

NORTHWESTERN Banker Newsletter

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Outlines Views on Pricing Bank Credit

In his address before the recent 61st Annual Fall Conference of The Robert Morris Associates in San Francisco, Richard L. Thomas discussed the need for banks of all sizes to look at the pricing of credit. Mr. Thomas is president of First Chicago Corporation and president of The First National Bank of Chicago. His comments on credit pricing follow:

I think bankers have done a totally inadequate job of pricing their products.

In the past, banks have handed out commitments like a new father handing out cigars. Improper attention has been paid both to the ultimate need to fund these commitments and to the price which is charged.

As we all really know, but sometimes disregard, a bank's ability to fund its commitments is obviously limited. It is thus important for each bank voluntarily to limit commitments to that amount which could be funded regardless of the level of usage. It then follows that if a bank limits its commitments, it should set its pricing structure to maximize its return on commitments.

This means pricing our commitments properly, recognizing that they are a scarce resource. If we do this, those who do not have a true

need for commitments will be unwilling to pay the price.

Appropriate pricing can help insure that the banking system will be able to meet the needs of those sectors of society that really need credit.

We must also develop better discipline in other aspects of our pricing. This means making sharper distinctions between borrowers of different quality. In today's public marketplace, objective creditors are requiring substantial premiums for loans to lesser-rated corporations, yet we continue to give the prime rate to a wide variety of borrowers, ignoring the very real differences in their quality.

By giving the same rate to so many customers, we are probably charging too much to the few really super-prime customers who are abandoning the banks for the commercial paper market. At the same time, we are not charging enough to most of the borrowers who receive the prime rate.

If we believe that credit losses on a few super-prime customers will be nominal, we can undoubtedly justify giving them a rate closer to the commercial paper rate. However, this must be accompanied by a significant increase in the rate

charged to many other customers presently borrowing at prime.

Proper pricing also means charging appropriate fees for both credit and non-credit services. Regrettably, some banks are still double counting balances, the net result being that some borrowers are receiving lines of credit for free. If it is true that bank credit will be in short supply—and we believe this to be the case—then it does not make sense to give away our product.

In many cases, banks are really providing permanent capital to their borrowers, particularly with respect to small and medium-sized companies. I think this is inevitable in the current environment, and indeed, as I mentioned earlier, it is our responsibility to step up and provide necessary funds.

However, we should be compensated properly for this kind of money and we should obtain a rate of interest substantially greater than that charged for seasonal loans. Not only is the risk substantially greater in these kinds of credits, but to the extent that we have more term credit and less seasonal credit on our balance sheets, we become less liquid ourselves. This should encourage us to take on more longer term liabilities on our balance sheets, which is more expensive than short-term money.

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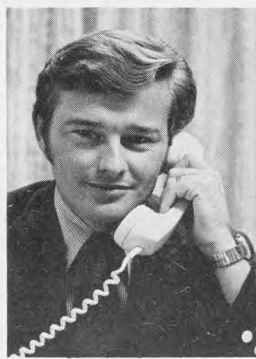


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Should Show Legal Advice Was Given on Keogh Plans

Banks offering Keogh plans should require the customer to sign a statement that the customer has sought and received advice from an attorney as to the adoption of the plan so it will be clear that the customer didn't act in total reliance on the bank, Murray F. Wilson, senior vice president and trust officer, United Bank of Arizona, Phoenix, recently told bankers at an American Bankers Association workshop.

He and other speakers referred to a recent New York State Bar Association opinion that in certain circumstances a representation by a bank or other nonlegal institution or individual that a plan is suitable for a particular employer or qualifies for tax benefits under the law constitutes an unlawful practice of law. They indicated that obtaining a signed statement that counsel had been consulted might insulate banks from some of the liability which might result.

Iowa News

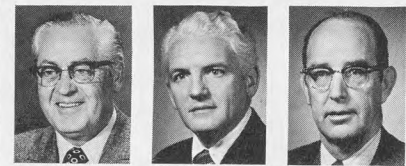
MARSHALLTOWN: Ronald E.

