

AN OPEN LETTER...

Dr. E. J. Steele
Kayser Professor of Economics
University of Nebraska-Omaha
Omaha, Nebraska

Dear Dr. Steele:

Your recent article published under the official sanction of your university in its publication, "Review of Applied Urban Research," deserves the charges of "unfair and irresponsible" leveled at you by the Nebraska Bankers Association.

Too many people are taking potshots at bankers today without obtaining the facts. We don't intend to ignore this one because you have chosen to spread your inaccurate conclusions beyond the campus.

In the article you centered on two principal conclusions to which we respond and challenge:

1. You have stated that many small banks in Iowa, and Nebraska, defined by you as banks of under \$5 million deposits, "are acting as nothing more than investment banks for their owners" by "not performing the basic banking function of collecting the community surplus funds and allocating them among local needs in an acceptable manner."

2. You have stated "it even seems likely that small banks would carry more funds in correspondent accounts than necessary," and you add this would

mean a loss as large as \$30 million in Nebraska communities and as high as \$50 million in Iowa.

When I talked with you by phone, Dr. Steele, you refused to disclose the number of banks you "studied" to make these unbelievable conclusions. From another source at the university we have learned you used 18 Nebraska banks and 14 Iowa banks.

When I asked why you used 1975 figures rather than current figures you told me you got interested in this in 1975, had only a limited budget of \$25 for a printout of FDIC figures, and got around to writing it this spring.

It is very difficult, Dr. Steele, to see how an academician can support the generalized statements made about all Nebraska and Iowa small banks based on data taken from an isolated period from a limited number of selected banks. The facts do not support your conclusions. To the above two points you have tried to make, let me respond as follows:

1. You state categorically that small banks aren't doing the job because they're not living up to your personally selected loan/deposit ratio that should be a "passing grade." Consider this, please—

You have not established a track record of any kind for any one of the banks you would condemn, since you selected out-of-date data from one year. You have no idea of how those banks have conducted their business prior to or following your very limited study.

Just because a bank may show a loan/deposit ratio lower than what you select doesn't mean it is not doing a lending job for its customers. Have you ever heard of overline loans or participation loans? Practically every community bank accommodates a certain number of its

AN OPEN LETTER.....
[Continued on Page 4]

40 IOWA BANKS—OWNERS OF THE IOWA NEW OUTLOOKS ASSOCIATION—
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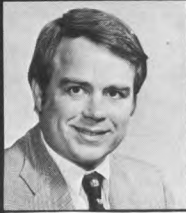
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NATIONAL BANK

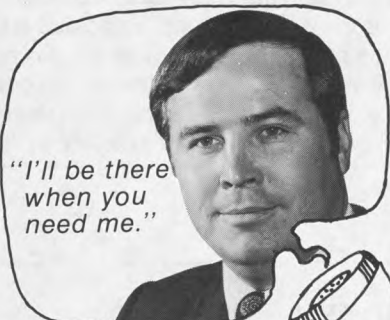
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Comptroller Restricts Credit Life Sales

Comptroller of the Currency John G. Heimann has sent to the Federal Register a final regulation prohibiting officers, directors and principal stockholders of national banks from personally profiting on the sale of credit life insurance to loan customers.

The regulation, originally proposed in July, 1976, declares that retention of credit life insurance income by such persons is an unsafe and unsound banking practice.

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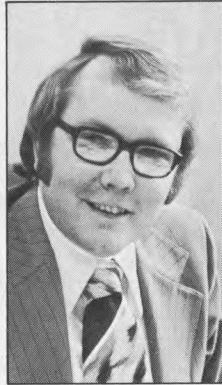


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The new regulation, designated as 12 C.F.R. 2, is effective on January 1, 1978. A copy of the regulation as reprinted in the Federal Register will be mailed to every national bank during the next week.

