

BUILDING BRIDGES TO COMMUNITY DEVELOPMENT

THE FEDERAL RESERVE BANK OF ST. LOUIS

1993 Annual Report

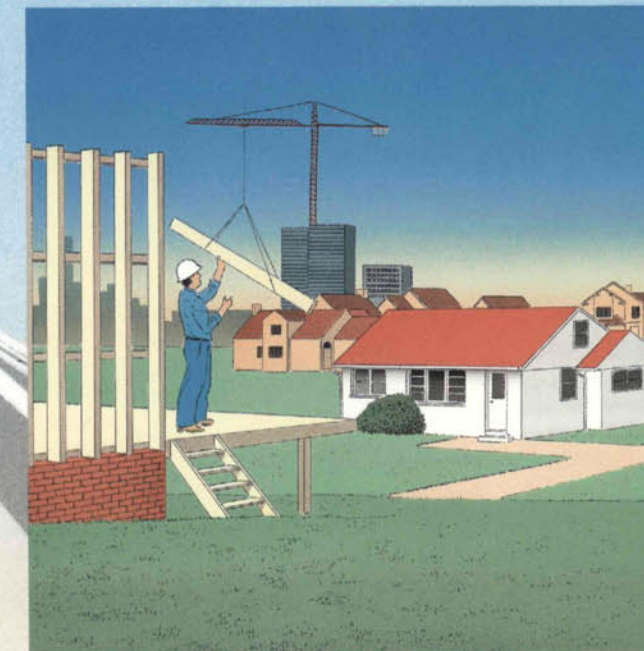
THE FEDERAL
RESERVE BANK:

*The Link Between Lenders
and the Community*



RESEARCH LIBRARY
Federal Reserve Bank
of St. Louis

APR 25 1994



THE COMMUNITY AFFAIRS OFFICE AT THE FEDERAL RESERVE BANK OF ST. LOUIS FORGES PRODUCTIVE PARTNERSHIPS BETWEEN LENDERS AND THEIR COMMUNITIES THAT RESULT IN AFFORDABLE HOUSING AND ECONOMIC DEVELOPMENT THROUGHOUT THE EIGHTH FEDERAL RESERVE DISTRICT.

PRESIDENT'S MESSAGE

The Community Reinvestment Act, or CRA, has been controversial since Congress first passed it more than 16 years ago. Today, bank regulators like the Federal Reserve are debating how best to change the regulation implementing CRA so that it meets its objective – to ensure that financial institutions are extending credit throughout their communities.

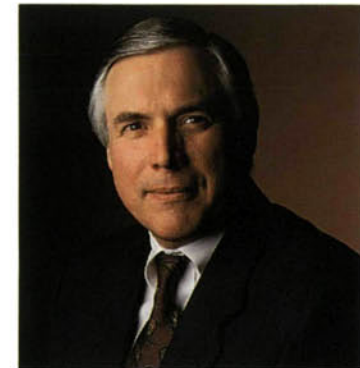
When it comes to CRA, the Federal Reserve plays two distinct roles: one very public, the other behind the scenes. Its public role in evaluating state member banks' lending performance under CRA is, by now, well-known.

Since 1981, the Fed has quietly played another role, one which has been quite effective: to act as a bridge, or liaison, between local bankers and community-based organizations.

Its regional structure makes the Federal Reserve a natural to carry out this role. By putting to use the knowledge of local economic and banking conditions that each regional Reserve Bank gains in the normal course of business, the Fed can help ensure that community needs and lending opportunities are identified and that the interests of both lenders and communities are served. This approach is based on the theory that, if CRA is to succeed, both bankers and community groups must benefit from their alliances. And, to endure, these alliances must be based on mutual interest.

Our Community Affairs Office works to promote that mutual interest. In the next few pages, we set out to explain how this office is "building bridges" throughout the Eighth Federal Reserve District.

Before we begin, however, let me express my deepest appreciation for the service and contributions of the following directors who retired from the St. Louis and Branch boards in 1993: Ray U. Tanner and Janet M. Weakley, St. Louis; L. Dickson Flake, Little Rock; and Seymour B. Johnson, Thomas M. Garrott and Larry A. Watson, Memphis.



Thomas C. Melzer

THOMAS C. MELZER
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

BUILDING BRIDGES TO COMMUNITY DEVELOPMENT

Some members of the community say the Community Reinvestment Act (CRA) is not a strong enough law to induce banks to lend fairly to all segments of their communities. Others say bankers have made great strides in providing credit to low- and moderate-income areas, and, given the risks they must take on borrowers' creditworthiness, they're doing the best they can. Moreover, they're spending too much time and money proving their efforts.

