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Your Key to Profits: Farm Credit Analysis

If you share the responsibility for the profitability of your bank, you will be interested in the following comments made by Dan Harrington, president, First National Bank, Plainview, Minnesota, at the Midwest Banking Institute last week. The Institute is sponsored by the Minnesota, South Dakota and North Dakota Bankers Associations.

Over the years, the after tax earnings of your bank should have a relationship to your capital funds at least equal to the average of alternative investments to justify the shareholder retention of their stock. If top management doesn't believe this, my guess would be that the stock in your bank will be a poor future investment and that the community would be better off to have a bank with management who really believed in dynamic growth of both the bank and his community. Is your bank run for the benefit of one man or his family, or is it run for the shareholder, the employee, the customer, and the community as a whole? I believe that the long-run profitability of your bank will be better if each of those segments are seriously considered in the policies instituted.

What might be the ingredients for this profitability mentioned.

All segments of our economy seem to find it increasingly necessary to expand their volume to maintain profitability. Certainly, in our business we need deposits,



the raw materials of our trade, with which to make loans and investments. In general, I am sure you will study in the next days that a farmer becomes more efficient by doing more volume per work unit—so must we as bankers. As a general statement, the more deposit and loan volume each employee handles, the better chance for profitability.

It seems that dollars of deposits per employee is a very rough guide of profit in most instances. If we need large volumes of deposits efficiently handled, how do we as an individual bank do this? Many believe the biggest possible source of deposit development, both demand

and time, is an aggressive, well-conceived, loan policy. Deposit policies, deposit services rendered, rates paid on deposits, are probably very little different in your bank than those of your neighbor. Perhaps your chance for expanding your deposit volume is to attract new customers both within and without your present banking territory by this aggressive, well-conceived, lending program. Isn't there a chance that this borrower who you may have really helped yesterday as a challenging loan applicant will become a big depositor in retirement years hence? Is there a chance that today the young challenging loan applicant may sell his father and mother, his father-in-law and mother-in-law, his uncles and friends, who might have money to invest, into becoming substantial depositors in your bank? Isn't there a chance that years hence this yesterday borrower may become the depositor whose deposits you may lend to the son or grandson of this man? You would have had neither deposit nor loan without the original challenging loan application.

When you get home, it may be interesting to check the number of time depositors and their dollar totals with addresses other than your local one. In our case, over 50% of both time money depositors

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and dollars in time deposits have other than a Plainview address. I very immodestly believe that our lending program has been responsible. Frankly, no other deposit development program comes even a close second to this, in my opinion.

What about these loans? The purchased FHA mortgages from the concentrated city areas do not become later depositors of our bank. In most of our agricultural communities, the primary demand for loans is from agriculture. If we finance only high-equity, middle-aged farmers, and let the low-equity, highly skilled younger farmer go to the competition, in only a few years we will run out of loan customers and reduce depositor numbers. This present low-equity young man may neither develop loyalty to your bank nor the habit of using your full service facilities if you don't take him now - not after he becomes a high-equity proven cus-

tomer of some bank that values their relationship with him. If we wait for his loan application to be perfect, the borrower will be in a position to be selective, not us. If it is true that borrowers draw deposits, it would mean that we must lend money to the people of the area. We should not exclusively purchase outside loans and loans of governmental units which will not be depositors and thus will not furnish fuel for bank growth. If agriculture is your predominant community industry, it would seem that you must service that industry to complete the process.

A dependable flow of credit applications would seem to be an important factor. As we in the banking industry do not have a divine right to this dependable flow of credit applications because of competition from our neighbor banks and other financial agencies, what are some of the reasons why a farm borrower might seek a borrowing relationship with your bank?

1. Location - Important but becoming less important almost daily with the ease of transportation - bank-by-mail, etc.

2. Rates of Interest Charged - Are they fair and competitive? Do they charge interest for money used only, or was "Truth-in-Lending" really necessary to show the true cost of the farmer borrower funds?

3. Dependability - Can the borrower depend on any commitment that is made, assuming reasonable performance by him? Perhaps yesterday's challenging loan applicant from the territory fringe recommended your bank highly. You may be again ex-

panding that territory fringe by accepting the challenging applicant.

