

# NORTHWESTERN Banker Newsletter

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Des Moines, Iowa

June 11, 1979

## Banking Committee Votes Reserves Bill

**L**EGISLATIVE activity related to the Fed membership problem continued at a fast pace last week in the nation's capital. Just one day after a Chicago meeting of the 400-member ABA Leadership Council, which discussed the entire Fed membership and reserve requirement questions, the House Banking Committee made its first move, approving a new version of H.R. 7.

The Leadership Council, adhering to its earlier commitment to pursue all avenues possible in search of a way to resolve the Fed membership problem, but with equity for commercial banks, has offered two further solutions. The first calls for voluntary membership, as it has before, with a deep cut in reserve requirements. The second suggestion would put in place a "trigger" for mandatory reserves if Federal Reserve control of commercial bank deposits should fall below 66% of commercial bank deposits.

The ABA plan proposes that current reserves be dropped initially to 3%, with a range of 1% to 12%, on the first \$35 million of transaction accounts, and 11% on deposits over that level. On short-term corporate time deposits there would be 3% initial reserves, with a zero to 8% range. All other reserve requirements would be eliminated, thus confining reserves basically to transaction accounts.

Whenever Fed control of commercial bank deposits would fall below 66%, which is not expected, then a House Bill enacting such control would be "triggered" and take effect.

The ABA Leadership Conference opposes exemptions if the mandatory solution should take effect. It suggests instead lower reserves on a part of each institution's deposits to aid smaller institutions. All financial intermediaries, including firms such as Sears and Merrill Lynch, would be included in mandatory reserves.

### House Committee Acts

The day following the Leadership Conference, the House Banking Committee approved 26-14 an amended H.R. 7, which now sends that bill to the rules committee. Proposed by Committee Chairman Henry S. Reuss (D.-Wis.), the bill was opposed in its existing form by the Republican bloc. It reduces the amount of non-interest bearing reserves member banks must keep with the Fed; requires non-member banks and five large mutual savings banks to carry non-interest bearing reserves with the Fed, and sets the exemption for smaller banks and thrift institutions at \$35 million before reserves must be carried on transaction accounts.

As passed, the bill imposes an initial 11% reserves on all

transaction accounts over the \$35 million level in each institution. The Fed could adjust the rate in a range of 4% to 12% for monetary reasons. In addition, 3% would be carried in Fed reserves on commercial short-term time deposits totaling more than \$10 million. The Fed could set these reserves in a range from zero to 8%.

This bill effectively settles reserve requirements on 510 banks, compared to the present 5,500 members of the Fed.

### Amendments Offered

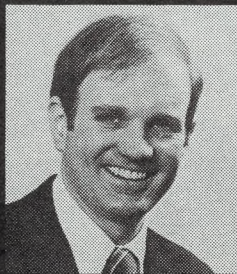
Rep. William Stanton (R.-Ohio), the ranking minority member on the House Banking Committee, was narrowly defeated on his amendment that would have faced up to the equity question. His views have strong committee support and widespread support in the rest of the House, so heavy floor discussion is expected.

In addition, Rep. Thomas Ludlow Ashley (D.-Ohio), ranking minority member of the committee, wants reserves to be held by all financial intermediaries, including such non-banking firms as Sears and Merrill Lynch. His position also had widespread support and is expected to be voiced forcefully if floor debate is reached.

Rep. John Cavanaugh (D.-Neb.), a member of the House Banking Committee, has strongly supported

**RESERVES BILL . . .**  
[Turn to page 4, please ]

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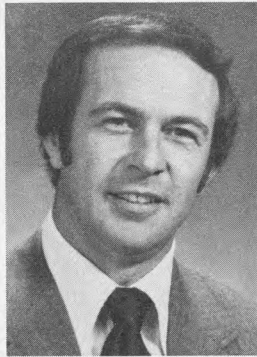
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### Iowa News

**ELDORA:** Thomas W. Loeck has joined the Second National Bank here as an assistant cashier.

**KNOXVILLE:** Doris Hedrick has been promoted to cashier of the Iowa State Saving Bank here. Cecil Spring was promoted to assistant cashier, and Katheryne Sims to executive secretary and trust officer.