As these issues are debated today, no one knows what the future of CRA will bring. We do know, however, what the past 16 years of CRA have borne. In the Eighth Federal Reserve District (see map on back cover), community groups and bankers have worked together to form partnerships that go beyond CRA compliance. And the St. Louis Fed has played an important role in forming these partnerships by serving as a bridge between the community and lenders.

HOW IT ALL BEGAN

The chronicle of CRA dates back to banking laws of the 1930s, which asserted that financial institutions should serve the "convenience and needs of their communities." The

premise of these laws was that bank charters conferred certain economic benefits and, in return, banks should provide certain public benefits. One of these benefits is access to credit.

In 1977, Congress passed CRA to reaffirm its position that financial institutions have a continuing obligation to make loans to all segments of their communities, including low- to moderate-income areas, provided such loans are consistent with the banks' safe and sound operation. This time, however, the responsibility for CRA compliance did not rest solely with banks: Congress also charged federal banking regulators, including the Federal Reserve,

with carrying out the objectives of CRA. Specifically, the law instructs federal regulatory agencies to "encourage" banks to serve their communities by evaluating lenders' reinvestment efforts and considering such evaluations when reviewing merger applications or other proposed changes in banking operations, including at the bank holding company level. At the same time, the public was given the right to comment on a bank's lending practices and to protest changes to a bank's structure.



THE ST. LOUIS FED'S COMMUNITY AFFAIRS OFFICE DISTRIBUTED ABOUT 3,000 EDUCATIONAL BOOKLETS IN 1993 AND RESPONDED TO ALMOST 500 CALLS FOR INFORMATION OVER THE PHONE. ITS "COMMUNITY AFFAIRS" NEWSLETTER REACHES SOME 2,500 PEOPLE.

*A*lthough the spirit of this law has not changed over the years, its execution has. The lifting of state restrictions on interstate banking, which began in the early 1980s, led to a rush of merger applications. Meanwhile, community groups' efforts became more organized. Consequently, banks, community groups and regulators spent considerable time resolving CRA protests.

Later in the 1980s, Congressional hearings determined that lenders and regulators could do more to carry out CRA's objectives. In 1989, the Fed and other regulatory agencies responded to the hearings in a joint policy statement that clarified what they expected of lenders and provided guidance on the factors contributing to a bank's CRA rating. Also that year, revised laws made CRA evaluations and banks' expanded mortgage data available to the public.

A GRASS ROOTS APPROACH

At the Federal Reserve System, the charge of enforcing CRA has always been carried out in CRA examinations by banking supervisors. To augment its enforcement role, however, the Fed in 1981 established a community liaison at each Reserve Bank to help communities and bankers better understand CRA.

In establishing these regional Community Affairs Offices, the Fed maintained several convictions. First, Reserve Banks have the knowledge of local banking and economic conditions needed to help establish programs that would best meet their communities'

unique credit needs. Second, such activities should concentrate on long-term strategies.

Since it was created more than 13 years ago, the St. Louis Fed's Community Affairs Office has had one mission — to promote CRA's objectives by linking community credit needs with lending programs to help meet those needs. Ultimately, the goal is to further credit access by facilitating partnerships among community groups, local governments and lenders. As such, many of the activities at the St. Louis Fed are grass roots efforts, bringing multiple players together throughout the Eighth Federal Reserve District.

ALL IN A DAY'S WORK

Community Affairs activities usually fall into one of three categories: helping banks meet their community credit needs, serving as an information broker or handling protests of community groups regarding banking practices.

Often, these activities go hand in hand, as in the case of publishing community profiles. Community Affairs staff obtain information about a community's demographics, unique credit needs and area programs available to meet those needs by meeting one-on-one with members of local community organizations and government agencies. In 1993, such interviews numbered more than 100. Community Affairs staff then compile their research into extensive community profiles that identify lending opportunities in

