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Equal Opportunity in the Money Market

Excerpts from remarks by Mr. Robert P. Mayo, president of the Federal Reserve Bank of Chicago, before the Iowa Bankers Association Convention October 21, 1970.

How do rural banks compete effectively with their large city cousins? How can they achieve equal opportunity in the money markets? Are they discriminated against, forced to meet local demands with locally generated funds while the giants in Chicago, New York and on the West Coast pick up funds all over in the world?

We should distinguish between complaints about real inequities that require adjustments and what may simply be disadvantages that reflect the failure to keep up with the stream of progress or to use efficiently the facilities available.

These two sources of difficulties require different types of solutions or programs. The former may require some changes in our financial mechanism. The latter, however, may require essentially an educational effort or changes on the part of the banks themselves. Public agencies have a responsibility for providing a competitive environment that blocks the concentration of eco-

nomie power. But neither regulation nor subsidy that preserves inefficient operations and therefore misallocates resources can be justified in the public interest.

Current changes may appear to threaten the viability of smaller country banks. But they also generate new techniques for solving old problems and new opportunities for diversification and growth.

Let's take a look at one of those old problems—lending to agriculture. What assistance should or can be made available?

Loans have increased at a much faster pace than deposits at rural banks in recent years, a divergence made possible by the low ratio of loans to deposits at most banks in earlier years. Expansion of bank lending by a relative shift from security investments to loans obviously cannot be sustained indefinitely.

Also, many rural banks, because of their capital structure, have had difficulty in providing adequate credit service for their larger individual borrowers. Although most Iowa banks have boosted their capital accounts in recent years, there are still about 300 banks—or almost half the

banks in the state—with capitalization under \$200,000.

Projections of farm credit demands—both aggregate and individual borrowers—indicate substantial growth. This suggests that many more banks will find it difficult to supply from their own resources the same share of farm credit growth that they have provided in recent years.

Recognizing these problems the Board of Governors of the Federal Reserve System last spring established a special committee within the system to investigate agricultural credit problems in capital deficit areas and possibilities for their amelioration through improvements in marketability of rural bank paper. The recommendations of this committee are expected in mid-1971.

But this is only one channel through which country banks may achieve "equal opportunity" with their city counterparts. It is not the first. It will not be the last.

Real progress stemming from Federal Reserve efforts to improve markets, however, can only be made if the banks respond. They must make effective use of innovations and be willing to adjust their services to the changes in demand for them. If they do, it will be healthy both for the public

(Continued on back page)

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IOWA NEWS

COUNCIL BLUFFS: Council Bluffs Savings Bank will hold its Annual Cattle Feeders Dinner at Lakeshore Country Club in Council Bluffs at 6:30 p.m. on November 2.

DES MOINES: Central National Bancshares, Inc., a one bank holding company, has been formed to hold control of the Central National Bank and Trust Co. of Des Moines which is presently owned in a total amount of 65% by International Bank of Washington, D.C. and Financial General Bankshares, Inc.

Action will be initiated to enable the new one bank holding company to become a multi-bank holding company and permit it to invite the participation of other Iowa banks.

DUBUQUE: The First National Bank has filed an application with the Comptroller of the Currency for permission to establish a branch to be located at Jackson & White at 22nd in Dubuque.

KEOTA: The Farmers Savings Bank of Keota held an open house October 11 for an inspection by the general public of its new building.

OXFORD: E. F. Miick, executive vice president and cashier of First Trust & Savings Bank, recently suffered a stroke while on vacation. At present he is recuperating at home.

SIGOURNEY: The First Trust & Union Savings Bank is celebrating its centennial this month. Open house was held last Friday and Saturday.

SIOUX CITY: The Northwestern National Bank last week announced plans to construct a drive-in facility at 5th & Jackson Streets in downtown Sioux City.

WILLIAMSBURG: Mr. and Mrs. R. J. Coulter announced recently that they have purchased the stock of the Witte family in the Security Savings Bank. At the reorganization meeting of the

board of directors, William Schwarting was elected chairman and Mr. Coulter was elected president.

