Assistant Commissioner, Economic Development

August 8, 1966

Assistant Chief, Branch of Credit and Financing


I. Purpose

1. To visit principal banks in Phoenix for purpose of exploring the possibilities of investing a portion of the surplus Navajo trust funds in high, interest-bearing certificates of deposit.

2. To discuss in general terms with these banks the prospects of obtaining financing to provide multiple housing units at Shiprock, New Mexico, under the Federal Housing Administration program.

II. Persons Contacted

1. Phoenix Area Office

   W. Wade Head, Area Director
   Dale Belcher, Area Credit Officer
   William Allen, Finance Specialist
   Charles Bourigan, Area Finance Officer

2. Southern Arizona Bank and Trust Company

   David S. Baker, Vice-President and Trust Officer
   Telephone number 256-6281
   Harold W. Anway, Agricultural Consultant

3. Arizona Bank

   Richard N. Hobson, Vice-President (Investments)
   C. F. Dierking, Vice-President, Agricultural Loans

4. First National Bank of Arizona

   Carl T. Swanson, Assistant Vice-President, Investment Department - Telephone number 271-6103

Surname filed: Navajo Investment Program
5. Valley National Bank

E. S. Lee, Senior Vice-President

III. Observations and Comments

1. Existing Investment Program of Phoenix Area Office. At the suggestion of Area Director Head and Mr. Belcher, prior to contacting the banks, I visited with Mr. Hourigan regarding the experience of and procedures followed by the Area Office in investing Indian trust funds, particularly in certificates of deposits.

Mr. Hourigan informed us that the Area Office is guided in handling trust funds by Central Office memorandums of August 16, 1963, and April 26, 1966. He remarked that they have a blanket authorization covering withdrawals of trust funds from the United States Treasury for investment purposes. At the present time they have certificates of deposit transactions with five or six banks in Phoenix. Originally, the Area Office executed two types of agreements with the banks — one covering IEDA funds and the other covering Treasury trust funds.

The Area Office negotiates with the banks for the highest going rate. Since interest rates on certificates of deposit have been gradually increasing in Phoenix, the Area Office has certificates presently outstanding which range from 4-1/2% to 5-1/2%. Mr. Hourigan informed that most of their certificates of deposit have one-year maturities. They have some maturing in six months.

Mr. Hourigan commented that it used to take considerable time to get the necessary collateral posted and the banks certified by Treasury as a depository for trust funds. This certification process has now been speeded up. For example, the Phoenix bank may call its correspondent bank in New York City, such as the Chase Manhattan Bank, which bank in turn contacts the Federal Reserve Bank in Los Angeles, California, to make the necessary arrangements for the collateral. In other words, as I understand it, the banks arrange for the certification direct rather than funneling the procedures through the Bureau.

I asked Mr. Hourigan how the interest earnings on such outside investments are covered back into the Treasury.
He replied that according to the Central Office memorandum of April 26, 1966, the interest (as well as principal) is deposited in the Treasury as revenue rather than as a refund.

2. **Banks Contacted for Investment of Navajo Funds.**

   a. **General.** Mr. Belcher had worked out a series of appointments for us for July 29 with most of the principal banks in Phoenix. My instructions from the Central Office, based on discussions with Messrs. Hager and Walts, were to engage in only exploratory conversations with the banks and to make no commitments for deposits.

   Dr. Waldo E. Walts, who has been commissioned to handle and oversee the investment of Indian trust funds on deposit in the Treasury, instructed that I talk with officials of the Phoenix banks in terms of $10 to $12 million of surplus Navajo trust funds for investment in certificates of deposit, preferably having a maturity of 15 months. Further, as a guideline for my negotiating purposes with the bankers, Dr. Walts had recently invested $10 million of Navajo funds in certificates of deposit, bearing 5-1/2% interest payable semiannually, with the Marine Midland Trust Company of Buffalo, New York.

   As handouts to the bankers, I distributed copies of (1) the agreement form (copy attached) developed by the Central Office for executing with banks interested in accepting Indian trust funds for placement in custodial time deposits and, (2) 25 USC 162a, which is section 1 of the Act of June 24, 1938 (52 Stat. 1037), authorizing the Secretary of the Interior in his discretion to withdraw tribal trust funds from the Treasury and deposit them in banks or invest them in any public-debt obligations of the United States.

   It was tentatively decided in the Central Office, prior to my field trip that it might be best, at least during the initial phases of the Navajo investment program in Phoenix, to have the agreements come into the Central Office for execution. The Area Office would serve as the intermediary - maintaining contact with the banks, arranging for the agreements, and handling the submittals.

   b. **Southern Arizona Bank.** This bank was our first contact. Mr. Baker was very interested in the opportunity to obtain
Havajo trust funds under a time deposit arrangement. However, he asked us to call back a little later in the day, as he wished first to discuss the matter with other officials of the bank. When we returned, Mr. Baker informed that his bank would be happy to take up to $4 million under an 18-month certificate of deposit with interest at 5-1/2% payable every six months. Upon my questioning, he said they would be willing to pay interest quarterly if necessary in order to be competitive.

