

NORTHWESTERN Banker Newsletter

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Des Moines, Iowa

August 20, 1979

Bank Stock Loans Must Comply with FIRA

A WARNING that bank stock loans which are payable on demand or have rollover terms must comply with regulations implementing the FIRA legislation of 1978 has been issued by Comptroller of the Currency John G. Heimann. Those regulations became effective March 10, 1979, to carry out provisions of the Financial Institutions Regulatory and Interest Rate Control Act of 1978.

Those regulations not only control terms of loans to "insiders" of banks — executive officers and shareholders — but also apply to bank stock loans to curb preferential treatment that is declared illegal by the law.

Noting that a number of bank stock loans are payable on demand, in addition to the rollover variety, Charles Byrd, assistant director of the OCC's legal advisory services division, said those demand loans which became illegal under the regulations published to implement FIRA should have been recalled or renegotiated as soon as the regulations took effect on March 10.

"If the bank signed the loan prior to March 10, 1979, and no provisions in the loan allow them to renegotiate, we would not require them to renegotiate," Mr. Byrd said. "But the bank must either have the loan paid or negotiate the preferential terms as soon as it can do so under the terms of the loan agreement," he added. "Now, if

they negotiate a loan (that becomes illegal under the new provisions) we would come down hard on them," Mr. Byrd stated.

Responding to several inquiries from bankers on effect of the new regulations on bank stock loans, Comptroller Heimann said, "As you know, certain provisions of FIRA have been widely perceived as likely to disrupt existing bank practices regarding the making of loans which are collateralized by bank stock. More particularly, the specific prohibitions...against preferential lending by banks to their own insiders and those of their correspondent institutions have apparently caused concern among various lenders."

One inquiry concerned the pricing policy of the bank's "major competitor," which purportedly used the "Chase prime" rate for bank stock loans—a rate not available to other borrowers. Mr. Heimann stated, while more facts are needed, "I assume (the pricing policy) results in preferred treatment for bank stock loans which would be...illegal...under the provisions of...FIRA.

"I want to assure you, however," he added, "that the new law is not intended to usurp the ability of competing institutions to devise market strategies and formulate particular credit policies."

In regard to "grandfathering" of

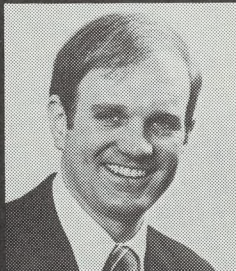
existing loans prior to effective date of FIRA, Mr. Heimann said, "Preferential loans that are outstanding as of March 10, 1979, are not specifically addressed in the statute or the proposed regulations. However, banks should eliminate the preferential terms of such loans as soon as practicable." If they do not, he added, "they may be subject to criticism by the agencies. The policy applies particularly to demand loans that are within the power of the bank to call and renegotiate at any time."

He added, "I wish to emphasize that the statutory time permitted to bring outstanding loans into compliance...is not available to proscribed preferential extensions of credit."

William Martin, OCC special projects division director, who has examining authority over banks requiring "special surveillance," said he would require preferential bank stock loans to be renegotiated and, in some cases, push for "restitution," because preferential loans were prohibited even before FIRA. He said his examiners found an "egregious loan," such as 6% interest on a 20-year loan, he would ask the bank to raise the interest rate... "We have pushed for restitution going back two years" and the

BANK STOCK . . .
[Turn to page 3, please]

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Iowa News

Applications from the following banks have been received by the state department of banking: Morningside State Bank, Sioux City, to open an in-town office at Lincolnshire Road and Hickory Lane; West Des Moines State Bank, to open an office at 809 Sixth Ave. in Des Moines, and Farmers & Merchants State Bank, Winterset, to open an in-town office at 722 First St.

Action was taken on the following applications: Key City Bank and Trust Co., Dubuque, (closed in-town office at Plaza 20) to open an office at John F. Kennedy Road and Kennedy Circle, approved; and First State Bank, Webster City, to open an in-town office at 1919 Superior St., approved.

GIBSON: Gibson Investment Company has received consent from the Board of Governors of the Federal Reserve System to become a bank holding company by acquiring the Gibson Savings Bank.

JEFFERSON: Michael D. Hunter has joined the Jefferson State Bank as vice president in charge of commercial loans. For the past four years he served as assistant vice president and Woodward office manager of the Brenton State Bank of Dallas Center.

LYTTON: An application by the Lytton Savings Bank for Federal deposit insurance has been approved by the FDIC.