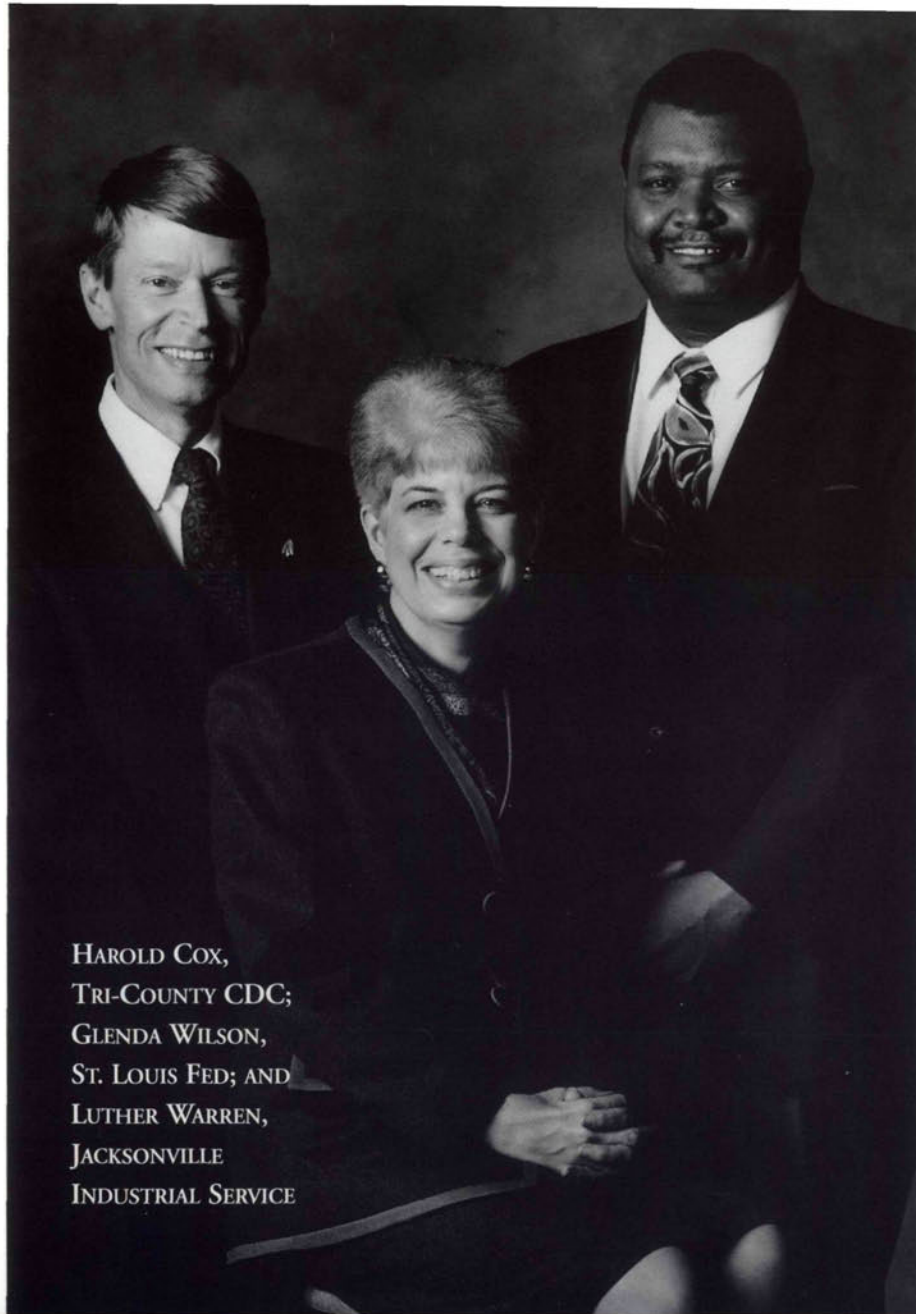
**WITH THE PARTICIPATION OF COMMUNITY AFFAIRS, ABOUT HALF OF ALL CRA DISPUTES ARE
SETTLED BEFORE EVER REACHING A FORMAL PROTEST. IN THE LAST EIGHT YEARS,
THE OFFICE HAS ALSO PARTICIPATED IN THE RESOLUTION OF 17 FORMAL CRA PROTESTS.**

SMALL BUSINESS GETS BIG BOOST

When the production of wooden pallets couldn't keep up with demand, Jacksonville Industrial Service needed a loan just to keep its business afloat. After considering traditional lending sources for small businesses, Secretary and Treasurer Luther Warren turned to the newly formed Tri-County Community Development Corporation (CDC) for funding.

The Tri-County CDC, established in 1989, is a for-profit consortium of lenders and private investors that provides equity and debt financing to support job creation and retention in Cass, Morgan and Scott counties in Illinois. Since 1991, it has made two loans to Jacksonville Industrial Service — one for \$55,000 and another for \$21,000.

Warren says he pursued funding with the CDC for several reasons. "Most funding for small businesses requires a lot of paperwork and forces you to work with people you don't know in different communities," he explains. "Working with the CDC was easier because we already knew these people, and they knew us."



