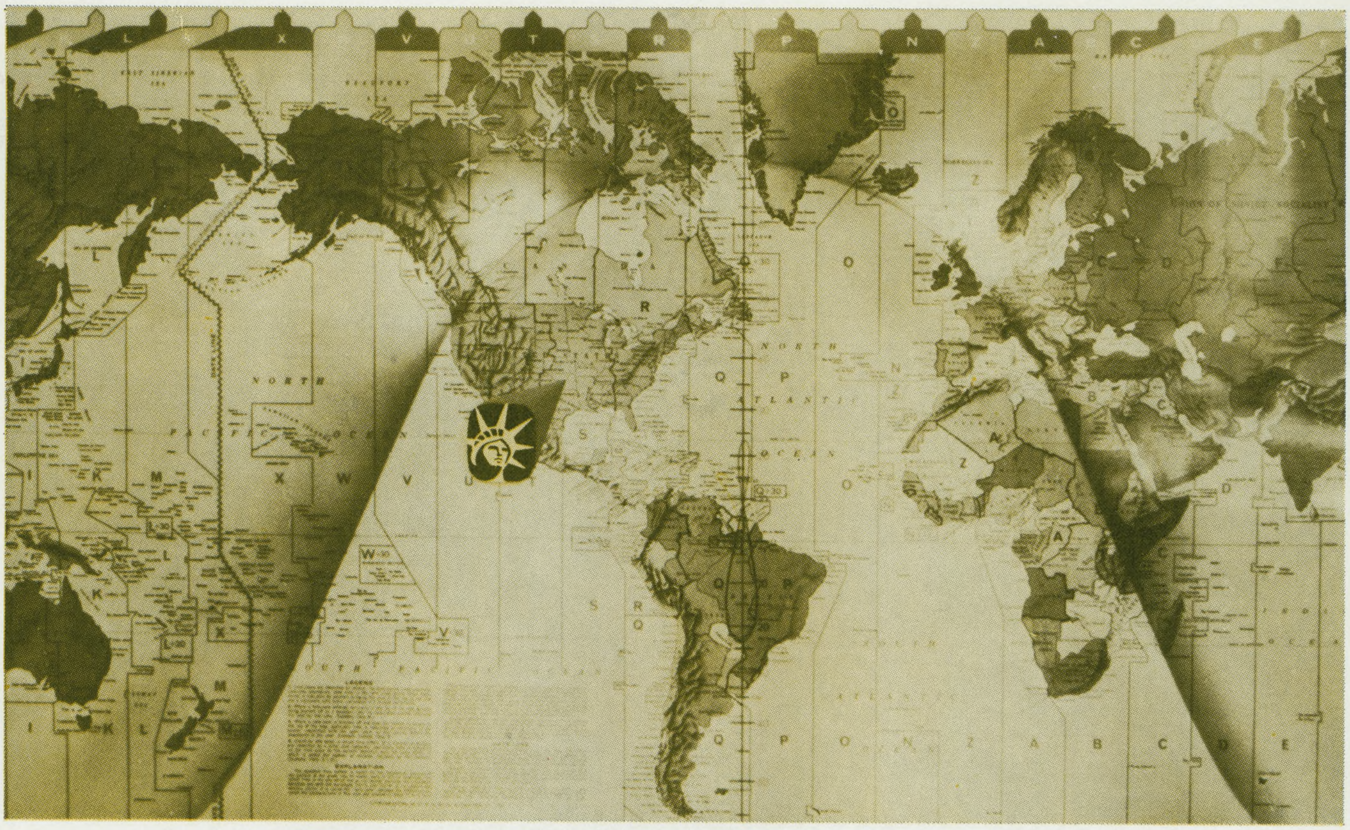
MID-CONTINENT BANKER

The Financial Magazine of the Mississippi Valley & Southwest

JANUARY, 1975

OUTLOOK ISSUE

First Nat'l, Hutchinson, Kan., Opens New Tower Building—Page 83



the many faces of Liberty's International Division

What can Liberty's International Division do to assist you and your customers.

Plenty.

You see, more and more firms of all sizes are reviewing their banking relationships from the standpoint of finding a bank that can provide "close proximity" expertise in international banking. In plain language, Liberty can help you help your customers faster because we're closer to you and to their businesses.

The ability to assist not only the corporate customer, but also the small company entering the international field for the first time exists at Liberty. You see, Liberty is one of eighteen parent banks of Allied Bank International and has direct access to the world market centers. Allied is based in New York City with branches in Nassau and London and representatives in Tokyo and Hong-Kong.

And we can help you provide this assistance for your customers. Areas of assistance include but are not limited to:

Documentary Collections
Export Financing
Offshore Financing
Commercial Letters of Credit
Foreign Exchange and more

For these and other reasons, Liberty's International Division has active working relationships throughout most of Central America, South America, Free Europe, Canada, Israel, Indonesia, Japan and Australia. If you have any questions concerning International trade, contact the Correspondent Department.

at your
LIBERTY
THE BANK OF MID-AMERICA

SHAREHOLDER MEMBER
ALLIED BANK INTERNATIONAL

Liberty National Bank & Trust Company P. O. Box 25848 Oklahoma City 73125 Member F.D.I.C. Phone: 405/231-6164

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Our background.

HBE Bank Facilities Corporation is the financial facility arm of the internationally known HBE "Controlled-Cost Design/Construction" discipline that has revolutionized the hospital building field.

We are a comprehensive team of planners, designers, financial and construction specialists working together under centralized control.

One-source responsibility.

We provide single-source responsibility for your building project. You deal with one firm rather than many. The responsibility for being on-time, on-budget and in compliance with your needs and wishes is ours. Your valuable time is not wasted.

The full resources of HBE—talent, experience, record of performance, financial stability—are behind our services to you. No other company offers our total commitment.

We are ready.

HBE Bank Facilities Corporation is ready now to talk with you about your next building project. Wherever you are located, whatever your size. Our capabilities are national.

Challenge us!

Let us prove the value of our service to you. We invite your inquiries. Contact Ted Luecke, President, 314/567-9000.

HBE Bank Facilities Corporation

Subsidiary of HBE Corporation·717 Office Parkway·St. Louis, Missouri 63141

MID-CONTINENT BANKER

The Financial Magazine of the Mississippi Valley & Southwest

Volume 71, No. 1 — **January, 1975**

Convention Calendar

January

Jan. 19-24: Robert Morris Associates Loan Management Seminar, Bloomington, Ind., Indiana University.

Jan. 26-29: ABA National Trust Conference, Miami Beach, Fla., Hotel Fontainebleau.

Jan. 30-Feb. 5: Assembly for Bank Directors, San Juan, P. R., El Conquistador Hotel.

February

Feb. 2-5: ABA Midwinter Trust Conference, New York City, Waldorf-Astoria Hotel.

Feb. 9-11: Bank Administration Institute Bank Security Conference, Dallas, Sheraton-Dallas Hotel.

Feb. 9-11: Bank Marketing Assn. EFTS Seminar, Atlanta, Fairmont Colony Square.

Feb. 9-20: ABA National Installment Credit School (First Session), Norman, University of Oklahoma.

Feb. 16-21: ABA Management Development Program for CEOs, Ponte Vedra Beach, Fla., Ponte Vedra Club.

Feb. 19-21: ABA Bank Investments Conference, San Francisco, Hotel St. Francis.

Feb. 23-26: Bank Marketing Assn. Holding Company Workshop, Miami, Fountainbleau Hotel.

March

March 2-4: ABA National Credit and Commercial Lending Conference, New York City, Americana of New York.

March 23-25: ABA National Marketing Conference, Chicago, Hyatt Regency.

April

April 7-9: ABA Installment Credit Conference, Chicago, Conrad Hilton Hotel.

April 8-9: Young Bankers of Tennessee Annual Convention, Knoxville, Hyatt Regency Hotel.

April 23-25: Alabama Bankers Association Annual Convention, Birmingham, Kahler Plaza Hotel.

April 27-30: ABA Mortgage Conference, Denver, Denver Hilton.

May

May 3-6: Louisiana Bankers Association Annual Convention, Fairmont Hotel, New Orleans.

May 4-6: Arkansas Bankers Association Annual Convention, Hot Springs, Arlington Hotel.

May 4-6: Association for Modern Banking in Illinois Annual Convention, Chicago, Hyatt Regency Hotel.

May 4-6: Illinois Bankers Association Annual Convention, Chicago, Palmer House.

May 4-6: Texas Bankers Association Annual Convention, Houston, Hyatt Regency Hotel.

May 11-13: Tennessee Bankers Association Annual Convention, Nashville, Hyatt Regency Hotel.

May 11-13: Missouri Bankers Association Annual Convention, Kansas City, Crown Center.

May 12-14: ABA Operations and Automation Conference, Bal Harbour, Fla., Americana Hotel.

May 13-15: Oklahoma Bankers Association Annual Convention, Tulsa, Fairmont-Mayo Hotel.

May 14-16: Kansas Bankers Association Annual Convention, Topeka, Ramada Inn Downtown.

May 17-21: Mississippi Bankers Association Annual Convention, Biloxi, Pete Fountain's Buena Vista Hotel.

May 18-20: ABA Southern Trust Conference, Williamsburg, Va., Williamsburg Lodge.

May 18-31: School of Banking of the South, Baton Rouge, Louisiana State University.

May 25-29: Assembly for Bank Directors, Hot Springs, Va., The Homestead.

May 26-28: AIB Convention, Minneapolis.

May 29-31: New Mexico Bankers Association Annual Convention, Roswell, Roswell Inn.

June

June 8-20: ABA National Installment Credit School (Second Session), Boulder, University of Colorado.

June 11-12: Indiana Bankers Association Annual Convention, French Lick, French Lick-Sheraton Hotel.

August

Aug. 3-8: ABA National Mortgage School, Columbus, O., Ohio State University.

Aug. 9-15: Bank Marketing Association Graduate Course in Bank Marketing, Madison, University of Wisconsin.

