

NORTHWESTERN Banker Newsletter

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Capital Vital to Economic Growth

HERE has been an increasing disregard for capital in the United States, along with the fading of accountability in relationships involving government and the private sector, according to Henry Kaufman, general partner and member of the executive committee of Salomon Brothers, New York, international investment banking and market making firm.



HENRY KAUFMAN

Speaking before an Economic Club of Chicago dinner, Mr. Kaufman said, "We have, I believe, a last-ditch opportunity to stop the tide and to strike a new balance between social and economic objectives."

Mr. Kaufman presented four examples of the growing disregard for capital in the United States:

- **Credit market debt growth is outstripping the market value of outstanding equities.** The ratio of debt to equities was 2-to-1 from the early 1950s to the mid-1960s. But since then this ratio has worsened to 3-to-1 in the past five years. In dollar terms, at the end of 1979, credit market debt totalled \$4.2 trillion and equities \$1.2 trillion—a vast \$3 trillion gap. By contrast, in 1964,

debt totalled \$1 trillion and equities \$634 billion. There are three points pertinent to this disregard for capital, he said.

First, inflation has been facilitated by an accommodative attitude regarding the issuance of debt.

Second, inflation, contrary to conventional views, inflicts damaging blows to equity values.

Third, the liberalization of financial arrangements and alarming debt growth suggest that quite a few creditors, in the legal sense, are actually stockholders, in the operational sense.

- **The Federal Government's growing role as a demander of credit.** The net credit demands of the U.S. Treasury and Federal credit agencies in the 1950s and 1960s accounted for only 6% of all demands financed in the credit markets in the United States. This climbed to 14% in the 1970-74 period and 23% in the 1975-79 years. This development is detrimental to capital because these borrowings increasingly have financed consumption through transfer payments to the private sector, thereby absorbing resources that could have added significantly to permanent capital. Outlays for human resources now account for 53% of Federal budget outlays compared to 43% in 1971 and 22% in 1956. In addition, there is substitution of Government debt for private debt.

These Government financings or guarantees foster a false economic validity to projects that would not otherwise be acceptable to private creditors or investors.

- **The disregard for capital in business finance.** For the first half of the post-World War II period, business corporations were reasonably consistent in financing their growth. For every dollar of new debt, they added a dollar of equity through retained earnings and new share issuance. But since the mid-1960s, debt growth has risen sharply and equity growth has lagged far behind. In 1979, after eliminating the inflation factor in inventories, debt increased more than three times as fast as equity capital.

- **Sharp shift in the pattern of household savings and borrowings.** In the two decades up until the mid-1970s, the annual net increases in household savings exceeded the net growth in household borrowings by two to one on average. But there was an extraordinary reversal in the past three years, with household borrowings now exceeding savings.

Stating that the task ahead is formidable, the Salomon Brothers partner declared that an incomes democracy must be re-defined and the best of economic democracy must re-instituted—"before it is too late."

In order to return to the path of sustainable economic growth, Mr. Kaufman stated:

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1. The growth of government in economic and financial life must be reduced. Otherwise, policies will persist that support consumption instead of capital formation that is the underpinning for job opportunity and economic growth.

2. Taxation policies must be restructured to encourage capital formation. Disincentives for investment in equity capital should be removed.

3. Policies should be instituted to reassert the fiduciary roles of financial institutions. One way to achieve this objective is to set clearer guidelines for the capital adequacy of financial institutions.

4. The vitality of American enterprise can only be preserved if managements are continuously challenged in their entrepreneurial effort. One way to accomplish this is to improve the linkage between management and stockholders.

SBA Schedules Hearing

The U.S. Small Business Administration will hold a one-day, fact-finding public hearing on Thursday, May 22, in Kansas City, Mo., to receive comments and facts on the

new proposed changes in size standards for small business. The standard would determine a firm's eligibility for SBA loans, government contracting and other programs.

The four-state regional public hearing will be from 9:30 a.m. to 4 p.m. in room 140 of the Federal Office Building, 601 E. 12th St., Kansas City. Small business owners in Iowa, Kansas, Missouri and Nebraska may attend and present oral and written testimony.

Iowa News

Iowa's new usury bill, H.F. 2492, has been signed by Governor Robert D. Ray and is in the process of being published and certified. The bill removes interest rate ceilings on all ag, business and real estate loans, as well as personal loans above \$35,000. The consumer credit rate on closed-end credit was increased from 15% to 21%. It remains at 18% and 15% on open-end credit. The rate for new car and mobile home loans was raised to 21% ceiling. The bill contains a three-year sunset provision.

H.F. 2486, the Ag Credit Corp. bill, permits these organizations to charge 4% above the prevailing FICB rate. The definition of "agriculture" was placed back in the code and defines it as limited to ag production.

S.F. 2243 also passed in the hours immediately before adjournment on May 3 of the 1980 Iowa legislature. This is the Young Farmers Guaranteed Loan Program. The Iowa Housing Finance Authority may issue \$150 million in bonds; loans will be made to qualifying farmers with net assets of under \$100,000 who cannot get a conventional loan elsewhere; maximum loan limit is \$500,000, with a lid for depreciable property at \$125,000; 90% of the loan to be guaranteed by FhMA, and remaining 10% by the bank at prevailing rate, with loans handled by bank same as other FhMA guaranteed transactions.

