

NORTHWESTERN Banker Newsletter

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Des Moines, Iowa

September 25, 1972

What About Interest Rates Now?

The following Money Market Comments were made by Arnold C. Schumacher, vice president and economist, Halsey, Stuart & Co., Chicago.

Considering the experience of recent years, long-term interest rates in 1972 have been unusually stable. Beginning in early 1966, Moody's yield index of AAA corporate bonds rose from about 4.75% to a peak of 8.60% in July, 1970. The convergence of a rapid buildup in inflation psychology and a demand for funds which outran supplies created chaotic conditions in credit markets. The recession of 1970 reversed these forces and resulted in a dramatic decline in yields. From July, 1970, to February, 1971, the yield index dropped from 8.60% to 7.06%. This proved to be an over correction and by mid-summer yields were back to a 7.70% level. As more orderly conditions were gradually restored yields again drifted down to 7.20% at the beginning of 1972 and have remained in a relatively narrow band of 7.20%-7.35% since then.

Short-term rates have followed the more or less standard pattern associated with a business cycle expansion. The Treasury three-month bill yield reached its low point last February at slightly over 3.00% and has risen to 4.70% while 4-6 months commercial paper rates in the same period have gone from 4.00% to 4.90%. It seems likely that short rates will continue to push upward as the

recovery proceeds. Short-term rates traditionally fluctuate more widely than longer rates.

Long rates are a function of two basic sets of conditions. One is inflationary expectations and the other is the demand and supply of investment funds. While inflation is less potent than it was two years ago it has by no means vanished. We expect it to remain a stubborn problem as far ahead as one can see. It does seem, however, that the GNP deflator in 1973 will not rise more than 3.5%-3.7%. This represents a slight increase over the present year which may average about 3.2%-3.4% above 1971. The main inflation curb has come, not from wage and price controls, but as a result of the extended period (now over two and one-half years) during which the economy has performed below its optimum employment of physical and human resources. This gap between actual and potential output is gradually being narrowed but not very rapidly. It now appears no serious pressure on the resource base will develop before the second or third quarter of next year, and possibly later. Thus, even though inflation may gain some slight momentum next year, it should not serve to drive long rates back to their peaks of 1970.

The demand-supply equation for funds is more difficult to appraise. Federal borrowing will be large in the fourth quarter of this year and the first quarter

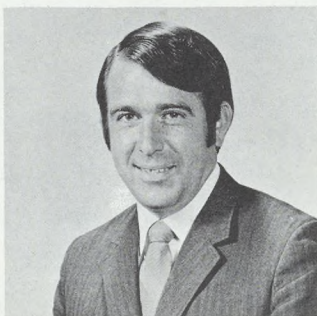


PICTURE OF THE WEEK — Pres. Eugene P. Heytow of Amalgamated Trust & Savings Bank, Chicago, rewarded two tellers for their bravery during a bank robbery.

The tellers told police that a man first approached Mrs. McGowan's station and appeared very nervous, then moved to Mrs. Dutko's station where he asked her to give him all of her money. Aware of the man's nervousness and his request, Mrs. McGowan pressed an alarm buzzer to the Chicago Police Department. Among the packages of real money, Mrs. Dutko also handed the man a "Security Pac" which contained an electronically triggered exploding red dye that helped trap the man in a parking garage next to the bank. Most of the money was recovered.

of next, possibly running as high as \$25 or \$30 billion. Since much of this will have to be accommodated through the banking system it is likely to force a liberal monetary policy. Also, private demands will be rising in this period. At the same time, the supply of funds will remain large. Consumer savings and corporate cash generation, while perhaps not advancing as rapidly as in 1972, will

(Turn to back page, please)



Larry Welch

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Fed Outlines Insurance Activities For Holding Co's.

The Federal Reserve Board has defined four major areas of insurance agency activities that are permissible for bank holding companies but has placed a five percent limit on insurance premium income that may come from insurance sold "as a matter of convenience to a purchaser."

The five percent limitation, while not unexpected, is considered very restrictive in the bank holding company industry. However, the entire authority to sell insurance "as a matter of convenience to the purchaser" is considered a foot-in-the-door to general insurance business by insurance agents — although the Fed specifically denies it.

The four major areas of permissible insurance activities include the sale of (1) group insurance for the protection of employees of the holding company, (2) credit life and accident and health insurance, (3) homeowners insurance, and (4) auto liability insurance.