Fenton has been elected president of the Security Savings Bank here. R. M. Wilson, president since 1964, was elected chairman of the executive committee, and W. A. Lane, Jr., was promoted from executive vice president to chairman of the board. Mr. Fenton, 46, senior vice president of the Bankers Trust Company of Des Moines, will assume official duties with Security on February 1. Other promotions are: Richard A. Beasley from customer service officer to assistant vice president and Richard C. Anderson to trust officer and farm manager.

NORWAY: Funeral services were held last Wednesday for Prentis G. Folvag, president, Benton County Savings Bank. Death was attributed to cancer.

OAKLAND: Citizens State Bank has announced the promotions of Loren Lorenzen to assistant vice president and Terry Conner to cashier and trust officer.

PERRY: Patty Salocker has been elected vice president and cashier of the First National Bank. Jack Lenz has been named vice president and assistant trust officer, Marvin Hartz, marketing director and farm representative and Agnes Malcom,



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assistant trust officer and public relations officer.

ROLFE: Donald E. Shoemaker, formerly cashier, has been promoted to vice president of the Rolfe State Bank. Robert J. Dixon, formerly an operations officer, has been named cashier. The bank also has announced the increase of its capital stock from \$100,000 to \$200,000 by stock dividend.

SIOUX CITY: Richard Wallace Levin has been elected senior trust officer and head of the trust division at the First National Bank in Sioux City. Mr. Levin, formerly trust officer, succeeds William Nelson, who will join the First National Bank, Janesville, Wisc., as vice president and senior trust officer.

WILLIAMSBURG: Karin M. Winwood has been named assistant to the president of Farmers Trust and Savings Bank. Steven J. Frimml has been promoted to farm representative and teller.

Nebraska News

SEWARD: The Cattle National Bank has announced the following

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promotions: Rhoda A. Bredow, vice president and cashier; Robert J. Anderson, vice president, and Don E. Heier and John Munn, assistant cashiers.

Minnesota News

BEAVER CREEK: Leonard Scholten, cashier, has been elected a director of Beaver Creek State Bank.

LE CENTER: Gary Feldt has joined the First National Bank as cashier. He formerly was vice president and cashier, Gambles Continental State Bank, St. Paul.

MILTONA: Controlling interest in the Miltona State Bank has been purchased by Jon F. Schmid, former cashier of the First National Bank, Le Center. He has taken over as president of the Miltona State Bank.

MINNEAPOLIS: Daryl G. Bach has been named vice president and auditor, control department, National City Bank of Minneapolis. Michael C. Duepner has been named vice president, commercial banking.

ST. PAUL: James D. Carlton has been named vice president and Donald G. Rademacher assistant vice president of First Security State Bank.

Illinois News

"How To Manage People for Fun, Profit and Happiness" and "The High Cost of Legislation" are among the topics to be presented at the Illinois Bankers Association 1976 Consumer Credit Conference, February 11-12 at the Holiday Inn O'Hare/Kennedy, Chicago. The luncheon speaker is Dr. Paul S.

Nadler, professor of business administration, Rutgers University, who will speak on "The Outlook for Business, Banking, and You."

CHICAGO: Lawrence L. Dernulc has been named commercial loan officer at Seaway National Bank.

CRETE: Crete Trust & Savings Bank has received permission to exercise limited trust powers.

FOREST PARK: A permit to organize has been issued to the First Security Bank, Marengo and Madison Streets. The state bank's total capitalization of \$1,500,000 will consist of \$600,000 in both capital and surplus and \$300,000 in reserve.

SALEM: Community State Bank has received permission to exercise limited trust powers.

SAUK VILLAGE: An application by Union Bank of Surreybrook for Federal deposit insurance has been approved. The bank's capital accounts total \$1,200,000.

WAVERLY: Wemple State Bank has been issued a state trust certificate of authority. Maurice L. Quinn has been named trust officer and Joseph L. Fitzpatrick assistant trust officer.

