

NORTHWESTERN Banker Newsletter

Vol. 6 No. 15

Des Moines, Iowa

August 8, 1977

Study Urges U.S. Securities as Reserves

As a result of its own special study of the continuing erosion of Federal Reserve membership, the board of directors of the Federal Reserve Bank of Kansas City is recommending that member banks be permitted to hold a portion of their reserve requirements in Government securities purchased directly from the Federal Reserve. In announcing this recommended alternative to member banks of the 10th Fed District, Harold W. Andersen, chairman of the Fed board in Kansas City, said "This option would relieve the burden of membership by allowing member banks the opportunity to earn a market rate of return on a portion of their reserves and at the same time would permit maximum flexibility to the central bank for purposes of monetary control."

Mr. Andersen said the study by a three-man committee of the Fed board was recommended by the Kansas and Oklahoma Bankers Associations. The results, he said, were approved by the entire board of the Kansas City Fed and sent to Dr. Arthur Burns, chairman of the Board of Governors of the Federal Reserve System in Washington, D.C.

Principal findings of the three-man committee were that the

decline in the number of member banks raises concerns about the ability of the Fed to regulate the supply of money and credit and its ability to make reserve requirements an effective instrument of monetary policy; the System's reserve requirements continue to be a bar to membership; member banks non-earning Fed reserves are a "bottom-line" disadvantage compared with non-member banks; the comparative cost of Fed membership declines as bank size increases; the ultimate solution to the membership problem must meet two essential criteria:

1. The earnings burden presently borne by member banks must be relieved to eliminate existing inequities among institutions of similar size, and

2. The level of impounded reserves must be sufficient to permit the central bank to control the nation's supply of money and credit with reasonable precision.

Mr. Andersen then stated in his letter to the associations and member banks that his board's three-man committee had reviewed these five alternatives "for reducing the impact of required reserves on the relative cost of System membership":

1. Universal reserve require-

ments. Would require all financial institutions offering third party payment accounts to maintain reserves with the Fed, thus equalizing the burden of membership and perhaps increasing monetary control. Problems—erosion of dual membership and getting required legislation.

2. Reduction of reserve requirements. Reduce required reserves for member banks. The burden is greater for smaller banks, and their reserve requirements now are at or near statutory minimums. Problem—impairment of Fed's control of money and credit with reasonable precision.

3. Government securities as reserves. Would permit member banks to hold some of their reserves in Government securities, getting market rate return, allowing same advantage enjoyed by nonmember institutions. Problem—for monetary control, has same effect as an outright reduction in reserve requirements, with same disadvantages.

4. Payment of interest on reserves. Would permit Fed to pay explicit interest on reserves maintained at Fed. Congress considering such legislation now.

5. Government securities purchased from the Federal Reserve

STUDY.....
[Turn to page 7, please]

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Fed Clarifies Reg Q Changes on 7¾% CDs

In response to questions from several readers, the Northwestern Banker asked the Federal Reserve Board in Washington, D.C., for a clarification of its July 6, 1977, ruling which permits commercial banks to pay 7¾% interest on IRA and Keogh accounts. A Fed spokesman said the regulation now permits commercial banks to pay the 7¾% rate, highest allowed by present law, on CDs written for a minimum of three years.

In addition, banks may convert existing CDs to the three year minimum, if they wish to do so. A bank, for example, could shorten a six-year CD to the three-year term, at its option, and pay the 7¾%, or may leave the CD at the longer maturity and still pay 7¾%. The controlling factor is that the CD must have a minimum of three years.

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Abelt Leaves Continental To Join Bank in Ohio

Ralph W. Abelt, vice president in the financial institutions division at Continental Bank, Chicago, has resigned that position to become president of the \$300 million deposit Lake County National Bank in Painesville, Ohio. Mr. Abelt has long been identified with the correspondent bank division at Continental and worked closely with banks in Iowa, Illinois and adjacent midwest states for a number of years.

Iowa News

Response to sight drafts sent to the 559 member banks of the Iowa Transfer System was described last Thursday as "excellent" by an ITS spokesman. It appeared on that day that better than 80% support would bring in the \$1 million or more needed for current and future operations.

AKRON: Donald Kapfer has been promoted to vice president and cashier and elected to the board of the Akron Savings Bank.

ALGONA: The Iowa State Bank has announced plans to build a new bank at the corner of Thorington and Call.

BREDA: Funeral services were held last week for M. F. Van Erdewyk, chairman, Breda Savings Bank.

FORT DODGE: Gene C. Gutknecht has been appointed trust officer of Union Trust & Savings Bank, effective August 15. He has been a practicing certified public accountant in Fort Dodge since 1953, most recently serving as president of the firm of Gutknecht, Schnurr & Associates.

FORT DODGE: I. Eugene Richardson, Jr., recently was promoted

to commercial loan officer of The State Bank.

OTTUMWA: Stephen D. Beck has joined the First National Bank as assistant cashier, instalment loan department. He comes from the Plaza State Bank in Des Moines.

