

## Two Fed Banks Examine New Powers

*Ed. Note: The Federal Reserve Banks of Minneapolis and Chicago issued separate studies last week on the potential impact on banks of being granted new powers by Congress. Their reports follow—first, the 9th Fed report from Minneapolis, followed by the 7th Fed report from Chicago:*

**B**ANK holding companies face an increased risk of failure if they are allowed to merge with securities and real estate firms, according to two economists at the Federal Reserve Bank of Minneapolis. Merging with life insurance firms, however, would have the opposite effect: reducing the likelihood of bank holding company (BHC) failures.

In an article just published in the Bank's *Quarterly Review*, John H. Boyd and Stanley L. Graham address two arguments made by BHC expansion proponents: that risk to BHCs would decline because expansion would diversify assets; and that increased profits would offset the adverse effects of risk. Except for mergers with life insurance firms, the report negates both views.

According to the report, "mergers between BHCs and securities firms are likely to increase profitability. However, they are not likely to result in the reduced risk of failure

that advocates of such mergers have predicted. If anything, such mergers are likely to increase BHC risk. That conclusion about risk is also true for BHC mergers with real estate development and property/casualty insurance firms."

The report also challenges the claim that banks need expanded powers to remain competitive. There is no evidence that BHCs have been consistently less profitable than other financial firms, except for securities firms, the study says.

In view of their findings, the economists warn policymakers to consider their conclusions: The findings on relative risk effects are, in themselves, potentially of great importance for public policy. Policymakers should be aware that the risk implications of BHC-securities firm mergers, for example, appear to be quite different than those of BHC-life insurance mergers. And they should be more concerned about the former than the latter.

\* \* \*

**B**ANK holding company expansion into most nonbank activities, if limited to a 10 percent investments, would not increase bank risk significantly, states an article published in the Federal Reserve Bank of Chicago's July/August issue of *Economic Perspectives*.

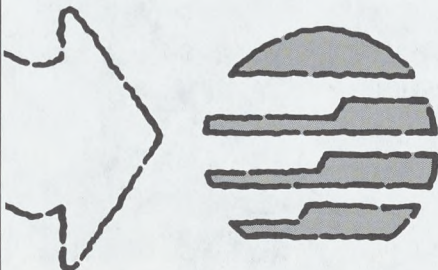
The study, authored by Chicago Fed economists Elijah Brewer III, Diana Fortier, and Christine Pavel, found that "a very small investment in a few nonbank activities—insurance agents and brokers and property and casualty and life insurance underwriting—would reduce risk."

The authors also determined that some currently permissible activities are actually riskier than impermissible ones.

"If the riskiness of permissible activities reflects the risk tolerance of regulators, then it can be argued that BHCs should be allowed to engage in all impermissible activities that are less risky than permissible ones," the economists state. Nonetheless, permitting new activities requires careful consideration, the researchers emphasize.

While a ten percent investment in most activities would not significantly increase risk, a ten percent investment in securities increases BHC risk significantly. However, "securities activities are not as highly correlated with banking as are several other less risky activities," the research team notes. The less correlation an activity has with banking, the better it serves diversification goals.

Evidence cited in the study does indeed suggest that "BHCs with above-average investments in nonbank activities will have below-average risk. Investment in non-



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bank activities reduces BHC risk overall," the Fed researchers comment.

Because the Fed currently has the ability to initiate cease-and-desist orders as well as other penalties if it feels an organization is operating in an unsafe and unsound manner, the mechanism for control is already in place.

"Further restrictions, such as limits on the relative size of nonbank investments, may also be needed before BHCs are allowed to engage in new activities," the authors conclude. □

### Iowa News

The Federal Home Loan Bank Board, in its order #80-471 of June



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10, 1988, stated: "Whereas, the Board has considered the complete record of the cause and merits of the application of Commercial Federal Savings and Loan Association, Omaha, Nebraska, dated March 31, 1987 for permission to establish an interstate *de novo* branch on a non-supervisory basis in the State of Iowa; and

"Whereas, it is determined that there is no legal authority to establish the interstate branch;

"It is hereby resolved, that the said application is hereby denied."