In the case of the latter three, the insurance must be "directly related to an extension of credit by a bank of a bank-related firm". This provision is designed to permit the sale, by a bank holding company system, of insurance that supports the lending transactions of

Northeast Iowa Banks

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nb National Bank of Waterloo

a bank or bank-related firm in the holding company system.

Fed Refuses Delay On Check Collections

Federal Reserve Board governor George W. Mitchell said last week the Fed intends to proceed as planned with implementation of its new check collection procedures on Sept. 21.

Moreover, Mr. Mitchell answered some of the arguments made by commercial bankers earlier this month who have petitioned the Fed to postpone or further review implementation of the amendments to Regulations D and J.

"As I see it," Mr. Mitchell said, "There are only two things that could postpone the Sept. 21 start-up of the new regulations — court action or a Congressional hearing."

IOWA NEWS

CEDAR RAPIDS: Directors of the Banks of Iowa, Inc. have authorized management to purchase in the market from time to time for the Company up to 25,000 shares of the Company's common stock. The stock would be used in connection with the qualified stock option plan of Banks of Iowa, Inc.

CORALVILLE: Open house for uniBank & Trust Company in its new building will be October 8 from 2 P.M. to 5 P.M. This is the former Coralville Bank and Trust Co.

DES MOINES: F. A. Wittern, Jr., pres., Fawn Engineering Corp., Des Moines, is a new director of the Iowa-Des Moines National Bank.

MASON CITY: First National Bank is planning a parking lot office at 1315 - 4th S.W. It will be the second facility, and is to be completed early next spring.

OAKLAND: Citizens State Bank has hired Charles Hitchman as ag rep. He is a recent ISU graduate.

NEBRASKA NEWS

EAGLE: An application has been filed for a state-chartered bank here, to be known as the Eagle State Bank. Hearing on the application will be on November 7 at 9:30 A.M. at the Department of Banking in Lincoln.

OMAHA: Harris V. Osterberg announced at the Group Meetings last week he will retire as Secretary of the Nebraska Bankers Association December 31. He will then become president and manager of Bankers Service Bureau, Inc., officing at 414 Farnam Bldg., adjacent to NBA headquarters, and will handle servicing of all NBA insurance programs, and educational programs. Details are in the October *Northwestern Banker*.

ILLINOIS NEWS

CHICAGO: Lake View Tr. & Sav. Bk. has opened a "Coin Collectors Center."

The Center will offer gold and silver coins, commemorative silver bars, as well as a variety of U. S. and foreign coins. Customers may purchase any of the items displayed at current market prices.

CHICAGO: The Chicago Assn. of Bank Women will hold its opening meeting for 1972-73 on September 26 at the Furniture Club, 666 Lake Shore Drive. A social hour will begin at 5:15 P.M., and dinner will be at 6:30 P.M. Lois Winterbeeg, mgr., Women's Dept., National Safety Council, will be guest speaker.

CHICAGO: Harris Trust and Savings Bank has named seven vice presidents. They are: Frederick E. Bishop, Donald S. Hunt, Jerry H. Pearson, John J. Ruth, all of the banking department; William A. Hawk, investment department, and Joseph T. Keckeisen, Jr., and James J. Stamas, trust dept.

ELMHURST: The Bank of Elmhurst has completed a major expansion, and the size of the lobby has been doubled. Assets are now over \$15 million.

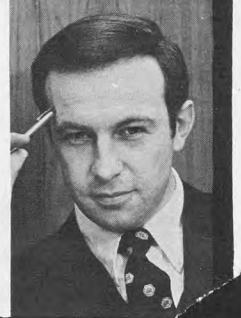
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Directors & Officers Policy. Protects directors and officers from defined wrongful acts in their capacities as directors or officers. Also reimburses the bank for losses due to liabilities of directors and officers assumed in the bank's by-laws. High limits available. Low deductibles and no participation by the insured in losses exceeding the deductible.

All-risk Physical Loss or Damage. An optional five part policy covering:

- Non existent or inadequate insurance on mortgaged or foreclosed property on a specified peril basis, as required in the bank's mortgage agreement
- Errors & omissions on taxes and V.A. & F.H.A. guarantees
- All-risk of physical loss on bank's interest in mortgaged and foreclosed property
- All-risk of physical loss or damage to bank's own property excluding perils insured specifically
- Extra expense all-risk of physical loss to bank premises

Executors' and Trustees' Errors & Omissions. Insures against negligent acts, errors and omissions of executors and trustees while functioning as administrators, executors and trustees or in other personal trust functions carried out by the trust department.