The regulation establishes a non-exclusive list of methods by which credit life insurance can be sold or otherwise made available by a bank to loan customers. A national bank may use any of these methods but may not offer credit life insurance coverage in a way that confers a personal benefit on a bank employee, officer, director or individual stockholder owning more than 5% of the bank's shares. Where state insurance laws or other legal obstacles appear to prevent the use of any of the methods listed in the regulation, the bank may select another method so long as the method selected does not benefit employees, officers, directors or selected stockholders personally.

Iowa News

Christy F. Armstrong was advanced from vice president to president of the Iowa Bankers Association last week at the group's annual convention in Des Moines. Mr. Armstrong is president of American Trust and Savings Bank, Dubuque. He

succeeded C. Robert Brenton, president, Brenton Banks, Inc., Des Moines. H. Rand Petersen, president, Shelby County State Bank, Harlan, was elected vice president, and Edward L. Tubbs, president, Maquoketa State Bank, was elected treasurer. A complete convention report with pictures will appear in the October issue of the Northwestern Banker.

EMMETSBURG: Mike Sogard has joined the Palo Alto County State Bank as a loan officer trainee.

SAC CITY: Lynn Minnman has been appointed assistant cashier and manager of the instalment loan and insurance department. He formerly was with the First National Bank of Fort Dodge.

WASHINGTON: Paul Dunlap, president of Hawkeye Bancorporation, Des Moines has signed a contract for the purchase of National Bank of Washington, subject to Federal Reserve Board approval. The \$30 million in assets of National Bank, coupled with previously proposed acquisitions of Second National Bank, Eldora, and Morningside State Bank, Sioux City, would increase Hawkeye's assets to \$700 million, with stockholder equity of \$44 million and earnings exceeding \$7 million. National Bank has an office in Ainsworth.

A good correspondent bank relationship is still built by good people. Yours and ours.



Mark Christen
Asst. Vice President

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NEW ISSUE

\$2,710,000

MOODY'S: "A"

GLENCOE, MINNESOTA

\$2,510,000 Electric Refunding Revenue Bonds of 1977

\$200,000 Electric Revenue Improvement Bonds of 1977

Dated: October 1, 1977

Denomination: \$5,000

Both principal and semiannual interest (May 1 and November 1, first coupon due May 1, 1978) payable at Northwestern National Bank, Minneapolis, Minnesota.

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

MATURITIES

	<u>3.50%</u>			<u>4.70%</u>	
\$ 20,000	May 1, 1978	3.50		\$175,000	May 1, 1986*
	<u>3.75%</u>				<u>4.85%</u>
90,000	May 1, 1979	3.75		165,000	May 1, 1987*
	<u>4.00%</u>				<u>4.90%</u>
95,000	May 1, 1980	4.00		175,000	May 1, 1988*
	<u>4.10%</u>				<u>5.00%</u>
100,000	May 1, 1981	4.10		180,000	May 1, 1989*
	<u>4.25%</u>			190,000	May 1, 1990*
110,000	May 1, 1982	4.25			<u>5.10%</u>
	<u>4.40%</u>			200,000	May 1, 1991*
160,000	May 1, 1983	4.40			<u>5.20%</u>
	<u>4.50%</u>			210,000	May 1, 1992*
165,000	May 1, 1984*	4.50			<u>5.25%</u>
	<u>4.60%</u>			225,000	May 1, 1993*
175,000	May 1, 1985*	4.60		240,000	May 1, 1994*
				35,000	May 1, 1995*

*Optional in inverse order beginning May 1, 1983 at 101% and May 1, 1987 at 100%.

LEGALITY TO BE APPROVED BY BRIGGS & MORGAN, P. C., ST. PAUL, MINNESOTA.

Glencoe (1977 population 4,800) is the county seat of McLeod County and is one of the two principal cities in the County. Glencoe is located approximately 50 miles southwest of Minneapolis and St. Paul and is thus well within the sphere of economic, social and cultural influence of the Twin Cities Metropolitan Area. The major industries in Glencoe are the Green Giant Company (120 full time and 2,800 seasonal employees), which maintains the largest corn and pea processing facilities in the world; Telex Communications, Inc. (450 employees), manufacturer of electric acoustical products—hearing aids, head sets, etc., with worldwide distribution; portable Elevator Co. (175 employees), tillage tools; and Glencoe Butter (65 employees), milk, eggs and poultry. There are two banks in Glencoe with total deposits in excess of \$40,600,000.

