

NORTHWESTERN Banker Newsletter

Vol. 16 No. 38

Des Moines, Iowa

January, 4, 1988

MA President Cautions:

Loans Need Close Attention in '88

By WM. H. SAYRE, President
Robert Morris Associates
Executive Vice President
Fidelcor, Inc. and Fidelity Bank
Philadelphia, Pa.

THE significant drop in the stock market since August will cause business and consumers to pause and reflect on how recent events will affect them, their jobs, and the economic environment in general. This pause will weaken economic activity in the U.S. and abroad but should not be sufficient to cause a recession. This will affect the banking environment particularly the priorities of commercial lenders.

The economy is expected to expand at a 2% real growth rate in the fourth quarter of 1987 and then slow to approximately 1% growth in the first half of 1988. Following this, the economy is expected to regain strength and resume a 2.5% to 3% growth rate in the second half of the year. However, the probability of a recession in 1989 has risen as a re-

sult of the stock market crash and the reduced flexibility provided to the Federal Reserve.

Although the consumer and manufacturing markets in our country are so diverse and regionalized, our economy is now a subpart of a global economy. Moreover, financial markets have become international in scope. We now are paying the consequences of poor economic policies and "spend now, pay later" economic behavior on the part of consumers and the federal government. We finance government deficit spending through foreign creditors, our reliance on foreign imports, and the enormous trade and current account deficit. In addition, excess dollars are inadequately low saving rate (coupled with high saving rates overseas), and the creation in the private sector of significantly more debt have pushed us into an economic structure in which our ability to control our own destiny is diminished.

The players in credit markets have dramatically changed over the years and substantially expanded the source of loanable funds available to our customers. This means heightened competition for commercial bank lenders. Sources of credit that impinge on traditional commercial banking markets include commercial paper, Eurodollars, junk

bonds, nonbank companies, and foreign commercial banks. For example, commercial paper now provides more than \$80 billion to nonfinancial companies. So-called junk bonds provide about \$157 billion in additional credit. Foreign banks as direct competitors also make loan volume very difficult to obtain.

The growth of loans over the last 12 months varies significantly from region to region. For instance, commercial and industrial loan growth for large commercial banks in the Boston, Philadelphia, Richmond, Atlanta, and St. Louis Federal Reserve Districts for the 12 months ending September, 1987, grew in excess of 12% compared with the national average of 5.3%; for New York, Cleveland, and Chicago Fed Districts in excess of 4.5%, and for San Francisco 2%. The Minneapolis, Kansas City, and Dallas Fed Districts showed declines.

While these figures for certain regions look healthy, don't be mesmerized: The gains since January, 1987, are significantly less. The Philadelphia, Atlanta, Richmond, and St. Louis Fed Districts showed gains above 2%, with none above 8%. Boston's growth was relatively unchanged while the others had declines ranging up to 17% for Dallas. This resulted in a net decline for C&I loans at large banks nationally of 4.1% since January. For all banks, C&I loans increased 1%, showing that smaller banks did reflect



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growth — most likely due to their being the single source of supply.

It is interesting to note that real estate loans at large banks increased approximately 10%. I anticipate this real estate growth to moderate in 1988. To me, the recent pattern of less C&I loan demand, the belief that pension funds will shift from the stock market to debt issues, and the softening of our economic picture signifies a bleak loan demand picture in 1988. Stockholders expect earnings to grow. If loan demand is weak and spreads from increased competition are narrower, then gains will have to come from the reduction of expenses.

We as commercial lenders have a difficult challenge ahead. Our cul-

ture drives us to increase volume. However, before we decide to do that, we should stop, look, and listen and determine whether the judgments we make to maintain or gain volume are prudent. We should beware of lengthening terms, relaxing loan agreement standards, not insisting on collateral, or permitting our loan policy standards to slip. Let us not fall into the trap of issuing commitments to industries we don't know, or granting larger commitments than usual to single borrowers.

We should concentrate this year on reassessing the creditworthiness and resilience of existing and new customers to ensure that the portfolio does not deteriorate. □

Chicago Fed Schedules Expedited Funds Seminars

Seminars for financial institutions on Expedited Funds Availability proposals will be held at locations throughout the Federal Reserve Bank of Chicago's Seventh District during the month of January. Each four-hour seminar will address the key provisions of this critical Act, including schedules of funds availability, disclosure requirements, and the optional implications and responsibilities regarding the collection of checks.

Illinois: Contact Keith Motycka, 312/322-2195 or Diana Schwertfeger (2347). Two sessions each day—8:00 a.m. to noon and 1:00 p.m. to 5:00 p.m.
Jan. 4 & 5—Chicago A.I.B., Insurance Ex-

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change Bldg., 22nd Floor (two days).
Jan. 6—Northbrook, Allgauers Hotel
Jan. 7—Oak Brook, Stouffers Oak Brook
Jan. 8—Harvey, Holiday Inn
Jan. 11—Rockford, Best Western - Cloc Tower
Jan. 14—South Bend, Ind., Marriott
Jan. 15—Joliet, Holiday Inn
Jan. 19—Springfield, Holiday Inn/Holidome
Jan. 20—Rantoul, Holiday Inn
Jan. 21—Peoria, Ramada Hotel

Iowa: Contact Kim Johnson, 515/284-8800 X239. If two sessions daily, same hours as above. If one session, it is 1:00 p.m. to 5:00 p.m.

