

NORTHWESTERN Banker Newsletter

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CSBS Study Challenges Fed Conclusions

The Conference of State Bank Supervisors has released a comprehensive analysis of the relationship between optional membership in or affiliation with the Federal Reserve System and equitable treatment between member and nonmember banks, it was announced by CSBS President John B. Olin.

The study was prepared by the Conference's executive vice president-economist, Dr. Lawrence E. Kreider, with the able assistance of Raymond T. Garea, director of research and education.

It is titled "Optional Affiliation With The Federal Reserve System For Reserve Purposes Is Consistent With Equitable Treatment Between Banks." The study is the result of a fundamental disagreement concerning the validity of the Fed's contention that the present system is inequitable because nonmember banks can meet state reserve requirements with earning assets while member banks must hold so-called idle reserves with it.

The Conference consistently has challenged the Federal Reserve to document this claim and has asserted that nonmember banks also have noninterest-bearing, reserve-type assets, that member banks tend to benefit from more noninterest-bearing, correspondent type liabilities and that, in the final

analysis, the present system is consistent with equitable treatment.

Specifically, the study draws four major conclusions.

1. Optional affiliation with the Fed for reserve purposes is consistent with equitable treatment between member and nonmember banks as two groups.

2. To the extent, if any, that inequity exists, it is as great between one member bank and another as it is between member and nonmember banks.

3. To the extent inequities may exist, they could largely be corrected by moderate changes in Fed reserve requirements within the framework of existing statutes and regulations and without disrupting appropriate monetary policies.

4. Beyond the question of equity, a system including optional membership is a great stimulant to the interbank correspondent system which serves so well the many diverse needs of bank customers in the United States and throughout the world.

Commenting upon the study, President Olin stated, "it refutes the claim that member banks as a whole are inequitably treated by virtue of their reserve requirements, and demonstrates that it is

far more likely that some banks enjoy a net benefit from Fed membership and some from non-membership. It further asserts that the banking system is strengthened by the existence of a member/non-member alternative primarily because such a choice has fostered the evolution of the dynamic and responsive private correspondent banking system. It follows logically that a workable banking system with emphasis on private initiative and efficiency should not be disrupted by more defined government control, absent demonstrated benefits therefrom."

Senate Kills Banking Bills

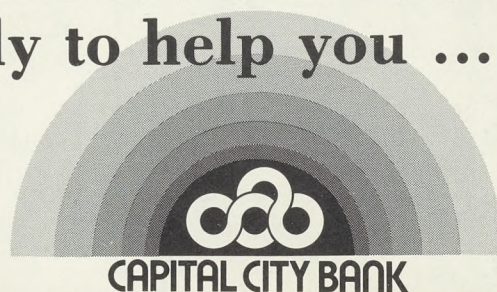
The Senate last week killed three banking bills that appeared to be headed for passage. One bill would have permitted federal, state and local governments to collect interest on their bank deposits. The ABA opposed, calling for a study of the financial impact. The bill did provide for a one-year delay to let the Fed study the matter, but the federal government in the interim would have been permitted to invest in securities issued by banks in which it places deposits.

A second bill would have required Senate confirmation for the chairman of the Fed board. Both bills had a NOW account rider

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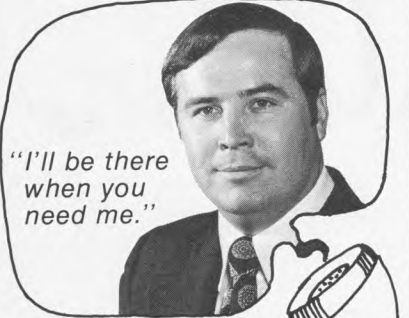


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emanating from the divided Senate banking committee, which would have permitted federally chartered financial institutions in New York and New Jersey to offer interest-bearing checking accounts. Opponents of this rider defeated both bills.

A third bill, subsequently, was dropped due to these two failures. It would have given federal bank regulators greater authority in "problem bank" situations with authority to stop unsound practices in a bank or firing principals for gross negligence. In addition, the measure would have permitted Congress to put a ceiling on the Comptroller of the Currency's spending.

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**Two Major Banks
Cut Prime to 6-¾ %**

First National Bank of Chicago and Morgan Guaranty Trust Co. of New York announced last week a reduction in their prime rate to 6-¾ % from 7 %.

