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## Fed Concerned About Foreign Bank Loss

"The precise magnitude and the nature of the losses and the circumstances in which they occurred are not yet fully known," the Federal Reserve Board has told Congress in connection with the recent failure of a Swiss subsidiary of United California Bank, Los Angeles.

Fed Vice Chairman J. L. Robertson said in a letter to House Banking Committee Chairman Wright Patman (D., Tex.) that the agency is "seriously concerned about the losses sustained by United California Bank through operations in its Swiss subsidiary," United California Bank in Basel A. G.

Mr. Robertson also said the Fed "is continuing its efforts to obtain all the information necessary to appraise the reasons for these losses, including possible frauds against the bank."

But "full information will not be available until the completion of the audits now in progress in Switzerland," he added.

Mr. Patman had asked the Fed for details of the Swiss subsidiary's failure and the Fed's involvement in a plan of United California Bank itself to put up \$40 million to cover deposit and credit claims at the Swiss subsidiary.

"Present indications are that

the losses resulted mainly from concealed speculation in commodities," Mr. Robertson said.

In addition, the Fed vice chairman told Mr. Patman the "commodity speculation that took place was in direct violation" of the conditions under which the Fed approved United California Bank's acquisition of the Swiss bank.

Mr. Robertson also insisted that the Fed "did not approve" United California Bank's plan to indemnify depositors and creditors of the Swiss subsidiary. The Fed "only stated that the decision taken by the bank did not conflict with any Federal law or regulation administered by the Board and that the Board did not interpose any objection to the proposed arrangement," he said.

Mr. Robertson acknowledged that the Fed as well as the public, was "promptly informed" by United California Bank when the probable insolvency of its Swiss subsidiary became apparent. The bank also disclosed its intention "to protect the depositors and creditors of the subsidiary, many of whom have regular business dealings with the bank and its other affiliates."

The bank, Mr. Robertson told Mr. Patman, also advised the Fed:

\* That Swiss statutory liquida-

tion procedures would be expensive and time-consuming.

\* That the reputation of the bank as well as the "international standing" of other U. S. banks might be damaged.

\* That Swiss authorities had indicated that an agreement by the bank to compensate the depositors and creditors of the Swiss subsidiary would permit satisfactory and less formal liquidation procedures.

Such an agreement, however, would be satisfactory only if "positive assurances" were made by the Fed that existing Federal statutes and regulations "posed no obstacle to the proposed arrangement and that the Board would not interpose any objection, Mr. Robertson related.

It was against this background, Mr. Robertson said, that the Fed told United California Bank it had no objection to the bank's proposed arrangements.

The Robertson communication also contained a summary of the proposed agreement between United California Bank and the Basel subsidiary.

Under the agreement, United Bank of California proposed to pay the obligations of the Basel subsidiary to its depositors and creditors to the extent that its subsidiary was unable to do so.

(Continued on back page)

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**IOWA NEWS**

**DES MOINES:** James H. Redman, president of The State Bank, Fort Dodge, was elected president of the Iowa Bankers Association at the recent 84th annual convention. He succeeds J. C. Blackford, president of Union Bank & Trust Company, Ottumwa. Named vice president was Thomas H. Huston, president of Columbus Junction State Bank, Columbus Junction. The new treasurer is William P. Ronan, president of the Decorah State Bank. The convention was attended by 4,849 persons. Full details, with extensive photo coverage, will appear in the November *Northwestern Banker*.

**LAURENS:** E. B. Pannkuk has been elected president of the Laurens State Bank to succeed Mrs. Helen Winne, who has served as president since 1954. She has been elected chairman of the board. Mr. Pannkuk was advanced from his former position of executive vice president.

**OTTUMWA:** The board of directors of Union Bank and Trust Company approved on October 28 a plan whereby the Union Bank and Trust Company will join Banks of Iowa, Inc. The plan calls for an exchange of thirty (30) shares of common stock of Banks of Iowa for each outstanding share of common stock of the Union Bank and Trust Company of Ottumwa.

Banks of Iowa, Inc. is a holding company owning all of the outstanding stock of The Merchants National Bank, Cedar Rapids, Iowa. The Merchants National Bank was founded in 1881 and had total assets of \$188,743,314 on September 30,

1970. The Union Bank with assets of \$48,410,151 on September 30, 1970, was organized in 1871 and will continue to operate as a completely autonomous unit bank with the same local board of directors and officers. However, through this affiliation, the two banks will have a joint lending capacity of over \$2,500,000 to any one customer, as well as the benefits derived from pooling progressive banking techniques, personnel, and data processing capabilities.

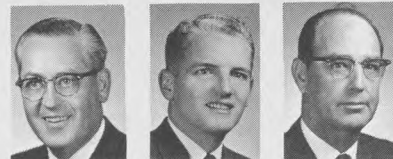
Under the terms of the plan it is contemplated that Max von Schrader, Sr., chairman of the board of directors, and J. C. Blackford, president of the Union Bank and Trust Company, will be elected directors of Banks of Iowa. Max von Schrader, Jr., executive vice president and Richard M. Ackley, senior vice president and trust officer of Union Bank, will also be appointed to the operating committee of Banks of Iowa.

