

# NORTHWESTERN Banker Newsletter

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August 13, 1984

## "Behind Every Cloud . . ."—Real Facts

By **BEN HALLER, JR.**  
Publisher

IT IS certainly difficult to look for any positive sign when considering a problem of the magnitude posed by the FDIC's recent rescue plan for the Continental Bank of Chicago. There is no question that FDIC Chairman William Isaac handled that pending insolvency differently than his staff had been handling a number of smaller bank insolvencies when depositors in excess of \$100,000 were put at risk with other general creditors.

Because of the magnitude of the effect a Continental failure could have had on hundreds of other banks, and the economies of all their communities, as well as foreign nations whose deposits were involved, Chairman Isaac exercised an alternative that practically all bankers, wholeheartedly or grudgingly, have conceded was necessary.

However, one major point seems to have been overlooked in all the trauma and gloom and doom talk connected with the Continental Bank situation: For exactly 50 years the nation's commercial banks have paid insurance premiums into the FDIC fund to make sure the deposits up to limits set by Congress are protected for bank depositors. The system has worked, *without fail*, for that entire half-century!

The fact that some banks and depositors were helped more extensively than others is a separate discussion.

The *main* fact is that the FDIC concept *has* worked. Consequently, the nation's commercial banking system has a massive example in Continental to show the public that the commercial banking system does, in fact, protect depositors.

Another *fact* is that one of the major problems facing banks today is the competition from non-bank entities with their incursions into the various services offered traditionally by commercial banks. An additional *fact* about them is that their depositors or customers are *not* FDIC insured!

From behind the dark cloud of the Continental rescue plan isn't there a silver lining displaying a message? To me it says, "American banks, you have something *really solid* to offer your depositors! You can offer them what people have sought for ages—security of their earnings, their savings, their investments." The message is clear and simple.

At a time when they are being assaulted on all fronts by these non-bank competitors, banks have a supreme example and proof thrust within their grasp—emphasize in a massive and united campaign from banks of all sizes, through ABA and IBAA, or in unity, hopefully, that

there is a difference and that difference for the average American is *safety* of their funds!

Perhaps the FDIC should or could take part in such a campaign. It would be an ultimate beneficiary in increased premium collections if the deposits of banks would increase from those recognizing safety of funds.

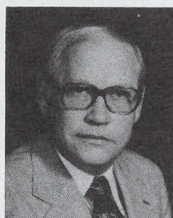
If nothing more, such a hard-hitting campaign by the banks would help Americans face up to the decision they're really making—do you want to accept "risk" of *all* your funds by dealing with a non-bank, or do you want guaranteed "safety" of the first \$100,000 of your funds in whatever type of deposit instrument you choose with your commercial, regulated bank?

For those of the non-banks who say, "You're dealing with old-line, solid, giant companies," one can point quickly to the unfortunate Continental to show that even the great ones can have problems—but at least it belonged to a banking system that was able to give it—and its depositors—new life!

This opportunity is an immediate one because the impact of FDIC's Chicago action is still prominent in the daily press. Perhaps from behind that dark cloud has come some ray of positive approach that the nation's bankers should seize immediately. □

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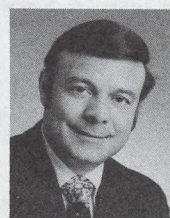
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## 2 FDIC Proposes New Reg on Minimum Capital Adequacy

The FDIC has issued for public comment a proposed regulation to be used in determining capital adequacy of insured nonmember commercial and savings bank. Deadline for submitting comments is September 18. It would apply to examinations as well as new applications. It would establish definitions and minimum requirements for primary and total capital. The basic points are:

1. Minimum acceptable level of total capital to assets is 6%, of which 5½ must be in primary capital.

2. Those banks below this level will be given a reasonable time to bring capital into compliance.

3. Higher capital levels will be mandated for banks that exhibit more than a moderate degree of on or off-balance sheet risk or other characteristics that indicate the need for maintenance of higher capital levels.

4. The FDIC may require more primary or total capital if conditions warrant.

Primary capital consists of common stock, capital surplus, undivided profits (less intangible assets), reserves for contingencies and other

capital reserves, net worth certificates issued to the FDIC, minority interests in consolidated subsidiaries, allowances for possible loan and lease losses, and certain mandatory convertible instruments limited to 20% of the other primary capital components.

\* \* \*

Another fact that will be impinging on FDIC and/or Congressional decisions in the near future is that foreign deposits in United States banks are not currently subject to FDIC premium charges. That makes no difference to the majority of the nation's banks, except that a major share of Continental Bank's deposits were from abroad; therefore, any potential adjustment in premium charges to the nation's banks makes them pick up the premium tab for those deposits which were not insured.

Of the 22 banks with more than \$10 billion in deposits, it is estimated by FDIC that they would have paid \$120 million additional yearly in premiums, or a total of \$400 million, if foreign deposits had been included. Yet, those foreign deposits are, in effect, being protected by FDIC.

