

NORTHWESTERN Banker Newsletter

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Compares Tax Burden of Banks and Thrifts

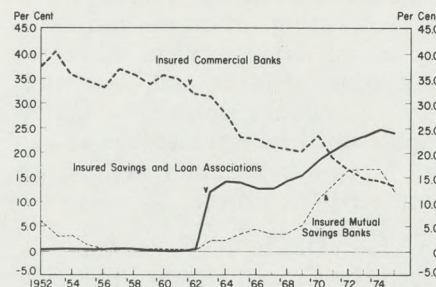
The Federal tax burden for savings and loan associations and mutual savings banks has risen sharply since 1962, while the tax burden for commercial banks has declined, according to Mrs. Margaret Bedford in the June *Monthly Review* of the Federal Reserve Bank of Kansas City. In 1975, the tax burden was 24% for savings and loan associations, 12.4% for mutual savings banks, and 13.5% for commercial banks.

The rise in the Federal tax burden of thrift institutions has resulted from the erosion of their major tax shelter, the bad debt reserve, Mrs. Bedford explains. In recent years, thrift institutions have utilized a number of other tax shelters. Commercial banks' primary tax advantage has been tax-free income from state and local government securities, but they have also utilized a number of other shelters.

Tax burdens vary greatly with the size of institution, Mrs. Bedford points out. For savings and loan associations, the tax burden increases as the size of institution increases. For commercial banks, in contrast, the tax burden declines as bank size increases, up to the largest bank

size. Among mutual savings banks, medium-sized institutions pay the higher effective tax rate.

Mrs. Bedford notes that "Differences in the tax laws for thrifts and



commercial banks do not appear to be a prime factor accounting for the difference in tax burdens at the present time. Available tax shelters are generally the same for thrift institutions and commercial banks, and tax laws regarding these shelters are similar in many ways for both groups."

She goes on to explain that "differences in tax laws for the two groups are few and essentially minor ... A principal reason for the marked difference in the trends in the tax burdens of thrifts and commercial banks relates to the ability of the institutions to utilize available tax shelters."

Mrs. Bedford points out that

since "thrift institutions are largely limited to the use of tax shelters related to mortgage loans (82% of their total assets in 1975)—at the present time only the bad debt reserve deduction is such a shelter." Because of the wider distribution of their assets, commercial banks are able to utilize a number of the tax shelters available to financial institutions.

She also notes that "For larger savings and loan associations, the tax burden generally increases with the size of institution. For commercial banks, in contrast, the tax burden declines as the bank size increases up the largest bank size." She points out that the larger a bank becomes, the more flexibility it gains in shifting to tax sheltered activities. She says they "have also adopted other tax savings programs such as accelerating depreciation, offering equipment leasing programs, taking investment and foreign tax credits, and benefiting from merger and holding company accounting rules." Larger banks pay a slightly rising tax burden despite the effective tax rate being less for their size because of the progressive corporate income tax structure and because larger banks held a smaller proportion of assets

TAX BURDEN
(Turn to back page, please)

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Iowa News

DAVENPORT: Robert T. Knapp, a former Iowa banker, died recently of a heart attack. Mr. Knapp started with First National Bank, Denison, in 1940, leaving there as cashier in 1955 to accept a similar position at Commercial Trust & Savings Bank in Mitchell, S.D. He left there in 1961 to join Bettendorf Bank & Trust, became president of that bank in January, 1965, then moved to Northwest Bank & Trust in Davenport as president in January, 1967. In 1972, Mr. Knapp joined Uptown National Bank, Moline, Ill., as executive vice president. Most recently he had been associated with a Missouri bank holding company.

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DES MOINES: Lance D. Davenport will join the correspondent banking department of the Iowa-Des Moines National Bank as a correspondent banking officer. Mr. Davenport joined the bank in 1969 as a management trainee. He joined the marketing division and was elected corporate services officer in 1972. Since 1974 he had been with City National Bank of Cedar Rapids until he rejoined the Iowa-Des Moines in January of 1976 as manager-bank offices.

OAKLAND: David F. Newell has joined the Citizens State Bank. He formerly was with the First National Bank in Ames.

OTTUMWA: John S. Zdychnech recently was elected president and chief executive officer of the First National Bank here succeeding Martin R. Roggen who was elected chairman. The changes are effective September 7. Mr. Roggen, who has been president since 1967, will continue as chairman until early 1977 when he and his wife, Lois, are planning to move to Scottsdale, Ariz. Mr. Zdychnech most recently was with the correspondent bank department of the Iowa-Des Moines National Bank, which he joined in January of 1973.

WATERLOO: Peoples Bank and Trust Co. has announced the election of Curtis J. Klatt as a trustee officer. Mr. Klatt is a recent gradu-

ate of the University of Iowa Law School.

