

NORTHWESTERN Banker Newsletter

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View Emerging Credit Squeeze

"Short-term rates will rise very sharply during the next twelve months, an event that will not go unnoticed in the rest of the financial system or in the economy," according to Henry Kaufman, partner and economist of the investment banking firm of Salomon Brothers.

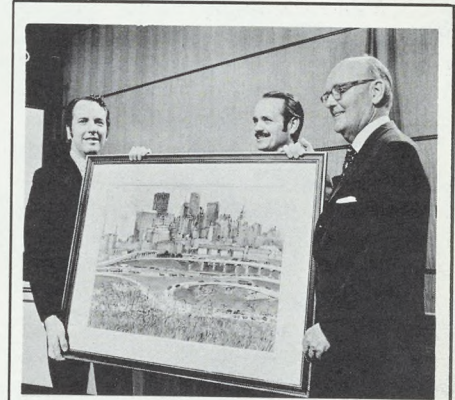
Speaking before the 23rd Annual Investment Seminar of the New York State Bankers Association, Mr. Kaufman said that at the center stage of the unfolding drama in the money market will be the commercial banks and the Federal Reserve. Presently, he said, there is no real evidence to suggest that the commercial banking system is now in a substantially improved liquidity position that would enable it to readily meet an enlarged demand for credit without substantial assistance from the Federal Reserve. Demand for bank loans, explained the Salomon Brothers economist, has been strengthening during the past twelve months. In addition, the concept of traditional bank liquidity is being replaced by "liability management," and in the process commercial bank investments have become very limited sources of funds to finance new loans.

For the Federal Reserve, stated Mr. Kaufman, the emerging credit squeeze will severely test the quasi-monetarist approach in credit policy implementation. In the months ahead, he said, adherence to the monetarist approach will surely increase the levels of money

rates sharply over the short term. The high level of economic activity, together with shrinking availability of economic resources will result in a setting quite different from that of the past two years. Occasionally during this period, he noted, the Federal Reserve has had to permit substantial drops in money rates within a short time span. "Now, however," he went on, "it may be necessary to let money rates jump sharply also over short time spans if growth rates in the aggregates are to remain harnessed."

"The culprit in the emerging situation is an overly stimulative Federal budget," stated Mr. Kaufman. Fiscal policy, he said, is again playing the sinner and monetary policy must play the role of saint. "Unfortunately, this is a combination that cannot produce satisfactory results."

"The fact is that the Federal Reserve has only limited autonomy and that its weakness and strength ultimately hinges on the support it receives from Congress and the Administration," Mr. Kaufman explained, adding that timely fiscal action to arrest the current tightening in the money market is unlikely. By the time Congress reconvenes after the election and the legislative process gets underway again, he said, the impact of the earlier decisions on the current fiscal year will be virtually sealed. There will probably be rather rapid increases in the monetary aggregates and in bank credit, as well as in short-term interest rates.



PICTURE OF THE WEEK — Dallas Mayor Westley A. Wise, left, accepts original water color painting of the Dallas skyline from Tilden Cummings, right, president, and Gaines L. Godfrey, center, second vice president, of Continental Bank of Chicago. The bank representatives made the presentation at a Dallas city council meeting while the recent American Bankers Association convention was meeting there. Reproductions of the painting, done by Chicago artist Franklin McMahon, were given to all 14,000 bankers attending the convention.

"Increases in interest rates, both long and short will become a politically sensitive factor so far as monetary policy implementation is concerned when the disintermediation level is reached and then only if the process of market rationing of credit is considered undesirable," stated Mr. Kaufman. He said, however, that he did not know the exact level of interest rates that will trigger disintermediation. "I suspect that it will

(Turn to back page, please)

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IOWA NEWS

John Chrystal was advanced to the presidency of the Iowa Bankers Association during the 86th annual convention in Des Moines last week. Mr. Chrystal, president of the Iowa Savings Bank at Coon Rapids, succeeds Thomas H. Huston, president, Columbus Junction State Bank. Named vice president of the IBA to succeed Mr. Chrystal was Richard E. Tool, president, Farmers & Merchants Savings Bank, Manchester.

The new treasurer is John F. Spies, president, Iowa Trust & Savings Bank, Emmetsburg. He succeeds Clark Houghton, president, First National Bank, Iowa City.

There were 5,206 persons registered for the convention. Full details and pictures will be in the November *Northwestern Banker*.

CEDAR RAPIDS: The Merchants National Bank of Cedar Rapids has filed an application to establish a branch in Amana.

CHARLES CITY: The board of directors of First Security Bank and Trust Company has announced the election of R. Dean Kline as assistant vice president.