Mr. Baker is from the midwest and was fairly new to the southwest. He seemed keenly interested in learning more about the Indians and Indian tribes, particularly those in Arizona. Being a lawyer, he asked a number of significant questions about the legal status of Indians and their property, especially as it relates to financing. Mr. Baker indicated that his bank would be interested in considering the financing of the proposed housing project at Shiprock, even though the project would be in New Mexico.

c. Arizona Bank. Mr. Hobson did not appear too eager for the deposit — at least not at 5-1/2% interest, if the deposit had to be collateralized. Furthermore, he did not think his bank would be interested in a time deposit for longer than a year. His conservative position was mirrored by his reference to the Patman bill and the growing clamor in Congress to limit interest rates. Before making any definite commitments, he said he wanted to discuss the matter with other officials and would contact Mr. Balcher later.

Dr. Welts and I called Mr. Balcher on August 2 to discuss the further steps which should be taken with the banks that expressed an interest in the deposit on competitive terms and to find out the conclusion reached by the Arizona Bank. Mr. Balcher informed that Mr. Hobson reported later that in view of the restriction on the security which can be posted as collateral his bank did not see how it could accept the deposit at 5-1/2% interest. If the bank could put up municipals, for example, it might be interested at the higher rate.

d. First National Bank of Arizona. Mr. Swanson was very knowing about considerations on Indian trust funds and their investment in certificates of deposit because of
his dealings with the Phoenix Area Office. He apparently had a lot of discretionary authority, because he promptly indicated that his bank would be interested in taking some or all of the $12 million in time deposits up to 18 months at 5-1/2% interest payable semiannually. When I asked whether his bank would be willing to pay the interest quarterly, he replied that he thought this could be arranged.

Regarding the proposed Shiprock housing project, Mr. Swanson remarked that his bank would be interested in considering the financing.

e. Valley National Bank. Mr. Lee was friendly and considerate - and indeed helpful in trying to educate us about banking considerations in handling public and trust deposits that had to be collateralized. However, on the one hand he certainly never indicated at any time that he was not anxious for the deposit, but on the other hand he was quite firmly of the belief that the banks could realize little, if anything, from accepting the deposits at 5-1/2% interest. He remarked that the New York bank that accepted the deposit at 5-1/2% did so undoubtedly to cover money still out on long term investments. Then too, banks might be interested in such deposits in order to present a bigger deposit and asset picture to their stockholders and customers.

Mr. Lee said that, if they took the deposit, they would have to go out and buy collateral. As he explained it, the average layman such as us are under the false impression that the banks have a lot of free collateral. He explained, too, that a reserve fund must be maintained with the Federal Reserve Bank about equal to 5% of Valley's total time deposits - that is, where such deposits exceed $5 million.

He got out Treasury Department Circular No. 176 to review the acceptable collateral. He remarked that it was ironical that the Bureau could not invest directly in the "paper" of such Government agencies but same could be used by the banks to collateralize Government deposits.

On a tentative basis, Mr. Lee would be willing to take the deposits on 18-month maturity but not at 5-1/2% for that length of time. He thought the bank would be willing to
pay 5-1/2% up to one-year maturity. Interest would be paid at maturity, but I got the feeling the bank would be amenable (upon negotiation) to pay the interest semi-annually.

f. **First American Bank of Chandler, Arizona.** Tentative arrangements had been made for a representative of this bank to come to the Area Office while I was there. However, he was unable to make it.

During a telephone conversation by Mr. Walts and me on August 2 with the Area Office, Mr. Belcher informed that Mr. John Allen of the First American Bank had finally contacted him. The bank is only interested in $1 million at 4-3/4% interest.

g. **Banks contacted in Albuquerque, New Mexico.**

1. **Albuquerque National Bank.** I called this bank on July 25 while waiting for a plane at the Albuquerque airport during my trip from Washington to Gallup. I talked with Mr. Bing Grady of the trust department, who in turn briefly discussed the matter with President Tripp.

Mr. Grady reported back that they felt the bank could go no higher than 4.70% to 4.75% interest, since the maturity was only 1-1/2 years and the deposit had to be collateralized. Upon my questioning, he replied that the highest interest the bank has paid on a certificate of deposit is 5%.

2. **First National Bank of Albuquerque.** During the aforementioned wait at the Albuquerque airport, I talked with Messrs. Dusheh and Zenger, Credit Officers at the Albuquerque Area Office. Learning that their office is in the First National Bank building, I solicited their help in contacting that bank.

Mr. Zenger called on August 2 and informed that the bank would go no higher than 4-1/2%. The bank indicated that it is not pressed for deposits, as its loan ratio is not very critical.

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(Sgd) E. E. Wood

Everett E. Wood

Enclosure