The proceeds of the Electric Refunding Revenue Bonds, together with other funds, will be used to purchase Federal Securities to be placed in an escrow to pay the principal of and interest on the City's outstanding Electric Revenue Bonds of May 1, 1973; November 1, 1972 and May 1, 1968 as the same come due or are called, and pay certain expenses relating to the transaction. The proceeds of the Electric Revenue Improvement Bonds, together with other funds on hand, will be used to construct improvements to the City's electric distribution system estimated to cost approximately \$350-\$400,000; lines will be extended to developing areas, heavier conductors installed where necessary, etc., to improve quality and reliability of service. In the opinion of counsel, these bonds are legal and binding obligations of Glencoe, Minnesota, payable from the future net revenues of the electric system. The system presently has 1,900 connected customers.

HISTORIC EARNINGS

	<u>3-31-77</u>	<u>3-31-76</u>	<u>3-31-75</u>
Gross revenues			
Expenses	\$1,328,411	1,182,267	954,879
Net revenues	<u>940,836</u>	<u>765,038</u>	<u>658,487</u>
	<u>\$ 387,575</u>	<u>417,229</u>	<u>296,392</u>

COVERAGES

(Both issues, based on 1977 net revenues)

Average principal and interest	\$241,685	Maximum principal and interest	\$282,588
Coverage of average requirement	1.60X	Coverage of maximum requirement	1.37X

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

AN OPEN LETTER

[Continued from Page 1]

borrowers in this way if the local bank for some reason cannot handle a certain loan at a given time—e.g., due to size of the loan or other commitments of the bank's funds. But, the point is, they do help their farm customers obtain the loan at another banking source. The loan doesn't appear on the local books, but the local banker accommodated the customer!

• A further study of that investment portfolio, to which you refer as being operated for the benefit of small bank owners, will show that in many cases available funds of the bank have been used to purchase local school or municipal bonds for the benefit of the community, rather than being invested in loans during that period. Do you call this being selfish and not serving community interests?

• Each bank has its own philosophy of operation, each community has its own character and needs, and from these the bank management develops its best means of serving those mutual interests. If the banker doesn't serve his public, he loses business; customers will find other nearby banks. If the community doesn't respond to a certain banker or his goals, it may stagnate if it doesn't have drive, or he may find he better move along. We call that free enterprise and the law of supply and demand.

2. You state that small Nebraska and Iowa banks are costing their communities about \$30 million and \$50 million respectively by carrying too much money in correspondent bank accounts. You add that more than 50% of Iowa's small banks primarily carry their accounts outside the state. Your conclusions are ludicrous, Dr. Steele, especially for one teaching finance; but the worst part is you're out telling this to the general public and trying to undermine their confidence in the local bank that in the vast majority of cases has served its community well for decades. Consider these points—

• When I asked you how you arrived at your definition of "necessary" for correspondent bank balances, you replied "required reserves." You seemed at a loss for words when I asked if you didn't know there was more to a correspondent account than that.

• Most bankers, from the smallest to the largest, have become increasingly sophisticated in their use of available dollars so that correspondent balances are kept at a much lower level today than in former years to maximize the dollar return from investing the funds otherwise—in local loans, fed funds, municipals, etc.

• In 1975, 45% of Nebraska's 328 state-chartered banks (148 banks) were under \$5 million. That same percentage applied to Nebraska's 120 national banks would be 54, assuming the same percentage holds true (and it may not). This totals 202 small Nebraska banks in 1975. To reach the \$30 million figure in excess correspondent balances you claim small banks are keeping from their communities, each small Nebraska bank would have to be carrying an average of \$148,515 in excess balances! The city correspondents would welcome that surprising news.

