

# NORTHWESTERN Banker

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## "Tight Money" and Competition for Funds

Since the prime rate went to 8½%, we have been castigated in the Congress for charging "outrageous and scandalous rates." Too many of our customers deem they are being "gouged," and the increase in net operating earnings gives credence to the charge. The result of all this has produced a tax reform bill weighing more heavily on commercial banks than any other industry.

The rain of monetary restraint does not fall evenly on all commercial banks. Thus, most banks of less than \$100 million in deposits have scarcely felt the pinch. Their loan to deposit ratios run from 50-60%. Under Regulation Q, they have retained most of their time money.

Banks with deposits of \$100 million to \$1 billion have not been so fortunate. They are far less liquid; they have had significant losses in large certificates of deposit; they are consistently buying Fed funds and going to the discount window. These banks have exercised every lawful means to obtain deposits requisite to meeting loan commitments and maintaining their reserves. They bought Eurodollars, Fed funds and issued commercial paper through one-bank holding companies. It is not surprising that in their ingenuity Regulation Q has come under attack. After paying up to 13% for Eurodollars,



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11% for Fed funds and 8-80% on commercial paper, the possibilities offered by relinquishing Q must have great appeal. That action might enable those banks to retain the certificates of deposit they now have and, indeed, to increase them.

This attack on Regulation Q suggests an examination of the Regulation as measured by the public interest.

There are some noted economists who assert Regulation Q serves no social gain, and they would remove its controls. They assert consumers and investors are entitled to the highest interest rates banks will pay as prodded by competition for funds. In brief, they would substitute the "Rule

of Piracy" for Regulation Q. The injection of a "dog-eat-dog" philosophy in a regulated industry affected with the public interest is subject to doubt at any time. But to adopt that policy in times of monetary restraint would provoke such violent disruptions and distortions that thrift institutions could not survive and would threaten the existence of the banking system as we know it.

The "Rule of Piracy" has been tried before. In the 1920's, banks were expending 38-50% of their gross income in payments of interest. There was no indication that the vaunted law of supply and demand was an effective check in preventing banks from paying uneconomically high rates on deposits.

In recent years, proposals have been made to amend Regulation Q by increasing the percentage banks may pay on passbook savings. It is said the disparity between the 4% limitation and current dividends paid by savings and loan associations places banks in a noncompetitive position. Under Regulation Q, banks may better their competitive posture by employing "Golden Passbook" and other renewable certificates of deposit on which 5% may be paid. Therefore, to be meaningful, the ceiling of passbook savings and certificates of deposit of \$100,000 or less must

(Continued on Page 4)

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1919. He was 82 at the time of his death.

OMAHA: The Omaha State Bank has filed suit asking the Lancaster District Court to reverse findings of the State Department of Banking in denying approval of a charter application for a proposed bank in the Bel-Air Plaza Shopping Center, West Omaha.

**ILLINOIS NEWS**

URBANA: Senator Ralph T. Smith, Illinois' newest U. S. senator, will address the 24th annual Illinois Bank Management Conference on November 5 at the University of Illinois here, according to Donald A. Sandro, president, Oak Park Trust & Savings Bank, and chairman, IBA Committee on Bank Management.

The day-and-a-half conference (November 5-6), which is jointly sponsored by the Illinois Bankers Association and the University, will begin Wednesday morning, November 5, with the "Economic Outlook--The Year Ahead," to be presented by Carl T. Arlt, Bailey professor of finance, University of Illinois. Following will be addresses by Ray C. Dickerson, director, department of business and economic development, state of Illinois, on "The Bank's Responsibility for Community Development," and Robert A. Dwyer, regional director, Small Business Administration, Chicago, on "Partners in Progress: The SBA and Your Bank."

A noon luncheon will feature a panel on "How Today's College Student Feels About Business and Banking." Panel members will be representatives of the U of I student body.

The afternoon session will focus on the subject of personnel management.

The Thursday morning session, November 6, will begin with a panel on "Profitability and Asset Management."