Nebraska News

CALLAWAY: Elaine Nelson recently was elected vice president and cashier of the Seven Valleys State Bank. Mrs. Nelson has been with the bank since February of 1956.

FAIRBURY: Duane Vorderstrasse has joined the First National Bank as agricultural representative. He recently was graduated from the University of Nebraska-Lincoln.

OGALLALA: Lon Carpenter has joined the Keith County Bank & Trust Co. as assistant cashier. For the last six years he has been with the Bank of Norfolk.

Illinois News

HOOPESTON: A permit to organize has been issued to the Mid-American Bank at the junction of highways one and nine. The state bank's total capitalization of \$1 million will consist of \$400,000 in both capital and surplus and \$200,000 in reserve. The 40,000 shares of stock will have a par value of \$10 each. Organizers are: Charles Eugene Beckner, Kenneth Crouch, Howard E. Gaddis, William E. Nelson, Charlotte Ann Russell, Ray E. Stipp, Philip F. Trego and Michael Zook, all of Hoopeston.

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TAMA COUNTY, IOWA

MOODY'S: "A-1"

NEW ISSUE

General Obligation County Care Facility Bonds

Dated: September 1, 1977

Denomination: \$5,000

Both principal and semiannual interest (June 1 and December 1, first coupon due June 1, 1978) payable at the office of the County Treasurer, Toledo, Iowa.

IN THE OPINION OF COUNSEL INTEREST ON THESE BONDS IS EXEMPT FROM ALL PRESENT FEDERAL INCOME TAXES, IOWA FRANCHISE TAX AND ALL PROPERTY TAXATION IN THE STATE OF IOWA.

MATURITIES

<u>4.30%</u>		<u>4.40%</u>	
\$25,000	June 1, 1979 3.25	\$70,000	June 1, 1987 4.40
50,000	June 1, 1980 3.50		<u>4.50%</u>
50,000	June 1, 1981 3.65	70,000	June 1, 1988 4.50
55,000	June 1, 1982 3.80		<u>4.60%</u>
55,000	June 1, 1983 3.95	75,000	June 1, 1989 4.60
60,000	June 1, 1984 4.10		<u>4.70%</u>
60,000	June 1, 1985 4.20	75,000	June 1, 1990 4.70
65,000	June 1, 1986 4.30		

LEGALITY TO BE APPROVED BY HERRICK, LANGDON, BELIN, HARRIS, LANGDON & HELMICK, ATTORNEYS, DES MOINES, IOWA.

Tama County is located in central Iowa, surrounded by the cities of Des Moines, Waterloo and Cedar Rapids. The County, organized in 1853, is composed of eleven incorporated cities with Toledo being the county seat. The County contains approximately 720 square miles with some of the state's finest agricultural land. Tama County is also the home of the Tama Indian Settlement. This settlement, administered under the direction of the Bureau of Indian Affairs, is owned completely by its inhabitants. The principal tribes present are the Sac and Fox Tribes. Population of the County according to the 1970 Census was 20,142. Combined banking deposits within the County during 1976 exceeded \$105,157,000, supporting taxable retail sales activity of \$45,826,187. Transportation facilities are provided by U. S. Highways 30 and 63, eight Iowa primary highways, and an excellent network of paved county roads. U. S. Interstate 80 is located approximately 20 miles south of Toledo. The County is also served by the main lines of the Chicago, Milwaukee, St. Paul & Pacific Railroad and the Chicago and Northwestern Railway, as well as the Chicago Rock Island and Pacific Railroad and with commercial airline service available in the three surrounding metropolitan areas.

These bonds were authorized at a special election held June 7, 1977, by a vote of 1,555 "Yes" to 431 "No." They are being issued under the provisions of Chapter 345, Code of Iowa, 1977, as amended for the purpose of erecting and equipping a new county care facility. In the opinion of counsel, these bonds are legal and binding general obligations of Tama County, Iowa, and all taxable property located therein is subject to the levy of sufficient taxes to pay the principal of and interest on the bonds without limit as to rate or amount.

FINANCIAL STATEMENT

Actual and assessed value of taxable property, 1976	\$391,054,525
Direct debt, this issue only	710,000
Total direct, overlapping and underlying debt	4,137,035
Population, 1970 Census: 20,142	Direct debt per capita: \$ 35.25
	Total debt per capita: 205.39
Area: 460,800 acres	Direct debt per acre: \$ 1.54
	Total debt per acre: 8.98

Tax collections have approximated 100% of taxes levied for the last five years.

We own and offer subject to prior sale and change in price and subject to our attorney's approving opinion.

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ARE BUYING AND LEASING ALIKE? There is much in common . . . you "shop" for your equipment . . . you decide model, size of particular options you want.

LEASE PAYMENTS . . . Are arranged to fit your cash flow. Thus, equipment and payments are "customized" to accommodate your needs.

THE MOST IMPORTANT THING . . . You have the equipment to use whether you're buying or leasing, and can own the equipment at the end of the lease.