**MISSOURI VALLEY:** Peoples State Bank here has been issued a certificate by the state department of banking to open an in-town bank office at 304 W. Erie St.

**NEWTON:** Dixie L. Decker has been named assistant cashier at the Jasper County Savings Bank here.

**RAKE:** State Savings Bank here has increased its common capital

from \$50,000 to \$70,000 by the sale of common stock.

**TRAER:** First Community Bank & Trust here has increased its common capital from \$200,000 to \$350,000 by stock dividend.

**URBANDALE:** Brenton Bank & Trust Co. here has increased its common capital from \$400,000 to \$450,000 by the sale of common stock.

### Nebraska News

**AURORA:** First National Bank & Trust Co. in Aurora has applied for customer-bank communication terminals to be located at 1120 11th St. here and 132 N. Third St. in Hampton.

**AVOCA:** The Avoca Company has received consent from the Federal Reserve Board to become a bank holding company by acquiring Farmers State Bank here.

**NORTH LOUP:** James A. Bodyfield has been named assistant vice president at the North Loup Valley Bank. He succeeds Dan Johansen who resigned effective June 1. Mr. Bodyfield was formerly associated with the Nebraska State Bank, Ord.

**OAKLAND:** Lysle Park has been elected president of the Farmers & Merchants National Bank here. Formerly executive vice president of the bank, Mr. Park succeeds Charles W. Troupe who was elevated to co-chairman of the board, a position he now shares with Chase Neumann.

**OMAHA:** Larry H. Hansen, 35, vice president at United States National Bank of Omaha, has been named manager of the correspondent bank division. He replaces Jay F. Bordewick, who is resigning that post to become president July 1 at First Wyoming Bank-Casper. Mr.

Hansen has been with U.S. National since 1962 and has been in the correspondent bank division 10 years.

**OMAHA:** Nebraska State Bank of Omaha has received consent from the state director of banking and finance to issue and sell its capital notes.

**OMAHA:** Douglas County Bank & Trust Co. has received consent from the state director of banking and finance to issue and sell its capital notes, not Dakota County Bank & Trust Co. as previously reported.

**OMAHA:** First National Bank's Correspondent Banking Conference "79" will be held later this month as follows: June 25, Holiday Inn, Kearney; June 26, Villa Inn, Norfolk; June 27, Hilton Hotel, Lincoln, and June 28, Best Western Village Inn, Council Bluffs.

Robert W. Tritsch, vice president-commercial loans, will discuss 18 Facts About Lending. Don Ostrand, vice president and head of the correspondent banking division, will discuss Bank Ownership and Holding Companies. Richard E. Ericksen, vice president-operations, will review Compliance and Regulations. J. William Henry, vice president-marketing, will look at Competition. After the presentations there will be a question and answer period, followed by a dinner.

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**NEW ISSUE**

**MOODY'S: "A-1"**

**\$1,500,000**  
**KEOKUK COMMUNITY SCHOOL DISTRICT, IOWA**  
General Obligation School Bonds

Dated: June 1, 1979

Denomination: \$5,000

Both principal and semiannual interest (June 1 and December 1, first coupon due December 1, 1979) payable at the Office of the Treasurer, Keokuk Community School District, 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>5.65%</u>			<u>5.45%</u>	
\$100,000	June 1, 1981	5.20	\$100,000	June 1, 1990	5.45
100,000	June 1, 1982	5.20		<u>5.50%</u>	
100,000	June 1, 1983	5.20	100,000	June 1, 1991	5.50
100,000	June 1, 1984	5.25		<u>5.55%</u>	
100,000	June 1, 1985	5.25	100,000	June 1, 1992	5.55
	<u>5.30%</u>			<u>5.60%</u>	
100,000	June 1, 1986	5.30	100,000	June 1, 1993	5.60
100,000	June 1, 1987	5.30		<u>5.65%</u>	
	<u>5.35%</u>		100,000	June 1, 1994	5.65
100,000	June 1, 1988	5.35		<u>5.70%</u>	
	<u>5.40%</u>		100,000	June 1, 1995	5.70
100,000	June 1, 1989	5.40			

