

NORTHWESTERN Banker Newsletter

Vol. 3 No. 86

Des Moines, Iowa

December 23, 1974

1975 Outlook for Commercial Lending

With the nation facing the longest recession since World War II, bank lenders are predicting that their 1975 commercial loan portfolios will increase - but only modestly over 1974.

The mood among lenders is one of caution, tightening up, retrenching, a slowing down of the rapid market and product expansion that has characterized the banking industry for the last decade. Concerns have developed with respect to capital adequacy and loan quality; with governmental dictated credit controls; and over the erosion of confidence in banking by the private and public sectors.

The outlook for the economy, at least through the first half, is for continued sluggishness. In the second half, we should see a moderate upward turn in business activity. However, it is likely that real GNP for the year as a whole will decline from 1974's level.

Inflation should ease from the double-digit proportions in 1974 to the vicinity of 7 to 8% in the second

By FRANK R. DYER, JR.
*President
Robert Morris Associates and
Executive Vice President
The Philadelphia National Bank
Philadelphia, Pa.*

half. But that is still a troublesome high rate and will continue to influence our lending policies in a major way.

The rumblings for governmental credit allocation are ominous. This step is unnecessary and could, in fact, be counterproductive. The current period of economic stress has already led us to adopt restrictive attitudes in lending, particularly with respect to loan purpose. For months now, we have been highly selective in extending new commitments, and have been giving close scrutiny to requests for additional funds from existing customers. We are going to see that proper credit needs are met, but no more. And, I think this will be a healthy development. Although Federal Reserve policy is moving toward ease, most lenders agree that restrictive policies will continue in the face of economic concerns and restraints imposed by capital.

Accompanying a faltering economy will be a weakening in

commercial loan demand. The 15 to 20% increase in our totals during 1974 may well translate to a rise in the area of 5% this year. Additionally, this sluggishness could continue for a period following the recession.

Contributing to the reduced demand will be a curtailment in the growth of receivables, as sales levels soften, and inventory liquidation at all levels, manufacturers through retailers.

We may also expect our corporate customers to seek to enhance their liquidity by acquiring funds in the long-term debt market, even if these rates remain high. An active commercial paper market with something like the historical spread in interest costs will also serve to ease the demand pressures on the banking system.

Loan demand will also be dampened by a tapering off in capital expenditures as reduced levels of output and lower corporate profits cause some cancellations and deferrals of currently planned expenditures.

I would expect reduced demand in the following loan categories: consumer-related industries, such as appliances, furniture, electronics—at the manufacturing, wholesale, and retail levels; the chemical industry, such as synthetic fibers and paints; and automobile supply
(Turn to back page, please)



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Iowa News

The Iowa Bankers Association will hold a Minimum Risk Banking Security School January 14-15 at Adventureland, I80 and Highway 65, Altoona. Topics to be discussed include personnel training and hiring, bomb threats and emergency procedures, kidnap extortion, security equipment, facial identification, cash control and security, and preparing the foundation for police and FBI investigations.

DUBUQUE: F. Forbes Olberg, president of Banks of Iowa, Inc., a Cedar Rapids based holding company, and Hal F. Reynolds, president of Iowa National Investment Company here announced recently an agreement under which Banks of Iowa, Inc., will pay \$7.50 per share for the 182,709 shares of outstanding stock of Key City Bank and Trust Company, Dubuque, owned by Iowa National Investment. The proposed transaction is subject to approval by the shareholders of Iowa National Investment and the Board of Governors of the Federal Reserve System.

HAMPTON: The Board of Govern-

ors of the Federal Reserve System has announced its denial of the application of Peoples Bancorporation to become a bank holding company through the acquisition of Peoples Savings Bank, Elma.

HUMBOLDT: Funeral services were held recently for Clement W. Garfield, co-founder and first president of the First National Bank. Mr. Garfield was president from its founding in 1933 until 1950 and continued as a director until he moved to California in 1958.

