Federal Reserve interest pinches most area banks

By MICHAEL CHARLES

The businessman seeking borrowed money these days is, with few exceptions, faced with a difficult search.

Large and small banks in the metropolitan Detroit area are carefully watching their commercial loan business in light of the continued "tight money" policies of the Federal Reserve Board.

At the same time, the demand for these funds remains high as businessmen buy now in anticipation of more inflation later, according to banking industry sources.

"Loan demand remains high despite the (Federal Reserve) interest rates," said an official of the National Bank of Detroit (NBD) with $4 billion in deposits).

"WE ARE more restrictive in our loan policy. We're considerably more conservative than before, but the loan demand has not noticeably abated despite high interest rates," he added.

Nevertheless, he said, NBD's commercial and consumer loan business has grown by nearly 30 percent from June 30, 1973 to June 30 this year to a total of $2.6 billion.

The story is similar at such community banks as the National Bank of Southfield where approximately $20 million in commercial loans are outstanding, a change of only $1 million from a year ago. In the first half of this year, all loans were up $3 million, a spokesman said.

"Demand has increased, but actual volume has held steady because of the selectiveness the banks are exercising," he said. "We're now granting only to our established customers. A year ago this time we would take applications from virtually anybody."

THE SPOKESMAN said he expects loan totals to dip slightly in the third quarter, with total deposits (now at $129 million) also declining as customers withdraw their funds to invest them in higher interest-paying money market instruments.

He said smaller banks are affected more quickly by the Federal Reserve's monetary policies which are aimed at slowing the growth of the national money supply (the total of all demand deposits and money in circulation).

One local exception to the generally tight money situation is at the Fidelity Bank of Michigan located in Birmingham. But one bank official readily admits it is not fair to compare Fidelity with its older competitors.

"We're fortunate," said Robert Mason of Fidelity. "Three years ago (when the bank was established), we had a zero loan portfolio and $40 million on deposit."

WHILE THERE has been a decrease in demand for consumer loans at Fidelity—due to the downturn in automobile sales (more than 50 percent of the bank's consumer loans are for new cars)—there has been "a gradual increase" in new commercial loans at Fidelity, Mason said.

"It's unfair to compare us with other banks. Loan payoffs have not kept up with loan demand in the others," he said. "We still have loan monies available."

Fidelity's total loan portfolio now equals approximately $6 million after three years on total demand deposits of $10.4 million.

THE FEDERAL RESERVE Board has established a discount rate of eight percent. This is the interest member banks pay the Federal Reserve Bank for money borrowed from the system.

That rate has been translated in a "prime interest rate" of 12 percent by most major banks. This is the amount of interest paid by the banks' best customers for funds.

Consumer loan interest rates are not pegged at the discount or prime rate. Instead, they are set by state law.

In Michigan, direct bank loans to consumers cost approximately 13 percent. New car loans cost a maximum of 11.08 percent. At the same time, retail credit rates cannot exceed 20.4 percent annually (1.7 percent monthly), and bank credit card rates are fixed at 18 percent annually.

THERE APPEARS little hope that the Federal Reserve will move quickly to an expansionary monetary policy.

According to Federal Reserve special assistant Frank O'Brien, the Board has adopted "a moderately restrictive posture" to slow the rate of inflation, currently reaching more than 10 percent nationally.

An increase in the discount rate should, in theory, act as a brake on inflation by reducing the nation's total money supply.

"We have continued to increase the money supply, but, on balance, we have been supplying modest amounts of money," O'Brien said. "The economy has been growing, at least in money terms, and you need money to finance the economy.

"THE FEDERAL RESERVE has not supplied money sufficiently to accommodate all the price rises. We should have not expanded it as fast as prices," he added.

"We are trying to avoid any 'money crunch.' We have squeezed down, but we are supplying some additional funds to the economy to meet the real needs of the economy," O'Brien said. "We are exerting an anti-inflationary force."