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

The City of Keokuk, a county seat of Lee County, is located on the Mississippi River in the southeasternmost section of Iowa, about 175 miles southeast of Des Moines and 240 miles southwest of Chicago. The City has served since its incorporation as the commercial, governmental, industrial, financial, and transportation center for Lee County and the surrounding area. Notwithstanding the fact that two-thirds of the Keokuk Community School District land area remains in agricultural land, the primary economic base of the community is manufacturing. The 1970's have been a period of dramatic growth for industries in Keokuk, as established industries recommitted themselves to the future of Keokuk and new industries located here. Some of the major manufacturers located in Keokuk are: Foote Mineral Co.; General Mills Chemicals, Inc., A Henkel Co.; Hoerner Waldorf Corp.; Hubinger Co., Division of H.J. Heinz Co.; Keokuk Steel Castings, Division of Kast Metals; Midwest Carbide Corp., and Sheller-Globe Corp., Keokuk Division. Keokuk is served by the Burlington Northern, the Chicago, Rock Island and Pacific, the Norfolk & Western and the Toledo, Peoria & Western Railways. U.S. Highways 61, 136 and 218 intersect the City. There are three commercial banks in Keokuk with assets in excess of \$110,500,000.

These bonds are being issued under the provisions of Chapter 298, Code of Iowa, 1979, as amended for the purpose of defraying the costs of building and equipping the new Washington-Central Elementary School. In the opinion of counsel these bonds are legal and binding general obligations of the Keokuk Community School District, 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

Assessed value of taxable property, 1978	\$214,365,622
Actual value of taxable property, 1978	238,610,041
Direct debt, including this issue	1,500,000
Total direct, overlapping and underlying debt	3,855,375
Population, 1979 estimate: 17,488	
	Direct debt per capita: \$ 85.77
	Total debt per capita: 220.46

Tax collections have approximated 100.8% of taxes levied for the past four years.

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.



4 RESERVES BILL . . .  
[Continued from page 1 ]

the amendments proposed by Reps. Stanton and Ashley and is committed to the proposition of equity in reserves and the interest rate question.

Rep. Cavanaugh proposed that the exemption for telephonic transfers from reserve requirements be removed. This would subject many savings and loans to reserve requirements like commercial banks on their transaction accounts. His amendment had committee support, but was defeated by Chairman Reuss' proxies; however, his position is expected to get good floor support.

The savings and loan industry mounted a campaign that defeated in committee those attempts to lower the \$35 million exemption to \$15 million, as well as Rep. Cavanaugh's amendment.

It is known that members of the Senate Banking Committee and other Senate members are not happy with the House committee version. It if should be passed by the House, it would face a tough Senate battle.

#### ABA Progresses

Meanwhile, the ABA seems to have progressed well in its efforts over the past year in pursuing the basic goals of equity among financial institutions. As thrifts get more and more transaction powers, and it becomes more apparent to Congress that it is vital that the Fed control the money supply as represented by transaction accounts, then it becomes more apparent that those institutions offering transaction accounts should be treated fairly with equal rules.

The ABA Leadership Conference adopted in late April, and at earlier meetings, several goals that include:

1. Voluntary Fed membership and assuring a vigorous dual banking system. Fed Chairman William Miller has voiced his support of this.

2. Reducing the level of sterile reserves required of Fed members and making such reserves uniform. This is encompassed in the bill, which Chairman Miller supports.

3. Providing that all financial intermediaries must maintain reserves with the Fed with respect to their transaction accounts, on the same basis as member banks. This was defeated in committee, but has widespread support.

4. Instituting explicit pricing for Federal Reserve services.

5. Allowing access to Fed services and the discount window for all depositor institutions which are subject to Fed reserve requirements. This is recognized by Chairman Miller.

#### Correspondent Support

Although reserves presently would have to be carried with the Fed, correspondent bank executives feel they can compete with the Fed on pricing for traditional correspondent services, if those Fed prices are set fairly. Since the Fed needs banker support to continue and carry out its goals to manage monetary policy, it is assumed that policy of fair pricing will prevail.