HAROLD COX,
TRI-COUNTY CDC;
GLENDA WILSON,
ST. LOUIS FED; AND
LUTHER WARREN,
JACKSONVILLE
INDUSTRIAL SERVICE

Warren's business partner, President Charles Walker, offers another reason. "A conventional lender considers a business' collateral and its bottom line in determining a loan amount. But a CDC considers saving a job as equally important 'equity.'"

Harold Cox, president of the CDC and executive vice president at the Farmers State Bank and Trust Co., worked closely with the Fed's Community Affairs staff in creating the CDC. "The Fed took on a very proactive role during the start-up phase of the CDC — not only in the regulatory aspect, but in a supportive role as well. They were always willing to come out or share information over the phone." Having benefited from the Fed's assistance, Cox, in turn, has served as a resource for the Fed. He has spoken at several of the Fed's conferences about multi-lender CDCs and how rural CDCs can succeed.

As a result of the 1993 expansion financed by the Tri-County CDC, Jacksonville Industrial Service has enjoyed a 30 percent increase in production and retained its three employees. As for the Tri-County CDC, its shareholder equity has grown to \$535,000 in 1993, and it has become a model for other cooperative efforts around the country.

low- and moderate-income communities for the benefit of bankers who have not specialized in such lending in the past. The District's largest MSAs, including St. Louis, Memphis, Evansville, Louisville and Little Rock, have been initial targets; other profiles are also planned.

Another way the Office obtains valuable information is by attending business meetings of community groups or local government agencies whenever topics include a regional credit assessment or a development program that might interest Eighth District bankers.

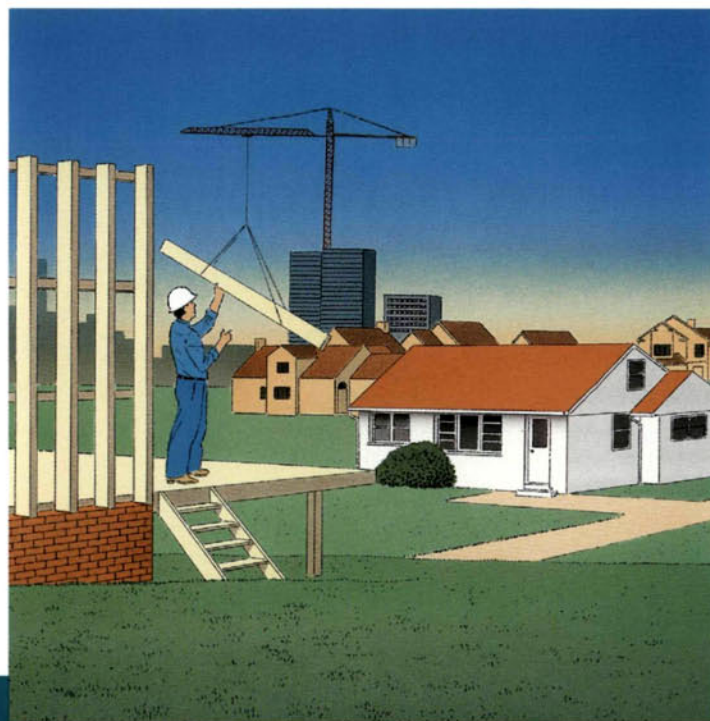
The Bank also sponsors its own outreach activities. Last year, for example, the Community Affairs Office sponsored five CRA training workshops for bank directors and executive officers in the District. The purpose of these workshops is to help directors understand that CRA performance begins at the top — not just with lenders, compliance officers, CRA officers, legal counsel or public affairs staff. Workshops focus on other topics and audiences as well.

Community Affairs has also teamed up with community organizations to co-sponsor forums at which lenders learn about regional credit

issues. Often, discussion turns to cooperative financing options that fill the gap between what a bank can prudently lend and what the community's credit needs are. One topic of interest has been the creation of Community Development Corporations (CDCs), which are for-profit or not-for-profit entities made up of banks, other private-sector investors and government agencies. These consortia, by definition, finance urban redevelopment, affordable housing or other economic development projects for low- to moderate-income residents.

Sometimes, the Community Affairs Office helps launch such

initiatives. To spark interest in shared lending efforts in the St. Louis area, for example, Community Affairs staff in 1993 participated on a steering committee that developed plans for a multi-lender CDC called the St. Louis Business Development Fund. The goal of this CDC, which is expected to incorporate as a for-profit entity, is to stimulate business and job growth by making loans to viable small companies that are unable to obtain financing from conventional sources.