First National Bank of Council Bluffs, directly across the Missouri River from Omaha, and the Iowa Independent Bankers, had protested the application and were represented in the hearings by Howard O. Hagen, Des Moines attorney.

AMES: Banks of Iowa, Inc., completed the purchase on June 28 of United Bank and Trust, Ames, from the latter's parent, Great Mid-West Financial Company. United Bank and Trust had assets of \$135 million, loans of \$68 million, deposits of \$118 million and capital of \$14 million on March 31. The Ames bank also has two offices in Ames and one in Gilbert.

DES MOINES: Al Tinder, who retired two years ago as president of Iowa Bankers Insurance & Services, Inc., is in critical condition in Mercy Hospital here. He especially ap-

preciates and is encouraged by cards from friends. They may be sent to him at his home address—3908 72nd Street, Des Moines 50322. Al's wife, Sue, shares these cards with him at the hospital.

DES MOINES: Banks of Iowa, Inc.'s board of directors elected Larry L. Gilb, 45, as president, effective July 1. He succeeds to the position held since March, 1979, by Holmes Foster, 61, who will continue as chief executive officer as well as assuming the new title of chairman. Mr. Gilb joined First Bank System in 1971, became president of First Bank Duluth in 1981, and most recently has been senior vice president of FBS holding company and managing director of the northern Minnesota region of eight banks. Mr. Foster informed the board a year ago he wishes to retire at the age of 62.

DUBUQUE: Second Vice President Marian R. Gehrig has been appointed manager of American Trust & Savings Bank's Town Clock Plaza office. She has held several positions since joining the bank in 1965. JoAnn M. Martin has been appointed manager of the bank's Key West office. She joined the bank in 1980.

### Nebraska News

LINCOLN: Among recent promotions at National Bank of Commerce was the naming of two vice presidents. Gothard "Ole" Friesen is head of the dealer services department of the consumer banking division. He joined NBC in 1975. Steven R. Knapp is in the corporate banking division and joined the bank in 1986.

OMAHA: Among recent promotions at Douglas County Bank & Trust Co. was the naming of David L. Henricksen to vice president and a member of the management committee, in addition to his duties as information officer.

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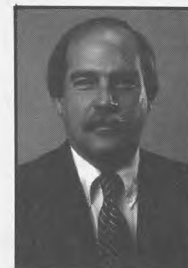
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## Minnesota News

- The Minnesota Metro AIB has announced seminars to be held in July at its office in Minneapolis. Dates and topics are: 13th—Negotiation: Skills, Strategy, and Styles; 14th—Management and Supervisory Skills; 20th—Real Estate Documentation. For more information, contact Judy Clark at (612) 338-8482.

- **MINNEAPOLIS:** William J. Gabler, former director of housing development and finance with the Minneapolis Housing and Redevelopment Authority, has been promoted to senior vice president and manager of the public finance division of Norwest Investment Services, Inc. He was vice president in charge of housing finance in the division. Mr. Gabler served with the Authority from 1976-1979. He previously was assistant executive director of the Greater Minneapolis Metropolitan Housing Corporation and was project manager for the New York State Urban Development Corporation.

- **MINNEAPOLIS:** Two new vice presidents have joined National City Bank. Jack J. Richter serves in the corporate development department and was formerly associated with First Bank Minneapolis as assistant vice president in their corporate banking area. JoAnn R. Hinenthal serves in the capital markets division. She most recently was associated with Criterion Funds as regional vice president.

- **MINNEAPOLIS:** Robert A. Amundson has joined FBS Information Services as vice president and manager, trust conversion. He has served in various capacities at Norwest Bank Minneapolis and Norwest Technical Services, most recently with the latter as senior vice president, payment operations.

