

# NORTHWESTERN Banker Newsletter

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December 4, 1972

## The Future of the Municipal Bond

"If we are to protect the municipal bond with its tax exempt status . . . and at the same time maintain some vestige of local control over local affairs, we must adopt some innovative and constructive answers to the new threats posed by tax reform proposals that will be made in the upcoming session of Congress."

This is the statement made by Robert C. Brown, vice president of The First National Bank of Chicago during his bank's 25th correspondent bank conference. Mr. Brown warns that the financial institutions may not be able to rely on mayors and other local officials to help fight the battle like they did in 1969, because tax exemption does not have the raw political appeal of, say, revenue sharing. He points out that commercial banks now hold \$78 billion or 51% of all municipals. He points out that the existing municipal market is overly reliant on the commercial banking system, since 51% or \$78 billion of all municipals are held by banks. This fact, according to Mr. Brown, creates a two-fold danger as follows:

"First, when money turns tight, banks withdraw from the bond market in order to satisfy the commercial customers who are the life-blood of their business. When this major source of demand dries up, tax-exempt rates rise (higher, proportionately, than do taxable rates) and many municipal borrowers are driven from the market as interest rates exceed statutory maximums.

"The second danger from this over

reliance on bank buying is somewhat in the future, though it has begun to show in certain quarters. In many of the major banks, tax credits from leasing activities and overseas operations have reduced their tax liability to the point where municipal bond interest doesn't have much attraction. As more of the money center banks reach this point, a major segment of the demand for municipals will be drained away. As this happens, we can expect increasing pressure from Washington for the creation of Federal agencies to get the job done. I don't want that. I don't think you want that!

"Because I feel this way, I have supported a legislative proposal advanced by Senator Proxmire called the Municipal Capital Market Expansion Act. This is a controversial piece of legislation. Some people see it as a greater threat than tax reform or the proliferation of Federal agencies. I see it as a sensible compromise designed to meet the growing needs of the nation while preserving tax exemption and local control for municipal borrowing.

"Briefly, the Proxmire Bill would provide an option to local government. The municipality could issue tax-exempt bonds, exactly as it does now, or it could give up its tax-exempt privilege, issue taxable bonds and receive a subsidy from the Federal Government equivalent to 1/3 of the taxable interest rate. Note that the municipality has complete choice between these options. It might issue subsidized taxable bonds this time and tax-exempt bonds the next. There is



**PICTURE OF THE WEEK** — Some 19,000 copies of a new booklet, "Occupational Safety and Health of Bank Employees," recently were distributed to member banks by the American Bankers Association. **Robert Feagles**, (left), chairman of the government relations committee of the ABA's personnel division, presents the first copy to **George C. Guenther**, assistant secretary for Occupational Safety and Health, at the U. S. Department of Labor in Washington. Mr. Feagles is also senior vice president of the First National City Bank in New York.

no limit on the number of times the issuer might switch back and forth. This measure would be funded with a permanent annual appropriation. Provisions of the Act would apply to state and municipal bonds issued for any purpose except industrial development. Taxable bonds issued under this proposal would be lawful investments for banks and fiduciary institutions.

"That in essence is what the Proxmire Bill proposes. Critics of this approach have some valid objections. They point out that the Federal Government (Continued on back page)

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**Continental Announces Changes**

Donald M. Graham, 59, chairman of the board and chief executive officer of Continental Illinois Corporation and Continental Illinois National Bank & Trust Company, announced November 27 his intention to retire March 26, 1973. Tilden Cummings, 65, president of the holding company and the bank, also plans to retire on that date.

At that time, Roger E. Anderson will succeed Mr. Graham as chairman and John H. Perkins will succeed Mr. Cummings as president. Both men are age 51 and both presently hold the title of vice chairman.

**IOWA NEWS**

**BOONE:** Stanley F. Redeker has been elected to the board of directors of The Citizens National Bank. He is the owner of Redeker Furniture Company of Boone and is currently president and chairman of the State Board of Regents of Iowa.

**CHARLES CITY:** H. James Olds, president of Citizens National Bank, has announced the promotions of Craig A. Lynch from cashier to assistant vice president and cashier, and Elizabeth G. Regan to assistant cashier.

**BETTER TALK TO A DROVERS MAN**

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**CRESCO:** The Cresco State Bank held an open house in its new bank building at Second Avenue East and North Park Place last week. Free gifts and refreshments were offered to those attending.

**DANVILLE:** The Danville State Savings Bank held an open house in its new quarters on December 2.

**DAVENPORT:** Leonard E. Arp, 83, died recently after an extended illness. Mr. Arp was a vice president and director of Liberty Trust & Savings Bank in Durant. He had been a director since 1928.

**DES MOINES:** The Iowa-Des Moines National Bank is holding its 14th Annual Iowa Business Trends Conference at Hotel Fort Des Moines today (Monday) with about 500 businessmen and bankers in attendance. Speakers and topics are:  
 Agriculture — Fred M. Seed, president, Cargill, Inc., Minneapolis.

Construction — Woodward Kingman, president, Government National Mortgage Association, Washington, D. C.

Manufacturing — Thomas A. Loudon, general manager, Iowa Malleable Iron Co., Fairfield, Ia.

Publishing — Robert A. Burnett, executive vice president, Meredith Corporation, Des Moines.

Retailing — Charles Duchon, president, Yonker Bros., Inc., Des Moines.

Returning by popular demand to give the Economic Outlook address at the noon luncheon is Dr. Paul S. Nadler, professor of business administration, Rutgers University, Newark, N. J.

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**MARSHALLTOWN:** The Security Savings Bank recently held a grand opening in its new south side office at Southridge Road and Center Street. The new facility is a full service unit with safe deposit boxes, savings and checking service and personal loans.

