

# NORTHWESTERN Banker Newsletter

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## Garn and Proxmire Proposals Analyzed

IN THE January issue of *The Supervisor*, the Conference of State Bank Supervisors monthly publication, members and associate members were given a detailed analysis of two Congressional banking proposals. The following is an excerpt from that issue.

The many legislative packages introduced in the Congress late last session run the gamut from moratoria to omnibus bills. Two senior legislators—Congressman Fernand St Germain (D-RI) and Senator John Heinz (R-PA)—have recommended moratoriums on major banking change while the Congress considers such issues as Glass-Steagall and geographic restraints in detail. Senator E.J. “Jake” Garn (R-UT) on the other hand, prefers an “omnibus” approach, through which the Congress and the affected industries would hammer out a compromise consensus. In the middle is Senator William Proxmire (D-WI), offering a limited package of new powers.

Because the Garn and Proxmire proposals offer concrete starting points for a debate on change, both bills assume major importance. Following is an analysis of both measures:

### S. 2181—The Financial Services Competitive Equity Act (Garn)

#### Title I—Financial Institutions Competitive Equity

This title would:

- Close the non-bank bank loophole by ad-

ding FDIC insurance to the definition of a bank, subject to several exceptions, one of which would establish a new class of non-bank subsidiary, the “consumer bank.”

The “consumer bank” is defined as a non-bank subsidiary which would be a bank but for the fact that it does not make commercial loans. This asset-side restriction does not mean much, however, since the bill defines “commercial loans” narrowly. It does so by excluding a long list of loans which do not fall in the commercial loan category for purposes of the Bank Holding Company Act and allows consumer banks a five percent of assets basket of credit to finance inventory of natural persons, small business loans, and “similar loans.” While the language limiting geographic location is unprecise and therefore subject to interpretation, it appears that interstate acquisition of such banks would be limited to those states in which the interstate acquisition of a consumer bank, industrial bank, Morris Plan bank, industrial loan company or similar institution is “specifically authorized by the statute law of the state.”

- Allow added permissible activities for BHC’s to include activities of a financial nature, and, specifically, securities, insurance, and real estate activities including insurance underwriting and brokerage and real estate investment, development, and brokerage up to five percent of capital.

- Preempt state authority to prohibit otherwise permissible non-bank activities of BHCs within their borders.

- Create a new class of securities affiliate for BHCs, with authority to deal in and underwrite state and municipal revenue bonds, operate an investment company and deal in the securities of an investment company and in promissory notes secured by real estate mortgages.

- Provide streamlined procedures for formation of a BHC through what essentially would amount to a one-for-one exchange of stock by the shareholders of the existing bank.

- Give the Fed authority to examine BHC subsidiaries.

- Restrict the use of bank service corporations, limiting them to general routine processing functions, such as check and deposit-sorting and posting. There would be a grandfather clause as of July 1, 1983.

#### Title III—Bankers Banks

This title would expand the authority of bankers banks, allowing provision of services not only to the banks which own the entities but to the holding companies of such bank owners, and to any subsidiary of the BHC.

#### Title IV—Competitive Savings Incentive

This title would require the Federal Reserve to pay monthly interest on reserves held against money market deposit accounts, Super NOW accounts, and any new transaction accounts authorized by DIDC, at the rate earned that month by the Fed on its securities portfolio.

#### Title VII—Credit Deregulation and Availability

This title would preempt state interest rate ceilings on business, agricultural, and consumer credit loans, but allow states a three-year period to override the preemption, in whole or in part, by explicit state legislation or certification that voters of the state have adopted a provision to that affect.

#### Title VIII—Interest on Demand Deposits

This title would eliminate statutory prohibitions on the payment of interest on demand deposits, and empower DIDC to establish maximum rates and rules; it would go into effect 180 days after enactment. The title also would allow NOW accounts for political organizations.

#### Title X—Interstate Banking

This title would remove the constitutionality question concerning state reciprocal laws under the Douglas Amendment by (a) allowing national banks to branch across state lines to the same extent state chartered banks may; (b) allowing states to “condition” out-of-state holding company entry—such as by a geographic location test (i.e., New England);

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and (c) extending interstate S&L branching where it is authorized by state law. There is a five year sunset provision.