**MINNEAPOLIS:** FBS Mortgage Corporation announced June 27 that

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it has acquired Caylor Financial Services of Wisconsin, Inc., a privately held mortgage broker in the Milwaukee suburb of Brookfield. The company's 11 employees will be retained in the transition. FBS Mortgage will establish a Wisconsin office at the Brookfield location and business will be conducted in the name of FBS Mortgage. Diana Kostal, who was vice president and partner of Caylor Financial, will serve as branch manager.

**MINNEAPOLIS:** Norwest Corporation has received final regulatory approval to acquire the \$20 million assets Ranch National Bank of Scottsdale, Ariz., effective July 1.

## Illinois News

**CHICAGO:** Leslie K. Lorenz has joined The Exchange National Bank as vice president and product manager in the cash management division. She will be responsible for the strategic direction of cash management products. Most recently, she was with Wells Fargo Bank as assistant vice president in cash management sales, and before that with Continental Bank of Chicago in cash management sales.

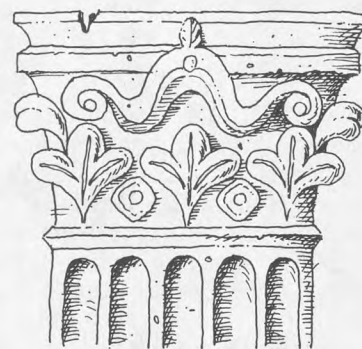
**CHICAGO:** On June 22, Unibancorp, Inc. announced that its stockholders approved the merger of the company with Old Kent Financial Corporation, a multi-bank holding company in Grand Rapids, Mich. The merger is subject to regulatory

approval and is expected to be completed by the end of the third quarter of 1988.

## Wisconsin News

**BROWN DEER:** First Bank Brown Deer, formerly Brown Deer Bank, has expanded its small business lending department with the addition of several new officers. Among them is Marianne Jaehnke, vice president in the commercial lending division. She joined the bank last year as a

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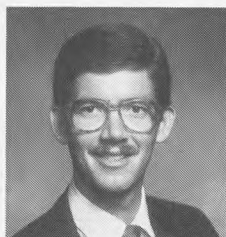
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4 vice president in retail banking, having previously served at First Interstate Bank in West Allis.

**JANESVILLE:** Richard J. Schmit has joined Valley Trust Company as a vice president. He is responsible for managing the employee benefits plan activities in the Janesville market. He previously was vice president of employee benefit plan sales for Norwest Bank in Des Moines, Ia.

### Wyoming News

**CASPER:** On June 17, Wyoming National Bancorporation announced an agreement with Systematics, Inc. of Little Rock, Ark. to open a new data processing service center in Casper to service the needs of all the nine Wyoming National Banks across the state. The center will initially employ at least 15 people.

### Montana News

Lynn D. Grobel, president of the First National Bank of Glasgow, was advanced to the presidency of the Montana Bankers Association recently at its annual convention. He succeeds James D. Bennett, president, First Citizens Bank, Billings. Ed Jasmin, president, Norwest Bank, Helena, is vice president of the association, and Dave Calahan, president, First Interstate Bank, Missoula, is treasurer. A full report and photos of the convention will appear in the August issue of the NORTHWESTERN BANKER.

### Colorado News

**DENVER:** The following vice presidents were among recent appointments at United Bank of Denver: Robert F. Bardwell, Jr., consumer banking; Donald K. Dodge, investment banking; Joseph M. Ferri, William J. Lunsford and William P. McOmie, loan administration; Kent L. Ownbey, asset management services; LeRoy Payne, Jr., commercial banking, and Connie R. Stearns, funds management.

**WESTMINSTER:** The FDIC has approved the assumption of the deposits and fully secured liabilities of The Bank of Westminster by First National Bank, Westminster.

The Bank of Westminster, with total assets of about \$6.7 million, was closed on June 22 and reopened June 23 as a branch of the assuming bank. First National will assume about \$6.0 million in deposits, will purchase substantially all of the failed bank's assets, and will pay the FDIC a premium of \$76,021.

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