FEATURES

DEPARTMENTS

STATE NEWS

Editors

Ralph B. Cox
Editor & Publisher

Lawrence W. Colbert
Assistant to the Publisher

Rosemary McKelvey
Managing Editor

Jim Fabian
Associate Editor

Daniel H. Clark
Editorial Assistant

Advertising Offices

St. Louis, Mo., 408 Olive, 63102, Tel. 314/421-5445; Ralph B. Cox, Publisher; Margaret Holz, Advertising Production Manager.
Milwaukee, Wis., 161 W. Wisconsin Ave., 53203, Tel. 414/276-3432; Torben Sorenson, Advertising Representative.

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By Dr. Lewis E. Davids

Hill Professor of Bank Management,
University of Missouri, Columbia

The Student Loan Default Problem

A RECENT release from the General Accounting Office projected a student loan default rate of 24.3% in 1975. This highlights the need for statesmanlike thinking on lending to college students, not only by commercial banks, but other financial institutions.

As an academician and former banker, I'm concerned about the default figure. Shortly after learning of the projected default rate, I called a representative number of bankers. They had delinquency ratios of less than 2%, some had below 1%. This indicates that many lenders have student loan delinquency ratios substantially lower than average. Extrapolated, this also means there are a number with default rates greatly exceeding the quoted percentage. It is conjectured that these lenders, some of which are banks, savings and loans, credit unions and the like, haven't retained the loans. They simply pass them on to the Student Loan Marketing Association.

Senator Claiborne Pell (D.,R.I.), chairman, Education Subcommittee of the Labor and Public Welfare Committee, observing the steady increase in recent years of defaulted loans, has suggested abandonment of guaranteed student loans. With nearly 25% of student loans predicted to be in default, one would agree that something is wrong with academic lending, yet it would be unfortunate if the program were abandoned, were it possible to reconstitute it along more viable lines.

With this in mind, I discussed the topic with some loan officers and certain thoughts emerged. One is that loan officers having low delinquency ratios usually lend to natives of their market area. That is, they have loaned to individuals with families in their community who have some banking association with the institution. This doesn't mean these bank accounts are of a size to compel the bank to lend, but that there has been a continuing family-bank relationship. When approached by non-customer students wishing to borrow, these banks have indicated that students would be more likely to receive loans were they to apply at the institution with which they or their family maintained some relationship.

One loan officer noted that he had researched this policy, finding the majority of lenders to be in agreement with it. He mentioned that, due to present tight money conditions, student and other loans could not be accommodated. The banks were "loaned up."

In my course on Financial Institutions at the University of Missouri, I raised the question of this procedure with students and the majority agreed with the concept.

A 'Rip-Off' Student

A few dissenting students mentioned that they had established their own life-style and didn't wish to be involved in the financial relationships of their parents. Their understanding was that the lending policy made for a lower default rate, but was discriminatory to students. They also described a certain type of student, one who felt it fair to "rip-off" the establishment, with no intention of paying legitimate debts.

In discussing the topic with academic people of other universities, it appears that high default rates are more likely to be found in urban coastal universities than in the Mid-Continent area. A program that is basically viable in America's heartland has, it appears, been abused on both coasts. There are, of course, exceptions to this generalization.

I have discussed credit reputation and references with students, pointing out the implications that student loan defaults may have on subsequent large-ticket purchases, such as automobiles, mobile homes, etc. Most expressed surprise that their loan payment record would matter regarding such purchases. For this reason, the concept of "fair" credit reporting, providing for credit reporting agencies' "forgetfulness" of delinquencies, may be illustrated as being counterproductive. If students believe that their student loan credit records can't be transmitted, the logical conclusion of many is, simply, why repay the loan? The word has apparently gotten out among the student bodies of some universities that delinquent students are relatively immune from being either followed-up or pressured into paying their student loan debts.

I suggest that two steps be taken to reverse the student loan default rate. These two proposals are extremely simple. In my opinion, they are workable, and yet it is doubtful whether the government would see fit to implement them.

The proposals are based on the generalization that college graduates typically have much higher incomes over a longer period of time than non-college graduates. Thus, a college graduate should be in a better position to pay for his college education.

The first step is a waiver, signed by the student loan applicant, permitting the equivalent of a modest garnishment of his future earnings to be automatically deducted in a way similar to social security or income tax deductions. This would automatically repay the loan in many cases.

The second step is the use of the borrower's social security number as an audit trail. The creditor or creditor's successor may have access to the borrower's number, contacting and enlisting the cooperation of his employers to implement the first proposal.

Since the unemployment rate has not been higher, historically, than 6%, a student loan applicant would be a better risk with an automatic waiver or a social security number-trace. His chances of being unemployed would be very small. Thus, the delinquency ratio would be reduced to only a fraction of the 24.3% rate, which would result in lenders being willing to give more student loans, with the cost of the program being reduced. • •

Union Planters Nat'l Wins First Round In 'Indexed Principal' Legality Suit

UNION PLANTERS National, Memphis, has won what has been termed a landmark legal decision in Shelby County Chancery Court, involving the bank's right to charge and collect "indexed principal" on a corporate loan to a Memphis real estate concern. Union Planters officials said the suit and favorable decision will probably have far-reaching implications as a precedent for the nation's lending institutions.

Chancellor Wil V. Doran ruled that a loan made by the bank to Aztec Properties, Inc., containing an "inflation adjustment" of the principal amount under a promissory note, was not usurious and did not violate federal law.

The suit, filed against Aztec August 13, 1974, sought to prove the legality of indexing as it applies to corporate lending and the legality of a borrower's waiver of the right to claim usury.

Aztec signed a promissory note in July, 1974, agreeing to repay $50,000 in "constant United States dollars" adjusted for inflation or deflation, with annual interest at the rate of 10%. The inflation adjustment repayable under the note equalled the original principal multiplied by the Consumer Price Index adjustment factor. The adjustment factor was computed by dividing the Consumer Price Index at the note's maturity by the index figure on the date the money was borrowed. The bank used the most recent Consumer Price Index figure available, both preceding the loan and at the maturity date.

On July 12, 1974, the date the loan was made, the index had been projected through May, indicating a level of 145.6. When the loan matured on August 13, 1974, the index level had been projected through June and indicated a level of 147.1, or a 1% increase between May and June. Under the provisions of the promissory note, the bank was entitled to collect $500 in indexed principal. Aztec refused to pay the additional indexed principal, but repaid the original principal amount of the loan, $50,000, and $419.35 in interest. Union Planters then filed suit for the outstanding amount.

In addition to provisions relating to the indexation of loan principal, the promissory note signed by Aztec contained a waiver of the right to plead the defense of usury under Tennessee and federal laws. Chancellor Doran, in his written opinion, stated that the question of whether or not a borrower could legally waive the usury defense was indeterminative, since usury was not a legal or factual question in the suit.

The Tennessee constitution, in a provision written in 1870, limited interest on business loans to a maximum of 10%. Any interest amount in excess of 10% was considered usury and was illegal, under the constitutional provision.

The court ruled in substance, however, that the inflation adjustment of $500 was not interest, clearing the way for the introduction of the theory of indexed principal or inflation adjustment clauses in promissory notes.

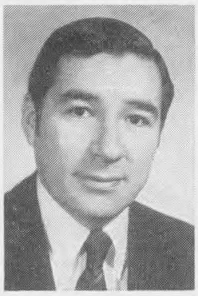
William M. Matthews Jr., chairman, Union Planters, said that "inflation is the number one issue in this nation today and must be dealt with in a manner which will neutralize its effect, since under any lending transaction we receive dollars worth less at repayment than those dollars initially loaned."

Richard A. Trippeer Jr., the bank's president, said, "This is a unique and original approach, unprecedented in the lending industry, and is evidence of Union Planters' aggressive posture in the nationwide fight against inflation."

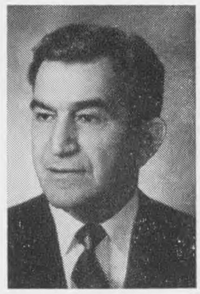
Aztec is expected to appeal the lower court decision directly to the Tennessee Supreme Court. • •

NEWS OF THE
BANKING WORLD


JAWORSKI


HERDOIZA


SNOW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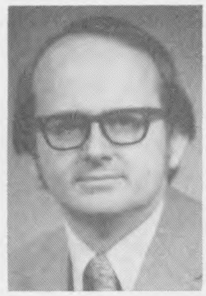
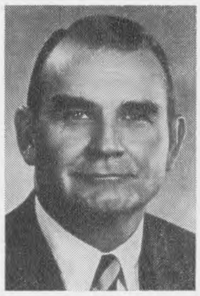
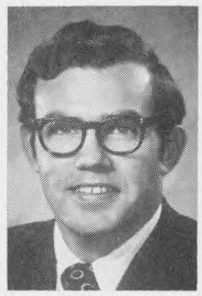

THOMSON


ROOS


KANE


GRISSOM


BECKER


DEMPSEY

• **Leon Jaworski** has been reelected a director of Bank of the Southwest, Houston, and appointed to the executive committee. Mr. Jaworski has returned to Houston to resume his law practice after serving as Watergate Special Prosecutor.

• **Charles J. Kane** became president of Third National, Nashville, January 1, going from Citizens Fidelity, Louisville, where he also was president. D. Roscoe Buttrey, who was Third National's president, became chairman. John W. Clay moved from chairman to senior chairman and continues as chairman, Third National Corp., the holding company that owns the bank. Mr. Buttrey continues as the HC's president, and Warren P. Gray continues as vice chairman of both organizations. Mr. Kane had been with Citizens Fidelity since 1941 and became president in 1970.

• **J. David Grissom,** vice chairman and chief operating officer, Citizens Fidelity, Louisville, has been elected president and chief operating officer. He succeeds Charles J. Kane, who has resigned to become president of Third National, Nashville. Mr. Grissom joined the bank in 1973 and was named president, Citizens Fidelity Corp., last year in addition to his bank duties. Daniel C. Ulmer Jr., executive vice president, banking, has been elected a director to succeed Mr. Kane on both the bank and HC boards and Joseph M. Rodes, executive vice president, financial services, was named a director of both boards to fill the first vacancies that occur.