**S. 2134—Depository Institutions Holding Company Act Amendments of 1984 (Proxmire)**

This legislation would:

- Close the non-bank bank loophole by adding to the definition of a bank those institutions with FDIC insurance or eligible for FDIC insurance. It would provide an exception for thrifts and trust companies and include a grandfather clause as of June 23, 1983.

Unlike the Garn bill, it does not provide for consumer banks nor does it restrict the current definition of commercial loans.

- Provide for streamlined BHC formation like the Garn bill.

- Preclude state-chartered non-member banks from performing non-bank activities not on the Fed's laundry list unless they were done pursuant to a state statute prior to January 1, 1983, or were undertaken on an intra-state basis only pursuant to a state statute passed after that date.

- Bring state-chartered nonmember banks under the provisions of Glass-Steagall which separate banks and the securities business.

At the same time, allow bank holding companies to underwrite and deal in municipal revenue bonds through an affiliate separate from the bank.

- Allow BHCs to offer mutual funds to their customers. A securities affiliate could direct, operate or advise a closed end investment fund.

- Stop nonfinancial firms from buying savings and loan associations unless the S&L was operated independently from the parent, and retained a commitment to housing finance.

- Eliminate the "proper incident test" for the Fed laundry list, and streamline review procedures under the BHC Act, making it easier for BHCs to operate legal activities. Among other elements, the 30-day period required for waiting after a Board approved merger into or acquisition of a non-bank entity could be waived by the Board, with the approval of the Attorney General. □

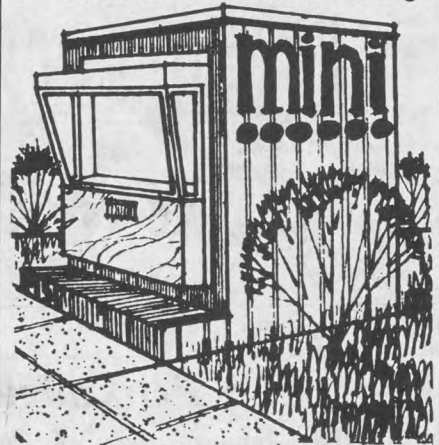
## Iowa News

The Commerce Committee of the Iowa Senate has recommended an omnibus bill, which among other things would authorize interstate banking on a reciprocal basis within a nine-state "midwestern" region.

At a meeting held on Thursday, February 23, the Committee voted 6 to 3 with one member absent, to recommend for passage a subcommittee-drafted proposal containing five objectives. They are:

- 1) Repeal of the state sinking fund, and require depositories of public funds to pledge securities or obtain a corporate surety bond to cover deposits that are in excess of federal deposit insurance coverage.

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- 2) Authorize savings and loan associations, savings banks, and credit unions to act as depositories for public funds.

- 3) Authorize any bank holding company located in Missouri, Kansas, Illinois, Wisconsin, Minnesota, South Dakota, North Dakota or Nebraska to acquire Iowa banks if the law of the state in which the holding company is located permits an Iowa bank holding company to acquire banks in that state.

- 4) Increase the holding company concentration limitations from the present maximums of 8% of bank deposits and 8% of savings and loan deposits, to 10% of bank deposits and 10% of savings and loan and savings bank deposits.

- 5) Authorize credit unions chartered in another state to do business in Iowa if the laws of that state permit Iowa-chartered credit unions to do business there.

The Iowa Bankers Association supports passage of the bill. The Iowa Independent Bankers oppose



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any form of interstate banking.

Floor debate on this bill is expected Tuesday or Wednesday of this week.

**OAKLAND:** Raymond L. Graalfs has been appointed president of Citizens State Bank. He succeeds Roy E. Paradise, who has become president of Citizens Bank of Ava, Mo. Mr. Graalfs has spent his entire banking career with State Bank & Trust of Council Bluffs, starting in 1956.

