NORTHWESTERN Banker Newsletter

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RMA President Looks at Coming Year—

Urges 'Back to Basics' for 1986

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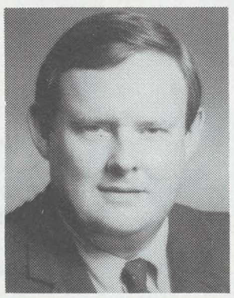
Background—
1985: A Year of Reassessment and Confidence Building

Several times this past year, the banking system's image of being fair, safe and sound was called into question. Neither the public nor Congress has forgotten the huge 1984 federal rescue of Continental Illinois. The widely-publicized collapse of private insurance systems for state-chartered thrifts in Ohio and Maryland created significant public relations problems for banks, particularly the state insured depository institutions. The banking industry and federal and state regulators acted quickly to allay public concern; however, such events could not help but erode public confidence in the banking system.



E.J. WILLIAMS

The Congressional Banking Committee chairmen continued to call for increased scrutiny of and financial disclosure by financial institutions. House Banking Committee Chairman Fernand St Germain reiterated often his financial service priorities of increased supervision, regulation and disclosure, and an end toward unchecked growth and expansion. Senator Jake Garn promised not to back any banking bill in 1985 unless it was a comprehensive piece of reform legislation. Nevertheless, the Supreme Court ruling in mid-1985, sanctioning regional banking compacts and the lack of a national banking consensus on a national "trigger date" for nationwide banking, destroyed any hope for passage of a 1985 banking bill.

Given the higher number of bank and thrift failures and the ongoing publicity regarding the dwindling resources of the FDIC and FSLIC insurance funds, 1985 regulatory efforts were directed toward assuring the safety and soundness of the federal and state deposit insurance funds and toward targeting poor quality assets before major portfolio problems surfaced. The Comptroller of the Currency's office put into effect in 1984 a policy of more specialized and more frequent examinations geared to areas of systemwide risk to banking or public policy concerns. Domestic loan quality assets began to overshadow Latin American debt problems as Third World debt negotiations proceeded, albeit at a slow and modest pace.

In response to increased capital guidelines, the bank managers continued to adjust their balance sheets through the issuance of various qualifying securities. In 1984, the top 50 bank holding companies increased their primary capital funds by 20.3%. More than 40% of this growth was attributable to the issuance of mandatory capital notes — subordinated notes that mandate conversion into common stock.

Due to a general downward move in interest rates, a more positive outlook toward third world debt reservicing, and prospective regional banking consolidations, the atmosphere for bank financing continued to improve in 1985, particularly in the equity and equity-related markets. Approximately $517 million in convertible debt and $453 million in straight equity was issued by 26 of the largest bank holding companies in the first six months of 1985, compared with $217 million in convertible debt and $500 million in straight equity for all of 1984.

In addition to issuing debt, banks continued throughout 1985 to bolster their loan loss reserves. A number of large bank holding companies increased their loan loss provisions in the first half of 1985 more than 100%. Banks will continue to add to reserves as loan quality — particularly in agriculture, energy, LDCs, and construction — deteriorates. Despite the heavy additions to loan loss reserves, bank earnings in 1985 were generally good due to robust trading profits and the selling of bank assets.

The past year has thus been a time of reassessment toward bank balance sheets, adequacy of capital, loan loss reserves, limits and restrictions on loans, and disclosure. All of the aforementioned steps taken toward improving the quality of bank earnings and loan portfolios will remain with us in 1986.

1986: Safety, Soundness, Quality — A Back to Basics Approach

In light of the continuing number of bank failures and mergers and acquisitions, broader assurances of safety and soundness with respect to loans and deposits will remain important requisites to maintaining public confidence and growth in the years ahead. The regulators will require safety assurances in the form of increased capital/risk guidelines, increased disclosure, and limits on the sale of loans. Only bank management can implement these guidelines and policies.

The increasingly complex commercial financing techniques will also require additional skills on the part of commercial lenders. The five Cs of credit will still predominate, but the makeup of cash flows, income statements, and balance sheets will be different. Lenders will have to become more knowledgeable of the industries they lend to, especially the newer, faster-growing service industries.