EVERY YEAR, COMMUNITY AFFAIRS STAFF MAKE ABOUT 25 PRESENTATIONS ON COMMUNITY CREDIT ISSUES, MOST OF THEM TO COMMUNITY GROUPS OR BANKERS' ASSOCIATIONS. IN 1993, THEY ALSO SPOKE TO NON-PROFIT AND FOR-PROFIT DEVELOPERS, AS WELL AS LOCAL GOVERNMENT AGENCIES.

SUCCESS BREEDS SUCCESS

FROM PROTEST TO PARTNERSHIP

Following a protest agreement in 1987 with Union Planters National Bank of Memphis, Mid-South Peace and Justice Center's Hubert Van Tol said the Fed's role as facilitator was crucial "in getting to talk to bankers at the key level that could make a difference." Even though the original formal agreements have expired, the parties continue to meet quarterly to discuss community credit issues.



A FRUITFUL FORUM

Delmar Tegtmeier, vice president and CRA officer of Magna Bank of St. Clair County in Illinois, says that several banks became interested in his Metro East Lenders Group following his presentation at the Fed's St. Clair County Lenders Forum in April 1993.

OPPORTUNITY WAS KNOCKING

Beverly Morrow, an associate board member of Simmons First National Bank in Pine Bluff, Ark., attended a Fed-sponsored training workshop in May 1993 and learned that an aggressive approach to CRA can create more of an opportunity than a burden. She hopes to enhance Simmons' existing practice of referring denied loan applicants to consumer credit counselors in the hope that it will ultimately generate a creditworthy customer and new bank business.



A POPULAR PROFILE

After being profiled in the Fed's *Community Affairs* newsletter in April 1992, Memphis' Habitat for Humanity received about a dozen calls from community organizers interested in establishing affiliates in their cities.



TWO TALES IN LOUISVILLE

Gathering information to be published in the Louisville community profile, Community Affairs employee Judy Armstrong stopped by the Friary, a former seminary converted in 1991 into a dwelling for 24 households. New Directions Housing Corp. developed the \$1.6 million project, PNC Bank of

Kentucky, Inc., served as a limited equity partner and provided mortgage lending, and the city of Louisville provided funding for infrastructure improvements. She also visited a new, single-family home for low- to moderate-income residents in the city's California neighborhood.



A SUCCESSFUL RURAL STRATEGY

Verle Hugenout, chairman, president and CEO of United Missouri Bank Northeast in Monroe City, Mo., built a very successful track record in minority lending despite his bank's

EDUCATIONAL EFFORT IN EVANSVILLE

"The Fed's profile of Evansville's credit needs has helped educate the financial community here," says Gregory Volz, project director for Legal Services Organization of Indiana, Inc., which counsels community groups on fair housing. "With some 50 percent of the black households in Evansville in poverty, many bankers have told me they want to help and know they should do more. The Fed's profile has given them the base to develop specific projects."



*T*he Community Affairs Office also reports on community development initiatives in its *Community Affairs* newsletter for compliance officers and community representatives. Through the newsletter, bankers and community groups learn from each other by reading profiles of successful housing and economic development programs.

Occasionally, the Community Affairs Office serves as a facilitator, if requested, between community groups and bankers in CRA disputes. When a bank holding company applies for permission to acquire another institution or open a branch, the Federal Reserve considers the applicant's CRA record. After such applications are filed with the Fed, the public can and often does comment on the applicant's success in meeting its CRA obligations.

If such comments raise clear questions about an applicant's CRA record, the Fed's Community Affairs officer may be asked to hold a private discussion between the lender and the community group. By serving as a neutral intermediary, the Community Affairs officer is often able to suggest alternatives that meet the needs of both parties. Over the years, many such agreements have become catalysts for successful community lending and development strategies on an ongoing basis.

After a 1986 agreement between a holding company and a community organization, for example, one bank exceeded its

original \$50 million lending commitment by offering additional resources and CRA products. Today, it has integrated those products into its regular portfolio as profitable business. The bank also made changes in its business practices — it now markets its services to low- and moderate-income communities, makes offices more accessible to residents of these communities, and invites community input to develop bank products.

A FINAL THOUGHT

The Federal Reserve Bank of St. Louis has for 13 years played an active role in carrying out CRA objectives in the Eighth District. Though it is ultimately up to lenders to develop the credit programs that serve their communities, the Fed's Community Affairs Office has boosted such efforts by serving as a bridge between Eighth District community groups and lenders.

