

NORTHWESTERN Banker Newsletter

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What's the Outlook for Commercial Lending in 1979?

By EDWIN A. SCHOENBORN
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Irving Trust Company, New York City.

Let's start with the outlook for the economy. We expect real growth in the Gross National Product to amount to 3.5 to 4%, only a little less than what we think the final figure will be for 1978. This is another way of saying that we don't expect any real slowdown in the economy before late 1979 and possibly 1980.



E.A. SCHOENBORN

Inflation will probably run at about an 8.5% level, a percentage point or more below the 9.5 to 10% rate that will probably prove out for 1978. But don't be deceived by the drop. It will be more seeming than real. The figure for 1978 was inflated by the unusual strength of the second quarter.

Loan Demand

Naturally, inflation will fuel demand for commercial loans. So will capital spending for plants and equipment, which increased about 16% in 1978. We expect its rate of growth to increase slightly in 1979

to 18.5%.

On top of this, inventory accumulations are likely to grow at least moderately. And so are corporate profits, although at a slower pace than in 1978.

The upshot is, business will need more external financing. Whatever role commercial paper and other markets will play in fulfilling this need, banks will help meet it, too.

Although these trends will have a positive impact on commercial lending next year, negative factors will provide something of a counterweight. For example, assuming the Federal Reserve Board is as aggressive in combating inflation as the government's November 1 dollar-support program suggests it will be, we expect the prime rate to rise to 13-14%. This trend will clearly discourage some borrowers.

No Credit Squeeze

On balance, nonetheless, demand for bank loans should hold up reasonably well. And partly as a result, the credit picture will be much tighter than it has been recently. Yet there won't be a credit squeeze, if by that one means no credit will be available at any price.

Several factors are working to prevent such a squeeze. Regional banks are still making loans. And only in very recent weeks has loan

demand increased markedly at New York City banks. Furthermore, many large corporations are awash in money, some of which they will undoubtedly continue to advance to the commercial paper market. Possibly most important of all, the huge Eurodollar market, amounting to an estimated \$400 to \$500 billion, is now much more available for domestic lending.

Foreign banks in this country will continue to have a growing impact on commercial lending, particularly as they expand into states other than New York, Illinois and California. The volume of their loans is sizable. And their aggressive, narrow-margined pricing will have a continuing effect on domestic pricing practices, making spreads on loans much slimmer and further eroding compensating balances. We can also expect continuing, aggressive competition from finance and insurance companies in the lending market.

Because of the strong competition for commercial loans among so many different lenders, we can expect larger banks to pursue their efforts to penetrate the so-called middle market in areas far from their home bases.

The large corporate borrower will turn to banks somewhat more in 1979 for commitments and lines of credit to relieve its anxieties regarding the availability of credit and possible credit-rationing schemes. There will also be some

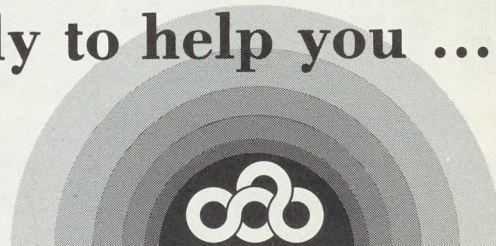
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corporate borrowing to avoid the high long-term rates now prevailing in the public markets. This temporary return of the corporate borrower will add fuel to demands for credit whenever we reach peak demand during the year, but will abate just as sharply as the corporate borrower's anxieties are relieved and long-term market rates appear more acceptable.

Legislation

So far as legislation goes, recent enactment of the bill governing the operations of foreign banks in this country is not likely to have a negative impact on domestic commercial lending and may do

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some good. Among other things, the new law subjects foreign banks to the same branching requirements as U.S. Edge-Act Corporations and imposes the same reserve requirements on them as are imposed on U.S. banks. Ultimately the new law may foster national bank branching.

The Community Reinvestment Act also recently went into effect. As you know, it compels banks to do a better job of meeting the credit needs of their communities, including neighborhoods where incomes are low or moderate. It may make commercial lending slightly more difficult than in the past and represent a significant step by government toward credit allocation.

New federal law has also made it possible for banks to pay interest on demand deposits. But it's probably too early to foretell the impact of this development on bank earnings.

Further legislation affecting the nation's banking laws is almost certain to be considered this year. Among other things, the proposed legislation would reduce reserve requirements, encourage membership in the Federal Reserve System, and probably improve the Federal Reserve Board's control over the money supply.

All in all, 1979 looks like an active year for commercial lending. As a result, earnings should continue to grow, although probably at not quite the pace they did in 1978.

Iowa News

The Iowa Bankers Association, in cooperation with the ABA, will present its 1979 Bank Security Seminar January 9-11 at the Des Moines Hyatt House. The opening presentation January 9 will be "A Banker on Trial."