Increased geographic expansion will continue to take place; already 27 states have passed some form of reciprocal interstate banking compacts. The absence of a banking bill in 1985 to close the nonbank bank loophole merely accelerates the trend toward geographic and product expansion, subject in some instances to Federal Reserve definitions of a bank and acceptable bank holding company activities.

From an economic perspective, real economic growth continued in 1985, albeit at a slower pace, extending the current recovery to its fourth consecutive year. Progress on inflation, unemployment, and productivity has surpassed nearly all economic forecasts. Inflation at the producer price level rests comfortably at a year-over-year rate of .2% (end of September 1985) and consumer prices, which bottomed out in July 1982 at 2.4%, still measure only 3.2% for the 12 months ended September 1985. Additionally, the rapid increases in the money supply through most of 1985 would seem to ensure that the economy will rebound to a 3.0-3.5% annual rate of growth in the latter half of 1985 and that a recession will be averted in 1986.

Monetary policy cannot afford to be too loose in the months ahead, lest the higher inflation argument prevail. Clearly, the Group of Five Nations, which met in New York in September 1985 and agreed to bring the dollar back to more reasonable levels vis-a-vis other world currencies, particularly the yen and the Deutsche mark, placed some pressure upon the Federal Reserve not to tighten monetary policy in the United States.

The U.S. economy appears to be responding, as expected, to the Federal Reserve's 1985 monetary stimulus. Total employment and sales picked up significantly in the latter half of 1985. Few economists are predicting a recession in 1986 and one can only guess what will happen beyond 1986.

For commercial lenders, 1986 will provide another year of opportunity for carefully managed growth, and additional time to adjust to changing regulatory guidelines and policy initiative aimed at preserving the safety, soundness, and quality of banking in the United States. □

■ **THE AUTHOR**—Mr. Williams has been with Brown Brothers Harriman & Co. since 1957. He has held various credit and lending positions with the bank, including senior credit officer from 1972 to 1980. In 1981, Mr. Williams was named Brown Brothers' treasurer, with responsibility for tax policy and strategic planning. He is involved also in various phases of asset/liability management and serves as the bank's legal and government liaison. He has been an active member of Brown Brothers' credit committee for more than 15 years and was elected president of Robert Morris Associates last fall.

14-State Ag Meeting Looks at Ag Legislation

Banking leaders and association executives from 14 midwestern states met December 15 in Kansas City with ABA and IBAA leaders to look again at possible legislation aimed at doing something about the deteriorating midwest ag situation. There were 53 in attendance at the meeting co-chaired by ABA President-Elect Mark Olson, president, Security State Bank, Fergus Falls, Minn., and Alan Tubbs, immediate past chairman ABA Ag Committee and president, First Central State Bank, DeWitt.

No consensus was reached at the time, but ABA said it would work through a special Task Force to work out specifics of any legislative proposals that were developed.

Topics discussed included possible authorization for taking loan losses over an extended period of time to alleviate immediate capital pressure, warehousing of loans to hold land off the market in a "holding tank," creation of a secondary market, or perhaps a bond market to securitize loans. It is anticipated the group will meet again.

Iowa News

ALBIA: At Peoples National Bank and Trust Company, James E. Oberts has been appointed president. He has over 20 years banking experience in all loan and operations areas and has served as president of the First National Bank of Lawrenceville, Ill. and the Weldon Springs Bank in St. Charles, Mo. James E. King, formerly president and chairman of the board, will continue as chairman. Some minor operational changes are expected, but there will be no major personnel changes at the bank in the foreseeable future, according to Mr. Oberts.

DUBUQUE: The First National Bank of Dubuque has announced that a plan of ownership restructure as authorized by its stockholders on Oct. 30, 1985, was completed on Dec. 16, 1985. First Dubuque Corp. is now the parent company of First National Bank and the former stockholders of First National Bank are now the stockholders of First Dubuque Corp. The same management will serve First Dubuque Corp. that serves First National Bank. No change in management will result from the completion of this transaction.

WATERLOO: Effective Dec. 23, 1985, the LaPorte City State Bank will be merged with and become an office of Peoples Bank and Trust Company of Waterloo. Both of the banks are currently owned by Peoples Bankshares, Ltd.