Although no one knows exactly what regulatory changes are in store for CRA, the Fed's community liaison role will likely become increasingly important. With its regional expertise in the banking system and a deep-rooted knowledge of community credit needs, the Fed has a natural ability to help forge the partnerships necessary to address important community development issues. And it may be in this arena that the Fed can ultimately have the greatest impact on community development.

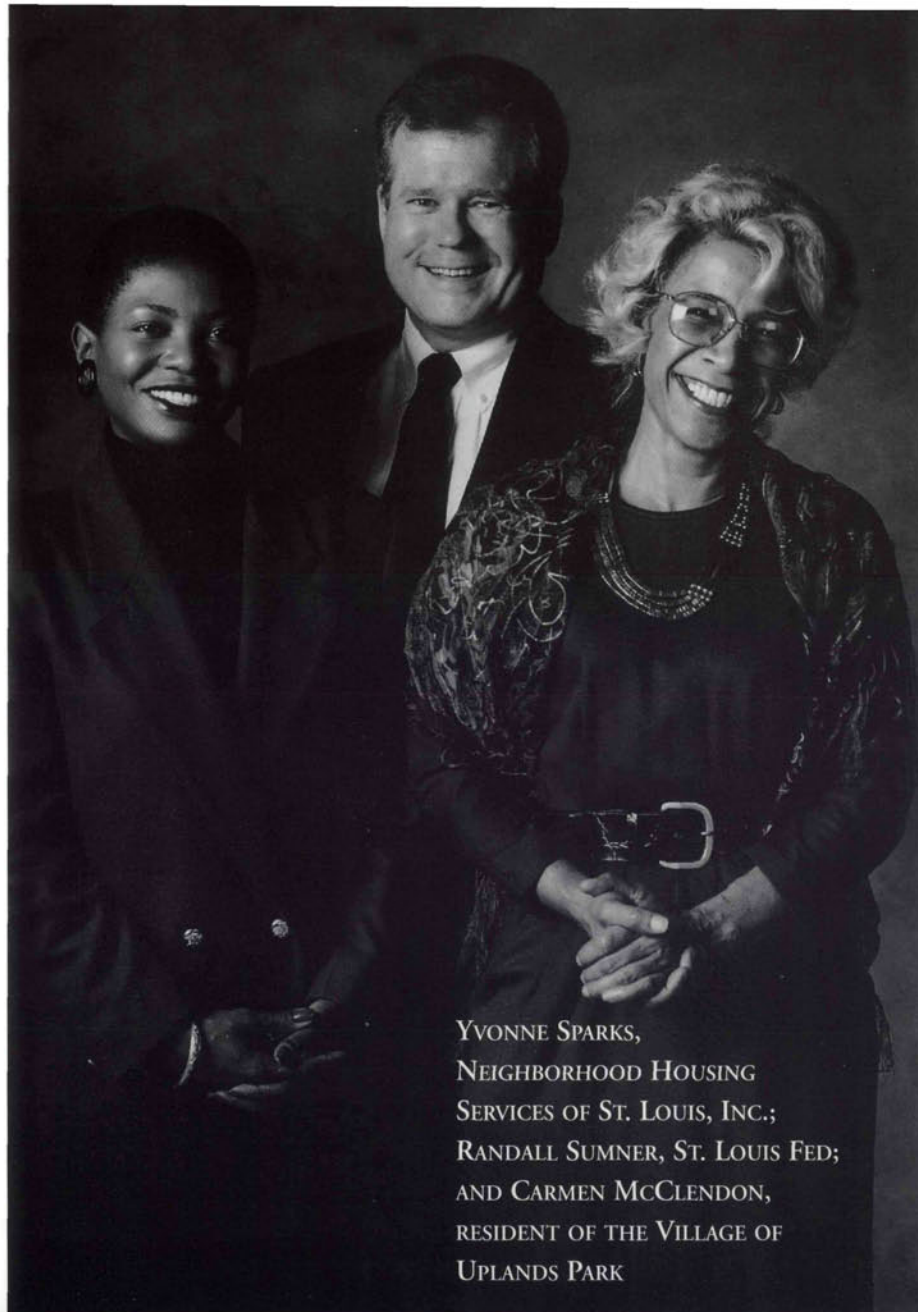
THE COMMUNITY AFFAIRS OFFICER SERVES ON THE BOARDS OF DIRECTORS OF DISTRICT COMMUNITY ORGANIZATIONS. CURRENTLY, HE SERVES ON THE BOARD OF ST. LOUIS' NEIGHBORHOOD HOUSING SERVICES AND IS ON THE FINANCE COMMITTEE OF ECUMENICAL HOUSING PRODUCTION CORPORATION.