MAQUOKETA: The Jackson State Bank and Trust Co. has received consent from the FDIC to open an office at West Platt and Highway 61 here.

URBANDALE: Brenton Bank and Trust Company has received consent from the FDIC to establish remote service facilities at three

Target stores located at 4605 Fleur Drive and 2309 Euclid in Des Moines, and 1800 35th St. in West Des Moines.

WHITTEMORE: Farmers State Bank here has announced that John W. (Jack) Geelan is now a stockholder, a member of the board and an officer in the bank. He was formerly vice president of marketing with the Masonite Corp. in Illinois.

Nebraska News

ARLINGTON: R. Spencer Wedberg has joined the Arlington State Bank as a loan officer. He was formerly associated with the First National Bank & Trust Co. of Fremont.

AURORA: The First National Bank & Trust Co. in Aurora has received consent from the regional administrator of national banks to open customer-bank communication terminals at 1120 11th St. here and at 132 N. 3rd St. in Hampton.

LINCOLN: First National Bank and Trust Co. will hold its Correspondent Bank Conference September 14-15, according to Charles R. Leffler, vice president and manager of the correspondent bank division. Due to the closing of the Cornhusker Hotel, registrants will be housed at the Hilton Hotel, Holiday Inn-Airport, Airport Inn and Ramada Inn. The Conference will be held at the Hilton Hotel. The University of Nebraska football team will play Utah State that weekend.

SCOTTSBLUFF: Melva L. Guard has been promoted to assistant cashier at the Scottsbluff National Bank and Trust Co. She has been with the bank for 14 years. Elaine Pile has been named administrative assistant.

SEWARD: Clint Jensen has joined the Cattle National Bank here as an

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ag loan officer trainee. He graduated from the University of Nebraska-Lincoln in May and has worked as an intern for the Nebraska Bankers Association in the Harlan County Bank, Alma.

Minnesota News

BLOOMINGTON: Lorraine C. Johnson has joined the Northwestern National Bank Southwest here as a personal banking officer. She was formerly employed in the personal banking department of

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NEW ISSUE

MOODY'S: Aa

**\$1,735,000
WATERLOO, IOWA**

General Obligation Corporate Purpose Bonds

Dated: August 1, 1979

Denomination: \$5,000

Both principal and semiannual interest (May 1 and November 1, first coupon due May 1, 1980) payable at the office of City Treasurer, Waterloo, 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>5.50%</u>			<u>5.20%</u>	
\$ 35,000	May 1, 1981	5.00	\$100,000	May 1, 1987	5.15
100,000	May 1, 1982	5.00	200,000	May 1, 1988	5.15
100,000	May 1, 1983	5.05	200,000	May 1, 1989	5.20
100,000	May 1, 1984	5.05		<u>5.25%</u>	
100,000	May 1, 1985	5.10	200,000	May 1, 1990	5.25
100,000	May 1, 1986	5.10		<u>5.30%</u>	
			500,000	May 1, 1991	5.30

LEGALITY TO BE APPROVED BY CHAPMAN & CUTLER, ATTORNEYS, CHICAGO, ILLINOIS.

Waterloo, the county seat of Black Hawk County, is located about 100 miles northeast of Des Moines. Waterloo is the center of trading and manufacturing in a rich agricultural area. Major employers in the City include: John Deere Tractor Works (tractors, 13,300 employees); Rath Packing Co. (meat processors, 2,009 employees); Waterloo Industries (tool equipment, 725 employees); Chamberlain Manufacturing Co. (ordnance research, 600 employees); Hinson Mfg. Co. (automotive and sporting goods, 390 employees) and Construction Machinery Co. (truck mixers, 200 employees). Agriculture in the area is devoted to the marketing of livestock and the production of corn, soybeans and oats. There are three banks and four savings and loan associations in Waterloo with total deposits in excess of \$644,000,000.

The proceeds of this issue will be used for: street improvements (\$775,000); storm sewers (\$635,000); traffic signals (\$150,000); park improvements (\$100,000) and mass transit (\$75,000). In the opinion of counsel, these bonds are legal and binding general obligations of Waterloo, 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, 1978-79	\$1,067,162,815
Direct debt, including this issue	\$ 31,784,000
Total direct and overlapping debt	37,955,299
Population, 1979 estimate: 78,670	
	Direct debt per capita: \$404.02
	Total debt per capita: 482.47

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:

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FIRST NATIONAL LINCOLN

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Northwestern National Bank's North American office in Minneapolis.