Bankers' Data Processing Transit & Extra Expense. Insures documents while in transit including the extra expense incurred to reassemble them. Coverage can be extended to include the bank's legal liability to third parties arising out of loss of the documents.

Catastrophe Safe Depository. High limits available to protect the bank's safe deposit operation. Available either as full coverage, or as an excess of your existing policy.

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Dallas, Texas 75201
214/742-3638

Houston

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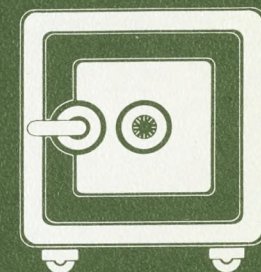
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Producer's name _____ Phone _____

Producer's address _____

Loans—exclude business loans and loans to debtors on property held for resale, lease or hire

Type Property	Number Outstanding Loans				Est. Next 12 Months			Total Loans Outstanding	Any One Loan		Terms of Loan	
	No.	*	Direct	Dealer	No.	Direct	Dealer		Maximum	Average	Maximum	Average
New Autos			%	%		%	%	\$	\$	\$	mos.	mos.
Used Autos												
Trucks—to 1 ton												
Boats & Marine Eq.												
HH Goods & Appl.												

*Indicate the number of loans for which the bank has no evidence of physical damage insurance.

How many loans are 60 days or more past due? _____

Describe the present procedure for following up on insurance _____

Describe the follow up procedure on dealer originated loans, to guarantee the bank as a secured creditor _____

Do you have any branch offices? No Yes—how many? _____. Are the lending procedures uniform with those of the main office? Yes No—explain. _____

Questionnaire—Furnish full details as needed, especially items with an asterisk.

	Yes	No
*Do you investigate each borrower including dealer loans?		
Are dealer loans made on a no recourse basis?		
Is specific coverage placed if a borrower does not carry physical damage insurance?		
*Are all instruments filed and recorded in accordance with the Uniform Commercial Code?		
Does the state require encumbrances be noted on Certificates of title of a vehicle?		
Are your encumbrances noted on Certificates of Titles when making direct auto loans?		
Are your encumbrances noted on Certificates of Titles when making dealer auto loans?		

History

Has Single Interest Auto coverage ever been carried? No Yes—furnish the carrier, when coverage was terminated and why _____

In the past three (3) years have any losses been sustained because of failure of the borrower to maintain adequate physical damage coverage? No Yes—furnish the number, total amount of losses and largest single loss, by year. _____

Lender's Protective Insurance

A Banker's Blanket Security Interest policy offering a total, comprehensive loan security insurance program for large and small banks and loan companies.

Here's a complete, up-to-date, flexible insurance program that saves a bank time and money by combining the basic protection features of several policies into one. It also eliminates most of the risk of losses due to errors in follow-up procedures.

The basic policy includes . . .

- lender's single interest coverage
- lender's errors and omissions coverage for autos, boats and appliances (other classes of chattels can also be included)
- chattel mortgage non-filing coverage

The following extensions can be added:

- Protection against losses due to physical damage of chattels after repossession
- Coverage for specific single interest on individual borrowers
- Protection against losses on loans insured by marginal companies

Additional flexibility is available to tailor the policy to the bank's exact needs.

The premium is based on either the total monthly outstanding loan balances or number of loans made. The going-in deposit will depend on the premium size and audit reporting term.

You're even protected for loans on which you failed to file a proper and complete long-form loss-payee clause.

So no matter how big your direct loan or dealer loan volume may be, this policy eliminates much of your bookkeeping and follow-up procedure and greatly reduces the risk of losses due to filing and recording. You get total coverage at a know cost.

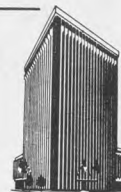
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HOMWOOD: Plans to expand the facilities of the Bank of Homewood have been announced by Patrick J. Funchion, exec. v.p. A new 13,500 square foot addition will be started in about two months. Bids are to be taken soon. Formed in July, 1946, the bank has assets over \$30,000,000.

OAK PARK: Gerald P. Marshall has been named a.v.p. and head of the installment department of Oak Park Trust & Savings Bank. He joins the bank with 10 years experience in the investment and lending field.

SPRINGFIELD: A state charter has been issued for organization of the American State Bank of Springfield, to be located at 120 South Chatham Road. Capital will be \$300,000; surplus, \$300,000, and reserves, \$150,000.

Officers will be Frank Willey, chairman; William G. Golladay, exec. v.p.; Ronald A. Wilson, v.p., and Willis Farley, Jr., cashier. All are from Springfield.