ONE RESIDENT BECOMES PART OF THE SOLUTION

In 1989, Carmen McClendon bought her first home in the Village of Uplands Park, a small residential community just north of St. Louis. Newly divorced with two children, she felt the location offered good neighbors and a positive atmosphere. To her distress, however, she found that the neighborhood's older homes were deteriorating — along with their property values — and residents couldn't afford to make the necessary repairs.

Fortunately, Neighborhood Housing Services of St. Louis, Inc. (NHS), came to their aid. NHS stabilizes low- to moderate-income neighborhoods with loans, code enforcement repairs, training for new homebuyers, and homeowner and insurance counseling. Funding comes from a partnership of residents and businesses, including banks and insurance firms. The organization's board of directors includes a member from the Fed's Community Affairs Office. As of 1993, NHS has dispensed more than \$9 million in loans and funds for home upgrades or rehabilitation for six communities in the St. Louis area.

"The participation by the Federal Reserve on our board enhances lenders' involvement,"



YVONNE SPARKS,
NEIGHBORHOOD HOUSING
SERVICES OF ST. LOUIS, INC.;
RANDALL SUMNER, ST. LOUIS FED;
AND CARMEN MCCLENDON,
RESIDENT OF THE VILLAGE OF
UPLANDS PARK

says Yvonne Sparks, executive director of NHS. "As a result, bankers see community investment as an important thing to do."

McClendon is just one example of how community investment efforts can gain momentum well beyond their sometimes modest beginnings. NHS recruited her to serve an unfinished term on its board, where she has proved to be a great asset for her neighborhood and NHS.

As one of NHS' "model block neighborhoods," the Village of Uplands Park now has rebuilt curbs, sidewalks and driveways. In front of McClendon's home, some 16 sections of sidewalk concrete were replaced. In addition, NHS replaced aging sycamores and elms with pear trees. These improvements, in turn, freed up homeowners' money for paint, new windows and doors, and other much-needed repairs.

As a result of her involvement with NHS, McClendon's view of banks and bankers has changed.

"I used to think bankers dealt strictly with finances," she says. "I was surprised to learn they have a lot of new ideas about a lot of things, and they are very creative. They have been very sensitive to the needs of the community and finding ways to meet those needs."

STATEMENT OF CONDITION

(thousands of dollars)

	December 31, 1993	December 31, 1992
ASSETS		
Gold certificate account	\$ 392,000	\$ 304,000
Special Drawing Rights certificate account	168,000	168,000
Coins	21,650	25,274
Loans to depository institutions	1,250	5,000
Securities:		
Federal agency obligations	163,772	132,435
U.S. government securities	11,722,725	7,218,244
Total securities	\$11,886,497	\$ 7,350,679
Cash items in process	246,352	293,612
Bank premises (net)	30,861	29,797
Other assets	783,320	683,302
Interdistrict settlement account	1,856,794	5,311,031
TOTAL ASSETS	<u>\$15,386,724</u>	<u>\$14,170,695</u>
LIABILITIES		
Federal Reserve notes	\$14,005,725	\$12,823,759
Deposits:		
Depository institutions	906,693	952,292
Foreign banks	3,183	3,433
Other deposits	9,254	2,644
Total deposits	<u>\$ 919,130</u>	<u>\$ 958,369</u>
Deferred availability credit items	214,670	204,338
Other liabilities	98,533	44,365
Interdistrict settlement account	0	0
TOTAL LIABILITIES	<u>\$15,238,058</u>	<u>\$14,030,831</u>
CAPITAL ACCOUNTS		
Capital paid in	\$ 74,333	\$ 69,932
Surplus	74,333	69,932
TOTAL CAPITAL ACCOUNTS	<u>\$ 148,666</u>	<u>\$ 139,864</u>
TOTAL LIABILITIES AND CAPITAL	<u>\$15,386,724</u>	<u>\$14,170,695</u>

OPERATING STATISTICS

OPERATIONS	NUMBER 1993
SERVICES TO DEPOSITORY INSTITUTIONS	
CHECK SERVICES	
U.S. government checks	29,055,000
Postal money orders	191,950,000
Commercial	611,673,000
ACH SERVICES	
Commercial	115,076,000
U.S. government	26,683,000
COLLECTION SERVICES	
U.S. government coupons paid	23,348
All other	43,594
Currency received and counted	772,778,000
Wire transfer of funds	3,322,167
Loans to depository institutions	570
SERVICES TO U.S. TREASURY	
Transfer of government securities	158,219
Food stamps redeemed	267,666,000

