

NORTHWESTERN

Banker Newsletter

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October 4, 1971

Inflation Control Should Lower Bond Yields

In an address last Tuesday, September 28, before the New York Society of Security Analysts, Sidney Homer, partner of the investment banking firm of Salomon Brothers, stated: "If the forthcoming program of price-wage control does not work, it will probably not be abandoned but rather reinforced with further and even more unpalatable intrusions on our free economy."

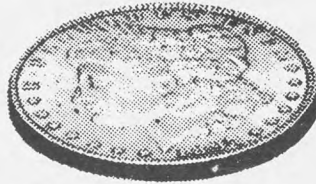
Mr. Homer stated further, "Failure of the President's new economic policy would be a permanent national calamity." He noted that every time an attack on inflation fails, the "psychological conviction" that there will be worse inflation becomes effective. "There is no such thing as living with a high but level rate of inflation: it either gets better or gets worse," he said.

If our new program of controls fails to bring the rate of inflation down and if its continued failure a year hence becomes generally expected, it seems probable that the rate of inflation will then increase, stated Mr. Homer. This, he said, will be accompanied by a political crisis, continued consumer restraint, continued business caution, tight money and continued high unemployment. "In other words, the worst of all possible worlds."

The Salomon Brothers partner further projected that, "we should not expect a repetition of the impersonal money-market rationing of 1969 or the crunch of 1966." Instead, he said some form of credit rationing combined with interest rate ceilings would probably be instituted. "There will be many other unhappy novelties if the present program

fails," stated the noted interest rate historian.

However, if the President's program is essentially successful over the next twelve months, Mr. Homer had a more optimistic vision. First he defined the success of the program in terms of a substantial reduction in the rate of inflation, a material weakening of inflationary expectations and a substantial



rise in economic activity and an improvement in unemployment. Under these conditions, he explained, traditional cyclical factors will favor larger credit demands and higher short-term interest rates. But, he said, the drop in inflationary expectations will restrain anticipatory borrowings, will encourage bond investment and thus favor lower long-term bond yields.

"I believe," Mr. Homer said, "that under this assumption, on balance, short-term rates will rise and long-term rates will fall below present levels." In such a "hoped for environment," he said the following trends in the supply and demand for credit could be expected: 1) Larger short-term private credit demands reflecting a higher level of business; 2) high credit demands from real estate mortgages reflecting a housing boom; 3) lower than peak long-term corporate

bond demands reflecting the end of the high refunding boom and higher internal corporate funds only partly offset by higher capital expenditures and finally, 4) a lower Federal deficit, reflecting better tax receipts.

More specifically, Mr. Homer said, "If the present program of controls works, long-term bond yields should move lower with new issue corporate yields going down to say 6½ per cent." On the other hand, if the program fails, he said he did not expect a repetition of the market rationing of 1969 with 9 to 10 per cent yields. Instead, the controls he anticipated would hold yields down at well below recent peaks.

Insurance Agents Go To Court

The National Association of Insurance Agents has taken the first step in its declared war on the Federal Reserve Board's recently announced regulations governing insurance by bank holding companies under its charge from Congress to supervise the Bank Holding Company Act of 1970. The Fed Board liberalized the rules, making it possible for bank holding companies to compete directly with local agents and the NAIA has taken issue with the Board, since this contravenes previously established law governing these activities.

NAIA has initially filed with the Federal Court of Appeals in Washington, D.C., a "petition for review." It must proceed through this step before filing for an injunction to prevent the Fed

Insurance Agents...

(Continued on back page)



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Bank, a new institution, has received approval for FDIC coverage. Total capital is \$130,000 and the president is Ercil D. Phillips.

OMAHA: Clay L. Schroeder has been appointed manager of marketing and public relations for Southwest Bank. He was formerly vice president of Erspamer.

MINNESOTA NEWS

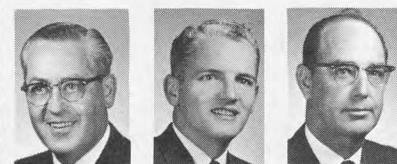
ECHO: Virgil L. Como has been elected cashier of Citizens State Bank. He was with the Western State Bank at Marshall for seven years as assistant cashier.

KLOSSNER: John F. Campe will take over his new duties on October 15 as executive vice president of Klossner State Bank, according to Victor J. Sondag, president. Mr. Campe is presently serving as cashier at Farmers & Merchants State Bank, New Ulm.

MINNEAPOLIS: George Henry, well-known vice president of First National Bank, is recuperating in good shape at St. Mary's Hospital in Rochester following open heart surgery September 23. He is in Room 3-260.

MINNEAPOLIS: Lawsuits were filed in Hennepin and Ramsey District Courts on September 23 as class action suits by a Minneapolis law firm against 10 area banks, charging them with an illegal practice of calculating interest on a 360-day year rather than 365-day year.

MINNEAPOLIS: Bruce C. Winslow, president, Third Northwestern National Bank, announces the promotion of Floyd W. Brown from cashier to assistant vice president and the appointment of Wilmer R. Dachtler to succeed him as cashier. Mr. Brown is a 40-year banker and has been at Third Northwestern since 1948. Mr. Dachtler has been with



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IOWA NEWS

DANBURY: Paul Gahan has been elected president of the Farmers Savings Bank at a recent special meeting. He was formerly vice president and cashier and succeeds James R. Lodwick. Herman A. Sohm was elected vice president. Mr. Lodwick and his brother, Byron Lodwick, chairman, sold their stock to local interests.

