

NORTHWESTERN Banker Newsletter

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December 17, 1984

Why 'Grass Roots' Voices Needed

BANKERS have plenty to do today handling the growing technology and logistics of their own business, trying to develop new sources of business, and coping with problem loans, regulations and new competition.

However, the need also for local banker continuing "grass roots" input to their home area legislators is emphasized by this month's "Focus on Washington" prepared for the banking press by Phil Battey of ABA's Washington staff. Here is his analysis of proposed "lifeline" laws that would force banks to give away their services to selected groups (e.g., elderly) for reduced prices.

* * *

NOW — before the 99th Congress opens for business — every banker should give some hard thought to four facts of life that govern federal legislation and what these facts mean to banking in the very near future.

Fact Number One: specific legislation always has its origin in some broad idea.

Fact Number Two: there are two types of ideas, true and false.

Fact Number Three: false ideas have just as much of a chance of sparking legislation as do true ideas.

Fact Number Four: once legislation is enacted, Congress is loath to admit mistakes.

Today, a broad idea — the idea that banking is akin to public utilities — is coming into fashion among populist academics and lawmakers. If that fashion grows into an extraordinary popular delusion, Congress



could, under public pressure, force banks to give away or drastically underprice services, using the public utility concept as justification.

This reasoning, radical as it is, prompted the passage of so-called "lifeline" legislation in Massachusetts and is stimulating interest in similar legislation from New York to California.

What can bankers do?

Present the facts:

Historically, the nation has never been committed to the notion that banks are akin to public utilities. The claim was never made in Congressional debate over our federal banking laws. It was never made in regulatory actions taken by federal banking supervisors. No President ever said it.

Indeed, no one familiar with the legal concept of the public utility would ever make the claim.

It is true that banking provides services essential to the life of the community and of the nation. But providing such a service does not a public utility make. Banking services are one of the necessities of modern life, but so also are food and clothing. Yet the producers of these products are not subject to peacetime control of a public utility nature.

(Subsidies, of course, are another matter. It is the philosophical question of whether private organizations should be required to provide free or below cost services to a specified group of customers that is the issue here. Food stamps, which raise the purchasing power of recipients, or voluntary senior citizen discounts programs sponsored by supermarkets are qualitatively different from laws forcing them to cut prices for a group of shoppers.)

What justifies public utility regu-



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lation is not the necessity of the product. In law and in economic theory, the distinguishing characteristic of a public utility is that certain enterprises are based on a technology of production or transmission which almost inevitably leads to a monopoly of the market for their services. This characteristic is called a "natural monopoly." Natural monopolies do not arise from legal restriction or financial power.

The economists look at the concept in this way. In a natural monopoly, the diseconomies of direct competition are so great that competition probably will not long persist. Even if competition does persist, it wastes resources because it involves unnecessary duplication of, say, tracks or cables or electric power substations. Consequently, only a company enjoying a monopoly of the supply of service in a given area can operate at maximum efficiency. Under public utility regulation, that "natural monopoly" is formally recognized and granted protection in exchange for price regulation of services.

All this analysis is pretty dry stuff compared to populist polemics. The populists never ask, much less answer, the question, "Do banks

have a natural monopoly over the services they provide?"

Why? The answer is "no."

Anyone who has kept up with events in the financial services industry over the last decade would consider the question ludicrous. There are more than 15,000 banks in the country today. These banks compete with thrift institutions, brokerage houses, insurance companies and others in offering banking services to the public. Thousands of competitors use the same type of technology that banks use to provide these services. In recent years we have seen not a decrease in competition, but a dramatic increase.

Banks cannot be "akin" to public utilities — a "natural monopoly." Banks do not have a natural monopoly. Therefore, banks are not akin to public utilities, regardless of populist arguments.

The claim, however, makes for wonderful political rhetoric. If the public can be convinced that the nation has long been committed to that notion, the job of forcing banks under strict pricing regulation of services will be much easier.

Throughout the history of the United States, the critics of banking have charged that the industry must be regulated because bankers are too powerful, or too crucial to the economy, or too stupid, to be left to their own devices, although they never quite explained how a group of people in a democratic society can be powerful and crucial on one hand and stupid on the other. (Perhaps it is because consistency in political discourse is the hobgoblin of conservatives who chose to appeal to the intellect rather than the passions).

Never before have they charged that banking must be regulated to give Everyman the right to banking services.

If this idea were to really catch fire, perhaps a reorganization of the country's entire price system would

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be in order?

Perhaps the prices charged for all necessities should be based on the ability to pay?

If these questions seem outrageous to you, think back. Ten years ago, the idea of "lifeline" banking services would have seemed pretty outrageous, too! □

Iowa News

Iowa Independent Bankers is sponsoring a seminar for Bank CEOs on January 16 in Des Moines. The seminar will cover bank holding company provisions for expansion of products and profits, tax provisions and new uses, estate planning update for bank customers and owners, and specialized loan documentation.