• **Lawrence K. Roos** has been elected an executive vice president and director at First National, St. Louis. He will assume his new post on January 27, following service as St. Louis County Supervisor. He is a former president of Mound City Trust, St. Louis, and former chairman of First Security, Kirkwood, now United Missouri Bank of Kirkwood. He is expected to have a broad range of executive responsibilities at First National.

• **Joseph Orlando** has retired as a vice president in the correspondent banking department at First National, St. Louis, following more than 45 years with the bank. He joined First National in 1929 and was elected an assistant cashier in the correspondent department in 1954. He traveled throughout Missouri, Illinois, Iowa, Indiana and Kentucky.

• **William J. Becker,** vice president, St. Joseph Bank, South Bend, Ind., has been elected to the board of governors of the eastern region of the Recreational Vehicle Industry Association. He is the first banker to serve on the board and is a recipient of a citation from the association honoring him for recent service.

• **Raymond J. Dempsey,** head of the United States banking department at Bankers Trust, New York, was among several officers promoted to executive vice president recently. He joined the bank in 1957 and was named head of the U. S. banking department last year as senior vice president.

• **Robert A. Herdoiza** has been named senior vice president at Manufacturers National, Detroit. He joined the bank in 1963 and is officer-in-charge of the international banking department. He is also a director of Manufacturers-Detroit International Corp., an alternate director of Atlantic International Bank Ltd., London; and a member of the Bankers Association for Foreign Trade.

• **Charles E. Snow** has been named head of the correspondent bank department at First National, Denver. He is an assistant vice president and replaces E. Hale Adams Jr., vice president, who has joined East Bank, Colorado Springs, as a vice president. Mr. Snow joined the bank last year, following service with First National, Englewood, Colo.

• **Thomas D. Thomson** has joined Detroit Bank as vice president and chief economist and officer-in-charge of economic analysis. Dr. Thomson was formerly an officer of the Board of Governors of the Fed and chief of the Fed's econometric and computer applications section.

LET'S TALK ABOUT OUR STRENGTH AND YOUR SECURITY.

First National Bank of Kansas City has a reputation for being a strong, conservative bank. Strong because we have one of the largest capital structures of any bank in the region, and some of the longest standing correspondent relationships. Conservative because we obtain and invest funds cautiously.

Razzle dazzle has never been a part of our approach. And there have been times when that has worked to our disadvantage. But in today's economy, our strength and conservatism are looked upon as something of a financial fortress.

Our policies and people, of course, are what make the difference. We've always placed strong emphasis upon financial security and service for our correspondent banks.

That's one reason we call ourselves The First People. First of all, we're bankers. And we take money very seriously.

FIRST NATIONAL BANK

of Kansas City, Missouri

(816) 221-2800

MEMBER
F.D.I.C.

A Charter Bank

It's Not Hard to Analyze Incentive Promo; Daily Ledger Forms Work Well for S&L

HOW MANY new accounts has an incentive program produced?

How much new money has it brought in?

What is the total of the deposits that can be attributed to the program?

What is the average deposit?

What is the rate of retention of these accounts and these deposits?

These are questions that all marketing people would like to be able to answer, but many have found no simple procedure by which to obtain the answers. Yet it can be done, simply and easily. Community Federal Savings, which has seven offices in suburbs of St. Louis, has a plan that works.

Basic to the plan is the fact that all "gifts" are distributed to customers immediately after the necessary deposit is made. For this purpose, a "gift center" is set up in each of the S&L's offices which is large enough so that an adequate supply of gifts may be stored there. At the same time, a display of the gifts is so located in the gift center that attention is focused upon it.

The S&L uses passbooks. As a customer makes a deposit, that deposit is entered in the passbook. The customer then takes the passbook to the gift center, shows the passbook to the attendant and receives either a free gift or pays the additional amount necessary to "buy" a self-liquidating premium. In either case, the attendant checks the entry in the passbook to show that the gift has been received or the purchase made. (Banks that do not use passbooks may use a purchase order form which can then be presented to the gift center attendant.)

When the customer presents his passbook to obtain his gift, the gift center attendant makes certain entries on a form prepared to meet the requirements of the individual promotion. Entered on this form is the number of premiums sold. (For example, in a dish promotion in which a $50 deposit permits the purchase of one place setting, a $100 deposit would permit the purchase of two place settings.) In the next column, the amount paid (if cash is involved) is entered. If the item is free, a check mark is made in an appropriate column. (In a dish promotion, this almost always applies to the first place setting.) Under the column heading, "account number," are two subcolumns, in one of which the numbers of new accounts are entered and, in the other, the numbers of existing accounts. In the sixth column the "amount deposited" is entered.

The form used to illustrate this article is that best suited to a dish promotion. In such a promotion, a variety of "settings" are available at the same or comparative prices. In the form shown, 14 column headings are provided so that the attendant may check the appropriate column to indicate the "setting" purchased; for example, "four-piece place setting," "four fruit dishes," "four soup dishes," etc. These columns, through simple subtraction, provide a running inventory of stock remaining as well as a record of items sold.

After the office closes, it is a simple matter to tabulate the number of new accounts opened, the total new money generated by these accounts, the total deposits made and the average deposit. After the program has been terminated, it is possible to use the account numbers entered in these records to check the accounts and determine the rate of retention, both of the new and the existing accounts, on the basis of 30 days, 90 days or a year.

Because Community Federal has seven offices, a second form is necessary. On this form, the amounts of deposits made at each office and a running total of deposits to date are tabulated at the end of each day. On the same form, a record is kept of total purchases of each of the 14 items available. For a "bottom line," a total is obtained for the seven offices on "this date" and a grand total "to date." In a special column, the number of new accounts generated at each office is recorded and a total obtained.

The result is that at the termination of an incentive program the S&L's marketing officer is able to show almost immediately what results have been obtained from the promotion. No guesswork is involved—no "seat of the pants" estimating—the figures are there in black and white; it requires only a little calculating to dig out the facts, and even this job can be simplified by placing an adding machine in the gift

ROYAL HOMES DINNERWARE PROMOTION

DATE: OFFICE:

Sold		No.	Account Number		Amount	4-pc. place setting	4 fruit dishes	4 soup dishes	4 salad dishes	1 open Veg. dish	1 gravy boat	sugar & creamer	1 12" Platter	1 14" Platter	1 Covered Casserole	1 Beverage Server	1 Ice Crusher	1 Blender	1 Toaster oven broiler
No.	Amount	Free	New	Exist	Dep.														

Top form is used to tabulate incentive results at each of Community Federal's offices. Bottom form tabulates results from all offices.

OFFICES		4 pc. place setting	4 pc. place setting free	4 fruit dishes	4 soup dishes	4 salad dishes	open veg. dish	gravy boat	sugar & creamer	12" platter	14" platter	covered casserole	beverage server	Ice crusher	blender	oven toaster broiler	TOTAL	New Accounts
HOME	THIS DATE																	
	TO DATE																	
NORTH	THIS DATE																	
	TO DATE																	
FLORISSANT EAST	THIS DATE																	
	TO DATE																	
ST. CHARLES	THIS DATE																	
	TO DATE																	
MID-COUNTY	THIS DATE																	
	TO DATE																	
SOUTH	THIS DATE																	
	TO DATE																	
CRESTWOOD	THIS DATE																	
	TO DATE																	
Totals This Date																		
Totals To date																		

A personal checkbook catalog doesn't have to look like one to work like one.

We've completely re-designed our Personal Checkbook Catalog both inside and out.

Inside, the new catalog has been re-designed for easier use. It features all the popular DeLuxe checks your customers have come to appreciate plus our all new Spirit of America commemorative package portraying memorable historic events, a new offering of covers and an updated checkbook selection.

Outside, we've designed our catalog to be a welcome addition to your new accounts area even when it's not being used.

The all new DeLuxe Personal Checkbook Catalog. You'll appreciate the way it looks and feels...and, even more, the way it works.

DELUXE
CHECK PRINTERS, INC.
SALES HDQTRS. • 3440 N. KEDZIE, CHICAGO, ILL. 60618
STRATEGICALLY LOCATED PLANTS FROM COAST TO COAST

center and having the attendant record a running tape of transactions.

Marketing officers can use the figures developed from such records to demonstrate to doubting Thomases that incentive programs DO bring in a lot of new money and that the rate of retention is extremely high. That is the experience of those marketing people who have dug out the facts. • •

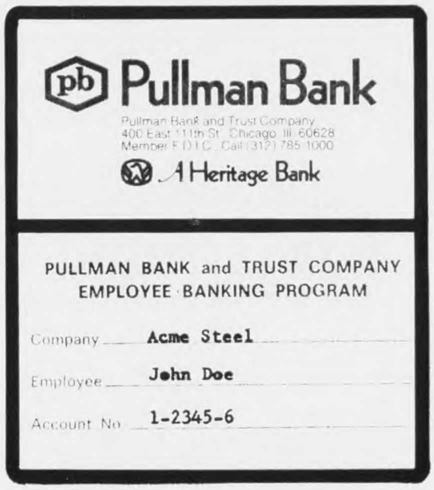
Business Boosters:

Using Laminated Cards As Marketing Tools Is Newsletter Subject

How to use laminated cards as marketing tools is described in a new, four-page newsletter called "What's in the Cards."

The newsletter pictures different types of wallet-sized cards issued by banks and S&Ls and lists ownership requirements for each. Among those pictured are cards that sell CDs, promote a new type of savings or checking account, reward "big-ticket" deposits, offer bonus checking and serve as a low-cost ID system.

The newsletter originally was prepared for banks and S&Ls that own one or more Card/Guard laminators. However, the newsletter's publisher, Jackson-Hirsh, Inc., Deerfield, Ill., decided other financial institutions also would be interested in seeing it.