The proposed transaction is subject to registration by Banks of Iowa as a bank holding company under the Bank Holding Company Act of 1956, approval by the Board of Governors of the Federal Reserve System, and the tender for exchange of at least 80% of all the outstanding common stock of the Union Bank and Trust Company.

**OTTUMWA:** First National Bank has received approval from the Comptroller of the Currency to erect a detached drive-in teller facility at 2830 N. Court Road.

**NEBRASKA NEWS**

**ATKINSON:** A recent report from the Comptroller of the Currency lists the sale, by Eloise Pohlada of 345 shares



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of the 1,000 outstanding shares in First National Bank to SoDak Investment Management, Inc. The sale was made early in 1970, reported August 28 and published by the Comptroller recently.

**FAIRBURY:** A recent report from the Comptroller of the Currency lists the sale of 2,441 shares of stock in First National Bank by the Estate of Luther Bonham to the Burkley Family Trust. The date of change was listed as June 1, 1970, and the reporting date as August 27, 1970. Mr. Bonham was chairman of the board at the bank until his death and was succeeded by Robert E. Burkley, who had been executive vice president for a number of years.

**GRAND ISLAND:** Edwin A. Langley, director of banking for Nebraska, has scheduled hearings December 3 and December 10 and two applications for state bank charters here. Both hearings will be held at 9:00 a.m. in the department offices in Lincoln. The December 3 hearing will be on the application made for the Five Points Bank filed by W. W. Marshall, Jr., and associates. Mr. Marshall is president of the Commercial National Bank in Grand Island. The December 10 hearing will be on the application for Northside Bank filed by J. B. Beltzer and associates. Mr. Beltzer is president of the Home Federal Savings and Loan and Grand Island Trust Co. The proposed site for both banks is in the north side Five Points area.

**NORFOLK:** J. J. DeLay, 87, chairman and founder of DeLay First National Bank, died October 24 in a Norfolk hospital where he had been a patient for one month. He had been a banker for 65 years. His son, Bernard, is president of the bank.

**ILLINOIS NEWS**

**ALTON:** A permit to organize has been issued to a group of applicants

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proposing to establish an Illinois state bank known as Metropolitan Bank and Trust Co. of Alton and to be located at 2900 Beltline, Alton, in Madison County. Total capitalization of \$750,000 consists of \$300,000 each in capital and surplus and \$150,000 in reserve for operating expense. Organizers are: Norman Backues, Charles L. Daily, Max M. Goldenberg and James W. McRoberts of Belleville; Robert E. Howe of Wood River, and Marshall Smith of Moro.

**CHILLICOTHE:** The Federal Deposit Insurance Corporation has approved the application for membership of Chillicothe State Bank. The new bank has total capital accounts of \$600,000. Harry F. Miller, Sr., is president.

### MINNESOTA NEWS

**BLOOMINGTON:** The Federal Deposit Insurance Corporation has approved FDIC membership for membership for American State Bank of Bloomington. Patrick W. Colbert, Jr., is president of the new bank, which has \$900,000 total capital accounts.

**BURNSVILLE:** The Comptroller of the Currency recently disapproved the application of Thomas M. Reardon and associates for a national bank charter to be located here.

**MENDOTA HEIGHTS:** The banking division of the Minnesota Commerce Commission has approved the charter application for founding of Mid America Bank. The application was filed originally on July 29, 1968, by Mid America Bancorporation, Inc. The bank will be located at the intersection of Highways 110 and 49. John D. Turner, president of the affiliated Park Grove National Bank, which was opened in Cottage Grove in January, 1970, will be president of the new bank in Mendota Heights. It is capitalized at \$500,000. Officers and directors of Mid America who filed the charter application were David A. Shern, Dr. Frederick M. Owens, Jr.; Robert E. Larkin and Walter G. Andrews.

**MINNEAPOLIS:** The promotion of three men to vice president at Mid-America National Bank was announced last week. The directors met at the Federal Reserve Bank of St. Louis

ing. They are: George G. Magnuson, who continues his responsibilities in the business development department and as senior savings officer; John S. Irons, currently a mortgage loan officer and in bank building operations, and Ralph L. Brown, currently commercial lending officer and also in charge of the foreign department and safe deposit department.

**MINNEAPOLIS:** Marquette National has expanded its corporate loan division staff with the appointment of Harold G. Haver as vice president in charge; Philip J. Gallican as vice president; H. C. (Bud) Thompson as assistant vice president; Byron J. Loving as credit manager and Robert Biastock as assistant credit manager.

**MINNEAPOLIS:** Steven Moravec, a recent graduate of Macalester College, has joined the staff of the Minnesota Bankers Association as communications director, according to Truman Jeffers, executive vice president.

