

# NORTHWESTERN Banker

Oldest Financial Journal Serving The Central and Western States

No. 1175

Des Moines, Iowa

August 4, 1969

## Warning to Banks on "Corner Cutting"

"Corner-cutting in the field of banking in efforts to cope with inflation represents a great potential danger to the United States."

This is the warning issued by J. L. Robertson, vice chairman of the board of governors of the Federal Reserve System, Washington. His comments follow:

"Corner-cutting developed in recent months by bankers relates to the use of various ingenious devices to avoid saying 'no' to big business customers—to avoid curbing credit expansion in response to restrictive monetary policies designed to curb inflation. Just three examples might be cited:

1. The sale of so-called commercial paper (an activity legally forbidden to banks) by one-bank holding companies, subsidiaries, or affiliates to raise funds with which to purchase loans from the parent bank, thus providing it with funds to continue expanding credit in a period when bank credit should be rationed—adequately and wisely.

2. The solicitation of funds from a nonbank institution with a promise to lend them to another bank through the federal funds market and divvy up the profits (a device designed to enable a



J. L. Robertson

bank to do what is forbidden by law—to pay interest on demand deposits).

3. The solicitation of deposits of public funds at rates in excess of the ceiling rates prescribed by Regulation Q, by having an officer of the bank (allegedly in his individual capacity) bid for the funds and then funnel them into his bank and elsewhere in fashions designed to provide him not only with enough of his bank's assets to pledge as collateral for the public funds but also with a return high enough to enable him to pay the over-the-ceiling rate.

"Corner-cuttings of these kinds can easily tarnish the image of the banks which are involved, but also, I am sorry to say, the image of banking as a whole; unfortunately, they also can make necessary additional restrictive measures for an industry already

heavily restricted. The facts are not made any more palatable by the assertion that banks have been obliged to resort to such measures in order to live up to contractual commitments to lend—commitments given to assure 'big' business customers that, come what may, they would be shielded against the impact of restrictive monetary policy or 'tight money,' that they would be able to obtain bank financing to expand even in times when expansion would not be in the public interest.

"A recent survey of large banks revealed that in April the unused portion of such commitments amounted to 62% of the entire loan portfolio of the reporting banks and 88% of their aggregate business loans. Obviously, even the use of a fraction of those commitments would expand bank credit by billions of dollars, and not all of it would be used for productive purposes.

"I hope those banks have now seen the handwriting on the wall and that such injudicious over-extensions of commitments will not be repeated."

### MONTANA NEWS

HELENA: Union Bank & Trust recently held open house celebrating the 10th year in its new building.

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### IOWA NEWS

**DES MOINES:** The National Bank of Des Moines has filed an application with the Comptroller of the Currency for permission to establish a facility at 6564 Northwest Sixth Drive in Polk City, Iowa.

**GOWRIE:** The FDIC has approved application of the First State Bank to exercise limited trust powers.

**LONE TREE:** H. C. Buell, Sr., president of the Lone Tree Savings Bank was honored recently by his family at a public reception on the occasion of his 90th birthday. Mr. Buell came to Lone Tree from Cedar Rapids in 1903. He was employed as cashier of

the Lone Tree Savings Bank, became vice president in 1948 and has served as president since 1952.

**PELLA:** Kenneth H. Bean, chairman and vice president of Marion County State Bank, announced last week he is a candidate for the office of treasurer of the Iowa Bankers Association. The election will take place during the IBA convention in Des Moines, October 22.

### NEBRASKA NEWS

**OMAHA:** First National of Nebraska, Inc., has purchased 573,090 of the 600,000 outstanding shares of the First National Bank of Omaha from bank shareholders.

### MINNESOTA NEWS

Marvin Rye, Minnesota commissioner of banks, has announced the following program for the District 2 meeting of the National Association of Supervisors of State Banks to be held August 10-13 at Hopkins House Breezy Point, Brainerd, Minn.:

August 10

P.M.

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2:00 Registration.  
6:00 Cocktail Hour.

August 11

A.M.

9:00 Welcome and announcements  
- Commissioner Rye.

President's Address - Harry Bloom, Colorado Commissioner; president, NASSB.

"Today's Responsibilities" - Clifford C. Somer, president, Security Bank and Trust, Owatonna, Minn.

Panel - "One Bank Holding Companies" Robert P. Briggs, moderator; Michigan Commissioner.

Frank Bauder, chairman, Central National Bank, Chicago.

Charles Edwards, president, Union Savings Bank & Trust, Steubenville, Ohio.

Kenneth A. Wales, executive vice president, Minnesota Bankers Assn.

William J. Kirchner, president, Richfield Bank & Trust, Richfield, Minn.

"Data Processing Bankers Beware" - Peter D. Louderback, CPA, Peat, Marwick & Mitchell, Philadelphia, Pa.