MAQOKETA: Boyd L. Hook has resigned as chairman of the American State Bank in Mason City and will join Jackson State Bank here after the first of the year. American State became a member of Hawkeye Bancorporation earlier this year, and Mr. Hook, who had been president since 1970, became chairman.

OXFORD: An application by the First Trust and Savings Bank for consent to exercise limited trust powers has been approved.

WASHINGTON: Funeral services were held last week for Lee A. Holland, former president of the Iowa Bankers Association and former president of Washington State Bank. He was a director of the bank at the time of his death.

WATERLOO: Ruth Brink and Evelyn Yagla have been promoted to assistant cashiers at the Waterloo Savings Bank.

Nebraska News

FREMONT: Charles L. Green has joined the First National Bank & Trust Co. as trust officer, according to John R. Young, Jr., bank president. Mr. Greene previously was associated with the First National Bank in Aberdeen, S. D.

Minnesota News

CLOQUET: The First National Bank recently held a ribbon cutting ceremony at its new five-lane drive-in bank facility.

DEER CREEK: Remodeling was finished recently on the exterior of The Security State Bank.

EAGAN: Mid America National Bank has announced that Michael E. Larkin has rejoined the bank as vice president. After serving seven years with the Eagan bank, he joined the First National Bank, Lakeville, as president in 1971.

FLOODWOOD: Funeral services were held recently for Bernt J. Muus, 84, former president of the First State Bank.

HECTOR: David L. Spreiter, president and chairman of Security State Bank, has announced the following two promotions: Curtis L. Anderson from vice president and cashier to executive vice president, and Bradley Edgar from assistant cashier to cashier.

HERMAN: Larry Jessen has joined the First National Bank here.

HIBBING: Merchants & Miners State Bank has received permission to establish a facility at First Avenue and 22nd Street.

KIESTER: Over 1,000 guests recently helped the First National Bank celebrate its seventy-fifth birthday during an open house.

LAKEVILLE: Richard Sullivan has been promoted to assistant vice president of the First National Bank. He had been assistant cashier.

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PENNOCK: State Bank of Pennock recently held a grand opening in its new quarters. W. R. Westrom is president of the bank.

RAYMOND: Farmers State Bank has announced the following elections and promotions: Virgil R. DeGrote, elected cashier and director, and Frances Feig, elected vice president. C. L. Gunter resigned as vice president of the bank but retained his position as director.

ST. PAUL: American National Bank is now in its new 26-story building. Formal open houses will be announced after the first of the year.

ST. PAUL: A. Marie Schwebach has been elected vice president of the St. Anthony Park Bank. She joined the bank in 1943 and previously was assistant vice president.

SPRING VALLEY: Bruce L. Johnson has joined the First National Bank as assistant cashier and manager of the timepay department. He previously was associated with the National Bank of South Dakota at Vermillion and Corsica.

WACONIA: First National Bank has added Paul F. Ederer to its staff as vice president.

Illinois News

AURORA: A permit to organize has been issued for the First Security Bank at Reckinger Road and Farnsworth Avenue. Total capitalization of the new bank will be \$1,200,000, consisting of \$480,000 in both capital and surplus and \$240,000 in reserve. Organizers include: Donald H. Fischer, W. W. Luxion, George K. Pilkenton and Herman A. Tatz, all of Naperville; Roy Hassert and Jerome J. Paddock, Lockport; Anton P. Mourek, Riverside, and William E. Stopps, North Aurora.

CHARLESTON: Allan R. Towles has been promoted from assistant cashier to assistant vice president. He joined the bank in May of 1953.

CHICAGO: American National Bank & Trust Company has named John A. Greathouse vice president, commercial lending division and David A. Rubin vice president, trust development division.

CHRISTOPHER: An application



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by the Rend Lake Bank for Federal deposit insurance has been approved. Capital accounts of the bank total \$750,000.

LINCOLNSHIRE: David Alford has been advanced from executive vice president to president of the First National Bank. The bank started in early 1973.

OAK PARK: An application by the Avenue Bank and Trust Company for consent to establish a facility at 835 Lake Street has been approved.

