

NORTHWESTERN Banker Newsletter

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Federal Financing Invites Credit Squeeze

"While large Federal financing operations do not usually pose problems to a sluggish economy with large reserves of unused resources, large Treasury financing needs and a rapidly expanding economy are a mix that create credit and ultimately economic disturbances," according to Henry Kaufman and James J. McKeon of the investment banking firm of Salomon Brothers.

In a special memorandum titled, "Emergency Developments in Supply and Demand for Credit," Salomon Brothers partner and economist Henry Kaufman and analyst James J. McKeon stated that a burgeoning Federal budget deficit and its coincidence with an accelerating private economy are at the heart of an emerging credit problem. The combined net market demands of the U.S. Treasury and Federal Agencies will account for 24 per cent of all effective net credit demands in fiscal 1973 as compared with 14 per cent in fiscal 1972 and 15 per cent in fiscal 1971.

The credit squeeze, stated the Salomon Brothers memorandum, will ultimately slow housing and municipal activity once again, unless new effective stabilization procedures are introduced. Credit pressures will become evident in the first half of calendar 1973.

The Salomon Brothers supply and demand estimates are based on the consensus economic view that holds that during the twelve months ending June

30, 1973 there will be a continued substantial upsurge in consumer spending, a large increase in business outlays, a high but moderating volume of housing starts, and a very stimulative Federal fiscal policy, all driving employment higher, reducing unemployment to 5 per cent or a little lower and increasing the gross national product by about \$110 billion or 10 per cent.

The estimated total net credit demands for the year ended June 30, 1973 would be a record \$159 billion, exceeding the \$141 billion of the previous year and \$104 billion in the twelve months before that, according to the investment banking firm's memorandum. The amount of U.S. Treasury borrowing to be financed in the market place is put at about \$27 billion by the Salomon Brothers Analysts, nearly twice as much as in fiscal 1972 and about two-and-one-half times as much as in fiscal 1971. Financing these huge demands probably could not be accomplished without a massive return of individuals as direct investors to the U.S. Government markets. Individuals, noted the firm, would provide nearly \$14 billion for the Treasury and U.S. Agency markets.

The huge credit demands projected by the Salomon Brothers analysts would place a heavy burden on monetary policy. They noted that even a record \$61 billion bank credit expansion would push short-term rates substantially higher, en-



PICTURE OF THE WEEK — Good luck, Bob — That's what Miss Red, Diane VanDer-slice, wishes University of Nebraska football coach Bob Devaney as she presents the nation's top mentor his very own "Little Red." "Little Red" is a talking cheerleader doll, outfitted in NU colors and full of cheers for the Huskers. "Little Red" gives forth with seven different NU yells when you pull her string. The doll is part of a fall promotion at the National Bank of Commerce in Lincoln and 34 other Nebraska banks.

couraging long-term investors to wait for more favorable long-term interest rates. While an even larger injection of new bank funds by authorities in attempts to slow increases in interest rates cannot be ruled out, they observed that the choice would have to be made against a backdrop of higher utilization of real resources and a very stimulative fiscal policy which by themselves would be providing considerable heat to re-ignite inflationary tendencies.

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IOWA NEWS

DES MOINES: Four beef demonstration days are planned by the Livestock Industry Committee of the Iowa Bankers Association. They will be Cherokee, Sept. 12; Waterloo, Sept. 13; Anita, Sept. 14, and Albia, Sept. 15. Details may be obtained from the IBA office.

DES MOINES: Lester C. Mealiff has been named vice president in the commercial loan department of Capital City State Bank. He has been with the First National Bank, Humboldt.

DES MOINES: Bankers Trust Company has a new Iowa inward Wats Service. The number is 800/362-1688.

MODALE: Modale Savings Bank has filed for approval of a plan for dissolution with the Iowa supt. of banking. Assets of the bank are to be acquired by, and the liabilities assumed by State Bank and Trust Company, Council Bluffs.

DES MOINES: The Urbandale planning and zoning commission has voted to rezone a 12-acre tract on the north side of Douglas Avenue between 82nd and 86th Streets for a parking lot facility for the Iowa-Des Moines National Bank. The measure now goes before the Urbandale city council for final approval. Bank officials plan a professional building as part of the complex.