Concluding the conference will be an address entitled "What's Next for Banks," by Dr. Eugene Lerner, professor of finance, Northwestern University.

**MINNESOTA NEWS**

EAST GRAND FORKS: David Lee, formerly assistant cashier at the First National Bank, has been promoted to cashier, and Eugene E. Dallmann, Jamestown, N. D., has been elected assistant cashier. Mr. Lee has been with the bank since his graduation from North Dakota State

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**Warning!**

An area bank reports receipt of a "statement" labeled "upon approval" for 15 subscriptions to the National Live Stock Producer, Choctaw Okla., to be sent to FFA boys in the local high school. The bank and the school did not order the subscriptions.

**IOWA NEWS**

CASEY: The board of directors and stockholders of the Menlo Savings Bank and the Casey State Bank have voted to merge the twobanks, leaving offices in both Casey and Menlo. The name of the new bank is to be the Security State Bank.

HUDSON: Open house will be held for area bankers by the Hudson State Bank in its new building on October 15.

MASON CITY: Two new employees have been named at the United Home Bank. Craig Pross has been named auditor and Michael Evans, assistant data processing manager. Mr. Pross

has been office manager and accountant for a local automobile dealer for the last three years. Mr. Evans was previously an instructor in data processing at the Des Moines Area Community College.

SAC CITY: Douglas McDermott has resigned as cashier of the Citizens Savings Bank, effective November 1, to take a position with the Home State Bank in Jefferson. He has been with the Sac City bank for 4 years.

WALKER: Open house was held by the Walker State Bank last Saturday, observing completion of the bank's remodeling program.

**NEBRASKA NEWS**

CHADRON: C. F. Coffee, long-time Chadron banker, died recently in Chadron Community Hospital, following a long illness. Mr. Coffee was president and chairman of the First National Bank here for many years before his retirement. He was elected vice president of the bank in 1913 and succeeded his father, C. F. Coffee, Sr., as president in



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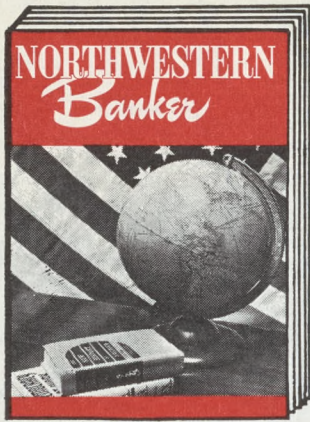
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University in 1966. Mr. Dalmann had formerly been associated with First System Services, servicing affiliate of First Bank System, Minneapolis, as a bank examiner since 1968.

**FULDA:** Wallace Verdugt, manager of the London State Bank and the London Insurance Agency, has been elected assistant vice president at the Citizens State Bank here. He has 14 years of experience in the banking and insurance fields in South Dakota and Minnesota.

**GLENWOOD:** The Pope County State Bank has purchased the Minton Hotel and Corner Drug property here as the site for a new bank building. No date has been set for start of construction.

**LAKEFIELD:** The Board of Governors of the Federal Reserve System has approved the application of the First State Bank of Lakefield to withdraw from Federal Reserve membership. It was incorrectly reported in last week's Bulletin that the bank had withdrawn from FDIC membership.

**MINNEAPOLIS:** Thomas Burich has been named assistant cashier in the operations department at the First National Bank. He has been with the bank since 1966.

**MOORHEAD:** Louis E. Stangler has been appointed assistant vice president and installment loan manager of the First National Bank. He has been assistant vice president at the Daly Bank & Trust Company of Anaconda, Mont.

**PAYNESVILLE:** The First State Bank has announced the election of Martin Dietrich, Gettysburg, S. D., as president and director, effective October 15. He succeeds Oren R. Quill, former president, who has resigned to pursue other business interests.

## NORTH DAKOTA NEWS

**ASHLEY:** Gideon Raile, assistant cashier at the McIntosh County Bank and manager of the Ashley Realty Company, has resigned to accept a

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post with the federal government as executive director of the Tribal Council of the Sisseton Sioux Tribe headquarters at Sisseton, S. D. He had been with the bank since 1963.

