

NORTHWESTERN Banker Newsletter

Vol. 3 No. 63

Des Moines, Iowa

July 15, 1974

View Changes In Capital/Money Markets

The money and capital markets will undergo vast and dramatic changes if inflation persists, Henry Kaufman, general partner and member of the executive committee of Salomon Brothers, international investment banking firm, warned recently.

Mr. Kaufman also:

1) Focused on the Federal Reserve's unsuccessful and damaging attempts to follow a "monetarist" monetary policy;

2) Stated that controlling bank credit expansion must be the objective of monetary policy if massive credit market distortions are to be avoided;

3) Pointed out the significance of an hitherto unnoticed fundamental force of change in the credit markets here and in Europe—the removal of the money rate risk from certain lending arrangements. These floating interest rates for the duration of a loan, he said, are a strong stimulant to a lender to substantially increase his loans; and

4) Said that dangers associated with the internationalization of the American money and bond markets should not be minimized.

In analyzing the future impact of persistent inflation, Mr. Kaufman cited 12 major credit and interest patterns that lie ahead.

Among these, he noted that:

- Credit creation will remain excessive with total credit market debt rising from \$1.9 trillion in 1973 to \$3.9 trillion in 1980, assuming 8 per cent inflation and 3 per cent real growth;

- Nearly all commercial paper issuers rated below A-1 will be unable to finance in the open market and all others will be forced to finance their needs through commercial banks which will have neither access to the money market nor to the long-term market;

- The issuance of banks' negotiable time certificates of deposit will be even more concentrated in very large money center banks and other banks will be less able to use this source of money;

- Quality of all types of credit will deteriorate and insolvencies will occur quite frequently;

- And, deteriorating credit quality of private borrowers will be accompanied by demands for governmental assistance which, if implemented, will tend to raise the general level of interest rates and increase the vulnerability of the marginal corporations not receiving governmental support.

This catalogue of financial events will exert strong pressures to end the abuses we have heaped on our economy and financial system, Mr. Kaufman said. These pressures have already started and will in

some instances be quite painful, but, as they intensify in the weeks ahead, they will also become the harbinger of a better balance in the economy.

In discussing the Federal Reserve's unsuccessful attempt at "monetarism" in its monetary policy, Mr. Kaufman said it enabled the Federal Reserve to escape some of its basic responsibilities of economic stability. He pointed out that, "Indeed, the tougher stance of the Fed lately is a refreshing and encouraging development even though it is belated and still is handicapped by some monetarist procedures and structural changes in the market."

Need for Action

In outlining the need for present action, Mr. Kaufman stated that controlling bank credit expansion must be a very high objective of monetary policy if massive distortions and inequities are to be avoided in the credit markets.

He pointed out that the Fed's "monetarist" approach has been breeding several unwholesome developments. A principal result, he said, was the large disintermediation at non-bank institutions and the new intermediation role of commercial banks in periods of restraint which may actually make it technically difficult to slow the growth in the money supply as funds are transferred briefly from

(Please turn to Page 3)

Independent Banking

Has kind of a nice ring to it.
Use our toll free WATS line to find out how
our Correspondent Banking Department can help you.



Member: FDIC,
Federal Reserve System

DES MOINES' LARGEST INDEPENDENT BANK

 **BANKERS TRUST**

6th & Locust / Des Moines, Iowa / 800-362-1688



Voldy Vanags

We're in our new home at Seventh and Walnut.
Stop in and visit us soon.

IOWA-DES MOINES NATIONAL BANK



MEMBER FEDERAL DEPOSIT INSURANCE CORPORATION

Citicorp's \$850 Million Floating Rate Issue Delayed

Citicorp, the nation's second largest bank holding company, was requested last week by Fed Chairman Arthur Burns to delay for two weeks the offering of the controversial and novel security. Further, the Securities and Exchange Commission did not act on the proposed issue and SEC authorities were reported to indicate a delay of several days in furnishing Citicorp with a "Letter of Comment."

Citicorp on June 19 registered with the SEC a \$250 million 15-year note issue with a floating rate of return. The rate was to come out with a 9.7% initial yield to November 30. The return is pegged at 1% over Treasury rates.

Two days after the announcement, the issue was increased to \$850 million, due to the public interest generated. The notes are to be sold through brokers with a minimum order of \$5,000 and additional denominations of \$1,000.