This is laminated card Pullman Bank, Chicago, uses in its Employee Banking Program. Card indicates that holder is preferred customer of bank.

The newsletter describes several case histories of how Card/Guard laminator owners use the laminated cards to stimulate business. For instance, Pullman Bank, Chicago, uses the laminator for payroll checking accounts. To encourage employees of commercial account holders to "leave their money" at Pullman, the bank offers each employee a preferred customer card signed by the employee before lamination. Participants in Pullman's Employee Banking Program receive free checking and special discounts on installment loans.

"Women of the South":

Southern Womanhood Honored by Bank With Art Exhibit

American National, Chattanooga, held an exhibition of paintings entitled "Women of the South," honoring the traditions of southern womanhood.

The collection, by artist Eve Oldham, contained a variety of water colors, egg temperas and graphic studies featuring women of the region in traditional, natural working environments. Descriptions accompanied each painting, allowing the viewer a glimpse into the situation contributing to the subject matter's creation.

Pictured with recent water color, "Savannah Blues," featured in American National of Chattanooga's "Women of the South" art show, are artist Eve Oldham and J. Ralston Wells, bank a.v.p., trust division.

Halloween Publicity Stunt Pays Off for St. Louis S&L

Talk about putting on a show! That's just what employees of Roosevelt Federal S&L, St. Louis, did! For a publicity stunt, all employees were asked to wear costumes during the day preceding Halloween. To spark enthusiasm, the S&L offered three $50 prizes for the most striking costumes, and the stunt paid off! The city's leading TV station took pictures and showed them on the air with credit to the S&L. (Left) Don Miller is a Mexican peon and Dorothy Kranz a sun goddess (she won a prize). (Center) Walter Bolliger, S&L president, is interviewed for KSD-TV. Carolyn Wadlow, as a dragon, won a prize. The clowns are Betty Kennedy and Cheryl Marlin. (Right) Tom Caito, maintenance man, was one of the hits of the day as a hula dancer. All customers at the S&L's 15 locations received shopping bags or trick-or-treat bags decorated for Halloween.

No Heavy Advertising:

Bank of Ladue Shows Plants, Memorabilia

A display of fall flowers, trees, shrubs and ground cover was a recent feature in the Bank of Ladue, Mo., lobby. Other attractions in the not-too-distant past were herbs, Winston Churchill Memorial tapestries and 1904 World's Fair memorabilia.

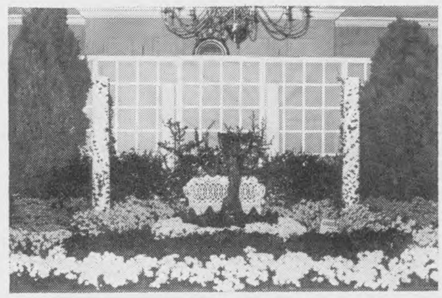
The fall flower and shrub display, a repeat of the new bank's first such display last April, was grown by an Elsberry, Mo., nursery. The exhibitions were set up by landscape artists on a specially constructed base and were more than something for customers to just walk through and enjoy. Those who deposited or added to accounts picked a favorite from 20 choices to take home free or for a slight cost.

Bank of Ladue customers choose from plants, kept in bank's lower lobby. Besides decorative plants, edible herbs were offered.

John Fox, bank president, said, "We're an informal neighborhood bank and don't go in much for heavy advertising and giveaways. We offer our customers complete banking services and only very special promotions, like this flower show."

Another exhibition of note was the showing of 17 needlepoint and embroidered church vestments, hand worked in England for the Winston Churchill Memorial in Fulton, Mo. This collection of tapestries was made for the church, St. Mary, Aldermanbury, England, a Christopher Wren structure that was largely destroyed by Nazi bombs in 1941. The ruins were moved in 1966 to Westminster College in Fulton, where it was reconstructed.

Photographs and souvenirs from the 1904 St. Louis World's Fair also have been featured at the bank. Sponsored by the Museum of Science and Natural History, Clayton, Mo., photographs from the museum's picture library depicted construction of the fair, buildings, fountains and major attractions. An accompanying text provided background information on the fair and life in St. Louis in 1904.



Fall flower show at Bank of Ladue, Mo., was complete with flowing fountain and vine-covered columns. Various flowers, trees and shrubs were given free or sold at small self-liquidating cost with deposits.

Souvenirs on display included a commemorative silver tray, silver spoons, boutonniere ribbons and post cards. An aerial panoramic map of the fairgrounds showed present-day St. Louis streets.

Centennial Gift:

William Tell 'Chases Arrow,' Almost Misses Own Party After Hijacking Attempt

Tell City (Ind.) National was 100 years old in 1974. To celebrate, Howard Brenner, bank president, commissioned artist Don Ingle of Evansville, Ind., to create a life-sized statue of William Tell and son to present to Tell City.

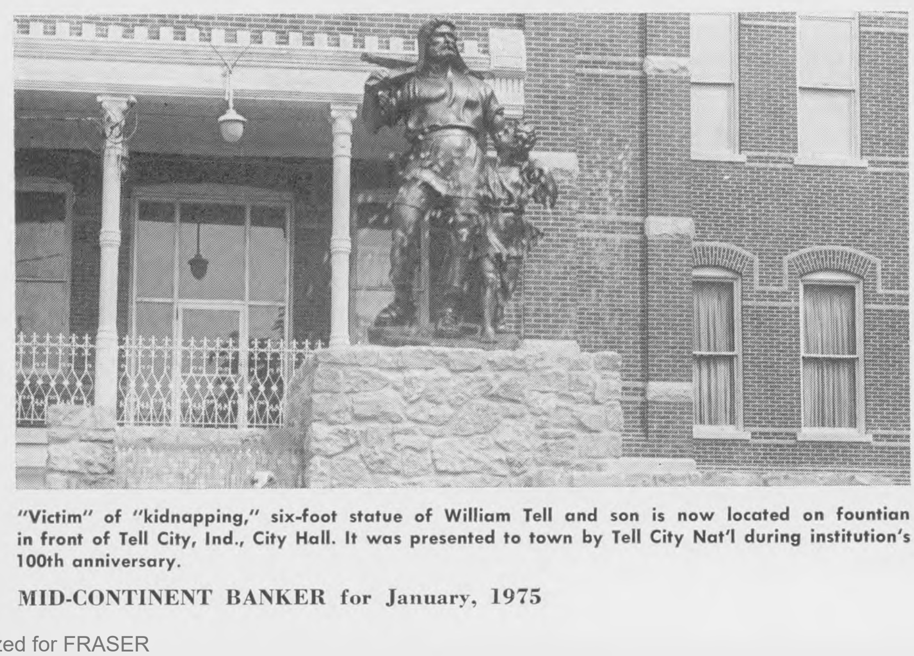
The town, founded in 1858 by the Swiss Colonization Society, was named after the fictional hero. His statue, it was reasoned, would be the perfect gift for a city so named.

All did not go smoothly. On its return from the foundry in New York, the van containing the statute was stolen in Strongville, O. Whoever took the van probably hoped to get something besides a statue.

The local police and the FBI were notified and a week of investigation went by before the van and statue were located on a Cleveland street. Both were undamaged, so William Tell and son were rushed to Tell City, just in time for the annual Schweizer Fest, August 7-10.

The statue found a permanent home in front of the City Hall portico, as the focal point of a bank-donated fountain equipped with seven waterfalls, benches and colored lights.

Who engineered William Tell's "kidnapping"? No one knows for sure, but many Tell City natives swear the whole thing, an episode that drew national attention, was planned by none other than bank President Howard Brenner.



"Victim" of "kidnapping," six-foot statue of William Tell and son is now located on fountian in front of Tell City, Ind., City Hall. It was presented to town by Tell City Nat'l during institution's 100th anniversary.

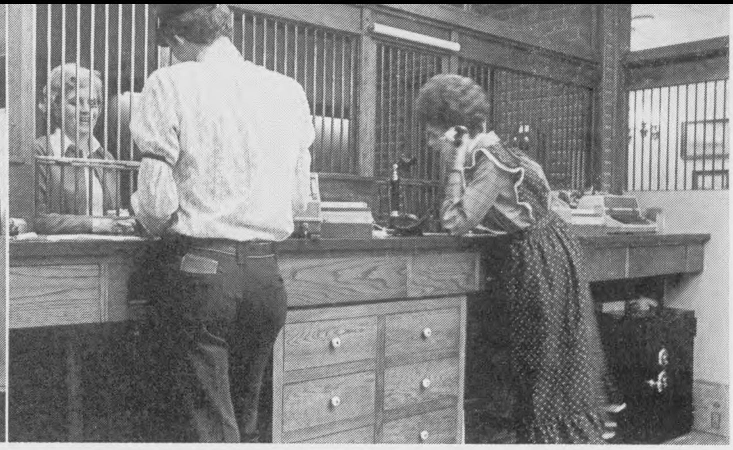
Workbook Approach:

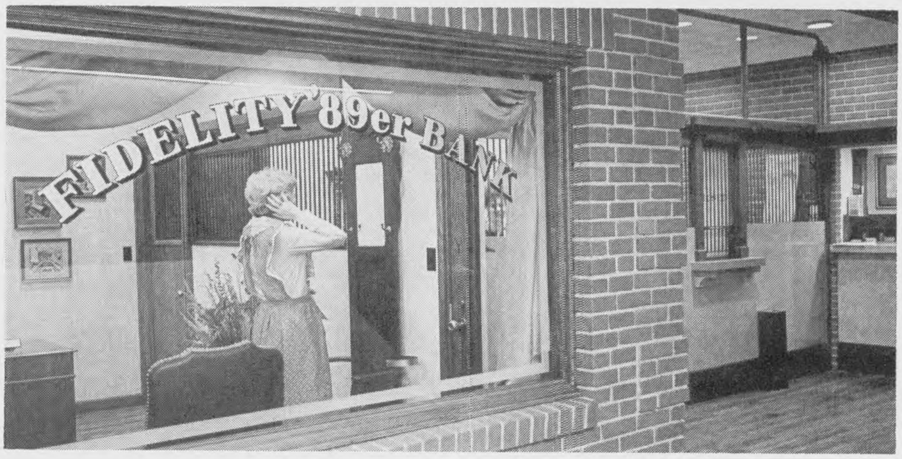
Direct-Mail Campaigns Outlined in BMA Kit

The Bank Marketing Association, Chicago, has released a new "Direct-Mail Kit for Community Bankers," a step-by-step approach enabling a banker to effectively promote his instiution's services and products through the postal medium.

