested.

TRUST DEPARTMENT

For 1943, the Trust Department's gross earnings were \$384,820, which exceeded the 1942 gross earnings by \$11,997 despite the inclusion in the 1942 figure of a single non-recurrent item of approximately \$30,000. 1943 expenses were \$290,238 which represented an increase in expense for the year of \$38,172. Of this increase, payroll and social security taxes accounted for \$37,779. The totals of these expense items were \$200,396 and \$237,176 for 1942 and 1943 respectively.

The net operating earnings for 1943 were \$94,581 which fell short of the corresponding figure for 1942 by \$26,177.

During 1943 we qualified as executor or administrator in 61 new estates, and opened 144 new trusts, guardianships, agency, custody and depository accounts. New Corporate Trust business continued at low ebb, and we were appointed trustee under only one new bond issue during the year.

EXTENSION OF BANKING SERVICE

While there has been no change in our policy regarding the expansion of our branch system, we believed it advisable to purchase the assets and assume the deposit liabilities of The First National Bank of Stockton, especially in view of the fact that our branch in Stockton was comparatively small and occupied quarters not so desirable as those of The First National Bank of Stockton. The transaction was consummated September 1, 1943.

This bank, established some seventy years ago, was one of the most substantial in the Central Valley region. Its fine background and reputation, with their many ramifications, have added considerably to our prestige in the territory which it serves.

The bank occupied quarters in a very fine business property owned by The First National Building Corporation, the controlling interest in which was held by the bank and its largest stockholders. In consummating the transaction we agreed to purchase the controlling stock on a basis of a valuation of \$270,000 and made a similar offer to the minority stockholders, all of whom accepted. As of December 31, 1943, the Building Company was liquidated and the properties taken onto the books of American Trust Company into the Bank Premises and Equipment account. At the same time these properties were written down to \$1.00 as has been explained heretofore under the paragraph on bank premises.

The unusual need for banking service in certain of the military posts has resulted in our establishing banking facilities at the Presidio of San Francisco and at Camp Knight in Oakland. These facilities have been opened at the request of the War and Navy Departments and authorized by the Treasury Department, with the understanding that they may be terminated at any time when, as and if banking service is no longer required. The service performed at these locations is restricted almost entirely to the deposit side of banking, such as cashing checks, accepting deposits, issuing money orders and the sale of travelers checks. We plan to open additional facilities in the very near future.

SPECIAL CHECKING ACCOUNTS

Last year we reported the inauguration of a new service to customers known as "Special Checking Accounts," developed to meet the need of individuals who have restricted use for the normal checking account. In this account no minimum balance is required but checks are sold to customers on the basis of \$1.00 for a book of ten checks.

Through the active efforts of our staff in acquainting the public with the advantages of this type of service, these accounts now number 38,675, an increase of 22,000 for the year.

PERSONNEL

Total number of employees December 31, 1942	1,664	
Employed during 1943, including 18 from The First National Bank of Stockton	948	
Total number resigned from the bank to move to other communities, accept other employment, and for other reasons	899	
Number of persons granted leaves of absence to enter the armed services	67	
Number of persons returned to civilian life from military service, of whom 10 returned to the bank	16	
Number of employees placed on pension during 1943	3	
Total number of employees December 31, 1943	1,695	
Women	62.5%	1,060
Men	37.5%	635

Our Training School continued active, having registered 228 persons for bookkeeping or teller training. Of those trained, 119 were still in the employment of the bank December 31. We also accepted three employees of correspondent banks for limited periods of bookkeeping training.

During the year Harry B. Gordon, James E. Hall and Seth Harvey were retired on pension.

We regret to report the death of:

J. L. Bertrane
G. L. Brown
L. H. Owbridge
Paul L. Scheer
Mrs. Anita Schwarzenbeck
A. J. Unsworth

P. S. Carlton - Pensioner
E. H. Masket - Pensioner

Robert Davidson, Frederick Palmer and Leonard Taix, who were serving in the armed forces, have been reported killed in action.

In September we issued the first number of our new house organ carrying the title RECAP. A second number appeared in December. Copies were sent to the men in the service and the uniform approval which it has elicited indicates that the paper has a definite and valuable place in our organization.

The declaration of a bonus to employees in December also included a bonus to employees on military leave. Their deep appreciation is expressed in the many letters which we are receiving.

On May 24, 1943, San Francisco Bay Area was placed on a Wartime Workweek and on November 1, 1943, the Minimum Wartime Workweek established for banks was 44 hours. We are wholeheartedly complying with the terms of the order and the Wartime Workweek has been placed in effect throughout the branches in the area subject to the order.

Total salaries paid during 1943 were \$3,905,359.67 compared with \$3,513,927.77 in 1942, an increase of \$391,431.90.

Overtime compensation paid for hours worked in excess of 40 rose from \$110,732.92 in 1942 to \$201,535.11 in 1943. Three factors account for this increase:

Supervisory personnel granted overtime pursuant to approval of the Salary Stabilization Unit of the Treasury Department beginning July 8, 1943.