The Chase Manhattan Bank also was planning to offer a similar issue for \$200 million.

Ks. Attorney General Says Point-of-Sale Terminals OK

An opinion handed down recently by the Attorney General of the State of Kansas states that banking transactions initiated at point-of-sale electronic terminals are completed within the bank by computer and therefore are not in

violation of present state laws governing branching and detached facilities. The opinion had been requested by the Kansas Bankers Association for its special committee working on an EFTS program for KBA members.

Prime Rate To 12¼ %

Central National Bank of Cleveland was the first bank to move its prime rate to 12¼% on Monday, July 8. Several days earlier most major banks across the country had moved to 12%, the highest prime rate in history.

Iowa News

DAVENPORT: Scott County Bankers will hold the annual Vigilante Shoot on Wednesday, July 17, at the Davenport Police Pistol Range, Mt. Joy. Competition starts at 1 p.m., following a smorgasbord luncheon starting at 11:30 a.m.

DES MOINES: Neil Milner, executive vice president of the Iowa Bankers Association, was married to Jeanette Callies of Pierre, S.D., on July 6. The wedding was in Sioux Falls. The couple plan a Scandinavian trip.

FORT DODGE: First National Bank has announced the promotions of Thomas J. Kregel to vice president, commercial loans, and Wallace E. Hanson to vice president and cashier. Ted J. Stenhaus, manager of the Sears Roebuck and Company store in the

Crossroads Center, was elected to the board.

NORWAY: Prentiss G. Folvag, president of the Benton County Savings Bank, has sold the majority of his bank stock to Paul Bueneke of Denver, Ia., and to Don Bueneke of Hazelton. The bank will continue under the same management until Mr. Folvag decides to retire.

Nebraska News

LINCOLN: A decision is expected by July 29th from District Court on the suit filed by the Nebraska Attorney General to bar American Community Stores (Hinky Dinky supermarkets) from providing electronic transfer of funds terminals in its supermarkets. Briefs were to be in the judge's hands by July 12 and he said a decision would be rendered by July 29. The Attorney General maintains the corporation's articles do not authorize it to perform this type of banking service.

SOUTH SIOUX CITY: Merle Rost has been promoted to cashier of the Dakota County Bank.

Minnesota News

CANNON FALLS: Paul H. Bringgold, president, First National Bank, has announced the promotions of Marlene Taube to executive secretary and Marilyn Anderson to proof and transit officer.

POSITION WANTED

\$9MM Joliet area bank has opening for potential officer trainee. Prefer a young person with 2 to 5 years loan and/or operations experience. Please furnish resume and salary requirement to Box IMJ, c/o NORTHWESTERN BANKER, 306 15th St., Des Moines, Iowa 50309.

SERVICE WITH NO SMILE.

All our computer knows how to do is work. Quickly. Efficiently. But no smile.

Bill Rickert and Ken Young are the ones who smile. Especially when they're showing somebody how our straight-faced computer works.

Call Bill or Ken today.



1-800-772-2015

National Bank of Waterloo

A good correspondent bank relationship is still built by good people. Yours and ours.



John Mangold
Senior Vice President

Call me toll free . . .
800-332-5991

Merchants National Bank
Cedar Rapids, Iowa 52401 A BANKS OF IOWA BANK

CALL ON THE "PERFORMANCE TEAM"

where common transactions are handled uncommonly well.



FIRST NATIONAL LINCOLN

13th & M Street • Lincoln, Nebraska 68501 • Member, F.D.I.C.

Illinois News

EAST MOLINE: Richard K. Lignoul, acting commissioner of banks and trust companies, has issued a certificate of merger evidencing the commissioner's final approval of the merger agreement between State Bank of East Moline and Bank of East Moline joined in by Middle States Bancorporation, Inc. (formerly Mid-America Bancorporation, Inc.), a Delaware corporation. Bank of East Moline will be the resulting bank with its name amended to State Bank of East Moline.

ELGIN: An application for a permit to organize the Heritage Bank of Elgin has been filed. Total capitalization would be \$1 million.

North Dakota News

LANGDON: An application by the Farmers and Merchants State Bank of Langdon for Federal deposit insurance has been approved. The bank's capital accounts total \$600,000.