The kit, using a workbook approach, spells out the pros and cons of various direct-mail techniques, explains different types of campaigns and pinpoints the important steps in effective direct-mail planning. Also included are case studies of successful operations by various institutions.

Available free to BMA members, the Direct-Mail Kit is offered to nonmembers for a fee of $7.50, applicable toward a future BMA membership.





TOP LEFT: Teller window area of Fidelity '89er Bank, Oklahoma City, includes authentic brass grillwork, oakwood and marble counters from Oklahoma bank that closed doors in 1889. TOP RIGHT: Teller counters and oakwood fixtures are part of original Bank of Mounds, Okla., established in 1901, closed in 1929. Grillwork is from same source. Antique telephone really works! LEFT: Fidelity '89er Bank includes small office with authentic furnishings, teller window and customer supply counter. Bank is located under Fidelity Plaza Building.

Land Rush Days:

Gay Nineties Return to Oklahoma City; 'Old-Time' Bank Opens With a 'Bang'

Fidelity Bank, Oklahoma City, has opened an "'89er Bank," a replica of a small community bank of the 1890s.

The bank was opened in ceremonies recalling events of the Land Rush of 1889. With a bugle playing and the shot of a pistol, a rope was untied, officially signaling the opening of the bank's windows for customer use.

To recreate the charm and intimate feeling of turn-of-the century banking, Fidelity acquired authentic pieces through foraging expeditions throughout the state. For several weeks after the opening, and on special occasions, employees manning the Fidelity '89er Bank will wear period costumes.

The bank consists of two teller windows where pedestrians can do their banking rather than having to take the elevator to the main bank level.

Turkey Essay:

Illinois Bank's Contest Awards Local Children's Writing Endeavors

Twenty-nine local grammar school children were recipients of certificates for turkeys from Heritage/County Bank, Blue Island, Ill. The occasion? The bank's annual Thanksgiving essay contest, where children write an essay telling what they like best about Thanksgiving.

Winners, selected in grade categories of third and fourth, fifth and sixth and seventh and eighth grades, were awarded one of two turkeys for each category in each school.

Blooming ladies of letters from one Blue Island, Ill., grammar school show certificates for turkeys, won in annual Thanksgiving essay contest held by Heritage/County Bank, Blue Island.

Bank Hosts Roundtable

Pictured at recent Houston "Million Dollar Roundtable" are (l. to r.): John Cooney, sr. v.p., tr. off. & mgr., trust division, Bank of the Southwest, Houston; Mrs. Fred J. Schubert; Mr. Schubert, CLU, Prudential Insurance Co., and pres., Houston Assn. of Life Underwriters; and Ken Stanaland, bank v.p., tr. off. & mgr., financial planning dept. The occasion was a champagne reception and preview of the play, "The Man Who Came to Dinner." The bank's trust division hosted the event, honoring the city's top insurance professionals.

Businesses Cooperate:

Year-Round Crowds Drawn To Bank's Lobby Displays

Republic National, Houston, in cooperation with business firms, held a year-long series of special events which evidently were enjoyed by many of the bank's customers and local residents.

The most recent of these showings was an exhibition of shells, presented by Shell Oil Co., but others, termed unusual and distinctive, included works of art, historical displays and other types of special-interest exhibits.


MAGIC US

MGIC announces MAGICUS. Your key to success with FNMA, FHLMC, and GNMA programs.

Leon T. Kendall, President, explains why MGIC, after studying lender needs, created "MAGICUS"—a whole new system to aid institutions and loan processors using government programs.

What is MAGICUS?

"MAGICUS is MGIC's new system to give lenders greater profit and ease when insuring government loans. It includes new coverages to meet specific FNMA, FHLMC, and GNMA minimums; a new conversion privilege on standard plans; one simple application for *all programs;* a guide to steer loan processors through red tape; computerized screening of FHLMC loan applications for errors; and much, much more."

How does MAGICUS help profits?

"It shortens manager and loan processor learning time. Helps avoid errors and paperwork. And most importantly, it can cut costs substantially by reducing loan rejection rates."

How can MAGICUS prevent errors?

"Our Loan Processor Guide points out the danger spots on all forms. It also clarifies regulations and underwriting guidelines. For FHLMC users, we'll electronically flag errors and omissions so you can correct them before submitting your loan packages.

"Our new application will be a big help, too. It's a 'combination' form for both standard and government coverages. Yet it's short and simple, and designed so your typist can answer questions without manual shifting."

What is the conversion privilege and how does it help lenders?

"It's a way of keeping your options open. For instance, if you are not sure a loan will meet government qualifications, or if you haven't arrived at a portfolio decision, you can select any of our standard plans with higher coverage and convert to government minimums later. If you decide not to go government, you'll have greater protection and greater acceptance of the loan in the conventional secondary market."

Why should lenders use MAGICUS and the new government programs?

"In the months ahead, the ability of any originator to adequately serve local home-buyers is likely to depend on use of the FNMA, FHLMC, or GNMA programs. The Emergency Housing Credit Act has authorized billions of dollars in special funds for conventional loans needed in these difficult times. These funds will help lenders serve their builders and realtors as well as their community. And MAGICUS will help both new and experienced users of government programs streamline procedures and cut costs."

How do lenders go about putting MAGICUS to work?

"The best way is to call in your regular MGIC representative. He's one of our 120 field experts and he's specially trained to explain not just MAGICUS, but all of the government programs, to you and your staff. Another convenient way is to order your free MAGICUS kit following the instructions below."

Note: The insurance form and rates for the MAGICUS program have been submitted to the insurance regulatory authorities of all states.

Free MAGICUS Kit

Special kit—containing brochure on MAGICUS, new coverage plans, Loan Processor Guide to all government programs and form use—is yours for the asking. Write or call our home office (toll-free number 800-558-9900—in Wisconsin 800-242-9275) today.

MGIC

Better Homes For More People

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MGIC Plaza, Milwaukee, WI 53201

Community Involvement

'Your Dollar's Worth':

Consumer Radio Series Is Offered by Bank

"Relevancy" is a much-used and important word these days. For banks, the individual, the consumer, is becoming more "relevant" every day. To the consumer, in these times of inflation, getting the most from each dollar is "relevant." Exchange National, Chicago, through a new series of radio programs, zeroes in on just how a buyer can expand his purchasing power through careful expenditure.

The programs, entitled "Your Dollar's Worth," run two minutes, plus commercial. So far, they have been licensed to financial institutions for broadcast throughout Hawaii and Maryland, as well as markets in nine additional states, but aren't available in the Chicago area. A typical spot includes topics such as: "You and Your Warranty," "Saving for College," "Trimming Automobile Costs" and "How to Buy Medicine."

Licensees get exclusive rights to the series, which are researched, written, recorded and provided on a monthly basis, so all material is timely. Six months (130 individual shows) of programming are in the package, with a fee based on market area and size of the institution. Rights, at the licensee's option, are renewable for six-month intervals.

Alan B. Eirinberg, first vice president, marketing department, Exchange National, La Salle and Adams Streets, Chicago 60690, can furnish particulars to interested bankers.

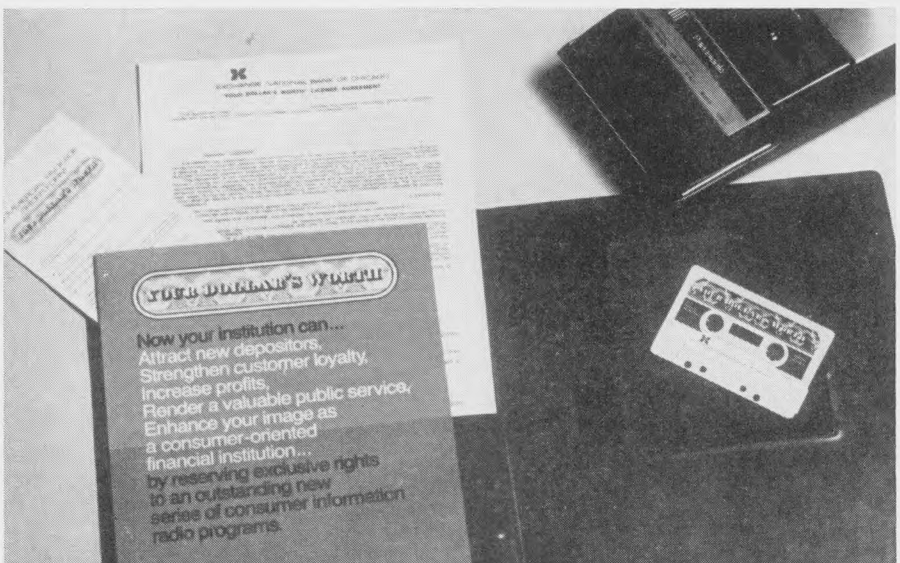
A Christmas Gift:

Trees Donated by Bank Planted in Area Park

Central Trust, Cincinnati, adorned each of its 32 offices with a live Christmas tree last year, then donated them to the Hamilton County Park District for replanting after the holiday.

The trees are Scotch and White Pine, recommended by a consulting forester for bank decoration and park district plantings. The two downtown banking centers had White pines, approximately 12 feet tall, decorated in turn-of-the-century style, while the 30 suburban centers' trees are six to eight feet tall and were trimmed traditionally. They reflected the bank's aim to get away from the "plastic" look associated with modern Christmas decoration.