DES MOINES: Grand opening for the new facility for Capital City State Bank will be held at 57th and Hickman on November 8. Bill J. Boyer, a.v.p., will manage the office.

DES MOINES: John Brown, former v.p., Capital City St. Bk., has joined Hyland Mfg. Co., Carlisle, as financial v.p.

EARLHAM: An application has been approved for the Earlham Sav. Bk. to operate an office in DeSoto. A charter application by another group, headed by

Fletcher Jennings, for DeSoto has not been decided by the banking board.

RANDALL: Les Jacobson, former a.c. at Citizens State Bk., Clarinda, has been named a vice pres. by the Randall Story State Bank.

SIOUX CENTER: A. L. Jurriaans, president of Hospers Savings Bank, recently announced that application has been made to the Superintendent of Banking and the Iowa Department of Banking to move the main office of the bank from Hospers to Sioux Center. The bank will retain its offices and personnel in Hospers and Granville. It will be re-named the American State Bank and the authorized capital stock of the bank will be increased from \$100,000 to \$500,000.

SIOUX CITY: Northwestern National Bank has opened its downtown facility here. Michael J. Moeller, v.p., will head the office.

WATERLOO: The Waterloo Savings Bank has purchased for \$30,000 a lot on Brockway Road in the Southgate 4th Addition from Richard H. and Imelda Young.

ILLINOIS NEWS

CAIRO: H. E. Emerson, chairman of the board of First Bank and Trust Company, recently announced that Daniel S. Hapke has transferred his interest in the company to Frank L. Farrar. The management and policies of the bank will remain the same and Ralph Taake, president, will continue in that capacity.

CARLOCK: Dean Bright, president of the Bank of Carlock, recently announced that construction has begun on the bank's new facility. The building of all brick design will feature the latest banking innovations. It will be located on West Washington Street and is scheduled for completion and occupancy in early 1973. The Design Group, Waterloo, is

designer of the building and coordinator of furnishings. Gene Hartmen and Sons, Incorporated, Congerville, is the general contractor.

EAST ST. LOUIS: The Southern Illinois National Bank of East St. Louis has changed its name to The Southern Illinois National Bank.

ELMHURST: William C. Gooch, Jr., has been elected president of the York State Bank and Trust Company. Mr. Gooch has been in the banking field since 1958. At the time of his election he was serving as executive vice president, cashier, and member of the board of directors.

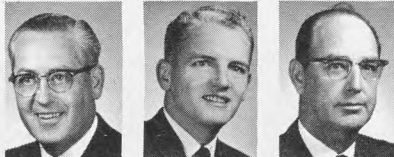
Other changes include the election of Gerald R. Olson as second vice president and cashier and Craig Anderson as assistant cashier.

FREEPORT: The board of directors of the State Bank of Freeport have announced the following changes in management: Vale W. Nortridge was elected president and chief executive officer after having served as executive vice president since 1962. Prior to joining the bank, he was cashier of the German-American State Bank in German Valley. Richard A. Miller was elected executive vice president of the bank and Everett L. Wright, formerly president, was elected chairman of the board.

NEBRASKA NEWS

LINCOLN: A new multi-million dollar bank and office building will be constructed in downtown Lincoln, starting in the spring of 1973, according to Glenn Yaussi, president of NBC Co., the one bank holding company whose principal asset is the National Bank of Commerce (NBC) in Lincoln.

In order to accommodate the building project, NBC will relocate operations in temporary quarters until the project is completed. Estimated completion time for the project is 2 and 1/2 years.



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MINNESOTA NEWS

MINNEAPOLIS: The board of trustees of Farmers & Mechanics Savings Bank has elected William B. Grandy vice president and treasurer, Eugene W. Trow assistant vice president and Clayton R. Benish personnel officer.

MINNEAPOLIS: Stanton M. Jorgens was named vice president and manager of the St. Anthony Falls office of First National Bank of Minneapolis. David R. Johnson was named vice president and general manager of the West Broadway office.

MURDOCK: Two new directors of the First State Bank of Murdock have been announced by Bill Bailey, bank president. They are Lester Egerstrom of Murdock and William D. Shores of Hayes township.

ST. LOUIS PARK: Citizens State Bank recently broke ground for a new four-story building which will house its banking facilities. The new building will be located directly across the street from the bank's present location on Excelsior Boulevard. Executive Vice President Fred B. Johnson said the new bank will feature two walk-up windows and four drive-in units with provisions to expand.

ST. PAUL: The Mid America Bancorporation, Inc., has filed an application for prior approval to acquire 90% or more of the voting shares of the Hillcrest State Bank in St. Paul.