Southwest Bank in St. Louis also has lowered its prime rate. Citibank of New York, the nation's second largest bank and usually the trendsetter, announced it is maintaining a 7 % rate though its rate formula indicates it should be lowered.

Iowa News

CLINTON: Myril T. Wiese, Jr., has been named assistant vice president of the trust department and assistant controller of the Clinton National Bank.

COON RAPIDS: First Federal S&L of Carroll has opened a limited facility here.

DES MOINES: Richard H. Bueneke, president of Capital City Bank, has been named chief executive officer in addition to his present duties. H. Jack Moors has been elected chairman of the executive committee. He formerly was executive vice president of the First National Bank of Lincoln, Nebraska, and resides in Lincoln. Paul Brockett has been elected a director. He is controller of Townsend Engineering.

KEOSAUQUA: Dan Spray has been appointed agricultural representative of the three offices of the State Central Savings Bank.

LOHRVILLE: Allen S. Ellyson has joined the Lohrville Savings Bank. He previously was vice president and cashier of the Exchange State Bank of Springville.

STORY CITY: Robert E. Sweet,

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president of the Story County State Bank, has announced that remodeling and expansion of the bank has been completed. Floor space of the facility was expanded by 40 %.

Nebraska News

CAMPBELL: Bonita J. Peterson has been appointed to the board of the Campbell State Bank, according to D. F. Bailey, president. Mrs. Peterson is a cum laude graduate of Hastings College. She will serve as secretary of the board.

ELBA: The Elba State Bank has received permission to move its charter and place and location of doing business to directly south across the street from its present location of 12th and Pearl Street.

LEXINGTON: State Federal S&L of Beatrice has opened a branch here.

Minnesota News

MINNEAPOLIS: Officers of the Minnesota Bankers Association for 1977-78 endorsed at the District Meetings include: president, Gene

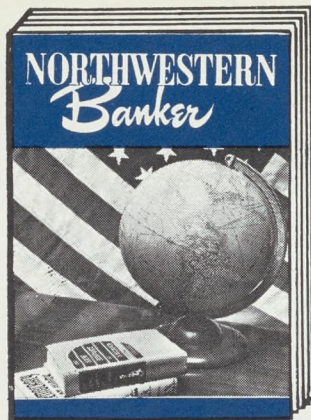
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MINNEAPOLIS: Executive level promotions at Northwestern National Bank include Virgil M. Dissmeyer to executive vice president, continuing as head of the operations and control group.

New senior vice presidents are: John H. Olson, head of corporate banking—midwest department I; Larry D. Buegler, head of corporate banking—midwest department II; James R. Campbell, head of the national department, succeeding Mr. Buegler; Harold G. Wahlquist, head of all correspondent banking in the upper midwest—9th Fed district; and David W. Cost, head of the human resources department.

C. Paul Lindholm, senior vice president and formerly head of correspondent banking, is now deputy head of the commercial banking group, headed by Willis F. Rich, Jr., executive vice president.

MINNEAPOLIS: The Federal Reserve Board has approved the application of First Bank System, Inc., here to form a new bank after turning down requests to hold hearings on the competitive impact the plan will have on the market.

The proposed new bank will be known as the First National Bank of Burnsville. The Minnesota Commissioner of Banks and the Independent Bankers Association of Minnesota argued that the proposal would have an adverse effect on competition.

NISSWA: A charter for a community owned state bank to be located near the intersection of County Road 18 and the Cullen Lake Road here has been approved by the State Department of Commerce. Dallas Olson, slated as president of the new bank, said that construction of the new facility will begin this fall.

Illinois News

CHICAGO: First Chicago Corp., holding company for the First National Bank of Chicago, recently announced that it has filed a registration statement with the Securities and Exchange Commission to offer to the public \$100 million of 10-year notes. The net proceeds from the financing will be used to repay portions of First Chicago's existing short-term debt, principally commercial paper and private placement paper, in addition to the debt of subsidiary, First Chicago Financial.

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North Dakota News

FARGO: Roger L. Sullivan, a 1976 graduate of the University of North Dakota Law School in Grand Forks, has joined the trust department of Merchants Bank and Trust Co.

Wyoming News

WHEATLAND: An application to organize a state bank, American Bank of Wheatland, has been filed. Applicants are Francis A. Barrett, M.D.; Robert M. Boice; D. L. Day, Jr.; Louise A. Domenico; Perry E. Georges, and Carl L. Lathrop.

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