To protect them for replanting, Central Trust displayed the trees for only two weeks, after which they were replanted in the entrances to one of the area's major parks.



Kit available from Exchange National, Chicago, explains "Your Money's Worth" radio show, includes detailed information about consumer-oriented program, tape with three examples from series and contract. According to bank officials, response has been extemely good.

'Litter Glitters':

Oklahoma Bank's Plan Begins to 'Clean Up'

Liberty National, Oklahoma City, has installed "Litter Glitters" as part of a concept for grounds beautification.

Manufactured by an Oklahoma City firm and sold by Oklahoma City Beautiful, Inc., a nonprofit organization, the "Litter Glitter" is a "pretty" trash container. Constructed of attractive, textured concrete and weighing 1,200 pounds, it is said to have virtually eliminated the problem of waste containers being moved or removed from the outdoor mall.

Karen Koski, Liberty National, Oklahoma City, helps keep bank's outdoor mall beautiful by tossing refuse in new "Litter Glitter." Attractive trash cans are designed to last as long as most buildings.

Replaceable plastic containers are used inside, enabling quick and convenient emptying.

In Detroit:

Bank Sponsors Workshop; Fraud Reduction Taught

Manufacturers Bank, Detroit; the Bureau of Business Services and Research, Eastern Michigan University; and the Small Business Administration held a five-hour workshop for businessmen, showing how to minimize the losses that result from shoplifting, check fraud and credit card abuses. Topics such as the psychology, techniques, prevention, detection, procedures and legal considerations of prosecution of shoplifters and those who attempt to defraud with checks or credit cards were covered.

The workshops, presented as a community service, featured John Kennedy, second vice president in charge of loss prevention, Manufacturers Bank; Attorney Myzell Sowell, Detroit Private Defenders Office; Sergeant James Grekowicz, Special Investigation Department, Detroit Police; Dr. Edward Spitz, Eastern Michigan University, and Sergeant Norman Nowak, Sterling Heights Police.

Nine-Year Collection:

Ft. Worth Bank Gives Art, Money to Local Club

Works of art, acquired by Fort Worth National through its sponsorship of the annual art show of the Fort Worth Woman's Club over the past nine years, have been presented to the club by the bank.

The art work, which includes oil paintings, watercolors and drawings, was hung in an area of the Woman's Club, to be known as the Fort Worth National Gallery.

Art show entries are displayed annually at the bank, which awards $100 cash prizes to the first-place winner in each of the three categories. The bank also makes a $100 donation to the club in honor of each winner.

The works had, in the past, become the property of Fort Worth National, but henceforth will be presented to the Woman's Club for hanging in the gallery.

Irvin Farman, v.p. & pr director, Fort Worth National, presents oil painting to Fort Worth Woman's Club members Mrs. Dana L. Knight (l.) and Mrs. Fred B. O'Neall. Bank presented club with art acquired over nine-year period.

Banking for Youths:

Courses in Two States Offered H.S. Students

Heritage/Standard Bank, Evergreen Park, Ill., is sponsoring an Explorer program for students from schools in the surrounding community. Bimonthly seminars are conducted in the bank's lounge, where students learn about banking and bank operations from officers who lecture about their own departments.

John Romanovich, Explorer exec. (r.), explains Heritage/Standard Bank, Evergreen, Ill., Explorer program to (l. to r.) John J. Hayes Jr., bank e.v.p.; Albert C. Balderman, bank a.v.p., & tr. off.; William J. Riha, Continental Can Co., sponsoring corp.; and Justin O'Toole, bank pres., while students complete registration.

Included in the lectures are: establishment of a bank; bank security; teller operations; proof and bookkeeping operations; 24-hour banking and vault operations; personal banking; personal lending; trust operations and mortgage lending; and commercial and industrial lending.

The program includes a field trip to the new Heritage/Pullman Bank building in Chicago and concludes with the awarding of completion certificates to the students by Justin O'Toole, bank president, and John J. Hayes Jr., bank executive vice president.

Equibank, Pittsburgh, has initiated a similar program. In conjunction with the Pittsburgh public school system and local suburban schools, and with the endorsement of the National Alliance of Businessmen, career opportunities are introduced to students, permitting them to earn while learning. Initially, 23 will train and work half-days throughout the week at Equibank community offices, serving as observers before taking various job assignments.

Four seminars will be held throughout the school year to reinforce the training and familiarize students with other bank operations. Equibank's program runs until June.

Gift to Medical School

M. R. Bottesini (2nd from l.), pres., Bank of Huntsville, Ala., presents check for $75,000 to Dr. Benjamin B. Graves, president, University of Alabama, Huntsville (r.). Money is gift from bank, to be used in development of a school of primary medical care for university. At l. is Harry L. Pennington, bank ch. Second from r. is Dr. Silas Grant, associate dean, School of Primary Medical Care.

Holding Companies

• **The Fed** has approved the application of Texas American Bancshares Inc., Fort Worth, to engage de novo in the underwriting of credit life and credit accident and health insurance through a wholly owned subsidiary, Financial Service Life Insurance Co. The new subsidiary will underwrite insurance directly related to extensions of credit by the HC's subsidiary banks.

• **Mercantile National** of Dallas' stockholders have approved a proposal under which the bank will become a subsidiary of Mercantile National Corp. Under the reorganization plan, the HC will become owner of the shares of Mercantile National. Stockholders of the bank will exchange present shares for HC stock on a share-for-share basis. Bank directors will become directors of Mercantile National Corp. Consummation of the HC had yet to be approved by the Fed at press time.

• **The Fed** announced its denial of the application of Commonwealth Bancshares, Inc., Dallas, to become an HC through acquisition of Commonwealth National, Dallas.

• **Denial** of an application by Bankshares of Indiana, Inc., Merrillville, to acquire Goodwin Brothers Leasing, Inc., Lexington, Ky., recently was announced by the Fed.

• **John Caruso** has been named operations manager, First Memphis International Corp. in New Orleans, a subsidiary of First National, Memphis. Mr. Caruso had several years' banking experience before joining FMIC.

• **The Fed** recently approved an application by Manufacturers Hanover Corp., New York, to acquire Ritter Financial Corp., Wyncote, Pa., a consumer finance company.

• **Election** of a new president and discontinuance of plans to sell Nashville City Bank were announced by United Tennessee Bancshares Corp., Nashville. Wayne W. Pyeatt was named president, Nashville City Bank. He is president of the firm's Memphis affiliate, National Bank of Commerce.

The Nuts and Bolts of Personal Banking: How It Works for Customers and Banks

An interview with William C. Rodgers, assistant vice president, Commercial National, Peoria, Ill.

MCB: How does the personal banker system work at your bank and what, if any, changes in the system have been made since the service was first offered?

Mr. Rodgers: Commercial National's personal banker department was introduced in September, 1973. It is located in the lobby of the Main Office. The bank's two facilities, the Bank-Park and the Mini-Bank, do not fully utilize the concept since loans are not made at these locations. However, several of the people doing new account work at these facilities attended our personal banking training school along with those individuals who have been designated as personal bankers.

There have been no significant changes in our program since its introduction.

MCB: What staffing and training techniques have you employed and what, if any, problems have had to be overcome in this area?

Mr. Rodgers: Our personal bankers were selected from existing staff members who were working either as direct installment loan interviewers or new accounts people.

This group attended a special after-hours training course one night a week for 22 weeks. The training course was structured around the following broad outline:

The importance of installment credit; qualifications of good installment credit risk; the technique of the loan interview; investigation, the credit decision and the development of credit information; closing procedures; installment sale financing; collection procedures for installment loans; special loan programs; new checking accounts; local competitive factors; credit department; check orders; new savings accounts; bank collection department; general information sessions; safe deposit department; proof and transit departments; U. S. Savings Bonds; trust department; farm management department; real estate loan and wire transfer departments.

Instructors were bank specialists on the above topics. For the most part, they were personal banking students attending the Personal Banking School to learn new and additional skills.

The AIB Installment Lending textbook was used as background material for the credit subjects. A special handbook was written by the bank staff for subjects not covered in the textbook.

In addition to the above classroom training, personal bankers were given a minimum of four weeks on-the-job training in either the installment loan or new accounts departments. Following these two programs, all personal bankers attended an in-house sales training program sold by the Wilson Learning Corp., Minneapolis.

In reviewing our training program, it became apparent that we didn't give enough time to on-the-job training. Ideally, a term of eight to 12 weeks would have been better, providing sufficient time had been available to do so prior to starting the personal banker concept. Unfortunately, that much time was not available.

The sales training program is well suited to the bank's objectives. However, it requires organized follow-up and continuous effort to keep the objectives in sight.

Unfortunately, new personal bankers coming into the program do not have the advantages of the original concentrated training program. Thus it will take them much longer to learn the required job skills.

MCB: How is the appeal of the personal banking service being perpetuated to bank customers now that the sense of "newness" is past?

Mr. Rodgers: By adding services. A few months ago, a package of retail bank services, known as Bank Pack, was introduced. An important part of the package is the personal banker, who is trained to handle all the services included in the package.

Marketing plans are under consideration that include ideas for perpetuating the personal banker concept.

MCB: What has the service done for the bank in the areas of profits, better service and customer goodwill?

Mr. Rodgers: Our accounting system does not permit the measurement of changes in bank profits in relation to the personal banking concept. However, if we can use the changes in numbers and dollars of retail accounts outstanding as a measure of success, we can report some impressive numbers.

Keep in mind that, in addition to the new concept, we have developed new marketing programs that incorporate the new concept. Included in the new programs are Diploma Power (free checking for high school graduates), a Fare Deal Bus Coupon program; a package of retail banking services (Bank Pack) and other programs, all directed to the retail bank market.

For the first eight months of 1974, average personal checking account balances increased 6.4% over the same period a year earlier. As to the number of regular checking accounts, they increased 11.6% in the first eight months as compared to an increase of 4.9% for the same period a year earlier. (This total includes both personal and corporate accounts, but growth has been in personal accounts.)