COLORADO NEWS

DENVER: Leo L. Schiesser, an examiner for the Federal Reserve Bank of Kansas City for the past 16 years, was elected vice president of the Central Bank & Trust Co. Mr. Schiesser began his financial career with Associates Investment Co. in Indiana in 1952 and was with the Peru Trust Co. in Peru, Ind., in 1955 and 1956. He joined the Federal Reserve in 1956. Also elected at the bank were: John Flocken as assistant vice president, and Chris Zinis and David R. Pringle as assistant cashiers.

NORTH DAKOTA NEWS

BISMARCK: A bill is being backed by North Dakota bankers which would legalize making and servicing of loans at paying and receiving stations. The bill would also authorize one full service office to be located within the geographic boundaries of the city, or within three miles of such city — but not within the boundaries of another city.

FARGO: K. Pat Marso has been appointed vice president and cashier of the new Union State Bank at the West Acres Shopping Center, according to Dennis D. Dalziel, president. Mr. Marso was formerly with the Northwest National Bank of Sioux Falls as assistant manager of the Westwood branch.

GRAND FORKS: Paul Stenseth has joined the staff of the trust department of the First National Bank. For the past three years Mr. Stenseth was associated with Merrill-Lynch in Macon, Ga.

SOUTH DAKOTA NEWS

ABERDEEN: Thomas Tschetter has been elected assistant cashier of the Aberdeen National Bank, according to L. A. Johnson, bank president.

ABERDEEN: Richard Battey of Redfield has been elected to the board of directors of the First National Bank of Aberdeen. Mr. Battey is a partner in the law firm of Gallagher and Battey.

SIoux FALLS: Michael J. Nelson has been named assistant vice president and assistant manager of the Madison Branch of Northwestern National Bank of Sioux Falls. He replaces Gerald V. Wethor who has accepted the position of vice president and cashier with the First National Bank of Mandan, N. D., an affiliate of Northwestern. P. H. McDowell, Jr., and Ralph W. Watson have been named to the Colonial branch advisory board.

SIoux FALLS: The 1972 Bank Management Conference will be held on November 2 at the downtown Holiday Inn. Speakers include: Jim Smith from the U. S. Treasury Department, Mac McClain from the Farmers Home Administration

office in Huron, Ruth Harrison, immediate past president of the National Association of Bank Women and J. N. Christianson, a former banker. Three bankers from various sized banks in the state and two correspondent bankers, one a specialist in bonds and investments and the other in banks and bank relations, will be featured in a panel.

WYOMING NEWS

LARAMIE: F. Richard Brown has been appointed to the board of directors of the First National Bank, according to P. W. Wilke, Jr., president. Mr. Brown is Wyoming representative for Senator Gale McGee. He previously served as alumni director and assistant to the president of the University of Wyoming.

R. C. Kemper, Sr. Dies

Rufus Crosby Kemper, Sr., 81, died last week following a heart attack. Mr. Kemper was honorary chairman of the board of City National Bank & Trust Company, Kansas City. He started with the bank in 1919 when it was six years old. He served as president for many years, and later as chairman of the board, before retiring from active service at the bank. His son, R. Crosby Kemper, Jr., is now chairman of the bank and also heads United Missouri Bancshares, Inc., the bank's holding company.



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CREDIT SQUEEZE
(Continued from Page 1)

be substantially above the prevailing levels." This, he said, is because there have been important structural changes within the credit market in recent years.

"Nevertheless," stated Mr. Kaufman, "few if any, are willing to readily abstain as demanders of credit." Some, he said, feel that their improved liquidity will enable them to sell short-term liquid assets to finance their needs. Others, he went on, think that they are in an improved position to bid for funds, and still others assume that the Government will assure their access to funds. "With increasing credit demands, this is a situation that will produce substantial increases in short-term rates and at least moderate increases in long-term rates," stated Mr. Kaufman.

Regarding the movement of interest rates in the coming months, Mr. Kaufman said that he has examined the movement of both short and long-term rates over the major periods of rising short-term interest rates in the postwar period and he finds no support for the thesis of sustained diverse movements between short and long interest rates in a rapidly accelerating economy. He further noted that 1) historical data does not support the thesis that a slowing in volume of new corporate bonds will by itself bring about a decline in corporate bond yields; 2) there has never been a time in the postwar period when the combination of an accelerating economy, huge private short-term demands, and large Treasury financing needs has been accompanied by only rising short-term rates and a declining or steady long-term rates; 3) sharply rising short-term rates encourage liquidation of long-term fixed income obligation by investors such as dealers and mortgage bankers who have

financed these positions through short-term borrowings; and 4) stable or declining long-term rates cannot be achieved without the participation of the commercial banks as aggressive investors in intermediate or longer-dated issues. And he said, no such arbitrating operations seem in prospect for the period ahead.

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