

NORTHWESTERN Banker Newsletter

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Oppose Acquisition of Consulting Firms

Management consulting is not a permissible activity for bank holding companies, the Federal Reserve Board has decided.

The Board's decision came in connection with two recent applications. One was of particular interest to the readers of the *NORTHWESTERN BANKER* in that it was made by Marine Midland Banks, Inc., Buffalo, New York, to acquire Carter H. Golembe Associates, Inc., Washington, D. C. Mr. Golembe's firm conducted an extensive study in recent years on banking structure in Minnesota. He has appeared on numerous ABA programs.

FRB said Golembe engages in economic research, acts as a management consultant to banks, bank related companies, and the banking industry, and provides informational services on legislative, regulatory and related matters.

The Board defined management consulting as providing analysis or advice on such matters as purchasing, production, marketing, planning, personnel, internal and research operations. It found Smolkin was "engaged in management consulting" and that Golembe was "engaged in management consulting activities to a significant extent . . ."

In deciding not to permit management consulting as a permissible BHC activity, FRB concluded that — although acknowledging that "banks, in providing correspondent services, may engage in certain management consulting activities" — "conflicts of interest" might arise from allowing BHC's to enter the field

Comments made by the Federal Reserve Board were:

"The possibility exists that the objectivity, which its clients expect from a management consultant, would become colored by the fact that it is associated with potential suppliers of other services to those clients.

"If a client were to borrow from a bank affiliated with a management consultant, and subsequently incurred financial difficulty, the management consultant's advice could become influenced more by its desire to ensure repayment of the loan to its affiliate, than by any objective evaluation of the best interests of the client.

"Further, where the loan was sought as part of a financing plan designed by the management consultant, the affiliated bank, in order to protect the reputation of its consultant, might refrain from taking action to obtain repayment in circumstances where it ordinarily would do so.

"In addition, an affiliated management consultant might be motivated to tailor its marketing advice to a client in such a manner as to protect its own affiliates from competition from the client.

"Generally, ethical considerations should protect against the possible conflict of interest situations noted above. Nevertheless, in determining whether to permit an activity under Section 4(c)(8), the Board is required to consider possibilities, not probabilities.

"The Board, however, does wish to note that the foregoing description of



PICTURE OF THE WEEK — New President of the Minnesota Bankers Association John F. Nash and his wife Lois. Elected at the 82nd Annual MBA Convention in Duluth, Mr. Nash is president and chief executive officer of the American National Bank and Trust Company, Saint Paul.

possible adverse effect that might derive from the affiliation of a management consultant with a bank holding company is intended to describe factors which the Board has considered in determining the permissibility of the management consulting activity and should not be construed as an expression of doubt in the integrity of any of the parties to this application.

"Finally, the Board is bound to consider another Congressional purpose evidenced by the enactment of the Bank Holding Company Act, that is, the policy of maintaining the separation between banking and commerce in order to,

(Continued on back page)

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IOWA NEWS

ARNOLDS PARK: The Lakes National Bank recently moved into its new 3200 square foot building. It was announced at that time that Marvin Simonson was promoted to executive vice president, and Larry Becker joined the staff as cashier.

DECORAH: Open house on the new Decorah State Bank building has been delayed until July 24 due to installation of new furniture.

DES MOINES: Declaration of a special dividend of \$6.50 per share payable July 3, 1972 to all stockholders of record June 20, 1972 of Central National Bank and Trust Company of Des Moines, and announced by Mr. B. C. Grangaard, chairman and chief executive officer, following a monthly meeting of the bank board. The bank is owned in excess of 98% by Central National Bancshares, Inc., and that portion of the proceeds of the dividend going to Bancshares, will be retained for general corporate purposes.

FORT DODGE: The Group 2 Golf Tourney, scheduled for the Fort Dodge Country Club on June 22, was cancelled

LAKE PARK: James Krumm has been appointed cashier at the Security State Bank. Mr. Krumm has most recently been a bank examiner out of the Federal Reserve Bank of Kansas City.