Observers also feel the Fed supports lowering the exemptions on transaction accounts at all institutions from the \$35 million level stated in the House bill of last week. This, despite the agreement reached by the Fed with the Independent Bankers Association of America at the IBAA convention last March. Such a reduction, they believe, is the only way open to achieve fairness between commercial banks and the present total exemption of savings and loan associations from the effects of the reserve bill.

One question that has arisen is in relation to what value, if any, a national bank or other Fed member would have in owning Federal Reserve stock and paying membership fees. One concept proposed is for the Fed to buy back all the outstanding stock for \$1.2 billion, then apply its reserve formula uniformly across the board. □

#### Colorado News

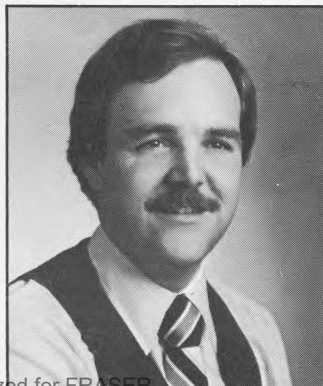
A hearing has been scheduled June 15 in Denver District Court to determine if a temporary restraining order halting loan production offices in the state should be made permanent. The Independent Bankers of Colorado had filed suit against the State Banking Commission, charging those offices constitute branch banking. Denver District Court Judge Joe Lilly granted a 10-day restraining order, thus prohibiting State Banking Commissioner Harry Bloom from putting into effect the commission's regulation authorizing such offices.

The Legislative Review Committee of the Colorado Legislature voted 3-2 that the banking commission does not have such authority. In March, a decision by U.S. District Court Judge June L. Green in Washington, D.C., ruled against Comptroller John G. Heimann by stating loan production offices are branches and they would, therefore, be illegal in states prohibiting branch banking. Colorado is such a state.

United Bank of Denver has three loan production offices, First National of Littleton and First National of Fort Collins each have one. Several are operated by out-of-state banks.

AURORA: An application by Peoples Bank & Trust Company here to establish remote service facilities at 1370 Kearney in Denver, and at 3190 S. Parker Road here, has been approved by the FDIC.

DENVER: Charles A. DeMerritt has been elected to the board of directors at South Colorado National Bank. He serves as vice president and manager of the real estate loan



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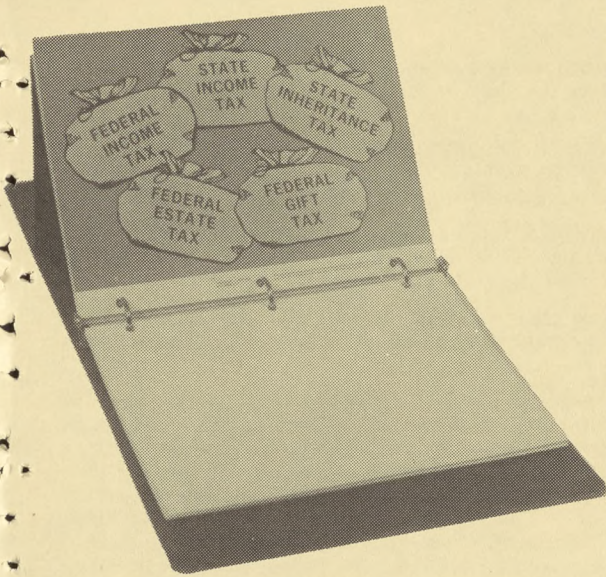
Especially helpful in explaining why newer planning approaches are needed to overcome problems of some traditional wills. **The problems are these:** Such wills often assume **all or most** of the property will be owned by one spouse (usually the husband)—and to save death taxes with a plan using such wills, he must die first.