P.M.

12:30 Luncheon - Sponsored by the FDIC and Federal Reserve Banks.

2:00 Golf Tournament.

9:00 Old Log Theatre Presentation.

August 12

A.M.

9:00 Welcome and Address - Max G. Brooks, chairman, Central Bank & Trust, Denver; vice chairman, NASSB.

"Legislation and Legal Matters" - James F. Bell, legal counsel, NASSB, Wash., D.C.

"Washington Office Report" - Dr. Harry Guenther, executive vice president-economist, NASSB, Washington, D.C.

Panel - "Bank Examinations and Capital Requirements" (For bankers only.)

John D. Chisholm, moderator; president, Olmsted County Bank & Trust, Rochester, Minn.

Hartley J. Banks, president, 1st Bank of Commerce, Columbia, Mo.

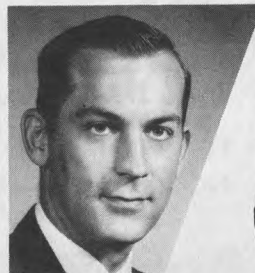
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Robert W. Adams, comptroller, Citizens Fidelity Bank & Trust, Louisville, Ken.

P.M.

12:30 Men's luncheon.

Ladies' luncheon.

7:15 Banquet.

August 13

A.M.

9:00 "Fed Funds - A Supervisor's Nightmare" - Lester G. Gable, vice president, Federal Reserve, Minneapolis.

"Current Economic Environment" - K. A. Randall, chairman, FDIC, Washington, D.C.

Report from Bankers Only Panel - Mr. Chisholm.

Panel - "Can Unit Banking Meet the Needs of Today's Market?" James F. Bell, moderator, Washington, D.C.

Donald M. Carlson, president, Elmhurst National, Elmhurst, Ill.

Pat DuBois, president, First State, Sauk Centre, Minn.

Richard Doerner, president, Indiana Bank & Trust, Ft. Wayne, Ind.

Adjournment.

SOUTH ST. PAUL: Donald Aschenbrenner and Leonard Nerka have been appointed to the newly created positions of senior vice presidents at Drovers State Bank. Robert Anderson, cashier, has been named a vice president, and Bernard Borash, assistant cashier, has been named cashier.

### NORTH DAKOTA NEWS

Three new members have been appointed to the State Banking Board by Governor Guy. They are: Mrs. Eveleen Nachtwey, president, First National Bank of Dickinson; Donald T. Nicklawsky, vice president, Northwestern Savings and Loan Association, Fargo, and James H. Duncan, vice president, Citizens State Bank of Neche. This increases the size of the board from three to six members.

### ILLINOIS NEWS

BLUE ISLAND: Funeral services were held last week for F. M. Hausmann, president, First National Bank.

CHICAGO: James Barrett has resigned as executive vice president of the National Boulevard Bank to accept a job as vice president for Wells Fargo Bank in Los Angeles. Before joining National Boulevard, Mr. Barrett was with Security Pacific National Bank, Los Angeles.

### COLORADO NEWS

DENVER: Villa National Bank, located in the Villa Italia Shopping Center, has been purchased by Denver U. S. Bancorporation, Inc., from the Central States, Southeast and Southwest Areas Pension Fund of the Teamsters Union. The purchase is subject to approval of the Federal

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OMAHA

Reserve Board. Harry G. Anderson, senior vice president of the Denver U. S. National Bank, has been named manager of the bank, pending action on the holding company's application.

DENVER: An application for a national bank charter for the proposed University National Bank near East Evans Avenue and South Downing Street has been denied, according to J. R. Thomas, regional administrator of national banks. Heading the group which had sought the charter was Weldon B. Hamilton, president of the Cherry Creek National Bank and board chairman of the South Denver National Bank of Glendale.

DENVER: The First National Bank of Denver has filed an application

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with the Colorado Bank Board and the Comptroller of the Currency to build a drive-in banking facility at 1313 Tremont Place.

GREELEY: Miss Bonnie Brown has

been appointed bank marketing officer at the Weld County Bank. She has been with the bank since 1966, working in the marketing area at the bank since 1967 and in charge of the marketing department since last fall.

### WYOMING NEWS

CASPER: A \$190,000 remodeling project is scheduled to get underway in the near future at the First National Bank.

CODY: The First State Bank recently held an open house at its new bank building in observance of the bank's 10th anniversary. Following the open house, the bank staged an evening musical production attended by over 1,000 persons in the Cody City Park.

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No. 1175 Northwestern Banker is published five times monthly by the Northwestern Banker Company, 306 Fifteenth Street, Des

Moines, Iowa 50309. Subscriptions 50¢ per copy, \$6 per year. Second class postage paid at Des Moines, Iowa. Address all mail subscriptions, changes of address (Form 3579), manuscripts, mail items to above address.

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