MASON CITY: David L. Kingland has joined the First National Bank as assistant vice president in the agricultural

department. He was formerly assistant manager of the Federal Land Bank Association in Mason City.

SPRAGUEVILLE: Maquoketa State Bank has applied for the establishment of an office here. The Iowa Banking Dept. will hold a hearing on the application on July 19 in Des Moines. Spragueville was the former home of the Farmers Sav. Bk., which moved to Preston early this year.

NEBRASKA NEWS

LINCOLN: The new Lincoln Bank East has received approval for FDIC Insurance. Total capital will be \$750,000. Don Larson will serve as president. This item was reported incorrectly last week.

OMAHA: Thomas A. Horeis was promoted to assistant cashier at the First West Side Bank. He has been with the bank since 1964, most recently in the installment loan department.

MINNESOTA NEWS

ALEXANDRIA: Open house was held recently at the new Community State Bank, according to Paul W. Bergien, chairman. M. L. Lillehaugen was named president of the locally owned bank.

BLUE EARTH: The election of Curtis H. Nelson, vice president, to the board of directors of the Blue Earth State Bank

has been announced by K. O. Sattre, chairman.

DULUTH: John M. Dickerson, a vice president at the First American National Bank, will retire on June 30.

DULUTH: Morris J. Opsahl, 68, died here recently. He was president of Grey-solon Corp., an investment firm he founded in 1932, and a director of the Northern City National Bank.

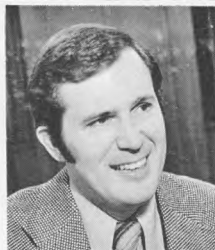
MINNEAPOLIS: Otto Preus, vice president, Marquette National Bank, has announced plans for a week-long trip to Mexico City and Acapulco following the American Bankers Convention in Dallas, October 7-11. The group will leave from Minneapolis and Des Moines on Saturday, October 7 and return on October 19. Price from the Twin Cities is \$489 per person. Price from Des Moines is \$469 per person. O. J. Thomson, executive vice president, Marquette National, and his wife, Pat, will host the trip. Details may be obtained from Marquette-Sedard Travel, 777 Marquette Ave., Minneapolis, Minn. 55402.

NORTHFIELD: The seventh session of the Minnesota School of Banking is currently taking place at St. Olaf College here. The school is sponsored by the Minnesota Bankers Association, with MBA executive vice president Truman L. Jeffers as director.

ILLINOIS NEWS

CHICAGO: The Northern Trust Company has announced that it is seeking approval from the Fed to acquire a 25 per cent interest in Banque Scandinave en Suisse, Geneva, Switzerland. The bank was organized in 1964 by four Scandinavian banks.

CHICAGO: The Drovers National Bank has announced the appointments of Ray-

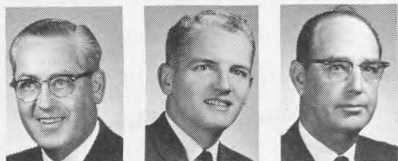


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mond J. Fencl as vice president, commercial loan division, and John T. Madigan as auditor. It was also announced that Ceaser Mazzukelly was named assistant vice president.

CHICAGO: Paul Dean has been elected vice president of the North Bank. Mr. Dean will be in charge of business development, including advertising, market research and public relations. He was formerly with the Chicago Tribune.

CHICAGO: Mount Greenwood Bank has opened a 10,000 square foot annex to its main bank. An open house was held recently to mark the occasion.

HILLSIDE: John R. Braue has been elected president and chief executive officer at the Bank of Hillside.

NAPERVILLE: First Ogden Corporation has named Jonathan R. Talbot as public relations director. Mr. Talbot, a former Massachusetts news and advertising man, will head all public relations activities for the company, its seven subsidiaries, and its 14 client banks.

PROPHETSTOWN: Bank officials have announced plans for a 2400 square-foot addition to the Farmers National Bank, with completion scheduled for October.