Nebraska News

ATKINSON: First National Bank has announced the addition of Clark Gotschall to its staff as loan officer. He is a recent animal science graduate of the University of Nebraska at Lincoln.

BLAIR: Funeral services were held recently for Stanley Bednar, chairman of the Washington County Bank. Mr. Bednar, with the bank for more than 40 years, began his banking career at the First National Bank of Omaha.

RALSTON: Ralston Bank has announced the following promotions: Jon D. Hoffmaster and Roger M. Coyle, assistant vice presidents; David Fox, assistant cashier; Ramona Kayl, assistant operations officer and facility manager; Joann D. Hagerty and Geri Kidder, assistant loan officers, and Catherine Nissen, assistant operations officer.

TEKAMAH: Wayne Thorndyke, president of the First National Bank, has announced the addition of Bruce Riddell of Oakland as instalment loan officer. Mr. Riddell previously was with the Bank of America in California.

WALLACE: John Bussen has been named vice president of the Farmers State Bank here. Mr. Bussen was associated with the Bank of Hemingford for over three years and was with the State Department of Banking for seven years before joining the Wallace bank.

Illinois News

About 350 Illinois bankers will attend the upcoming Illinois Bankers Association 30th annual Agricultural Credit Conference on September 15-16 at the Ramada Inn, Champaign. Some of the discussion topics are: "A New Look at Midwestern Agriculture," "Hedg-

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NEW ISSUE

MOODY'S: "A1"

\$1,200,000 WAVERLY, IOWA

Electric Revenue Bonds, 1976 Series

Dated: August 1, 1976

Denomination: \$5,000

Both principal and semiannual interest (February 1 and August 1, first coupon due February 1, 1977) payable at the office of the City Treasurer, Waverly, Iowa.

IN THE OPINION OF COUNSEL INTEREST ON THESE BONDS IS EXEMPT FROM ALL PRESENT FEDERAL INCOME TAXES.

MATURITIES

	<u>5.00%</u>			<u>4.75%</u>	
\$100,000	August 1, 1977	3.50	\$135,000	August 1, 1983*	4.75
105,000	August 1, 1978	3.75		<u>4.90%</u>	
110,000	August 1, 1979	4.00	140,000	August 1, 1984*	4.90
115,000	August 1, 1980	4.20		<u>5.00%</u>	
	<u>4.50%</u>		150,000	August 1, 1985*	5.00
120,000	August 1, 1981	4.40		<u>5.10%</u>	
	<u>4.60%</u>		100,000	August 1, 1986*	5.10
125,000	August 1, 1982*	4.60			

*Optional in inverse order beginning August 1, 1981 at 102%.

LEGALITY TO BE APPROVED BY AHLERS, COONEY, DORWEILER, HAYNIE & SMITH, ATTORNEYS, DES MOINES, IOWA

Waverly, (estimated population, 8,000), the county seat of Bremer County, is located in northeastern Iowa, approximately 10 miles north of Waterloo. Waverly serves as a trading center for the surrounding prosperous agricultural area having a population of 30,000. The City is the home of several large industries including Bantam Division of Koehring Company, one of the nation's major producers of earth moving equipment, employing 800. Carnation Milk Co. has two large plants in Waverly producing Instant Milk and Instant Breakfast, employing 380. Other industries include United Hydraulics Corp., Skitec Corp., Waverly Publishing and Waverly Gravel and Ready Mix. The City is the home of the Lutheran Mutual Life Insurance Co. which has over \$2 billion insurance in force and employs 200. Retail sales within the City have shown an excellent increase from \$11,400,000 in 1964 to \$34,800,000 in 1975. Two banks and one savings and loan association with deposits of approximately \$125,000,000 serve the financial needs of the community. Transportation facilities are furnished by two railroads, one U.S. highway, one Iowa highway, and regularly scheduled air lines from the Waterloo airport, located only 14 miles away. Waverly has successfully owned and operated its electric light and power, sewage treatment and waterworks utilities for many years. Wartburg College, with an enrollment of 1,300 students, is located in Waverly.

These bonds are being issued under the provisions of Chapter 384, Division V, Code of Iowa, 1975, as amended for the purpose of paying a portion of the cost of increasing the capacity of the interconnection with Corn Belt Power Cooperative from 15,750 KW to approximately 35,000 KW, extension and reconductoring 69 KV transmission line, construction of additional distribution extensions to improve service to Schield Bantam & Lutheran Mutual Insurance Company as well as distribution system improvements to insure continued reliability of service throughout the City. In the opinion of counsel, these bonds, subject to the prior lien of the presently outstanding \$300,000 Electric Revenue Bonds of said City, 1965 Series, are legal and binding obligations of Waverly, Iowa, payable from the future net revenues of the electric system. Cash funds are on hand and escrowed to be used to call for redemption and prior payment of the 1965 Series Bonds on December 1, 1976. The system presently has about 3,374 connected customers.