AMES: Daniel L. Krieger has been named president of First National Bank effective the end of December. Currently executive vice president and trust officer, Mr. Krieger has been with the bank 25 years and also serves as vice president and a director of Ames National Corporation, the bank's holding company affiliate. He succeeds Robert W. Stafford, bank president since 1967 and chairman since 1978. Mr. Stafford will continue his association with the bank as chairman, and also serves as president and chairman of the holding company.

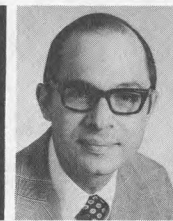
DES MOINES: The proposed merger of United Central Bancshares, Inc. into Hawkeye Bancorporation has been terminated by mutual consent of the boards of directors of both companies, according to a joint announcement made December 10 by Paul Dunlap, president and CEO of Hawkeye, and Kenneth M.

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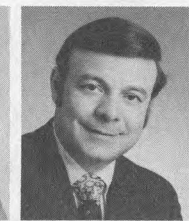
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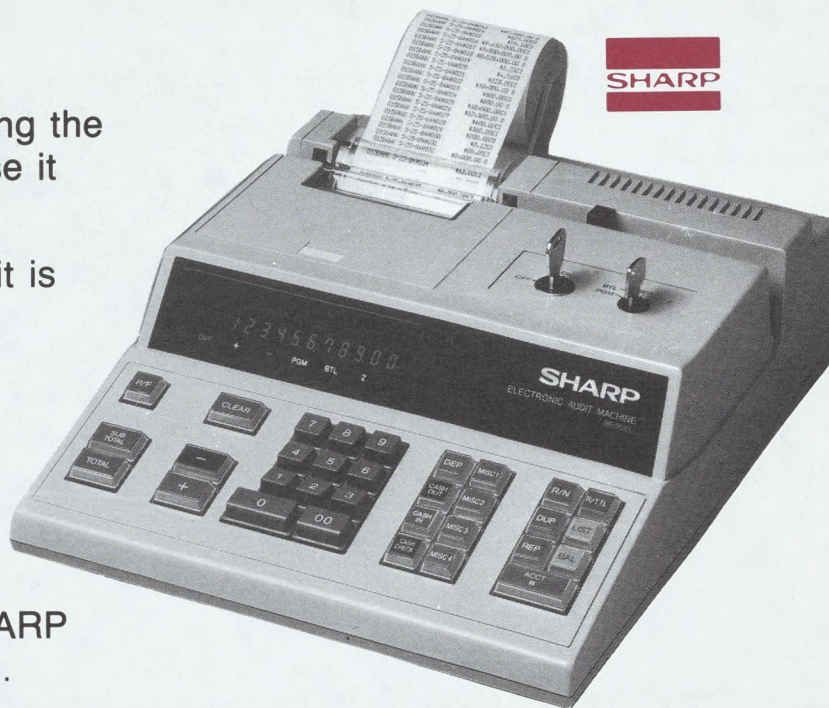
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Myers, chairman and CEO of UCB. The proposed merger was first announced on July 20, 1984.

Mr. Myers further announced that UCB will proceed with the First Interstate franchise, with July 1 as a proposed effective date.

MARSHALLTOWN: Services were held recently for Wilson "W.K." Ervin, 78, of Marshalltown, who died of cancer. Mr. Ervin served as president of Centerville National Bank from 1959 to 1969 and president of Marshalltown Commercial Savings Bank from 1969 until 1977, when he retired. Since that time he has served as a director for Hawkeye Bank Corp.

Minnesota News

ROCHESTER: Carla Kilpatrick, vice president of Norwest Bank here, has been named manager of

the bank's consumer lending department with responsibility for real estate and other personal installment loans. Ms. Kilpatrick joined the bank in 1982.

Illinois News

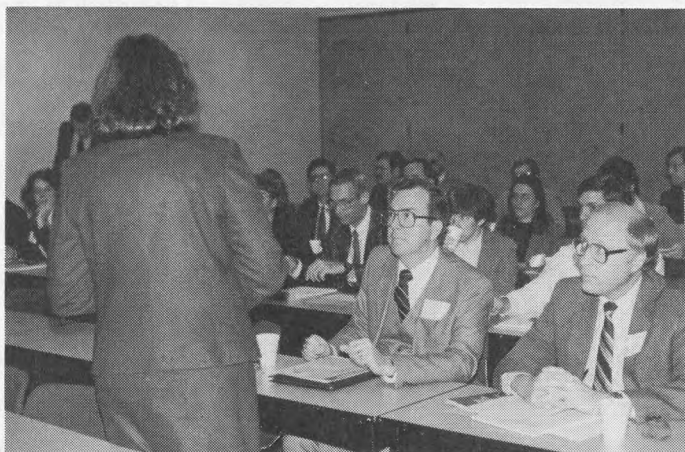
CHICAGO: First Colonial Bankshares Corporation has completed its acquisition of Michigan Avenue National Bank, located at 30 N. Michigan Avenue in Chicago. Michigan Avenue National Bank has assets of \$178 million.

