

NORTHWESTERN Banker Newsletter

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Outlook for Commercial Lending in 1973

By John J. Fawley, President
Robert Morris Associates
and Executive Vice President
Industrial Valley Bank & Trust Co.
Philadelphia, Pa.

As president of Robert Morris Associates, I have been asked to present my views concerning two questions. The first is my view of commercial loan demand for this year compared to 1972. The second is what category of commercial loans I expect to increase the fastest during this new year.



J. J. FAWLEY

In treating these two questions, it is necessary to project a brief view of the overall prospects for our economy this year. In general, almost everyone seems to agree that the strong economic expansion that

we have been experiencing during the past months will continue.

Real growth in GNP should be at least in the 6% bracket. The Phase II controls along with earlier monetary restraints have been successful in decreasing the rate of inflation, and I do not expect a reverse trend. The general mood is optimistic and will be reflected in increased spending by consumers and business.

I do not envision a "credit crunch" this year because, in the simplest of terms, I see favorable flow into private saving and a reasonably accommodative Federal Reserve monetary policy. Add to these reasons the fact that corporate borrowers and banks are, of course, more liquid than they were on the eve of the last tight money period.

1973 Loan Demand

So then, all indications point to a continued strengthening demand for commercial and industrial loans for 1973. Despite the reasonable liquidity of business firms, the predicted expansion will undoubtedly necessitate the use of significant amounts of bank credit.

Actually, 1972 was a good year for most banks around the country. Some money center banks are reporting up to a 15% increase in loan outstandings over 1971. As a whole, seasonally adjusted loan demand rose about 8% — a fine performance compared to the past dozen years.

How much will loan demand increase in 1973? It will vary around the nation, of course, but I expect an overall rise of 10%. Some areas expect up to a 15% increase over 1972 levels.

As demand increases, there will be greater pressure on short-term interest rates. In a truly free market, I can see prime inching up — especially during the first six months — and averaging out at about 6½% for the year. Whether or not

the government would allow this is difficult to forecast at this writing.

The Outlook for Specific Loan Categories

Lenders — and economists — seem to agree that the impending excellent year for the economy will require industry to step up its spending for plant and equipment to meet the increased production.

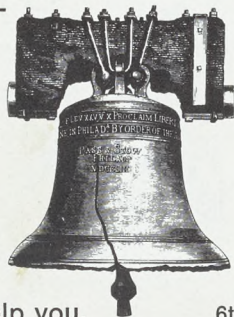
To accommodate the larger volume, there will follow an upward movement in inventories all the way down the line to the retailer. Some predict that inventories will double 1972 levels and that this is the area where a major part of the increase in loan demand will occur.

In certain or all sections of the U.S., loan demand may also be particularly strong in areas such as: transportation equipment industries, utilities, cement, certain lines of machinery, paper, cattle operations, and seasonal requirements of general consumer related industries.

I think 1973 will be a good year for those banks that are equipped for and aggressively seek financing opportunities in the real estate field. Loans to finance construction of all sorts expanded this past year, and I expect the trend to continue. This includes meeting the short-term needs of the growing REIT industry. I look for commitments for commercial construction, which includes condominiums and apartments as well as motels and large discount houses, to continue strong. Residential construc-

(Continued on back page)

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IOWA NEWS

ALTOONA: A vacancy created by the resignation of L. J. (Sam) Wise from the board of directors of the Altoona State Bank has been filled by the appointment of Gordon Gill. He is editor, publisher and owner of *The Altoona Herald* and *Mitchellville Index*.

BETTENDORF: The following promotions have been announced by the Bettendorf Bank and Trust Co.: Donald Schneden from accounting officer, vice president, to vice president, financial officer; David Al Laing, from assistant vice president to vice president, Mrs. Therma Ehredt, from assistant cashier to assistant vice president.

DES MOINES: An application by the Iowa-Des Moines National Bank to establish a parking lot office in Urbandale has been approved.

HOSPERS: A hearing will be held Jan. 19 on an application to move the American State Bank to Sioux Center and to retain an office in Hospers.

