NORTHWESTERN Banker Newsletter

Vol. 16 No. 13 Des Moines, Iowa July 13, 1987

FDIC Director C.C. Hope Issues Warning to Banks:

Be Alert to "Back Door" Attempts to Merge FDIC/FSLIC

Ed. Note: In his recent address to the Wyoming Bankers Association, FDIC Director C.C. Hope, Jr., commented on the FSLIC recapitalization bill that has been before the Senate-House conference committee. Mr. Hope, president of the American Bankers Association in 1979-80 and now retired vice chairman of First Union National Corp., Charlotte, N.C., reviewed the deep problems the FSLIC has currently with so many of its member s&ls, and stated it would more likely take $50 billion to bail out that industry than the $5 billion rescue proposed by Congress. He noted some healthy s&ls have applied for FDIC coverage and said if they meet FDIC entry standards, "we *must* accept them." He then offered the following comments and caution.

C.C. HOPE

* * *

THIS raises some serious concerns.

First, there is the condition of the FDIC's fund. At the end of the first quarter, the fund stood at $18.5 billion, a modest increase of $271 million from the year-end 1986 figure. Our view is that the fund is strong and quite capable of withstanding the pressures it faces from problems among FDIC-insured institutions. But, as healthy s&l's are accepted into the system they lower the ratio of the fund to insured deposits. As our chairman has pointed out, covering s&l's are "brides that bring no dowry." Thus, even though the healthier s&l's may in insurable risks, over the short term they further stretch the FDIC's reserves.

Second, there is a question as to how the FSLIC can be expected to borrow $5-$7.5 billion if the healthy s&l's are leaving the system. Would you lend them the money? If the FSLIC *can* raise the funds, its interest costs are likely to be exorbitant. This suggests that it will not be long before the issue is before Congress again, and no closer to any final resolution.

When Congress addresses the issue for the second time, it will be faced with two general alternatives. The first is a taxpayer bailout; the second is a merger of the funds. A taxpayer bailout raises obvious political problems. The *American Banker* published a survey several weeks ago. One of the questions asked was how the FSLIC should be bailed out. Thirty-nine percent of the public either was unaware of the problem or not sure of the solution; only three percent believed taxpayer dollars should be used to bail out the industry; 24 percent thought the industry ought to bail itself out, and 34 percent thought the FDIC ought to bail them out.

You know as well as I do that the FDIC does not have the responsibility or the resources to bail out the s&l industry. Nevertheless, we all know it may be a tempting solution from a politician's viewpoint.

What needs to be made clear to Congress is that a merger of the funds is not a solution to the s&l industry's financial problems. If the industry is incapable of raising the money on its own, the only solution, as unpalatable as it may seem, is an infusion of taxpayer dollars.

All of you should be aware that the "merger-of-the-funds" issue is

BE ALERT. . .
(Turn to page 5, please)

A brief resume of the decisions made by the Senate-House conference committee appears on page 4.

Iowa News

DES MOINES: Keith J. Gredys has been elected vice president and senior trust officer at Hawkeye Bank & Trust of Des Moines. He will manage the trust department of that bank and also the Newton trust department and several others within the Hawkeye Bancorporation system, as well as be a member of the bank's senior management group. Mr. Gredys most recently was vice president and trust officer for Jasper County Savings Bank in Newton.

Nebraska News

OMAHA: Robert Zaback has been promoted to senior vice president and manager of the financial institution group of Norwest Bank Nebraska, N.A. From 1964 to 1986 he held various positions at the Norwest Bank in Hastings. He then transferred to Omaha and became manager of the administrative services department. Mr. Zaback's new responsibilities include supervising nine staff members responsible for correspondent banking for Norwest Bank Omaha throughout Nebraska, Iowa and four other midwestern states.

WAUNETA: Bud Hefley has been promoted to vice president at Wauneta Falls Bank. He has been serving the bank as agricultural loan officer.

Minnesota News

The First Banks Rostrum '87 will be held on July 15 at the Minneapolis Marriott City Center Hotel. Guest speaker will be international economist Robert A. Mundell. The luncheon will be held from 11:30 to 1:30. For more information contact Debbie Musser at 370-4200.