INCOME AND EXPENSES

(thousands of dollars)

NUMBER	DOLLAR AMOUNT (THOUSANDS)	
1992	1993	1992
29,988,000	\$ 22,760,000	\$ 26,414,000
180,904,000	22,207,000	20,188,000
572,736,000	390,836,000	377,213,000
93,787,000	480,344,000	416,676,458
25,227,000	62,959,000	55,074,285
30,459	10,903	14,867
78,367	135,642	248,539
740,377,000	9,771,590	9,057,263
3,267,365	4,452,005,000	3,951,305,000
585	900,000	767,000
173,031	315,931,000	446,756,000
257,792,000	1,348,243	1,248,585

	December 31, 1993	December 31, 1992
EARNINGS		
Interest on loans to depository institutions	\$ 692	\$ 841
Interest on government securities	537,604	432,402
Earnings on foreign currency	28,783	52,606
Revenue from priced services	30,570	30,873
All other income	210	253
Total current income	<u>\$597,859</u>	<u>\$516,975</u>
CURRENT EXPENSES		
Current operating expenses	\$ 80,832	\$ 72,235
Less reimbursables	(10,541)	(10,001)
Current net operating expenses	70,291	62,234
Cost of earnings credits	3,603	4,141
Current net expenses	73,894	66,375
CURRENT NET INCOME	<u>\$523,965</u>	<u>\$450,600</u>
PROFIT AND LOSS		
Additions to current net income:		
Profit on sale of government securities (net)	\$ 1,226	\$ 3,154
Profit on foreign exchange transactions (net)	6,080	78,088
All other additions	0	5
Total additions	<u>\$ 7,306</u>	<u>\$ 81,247</u>
Deductions from current net income:		
Loss on foreign exchange transactions (net)	\$ 0	\$104,732
All other deductions	31,391	105
Total deductions	<u>31,391</u>	<u>104,837</u>
Net additions or deductions	(24,085)	(23,590)
Cost of unreimbursed Treasury service	(1,774)	(1,669)
Assessment by Board of Governors:		
Expenditures	(3,187)	(3,183)
Federal Reserve currency costs	(14,141)	(7,170)
NET INCOME AVAILABLE FOR DISTRIBUTION	<u>\$480,778</u>	<u>\$414,988</u>
DISTRIBUTION OF NET INCOME		
Dividends paid	\$ (4,293)	\$ (4,092)
Payment to the U.S. Treasury		
(interest on Federal Reserve notes)	472,141	406,546
Transferred to surplus	4,345	4,350
Surplus, January 1	\$ 69,932	\$ 65,582
Surplus, December 31	<u>\$ 74,277</u>	<u>\$ 69,932</u>

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Assistant Vice President

Harold H. Rieker
Assistant Vice President

Frances E. Sibley
Assistant Vice President

John A. Tatom
Assistant Vice President

Robert J. Taylor
Assistant Vice President

Daniel L. Thornton
Assistant Vice President

Richard G. Anderson
Research Officer

Bernard E. Berns
Customer Support Officer

Dennis W. Blase
Supervisory Officer

Michael W. DeClue
Supervisory Officer

Patricia A. Marshall
Assistant Counsel & Assistant
Secretary to the Board

Steven N. Silvey
Information Systems Officer

Harold E. Slingerland
Credit Officer

Leisa J. Spalding
Audit Officer

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Vice President & Manager

Thomas R. Callaway
Assistant Vice President

Marilyn K. Corona
Operations Officer

LOUISVILLE BRANCH

W. Howard Wells
Vice President & Manager

Thomas A. Boone
Assistant Vice President

Thomas O. Short
Assistant Vice President

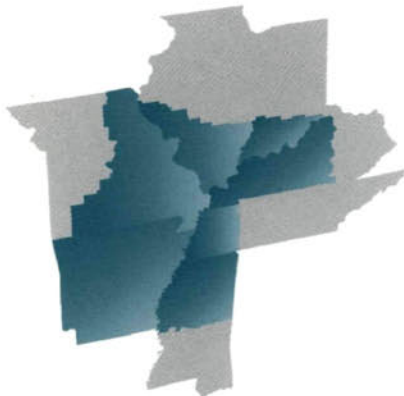
MEMPHIS BRANCH

John P. Baumgartner
Vice President & Manager

Anthony C. Cremerius, Jr.
Assistant Vice President

Michael R. Sinnett
Operations Officer

**EIGHTH FEDERAL
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