NEW SHARON: G. R. Cassabaum, Linda Cassabaum and Helen Ann Woods have purchased controlling interest in the Taintor Savings Bank, New Sharon from O. H. Pothoven, chairman. Mr. Cassabaum is vice president and trust officer

Northeast Iowa Banks

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and Mrs. Woods is a vice president. No change in personnel is anticipated.

OAKLAND: The Citizens State Bank will hold an open house Saturday, Jan. 20.

ORANGE CITY: A hearing will be held at 2 p.m., Jan. 18 on an application for a new bank charter, Sioux County State Bank. Applicants: S. G. Smith, K. H. Hultquist, J. A. DeWild, D. T. Newman, L. D. Peterson.

NEBRASKA NEWS

PLAINVIEW: Eldon R. Fox has been elected president of Plainview National Bank, succeeding J. B. Cooper. Mr. Fox had served as executive vice president since joining the bank in the spring of 1963. He began his banking career with Fremont County Savings Bank, Sidney, Ia. He resigned there as assistant cashier in January, 1961, to become cashier of the Randolph State Bank, Randolph, Ia. He left the Randolph post to move to Plainview.

MINNESOTA NEWS

CROOKSTON: Robert D. Cameron has been promoted to vice president. He will continue as manager, installment loan department. He joined the staff in 1967 and became assistant vice president in 1970.

LE SUEUR: The Minnesota Commerce Commission has scheduled a hearing Feb. 20 on an application to establish a state bank at Le Sueur. Incorporators are: Dale E. Hanka, Kilkenny, L. V. Morgan,

Montgomery, James A. Stege, Henderson, and Allen Easterlund, Le Sueur.

PINE RIVER: The Pine River State Bank has been sold by Mr. and Mrs. Vincent E. Palmer to the major stockholders of the First National Bank of Hawley. They are: Elwood A. Griffith of Howley, Joseph Dahl, James Dovolis, Alvin Davies and Lyle Arneson, all of Minneapolis, and Marvin Gisvold of Tampa, Fla. Mr. Griffith will assume the duties of president.

VIRGINIA: George W. O'Keefe, vice president and manager, commercial loan department, First American National Bank, Duluth, will leave that post May 1 to become president of the State Bank of Virginia. He will succeed Ray H. Willenbring, who will move up to chairman.

ILLINOIS NEWS

Illinois banks opposed to a legislative proposal being advanced by leadership of the Illinois Bankers Association for limited branching and the introduction of multi-bank holding companies have formally organized to lobby against changing the state's unit banking structure.

"Our goal is to defeat the Illinois Bankers Association proposal," Robert L. Walton, chairman of the new group called Bankers Against Monopoly Banking — or BAMB — asserted.

The controversial Illinois BA plan as announced two weeks ago represents the first major break in Illinois' strict unit banking status in 50 years. Branching and multi-bank firms are both prohibited under Illinois law, and the Illinois BA for years has easily turned back legislative attempts to alter the unit banking status.

Mr. Walton, who is president of the \$15.8 million-deposit Farmers & Merchants State Bank, Bushnell, said the first job of BAMB will be to muster enough votes to defeat the Illinois BA plan during a special convention of the association membership Jan. 25-26 in Chicago.

Later, he said, BAMB will prevail upon Illinois lawmakers during the 1973 session to reject bills likely to be introduced on branching and multi-bank holding companies.

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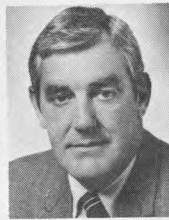
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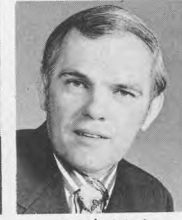
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Tom Cannon



Dick Muir

COMMERCE BANK of Kansas City

HINSDALE: Edward I. McEldowney has been appointed executive vice president at the Bank of Hinsdale. Mr. McEldowney, 39, was with the First National Bank of Chicago Heights where he was vice president.

SOUTH DAKOTA NEWS

ABERDEEN: C. P. Moore, president, First National Bank, has announced the promotion of Ron Rivett, trust officer, to assistant vice president and trust officer, and Steve Millard to assistant auditor. Mr. Rivett, 32, joined the bank in 1965. Mr. Millard, 25, started part-time at the bank in 1965, working in various areas of bank operations, and joined the audit department in 1971.