**SAVAGE:** Neil E. Smith and Obert M. Udem have announced the formation of Charter Management, Inc., which will include banking, insurance, financial planning and consulting, and oil companies. Mr. Smith will be president and Mr. Udem secretary-treasurer. Charter Management has agreed to purchase Savage State Bank and is negotiating to purchase an oil company, a financial placement and consulting company and an insurance company.

Mr. Smith is a former board member of the Illinois State Banking Commission and most recently has been vice president of First National Bank and Trust Company in Mt. Vernon, Ill. Prior to that, he was in the trust department of Central National Bank & Trust Company, Des Moines. Mr. Udem resigned recently as president of Fidelity Bank & Trust Company, Minneapolis.

**VIRGINIA:** Ralph O. Johnston has been elected vice president of the First National Bank and will assume his new duties November 15. He is moving from LaCrosse, Wis., where he has been vice president in the commercial loan department of The Batavian National Bank since February, 1959. He began his banking career at The Western Montana Na-

tional Bank of Missoula in September, 1949. He joined the First Service Corporation in 1953, working there until moving to LaCrosse.

### SOUTH DAKOTA NEWS

**MADISON:** The Comptroller of the Currency recently announced official approval for the merger of Security Bank at Madison into the National Bank of South Dakota, Sioux Falls, under the charter and title of the National Bank.

### COLORADO NEWS

**DENVER:** The First National Bancorporation, Inc., has reactivated its application with the Federal Reserve Board for prior approval to acquire 80% or more of the voting shares of The Exchange National Bank of Colorado Springs and The Security State Bank of Sterling.

### Presidential Commission Reports

**NEW YORK** — Chairman Reed O. Hunt of the Presidential Commission on Financial Structure and Regulation announced October 28 that the Commission has completed initial planning phases for its study and it has commenced to discuss substantive matters.

The Commission at a meeting in New York City focused on regulations on interest rates on deposits, including Regulation Q. Mr. Hunt said that "no special significance should be attached to the selection of this topic as a starting point. The staff



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recommended it, based on the immediate availability of study materials, and an extensive set of study papers on interest rate regulations was given to each Commission member in the weeks preceding this meeting."

Mr. Hunt added that "the objective of present substantive discussions by the Commission is to establish a sense of direction, not to take a final position. We will examine many interrelated problems before we are ready to make recommendations about any of them." The target date for a final report from the Commission is December, 1971, and Mr. Hunt remains optimistic that this date can be met.

The Commission also received a favorable staff report on the progress of study projects authorized at earlier meetings. Dr. Lucille S. Mayne formerly of The Pennsylvania State University and Bertwing C. Mah, on leave as director of research of the California State Banking Department, recently joined the staff at the principal office of the Commission in Seattle, Washington.

Background papers requested by the Commission are now being received from the federal financial agencies, including the Board of Governors of the Federal Reserve System; the Federal Home Loan Bank Board; the Federal Deposit Insurance Corporation; the Office of the Comptroller of the Currency; the Department of Housing and Urban Development, and the Federal National Mortgage Association.

The Commission plans to have a number of study papers prepared by outside consultants.

Mr. Hunt said that "the Commission has no plans at the present time to hold formal hearings, but we are receiving views from a wide variety of sources. We will continue frequent contacts with representatives of financial institutions, including non-depository institutions, and we are also getting views representing the public and the consumers with whom financial institutions do business."

## Fed Concerned About Foreign Bank Loss...

(Continued from Page 1)

United Bank of California would do this up to a maximum of \$40 million.

Depositors and creditors of the Basel subsidiary were initially to demand payment from the subsidiary, which would pay claims to the extent possible. To the extent that this were not possible, depositors and creditors were to be paid directly by United California Bank.

"As security for its undertaking to pay the depositors and creditors of (the) Basel (subsidiary), and particularly to satisfy the Swiss banking authorities that there is adequate assurance of payment," the Fed summary said, "United will issue an irrevocable standby letter of credit in favor of Basel's depositors and creditors in an amount up to a maximum of \$40 million."

The letter of credit was to be deposited in a major Swiss bank or elsewhere as directed by Swiss authorities with its maximum amount being reduced on a pro rata basis as United Bank of California makes payment to the Basel subsidiary's depositors and creditors.

"Under the circumstances," the Fed summary said, "it is not contemplated that the letter of credit will be drawn upon" but will merely...serve as assurance of United's promise to pay.

The Basel subsidiary was to begin liquidation immediately. And if the arrangements were executed and approved by the Swiss authorities—whether or not subject to Swiss court oversight—the Basel subsidiary would be able to liquidate "without the necessity for an extended court proceeding," the Fed summary continued.

In addition, it said, "the depositors and creditors of Basel...will receive full and timely payment of the amounts owed to them, rather than being subjected to the delays and losses that would result from a court proceeding."

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