LANESBORO: The FDIC has approved the assumption of the deposit liabilities of Lanesboro State Bank by The Goodhue County National Bank of Red Wing. The Lanesboro bank was closed on June 26 and reopened on June 29 as a branch of the Red Wing bank. Lanesboro State Bank had total assets of $11.0 million. The Goodhue County National Bank will assume about $10.7 million and has agreed to pay the FDIC a purchase premium of $38,000. It will also purchase certain of the failed bank's loans and other assets for $7.3 million. The FDIC will advance about $3.4 million to the assuming bank and will retain assets of the failed bank with a book value of about $3.7 million.

MINNEAPOLIS: First Bank System has announced several staff changes. P. Gregory Peterka has been elected president of First Bank Hopkins, Hopkins. He succeeds John E. Raymond, who has been elected chairman of the board of the bank and continues to head the sales finance division for the metropolitan First Banks. Mr. Peterka most recently served as president of First Bank Burnsville in Burnsville. His successor there is James E. Campbell, who most recently served as vice president and commercial banking manager at First Bank Hopkins.

MINNEAPOLIS: Resource Bank & Trust has announced the appointment of Kevin J. Dyrhaug to vice president of sales. Before joining the bank, he was a vice president and stockholder of Administrative Resources, Inc., a Minneapolis-based financial services firm.

Illinois News

CHICAGO: Roger W. Keiffer has been promoted to vice president of loan administration at W.N. Lane Interfinancial. He joined Lane in January after serving as senior vice president and senior lending officer at Pioneer Bank & Trust Company.

ELK GROVE: James P. Trunck has been promoted to president of Avenue Bank of Elk Grove. He previously served as vice president of strategic planning at the bank's parent company, First Colonial Bankshares Corporation. He is presently a director of Northlake Bank and Avenue Bank of Elk Grove.

Conference Committee Retains Titles I and II

THE Senate-House Conference Committee concluded its banking bill discussions prior to the July 4 holiday by closing the non-bank bank loophole (Title I), retaining the Senate's Title II that places a moratorium on new banking services until March 1, 1988, providing an $8.5 billion rescue plan to the FSLIC, and adopting a funds availability schedule.

The conference results must go through the House since that body's original bill offered only a recapitalization of FSLIC ($5 billion) and did not take up any other banking legislation. The Senate also must approve the report.

Reaction to closing of the loophole, as expected, was mixed. Large banks and non-bank corporations who had taken advantage of the loophole didn't like the conference action and are expected to fight it in the House. Smaller banks applauded the loophole closing. Both ABA and IBAA lobbied for retention of Titles I and II.

Title I language as adopted by the Senate was basically approved by the conference committee. It prohibits formation of non-bank banks as of March 6, 1987, and grandfathers all those in existence up to that date. The existing non-bank banks may not cross-market products and services with affiliates differently than what is allowed to bank holding companies. They may not permit daylight overdrafts. However, the section limiting their growth to no more than 7% of their size per year does not take effect for one year, giving present non-bank banks a full year to pump up the sizes of their institutions.

Title II imposes a moratorium until March 1, 1988, on expansion for any new bank services. Banking lobbies were unable to incorporate securities services, or to eliminate any part of this moratorium, which permits banking competitors, meanwhile, to continue innovative services denied to banks. The only thing the conferees agreed upon was that the moratorium would *not* extend beyond March 1, 1988, and that action would be taken by comprehensive review of current banking laws to see what expanded powers, if any, should be allowed to banks.

The FSLIC recapitalization, which started at $15 billion in the Senate's earlier discussions, and at $5 billion in the House, was compromised at $8.5 billion over a two-year period.

Also included in the conferees' agreement was adoption of a plan that will allow banks to write off qualified loan losses over a period of seven years. The Senate version had specified 10 years. The bill defines an ag bank as one of $100 million or less in assets, with at least 25% of its portfolio in ag loans, and a percentage of ag loans no lower than it had at the beginning of 1986.

