

NORTHWESTERN Banker Newsletter

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August 20, 1973

Loan Charge-Off Experience Has Improved

THE results of the second annual survey by Robert Morris Associates (RMA) of the commercial and industrial loan charge-off experience of its member banks for the 1972 calendar year show a solid improvement over 1971.

The survey results reflect the responses of 426 of the 1,335 banks which were members of RMA — the national association of bank loan and credit officers — at the end of 1972. The total RMA membership represents a little over 80% of all U.S. commercial banking resources. The association estimates that the total loans of these 426 responding banks represented approximately two-thirds of the total of all commercial and industrial loans for 1972 — expressed as average daily outstandings (“loans”).

Overall, the total gross charge-offs dropped to .27 of 1% in 1971. The picture gets even better when the positive impact of recoveries — collections of loans previously charged off — is taken into account. In 1972, the reporting banks recouped approximately 22% of their charge-offs. This resulted in lowering their net loss on loans to .21 of 1%.

The average dollar loss figure decreased from \$33,000 in 1971 to \$21,000 in 1972. The greatest reduction was made in the largest bank size category, those with total resources of over \$1 billion, which dropped from \$57,000 in 1971 to \$31,000 in 1972. The improvement in loss experience in banks of all sizes may well be attributed to

an expanding national economy in a year free of major corporate calamities.

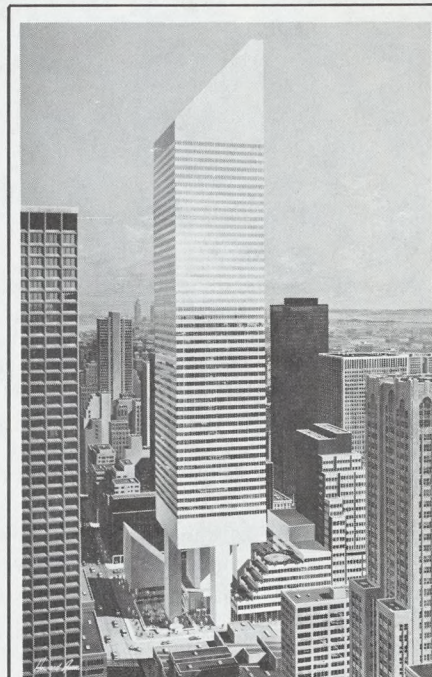
As in 1971, general building and trade contractors and general retail establishments led the list of industries which accounted for the most charge-offs. The reporting banks predict contractors will again be the top high-loss industry for 1973, followed by retail food and beverage operations, real estate developers, general retail establishments, and agriculture.

In 1972 bankers continued to show a willingness to assume prudent risks commensurate with the financing needs of their communities and their desire for reasonably full employment of their funds available for lending. This was evidenced by, among other things, their responses to a survey question asking them to examine their charged off loans in retrospect and to indicate which ones they would make again — or not make again — under similar circumstances.

There is no way to determine the validity of the answers which RMA received to this question primarily because the loans that they were being asked to review were indeed the ones that went bad in 1972. And this fact no doubt exerted a constant bias on the bankers' responses.

However, in numbers of loans charged off, the responding banks estimated that they would make 37% of these loans again under similar circumstances. This indicates more than anything else the uncertain and

(Turn to back page, please)



PICTURE OF THE WEEK — First National City Corp. has unveiled plans for its exciting new Citicorp Center which will transform the block bounded by Lexington and Third Avenues and 53rd and 54th Streets in mid-town Manhattan. This 46-story tower building will rest on a platform 112 feet high, with the peak of the wedge-shaped roof towering 910 feet high. This will make it New York City's fifth tallest building and the third tallest in the mid-town area. The lower area will have a church, smaller office building, sunken plaza and shopping area. The project is scheduled for completion in 1976. First National City Bank plans to occupy 13 floors at the outset.



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Prime Rate At New High

Many of the nation's major banks increased their prime lending rate for the 12th time this year, raising it from 9% to 9 1/4% a new peak.

Following the most recent raise in the prime rate, the Federal Reserve Board approved an increase in the discount rate from 7% to an all-time high of 7 1/2% effective August 13.

IOWA NEWS

DES MOINES: Stanton G. Marquardt, president of Marquardt Advertising, was elected to the board of directors of National Bank of Des Moines.

DES MOINES: Directors of the Highland Park State Bank and Valley Bank and Trust Company have agreed in principle to merge Highland Park State into Valley Bank. Highland Park had \$25,801,000 in assets on June 30, while Valley Bank reported \$71,945,000 in assets, for a combined total of \$97,746,000 in assets. The merger would require approval of Highland Park shareholders as well as regulatory authorities. Valley Bank is a wholly owned subsidiary of Banks of Iowa, Inc., Cedar Rapids.