RED OAK: Hawkeye Bancorporation has filed a registration statement with the SEC for its third public stock offering. This one is for 530,000 additional shares of \$3.00 par value common capital stock to be sold to the public. Proceeds will go toward purchase of six proposed constituent banks, for which application has been made to the Federal Reserve Board for approval to purchase.

SIoux CITY: Home Federal S&L has received disapproval from the Federal Home Loan Bank Board of its application to establish an office at Second and Maple in Cherokee, Ia.

TABOR: Olony Ruse, a director of First State since 1963, died recently and was succeeded on the board by Stanley Weatherhead.

NEBRASKA NEWS

ASHLAND: Edwin A. Fricke, 81, died PLEASANTON: The Pleasanton State

September 21. He had been with Farmers and Merchants National since 1929, serving as president from 1942-70, when he was succeeded by his son, Robert.

HAY SPRINGS: Arlen Krugerud has joined the officer staff of the First National Bank. He has moved from Marshall, Minn., where he was vice president of the Western State Bank. He is a native of Dawson, Nebr.

LYMAN: Marks O. Morrison has sold a portion of his stock in Farmers State Bank to E. A. Karsten of Sterling, Colo. Mr. Karsten is now the principal stockholder. Mr. Morrison will continue as president and a director. Mr. Karsten has been elected to the board. He is also chairman of the Andrew Savings Bank, Andrew, Ia.

OMAHA: An application for a state bank charter to be known as The Community Bank of Nebraska has been filed with the Nebraska department of banking. It would be located at 4922 Ames Avenue. A hearing in the banking department office has been set for November 17. Organizers are leaders of the black community in Omaha, including Ambrose M. Jackson, Jr., registrant, and Bob Gibson, famed pitcher for the St. Louis Cardinals, who still makes his home in Omaha.



Bob Buenneke

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MINNEAPOLIS: Two new officers have been elected at National City Bank. Peter H. Archibald is now vice president for commercial banking and Gary M. Andrew is now assistant vice president in the investment department. Both previously were with First National Bank.

ST. PAUL: J. Thomas Simonet, a vice president and head of a commercial loan division of The First National Bank, has been elected a vice president and assistant to the president of the affiliated First Trust Company. Mr. Simonet will be working closely with First Trust's president, Harry L. Holtz, in an administrative capacity.

ST. PAUL: Mid America Bancorporation, Inc., has applied to the Federal Reserve Board for prior approval to acquire 100% (less qualifying shares) of The First National Bank of Hutchinson.

MONTANA NEWS

BUTTE: Erwin P. Frizelle, president, First Metals Bank & Trust Co., announces the election to the board of John N. Newland, CPA, and Richard R. Miller, president and general manager of KBOW.

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RICHEY: The Comptroller of the Currency has approved conversion of First State Bank of Richey to Montana National Bank of Richey, Edward Towe is president.

RONAN: Application has been made to the Federal Reserve Board for Olsson's, Inc., Ronan, for prior approval to acquire 85% of Ronan State Bank.

ILLINOIS NEWS

CHICAGO: Luke J. Fowler recently joined Mount Greenwood Bank, 3052 West 111th St., as installment loan officer. He has been in the consumer credit department of a large area bank.

COLORADO NEWS

NATURITA: Preliminary approval of a charter for the proposed Montrose County Bank has been given by the Colorado bank board. Final approval hinges on a minor change in capitalization and granting of FDIC coverage, according to Harry Bloom, banking commissioner. Five officers and directors of Dolores State Bank are the organizers.

NORTH DAKOTA NEWS

FARGO: Vance O. Williams was elected senior vice president and director of the First National Bank and Trust Co., effective October 1. He has been vice president of Security National Bank, Fari-bault. Both banks are affiliated with Northwest Bancorporation.

SOUTH DAKOTA NEWS

SIOUX FALLS: Robert M. Haugen, vice president, National Bank of South Dakota, has also been elected cashier and will continue in charge of operations and branches. He has been with the bank since 1947. He replaces Lawrence J. Larson, who has retired after 46 years of banking service.



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SIOUX FALLS: Wendell O. Liaboe, vice president, has also been elected cashier, Union Bank & Trust Company, according to John T. Vucurevich, chairman and president.

WISCONSIN NEWS

APPLETON: Darrell E. Pederson has been elected marketing director of Valley Bancorporation and its affiliated

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bank, Appleton State Bank. He was with Northwest Bancorporation, Minneapolis.

BEAVER DAM: Approval has been given to First National Bank of Beaver Dam to change its name to First National Bank & Trust Co. of Beaver Dam.

MARSHFIELD: A certificate has been issued by the Comptroller of the Currency to The Citizens National Bank of Marshfield to change its name (effective August 10) to Citizens National Bank and Trust.

Insurance Agents...

(Continued from front page)

from implementing its regulation. The seriousness of NAIA's intent to see the matter through is its establishment of a \$500,000 "war chest" to take the issue through the courts.

No "Banking Reform" This Year

House Banking Committee Chairman Wright Patman (D., Tex.) has stated he doesn't know whether his committee can act on "banking reform" legislation "this year." He said it has been forced "to the back burner" by President Nixon's wage and price freeze and the proposed Phase II control. He also feels "strongly that we (his committee) should have oversight of any agency" set up to administer wage and price controls under the Phase II program. Keeping up with this issue could be a full-time job, he said, and this would force a delay in any action on H.R. 5700, banking reform, this year.

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