The funds availability title of the Senate-passed bill would take effect in three years. It mandates that customers have access to funds after one intervening business day for local checks and three intervening business days for non-local checks. There is a two and six intervening days schedule that will cut in after one year before the shorter schedule becomes effective in three years. Additional time can be requested on funds availability for remote areas. □

North Dakota News

NEW TOWN: Lakeside State Bank has announced these promotions: Zinie Peterson to executive vice president, Marlene Pennington to senior vice president and Lonny Hagen to vice president. They have been with the bank since 1968, 1963 and 1984, respectively.

South Dakota News

PRESHO: The South Dakota Division of Banking and Finance has issued a Certificate of Authority to operate a State Chartered Bank to Draper State Bank. The bank has moved its charter from Draper to Presho, and will continue to operate as a branch at the Draper location. The only change in ownership is the addition of Steve Hayes, son of bank president G.K. Hayes, as a stockholder.

Colorado News

On July 23, Colorado National Bank of Denver will offer a forum entitled "Bank Portfolios: Mutual

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Funds and Investment Alternatives." It will be held at the bank at 17th and Champa, with registration at 1:30 and the seminar from 2:00 to 4:00. A cocktail reception will follow. Register by July 17 with Hazel Peats at (303) 893-1862.

GLENDALE: The FDIC has approved the assumption of the deposit liabilities of South Denver National Bank, Glendale, by First National Bank of Southeast Denver, Denver. The Glendale bank, with assets of $54.4 million, was closed on June 25, and its two offices reopened on June 26 as offices of the First National Bank of Southeast Denver. The Denver bank will assume about $47.7 million and has agreed to pay the FDIC a purchase premium of $1,555,100. It also will purchase certain of the failed bank's loans and other assets for $32 million. The FDIC will advance abut $20.7 million to the assuming bank and will retain assets of the failed bank with a book value about $22.4 million.

Wisconsin News

MILWAUKEE: J.A. Puelicher, chairman and CEO, announced June 29 that Marshall & Ilsley Corporation had offered to acquire The Marine Corporation for $62.50 in cash and/ or M&I common stock. The transaction will be structured as a combination of equals. The proposal is subject to a due diligence investigation by M&I, the execution of a definitive agreement, and regulatory approvals. The companies are the second and third largest in the state, respectively.

MILWAUKEE: First Wisconsin Corporation has acquired its third Illinois bank holding company, North Shore Bancorp of Northbrook. It is holding company for the $38 million Bank of the North Shore.

BE ALERT. . .
(Continued from page 1)

not some way-down-the-road concern that does not require immediate attention. As events are proceeding, it is nearly inevitable that the question will be placed before Congress in the not-too-distant future. In fact, there has already been a merger proposal before Congress.

In April, an amendment to existing legislation in the House of Representatives would have permitted Federal savings banks to obtain FDIC insurance and remain under the supervision of the Federal Home Loan Bank Board. This means they would be able to follow the same provisions of the Federal Home Loan Bank Board with respect to *capital*, to *forbearance*, and to *examination*. Moreover, since Federal s&l's already can become Federal savings banks, the door would be wide open to those institutions that wished to obtain FDIC insurance. This would have been the worst of all worlds. The FDIC would be exposed to the risks of these institutions but would have no ability to control them. It is interesting to note that the FDIC has received inquiries from over 100 s&l's, including many of the largest in the country, regarding the possibility of obtaining FDIC insurance.

When the implications of the House amendment became clear, we were able to get it dropped. Nevertheless, it is indicative of the immediacy of the problem. You must remain alert to continued attempts to create a "back-door" merger. Such attempts are as likely to occur at the state level as at the federal level. Several states have attempted to move legislation similar to that which I just described.

The banking industry has a large stake in how the s&l industry's crisis is eventually resolved. ☐

Vol. 16 No. 13 Northwestern Banker Newsletter (USPS 873-300) is published weekly by the Northwestern Banker Company, 1535 Linden Street, Suite 201, Des Moines, Iowa 50309, (515) 244-8163. Subscriptions $1.00 per copy, $24.00 per year. Second class postage paid at Des Moines, Iowa. Address all mail subscriptions, changes of address (Form 3579), manuscripts to Northwestern Banker, 1535 Linden St., #201, Des Moines, Iowa 50309.