South Dakota News

PIERRE: South Dakota Bankshares, Inc., has filed an application for approval to become a bank

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VIBORG: Jim Knutson has joined the United National Bank.

North Dakota News

BISMARCK: Freda Rubbelke has been appointed assistant cashier of the Bank of North Dakota.

GRAFTON: The First National Bank has filed an application for permission to establish a branch office at Crystal.

Wyoming News

The 22nd annual Wyoming Bankers Association Credit Conference will be held Feb. 5-6 at the Ramada Inn, Casper. Registration begins at 5:30 p.m., Feb. 5. The first session begins at 8:45 a.m. Feb. 6. Speakers include N. Berne Hart, executive vice president and William D. Loring, senior vice president, United Bank of Colorado, Inc., Denver; and Kermit Hansen, chairman, U. S. National Bank of Omaha.

LOVELL: Western National Bank has announced the promotion of Donald Mauer to vice president and cashier.



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Executive officer for \$4½MM rural bank in northeast Nebraska. Must be heavy in both agriculture and commercial lending. Excellent opportunity for right person. Please send resume and references (salary open) to Box VKV, c/o NORTHWESTERN BANKER, 306 15th St., Des Moines, Iowa 50309.

POSITION AVAILABLE

Near \$30MM independent Iowa bank looking for experienced commercial loan officer. Ideal candidate will have additional experience in agricultural lending and a good knowledge of operations. Please send resume with picture to Box VJV, c/o NORTHWESTERN BANKER, 306 15th St., Des Moines, Ia. 50309.

FOR SALE

E5400 Burroughs posting machine with automatic reader. Under contract. Call Reed Elwood, Peoples Savings Bank, Elma, Ia. Phone: 515/393-2301.

BRANCH MANAGER

For United National Bank - new branch - Gregory, S.D. Applicant must have general loan knowledge with strong background in ranch, agriculture and livestock. Full responsibility for branch operations. Please send resume in confidence to D. Jack Gibson, P. O. Box 1088, Sioux Falls, S. D. 57101.

POSITION WANTED

Experienced, well-rounded banker desires second person position in southern Iowa. Write Box VFV, c/o NORTHWESTERN BANKER, 306 15th St., Des Moines, Iowa 50309.

POSITION WANTED

Iowa State University ag grad with 10 years of banking experience seeks new opportunity. Now employed. Resume and references furnished. Write Box SGO, c/o NORTHWESTERN BANKER, 306 15th St., Des Moines, Ia. 50309.

WANTED

Branch manager for small but growing office in eastern Iowa. Would prefer experienced person, but will train. Write Box VMV, c/o NORTHWESTERN BANKER, 306 15th St., Des Moines, Iowa 50309.

POSITION WANTED

Cashier with 22 years experience in operations, loans and insurance wishes to relocate in management position or where opportunity for ownership is available. Write Box VGV, c/o NORTHWESTERN BANKER, 306 15th St., Des Moines, Ia. 50309, for resume.

WANTED

Small town central Iowa bank, \$17MM assets, looking for operations officer. Must be familiar with accrual accounting and computer operation. Resumes and inquiries will be kept confidential. Salary to be negotiated. Write Box VIV, c/o NORTHWESTERN BANKER, 306 15th St., Des Moines, Iowa 50309.

POSITION WANTED

Executive officer with extensive administrative and operations experience seeks new opportunity. References. Write Box RIB, c/o NORTHWESTERN BANKER, 306 15th St., Des Moines, Iowa 50309.

FOR SALE

#450 NCR 40-pocket proof machine, NCR accounting-posting machine. Call A. E. Witte (612) 879-8041 or write The First National Bank of Hutchinson, Hutchinson, Minn. 55350.

POSITION WANTED

Senior bank officer desires to relocate within 250 miles of Kansas City. Sixteen years of experience includes loans, operations, investments and general management as number two person in \$37MM bank. College and school of banking graduate. Write Box VHV, c/o NORTHWESTERN BANKER, 306 15th St., Des Moines, Iowa 50309.

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