**BISMARCK:** Del W. Schluchter has been named to the Bismarck office of Dain, Kalman & Quail, Incorporated, Minneapolis-based investment banking firm. Mr. Schluchter has been serving as a registered representative in the company's Fargo office.

**FARGO:** Charlie Wattam, formerly secretary of the North Dakota Bankers Association, died recently in Fargo.

**FARGO:** J. Bruce Jacobson has joined the credit department of the First National Bank & Trust Company. He comes to the bank from Minneapolis, where he was credit analyst for Northwest Bancorporation.

## SOUTH DAKOTA NEWS

**CANISTOTA:** Two new employees have joined the United National Bank. They are Mrs. Larry Ondrozeck and Mrs. Keith Ligtenberg.

**SIOUX FALLS:** Group meetings in South Dakota start today (Monday), when Group 1 meets here at the Ramada Inn. Registration is at 1 p.m. Other group meetings will be: Group 3, October 14, Country Club, Mitchell; Group 5, October 15, Holiday Inn, Rapid City; Group 4, October 16, Country Club, Mobridge; Group 2, October 17, Country Club, Clark.

## COLORADO NEWS

**DENVER:** Daryl Ramsdale and Ronald A. Phillips have been promoted to Master Charge officers in the American National Bank's charge card department.

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OMAHA

**DENVER:** Ivan R. Sweetman, president of the real estate firm of Anthony Sweetman, Inc., has been elected to the board of directors of the South Colorado National Bank, succeeding his father, Anthony Sweetman, who has become a director emeritus.

## WYOMING NEWS

**CHEYENNE:** The National Association of Supervisors of State Banks will hold its District 4 Conference at the Hitching Post Inn here on October 19-21.

## MONTANA NEWS

**GREAT FALLS:** The First National Bank has announced the addition of two men to its officer staff. Robert Henry has been elected vice president, to work as a commercial loan officer, and Neil Trengove has been elected assistant manager, timepay department. Both men were formerly with the First Metals Bank & Trust Company in Butte.

**HELENA:** John Waeckerlin, formerly cashier at the First National Bank of Rawlins, has been named vice president and cashier at the Commerce Bank of Helena, effective October 15. Mr. Waeckerlin had been an employee of the Rawlins bank for 22 years.

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### Competition for Funds . . .

(Continued from Page 1)

be increased above 5%. This would give the banks a competitive edge over current dividends of savings and loan associations and would provoke significant withdrawal from these associations.

The foolishness of that course at this time is attested to by Congressional consideration given in 1966 to the proposal of Representative Wright Patman limiting the interest rate paid by banks to 4½%. We are more vulnerable in the Congress today than we were in 1966.

In recent months, money-center banks have brought increasing pressure to amend Regulation Q by removing the ceiling on certificates of deposit of \$100,000 or more. If the modification is to be of affirmative help to its advocates, then money-center banks must be willing to pay an interest rate more than interior banks can or will pay, but at less cost than Eurodollars and Fed funds. The clear purpose must be the transfer of certificate of deposit funds

from interior banks to money-center banks.

There are formidable objections to that course.

In view of the strong loan demand in money-center banks, it must be anticipated that an inflow of deposits from interior banks would result in an increase in loans of money-center banks, a result of variance with the purpose of monetary restraint.

The further accumulation of deposit funds in money center banks is contrary to one of the fundamental purposes in establishing the Federal Reserve System.

The net effect of the proposal would be to ameliorate the liquidity problems of interior banks. It would further weaken the ability of interior banks to meet the legitimate loan demands of their communities and trade areas. It would heal the ills of money-center banks by transferring those ills to interior banks.

In urging elimination of ceilings on large certificates of deposit, the proponents use the shibboleth "free enterprise" and embrace "let the market place govern." The touting

of these phrases would lead us to expect a wise consistency in economic philosophy. It would seem appropriate to inquire how many of them in the name of free enterprise would support free entry into banking? How many would favor granting savings and loan associations and other financial institutions the powers to take deposits and cash checks? That's free enterprise.

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