NEBRASKA NEWS

GRAND ISLAND: Controlling interest in the Overland National Bank has been purchased by Glenn Yaussi, chairman of the board of National Bank of Commerce in Lincoln and other Lincoln investors, from James H. Oliver, president of The Ravenna Bank at Ravenna. The Overland National will be the seventh bank affiliated with the National Bank of Commerce group of banks. Details on the formation of Overland National into a one-bank holding company are expected to be announced December 10. The banks are affiliated through directorships or common ownership.

Wayne R. Morris, president, and Willard W. Westover, chairman and senior vice president, will continue in their positions as managing officers of the bank. Mr. Oliver, who had purchased control of the bank earlier this year from Richard Armstrong and Raymond Pred, was executive vice president of Overland for several months but has resigned that position and will continue his position as president of the Ravenna Bank.

OMAHA: The Omaha National Bank has promoted four officers. Michael B. Yanney has been promoted to senior vice president. Formerly a vice president, he has been head of the credit card and marketing divisions since 1969.

Advanced from second vice president to vice president was Raymond I. Howell, who started with the bank in 1968 as head of the international department.

Philip D. Klone will join the bank as vice president in the operating division. He has been with Control Data Corp. in Omaha.

John J. Hughes, a marketing officer, has been named a second vice president, and John D. McChesney, an assistant loan officer, has been advanced to loan officer.

Kenneth L. Brebenick has been appointed an assistant business development officer.

ILLINOIS NEWS

CHICAGO: An application for a charter has been filed by the Lawndale National Bank with the Illinois Commissioner of Banks and Trusts to convert from a national bank to a state bank. The bank, located at 3333 West 26th Street, would be renamed The Lawndale Trust and Savings Bank.

CHICAGO: La Salle National Bank has

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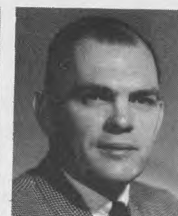
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received approval from the Comptroller of the Currency to establish a facility office at the southeast corner of Jackson and Wacker, Drive.

CHILLICOTHE: A charter has been issued by the Illinois Commissioner of Banks and Trusts for the Chillicothe State Bank, to be located at 1057 North Second Street. The bank will have total capitalization of \$600,000. The FDIC has also approved insurance coverage for the bank. President of the bank will be Harry F. Miller. Willard H. Curtis will be executive vice president and John F. Peterson, cashier.

COAL VALLEY: The FDIC has approved coverage for the Coal Valley State Bank, which has total capital accounts of \$500,000.

EDINBURG: The FDIC has approved coverage for the Citizens Bank of Edinburg. Rodell Beaty is president of the bank, which has total capital accounts of \$400,000.

JOLIET: The Administrator of National Banks has approved the application of the Union National Bank and Trust Co. for a branch to be located at 50 N. Bluff Street.

PRINCEVILLE: The FDIC has approved the application of the Princeville State Bank for the exercise of trust powers.

MINNESOTA NEWS

EDEN PRAIRIE: An application for a charter for a bank in Eden Prairie has been disapproved by the Administrator of National Banks. The agent for the application was Dennis W. Dunne.

MINNEAPOLIS: Jay Tomson has been elected executive vice president of

the Marquette National Bank. He joined the bank in September. He was formerly vice president with Bankers Trust Co., Des Moines. Previous to this he was with the Fed.

NEW LONDON: Alvin Ness, president of the Farmers State Bank, recently announced the sale of his interest in the bank to Harvey Hanson of New London and Paul Vollan of Willmar. Mr. Hanson has been employed at the bank for 18 years. Mr. Vollan has been managing officer of the Citizens National Bank of Willmar since 1965.

Mr. Ness, who had been with the bank since 1923, will continue on the bank's board of directors and as inactive president for a time.