• Similarly, the 74 small state banks in Iowa at 1975 year-end represent 13% of Iowa's 554 state-chartered banks. The same percentage applied to the 100 national banks is 13, or a total of 87 small Iowa banks in 1975. Those 87 banks would have to be carrying excess correspondent bank balances of \$574,712 each to reach the \$50 million you claim they are withholding from their communities!

• Nebraska's major correspondent banks are located in Omaha and Lincoln in the extreme eastern part of the state. Iowa has outstanding metropolitan areas on all four sides of its state, including Omaha, the Twin Cities, Chicago, St. Louis and Kansas City, to augment the excellent city correspondent banks within the state. Until you know better how banking operates, please don't second-guess or criticize the business judgment of bankers with whom you admittedly haven't even discussed the situation.

Many other things could be said, Dr. Steele, about the outstanding job that Nebraska and Iowa banks of all sizes are doing for their customers and their communities. By the same token, banks in surrounding states have been doing a corresponding good job for their people and your survey reflects on them, too, because they serve similar ag interests in this area.

May we respectfully suggest, if you sincerely wish to learn more about the actual workings of banks, that you consider:

1. Inviting various bankers, representing different phases of banking to take part in your class discussions to give some practical experience to the class.

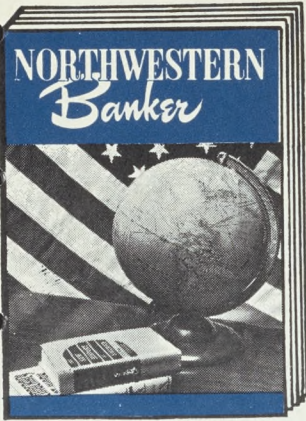
2. Visiting with officials of the Nebraska Bankers Association to see if you might work out a further possibility for exchange of information or perhaps even opportunities for visiting banks or short-term work in some.

You are well aware of the figures released by the Nebraska Bankers Association at its September 22 press conference in response to your article. Those figures show that last year-end's loan/deposit ratio for all Nebraska banks has risen from 65.9% to an estimated 71.6% last March, while the loan/deposit ratio last year-end for small banks was 66.8% and currently is 67.1%. Similar figures can be made available for other states within a short time.

If you have occasion to do research on banks in the future, we hope you will solicit the assistance of the several sources available that will be glad to help you. We offer the help of our magazine if you should choose to pursue further study of the matter.

In the meantime, it is hoped you will see your way clear to have the university contact United Press International and submit a retraction of the earlier press release.

Yours truly,
Ben Haller, Jr., Editor



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Nebraska News

COLUMBUS: Columbus Bank and Trust Company has announced the appointment of Robert C. Labenz as assistant vice president. He recently received his law degree from the University of Nebraska-Lincoln. Mr. Labenz has past banking experience with the Nebraska Department of Banking and Finance as a state securities examiner.

HOWELLS: Elmer Bradley, Jr., recently was elected president of the Howells Bank. J. F. Van Ackeren was elected vice president.

HUBBELL: The Board of Governors of the Federal Reserve System has announced its approval of the application of Rose Creek, Inc., here, to form a bank holding company by acquiring Hubbell Bank.

LEIGH: Thomas J. Bradley has been named president of the Bank of Leigh. Charles Mullenhoff was named vice president and cashier.

MADISON: George Moehnert, president of the Farmers National Bank in Madison, has announced that controlling shares of the bank have been sold to Mr. and Mrs. Mickey Mundorff of Grand Island. The bank had been owned and operated by the late Mark O'Shea for many years. George Moehnert will continue as president. Mr. Mundorff, a registered pharmacist, recently sold his interest in the Cambridge State Bank but is still a director of the First State Bank at Shelton.

Minnesota News

BLOOMINGTON: Dale H. Monson has been named vice president and manager of the commercial loan department of Northwestern National Bank Southwest.