### Nebraska News

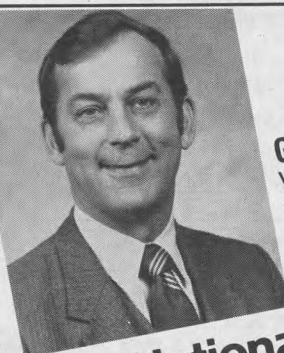
**ALLIANCE:** Robert E. Knight, president of Alliance National Bank and Trust Company was recently named chairman, succeeding his father, the late Edward H. Knight. Mr. Knight returned to Alliance in 1979 to become president, after an 11-year career with the Federal Reserve Bank of Kansas City.

**MILLARD:** Preliminary approval has been given by the Comptroller of the Currency to a group of Omaha investors to open a new national bank in Millard. The proposed bank, First Continental National Bank, will be located at 138th St. and S. Plaza. Cheron Beran, former president of the Ashland State Bank, will serve as president of the new bank, which is expected to open this spring or summer. Harold Cooperman, owner of the No Frills Supermarkets and a real estate developer from Omaha, will serve as chairman. The bank will employ seven people and start with \$2 million in capital.

### Minnesota News

**MINNEAPOLIS:** Lawrence Anderson has been appointed president and chief executive officer of Marquette National Bank. Mr. Anderson joined the bank as executive vice president in 1979, following a number of years with Marquette National Bank of Minneapolis and Bank Shares, Inc.

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### Illinois News

**CHICAGO:** Roger E. Anderson, chairman and chief executive officer of Continental Illinois Corp., will take early retirement. Mr. Anderson, 62, has headed the company since 1973. David G. Taylor, vice chairman, was named to succeed Mr. Anderson. Edward S. Bottum, executive vice president, was named president, succeeding John H. Perkins, who had previously announced his retirement at the annual meeting. Mr. Taylor joined the company in 1957 and Mr. Bottum in 1959.

### Wisconsin News

The Wisconsin Bankers Association announced recently that it will conduct a study of interstate banking issues from "a Wisconsin perspective."

The WBA action followed a legislative committee vote that in effect killed an interstate banking bill for the current session of the Legislature and a statement from Assembly Speaker Thomas Loftus, D-Sun Prairie, that he might ask for a Legislative Council study on the issue.

William J. Morrissey, president of the WBA and the Independence Bank of Elkhorn, said the WBA task force would include representation from "all areas, philosophies and structures among banking in Wisconsin."

### Montana News

**KALISPELL:** Robert T. Gerhardt has been elected chairman and chief executive officer of First Interstate Bank of Kalispell. He succeeds Harry E. Lattin, who recently resigned. Mr. Gerhardt spent nearly 20 years at First Interstate Bank of Oregon, most recently as senior vice president in charge of 29 branches in the northwest part of the state.

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**NWM-2 VP**—Currently VP in \$40MM bank in charge of \$24 MM in loans, \$18 MM are ag loans. Supervises 5 loan officers...hires, fires, etc. Reference says, "Congenial, honest and hard working, good to work for...aggressive, a good public relations man who makes good loans." Married. Age: 46. Lives SD. \$35,000. Call Jean.

**NWM-3 AG LENDER**—Four yrs. with small (\$7MM) ag bank as ag & consumer lender. Responsible for insurance agency along with other facets of banking. Life/Accident & Health ins. licenses. AA Ag Banking. Married. Age: 24. Lives IA. \$25,000. Call Linda.

**NWM-4 AG LOAN OFFICER**—4 yrs. with farm credit system. Responsible for all phases of loans from application, appraisal to closing. Makes an excellent personal impression. M.S. Ag Econ. Married. Age: 28. Lives MN. \$25,000. Call Linda.

**NWM-5 AG LENDING TRAINEE**—Now selling life insurance, ISU Marketing degree, farm raised. Single. Age: 23. Lives IA. \$12-15,000. Call Linda.

**NWM-6 AG LENDER**—Reference says, "Good at ag credit analysis...excellent employee...good with people...very adaptable." Nine years banking exp. with 7½ yrs. as a loan officer with strong emphasis in ag and heavy exposure to work out situations. Degree. Single. Age: 34. Lives ND...Likes Western States. \$28-29,000. Call Linda.

**NWM-7 CEO's**—Several very good presidents of banks ranging in size from \$15 to \$36 Million. Extreme confidentiality required. Call Linda or Jean.



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