It is estimated the highest amount, about \$28.5 million additional, would be paid by Citibank. It actually paid about \$13.8 million, while 74%, or \$47.7 billion of its total deposits, were foreign deposits. If it had paid FDIC premiums of about \$42.5 million on the entire deposit base, it is estimated Citibank's net income would have been reduced by 3%.

Similar reductions in net would have resulted at a dozen of the other leading banks, whose foreign deposits range from 38% to 64% of their total deposits.

### Iowa News

**HARTLEY:** Jack Cuttell has been appointed vice president of the Security State Bank. He previously was with Everly State Bank, Everly, for 12 years as a vice president.

**HORNICK:** State Savings Bank in Hornick has made application to the Iowa Banking Department to relocate its main office to Onawa and establish a bank office in Hornick. A hearing will be held August 15 to decide on the application.

**MANCHESTER:** Eric C. Anderson has been promoted to assistant vice president of the Farmers & Mer-

chants Savings Bank of Manchester. He joined the bank in June of 1981 and has been involved in the agricultural and commercial lending operations of the bank.

**OSKALOOSA:** John Pothoven, executive vice president of Mahaska State Bank has been named president. He succeeds Russell S. Howard, Jr., who will remain as chairman. In addition, Rex Blom has been advanced to executive vice president from senior vice president. Mr. Pothoven joined the bank in 1976 as vice president and loan officer. Mr. Blom has been with the bank since 1966 and has served the past five years as head of the loan department.

**RENWICK:** Two applications involving Renwick Savings Bank will be decided on at a hearing scheduled for August 15 by the Iowa Banking Department. The first is for Renwick Savings Bank to dissolve its corporate existence. The second is for Hawkeye Bank & Trust of Humboldt to purchase and assume the assets and liabilities of Renwick Savings Bank and establish an office in Renwick.

**STANWOOD:** July 30 marked the completion of a merger of the Clarence Savings Bank with the Union Trust and Savings Bank of Stanwood and Olin, forming Community State Bank. The merged bank, which will have facilities in Clarence, Stanwood and Olin, has total assets of \$50 million. Only one personnel change has occurred with the merger, according to Bob Bunn president, and that is the hiring of David Detwiler from Amboy, Ill., to serve as vice president and office manager at the Stanwood branch. Loren Mortvedt will remain in Olin as vice president and office manager and Tom Jepson, executive vice president, will manage the Clarence office.

**WHEATLAND:** Douglas A. Gibson has joined the staff of First Trust and Savings Bank as assistant vice president and office manager at the Dixon Branch. Mr. Gibson most recently was a loan officer at the Grand Mound branch office of First National Bank of Clinton.

### Nebraska News

The Nebraska Bankers Association is conferring with State Banking Director Roger Beverage about the assessments announced by the banking department for state char-



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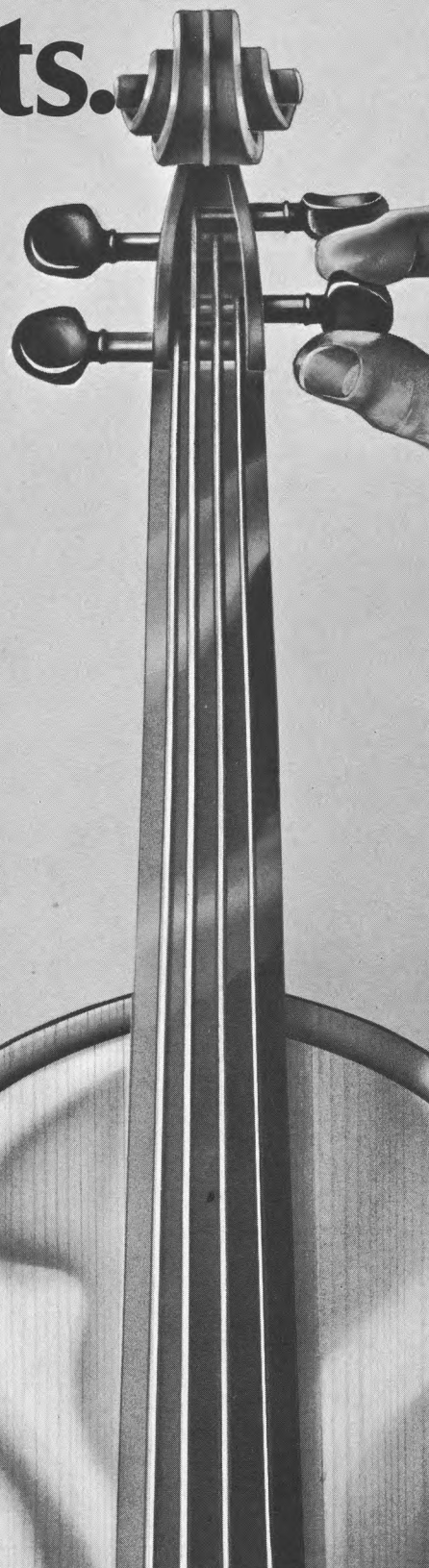
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The new schedule boosts the hourly charge by 25%, from \$24 to \$30 an hour, and the asset-based assessment by 300%, from 5¢ per \$1,000 to 15¢ per \$1,000.