Montana News

T. A. Vashus, president, First National Bank of Glendive, was elected president of the Montana Bankers Association at its annual convention held in Banff, Canada, June 28-30. He succeeds Roger H. Ulrich, president, First State Bank, Malta.

Albert Winegardner, Jr., president, First National Bank & Trust Co., Billings, was named first vice president and Philip Yates, president, Bank of Montana, Havre, was named second vice president.

Colorado News

DENVER: The Colorado National Bank has announced the following staff changes: Charlotte A. Bowlds and David W. Fowler, credit officers and Sidney J. White, accounting officer.

DENVER: Donald J. Horst, who joined Central Bank as vice president and trust officer earlier this year, has been named officer in charge of the trust division.

Thomas J. Gordon was elected personal trust officer; James A. Barton, operations officer, and James D. Matheson, Jr., personnel officer.

Wyoming News

CHEYENNE: Clark R. Lusk has been elected assistant cashier in the mortgage loan department of the Cheyenne National Bank.

GREYBULL: Thelma Kost, formerly auditor, has been named cashier of the First National Bank.

CAPITAL/MONEY MARKETS (Continued from page 1)

near-term money assets to demand deposits and then to time deposits. "Thus," he said, "sharply rising money rates to high levels, which used to slow money growth, now may briefly spur money supply expansion."

Turning to the international monetary complex, Mr. Kaufman said a fundamental force of change in the credit markets here and in Europe has been virtually unnoticed—namely, the removal of the money rate risk from certain borrowing arrangements.

Noting the prevalence today of floating prime rates in the U.S. and abroad, he declared that the removal of the money rate risk serves as a strong stimulant to the lender to increase his loans substantially, "The more loans he makes, the more profit will accrue to him. This is because the lending spread, the profit due to the lender, is determined at the start for the entire duration of the loan." The lending institution, he added, also

escapes part of the disciplining impact of monetary restraint because it passes on to the borrower the increasing floating interest rates.

In a further analysis of the international scene, Mr. Kaufman said there were dangers associated with the increasing linkages between American money and bond markets and the rest of the world.

"Are these linkages to be used to accelerate inflation and debt creation both here and abroad or to help promote an orderly international economy? It is alarming to see in many places a great rush to finance huge balance of payments deficits, while few countries strive with fervor to return to stability. Even the procedure for financing many of these deficits may cause future problems. The machinery of the private credit markets is used to finance the deficits while the central banks around the world often watch passively."

Relating his analysis to the impact on portfolio management, Mr. Kaufman said the forces of change in our credit markets have had a dramatic and devastating impact on investment practices. They have made obsolete institutional portfolio management approaches that not too long ago were heralded as the wave of the future.

The investment portfolio strategy that will gradually emerge in the 1970's, he said, will not be simple but will reflect the problems of decision making in a complex and often trying environment.

"The management of securities will be replaced by the management of money."



HENRY N. SNYDER
Assistant Vice President
Northern Minnesota and Iowa

Your bottom line is Hank Snyder's top priority.

Call him at (612) 291-5575
Correspondent Bank Division



MEMBER F.D.I.C.

Now, dial your Commerce correspondent direct.

Just call Fred N. Coulson at (816) 234-2479, or Linda Breidenthal at 234-2489, for the direct telephone number of your correspondent representative. If you wish to contact any other departments, please call our main telephone number, (816) 234-2000.



THE WONDERFUL WORLD OF BANKING

COMMERCE BANK
of Kansas City^{NA} 10th & Walnut

South Dakota News

HURON: The Fed has approved a detached drive-up facility for Farmers & Merchants Bank.

WANT ADS

Rates 35 cents per word per insertion. Minimum: 12 words
NORTHWESTERN BANKER
306 15th St., Des Moines, Iowa

POSITIONS AVAILABLE

Northwest Iowa bank needs a Farm Manager and a Consumer Loan Officer. The Farm Manager should have operated a farm successfully over a period of several years, or have been associated with a farm related company in a management position. The Consumer Loan Officer must have bank or small loan company experience. Salary open, excellent benefits, both positions offer unlimited opportunities for advancement. Send resume to Box PDT, c/o NORTHWESTERN BANKER, 306 15th St., Des Moines, Iowa 50309. All replies are confidential. We are an equal opportunity employer.