AND . . . HOW ABOUT A LEASEBACK?

. . . Sure, suppose you are a business or professional man or farmer, and your equipment is "free and clear," or at least you have a good equity in it. You are "loaned up" at the bank, but you need cash now for a good inventory buy, to carry additional receivables, or for any worthwhile purpose. If your cash flow will carry the rental payments, then consider a Leaseback.

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Minnesota News

The following banks have increased their capital stock: by stock dividend—American Bank and Trust Company, Moorhead, from \$500,000 to \$1 million; by sale of new stock—Merchants State Bank of North Branch, from \$120,000 to \$150,000; Tri-county State Bank of Ortonville, from \$350,000 to \$500,000; Signal Hills State Bank, West St. Paul, from \$185,000 to \$212,000; and Summit State Bank of South St. Paul, from \$210,000 to \$235,000.

BABBIT: First State Bank has announced the election of Bill Stapel as cashier.

BLOOMINGTON: John Trucano has joined Northwestern Bank Southwest as commercial loan officer. He formerly was with the American National Bank, St. Paul.

MINNEAPOLIS: John C. Koppelman has been elected instalment banking officer of Fourth Northwestern National Bank.

PINE CITY: Stuart Clem has been elected assistant vice president of the First National Bank.

PRINCETON: Donald H. Perbix has been named head of operations at Community State Bank. He most recently has been in management with several Twin City suburban banks including Fridley State Bank and the Summit Banks of Richfield and South St. Paul.

STILLWATER: First National Bank has announced the election of Margaret Thron as auditor.

WARREN: Mark E. Swanson recently has been promoted to assistant cashier and insurance manager of Peoples State Bank. He had been auditor. Sandra Johnson has joined the bank's staff.

South Dakota News

MILLER: First National Bank has announced the following staff changes: LaVonne Engelcke, assistant manager, First National Insurance Agency, Judy Jenner,

instalment loan officer, and Steven Swanhorst, assistant ag representative and loan officer.

RAPID CITY: The First National Bank of the Black Hills has received consent to establish an office in the new Rushmore Mall shopping center.

WAGNER: Commercial State bank has increased its capital stock from \$200,000 to \$400,000.

North Dakota News

HUNTER: Security State Bank has increased its capital from \$50,000 to \$100,000 by stock dividend.

Colorado News

DENVER: William R. Davis has been named vice president and general manager of United Denver Leasing Company, wholly-owned subsidiary of United Bank of Denver. He formerly was assistant vice president and manager of the bank's commercial finance market.

POSITION AVAILABLE

Centrally located Iowa bank has a position open in its installment loan department. Write Box PTG, c/o NORTHWESTERN BANKER, 306 15th Street, Des Moines, IA 50309.

STUDY..... [Continued from page 1]

held as a reserve. This option would permit member banks to satisfy a portion of their reserve requirements by holding Government securities purchased directly from the Federal Reserve. This option would relieve the burden of membership by allowing member

banks the opportunity to earn a market rate of return on a portion of their reserves and at the same time would permit maximum flexibility to the central bank for purposes of monetary control."

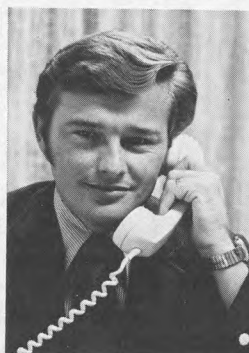
Mr. Andersen concludes in his letter:

"The board of directors of the Federal Reserve Bank of Kansas City favors the last of the alternatives outlined since it meets the two criteria mentioned previously, and comes closest to removing the "bottom line" burden of Fed membership, while providing maximum flexibility for the Federal Reserve System and its member banks.

Under this plan, all purchases and sales of securities for reserve purposes would be made with the Federal Reserve at prevailing market prices. Securities maintained for reserve purposes would be valued at purchase price until maturity or sale and would be held by the Federal Reserve in a safekeeping account. Because the comparative cost of Federal Reserve membership declines as bank size increases, a sliding scale, to be established by the Board of Governors, would govern the proportion of total required reserves that could be invested.

"The plan would have no adverse impact on monetary policy. Acquisition of the securities by the method described would not alter the amount of total impounded reserves of the banking system. The effectiveness of changes in reserve requirements as a monetary policy tool would not be affected as would be the case if reserve

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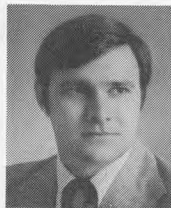
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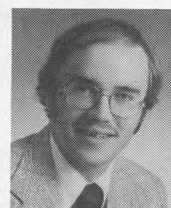
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requirements were lowered or if banks were allowed to acquire securities for reserve purposes in the open market.

"Correspondent banking relationships would not be affected under this option. In addition, the dual banking system would be preserved—a situation that would be less likely if universal reserve requirements were implemented for all like depository institutions."

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"IT TAKES A BANKER TO KNOW ONE"

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