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Bank Earnings Rise by 4.56 Percent

THE BOOMING East Coast economy, coupled with improvements in the Midwest, spearheaded a 4.56 percent first-quarter earnings increase for U.S. banks over the same period last year. Yet the overall profit rise masked fundamental problems, particularly relating to Third World loans at major money-center banks, according to Sheshunoff & Co., a leading information and consulting firm for the banking industry.

Several agricultural states showed a turnaround in bank performance. Iowa, for example, had the quarter's largest earnings increase versus the first quarter of 1986, 108.13 percent, of any state, while Nebraska and Idaho had increases of 44.30 percent and 31.17 percent, respectively. It was noted that these profit increases reflect the extremely low earnings in those states during the corresponding period last year.

"The apparently strong earnings for the first quarter were actually not indicative of what to expect for the rest of the year because many banks were starting to experience increasing weakness with domestic commercial and real estate loans," said Alex Sheshunoff, president of Sheshunoff & Co.

"These problems, accompanied by major difficulties with loans to Third World countries, severely

cloud the profitability outlook for the banking industry in the second quarter and the rest of the year," said Mr. Sheshunoff, adding that many thousands of banks, nonetheless, will perform extremely well for 1987.

Total earnings before extraordinarily items for the first quarter were \$5.19 billion for all 14,009 federally insured banks, compared with \$4.96 billion for the same period last year.

One of the industry's key future indicators, non-performing loans, which rose by more than 10 percent in 1986, jumped 36.5 percent during the first quarter, from \$48.2 billion as of Dec. 31, 1986 to \$65.8 billion at the end of March. Of the \$17.6 billion increase in non-performing loans, \$14.4 billion — or 81.7 percent — was concentrated in the nation's 25 largest banks.

Consumer loans currently are performing significantly better than real estate and commercial loans. Of total non-performing loans, consumer loans comprised just 5.7 percent, while real estate loans came to 22.5 percent and commercial and other loans totaled 71.8 percent.

"It's the commercial and the real estate loans that are causing the problems, not the consumer loans," Mr. Sheshunoff said. "However, overexpansion in credit card and home equity lending—particularly

where it is based on soaring residential real estate values—are the sort of excesses that will come back to haunt borrowers and lenders in the future."

The growing magnitude of non-performing loans underscores the more threatening problem of the enormous U.S. government, corporate and individual debt, which totals roughly \$7 trillion, said Mr. Sheshunoff.

"The growth of the U.S. economy has been fed and sustained by debt," he said, "and servicing it in the future will inevitably put increasing pressure on individuals and corporations — in the form of both higher taxes and burdensome debt repayment."

Reserves for loan losses have increased steadily from \$13.2 billion in 1982 to \$28.5 billion for 1986, with the figure rising to \$29.3 billion for the first quarter of 1987. This increase does not reflect the major loan loss reserve additions by the major money-center banks in the second quarter to address their problem Third World loans.

"We definitely sense the beginning of a broad-based retrenchment in the willingness to borrow by individuals and corporations," said Mr. Sheshunoff, noting that total loans declined 1.1 percent from the previous quarter. "This reflects both increasing doubts about the fundamental strength of the economy and a widespread feeling that our debt



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problems must be faced sooner or later. The larger implication here is that simply lowering interest rates in the future may not act as a stimulant for increased economic activity. It may merely result in refinancing of debt by individuals and corporations — not increased borrowing and spending.”

Bank failures for the first two quarters of 1987 have come to 95, plus five more banks who received federal assistance to avert failure. This is well ahead of last year's pace, which totaled 66 as of June 30, 1986 and 145 for all of last year. □

Iowa News

Thomas M. Awtry has resigned as chairman of Group 12 in northwest Iowa to devote more time to his duties as president of Valley State Bank in Rock Valley. Moving up to complete Mr. Awtry's term as group chairman is James L. Cuttell, president, George State Bank, who is currently group secretary and was slated to become chairman at the 1988 spring meeting. A new secretary will be elected by Group 12 bankers.

DES MOINES: Lou Anderson has joined West Bank as a first vice president in the lending area. He has spent the last four years as a vice president with an Ottumwa bank. Prior to that he was a vice president with Bankers Trust Co. of Des Moines.

SPIRIT LAKE: L.A. Schultz, 35, vice president and chief loan officer of The State Bank in Spirit Lake, was killed in a boating accident on West Lake Okoboji on July 15. He was son-in-law of Bank President and CEO Chuck W. Wetzeler.

WATERLOO: The Waterloo Savings Bank has announced the appointments of E. James O'Connor as the bank president and new member of the board, and Frederick Koch as president of the Metro Bancorporation. Mr. O'Connor joined the bank in 1950 and most recently was executive vice president. Mr. Koch joined Waterloo Savings Bank in 1957. He will continue to serve as the bank's senior vice president and trust officer.