Credit for holidays in computing overtime was inaugurated October 11, 1943.

The 44 hour workweek became effective November 1, 1943.

GROUP INSURANCE

Health insurance	267 claims	\$24,897.62
Weekly indemnity	195 "	13,511.17
Hospitalization	106 "	3,995.00
Surgical	123 "	4,829.50
Special benefits	142 "	2,561.95

Six life insurance death claims were collected aggregating \$36,250.00.

GENERAL STATISTICS

	<u>December 31, 1943</u>	<u>December 31, 1942</u>
Commercial Deposits	\$384,304,000	\$264,974,000
Savings Deposits	<u>233,948,000</u>	<u>189,774,000</u>
TOTAL DEPOSITS	\$618,252,000	\$454,748,000
Commercial Loans	\$ 64,796,000	\$ 56,190,000
Real Estate Loans	<u>102,108,000</u>	<u>108,222,000</u>
TOTAL LOANS	\$166,904,000	\$164,412,000
Bonds and Securities	\$338,392,000	\$192,219,000
Cash and Due From Banks	\$133,819,000	\$117,283,000
Number of Commercial Accounts	93,619	85,027
Number of Special Checking Accounts	38,675	15,918
Number of Savings Accounts	276,133	249,967
Number of Rented Safe Deposit Boxes	60,355	47,557

CLASSIFICATION OF REAL ESTATE LOANS BY SIZE

<u>Size</u>	<u>Number of Loans</u>			<u>Amount of Loans</u>		
	<u>1941</u>	<u>1942</u>	<u>1943</u>	<u>1941</u>	<u>1942</u>	<u>1943</u>
Under \$2,500.00	10,435	9,961	8,689	\$ 14,641,208	\$ 14,347,019	\$ 12,676,364
\$ 2,500 - 4,999	14,310	16,281	16,004	51,823,226	60,594,720	59,374,233
\$ 5,000 - 9,999	4,365	4,027	3,862	26,490,219	24,120,493	22,924,975
\$ 10,000 - 29,999	673	537	521	10,245,831	8,137,238	7,746,220
\$ 30,000 - 99,999	110	86	71	5,057,354	4,067,887	3,149,674
\$100,000 - and over	16	12	9	2,346,504	1,716,291	1,190,786
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
TOTALS	29,909	30,904	29,156	\$110,604,342	\$112,983,650	\$107,062,252
Less Loan Commitments				3,014,610	2,677,777	2,778,843
				<hr/>	<hr/>	<hr/>
NET TOTAL LOANS				\$107,589,732	\$110,305,873	\$104,283,409*

* As of December 18, 1943

February 16, 1944

Mr. James K. Lochead, President,
American Trust Company,
San Francisco 20, California.

Dear Jim:

This will acknowledge yours of January 31 with which you enclosed a copy of your annual report to your stockholders. I note the continued growth of your bank and the very conservative financial policy which you have pursued. In fact, if I were to make any comment at all by way of suggestion, it would be that you are unduly conservative in your investment policy. Thus, of the total of 333 million odd of investment securities, only \$3,839,500 mature in 1951 and subsequent years. Real estate loans total \$103,800,000 so that the total of earning assets of a character appropriate for the investment of savings deposits is less than 50 per cent of total savings deposits which aggregate 233 million odd. You state that the net income from securities owned is 1.049 per cent, which would appear to be an unduly low yield for an institution in which 40 per cent of its deposits are savings.

I do not quite understand why you follow the policy of avoiding any of the longer maturities in U. S. Governments. A part of your report states that of the \$3,839,500 par value of bonds maturing in 1951 and subsequent, \$2,269,000 are U. S. two per cent depositary bonds which are redeemable at any time upon thirty days' notice, and, as you state, "can accordingly be considered as short term securities". In reality, therefore, you have slightly over \$1,500,000 of securities with an effective maturity beyond six years.

I have always felt it consistent for savings deposits to be largely invested in long term U. S. securities, whether these savings were in a commercial bank, a mutual savings bank, or in life insurance reserves. There is now more justification for such a policy than ever before. As you know, the Federal Reserve authorities and the Treasury have announced and are pursuing the policy of supporting the market for Government securities in such a manner as to prevent substantial fluctuations. There is little reason to expect a change in this policy in the postwar period. Furthermore, the Federal Reserve Banks stand ready at all times to lend par on Government

Mr. James K. Lohead

-2-

securities regardless of maturity. However, if for any reason the market for Government securities should decline substantially, the uniform examination policy pursued by the three Federal banking agencies will not require charging off the amount of such a decline as was the requirement at the end of World War I. As you know, investment securities of the first four grades may be carried at cost value, less proper amortization of any premium. In view of these considerations, your investment policy of keeping over 95 per cent of your securities within a five year maturity, with approximately 50 per cent of the portfolio maturing in one year, would seem to be unnecessarily cautious, with a resultant restriction upon potential earnings.

With best wishes, I am,

Sincerely yours,



M. S. Eccles,
Chairman.

LC/mg