MINNEAPOLIS: The Marquette National Bank of Minneapolis has received consent from the Comptroller of the Currency to open an office at 80th Street and Morgan Circle in Bloomington.

MINNEAPOLIS: Clarence G. Frame, president and chief executive officer of the First National Bank of St. Paul, has been appointed by the board of the Federal Reserve Bank of Minneapolis to fill the unexpired Federal Advisory Council term vacated earlier this year by the death of Richard H. Vaughan.

NEWPORT: Five promotions have been announced by the Town & Country State Bank. They are: Raymond E. Schlemmer, senior vice president and cashier; Elaine D. Schlemmer, senior vice president; Joel J. Turbak, vice president; Robin J. Duncan, assistant vice president, and Nan Palmer, assistant cashier.

Illinois News

CRESTWOOD: A charter has been issued to the Crestwood Bank, 13500 S. Cicero Ave. here. The state bank's total capitalization of \$1.5 million will consist of \$600,000 in capital stock, \$600,000 surplus and \$300,000 reserve for operating expense. There will be 60,000 shares of stock with a par value of \$10 each. The officers are William J. Murphy, president; Chester Stranczek, vice chairman of the board, and Harold Dykstra, vice president and cashier.

ROCKFORD: The merger of City National Bank & Trust Co. of Rockford into City Bank, N.A., Rockford, under the charter of the latter and title of the former, was effective the first of July.

Colorado News

AURORA: Homer Lyle has replaced W. F. Packard as president of Peoples Bank & Trust Company here.

DENVER: An application for a charter by organizers of First Bank of Governor's Ranch, N.A. has been approved by the Comptroller of the Currency. The bank's agent is Ronald R. Tullos.

FAIRPLAY: Gary Ryan is the new president of the Bank of Fairplay replacing Dean Boyd.

Wyoming News

LANDER: Construction on a \$400,000 expansion project for the First National Bank of Lander is underway. The bank will expand into space formerly occupied by two retail stores, increasing work space by one-third. Completion is scheduled for November 1.

POWELL: Jim Hillberry, vice president of the First National Bank of Powell, has stepped out of the agricultural lending department to head the commercial loan department. Bob Vergara has joined the bank as a loan officer in the agricultural lending department.

RAWLINS: Bill Engstrom has resigned as vice president in charge of operations at the Rawlins National Bank. He has accepted a position as vice president of Westland Federal in Rawlins.

South Dakota News

MARION: Robert J. Hieb has been advanced from cashier to president of the Farmers State Bank here. Bruce D. Anderson was promoted from assistant cashier to cashier. W. L. Yopp, formerly vice president, has been named chairman of the board. The past president and chairman, Eldon E. Smith, died following a heart attack in February.

North Dakota News

LARIMORE: Vernon A. Sturlaugson has joined the Elk Valley State Bank here as a vice president and agricultural representative. He was formerly senior vice president of the Farmers State Bank of Minnewaukan.

BANK STOCK . . .

[Continued from page 1]

borrower made restitution.

Several city correspondent banks contacted said top management in their banks and correspondent department heads review these loans regularly to assure compliance. "If there is any variation," one experienced officer noted, "it must be documented in the file." He also noted that it is necessary to abide by state usury law governing loans to individuals when a community banker approaches a city correspondent for a personal loan.

Another caution related to the number of bank stock purchases initiated prior to FIRA and using projections based on prevailing practices. Revisions of those projections in light of higher interest rates are making it more difficult for some of those purchasers, it was stated, and some are being hurt. □



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CASHIER—BA in Finance & Banking plus 1 yr exp as asst cashier. In charge of operations, tellers & reporting. Lending exp in installment, student & real estate. Earns \$14,200.

HEAD INSTALLMENT LOANS—Several yrs exp. Currently handles direct & indirect loans. Type of loans include auto, home improvement & business equip. Asks \$19,000.

LOAN OFFICER—Supervises floor plans, installments, leasing paper, plus some commercial and real estate. Has significantly reduced the delinquency rate. Asks \$18,000.

CEO—Masters degree & 10 yrs exp. Manages entire loan portfolio. Can write policies & procedures. Familiar with compliance. Strong in commercial lending. Asks \$27,000.

CEO—Is a CEO with total resp. Has managed small banks with success in growth and increases in net profit. Able to communicate with customers and employees. Civic & community minded. Asks \$30,000.

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CORRESPONDENT—Limited travel, good agri & commercial loan experience required \$27,000

MARKETING—2-3 years bank marketing for Iowa bank \$17,000

TOM HAGAN & ASSOCIATES
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