The number of regular passbook savings accounts increased 4.2% in the first eight months as compared to less than 1% in 1973. Total consumer time deposits, which include regular passbook savings, 90-day passbook accounts, savings certificates and repurchase agreements sold to individuals, averaged 4.3% more for the first eight months of 1974 as compared to a like period in 1973.

MCB: Please give specific instances of how the service has helped customers.

Mr. Rodgers: The service is helping customers because we have many instances where checking or savings accounts are opened and then the same customer returns to his personal banker when he needs a loan. Or loan customers are calling their bankers to open new accounts. Many telephone callers ask for their personal bankers by name.

One weak point in our system is, that during busy periods, some customers can't get through to their personal bankers. It is not uncommon for a customer to wait several minutes to get to see his banker or for the banker to have to make a return telephone call to a customer due to his being involved with a different customer when a call was made.

MCB: What does the bank plan in the way of expansion and additional

(Continued on page 36)

NEWS ROUNDUP

News From Around the Nation

Higher CD Rates Approved

Interest rates have been raised and maturities extended by federal financial agencies for maximum maturity certificates banks and thrifts can offer savers. The move was made to make rates at regulated financial institutions more competitive with the market.

Effective last December 23, the new investment certificate will pay savers at banks 7½%, with a 7¾% rate authorized for S&Ls, mutuals and credit unions. Minimum deposits of $1,000 are required that must be left on deposit for six years.

Both negotiable and non-negotiable investment certificates can be sold by banks, but only non-negotiable certificates can be redeemed early by Fed system banks, with holders subject to some interest forfeiture.

Discount Rate Down

The first decrease in the Fed discount rate in three years was posted last month. The rate was lowered from 8% to 7¾% and was taken "in view of the recent slackening in the demand for credit and in recognition of the lower level of market interest rates that has developed since last summer," according to a Fed spokesman.

The 8% rate was established last April. The new rate is effective only at the New York and Philadelphia Fed banks.

FHLBB Proposes 'Conflict' Curbs

Comprehensive new conflict-of-interest regulations have been proposed by the Federal Home Loan Bank Board that are designed to "create a uniform and strengthened system of conflict-of-interest regulations applicable to all insured institutions."

The proposal establishes new rules on the composition of boards, with restrictions on the number or percentage of directors that may be officers or employees of the S&L, engaged in S&L-related businesses, members of the same immediate family or the same law firm, directors or officers of the S&L's HC affiliates and directors of other financial institutions and affiliates.

It also restricts the number of officers of the S&L that can be involved in financial interlocks.

Public comments are being accepted until mid-January.

Foreign Bank License Sought

The Fed has asked Congress to require licensing for foreign banks operating in the U. S. and also to place the banks under the same federal regulations that apply to U. S. banks.

Intent of the proposed legislation is to eliminate any discrimination in the treatment of foreign banks, according to Arthur F. Burns, Fed chairman. The result would be to place foreign banks under much tighter federal controls.

Should the legislation be enacted, foreign banks would no longer be able to expand across state lines, although existing interstate operations would be allowed to continue.

The legislation provides for foreign banks to be licensed by the Comptroller. Presently, foreign banks operate under state laws.

Charging of Legal Bills Authorized

The American Bar Association has authorized use of credit cards for payment of legal fees and expenses. The association had previously held that credit card payments violated the canons of professional ethics.

The new code has been adopted nationwide, with variations in some states. Oklahoma was one of the first states to permit the practice.

Worthen Drops Charge Card Suit

A settlement was reached last month between National BankAmericard, Inc., and Worthen Bank, Little Rock, on the issue of Worthen being permitted to participate simultaneously in both Master Charge and BankAmericard programs.

Under terms of the agreement, Worthen has agreed to bring its operation into conformance with National BankAmericard regulations, which prohibit dual participation.

National BankAmericard will reimburse Worthen for a portion of the legal expenses incurred during the three-year litigation.

FHLBB Strikes at Sex Bias

A "bill of rights" for women applicants for mortgage loans has been adopted by the Federal Home Loan Bank Board to implement the statutory ban on sex discrimination in home lending.

The new regulations require lenders making federally related loans to consider, without prejudice, the combined income of both husband and wife for the purpose of extending mortgage credit. The term "without prejudice" is defined as "without prejudgment."

Also, single women cannot be required to obtain a co-signor or guarantor in order to obtain mortgage credit if single men are not required to do so.

S&Ls Get Remote Withdrawal Approval

A new consumer-oriented regulation has been adopted by the Federal Home Loan Bank Board that authorizes federal S&Ls to offer travelers' convenience withdrawal services. The regulation permits customers to make withdrawals from their savings accounts at any other federally insured S&L more than 50 miles from their homes. The original proposal specified a 100-mile minimum distance.

The change is expected to become effective this month.

Comptroller Issues Ruling:

National Banks Allowed Electronic Terminals With No Geographic Limitations Set

By ROSEMARY McKELVEY
Managing Editor

ELECTRONIC TERMINALS can be established by national banks without regard to geographic limitations under a ruling issued last month by Comptroller of the Currency James E. Smith. In announcing the ruling, Mr. Smith said he does not believe such terminals are branches and, therefore, can be put into operation by national banks regardless of whether the states in which they are domiciled allow branching. (Under the National Banking Act, national banks cannot set up branches if state-chartered banks in their states are forbidden to do so.) However, he did urge national banks to wait until July 1 of this year before establishing such terminals in those states where state banks are prohibited from starting the terminals.

The six-month wait was recommended by the Comptroller at the request of the Conference of State Bank Supervisors and is designed to give the various state legislatures an opportunity to consider whether they wish to place their state-chartered banks on equal competitive footing with national banks and federally chartered S&Ls, which also are allowed to have these terminals.

Legislation permitting some sort of electronic terminal has been enacted in three states—Washington, Oregon and Massachusetts. Mr. Smith said attorneys general in Kansas, Texas and Florida "have authorized the use of CBCTs in some circumstances, although branch banking is prohibited in each of these states." Also in Kansas, the governing council of the Kansas Bankers Association has approved proposed legislation to permit operation of ATMs and POS terminals, but *not* to require banks to share automated teller or other "remote service units" installed on "premises" of its own main bank or on "premises" of its own detached facility.

In the nonbranching state of Illinois, the attorney general has said that off-premises activities permitted in Texas and Florida would be interpreted as illegal banking in his state. In another nonbranching state, Nebraska, the attorney general's ruling that a CBCT is a branch was reversed by a state court.

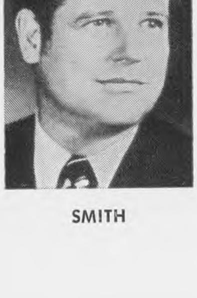
ATMs and POS terminals have been called branches by Michigan's commissioner of financial institutions and thus come under the state's branching law. Michigan law limits establishment of a branch to within 25 miles of a bank's main office.

Comptroller Smith officially referred to these electronic terminals as customer-bank communication terminals (CBCTs). CBCTs allow existing customers of national banks to initiate such transactions as cash withdrawals from their accounts, crediting of funds to their accounts and payment transfers from their accounts into accounts of other bank customers.

Under the Comptroller's ruling, these terminals may be unmanned and operated by the customers themselves at whatever convenient locations the banks choose, for instance, shopping centers. These terminals are called automated teller machines (ATMs). The CBCTs also may be located in business establishments such as supermarkets manned by supermarket personnel. This type is called point-of-sale (POS) terminals.

Although the Comptroller's move was applauded by the CSBS, other groups—specifically the Independent Bankers Association of America—are expected to fight the ruling. The Comptroller said the CBCTs, in his opinion, are *not* branches. The IBAA and others may contend that these terminals are

(Continued on page 30)



SMITH

These terminals are "the forerunner of an expected family of customer-oriented electronic terminals which will change the face of the banking industry." — Comptroller Smith

What States Say on CBCTs

After the Comptroller of the Currency issued his interpretive ruling last month on customer-bank communication terminals (CBCTs), MID-CONTINENT BANKER editors contacted each of the 13 states in this publication's area. Purpose of the contacts was to see whether such electronic terminals would be allowed state banks in their states. Here is what was learned:

KANSAS—The state bankers association here has approved proposed legislation to allow operation of automated tellers and point-of-sale terminals, the former both on and off premises. The legislation will not require banks to share ATMs or other remote service units installed on their own premises. This legislation was formulated prior to the Comptroller's interpretive ruling.

KENTUCKY—A study committee to investigate EFTS was appointed at the last convention of the Kentucky Bankers Association and is currently evaluating the Comptroller's ruling. The Kentucky legislature does not meet in regular session until January, 1976. Therefore, the Kentucky Bankers Association has written to Comptroller Smith, requesting that the July 1, 1975, date that national banks in nonbranching states were asked to observe prior to establishing CBCTs be waived for Kentucky.

LOUISIANA—The legislative study committee of the Louisiana Bankers Association will study the subject when it meets early this year.

MISSISSIPPI—The situation here is being studied by the Mississippi Bankers Association.

MISSOURI—The board of the Missouri Bankers Association on December 23 unanimously approved a proposed bill that would allow state-chartered banks and trust companies to offer the same services that federally chartered financial institutions can offer.

NEW MEXICO—No action is being taken here as reaction to the Comptroller's ruling has not solidified yet.

OKLAHOMA—The legislature here is expected to enact a law authorizing state banks to take part in POS terminals on a state-wide basis. The terminals would be defined as services facilities, not as branches.

TEXAS—National banks that would try to establish off-premises terminals would be subject to challenge under terms of a ruling issued in 1968 by the then state attorney general. That ruling looks on such terminals as branches, and Texas is a nonbranching state.

branches. Furthermore, lack of geographic limitation on the CBCTs likely will produce controversy. When Mr. Smith originally announced he intended to make this ruling, he indicated there would be geographic limitations. One limitation he laid down at First National of St. Louis' annual correspondent bank conference in November was that such facilities could be established anywhere within the state of the principal office of a bank or could be established across state lines up to 50 miles of a bank's head office or up to five miles of an established branch of that bank, whichever would be farthest. The December ruling omitted *any* geographic limitations.