DAVENPORT: Joseph A. Grubisich Jr. has been promoted from assistant vice president and trust officer to vice president and senior

"Opportunity Calls..."

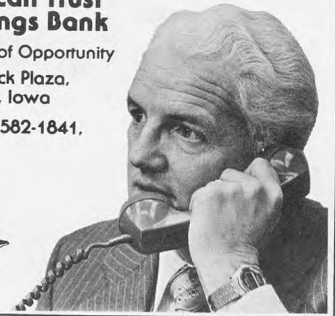
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trust officer at the First Trust & Savings Bank here. He joined the bank in 1978.

DES MOINES: Central National Bank & Trust Co. has received consent from the regional administrator of national banks to locate CBCT units at 1500 22nd St., West Des Moines; Sixth Avenue and University, and Merle Hay Road and Douglas.

FORT DODGE: The First National Bank has filed for permission from the regional administrator of national banks to locate CBCT units at two Fort Dodge locations.

KEYSTONE: Robert G. Roese, executive vice president of the Keystone Savings Bank, has been elected president to succeed Roland A. Hellwig, who is retiring after 35 years of service to the bank.

Nebraska News

Jerry E. Roe, president, Bank of Bennington, was elected president of the Nebraska Bankers Association during the 83rd annual convention in Omaha last week. Named president-elect was William W. Cook Jr., president, Beatrice National Bank & Trust Co., Beatrice. The fathers of both men are past-presidents of the Nebraska Bankers Association.

The most important piece of business at the NBA convention was announcement of a Structure Task Force by President Roe, composed of representatives from the largest

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NEW ISSUE

SALE DATE: MAY 6, 1980

\$3,000,000

MOODY'S: A1

**HAZELWOOD SCHOOL DISTRICT, MISSOURI
(ST. LOUIS COUNTY)**

General Obligation School Bonds

Dated: June 1, 1980

Denomination: \$5,000

Both principal and semiannual interest (March 1 and September 1, first coupon due on September 1, 1980) payable at a bank to be designated.

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

MATURITIES

	<u>7.25%</u>				<u>6.00%</u>	
\$ 50,000	March 1, 1981	5.60		\$250,000	March 1, 1990	6.00
50,000	March 1, 1982	5.65		375,000	March 1, 1991	6.00
50,000	March 1, 1983	5.70		450,000	March 1, 1992	6.05
50,000	March 1, 1984	5.75			<u>6.10%</u>	
50,000	March 1, 1985	5.75		400,000	March 1, 1993	6.10
75,000	March 1, 1986	5.80		400,000	March 1, 1994	6.15
75,000	March 1, 1987	5.85			<u>6.20%</u>	
100,000	March 1, 1988	5.90		400,000	March 1, 1995	6.20
	<u>5.90%</u>					
225,000	March 1, 1989	5.95				

LEGALITY TO BE APPROVED BY CHARLES AND TRAUERNICHT, ATTORNEYS, ST. LOUIS, MISSOURI

The Hazelwood School District is one of the largest suburban districts in Missouri. The District occupies the northern tip of St. Louis County. It is bounded on the north and west by the Missouri River, and on the east by the Mississippi River. The southern District line is just south of Interstate Highway 270. Among the industries maintaining facilities in the District are: Ford Motor Co.; Kroger Co.; Hussmann Refrigeration; Schnucks Markets; Crown-Zellerback Corp.; Wagner Electric Co.; General Foods Corp.; Sears Roebuck & Co.; General Motors Corp.; Rexham Corp.; International Paper Co.; Emerson Electric Co.; and Central Hardware Co. Two major railroads pass through the School District.

These bonds are being issued under Missouri Statutes for various general purposes in the School District. In the opinion of counsel, these bonds are legal and binding general obligations of the Hazelwood School District, Missouri, 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 taxable property, 1979	\$449,883,290
Net direct debt, including this issue	29,081,786
Total direct and overlapping debt	47,560,786
Population, 1980 estimate: 118,000	Net direct debt per capita: \$246.46
	Total debt per capita: 403.06
Area: 49,920 acres	Net direct debt per acre: 582.57
	Total debt per acre: 952.74

Tax collections have approximated 96.96% of taxes levied for the last six years.

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

The information contained herein 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.



Alex Sheshunoff, President of Sheshunoff & Co., Inc.

How will you approach NOW Accounts?

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On June 18, National Bank of Commerce will continue its series of Sheshunoff seminars when it brings Alex Sheshunoff to Lincoln. Sheshunoff will speak on "Profitably Meeting The Challenge Of NOW Accounts." This seminar will show you how to price, introduce, and implement NOW Accounts, as well as how to compete more effectively for profits in this area. In addition, you will receive the 1980 High Performance Planning Report that is individually prepared for your bank by Alex Sheshunoff.

