

# NORTHWESTERN Banker Newsletter

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## Leasing Success Due to Benefits to User

*Ed. Note: The following article, titled "What's New in Leasing," was given by Donald L. Deters, commercial banking officer, First National Bank in St. Louis, on November 8 at his bank's 27th annual Conference for Correspondent Banks.*

**L**EASING is a natural extension of the full service bank concept. It means the rental of virtually anything by a lessor to a lessee. I say virtually anything because lease proposals for aircraft, ships, computers, equipment, cattle, hogs, and chemical catalysts have all crossed my desk.

But, it was not until the early 1960's that a few innovative bankers began to realize the potential of the market. The government responded to their persistence by allowing national banks to lease in 1963, state banks to lease in 1966, and holding companies to form leasing affiliates in 1968.

The Association of Equipment Lessors says that the value of goods under lease has soared from \$20 to \$40-billion in the last five years. Nor is the surge expected to stop.

Many reasons are given for the growth of leasing, but two cited by a *Wall Street Journal* article are particularly cogent. The first involves a decided shift in the attitude of companies toward leasing.

To quote Peter Nevitt, president of First Chicago Leasing Corp., "While for years the ownership ethic among businessmen was so strong that leasing wasn't a thing that nice companies did, executives have come to realize that use and not ownership

is the crucial thing, and that leasing is just an alternative mode of financing."

The second reason cited by the *Journal* is the growing influence of banks in the market in recent years. Again quoting, "Since 1968 the number of national banks engaged in leasing has doubled to 532, and more than 40 such concerns have set up leasing subsidiaries."

The reason is best explained by looking at the return on investments. "We get double the returns on our funds from a lease than we do from a regular commercial loan," claims a major New York bank vice president, and leasing has helped many banks materially cut their tax bills.

The reason for the success, of course, of bank leasing services are the benefits to the lessee. These include:

1. 100% financing — while optional, we do not normally require a down payment from a strong credit.
2. Avoidance of a large capital expenditure and the resultant draw on working capital and borrowing capacity. In periods of costly money such as today, leasing offers one of the few ways that small companies without access to credit can obtain new equipment.
3. Favorable balance sheet treatment of a debt equivalent — though present accounting procedure normally requires companies to footnote future lease commitments, the debt is somewhat masked.
4. Simplification of bookkeeping for tax purpose — lease payments are fully deductible business expenses and



**PICTURE OF THE WEEK**—Sir John N. Hogg (right), chmn., Brown Harriman & International Banks, Ltd., a London-based merchant bank, meets with **George H. Dixon**, chmn. & pres., 1st Nat'l. Bank, Minneapolis. Last year 1st Minneapolis acquired a 10% interest in Brown Harriman. Sir John recently spent several days in Minnesota conferring with officers and customers of 1st Minneapolis. Mr. Dixon serves as a director of the London bank.

replace the need for asset, depreciation, bookkeeping entries, etc.

5. Flexibility — lease payments can be structured to suit any lessee's needs. For instance, by decelerating payments, a young doctor can completely equip an office and make payments that are extremely low in the first several years of the lease. Likewise, a motel in a seasonal resort area can concentrate its payments in those periods in which it generates an excessive amount of cash, and make no payments whatsoever during the off-season.

(Turn to Page 3, please)

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## IOWA NEWS

**CHARITON:** William J. Carter, executive vice president of the National Bank and Trust Company, has been appointed president and a member of the board of directors. Mr. Carter succeeds District Judge A. V. Hass who recently resigned. Mr. Hass's family has been associated with the bank for 60 years.

In his letter of resignation, Judge Hass cited the recently adopted Iowa Code of Judicial Conduct which precludes judges from service on boards of directors due to possible conflicts of interest.

**CLINTON:** Kenneth Golden has been appointed manager of the installment loan department of the Clinton National Bank. He joined the bank in February of 1969.