WYOMING NEWS

The fall meeting of the Wyoming chapter of the National Assn. of Bank Women was held recently in Casper. Mrs. Pat Rothweiler, cashier at Western National Bank, Casper, and secretary-treasurer of the NABW Wyoming group, was hostess for the meeting.

SOUTH DAKOTA NEWS

The 1970 South Dakota Bankers Assn. Bank Management Conference will be held in Huron at the Plains Motel on October 28. Registration will be from 8:00 to 9:00 a.m., with the program convening at 9:00. Registration fee for the conference is \$25, and for the banquet only, \$10.

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HERREID: John Riedlinger, cashier of the Campbell County Bank, died on October 12. He had been with the bank for 23 years. He was also a member of the executive council of the South Dakota Bankers Assn.

MADISON: The Security Bank has merged into the National Bank of South Dakota, Sioux Falls, under charter and title of National Bank of South Dakota.

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Equal Opportunity...

(Continued from Page 1)

and the banks.

In a nutshell, continued viability of the rural banks will depend on (1) their capacity to recognize changing demands for their services, and (2) their ability to turn the benefits of technology to the advantage of their customers and, therefore, themselves. The latter entails, of course, access to money markets and information about them. Your city correspondents can help you here and I encourage you to use their facilities.

A significant development of the last decade has been the growing participation of small banks in the national money market—partly direct and partly through correspondents. The most important access route has been through the Federal funds market. Through this facility smaller banks were able not only to put funds to work at good returns but, at the same time, to maintain a much higher degree of liquidity than their overall loan-deposit relationships might imply. At last count our records show that about two-thirds of all member banks in this District participate in the Federal funds market—at least occasionally. The participation ratio is least, as might be expected, among the smallest banks. But the fact that even a few of the banks with deposits less than \$5 million do take advantage of this facility suggests that the potential is there for many others, too.

It is a fact that the vast majority of smaller banks that participated in the Federal funds market in the past two years have used it only as an outlet for funds, sometimes in significant amounts relative to their size. Perhaps these have been banks in "surplus" areas—that is, where funds generated through personal, business or public deposits have exceeded local credit needs. But to a large extent they represent channeling of funds to the customers of the larger banks that are the purchasers. At the money market rate levels of


the past two years, the income from such use of funds may have been as high or higher than the return on credits to local customers.

Whether some of these funds found their way back to rural credit deficit areas, it is impossible to say. But to do the job of channeling flows of credit to their optimum uses, market facilities must provide a two-way street. There is little evidence that the Federal funds market has been a significant source of funds to rural banks generally.

I would not want these remarks to be construed as advocating borrowing short and lending long. Obviously the short-term money market cannot solve all the problems of handling today's agricultural credit needs. But greater access to it could perhaps improve flexibility.

It is obvious that country banks would be in better position to demand services from correspondents if there were more direct links between credit surplus and credit deficit areas—markets oriented to the kinds of credit instruments generated in rural areas. Since these are typically obligations of people known only locally, some kind of insurance undoubtedly would be required. Such a system, moreover, would be far more consistent with the market's ability to allocate resources impersonally and efficiently than that which could possibly emerge from subsidized or other artificial efforts to equate the odds between small and large banks in their access to funds.

Small banks will have to depend on large banks or grow enough by themselves to supply the wider services the public increasingly demands. In the past, rural banks have been more insulated from cyclical swings in both monetary policy and credit demands. But, as market areas enlarge, via technology, this insulation will diminish. And, more immediately, as pressures ease in money market, the easy returns from Fed funds sales will be less reliable as a steady source of earnings. Therefore, it



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would be wise to give first priority to local credit demands.

As regulators, we must not underestimate problems of the small bank, but neither can we justify subsidizing obsolescence. Our role, as I see it, is to help remove the obstacles that obstruct the free and competitive working of the market—for these are the real causes of any disadvantage the rural banker suffers—not to substitute decisions that may produce contrary results. Only in this way can we bring real equality of opportunity to all financial institutions and a fair deal to the public.

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