NBC believes in taking an aggressive approach to correspondent banking. That's why we continue to bring you information you can use, like the Sheshunoff seminars. If you would like to attend the June 18th seminar, please contact the Correspondent Division of National Bank of Commerce.

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Bond Representative
234-2674

banks in the state and a cross section of community banks, whose assignment is to find a workable plan to reconcile structure differences that will result in a legislative plan endorsed by all banks to take to the next legislature.

It was also revealed during the convention that NETS is in negotiation with MICOR for a renewal of the switch contract that expires November 1, and also is negotiating with the Iowa Transfer System operated through the Iowa Bankers Association. The prospect of operating NETS with ITS apparently is very attractive to Nebraska members, since bankers in the two states cooperated very closely with each other when the two systems were

originated several years ago. A technical problem of incompatibility of systems within First National Lincoln and National Bank of Commerce with the ITS switch would have to worked out. U.S. National Bank of Omaha and Omaha National Bank, the other two NETS processing banks, are compatible with ITS.

BEATRICE: W. W. Cook Sr., chairman of Beatrice National Bank & Trust Co., is recuperating well at Methodist Hospital in Rochester, Minn., after undergoing abdominal surgery to repair an aneurism. He is expected to return home sometime this week to Beatrice where he may be reached at Box 100 at the bank, ZIP 68310.

Illinois News

ORLAND PARK: A permit to organize has been issued to the Bank of Orland Park to be located at 7450 W. 159th St. here. The state bank's total capitalization of \$1,750,000 would consist of \$700,000 capital stock, \$700,000 surplus and \$350,000 reserve for operating expense. Organizers include Jack D. Davis, Beecher; Marlene Groszek and Robert M. Geary, Frankfort, and Philip J. Levoy and Michael Halikias, Orland Park.

PEORIA HEIGHTS: William C. Robinson has been promoted from executive vice president to president of The Heights Bank. John Pearl continues as chairman of the board. Mr. Robinson joined the bank in 1978.

Minnesota News

ELK RIVER: James M. Simpson has been elected president of The Bank of Elk River replacing Thomas K. Wilson, interim president. Mr. Simpson was most recently president of the United National Bank of Watertown, S.D.

GRANITE FALLS: Wayne Kaspari has rejoined the Yellow Medicine County Bank here. He was formerly president of the Citizens State Bank in Barrett, and now assumes duties as vice president in charge of commercial and agricultural loans at Granite Falls.

LAKEFIELD: The First National Bank of Lakefield has received consent from the Minnesota Commerce Commission to convert to a state chartered bank. The bank, which has held a national charter since 1899, will be named First Trust Bank of Lakefield.

MINNEAPOLIS: Jim Philpott has been elected president and chief executive officer of the St. Anthony National Bank. He joined the bank in 1976 and most recently served as executive vice president and cashier.

Colorado News

Donald A. Childears has been appointed executive manager of the Colorado Bankers Association. Mr. Childears has been assistant manager of the CBA for several years and had been acting executive manager since the resignation several months ago of Jerry Scarboro.

Wyoming News

CHEYENNE: Daniel B. Clawson has joined the First Wyoming Bank, N.A. - Cheyenne as executive vice president. Formerly he was

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senior vice president and loan officer at the First Wyoming Bank, N.A.-Rawlins.

Montana News

BELT: Richard A. Browning has been appointed vice president of the Belt Valley Bank. He was formerly associated with the First National Bank of Great Falls.

BUTTE: John C. Koppelman has joined the First National Bank, Anaconda-Butte, as an installment loan officer. He was formerly employed by the Fourth Northwestern National Bank of Minneapolis.

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BANK CONTROLLER WANTED: Controller for \$60 million central Iowa bank with one-bank holding company and other operating entities. Prefer CPA with one to five years experience. Salary open depending upon experience and qualifications. Send resume to K. M. M., Box 65133, West Des Moines, IA 50265. (PA)

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 Trust Officer, small bank experience 23,000
 AVP & Branch Manager, a generalist 20,000
 Commercial credit and loan experience, large bank 17,500
 VP with solid experience in all areas 23,000
 VP/Real Estate Analyst for mortgage company 25,000
 President in \$22MM bank, wants larger bank 30,000
 President, stable background, varied experience 35,000

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CONTROLLER—Position available in \$25MM rural bank. Will consider 1-2 years general bank experience and accounting degree. \$16,000
CASHIER—Small rural bank located near college community. Prefer farm background and insurance licenses. \$18,000
CHIEF FINANCIAL OFFICER—\$250 MM savings and loan association needs senior officer. Ideal candidate will have degree in finance, 5-10 years experience and be an effective communicator. 45K
OPERATIONS/LENDING—Suburban bank in good growth area seeks officer with 2-3 years general banking. Primary duties include cashier function with secondary responsibility for consumer loan. \$20,000
JUNIOR OFFICER—Excellent opportunity to advance to second position in this rural Iowa bank. Operations experience desired. \$16,000

Opportunities available throughout the midwest for experienced junior and senior officers. Resume and salary history requested.

TOM HAGAN & ASSOCIATES
 OF KANSAS CITY

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