WANTED

Second person for \$5½ Million Installment Loan Department, Eastern Iowa. Salary depends on experience. Send complete resume and salary requirements to Box GEK, c/o NORTHWESTERN BANKER, 306 15th St., Des Moines, Iowa 50309. All replies confidential.

POSITION AVAILABLE

President needed for county seat town of \$8MM deposits in central Illinois. Salary commensurate with experience. Send resume in confidence to Box MGA, c/o NORTHWESTERN BANKER, 306 15th St., Des Moines, Iowa 50309.

POSITION AVAILABLE

Progressive \$20MM St. Paul Bank has immediate opening for a young person in operations and installment lending. Send complete resume and recent photo to Box SMH, c/o NORTHWESTERN BANKER, 306 15th Street, Des Moines, Iowa 50309.

POSITION AVAILABLE

Immediate opening for experienced man to manage Insurance Agency in \$15MM Central North Dakota Bank. Send resume and salary requirements to Box DNH, c/o NORTHWESTERN BANKER, 306 15th St., Des Moines, Iowa 50309.

BANKERS PERSONNEL SEARCH, INC.

"Serving Employee and Employer Confidentially"
1314 REGISTER & TRIBUNE BUILDING · DES MOINES, IOWA
515-282-4446

SERVING PROFESSIONALLY

Banking, Financial & Business Personnel
Iowa and Nationwide
CAPITAL PERSONNEL SERVICE
204 Securities Bldg. 515-283-2545
Des Moines, Iowa 50309

INSURANCE POSITION

Ideal opportunity for young person to head bank insurance agency. Immediate opening. Modest Investment optional. Write:

Lakes National Bank
Arnolds Park, Iowa 51331

FOR SALE

Mosler Burglar Alarm BNC-100 12-volt. Good Condition. Complete with remote switch. Cedar Falls Trust & Savings Bank. 319/277-1320.

FOR SALE

Mosler Drive Up Window less than eight years old. Good operating condition. Contact Lowell Wakefield, First National Bank of Waconia, Waconia, Mn. 55387, or call 612/448-2834.

WANTED: Midwestern Banks
Have qualified buyers willing to pay substantial Premium.

Write or Call: J. Mason Henry, President
CHARLES E. WALTERS CO., INC.
P.O. Box 1313, Omaha Neb. 68101
Phone: (402) 553-6400

POSITIONS AVAILABLE

SR. TRUST OFFICER—(Iowa) must have law degree and 8-10 yrs. Sr. Trust exper. \$30,000
SR. COM'L. LN.—(Neb) exper. in large credit lines & good marketing \$25,000
AUDITOR—(Okla) exper. required \$12,000
SECRETARY—Kansas City \$7,200
PRES.—(Ks) Com'l loan & marketing is essential in town of 5,000 \$22,000
FARM & RANCH MANAGER—(Neb) Agri-degree required for Bk. Holding Co. - must have Agri-Mgmt. experience \$14,000

BANKERS AVAILABLE

TRUST HEAD—head of \$30MM dept. in midwestern bank - no law degree \$30,000
CREDIT CARD—(Ks) exper. \$18,000
CONTROLLER—Midwest Holding Co. \$18,000
INST. LN.—3 yrs. bank exper. \$12,000
COM'L. LN.—(Ks) excellent potential \$18,000

TOM HAGAN & ASSOC.
Box 12346 N.K.C., Mo. 64116
(816) 474-6874

"It takes a banker to know one"

When you need a little help call us on our toll free wats number 800-362-1615



EDDIE A. WOLF WILLIAM B. GREAVES RUSSELL G. PLAGER GREGORY S. WOLFE GERALD B. MURPHY

Correspondent Bank Department
"C" Central National Bank & Trust Company
MAIN BANK, LOCUST AT SIXTH AVENUE, DRIVE-IN MOTOR BANK AT FIFTH & GRAND
FULL SERVICE OFFICE AT 35TH & INGERSOLL, DES MOINES. PHONE 243-8181. MEMBER FDIC.

Vol. 3 No. 63 Northwestern Banker Newsletter is published weekly by the Northwestern Banker Company, 306 Fifteenth Street, Des Moines, Iowa 50309. Subscriptions 25 cents per copy, \$6 per year. Second class postage paid at Des Moines, Iowa. Address all mail subscriptions, changes of address (Form 3579) manuscripts, mail items to above address.