NEWTON: A new facility, to be called Colonial Plaza Office, is planned by the

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NEBRASKA NEWS

IMPERIAL: A hearing was held August 15 on the application of First National Bank to drop its national charter and convert to a state bank charter under the name of Chase County Bank & Trust Company, Imperial. Melvin Adams is chairman and his son, Mel, is president.

ROSELAND: Edward Hall, president of Roseland State Bank, announced last week that he has sold his controlling interest in the bank to Jerome E. Konen, cashier, who has been associated with the bank for 25 years. Mr. Hall will continue as president and a director at this time. Ted Hall has been with Roseland State for many years, and was advanced from cashier to the presidency in January, 1954, to succeed his brother, Leland Hall, who was elected chairman of the board at that time. Mr. Konen was elected cashier at the same meeting.

ILLINOIS NEWS

ORLAND PARK: An application for a state charter has been filed for a bank to be known as Plaza State Bank. Capitalization would be \$1,000,000 consisting of \$400,000 capital; \$400,000 surplus, and \$200,000 reserves. Organizers include Terrence Kunes of Palos Park; Gary Van Brock, Oak Brook; Herbert

During August the Fed Funds rate averaged 4.77%. In the same month our commercial paper with 30 day maturities averaged 5.28%. Please call us collect.



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SEPTEMBER 4, 1972

"HOW THE BANKER CHOOSES HIS CORRESPONDENT BANK"

1. For what reasons did you choose your present correspondent banks? Please read this list, then check 1, 2, 3, etc., in order of their importance to you:

| | |
|---------------------------------------|-------------------------------------|
| Location _____ | Personal acquaintance in bank _____ |
| Size _____ | Ability of representatives _____ |
| A special service available _____ | Reputation of management _____ |
| Reputation for service _____ | Cooperation on excess loans _____ |
| Financed purchase of bank stock _____ | To serve a certain customer _____ |
| Facilities _____ | Other (please list): _____ |
| Data Processing facilities _____ | |

2. What are the most important services your city correspondents are now rendering to you? Please read this list, then check 1, 2, 3, etc., in order of importance to you:

| | |
|---------------------------------------------------------------|-------------------------------------------------|
| Check clearing _____ | Investment portfolio service _____ |
| Federal funds market, other _____ | Data processing _____ |
| Short term funds _____ | Credit information _____ |
| Advice on bank operations _____ | Collections _____ |
| Overline loan participations _____ | International service _____ |
| Other loan service _____ | Credit card plan _____ |
| Trust service _____ | Funds transfer by wire _____ |
| Trust investment advice _____ | Safekeeping, purchase, sale of bonds _____ |
| Seminars, economic forecasts, other advisory service _____ | Information on what other banks are doing _____ |

3. Have you made changes in your list of city correspondents in the past two years? Yes _____ No _____
If "Yes", please explain briefly:

4. How will establishment of Federal Reserve Regional Check Processing Centers affect your correspondent bank relationships? Please comment:

5. On September 21, the Federal Reserve Board will put into effect its previously announced reduced schedule of reserve requirements for member banks, which also includes the requirement that all banks make payments on day of presentment for checks clearing through the Federal Reserve System. How will this affect your correspondent bank relationships? Please comment:

6. Where is the principal need in asking city banks for help on participation or excess loans?

7. Banks traditionally have reimbursed their city correspondents through the compensating balance method. The use of fee schedules for at least some services has become more popular in recent years, tied to a cost basis. What method do you prefer? (Please check):

Compensating balance method _____ Fee schedule _____

Combination of compensating balances and fee schedule _____

Other arrangements (please describe):

Please comment on your preference:

8. In your opinion what are the most important factors or qualities you think a correspondent bank representative should have?

9. In what way(s) can correspondent service(s) to your bank be improved?

10. Please write here or on a separate page any comments you care to make on the correspondent banking system today, new factors—such as increased multi-bank holding company activity and more aggressive Federal Reserve activity, for example—and how you assess the continuing role of correspondent banking in the immediate years ahead.