COLORADO NEWS

BOULDER: Three new vice presidents have been named at the National State Bank. They are: Leon Jenkins, real estate loans, and John H. McAdams and Ed Singer, commercial loans.

It was also announced that Joel Webb has been promoted to operations officer, and Donald Martin was named cashier.

DENVER: It was reported that Mountain Banks Ltd. has applied for new commercial bank charters in Colorado Springs and Aurora.

DENVER: BankAmerica Corp. has announced plans to establish a new mortgage banking subsidiary to be located here, according to A. W. Clausen, president. Donald E. Crossland, formerly vice president-mortgage banking at the First National of Denver, has been named president of the subsidiary, to be known as BA Mortgage Company of Denver, Inc.

DENVER: David R. Isferding, vice president, American National Bank, has been given additional duties as cashier. He will continue to have responsibilities for the bank's data processing operations.

FORT COLLINS: The Fed has given approval to the acquisition of the University National Bank by Affiliated Bankshares of Colorado, Boulder.

SOUTHGLENN: Frank S. Peterson has been elected executive vice president, and William C. Moor was named vice president and senior loan officer at the First National Bank of Southglenn. Mr. Peterson was formerly with the First National Bank of Bear Valley, and Mr. Morr was with the First National Bank of Denver.

MONTANA NEWS

HELENA: The Montana Corporation has sold the Commerce Bank and Trust Company to a group headed by Lyle E. Olson, the current president of the bank.

WYOMING NEWS

LOVELL: An open house was held recently in the newly expanded and remodeled quarters of the Western National Bank. Wynn Terwilliger, president, reported that the bank is currently averaging a 60 per cent annual growth rate, highest in the state.

NORTH DAKOTA NEWS

MARION: An open house was held recently inside the newly remodeled quarters of the Bank of Marion, according to Wayne Kaspari, president.

RHAME: The Bank of Rhame has elected Roger Berglund as cashier, according to President Albert E. Bowman. Mr. Berglund was formerly associated with the Farm Credit Bank of St. Paul, Minn.

SOUTH DAKOTA NEWS

BROOKINGS: 250 bankers from three states attended a sneak preview of the new Northwestern National Bank of Sioux Falls branch office building here.

NATIONAL NEWS

KANSAS CITY: Commerce Bank of Kansas City will change from a state charter to a national charter, and the official name will be Commerce Bank of Kansas City, N.A. (National Association) as of June 30.

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MANAGEMENT FIRMS...

(Continued from page 1)
among other things, prevent the undue concentration of economic resources.

"To permit bank holding companies to engage in the business of advising commercial enterprises would, in the Board's judgment, represent an extension of banking influence into the realms of commerce in contravention of Congressional purpose."

Long before the Fed's ruling, the editors of the *NORTHWESTERN BANKER* asked Mr. Golembe about a possible conflict of interest — and on April 3, 1972, he said:

"Even if the application to the Federal Reserve is accepted, and we do in fact become a subsidiary of Marine Midland, there is not the slightest possibility that my views would be "narrowed" or broadened or affected in any way, and the same goes for the other professional members of our firm. Indeed, if there were any effort on Marine's part to influence our views, it would be impossible to keep our firm intact. Marine of course knows this and has no such desire. For the plain fact is that the only possible value which we can have as an investment to Marine is our independence and integrity; without that Marine has made a very poor bargain, and I rather suspect that they know this far better than anyone else.

"In this connection, you might be interested in the following facts. First, the contract with Marine which is being considered by the Board of Governors provides specifically for an arm's length relationship, including a provision which is probably unique in such contracts, to the effect that Marine shall have no access to our files. Second, that since the announcement of an agreement in principle between Marine and our firm, no client bank in Marine's market area has ceased using our services and, rather significantly, two major banks that are direct competitors of Marine have begun to use our consulting services with respect to matters relating to geographic expansion."

In recent months, Mr. Golembe has advocated the crossing of state lines by

holding companies and the granting of federal charters for them.

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