DUBUQUE: The First National Bank of Dubuque will open its new North Dubuque Office building August 20.

WATERLOO: The Waterloo Savings Bank building, West Park Avenue and

Cedar Street, will be ready for occupancy in early September. Dale DeKoster, president, announced that the \$2 million building is now nearing completion and work is on schedule.

WEST DES MOINES: David L. Miller, president, has announced the promotion of A. P. Bagwell to assistant cashier at the West Des Moines State Bank. Mr. Miller joined the bank in March of this year.

NEBRASKA NEWS

COLERIDGE: J. L. Gray, Jr., has joined the Coleridge National Bank as assistant vice president.

GOTHENBURG: Lauren Williams of Washington, D. C., was elected chairman of the board and Dean Kugler was elected president of the Gothenburg State Bank in recent reorganization activities. In addition, Duane Oliver and Matt Williams were added to the board.

GRAND ISLAND: The Overland National Bank recently announced the appointment of Robert C. Lunn and Beverly Lutes to assistant cashiers.

HASTINGS: The First National Bank has announced that Lyle Knudson has joined the bank staff.

LINCOLN: Funeral services were held recently for Howard E. Hall, longtime banker and insurance man. Mr. Hall was semi-retired and serving as chairman of the board of the Martell, Nebr., State Bank and senior representative of Woodmen Accident Insurance Co. in Lincoln.

LINCOLN: More than 35,000 shares of stock in two Nebraska bank holding companies were sold at public auction. Two investment firms bought 16,625 shares of Grand Island Overland Co. stock at \$10.60



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per share in a joint bid. The firms are Kirkpatrick-Pettis-Smith-Polian, Inc., and Dain, Kalman & Quail, Inc.

A total of 19,124 shares of the North Platte State Co. stock were sold to 14 private individuals and two Lincoln investment firms, First Mid-America, Inc., and Ellis-Holyoke & Co., which submitted joint bids.


The Grand Island and North Platte firms are one-bank holding companies, owning the Grand Island Overland Bank and the North Platte State Bank.

OMAHA: Morris F. Miller, chairman of the Omaha National Corporation, has announced the election of John D. Minton to the board of directors. Mr. Minton is president of Mutual of Omaha. Mr. Miller also announced the promotion of Michael B. Yanney to executive vice president of the Corporation.

OMAHA: Harold A. Mayor, Jr., board chairman of Empak Industries and the Archer Petroleum Co. in Omaha, has been elected a director of the Southwest Bank.

OMAHA: Frank O. Starr, president of Omaha National Bank, has announced the election of W. D. Hosford, Jr., to the bank's advisory council. Mr. Hosford was formerly a director of the bank. Mr. Starr also announced the following promotions: Gilbert R. Gadzikowski, Sr., to executive vice president, Victor D. Smith to senior


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NO. 1



NO. 2



NO. 3



NO. 4

MESSAGE: Select one. Check box under your choice.

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Happy Holidays

Merry Christmas

Holiday Greetings

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Seasons Greetings

Happy Holidays

Merry Christmas

Holiday Greetings

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vice president, and Judith S. Page to second vice president.

ST. EDWARD: The Bank of St. Edward has recently appointed Jim Mazour assistant cashier.

ILLINOIS NEWS

CARTHAGE: The FDIC has approved the application of the Marine Trust Company of Carthage to exercise limited trust powers.

CHICAGO: B. Kenneth West has been promoted to senior vice president at Harris Bank. Mr. West heads the Chicago division of the international banking group.

FLANAGAN: The FDIC has approved the application of the Flanagan State Bank to exercise limited trust powers.

HOFFMAN ESTATES: An application for a permit to organize the First Security Bank of Illinois has been filed. Total capitalization would be \$750,000 consisting of: \$300,000 in capital stock, \$300,000 in surplus, and \$150,000 in reserve for operating expense. Applicants include: Dennis F. Voss, Des Plaines; Joseph D. Zizzo, Long Grove; C. Frederick Potter, Park Ridge; George A. Moser, Barrington; and Robert K. Behr, Elmhurst.

OAK BROOK: The First Security Bank has announced the appointment of Lawrence Spoden as president and chief executive officer. Mr. Spoden was formerly vice president of the First Security Bank of Glen Ellyn, will succeed Herman A. Tatz who announced his resignation to join the Bank of Lisle.

MINNESOTA NEWS

ECHO: Terrance Thompson, cashier at the Green Lake State Bank of Spicer, has purchased controlling interest at the Citizen's State Bank at Echo. He will take over as president there on September 1.

GRAND MEADOW: George Reppe Day

will be celebrated on August 29. This is to honor George Reppe on his 55 years of service to the First American State Bank which he headed for 30 years before selling his interest in 1968. August 29 marks his retirement as a director of the bank after serving 35 years on the board.