WARRENSBURG: A charter has been issued for the Community Bank of Warrensburg. Total capitalization of the new bank will be \$500,000, consisting of \$200,000 in both capital and surplus, and \$100,000 in reserve. Officers are Robert H. Brown, chairman; K. R. Kemmerer, president; Noble E. Adams, vice president, and Robert C. Reed, cashier. Directors include Mr. Adams, John W. Behrends, Mr. Brown, Norman K. Dodd, Ranald M. Hundley and Mr. Kemmerer, all of Warrensburg; Daniel A. Good, D. W. Poland, Decatur, and Edward R. Niederer and Conrad Noll, Jr., Springfield.

North Dakota News

CANDO: Two new officers have been named at the Towner County State Bank, according to W. D. Johnson, bank president. Morris Carlson has been named cashier and Mary Jo Vitt has been named assistant cashier.

South Dakota News

ABERDEEN: Kenneth Trammell has been elected assistant cashier of Aberdeen National Bank. He joined the bank in 1972.

CLARK: Dale Clausen has joined the First National Bank succeeding Frank Osowski who has been transferred to the First National Bank at Worthington. Mr. Clausen has been associated with the First National Bank at Havre, Mont., since about 1963.

PARKSTON: The Farmers State Bank recently celebrated its 20th anniversary with an open house.

SIOUX FALLS: Western Bank has advanced Duane R. Albers from vice president and cashier to senior vice president and Richard E. Buehler from vice president and marketing director to senior vice president.

VALLEY SPRINGS: Kathy L. Lape has been named operations officer of the United National Bank. She has been with the bank since 1969.

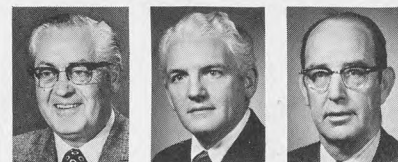
Wyoming News

KEMMERER: The Board of Governors of the Federal Reserve System has announced its approval of the application of Wyoming Bancorporation, Cheyenne, to acquire The First National Bank here.

Colorado News

DENVER: United Banks of Colorado, Inc., has made application for approval to acquire 80% or more of the voting shares of South Platte National Bank in LaSalle.

LITTLETON: Littleton National Bank has announced the appointment of Ward R. Arnold as vice president for operations. Mr. Arnold formerly was vice president and cashier at Midtown National Bank in Pueblo.



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Colorado News

DENVER: Mary P. Jones and Hugh W. Patterson have been appointed assistant vice presidents at the United Bank of Denver.

COMMERCIAL LENDING . . .

(Continued from page 1)

and accessory related companies. All will be adversely affected by the weakness in consumer spending, especially in the first half.

One of the most likely areas for stronger loan demand may be the construction and building materials sectors, if as projected, housing starts pick up by the second half. However, the lead time required to get housing underway again will affect the timing of this potential demand.

Continuing on the demand side, I look for strength in the following categories: energy and energy-related industries, such as petroleum, utilities, steel, mining; loans to finance the balance of payments deficits of oil-importing countries; the mass transportation industry; and food and allied industries.

What about interest rate levels in 1975—notably, prime? Short-term rates can be expected to decline in response to a slack economy, weak loan demand, and an easier monetary policy. The decline should continue through the first half of 1975, although the downward movement will probably be limited by the continued high rate of inflation. The prime rate could hit a low point of around 8% at mid-year but then start to rise again, slightly, as the economy strengthens.

Finally, as I look into 1975, I see a continuing and increasing emphasis by banks on loan quality and on loan pricing. Quality—because we manage the bank's "risk" assets, and our first responsibility is the safety of our depositors' money. Pricing—because this is a key factor which affects our bottom line performance. Ultimately, it will be our earnings record that will attract need capital into the banking system.

The key word for commercial lending in 1975 is "perspective." Does it all make sense, not only from an earnings viewpoint, but also in the context of the bigger picture: our communities and the essential needs of the economy.

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Vol. 3 No. 86 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.