Participating will be Gerard J. Kenna (prosecutor), president,

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Federated Services, Hialeah, Fla., and former FBI agent; Marcus H. Ford Jr., second vice president and director of loss prevention, Omaha National Bank, Omaha; Stephen L. Marley, executive vice president, Financial Insurance Services, Schaumburg, Ill., and Boris F. Melnikoff, vice president and corporate director of security, First National Holding Corp., Atlanta, Ga.

Other issues to be covered January 9 will include Organizing and Administering Your Bank's Security Program—General Overview, Security Management Planning for Profit and Proper Use of Security Devices.

Programs planned for January 10 are Procedural Planning, the Blanket Bond: Security and Internal Controls, Robbery Response, a panel discussion on your bank's security program, Check Swindles—Robbery Without a Gun and Crisis Management Planning.

Concluding the conference January 11 will be the programs the Security Training Function, Security Design in Bank Construction, Group Case Problem Introduction, Preparation and Presentation and a final panel discussion on specific problems.

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NEW ISSUE

\$6,800,000
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MOODY'S: "A-1"
S & P: "A +"

Hospital Revenue Bonds, Series 1979
(Mary Greeley Memorial Hospital Project)

Dated: January 1, 1979

Denomination: \$5,000

Both principal and semiannual interest (January 1 and July 1, first coupon due July 1, 1979) payable at the office of the City Treasurer, Ames, 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>7.50%</u>			<u>7.10%</u>		
\$170,000	July 1, 1981	5.70	\$330,000	July 1, 1991*	6.60
185,000	July 1, 1982	5.80	350,000	July 1, 1992*	6.70
195,000	July 1, 1983	5.90	375,000	July 1, 1993*	6.80
210,000	July 1, 1984	6.00	400,000	July 1, 1994*	6.90
225,000	July 1, 1985	6.10	425,000	July 1, 1995*	7.00
235,000	July 1, 1986	6.20	450,000	July 1, 1996*	7.10
255,000	July 1, 1987	6.30	480,000	July 1, 1997*	7.10
270,000	July 1, 1988	6.40		<u>7.20%</u>	
290,000	July 1, 1989*	6.45	515,000	July 1, 1998*	7.20
	<u>7.10%</u>		545,000	July 1, 1999*	7.20
310,000	July 1, 1990*	6.50	585,000	July 1, 2000*	7.20

*Optional in inverse order beginning July 1, 1988 at 103%; declining 1/2 of 1% each year thereafter.

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

Ames is located in Story County in central Iowa approximately 32 miles north of Des Moines. The City was incorporated in 1869, and has experienced a steady pattern of growth. The population of Ames is presently estimated at 46,796, up from 39,505 in the 1970 Census. Major employers located in Ames and their approximate work forces are as follows: Iowa State University (22,800 students, 7,050 employees); Sundstrand Corporation (hydro-transmission, 1,080 employees); Iowa Department of Transportation (headquarters, 1,000 employees); City of Ames (1,000 employees); City of Ames (1,000 employees); Ames Community School District (625 employees); Bourns, Inc. (electronic equipment, 615 employees); U. S. Department of Agriculture (600 employees); 3M Company (abrasives, 475 employees); and Hach Chemical Company (water analysis equipment, 400 employees). There are three banks located in Ames with total deposits in excess of \$119,000,000.

These bonds, the only debt of the Hospital, are being issued under the provisions of Division V, Chapter 384, Code of Iowa, 1977, as amended. The proceeds will be used to provide a portion of the funds necessary to construct improvements to the Municipal Hospital, including a three story addition which will provide 60 beds, physical therapy, occupational therapy, and respiratory therapy departments, family counseling service department, together with additions to the existing emergency room and the construction and equipping of a short stay unit in connection therewith and remodeling of existing facilities.

HISTORIC EARNINGS

	<u>6/30/78</u>	<u>6/30/77</u>	<u>6/30/76</u>	Projected Earnings <u>6/30/81</u>
Revenues	\$10,024,396	8,735,882	7,285,719	14,210,000
Expenses	<u>8,882,323</u>	<u>7,637,569</u>	<u>6,497,733</u>	<u>12,470,000</u>
Net revenues	\$ <u>1,142,073</u>	<u>1,098,313</u>	<u>787,986</u>	<u>1,470,000</u>

COVERAGES

Average debt service	\$647,373	Maximum debt service	\$662,585
Historic coverage of average	1.76X	Historic coverage of maximum	1.72X
Pro-forma coverage of average	2.69X	Pro-forma coverage of maximum	2.63X

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

The information contained in this circular is not guaranteed, but is derived from sources we deem reliable and is that on which our purchase of these bonds was based. Offered subject to prior sale and change in price.