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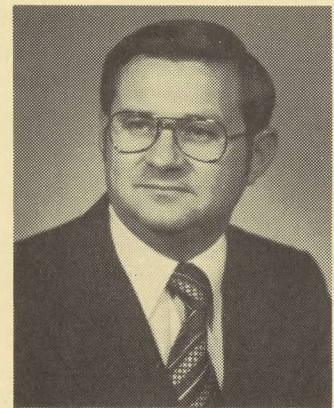
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- The 5 taxes that may erode away an estate.
- How higher land values and inflation have increased the need to do estate planning.
- How "use" valuation of land works: formula, pre-death requirements, and how to avoid postdeath recapture.
- What's included in the gross estate for tax purposes.
- Co-ownership of property: Joint tenancy: consideration furnished rule, fractional interest rule, and new credit for services rule. Also, two visuals on tenancy in common.
- The federal estate tax rates and how the unified credit works; with examples.
- Why the Tax Reform Act of 1976 makes estate planning more essential for holders of large estates.
- The 3 most-used strategies for minimizing federal estate tax—Model I (2-trust marital deduction will), Model II (balanced estates), and Modified Model II (to maximize wealth over both deaths).
- Federal gift tax rules.
- Unexpected gift tax problems that can arise in acquiring property or in severing land in JT.
- The income tax consequences of 3 alternative ways of disposing of property that's appreciated in value.
- Carryover basis rules—**The real sleeper** in the 1976 Tax Reform Act that may force heirs to pay **income taxes** on the appreciation in property values when they sell property later (for deaths after 1979).
- Why the new carryover basis rules will likely have the most income tax impact not on land, but on business and farm **inventory items acquired after 1976** (For deaths after '79).
- Why potential **income tax** consequences should be considered in providing liquidity to close out an estate.
- Ways to augment liquidity.
- How trusts work: 3 essential elements of a trust, difference in revocable and irrevocable trusts, types of testamentary trusts and advantages of a trust.
- The need to work with the estate planning team—trust officer attorney, insurance underwriter, and accountant.



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Topics covered:

1. Introduction and need for estate planning
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8. Ways to reduce Federal Estate Tax
9. Federal Gift Tax
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10. Relationship of employees to the corporation.
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12. Estate planning features of the corporation.

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2. Why do the new material participation requirements for "use" valuation purposes often conflict with social security plans?
3. What hazards are there in using the traditional death tax savings approach where property is concentrated in the husband's name?
4. How helpful is the new joint tenancy "credit for services" rule for federal estate tax purposes?
5. Should assets being placed in a new corporation be valued at fair market value or their tax basis?
6. What about the possibility of recapture of investment tax credit if land is not transferred to the new partnership or corporation—how can such recapture be avoided?
7. What are the gift tax implications to watch for in severing property titled in joint tenancy?
8. Can you inadvertently sever joint tenancy ownership in land when it's transferred into a corporation, and if so, what tax liability does this produce?



## CALL ON THE "PERFORMANCE TEAM"

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**GOLDEN:** Richard S. Bair has been appointed assistant vice president in charge of commercial and real estate lending at the Golden State Bank. He was formerly vice president and cashier at the Bank of Evergreen.

### Minnesota News

**BUHL:** Steven H. Weisz has been elected president and a director of the First National Bank here. He comes to the Buhl area from West Fargo, N.D., where he had been a bank examiner with the FDIC for the past seven years.

**EDINA:** Ron Carlson has joined the First Edina National Bank as auditor, and Lee Jacobson has joined the bank as a commercial loan officer. Kevin P. McShane has been promoted to commercial loan officer.

**GRANITE FALLS:** The Yellow Medicine County Bank has increased its amount of capital stock from \$125,000 to \$150,000 by the sale of new stock.

**HIBBING:** Security State Bank of Hibbing has increased its amount of capital stock from \$600,000 to \$750,000 by the sale of new stock.

**MAYNARD:** Security State Bank of Maynard has increased its amount of capital stock from \$50,000 to \$55,000 by the sale of new stock.

### Illinois News

**ANDALUSIA:** Charles Wendt has been appointed president of the proposed Andalusia Community Bank. He has 16 years of banking experience and was formerly vice president and trust officer of the First Whitney Bank & Trust Co. in Atlantic, Ia. Organizers of the Andalusia bank hope to sell stock and receive a charter from the Illinois Banking Commission this month.