**OELWEIN:** S. E. (Steve) Henderson has been elected executive vice president of the First National Bank. Mr. Henderson joins First National from the Farmers State Bank of Conrad, Mont., where he served as president for the past several years.

**PELLA:** The Marion County State Bank has filed an application to the Federal Deposit Insurance Corporation for permission to establish a bank office at 414 Main Street in Pella.

**SPIRIT LAKE:** J. R. (Bob) Duncan has been named a farm representative of the First Bank and Trust.

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**WINFIELD:** The Peoples State Bank recently held an open house to celebrate the opening of the bank's new drive-in window, lounge and conference room.

## NEBRASKA NEWS

**FORT CALHOUN:** The Fort Calhoun State Bank has received approval to engage in banking at 14th and Monroe Streets.

**FREMONT:** A special stockholders meeting of the First National Co. will be held November 30 to consider an increase in the number of authorized shares from 200,000, par value \$5 per share, to 400,000 shares, par value \$2.50 per share, to effect a two for one stock split. If approved the record date for receiving the split will be December 11. Stockholders of record November 19 will be entitled to vote.

**LINCOLN:** Henry E. Ley, director of banking, has denied an application for a charter for The Bethany Bank at 1600 Cotner Boulevard.

**OMAHA:** William A. Bergh has joined the Center Bank as assistant vice president in the commercial loan department, and David C. Koenigsman, vice president in charge of commercial loans, has been appointed in charge of asset management. Mr. Bergh comes to the bank from the Northwest Bancorporation examination department in Minneapolis.

**OMAHA:** Robert V. Caffarelli has been named vice president in charge of loan services for the Packers National Bank. He formerly was vice president of business development and marketing at the Center Bank.

**OMAHA:** The State Banking Department has set a December 12 hearing on an application from Omaha State Bank for a bank office at Montclair Shopping Center.

**OMAHA:** Morris F. Miller, chairman of the Omaha National Corporation, has announced the appointments of Donald D. Adams, vice president, and Richard D. Lucas, Jr., financial officer. Mr. Adams has recently come to the Corporation from S.A.C. where he was deputy director. Mr. Lucas joined in September, 1973, as corporate staff accountant.

**PAPILLION:** The Bank of Papillion has received approval to establish a detached auxiliary teller's office at 102 Cory Street.

## ILLINOIS NEWS

**CHICAGO:** North Shore National Bank has appointed David L. Hussman general counsel and vice president. Andrew Stefik and Albert Nicole were named vice presidents.

**CHICAGO:** Funeral services were held recently for John P. Reynolds, 69, retired trust officer for La Salle National Bank.

**CHICAGO:** Funeral services were held recently for Robert E. Straus, chairman of the executive committee of the American National Bank and Trust Co.

**CHICAGO:** Donald L. Matthes has been elected vice president, national division, in the commercial lending group at Pioneer Trust & Savings Bank.

**CHICAGO:** Raymond C. Salm has been elected president and Jack Ehlebracht executive vice president of First Commercial Bank.

**SKOKIE:** Gerald R. Swearingen has been appointed vice president and director of marketing of Skokie Trust & Savings Bank.

## MINNESOTA NEWS

**EYOTA:** An open house marking the sixtieth anniversary of the founding of the Farmers State Bank was held recently. C. Talen is the bank's president.

**LITTLE FALLS:** The Central Minnesota chapter of Bank Administration Institute

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will meet Wednesday, Nov. 21, at the Pine Edge Inn. Social hour begins at 6 P.M. and dinner will be served at 6:30.

MINNEAPOLIS: William D. Winter has been named director of marketing services at First National Bank. James W. Ladner, who had been vice president of marketing, becomes head of the personal banking department, succeeding Kenneth E. Broin, vice president and cashier, who transferred to the trusts and estate development division.

MINNEAPOLIS: Edward Fleitam has joined the Craig-Hallum, Inc., investment banking firm, as vice president and general sales manager. He formerly was with John Kinnard Co.