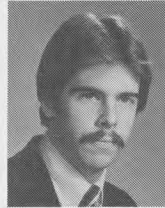
Supplement To Northwestern Banker Newsletter 12-18-78

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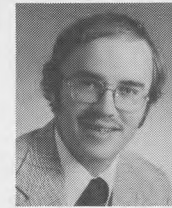
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al Reserve Board has approved an application by Ruth Jones Nelson Finance Corp. here to become a bank holding company by acquiring the Corn Belt State Bank here and the Peterson State Bank, Peterson.

MANCHESTER: R.E. Tool, president and chairman of Farmers & Merchants Savings Bank, has announced the sale of his stock in the bank to Cecil W. Dunn of Eagle Grove. Mr. Dunn, a former superintendent of banking, is president of the Security Savings Bank. The sale was given approval by regulatory authorities. Mr. Dunn has been elected to the board, replacing Bill Mawe, who resigned as director, vice president and cashier. Mr. Tool served as president of the Iowa Bankers Association in 1973-74.

OSKALOOSA: Funeral services were held last month for Russell S. Howard, chairman of the Mahaska State Bank.

Minnesota News

BYRON: Byron Bancorporation has received consent from the Federal Reserve Bank of Minneapolis to become a bank holding company by acquiring the State Bank of Byron.

DELANO: An application for a charter for the proposed Crow River State Bank here has been filed with the State Banking Commission.

Organizers include John D. Rief and John Seliski, Delano, and Wallace Young, Onamia. Mr. Young would be president and chief operating officer.

MANKATO: Durwood W. Thompson has been elected chairman of the board and Starr J. Kirklin president and a director of the First National Bank of Mankato. Mr. Thompson has served as president and managing officer of the bank since 1975. Mr. Kirklin was previously associated with the First National Bank of Rochester, most recently as vice president of commercial loans and marketing.

Nebraska News

MERNA: The State Bank of Merna has received consent to change the location of its main office from one quarter mile west of the intersection of Center Avenue and Price Street to the intersection of Center Avenue and Highway 92.

Illinois News

CHICAGO: Directors of the American National Bank & Trust Co. of Chicago have voted to elevate Michael E. Tobin to board chairman from president effective December 31, and promoted Keene H. Addington from executive vice president to president.

CHICAGO: An application by Main Bank of Chicago for Federal

deposit insurance upon withdrawal from the Federal Reserve System has been approved.

GIBSON CITY: An application by the Bank of Gibson City for Federal deposit insurance has been approved. The bank has total capital accounts of \$1.5 million.

Wyoming News

GILLETTE: The First Wyoming Bank—Gillette opened for business November 27. Roger Bishop is president of the local facility. Services to be open will include a drive-up window, walk-up facility and an automatic "mini-bank" teller.

Colorado News

GRAND JUNCTION: Colorado National Bankshares, a Denver-based bank holding company, has signed an agreement in principle for the purchase of all the shares of the Bank of Orchard Mesa here. The Bank of Orchard Mesa had total assets of \$15.5 on September 30 and until the acquisition is Grand Junction's only independent bank.

South Dakota News

NEW EFFINGTON: The Bank of New Effington has received consent to change the location of its main office from New Effington to 323 First Ave. East, Sisseton, and establish a branch office in New Effington.



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MORTGAGE LENDER - Current resp. includes origination, credit analysis, preliminary appraisal and negotiation of mortgage loan applications for permanent and/or construction loan financing. Also maintains continuing contact with institutional lenders for written commitments. Asks \$25,000.

LOAN OFFICER - Is VP in charge of commercial & ag. Handles participation loans. Can read financial statements and handle collections. Earns \$16,000.

ENTRY LEVEL - Degree in ag business and ag finance from ISU. Strong ag background. Raised on large Iowa farm and has assisted market news editor for WOI radio. Asks \$10,000.

OFFICER - Over 10 yrs. banking exp., last 5 as VP of community banks. Solid background in lending, operations and mktg. plus duties as personnel officer, security officer, consumer compliance officer & auditor. Earns \$20,000.

INSTALLMENT LENDER - 6 yrs. exp. in consumer finance. Has collection & supervisory exp. Is in charge of home loans, improvement loans & student loans. Has all insurance licenses. Earns \$14,400.

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- COMMERCIAL LOAN**—25MM Kansas bank in community of 10,000 seeks addition to staff. Will supervise loan portfolio and be groomed for top position.\$20,000
- EXEC. VICE PRESIDENT**—25MM suburban bank. Requires strong commercial loan background and some administrative experience.\$28,000
- SECOND OFFICER**—25MM rural Nebraska bank. Opportunity for CEO spot in 2-3 years. Strong lending experience required.\$30,000
- JUNIOR OFFICER**—Small rural Iowa bank. Need consumer credit background and insurance licenses.\$16,000
- COMMERCIAL LOAN**—Addition to staff of medium size suburban bank. Prefer junior officer with large bank experience.\$18,000
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