Nebraska News

As noted in last week's *Newsletter*, three Nebraska banks owned by Robert Wekesser were closed December 19 by the Nebraska banking department. At press time, word had not yet been received if bids had been received by the FDIC for purchase of the banks. Subsequently, it was reported that two of the banks were sold and one was to be liquidated.

Farmers State Bank of Sargent, with deposits of $11.6 million, was taken over by the First National Bank of Ord and was reopened as a branch to be called Farmers Bank of Sargent. The Bank of Panama, with assets of $4.7 million, was acquired by Farmers State Bank of Douglas and now is operated as Farmers State Bank—Panama branch. No bids were received for Farmers and Merchants Bank of Comstock and the FDIC proceeded with the payout of the bank's $3.7 million deposits.

* * *

The Nebraska Bankers Association is sponsoring its 1986 Lending Conference on Jan. 22-23 at the Kearney Holiday Inn. The conference is entitled "Main Street Nebraska: A Lending Challenge." Registration begins at 8:30 a.m. on Jan. 22 with continental breakfast. Programs run from 9:00 to noon with lunch from noon to 1:00 p.m. Adjournment is at 4:00, and there will be a reception from 4:30 to 5:30. The schedule is the same on Jan. 23 except that adjournment is at 5:00. Preregistration is $120, with registration at the door $140; this fee includes materials, breakfasts and lunches. To register, contact the NBA office in Lincoln.

Minnesota News

MINNEAPOLIS: At Norwest Bank Minneapolis, four have been appointed vice presidents. Kent Bergemann was named vice president, capital lending, special loan division. He is a commercial banking representative and had been assistant vice president. Ronald Randall and Gregory Weir were named vice presidents of the Norwest Corporate Finance division of Norwest Capital Markets, Inc. Both men previously served as corporate finance representatives. Virginia Terry recently joined the bank as manager of stock transfer administration. Prior to that, she was senior vice president of stock transfer services at First Trust Company of St. Paul.

MINNEAPOLIS: Jon D. Sorenson has joined First Bank System, Inc. as vice president and assistant controller. He most recently served as vice president and treasurer of First Federal Savings and Loan in Eau Claire, Wis.

MINNEAPOLIS: The American Institute of Banking will hold four seminars in January. All will be conducted at the AIB Education Center in Minneapolis. Dates and topics follow: Jan. 16—AIB Customer Relations with a Motivational Focus Seminar; Jan. 21—The Legal Aspects of Supervision; Jan. 23—AIB Professionalism for Office Staff Seminar; Jan. 29—AIB Interpersonal Skills Seminar.

Wisconsin News

MENOMONEE FALLS: At F&M Financial Services Corporation, Gordon C. Mueller and Lawrence K. Elton have been promoted to executive vice presidents. They will head newly created divisions in the corporation. Mr. Elton's divisions will include the holding company's banking and non-banking subsidiaries. Mr. Mueller's division will be shared corporate services. Mr. Elton will remain in his current position as executive vice president and COO of F&M Bank in Menomonee Falls. Mr. Mueller formerly served as vice president and chief financial officer of F&M Financial Services, a member of the corporations board of directors and senior vice president of F&M Bank, Menomonee Falls.

South Dakota News

The South Dakota Bankers Association is sponsoring its annual legislative dinner on Jan. 30 at Kings Inn Convention Center in Pierre. The reception is at 6:00 p.m. and the dinner at 7:00. The dinner honors the South Dakota Legislature and Constitutional officers. To register, contact the SDBA office in Pierre by Jan. 25.

WANT ADS

Rates are $5.00 per line per insertion. Add $3.00 for file letters per insertion. Identity of file letter advertisers **cannot** be revealed.

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COMMERCIAL VICE PRESIDENT - Senior lender with MBA and over 13 years of commercial lending experience within a large bank. Exceptionally proficient in new business development. Has been running departments in major metropolitan areas over the last four years and is looking for a senior position that will lead to the executive level.

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$55MM Northeast Iowa Bank needs an experienced **EXECUTIVE VICE-PRESIDENT.** Send resume to WEA c/o Northwestern Banker. (PA)

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