YOU NEED NOT SIGN YOUR NAME.

Your state _____ Deposits of your bank \$ _____

THANK YOU! After completing this questionnaire, please mail it to:



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Huskey, Oak Lawn; Thomas Connolly, Oak Forest; and James P. Reedy, Oak Brook.

URBANA: Illinois Bankers Assn. will hold its 26th annual Ag Credit Conference at the University of Illinois, September 20-21. Attendance will be about 300.

MINNESOTA NEWS

LITCHFIELD: Leslie E. Herzog has been elected president of First State Bank of Litchfield. He will succeed Garry A. Hollaar who will retire after 31 years of service in banking. Mr. Herzog was president of First State Bank of Coopers-town, N. D.

MINNEAPOLIS: The 74th annual recognition dinner and ball of the Minneapolis chapter of the American Institute of Banking will be held Thursday, September 7 at the Radisson South under the theme "The World of A.I.B."

J. N. (Chris) Christianson, president of Idea Mountain, Inc., Scottsdale, Arizona, will be a speaker. Certificates will be presented to the 1971-72 A.I.B. graduates and scholarships and other special awards will be presented.

MINNEAPOLIS: The Comptroller has approved a charter for the Ridgedale National Bank in the new Minnetonka shopping center on Highway 12. Organizers include Dwayne O. Andreas and Kenneth H. Dahlberg.

SILVER BAY: Palmer Hoffland has been elected president and a director of the Silver Bay State Bank. He was previously the vice president and cashier of the First National Bank in Two Harbors.

NORTH DAKOTA NEWS

COOPERSTOWN: Howard E. Brash has been elected president of the First State Bank of Cooperstown. He will succeed Leslie E. Herzog who will be president of First State Bank of Litchfield, Minn. Both banks are affiliated with First Bank System. Mr. Brash was formerly vice president of the First Bank of Rolla.

FARGO: The newly-chartered Union State Bank of Fargo has recently opened for business. Capitalized at \$500,000, the bank secured FDIC approval to insure accounts up to \$20,000.

STEELE: The Bank of Steele has moved to its new bank building, located next to BEK telephone headquarters in Steele. Bank officials say plans are underway for a grand opening celebration in September.

SOUTH DAKOTA NEWS

PHILIP: Boyd Waara was elected an assistant vice president of the First National Bank with duties in the lending field and bank operations. Mr. Waara was employed by the Federal Land Bank in Brookings.

Charles Ekstrum was promoted to the newly created position of vice president agricultural credit at the meeting. He joined the bank in 1968 as assistant vice president and agricultural representative.

WYOMING NEWS

CHEYENNE: Gary G. Winter, a former Denver investment banker, has been named vice president-investments for Wyoming Bancorporation.

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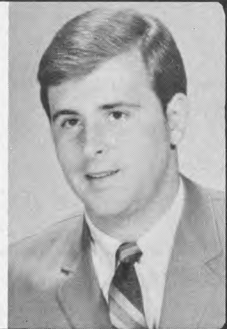
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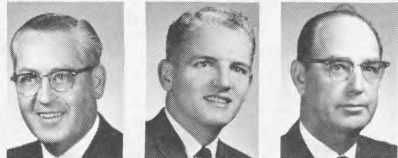


CREDIT SQUEEZE...

(Continued from Page 1)

external financing will total \$43 billion, about equal to the amount in each of the two previous twelve month periods. However, for all corporations, including banks and other financial corporations, the net issuance of new bonds would decline to an estimated \$17 billion, down \$2.5 billion from the previous twelve months and down \$9 billion from the record offerings during the twelve months ended June 30, 1971.

Long term municipal financing is also expected to moderate to \$11.8 billion in fiscal 1973 as compared with \$15.6 billion in the year ended June 30, 1972. This, the Messrs. Kaufman and McKeon attribute to the diminishing availability of bank funds, higher financing costs that may bump into legal financing limits, and a slowing in capital outlays by municipal governments. In addition, short-term borrowing, which had increased while municipalities awaited some \$7 billion in Federal funding as a result of "Revenue Sharing," will be reduced and result in a moderate net reduction in outstanding short-term debt in the current fiscal year.



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