MINNESOTA NEWS

District meetings will continue in Minnesota this week as follows: Groups 3, 4, 5 - Sept. 25, Majestic Oaks Country Club, Anoka; Group 7, Sept. 26, Montevideo Country Club, Montevideo, and Group 2, Sept. 27, Kato Ballroom, Mankato.

MINNEAPOLIS: First National Bank of Minneapolis has announced that William E. MacDonald has rejoined the bank as an investment officer, and that Thomas N. Libera has been elected vice president in the trusts and investment management group.

MINNEAPOLIS: The Independent Bankers of Minnesota will hold their annual state convention on Wednesday and Thursday, October 25-26, at the Sheraton-Ritz Hotel, according to George R. Francis, president.

PIPESTONE: W. S. Morgan, president, First National Bank, has announced



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plans for construction of a new bank building at the corner of North Hiawatha Ave. and Second Street N.W.

MONTANA NEWS

RED LODGE: Funeral services were held recently for Joe Bailey, chmn., United States National Bank.

LIVINGSTON: The Regional Adm. of National Banks has approved a temporary head office relocation for First National Bank.

SOUTH DAKOTA NEWS

PIERRE: Will Lenners, asst. v.p., Pierre National Bank, has been transferred from the installment department to the commercial and ag loan dept. He joined the bank in 1970.

WESTERN NEWS

PENDLETON, ORE.: John B. Olin, supt. of banks in Oregon, has granted permission to a group of local businessmen to form a bank to be called "The Pendleton Banking Co." Authorized capitalization will be \$600,000. Joe B. Green, local CPA, is to be chairman. Other directors will be:

William R. Johns, partner in Johns, Smith and Beamer of Athena; Norman R. Jones, chairman and president of Smith Canning and Freezing Co. of Pendleton, Milton-Freewater, and Lewiston, Idaho; Henry N. Stoddard, manager of Oregon Operations for Smith Canning and Freezing Co.; John R. Segerstrom, president of the bank; and Robert A. Conitz, vice president and cashier.

Current plans call for the bank to celebrate its Grand Opening early in 1973.

SALT LAKE CITY, UTAH: Mrs. Doris Taggart, adm. asst. of Zions First National Bank was named chmn. of the Utah group of the National Assoc. of Bank Women.

WYOMING NEWS

EVANSTON: The Fed has approved the application of the Wyoming Bancorporation to acquire the Stockgrowers Bank of Eyanston. It will be effective September 30. Two additional applications are pending - First State Bank of Cody and First National Bank of Meeteetse, and are awaiting Fed action.



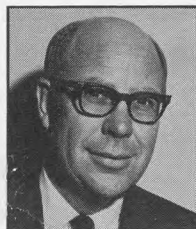
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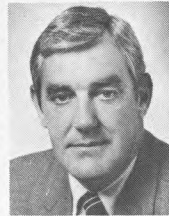
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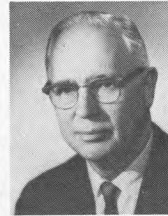


COULSON CANNON AND MUIR

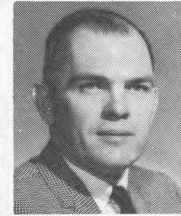
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Fred Coulson



Tom Cannon



Dick Muir

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NORTH DAKOTA NEWS

DICKINSON: The Badlands Chapter of the BAI was held here last week. Fifteen banks participated, and 74 bank officers and employees were present. The program was entitled, "Training Bank Employees," which was presented by Al Haas, State Bank of Burleigh County, Bismarck, and Reuben Sailer, Bank of North Dakota, Bismarck.

INTEREST RATES...

(Continued from Page 1)

continue to grow at a fast pace by historic standards. Also, tax increases and some progress in controlling federal spending may serve to improve the overall fiscal outlook.

In summary, our best guess at the moment is a sideways to moderate rise in long-term rates between now and early 1973. The critical time will come in the first half of next year. A combination of market forces and new inflation threats could conceivably drive rates sharply higher, but such a development (if it occurs) might well prove temporary. For all of 1973, we would doubt that long-term AAA corporate bonds will show an average yield of more than 25-35 basis points above current levels. We do not see the prospect for a severe "money crunch" or serious disturbances in credit markets.

We continue to be disturbed by the extremely liberal money policy. Since the beginning of the year the money stock has risen at a 9.0% annual rate and

reserves to support private nonbank deposits have gone up at a 9.3% rate. The Federal Reserve authorities are entering a period when it will be increasingly difficult to hold down the growth in the credit base due to Treasury financing demands.

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