ELY: Boundary Waters State Bank's application for Federal deposit insurance has been approved. The bank's capital accounts total \$650,000.

KLOSSNER: Patrick J. Brennan has joined the Klossner State Bank as a management trainee, according to John F. Campe, executive vice president. Mr. Brennan is a 1977 graduate of Mankato State University with a major in business administration.

MINNEAPOLIS: Central Northwestern National Bank has announced the following promotions: David Bjerknes to commercial loan officer, Marilyn Paulson to assistant cashier and customer service officer, and Cathy Roo to customer service officer.

OSAKIS: Richard L. Krogh has been named agricultural loan officer of First National Bank. He formerly was Douglas County supervisor for the Farmers Home Administration.

Illinois News

The following banks have received consent to establish a facility: State Bank of Auburn, at Iris Drive and Rt. 104; First Security Bank of Fox Valley, Aurora, at the Fox Valley Shopping Center; The Morton

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Grove Bank, at 7300 West Dempster; New Lenox State Bank, at 360 West Maple Street; Bank of Illinois in Champaign, at Prospect and Kirby Avenues; Bank of LaGrange Park, at 31st Street and Kemman Avenue, and Beverly Bank, Chicago, at 11150 South Western Avenue, Chicago.

South Dakota News

SPEARFISH: Jeanne B. Papik has been elected an operations officer of the Spearfish Office of the First National Bank of the Black Hills.

North Dakota News

TIOGA: Mark Sagaser has joined the staff of The Bank of Tioga as an instalment loan officer. He formerly was with the First National Bank of Fargo.

Wyoming News

CASPER: Wyoming National Cor-

COULSON CANNON AND LEWIS

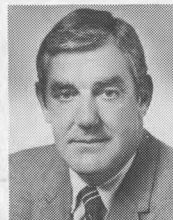
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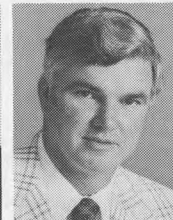
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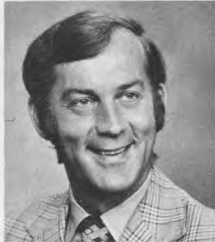
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First National Bank 
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poraton has filed an application seeking approval of a new bank in Casper. The bank would have a capitalization of \$1 million.

CHEYENNE: James F. Casey has been promoted to assistant vice president and cashier and Edwin L. Fisher to assistant vice president, commercial loans, of the American National Bank.

Colorado News

FORT LUPTON: Roy G. Dinsdale has purchased controlling interest of the Fort Lupton State Bank from United Bank of Denver. Mr. Dinsdale, a lifetime resident of Palmer, Nebr., controls 12 other banks in Nebraska, Kansas and Wyoming. He also deals in cattle and grain and is a director of the Omaha Branch of the Federal Reserve Bank. Donald W. Robotham, senior vice president of the United Bank of Denver, resigned from the board and was replaced by Mr. Dinsdale.

NORTHGLENN: Sharon Laurent has been elected assistant operations officer of The First National Bank.

SOUTHGLENN: Sally Capps recently was promoted from assistant operations officer to customer relations officer of The First National Bank.

SARATOGA: The Federal Reserve has announced its approval of the applications of Platte Valley Bancorporation here to become a bank holding company by acquiring Saratoga State Bank and to engage in credit-related insurance agency activities.

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- SENIOR AUDITOR—Large midwest holding company seeks individual to supervise junior officers and assume overall audit function. Prefer CPA with bank experience.\$22,000
- COMM'L LOAN—Progressive Suburban bank of \$100MM seeks strong commercial loan officer to be #2 in dept.\$20,000

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"IT TAKES A BANKER TO KNOW ONE"

Vol. 6 No. 23 Northwestern Banker Newsletter is published weekly by the Northwestern Banker Company, 306 Fifteenth Street, Des Moines, Iowa 50309. Subscriptions 25 cents per copy, \$8 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.