HISTORIC EARNINGS

	(1974)	(1975)	(1976)
Gross revenues	\$1,292,351	\$1,495,331	\$1,928,809
Expenses	728,547	959,126	1,434,476
Net revenues	<u>\$ 563,804</u>	<u>\$ 536,205</u>	<u>\$ 494,333</u>

COVERAGES

(Based on 1976 net revenues)

Average principal and interest	\$153,476	Maximum principal and interest	\$160,872
Coverage of average requirement	3.22X	Coverage of maximum requirement	3.07X

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Supplement to NORTHWESTERN BANKER NEWSLETTER, 8/30/76.

ing," "Establishing and Using an Ag Credit File," and the "Outlook on Grain, Livestock and the Economy."

CHICAGO: Philip M. Lewin has been elected president, chief operating officer and director of the Exchange National Bank of Chicago, according to Samuel Wm. Sax, chairman and chief executive officer. John S. Samuels, 3d, has been elected chairman of the board. Mr. Lewin had served the Drovers National Bank of Chicago as president and chief executive officer and chairman of the board.

CHICAGO: Frank E. Bauder, former chairman and chief executive officer of Central National Bank here and Central National Chicago Corp., its parent firm, has joined Main Bank of Chicago as chairman of its executive committee.

MASON CITY: A permit to organize the 1st State Bank, 123 West Elm Street, has been issued. The state bank's total capitalization of \$600,000 would consist of \$240,000 in both capital and surplus and \$120,000 in reserve. Organizers are: Conrad Noll, Jr., and William Seymour White, Springfield; Carl H. Biedenharn, Allen Blessman, Wilbur G. Brinner, Roger A. Brooks, Donald K. Cain, Henry Kendall, Emerson W. Leinweber and Richard C. Stone, all of Mason City.

PONTIAC: The Pontiac National Bank has received permission to establish a branch office at 519 West Madison Street here.

Minnesota News

LITTLE FALLS: Walter P. Zastrow has joined the American National Bank here as an installment loan officer. He comes from St. Cloud where he had been branch manager for Finance America.

MANKATO: Michael J. Boike has

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joined the National Bank of Commerce as auditor in personnel. He is a recent graduate of Mankato State University.

North Dakota News

WILLOW CITY: The Willow City station of the First National Bank and Trust Company of Bottineau has moved into its new building on Main Street.

South Dakota News

ST. LOUIS: William F. Etz, Jr., has been appointed president of the United National Bank here, according to John T. Vucurevich, chairman. Mr. Etz comes to the bank from the First National Bank of Springfield, Ill., where he was senior vice president.

Colorado News

Any kind of banking transaction at an electronic funds transfer system more than 3,000 feet from a main bank is a branch bank and illegal in Colorado, according to a U.S. 10th Circuit Court of Appeals decision.

The three-judge court ruled that a terminal operated two miles from the main offices of the First National Bank of Fort Collins is illegal, even though the deposit function of the electronic teller has been eliminated.

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In other action concerning electronic funds transfer systems, the State Banking Board upheld its ruling that accounts may not be opened at an electronic terminal.

The question came up when the First National Bank of La Jara asked to place a terminal in San Luis. Even though that terminal is allowed under the Quinlan Bill, which allows banks in a one-bank county to operate a detached facility at any location in the same county, the language wasn't clear whether accounts could be opened in the detached facility.

Wyoming News

CHEYENNE: The office of the state examiner has moved from the Supreme Court Building to 819 West Pershing Boulevard here. Telephone numbers are the same, 777-7797, 777-7798, and 777-7775, the latter being the number for the Uniform Consumer Credit Code Division.


CHEYENNE: A group of Cheyenne bank officials have applied for a new state bank, Wyoming State

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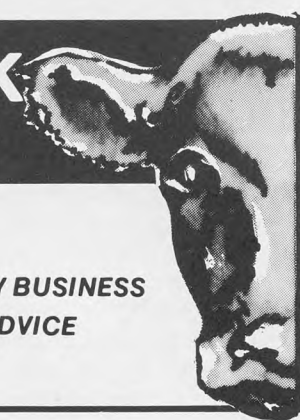


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Bank. Bernard Weber, president of the First National Bank and Trust Co., Cheyenne, is the agent. Organizers include Auburn Dowdy, Marion Lewis, Delbert Northcutt, James F. Power, Andrew E. Roedel III, all directors of the First National Bank and Trust, and Mr. Weber. Location for the proposed new bank would be 3600 East Pershing Boulevard. If approved it would be the sixth bank for Cheyenne.

TAX BURDEN (Continued from page 1)

in municipal securities than did banks in other size groups.

Recently proposed changes in tax laws could greatly alter the relative tax burden among financial institutions. Two such proposals are a mortgage tax credit and a Federal subsidy for interest payments of state and local governments issuing taxable securities.

WANT ADS

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