MORA: Del Paul, vice president, has been elected president of the Peoples National Bank. He fills the position left vacant by the recent death of Frank J. Grahn. Mr. Paul joined the bank in 1967 as assistant vice president and had been vice president since January of 1969.

SPRINGFIELD: Funeral services were held recently for Nels (Vernie) Swanbeck, 74. Mr. Swanbeck was president and director of the Farmers and Merchants State Bank at the time of his death.

## NORTH DAKOTA NEWS

FARGO: Charles A. Nelson has been elected assistant secretary and trust farm manager at the Merchants National Bank and Trust Company. He was marketing specialist with the North Dakota Wheat Commission at Bismarck.

GRAND FORKS: Richard Wold, president, First National Bank, has been named banking chairman of the North Dakota State Savings Bonds Committee. He also was appointed Savings Bonds coordinator by the American Bankers Association.

## COLORADO NEWS

The Colorado Division of Banking has reported it has received application to establish the Front Range Bank in Jefferson County. Applicants include: James G. Leprino, Anthony M. Dursey and Donald W. Kehe, all of Lakewood; Mike A. Leprino, Golden; Alan R. Kris, Englewood; and Thomas J. Kellough, Denver.

GREELEY: Carleton G. Flynn, Jr., has been appointed vice president of the Cache National Bank. He previously was with Greeley National Bank.



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## SOUTH DAKOTA NEWS

LAKE NORDEN: Roger Siefkes has joined the First State Bank as president and managing officer. Mr. Siefkes has over 10 years of experience as a bank examiner with the Federal Deposit Insurance Corp., including time as training coordinator with the FDIC, Minneapolis region.

## WYOMING NEWS

Pacific Western Corp. and First Cheyenne Corp., two Wyoming bank holding companies, say they have called off a proposed merger.

CASPER: Richard B. Ward, senior vice president, Security National Bank, has been elected president and chief executive officer. Mr. Ward succeeds Herbert F. McCulla who recently resigned to become executive vice president of the Wyoming National Bank of Casper.

## LEASING SUCCESS . . .

(Continued from Page 1)

6. And finally, believe it or not, leasing can be cheaper. For those firms who have no need of tax shelters, the passing through of ITC and depreciation benefits to a lessor can allow him to lower considerably his lease rate. We usually value full tax benefits at approximately 300-400 pretax basis points. In other words, if we had a target yield of 12%, by taking the tax benefits we could lower our lease rate to 9%.

The major obstacle facing many banks entering the leasing market is that of often being at a competitive disadvantage. Though our cost of funds is normally lower, we are faced with numerous legal constraints regarding what we might lease and under what conditions we can lease it.

For instance, banks can lease only personal property — theoretically, no real estate, no leasehold improvements, no turn-key leases. More damaging I feel is that we are still limited to full payout leases. In other words, we must fully amortize equipment cost. This is particularly discouraging when bidding against leasing companies who can offer operating leases which are renewable and which in effect protect the lessee from equipment obsolescence. We must be involved only in net leases, those leases in which all maintenance, insurance, and tax expenses are borne by the lessee.

And finally, we are, again theoretically, limited to offering our customers only fair market value purchase options. Those leasing companies which can dictate a dollar purchase option amount can inject that into their yield and lower their rate accordingly.

We at First National feel that the leasing market is an extremely attractive one and one in which we can compete actively and profitably. We have converted this belief into a commitment by forming a formal leasing function and preparing to aggressively compete with leasing companies for that portion of our customer's financial needs we have ignored for many years. We encourage you to do the same.—End



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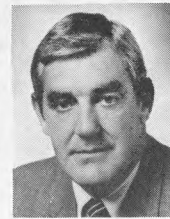
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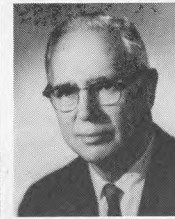


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