In fact, O'Brien explained that the nation's money supply — instead of contracting — has grown at a rate of 5.4 percent between August 1973 and July 1974, when it reached a total of $214.0 billion.

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Turbines — 'power of tomorrow'?

By JAY R. STUCK

Sam B. Williams is a futurist.

It may be a long time before we're riding in his company's turbine powered cars or piloting a flying platform to the grocery store — but the prospect is exciting.

A holder of about 100 patents, Williams began Williams Research Corp. in 1954, and has built the Walled Lake company into the world's largest producer of small turbine and turbojet engines.

Many of these engines are used to power target or reconnaissance drones and other military hardware.

But Williams believes his engines have other applications that are a direct benefit to the consumer.

"Turbine power is the power of tomorrow," Williams said.

"It has the best potential for low fuel consumption and pollution-free operation," the Bloomfield Hills resident added.

1975 federal emissions standards were met two years ago by a Williams Research turbine-powered American Motors Hornet.

Popular Science magazine gave the engine high marks after testing the car, calling the Williams turbine "the front-runner in the race for the automotive power plant of the future."

However it will take at least five more years of technical development before a turbine car will be offered to the public on a limited basis, Williams said.

One improvement being sought is lower fuel consumption.

Williams predicted the Hornet's 14 miles per gallon will be lowered by 20 percent after testing is completed.

Even more interesting, and much farther away from final development, is the company's research into flying turbine platforms.

In its promotional material, the company calls the airborne units a Buck Rogers innovation.

Williams Research has successfully flown a two-man machine that the operator stands on — rendering the cumbersome jet-belt units of several years ago obsolete.

Developed for the U.S. Navy and Marine Corps, the device can fly backward and forward for 30 minutes at speeds up to 60 miles an hour.

The possibilities for utilization of the unit are endless — Williams envisions the flying platform as a tool for police, television reporting and airborn commuting.

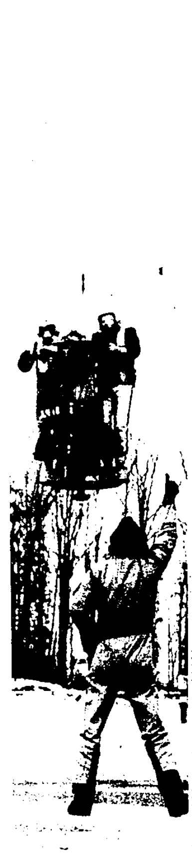
It will be about 10 years before the general public will be offered the WASP (Williams Aerial Systems Platform), Williams said.

He estimated that the first units would be expensive, but later machines would be in the price range of a luxury automobile.

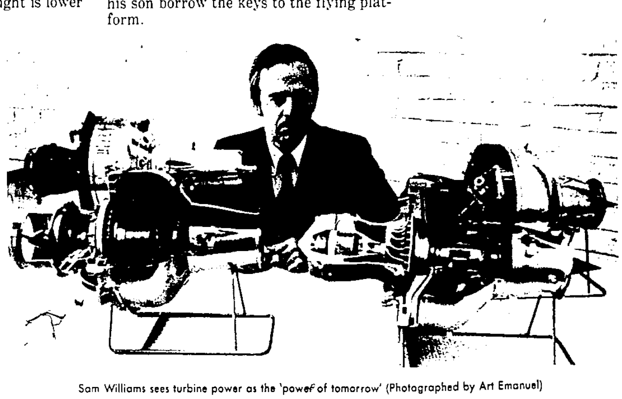
Williams said he looks forward to the day when a turbine car is parked in his driveway.

But he didn't say whether or not he'd let his son borrow the keys to the flying platform.

The personal vehicle of the future? (Photographed by Art Emanuel)



A test flight of the new 2-man aerial platform



Sam Williams sees turbine power as the 'power of tomorrow' (Photographed by Art Emanuel)