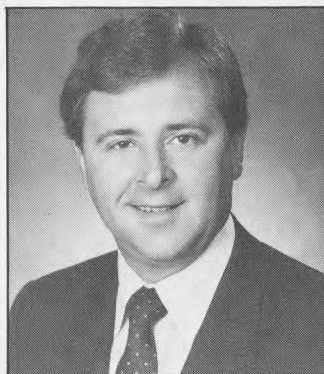
Jan. 6—Sioux City, Hilton Hotel
Jan. 7—Ft. Dodge, Best Western Starlite Village
Jan. 8—Des Moines, Hotel Savery (2 sessions)
Jan. 11—Cedar Rapids, Stouffer Five Seasons Hotel
Jan. 12—Davenport, Blackhawk Hotel (2 sessions)
Jan. 13—Dubuque, Best Western Midway Motor Lodge
Jan. 14—Waterloo, Holiday Inn Civic Center
Jan. 15—Clear Lake, Best Western Holiday Motor Lodge
Jan. 20—Ottumwa, Days Inn.

Wisconsin: Contact Holly Silva, 414/276-2323 X250. One session each city, 7:30 a.m. to noon.

Jan. 11—Green Bay, Embassy Suites
Jan. 12—Madison, Concourse & Governor's Club
Jan. 14—Stevens Point, Holidome
Jan. 15—Milwaukee, Hyatt Regency Milwaukee. □

Iowa News

WATERLOO: At Waterloo Savings Bank, assistant vice presidents



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MNB Correspondent Banker

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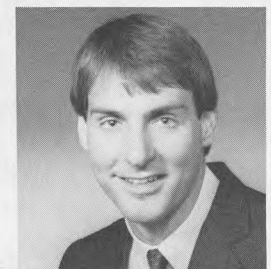
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David A. Fegley, Randall G. Ledger and James H. Jensen were promoted to vice presidents. They serve in real estate lending, ag lending, and Metro Realty and farm management respectively. Controller Rick A. Thuesen was also promoted to vice president.

Nebraska News

The Nebraska Independent Bankers Association will host its Legislative Dinner for members of the Nebraska legislature on Monday, January 11, at 6:30 p.m. in the Nebraska Club in downtown Lincoln. NIBA members from over the state have been invited to make reservations with the NIBA office in Lincoln to attend this important dinner. Speaker of the Legislature Bill Barret, Lexington, will make brief comments and introduce state senators and their spouses. NIBA President Jim Bohart, vice president and cashier of Harvard State Bank, will preside at the dinner.

* * *

The Nebraska Bankers Association will offer its 1988 Lending Conference, "The Key to Profitability," on January 20-21 at the Kearney Holiday Inn. Banking consultant Art Pulis will speak and there will be a number of breakout sessions. Banker/humorist Steve Farson will be dinner speaker and address the topic of stress. Schedule on the 20th begins with registration/continental breakfast at 8:30 and ends with dinner at 6:00. The session on the 21st is from 8:30 to noon. Fee is \$110 and the cost for guests to attend the dinner is \$20. Contact the NBA to register.

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Minnesota News

Thomas P. Schepers has been appointed vice president—education of the Minnesota Bankers Association. He previously served as training and development officer for First Bank System.

MINNEAPOLIS: Norwest Corporation will merge all 17 Norwest banks in the Twin Cities metro area into a single bank today, January 4. Also being merged are all Norwest banks and a trust company in North Dakota into one bank, and three banks in northwestern Minnesota into one bank. The Twin Cities Bank, called Norwest Bank Minnesota, N.A., will have total deposits of about \$5.5 billion, and a lending limit of \$95 million.

MINNEAPOLIS: At Resource Bank & Trust, Greyton I. Becker has been promoted to senior vice president. He previously served as vice president, corporate secretary for Resource Companies and Resource Bank & Trust. He joined the company in 1975.

ST. PAUL: Among recent promotions at American National Bank was the advancement of Ronald W.

Duffey to vice president—bonds & investments. He joined the bank as assistant vice president in that department in 1975 after over 30 years with First Bank St. Paul.

Wisconsin News

MILWAUKEE: First Wisconsin Corporation will acquire Rose Holding Co., a one-bank holding company in Roseville, Minn., following regulatory approval. This is the third bank acquisition agreement First Wisconsin reached in Minnesota in 1987. Terms call for First Wisconsin to pay \$19.2 million in First Wisconsin common stock for the \$127 million Roseville Bank in Roseville.

Wyoming News

SHOSHONI: The FDIC has approved the transfer of insured deposits and fully secured or preferred deposits of the First State Bank at Shoshoni to First State Bank of Thermopolis. The \$5.1 million asset Shoshoni bank was closed on December 18. No bids were received for the failed bank.



Bill Mullins
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COMMERCIAL LENDING - V.P. positions in urban and large suburban banks. Personal portfolios from \$20MM to \$50MM. \$40K

BRANCH MANAGER - handle small business and consumer credits. Med-size community affiliate of multibank holding company. \$24K

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