Nebraska News

OMAHA: Four have been named vice presidents at FirstTier Bank Omaha. Ronald H. Bielenberg joined the bank in February and is the city executive for the Kearney facility. Nancy K. Johnson has been with the bank since 1973 and is a personal trust administrator III in the estate and trust division. Mark J. Matthes is division manager of the newly created operations division. Last month he transferred from FirstTier Bank Lincoln, where he was vice president and operations manager. John S. Morris was also promoted to vice president. He

transferred in 1986 from FirstTier Management Consultants where he was a senior field consultant.

Minnesota News

The Minnesota Bankers Association has announced its 1987 District Meetings. The meetings will feature a special afternoon program followed by a reception, dinner, and evening speaker, except District 3, 4 and 5 which will feature a reception only. Dates and locations are: 1—Sept. 8—Kahler Hotel, Rochester; 2—Sept. 9—Orchid Inn, Sleepy Eye; 7—Sept. 10—Kandi Entertainment Center, Willmar; 3, 4, 5—Sept. 14—Sheraton Inn Northwest, Brooklyn Park; 8—Sept. 22—Regency Inn & Conference Center, Hibbing; 9—Sept. 23—Best Western, Thief River Falls; 6—Sept. 24—Holiday Inn, Brainerd.

BLOOMINGTON: Joseph M. Welle has been named vice president of MetroBank Bloomington. He previously held several positions with the First Banks, most recently as a commercial loan officer at First Bank Security. He had been with First Banks since 1977.

MINNEAPOLIS: John L. Matyi has been appointed senior vice president of the loan administration department at Norwest Business Credit, Inc. He replaces Lee Mork who recently retired after 13 years with the company. Mr. Matyi previously served for eight years at Norwest Bank Minneapolis.

ST. PAUL: Colleen C. Lamey has been elected vice president/senior operations officer at St. Anthony Park State Bank. She most recently was accounting supervisor at American National Bank of St. Paul.

Illinois News

CHICAGO: William S. Ogden, chairman and CEO of Continental Illinois Corporation and a director of its subsidiary, Continental Illinois



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National Bank and Trust Company, will resign those positions on Aug.

- 13. He will also resign as a director of Continental Illinois Corporation and as president and a director of Continental Illinois Holding Corporation. No replacement has been named.
- Mr. Ogden's responsibilities will be assumed by John E. Swearingen, Continental Illinois Corporation chairman and CEO. Mr. Swearingen will remain in his present posts with
- Continental Illinois until a new management team is selected. Mr. Ogden was asked by U.S. banking regulators to join Continental in 1984. Prior to that, he served for 31
- years at The Chase Manhattan Corporation.

Wisconsin News

- MILWAUKEE: Two months after assuming the position of executive vice president at University National Bank, Mark Zalewski has been promoted to president. He replaces Phillip Hudson, who has retired. Mr.
- Zalewski has been in banking administration 15 years and previously served as the president of two banks in Madison.

North Dakota News

- FARGO: Harlee Olafson has been promoted to vice president/business banking at Norwest Bank Fargo. He previously served as assistant vice

president. Mr. Olafson joined Norwest in 1979 at Norwest Bank Valley City. He transferred to the Fargo bank in 1984.

South Dakota News

The South Dakota Bankers Association 1987 Group Meetings will be held during September. Registration begins at 1:00 p.m. at each meeting. The program, which begins at 1:30, will feature a workshop by consultant Art Pulis entitled "Negotiations." There will be a reception at 6:00 and a dinner at 7:00. Dates and locations are: Group V—Sept. 14—Howard Johnson's, Rapid City; Group IV—Sept. 15—Wrangler Motor Inn, Mobridge; Group II—Sept. 16—Guest House, Watertown; Group III—Sept. 17—Holiday Inn, Mitchell; Group I—Sept. 18—Airport Holiday Inn, Sioux Falls. Fee is \$50 for the workshop and \$22 for the dinner.

Wyoming News

CASPER: Affiliated Bank Corporation of Wyoming has announced several staff changes. At Norwest Bank Gillette, Richard M. Schell has been appointed vice president—loans. He was most recently with Norwest Bank Casper in commercial loans. At Norwest Bank Kemmerer, Conrad G. Flohr has been elected presi-

dent. He previously was senior vice president and cashier at Norwest Bank Gillette. Norwest Bank Casper has recently had O.K. Walkingstick join the staff as vice president—retail banking. He has experience at banks in Texas and Minnesota.

Colorado News

ARVADA: Linda Brinson has been elected a vice president of Colorado National Bank—Arvada. She started with the bank in 1978 and has held various positions. She is responsible for accounting, customer assistance, bookkeeping, switchboard and proof departments.

LAKEWOOD: Stephen J. "Ched" Miller has been elected a vice president of Colorado National Bank—Lakewood. He joined the bank in 1974 as an assistant vice president and is currently responsible for commercial lending.

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