**GRAND ISLAND:** Omaha National Bank recently completed the acquisition of Commercial National Bank & Trust Co. of Grand Island and its branches, effective August 3. This follows Omaha National's recent acquisition of Commercial Savings Co., both which were owned by Commercial Bankshares of Nebraska. The operations of Commercial National and Commercial Savings have been consolidated and reopened as full-service branch offices of Omaha National. Lawrence Comine, Jr., has been named to serve as senior officer in charge of the Grand Island operation, as well as being in charge of the recently acquired First Investment Co., Kearney, now operating as Omaha National Bank Kearney, a branch office.

**OMAHA:** John F. Kotouc has been elected president and chief executive officer of American National Bank. He succeeds Harold G. Haver, who resigned. Mr. Kotouc will continue with his present duties as president of three Kotouc family banks—Home State Bank & Trust Company, Humboldt, State Bank of Elk Creek, and The Dawson Bank.

### Minnesota News

**BLUE EARTH:** August A. Williams has been elected president of First Bank Blue Earth. He succeeds Peter L. Hollister, who has accepted a position with Security State Bank of Cannon Falls. Mr. Williams previously was senior vice president of agricultural lending at First Bank Rochester, where he had been associated since 1962.

**MINNEAPOLIS:** The Federal Reserve Bank of Minneapolis recently named Theodore E. Umhoefer, Jr. as vice president, responsible for the bank's personnel department. Mr. Umhoefer joined the bank in 1974 as a management science analyst.

**ST. PAUL:** The deposits and liabilities

of Guaranty State Bank have been assumed by Shelard National Bank, St. Louis Park. Guaranty State Bank was closed July 19 and reopened July 20 as a branch of Shelard National Bank. Shelard National has agreed to pay the FDIC a purchase premium of \$1,710,000 and purchase Guaranty State Bank's instalment loans and certain other assets. The FDIC will advance cash amounting to \$14.4 million to Shelard National and retain assets of the failed bank with a book value of approximately \$17.3 million.

### Illinois News

The Illinois Bankers Association, along with the Independent Community Banks in Illinois, Illinois Farm Bureau, Farmers Home Administration, Illinois Cooperative Extension Service and Farm Credit Banks will be co-sponsoring two Agricultural Lender conferences to be held Tuesday, August 21 at the Ramada Inn, Rock Falls, and Wednesday, August 29 at the Holiday Inn, Jacksonville.

Each of the two conferences will include a presentation by extension specialists and federal bank examiners. Attendees will also be challenged by sample case studies, which will involve credit analysis. The conferences will be held from 1-8 p.m. on each day.

**WHEELING:** Cole-Taylor Financial Group, Inc., based in Chicago, has signed a letter of agreement to acquire Wheeling Trust & Savings Bank. Under terms of the agreement, Wheeling Trust would be merged into Main Bank of Chicago and assume the Main Bank name, according to a joint statement by Chairman Sidney J. Taylor and Deputy Chairman Irwin H. Cole.

### Wisconsin News

**RICE LAKE:** Alan G. Cronk has been promoted from senior vice president to chief executive officer of the Dairy State Bank. As the bank's top executive officer, Mr. Cronk succeeds Harvey E. Lorfeld, who resigned as president in May. Mr. Cronk joined the bank in 1976 and was advanced to vice president in 1982.

### South Dakota News

**ALCESTER:** Willard J. Lenner has been appointed vice president and senior loan officer of the State Bank of Alcester. He previously served two years as the senior loan officer at First National Bank, Council Bluffs, Iowa, and 12 years as vice president of Bank West, N.A., Pierre.

**VERMILLION:** Ron Wright has been named vice president and manager of American State Bank in Vermillion. He replaces Jerry Paulsen who is returning to American State in Yankton. Mr. Wright joined the Vermillion bank from Oakland Savings Bank in Oakland, Iowa. He previously was with American State in Yankton for seven years before moving to Iowa.

### Wyoming News

**CASPER:** Neal T. Allred has been appointed vice president and manager of the real estate department at Wyoming National Bank. Mr. Allred previously was vice president and manager of the real estate department at First Interstate Bank in Kalispell, Mont.

**BIG PINEY:** Dale Smith has been named vice president and senior loan officer of First Wyoming Bank, N.A. - Big Piney. He started with First Wyoming Bancorporation in 1981 at the Kemmerer affiliate.

### Montana News

The Montana Bankers Association, in cooperation with the American Bankers Association, will present an Insurance and Risk Management Seminar September 13 at The Colonial Inn, Helena.

Instructor for the seminar is Stephen L. Marley, president of Marley & Associates, Inc., Coral Springs, Florida, and a nationally recognized bank insurance expert, security management educator, author and consultant.

The seminar will begin at 8:30 a.m. with registration and run until 4:30 p.m. Registration fee is \$150 for the first registrant and \$95 for each additional registrant from the same bank. For more information contact the Montana Bankers Association.

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