BLOOMINGTON: James E. Welch, president, First National Bank in Champaign, has been elected president and CEO of the Corn Belt Bank, Bloomington. Mr. Welch will resign soon as First National president but will continue to serve on the bank's board. He will succeed Harry M. Petrie, who is retiring

from Corn Belt after 13 years as president. The change at Corn Belt will enable Mr. Welch to oversee the planned merger between Corn Belt and The National Bank of Bloomington, anticipated for early next year. At that time Mr. Welch will become chairman and CEO of the new merged bank and Harry Wilson, president and CEO of National Bank of Bloomington, will become president of the merged bank.

Wyoming News

CASPER: At First Interstate Bank, Kenneth W. Simms has been appointed vice president of the commercial loan department; and named assistant vice presidents were: Kelly A. Simms, real estate financing division; Kimberle A. Macy, consumer loan department, and Gloria L. Lane and Bob Fankhauser, commercial loans.



MATERIALS used during the ABA's Teleconference December 11 on "Financial Planning for the Middle Market" were reviewed in advance of the telecast by a moderator at each of the 26 local reception sites. At left, **Marva McCarty**, educ. mgr. for the Iowa Bankers Assn., moderated the Des Moines meeting attended by more than 30 bankers. Participants and visuals were broadcast from a Chicago studio and displayed at the local sites on large screens and TV monitors. At the outset, each of the local receiving areas was introduced. Photo at right shows the Minnesota Bankers Association being introduced on the screen. State banker associations which sponsored the teleconference, and the sites, included: Colorado (Denver), Illinois (Chicago, Decatur and Mt. Vernon), Iowa (Des Moines) and Minnesota (Bloomington). Also, the Kansas City AIB Chapter sponsored the teleconference in that city.

ABA Teleconference Tells Why

Financial Planning Is Hot Product

ONE of the fastest growing service and product areas in commercial banking today—Financial Planning—was the topic discussed December 11 in a one-day satellite conference broadcast to 26 locations in the United States by the American Bankers Association. Several hundred bankers were registered for the teleconference.

The five-member team of experts assembled in Chicago, where their presentations were transmitted via satellite to each of the remote areas. Telephone lines from each of the remote locations to the panelists at the Chicago studio afforded the opportunity for the audience to ask questions.

Each of the registrants was given

a packet of materials upon arrival at the local site December 11. That packet provided a 16-page program outline of six major points covered by the panelists. Also included was a 70-page compilation of charts used during the teleconference and supporting articles or other material provided by the panelists. Other materials included printed pieces provided by Chemical Bank and the ABA. The latter included the issue of *Competitech* devoted entirely to "Personal Financial Counseling."

POSITION AVAILABLE

SENIOR VICE PRESIDENT—The individual will supervise all loan departments. Requires Bachelor's degree plus minimum five years' lending experience. Salary commensurate with experience plus excellent benefits. Excellent career opportunity. Contact: **Steve Afdahl, President Hawkeye Bank and Trust, P.O. Box 4068, Spencer, Iowa, 51301. Member Hawkeye Bancorporation. Phone 712/282-1940.** (PA)

AG LENDER—Position available for individual with ag lending background in \$65 million bank in Grafton, ND. Applicant should have minimum of three to five years ag lending experience and strong business development skills. Send resume to: President, Norwest Bank Grafton, N.A., P.O. Box 580, Grafton, ND 58237. (PA)

AG LOAN OFFICER—with three to four years banking experience. Must be familiar with microcomputers, cash flow, and documentation. Please send resume and salary requirements to: Eugene Schulke, Cashier, Corn Belt State Bank, Box N, Correctionville, IA 51016. (PA)

SENIOR AG LOAN OFFICER — Salary to \$50,000. Opportunity for life-time employment. Send resume to Board of Directors, Bank of Elgin, 2nd and Pine, Elgin, Nebraska 68636. Phone: 402/843-2228. (PA)

AG LOAN OFFICER — Southeastern Minnesota. Immediate opening in \$100 million bank to work with experienced ag lender in servicing large portfolio. Ag degree required. Salary open. Applicant should have 1 - 3 years ag lending experience. Send resume and salary requirements to: President, Norwest Bank Faribault, N.A., Faribault, Minnesota, 55021. (PA)

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