4. Credit Plan - Does the plan fit his ability to repay? Take into consideration growth probabilities, etc.

5. Financial Counsel - Is it possible that someone advised him that he could count on both being helped to maximize his earnings as well as to keep him out of trouble through honest, interested counseling?

I once heard an old time banker say that a good female teller could make 75% of the farm loans in his bank without hurting the bank's performance. The difference was that most of the loans were to high-equity, low-debt, experienced, probably middle-aged successful farmers. He also said that the other 25% of the farm borrowers required most of the work and problems of the entire farm loan portfolio. With that I agree.

However, he failed to say that the 25% also offered the real opportunity for the growth of the bank. Many probably are low-equity, high-ambition, younger men who want an opportunity to build a profitable career in farming, raise a fine family, share in the responsibility of all of the community institutions, schools, churches, farm organizations, the governing bodies of the area. Who is this man upon whom we can build our future bank growth? How do you measure him? What are the criteria upon which he is to be judged as a loan applicant? We bankers at one time prided ourselves on our ability to judge character. In today's high-volume, fast-changing, technological era in agriculture, this ability to judge character seems to require a few statistical aides. We used to think that family background was the important factor. Again, some substantive information seems to be very helpful along with that factor. Please do not think that character and family background are unimportant - I believe they must have support in judging today's farmer applicant.

Basically, the younger farmer who offers our bank future growth must have the potential of an expanding earning capacity and capital growth characteristics - by the same factors that the stock market judges a successful corporate stock.

IOWA NEWS

DES MOINES: Iowa Power and Light Company and Iowa-Illinois Gas and Electric Company have announced that the board of directors of each company has approved a plan to consolidate the two companies into a new corporation to be named Iowa Energy Corporation. The plan is



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subject to approval of regulatory agencies and the shareholders of each company.

FORT DODGE: Larry K. Collis has been elected an assistant vice president of the State Bank here. Mr. Collis has been branch manager of Associates Finance Company since 1958 and will now be responsible for installment lending activities at the bank.

IOWA CITY: Robert G. Stevenson has been named chairman of the board of the First National Bank, succeeding the late Harvey Davis. Mr. Stevenson has been a member of the board since 1956 and is president of New Process Laundry and Cleaners.

PAULLINA: James F. Meyer has been elected president of the First National Bank of Paullina, succeeding Clyde Kislingbury, who has retired after serving as president for six years. Alvin Horstman, formerly cashier, has been elected vice president and cashier. He has been with the bank continuously since 1935. Vernon Hibbing has been named agricultural representative.

TRAEER: Stockholders of the First National Bank here have approved a proposal to convert the bank to a state chartered bank. The bank will be known as the First Community Bank and Trust.

WEST UNION: Ed Case, who has been stationed here as a member of the State Banking Department's north-eastern Iowa team of examiners, has been transferred to Des Moines, where he will be working within the department. He will be succeeded in West Union by Roger A. Tibben.

MINNESOTA NEWS

BEMIDJI: Funeral services were held recently for Rudolph H. Welle, president of the First National Bank of Bemidji. Mr. Welle, 72, died in a Minneapolis hospital, where he had been undergoing treatment for several weeks.

NAVARE: Controlling interest in the First National Bank of Navarre has been purchased by William Lahiff, Minneapolis, and David J. Delaney, Mound. Both men were formerly in the

commercial loan division of the First National Bank of Minneapolis. Mr. Lahiff has been named chairman, and Mr. Delaney has been named president. The bank, with assets of slightly more than \$5 million, was purchased from Thomas Kelm and Robert Lebens, Montgomery, Minn., Baird Hoker, who had been executive vice president at the bank. Richard M. Keaveny, Navarre businessman, retains an interest in the bank and will continue on the board of directors.

ST. PAUL: Otto B. Klett, president of the First State Bank of St. Paul, has announced the election of Donald M. Laughlin, owner of Donald's Department Store, as a director of the bank.