HURON: A chartered flight will carry 137 bankers and wives from Sioux Falls on February 8 to Torremolinos, Spain, for the South Dakota Bankers Association's Mid-Winter Bank Management Conference. The group will return on February 16 to Sioux Falls. Chairman of the SDBA conference committee is John Lillibridge, president, Burke State Bank. The business sessions will be held in the Aloha Playa Hotel in Torremolinos. Side trips will include a tour of banks in nearby Malaga.

The guest speaker will be Jose Manuel Munos Cortez, subdirector of Banco de Bilbao, Madrid. Other speakers will be Ron Meyer of J. T. Miller Co., Minneapolis — "Bank Insurance Programs," and C. Paul Lindholm, vice president, Northwestern National Bank, Minneapolis — "Bank Holding Companies in the 1970's."

The trip has been arranged through

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John V. Krastins, assistant vice president, travel department, Northwestern National Bank, Sioux Falls.

NORTH DAKOTA NEWS

FARGO: Robert D. Harkison, president, First National Bank & Trust Co., has announced the promotion of three staff members in the trust department. John R. Holtey and Marvin T. Nordbo were elected assistant vice presidents and Wanda Teichman was elected assistant secretary. Mr. Holtey, an attorney, joined the bank in 1965. Mr. Nordbo has BS and Master's degrees in agriculture and joined the bank in 1963. Miss Teichman began her banking career at First National in 1943.

GRAND FORKS: Paul W. Olander, 41, will become president of Red River National Bank & Trust Company March 1. He will succeed R. W. Blaine, who will become chairman and continue as chief executive officer. Mr. Blaine has been president since 1956. Mr. Olander was vice president of First National in Grand Forks for three years before becoming vice president of First National in Great Falls, Mont., in July, 1967. He is leaving

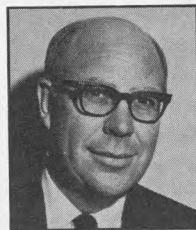
that position to return to Grand Forks with Red River National. He will also be named a director.

COLORADO NEWS

COLORADO SPRINGS: Kenneth E. Baird, senior vice president of the First National Bank of Colorado Springs, has been appointed to the Colorado Banking Board. His appointment results from the addition of a fifth congressional district in the state last year. Bowers Holt, president of the First National Bank of Springfield, resigned from the board to permit Mr. Baird's appointment from the new district. He was one of two board members from district 3.

MONTANA NEWS

BOZEMAN: The 24th Annual Ag Credit Conference sponsored by the Montana Bankers Association will be held January 25-27 at Montana State University. Ralph C. Stenehjem, ag loan officer at Midland National, Billings, is chairman of the committee. Phil Johnson, First National Bank, Bozeman, is registration chairman.



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1973 LENDING OUTLOOK...

(Continued from Page 1)

tion, on the other hand, should taper off slightly.

Commercial banks are more and more becoming sources of intermediate term credit. Therefore, the proportion of revolving credits and term loans in the overall loan portfolio will continue to increase. In this connection, the use of single payment term "bullet" loans is an interesting new development worthy of note and possibly worthy of some concern.

Another recent development is the "cap" loan. These loans specify a maximum interest rate to be charged over their life, averaging about 7 years. The rate is usually prime plus a percentage, which can vary over the life of the loan. The arrangement specifies that regardless of the extent of any increase in prime over the life of the loan, the annual rate of interest charged may not average more than the specified level - the "cap" - or the bank will rebate the difference. Among other features of these loan agreements are that they frequently require no balances and usually contain no prepayment penalties.

Conclusion

In summary, then, 1973 promises to be one of continued strengthening of commercial loan demand for banks. The demand will be broad and general, but the greatest increases may come to finance expenditures for plant and equipment and to expand inventories. I envision no "credit crunch." Normal market pressures may call for short-term interest rates to rise over 6%, but not likely over 6½-6¾. Government controls might be applied if earlier "jawboning" is not successful in the view of the Committee on Interest Rates and Dividends.

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