**YALE:** Funeral services were held recently for Jay W. Hemphill, 87, president of the Farmers State Bank. He had been associated with the bank for 47 years.

**NEBRASKA NEWS**

**LINCOLN:** The Federal Reserve Board has approved the application of National Bank Corporation Co. to acquire the Mutual Savings Co., an industrial loan company with \$786,000 in assets. National Bank is the parent of \$158.6 million deposit National Bank of Commerce Trust & Savings Association, which is the second largest of the 11 banks operating in the Lincoln market.

**SCHUYLER:** Harold Qualsett, 56, president of the First National Bank, died Thanksgiving Day. He had been ill with cancer for several months. Mr. Qualsett also was executive vice president of the Clarkson Bank at Clarkson.

**MINNESOTA NEWS**

**CHANHASSEN:** An amendment has been authorized increasing the amount of capital stock of the State Bank of Chanhassen from \$60,000 to \$100,000 by stock dividend and sale of new stock.

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COON RAPIDS: R. E. Wheeler has been elected chairman of the board and a vice president of First State Bank of Coon Rapids.

MINNEAPOLIS: Robert R. Helmerichs was named vice president of the national correspondent banking division of the commercial banking department of the National City Bank of Minneapolis.

MINNEAPOLIS: The Northwestern National Bank will hold its annual STAG Correspondent Management Conference Thursday, December 7. Discussion will be centered on the following observation: "The economy and the environment of the Upper Midwest may be in jeopardy, and the banking industry is uniquely qualified to mobilize the resources and talents of our people to build better communities for us all in the next 100 years."

MINNEAPOLIS: Calvin C. Meury, Jr., was named director of marketing research for the First National Bank of Minneapolis.

RED WING: Ronald W. Walm, 27, has been elected cashier of The First National Bank. A native of Ladysmith, Wis., Mr. Walm recently has been in charge of a regional audit team for Northwest Bancorporation in southwestern Minnesota.

### ILLINOIS NEWS

CHICAGO: Thomas A. Rosenquist, 31, has been appointed cashier at the South Central Bank and Trust Company.

CHICAGO: Exchange International Corporation, the holding company for Exchange National Bank of Chicago, recently was approved by the Federal Reserve System. Official date of establishment of the holding company was set as December 31, 1972.

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has been issued for the organization of the following state bank: Community Bank of Homewood-Flossmoor, Southwest Corner of Heather & Dixie Highway in Homewood-Flossmoor. Total capitalization of the bank will be \$1 million, consisting of: \$400,000 in both capital stock and surplus and \$200,000 in reserve for operating expenses. The 40,000 shares will have a par value of \$10 each. The officers will be: John E. Jansen, president; John J. Vax, executive vice president, Chicago; Louis F. Kusay, vice president and Mitchell J. Overgaard, acting cashier.

WHEATON: Francis E. Weimer, chairman of the board and trust officer of the Wheaton National Bank, will be honored at a reception in the bank lobby Tuesday evening, December 5, on the occasion of the conclusion of his fiftieth year of service to the banking industry.

### NORTH DAKOTA NEWS

GRAFTON: The Grafton National Bank

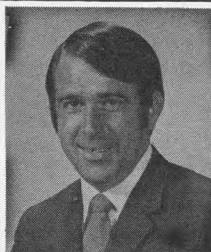
recently opened its Auto Bank. The new facility is located at the corner of Hill Avenue and Seventh Street. It will serve mainly for accepting deposits and cashing checks, but payments will be taken if payment books are brought. Also included is a walk-up window. Floris Ganayo will be in charge of the office.

### SOUTH DAKOTA NEWS

ARMOUR: The First State Bank held an open house for bankers, contractors and others November 27 with a social hour and dinner at the Randall Hills Country Club in Pickstown.

### COLORADO NEWS

DENVER: The Central Bank and Trust Company promoted six officers to the position of assistant vice president at their recent board meeting, according to President Don Hoffman. They are: Fred Howell, Tom Gottschalk, Florence Lampert, Lyle Walter, Jim Stanley and Jim Phelps.



Larry Welch

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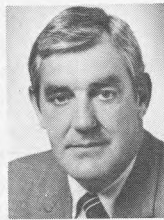
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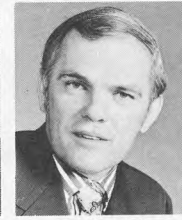
Three of our men  
on your side at



Fred Coulson



Tom Cannon



Dick Muir

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### MUNICIPAL BONDS.....

(Continued from Page 1)

could subsidize the tax-exempt bond out of existence by raising the percentage payments. They claim that this measure would shunt enough borrowing into the taxable market to distort corporate bond rates. Basically they are afraid that acceptance of this proposition will shatter the argument of reciprocal tax immunity and lead eventually to the kind of Federal takeover that the Bill is designed to avoid.

"These objections are not unrealistic, but I am prepared to accept some risks. The alternative is even more grim:

"Now, let me digress for a moment to allay your fears about municipal bonds you now own. No one, not even the most extreme critics, has suggested that we cancel the tax exemption on outstanding municipal bonds. The effect of such an extreme move would be simply more than the economy could bear.

"If the tax-exempt feature disappeared overnight, municipals would drop in price by about 17% of their par amount. The banking system would suffer book losses of \$13¼ billion which is equivalent to 27% of the total capital of the American banking network. Insurance companies, which own \$21.4 billion in municipals would be similarly affected. Congress may not care about the problems of bankers and bond men, but Congress cares very much about any legislation which jeopardizes the savings

and the insurance coverage of millions of Americans.

"So I'm not too concerned about the tax status of municipal bonds we now own. I am greatly concerned, though, about the status of bonds issued in the future."

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