TYLER: Leland J. Peter has been elected the new president of the Citizens State Bank of Tyler, succeeding the late Jack B. Seibert. Mr. Peter has been serving as the bank's vice president for the past nine years.

ILLINOIS NEWS

CHICAGO: The First National Bank of Chicago has announced creation of a new personal money management service called Plan Ahead, designed to counsel customers in key areas of financial concern and to help develop sound money management habits. The First is one of the few banks in the country to offer such a service and is unique in the range of areas of money management covered in the Plan Ahead Center, which is located on the second floor of the bank's new building. There is no charge for this service.

PEORIA: The Federal Deposit Insurance Corporation has approved application for Federal deposit insurance for the Northwest Bank of

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Peoria. Total capital at the bank is \$900,000.

SOUTH DAKOTA NEWS

RAPID CITY: Arlo L. Grass, assistant vice president of the First National Bank of the Black Hills, has been elected manager of the bank's Robbinsdale office. He joined the bank in 1961, was elected assistant cashier in 1963 and assistant vice president in 1967. Ronald W. Madsen has been promoted to assistant vice president and will be in charge of operations at the bank's main office. He joined the bank in 1963 and has been an assistant cashier since 1966.

NORTH DAKOTA NEWS

VALLEY CITY: Michael T. Coffey has joined the American National Bank of Valley City as vice president, succeeding Jerry Zinck, who has resigned. Mr. Coffey has been serving as assistant vice president at the First National Bank in Moorhead.

VALLEY CITY: The Federal Deposit Insurance Corporation has approved application of the Farmers and Merchants State Bank of Dickey to change its location from Dickey to 223 Central Avenue North in Valley City.

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COLORADO NEWS

COLORADO SPRINGS: The Bank of Colorado has been opened for business in the southwestern section of Colorado Springs. Norman L. Wade heads the bank as president. He was formerly senior vice president at the Central Colorado Bank of Colorado Springs before resigning in May, 1968, to devote his time to organizing the Bank of Colorado.

DENVER: Denver U. S. Bancorporation has reported net operating income of \$2,703,493 for the first half of 1969, compared with \$2,211,616 for the same period last year. On a per-share basis, the earnings figure was up 23%, from 93 cents to \$1.41. Assets increased to \$657,117,037 from last year's \$540,020,621. Loans were up to \$378,792,626 from \$311,825,733.

DENVER: Colorado National Bank President Melvin J. Roberts has announced that Colorado National and affiliated banks now hold an exclusive franchise for Bank Travel Club in the metropolitan Denver area. Bank Travel Club offers 12 all-expense-paid tours to such places as Europe, Hawaii, the Caribbean, South America, Mexico and the Far East, with the affiliated bank providing financial guidance and offering a variety of payment methods.

DENVER: Net earnings of Colorado CNB Bankshares for the first half of

1969 were \$1,198,182, representing an increase of 35.9% from the \$882,867 during the same period in 1968. Earnings on a per-share basis were \$2.27, up from \$1.67 a year ago. Deposits rose 10.7%, and assets were up 11.3%.

WYOMING NEWS

LUSK: C. W. Erwin, president of the Lusk State Bank, has been advanced to chairman of the bank's board of directors. Robert C. Templeton has been elected president. He joined the bank in 1960 and has served as a vice president since 1962.

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FOR SALE

- 4 - Burroughs teller window posting machines Model #F6200 (dual teller four-total machines) - used five years under maintenance contract.
 - 1 - Burroughs Model E-2190 posting machine - used four years under maintenance contract.
 - 1 - Graphotype Model #6481.
 - 1 - Addressograph Model #5037 with feeder attachment.
 - 17 - Burroughs ledger trays - six hold 11x14 ledgers and 11 hold 10x11 ledgers.
 - 2 - LeFebure Model #41528 fireproof ledger housing tubs.
 - 1 - Diebold fireproof ledger housing tub.
 - 1 - Shaw Walker fireproof ledger housing tub.
 - 14 - Shaw Walker expanding ledger trays.
- Contact Robert Jensen, Minot Federal Savings and Loan Association, 123 - First Street Southwest, Minot, North Dakota 58701. Telephone (area code 701) 839-2161.



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