**CHICAGO:** Gavin Weir, chairman and president, Chicago City Bank &

Trust Co., was elected president of the Illinois Bankers Association at the group's annual convention here last week. Jack Lemmerman, president, The National Bank of Monmouth, was elected first vice president; James A. Fitch, president, South Chicago Savings Bank, was elected second vice president, and Charles N. Finson, president, National Bank of Monticello, was named treasurer. An on-the-spot news and picture report will be featured in the July issue of the magazine.

**ELK GROVE VILLAGE:** A charter has been issued to the First Security Bank here. The state bank's total capitalization of \$1.5 million will consist of \$600,000 capital stock, \$600,000 surplus and \$300,000 reserve for operating expense. William L. Bishop is the president, and vice president and cashier is Charles T. Hodgin.

**OAK PARK:** An application by Oak Park Trust & Savings Bank for Federal deposit insurance upon withdrawal from the Federal Reserve System has been approved.

**SPRINGFIELD:** The multi-bank holding company bill proposed by the Association for Modern Banking in Illinois failed to pass recently by just one vote in the House of the Illinois Legislature. The vote was 88-62, but needed a majority of 89. There were 30 or more House members absent or voted present. It will probably be recalled next year.

The Senate approved by a 46-4 vote the bill allowing banks to have up to 10 off-premise automated teller machines—four within county lines, four in contiguous counties and two within current facility limits of 1,500 feet and two miles. A second EFT bill was approved 47-4 to permit limited operation of point-of-sale machines. This allows POS systems in contiguous counties. Check guarantee service could start next January 1, and direct debit, funds transfer and account balance inquiry a year later. It allows for a bank-owned corporation to operate a central switch.

### North Dakota News

**ROLLA:** The First Bank of Rolla has opened and is operating a paying and receiving station at Belcourt.

**TURTLE LAKE:** The Bank of Turtle Lake has moved into new banking quarters here, opening for business May 7.

**WEST FARGO:** West Fargo State Bank has moved into new banking quarters at 901 13th Avenue East.

### South Dakota News

**FLANDREAU:** An application by the Farmers State Bank here for Federal deposit insurance upon withdrawal from the Federal Reserve System has been approved.

### Wyoming News

**CASPER:** Jay F. Bordewick, 48, has been elected president of First Wyoming Bank-Casper, effective July 1. He is resigning his post as vice president-manager of the correspondent bank division at United States National Bank of Omaha, a position he has held since July, 1967. He replaces R. B. "Dick" Ward, who resigned in March to enter private business.



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## Montana News

**BROWNING:** Montana Bank of Browning, N.A., has changed its name to the First National Bank of Browning after approval was received from the administrator of national banks.

**COLUMBIA FALLS:** Falsbuild-ing, Inc. here has received consent from the Federal Reserve Board to indirectly acquire the United National Bank of Libby.

**GLENDIVE:** An application by the First Fidelity Bank here for Federal deposit insurance has been approved by the FDIC. The bank's total capital accounts are \$900,000.

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**VICE PRESIDENT**—40MM bank in NB. Solid exp needed. Be responsible for commercial loan portfolio. Salary \$30,000.

**LOAN OFFICER**—3 yrs exp needed. Exp must be in mortgage area. Installment & secondary. Salary in Upper Teens.

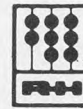
**LENDING**—Bank wants a generalists. Successful applicant will be groomed for #2 spot. Salary in Mid Teens.

**OPERATIONS OFFICER**—Must have supv exp in a bank. Want a go-getter with aggressive ideas. Salary \$20,000.

**AGRI LENDER**—Need 3 yrs ag lending exp. Must have ability to generate new business. 100MM + bank in northern Ia. Salary in Mid Teens.

**PRESIDENT**—Must have strong operations mgmt exp with dynamic personality. Small town in NE Neb. Salary 30K plus benefits.

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**CONTROLLER** — Major bank located in metro area. Prefer CPA with several years bank experience.....\$ OPEN

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**SECOND OFFICER** — Rural eastern Missouri Bank. Requires operations and ag lending background .....\$18,000

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