HARMONY: The Harmony State Bank opened a drive-up teller window recently. President of the bank is Leonard D. Skaalen.

MINNEAPOLIS: The Federal Reserve Bank has moved into its new building at 250 Marquette Avenue. The grand opening is slated for September 7 and 8.

STEWARTVILLE: Bob Brinkman has left First Fidelity recently to open an office in Winona, and his brother, Gene, has come in from Austin to take over as manager.

WASECA: Roy M. Christensen, president of First State Bank of Waseca has announced that Duane Kropuenske has joined the staff of the bank as assistant vice president. Mr. Kurpuenske has formerly been employed by the Freeborn National Bank, Albert Lea.

WAYZATA: Dale W. Teich has recently been appointed vice president at the First National Bank of Wayzata.

COLORADO NEWS

DENVER: Commercial Bancorporation of Colorado announced it had signed an option to acquire Century Bank & Trust Co. and plans this month to close a deal to formally take ownership of the Bank of Colorado in Colorado Springs.

DENVER: American National Bank has appointed Randy P. Hansen as vice president-advertising, and Angelo Diasparra as vice president-finance.

DENVER: Three new officers have been appointed at Continental National Bank. L. Arthur Troyer was named to the new position of comptroller. Gladys Ealey is the new commercial loan operations officer.

Lucy Albers was appointed assistant cashier and will continue as head bookkeeper.

GREELEY: A registered Exchange offer by The First National Bancorporation, Inc., for acquisition of The First National Bank of Greeley, has been accepted by shareholders representing 92.96% of the outstanding shares of the latter. It is expected that Bruce D. Alexander, president of Bancorporation, will be elected a director of The First National Bank.

NORTH DAKOTA NEWS

BISMARCK: Calvin C. Blum was elected assistant cashier and Charles E. Wittenberg was promoted to assistant auditor at the First National Bank and Trust Co., according to Robert P. Hendrickson, president.

WAHPETON: Chuck Mausbach has joined the Wahpeton National Bank as a management trainee under the bank's new Graduate Training Program. The announcement was made by W. M. Snager, president.

SOUTH DAKOTA NEWS

RAPID CITY: Art Fecht has been appointed operations officer at United National Bank, according to Carlyle K. Nelson, vice president and acting manager. He previously was with the State Department of Public Welfare. Mr. Fecht has been associated with the First Security Bank of Idaho, Lewiston, and the First National Bank of the Black Hills, Rapid City.

SIOUX FALLS: Randy Renken has been named loan officer and assistant manager of the Sunset office of the National Bank of South Dakota. He joined the bank under the fellowship training program in 1972.



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SOUTH DAKOTA NEWS

PIERPONT: The FDIC has approved the application to change the location of the First State Bank of Pierpont from Pierpont to 26 West 7th Avenue, Webster, and to establish the present main office as a bank of-fice.

LOAN CHARGE-OFF
(Continued from page 1)

inexact conditions under which banks must extend credit and, more specifically, that some risks are uncontrollable and completely hidden at the time the loans are made. Sudden downturns in certain industries, fraud, and disasters are examples of pitfalls which plague the best efforts of commercial lenders to minimize risks.

The respondents also indicated that for some 33% of the total loans charged off they would, under similar circumstances, probably not make them again. This percentage, of course, merely proves that bankers are not infallible. They do make mistakes. But, the point to remember is that this percentage refers to only part of the charge-offs and that even the total charge-offs are a miniscule part of the total loans made during 1972.

For the remaining number of charged off loans — 30% — there was mixed reaction indicating a frank uncertainty on the part of

the respondents as to whether they would make the same loan again under similar circumstances.

The RMA survey attempted to develop more information concerning the reasons the charge-offs occurred, as an aid to future lending operations. The respondents were asked to analyze such areas as weakness in the management of their borrowers; the purposes of the loans, their terms, and security, if any; whether federal and state bank examiners had cited the loans before they resulted in being charged off; the distribution of the losses relative to their banks' trading areas; losses involving new customer loans; and their own internal loan administration procedures.

Although this latter group of data gathered in the survey is largely inconclusive, it does naturally suggest that deficiencies of varying degrees in these factors contributed, in part, to the losses.

Robert Morris Associates was founded in 1914. Today its more than 1,400 member banks represent over 80% of all U.S. commercial banking resources. These banks are represented in the association by 5,500 commercial loan and credit officers. They are located in all 50 states, Puerto Rico, U.S. Virgin Islands, Canada, and Panama.

Copies of the report are available from the RMA Order Department, 1432 Philadelphia National Bank Bldg., Philadelphia, Pa. 19107.

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