In a statement accompanying his ruling, Comptroller Smith said these terminals are "the forerunner of an expected family of customer-operated electronic terminals which will change the face of the banking industry."

In maintaining that CBCTs are not branches, he compared them to mail boxes or telephones through which customers may communicate with their banks to accomplish certain routine transactions. Thus, he believes CBCTs would not be branch banks, branch offices, branch agencies, additional offices or branch places of business within the common understanding of those terms.

Although there are no geographic limitations, the Comptroller's ruling does have some "strings" attached. For instance, written notice must be given to his office and to the office of the appropriate regional administrator 30 days before any such device is put into operation. These notices must contain information that includes the location of the device, general description of the area where located (shopping center, service station, supermarket) and manner of installation (free standing, exterior wall, separate interior wall), manner of operation, including whether the device is on line, kinds of transactions to be performed on it, whether it will be manned and, if so, by whose employee, whether it will be shared and, if so, under what terms and with what other institutions and their locations, name of the manufacturer, whether owned or leased, etc.

In addition, to the extent consistent with antitrust laws, national banks are permitted, *but not required,* to share CBCTs with one or more other financial institutions. • •

CSBS Announces Guarded Approval Of Smith's Interpretive Ruling

WASHINGTON—The Conference of State Bank Supervisors announced approval of Comptroller James E. Smith's interpretive ruling on off-premises facilities (see page 29) and the spirit of accommodation and cooperation Mr. Smith has shown in working with the CSBS to seek an orderly transition to this new type of banking service.

However, CSBS President James E. Faris made it clear that the dialogue between the Comptroller and his group shouldn't be construed as stating or implying that individual state-chartered banks, individual state banking departments, the united CSBS effort or any affiliated individual group concurs with construction of statutes and/or regulations contained in the interpretive ruling and accompanying materials released by the Comptroller December 12.

Mr. Faris, director, Indiana Department of Financial Institutions, said, "The CSBS specifically disagrees with Mr. Smith's position that the range of activities permitted under the ruling would under no circumstances violate the provisions of the National Bank Act which incorporate state branching laws. We also reject Mr. Smith's assertion that the establishment of CBCTs (customer-bank communication terminals) by national banks would not jeopardize the dual-banking system in situations where state-branching laws, reflecting local needs, prohibit state banks from conducting the same activities. We must recognize the existence of many diverse circumstances within the 50 states. We must appreciate the high degree of understanding possessed by the bank regulator and the bankers of each state of the capacity of the banking community and needs of banking customers in each state."

Mr. Faris also emphasized there is a clear understanding between the Comptroller and the CSBS that if, in the judgment of any responsible interested party or parties, any bank violates respective state or federal statutes, that party or those parties would be free at any time to become involved in litigation either as a principal or an *amicus.* Mr. Faris emphasized, however, that his association has no immediate plans to initiate any action to block implementation of Mr. Smith's ruling during the six-month deferral period. He added, though, that the CSBS will support actions by its members and other responsible individuals and groups to assure establishment of CBCTs by national banks consistent with state or federal statutes.

Mr. Faris pointed out that several states already have taken the initiative in authorizing use of CBCTs.

During the six-month deferral period recommended to national banks by the Comptroller, the CSBS, said Mr. Faris, expects that a significant number of additional state legislatures, where appropriate, will want to act to amend their laws so as to permit some or all the activities that already exist or have been proposed in other states and as authorized under the Comptroller's ruling. • •

Three Southern States' Bankers Study Possibility of ACH

NEW ORLEANS—Formation of a regional automated clearinghouse (ACH) was the subject of a meeting held here November 14 by 71 representatives from 54 banks in Alabama, Louisiana and Mississippi.

James H. Jarrell, vice president, Trust Co. of Georgia, Atlanta, and chairman, Atlanta Committee On Paperless Entries (COPE), the principal speaker, was introduced by Lester E. Junge, vice president, Whitney National, New Orleans.

Mr. Jarrell gave a slide presentation on the problems and opportunities of running an ACH. A question-and-answer period followed.

One purpose of the meeting was to determine the degree of interest banks in the areas represented have in forming and participating in an ACH, said Stephen J. Loup Jr., chairman of the committee of New Orleans-area bank operations officers studying formation of an automated clearinghouse. Mr. Loup is executive vice president, New Orleans Bancshares, Inc., parent of Bank of New Orleans.

Pictured at meeting held to discuss possibility of forming ACH among Alabama, Louisiana and Mississippi banks are (l. to r.): James H. Jarrell, v.p., Trust Co. of Georgia, Atlanta, ch., Atlanta COPE committee, and guest speaker; James C. Rather, v.p. & cash., Hibernia Nat'l, New Orleans; Stephen J. Loup Jr., exec. v.p., New Orleans Bancshares, Inc., parent of Bank of New Orleans; and Lester E. Junge, v.p., Whitney Nat'l, New Orleans.

Comptroller Gets IBAA Petition Asking CBCT Ruling Withdrawal

AS THIS ISSUE went to press, the Independent Bankers Association of America (IBAA) issued a petition to the Comptroller of the Currency calling for repeal of the Comptroller's interpretive ruling authorizing customer-bank communication terminals (CBCTs) for national banks (see page 29).

The IBAA petition also requested that the Comptroller conduct formal rulemaking proceedings under the Administrative Procedure Act and as required by the due process clause of the Fifth Amendment to the U. S. Constitution.

The petition was issued as one of several planned steps that might result in litigation over the ruling, an IBAA spokesman said.

The petition stated that IBAA-member state banks "will be severely and adversely affected" if the interpretive ruling is allowed to stand. It also termed the operation of a CBCT as branch banking, despite the Comptroller's opinion that it is not; that the operation of a CBCT is off-premise banking, which is illegal; that no opportunity was given banks to comment on the ruling; that the ruling rescinds existing rulings in the Code of Federal Regulations, which gives it the force and effect of law; that the ruling is "an unprecedented legislative edict, having a far-reaching and profound effect upon methods of banking and the regulatory control of banking."

The petition argued that a regulatory agency interpretive ruling cannot render ineffective a federal-state statutory system of regulation, thus the ruling is void. In the words of the petition, the action taken by the Comptroller "is arbitrary, capricious, an abuse of discretion, and is contrary to law."

The petition claimed that the interpretive ruling is an attempt to destroy the dual-banking system designed by Congress. It further stated that Congress has always recognized that national banks must follow state law in order to preserve competition between the state and national banking systems. It stated that the legislative history of federal banking laws shows Congress' concern about the dangers of concentration of banking power.

The petition stated that congressional action to authorize a study of EFTS implies that no federal agency should "take any action in this field, except upon a limited and experimental basis." Thus, the interpretive ruling, according to the petition, "defies the wishes of both Congress and the President." The ruling invites development of "a highly dangerous form of unregulated banking," the petition said, which could deny consumers protection under the Fair Credit Reporting Act and could result in their becoming victims of electronic errors regarding credit standings.

The petition charged that the ruling makes no provision for compliance with the Bank Protection Act which covers remote terminals. It also stated that there is a "distinct potential under such a blanket ruling for violations of antitrust laws" through tie-ins, joint use of electronic systems by some institutions to the exclusion of others and the potential for "concentration of control of money and credit by large banks and bank systems which have the financial means to dominate banking markets quickly."

The petition termed the ruling's request for national banks to refrain from establishing CBCTs until after July 1 "a thinly-veiled threat to each state legislature to amend its state branching laws to permit CBCTs or face wide-open branching by national banks by means of these devices."

The petition requested action by the Comptroller by January 6.

Operation of Off-Premises Electronic Tellers Is Started by First National of St. Louis

OFF-PREMISES electronic teller machines were placed in operation December 18 by St. Louis' First National, a week after Comptroller of the Currency James E. Smith announced his interpretive ruling that these off-premises devices are not branches and that national banks can install them (see page 29).

The Comptroller, in issuing this ruling, did say that national banks must give him written notice 30 days before starting up these automated teller machines (ATMs). First National had notified Mr. Smith November 15 although his ruling was not actually issued until December 12. However, early last fall, he had told several banking groups about his intention to make the ruling.

Because Missouri is a nonbranching state (although each bank is allowed two facilities), MID-CONTINENT BANKER contacted Missouri's director of finance, William R. Kostman, to get his viewpoint on First National's new off-premises terminals. Mr. Kostman advised this publication at presstime that he has determined that off-premise terminals, such as those being used by First National, are considered as branches and thus are illegal in Missouri. Mr. Kostman said a suit against First National would be filed the first week in January that will seek to halt further operation of the terminals.

Richard F. Ford, executive vice president of First National, said that in the opinion of the bank's lawyers, the two off-premises terminals are *not* branches under Missouri law.

First National's off-premises Docutel BANK24 teller machines are operating at Emerson Electric Co. and at the Jay-Bee food store, both located in a northern suburban area of St. Louis. The Emerson installation is inside a building, but is available to other First National customers besides the firm's employees. The Jay-Bee ATM is attached to an exterior wall so that it can be used at any time of the day or night, seven days a week. Each BANK24 electronic teller is wired into First National's computers so that when a customer uses one of the machines, the transaction is recorded at the bank's Main Office.

At present, the off-premises BANK24 machines handle nine banking functions. According to Mr. Ford, deposits will not be made on the two off-premises machines—until next July 1—in accordance with the Comptroller's request that national banks wait six months to give banks in nonbranching states time to get legislation enacted allowing them to have such off-premises machines, too. However, Mr. Ford said the deposit function *will* go on the machines July 1.

At the same time that First National announced the start-up of its two off-premises machines, the bank's president and CEO, Clarence C. Barksdale, sent letters to bankers throughout Missouri, outlining some of the primary reasons his bank installed the off-premise BANK24 machines.

First of all, Mr. Barksdale said that, in his bank's opinion, the Comptroller's interpretation is timely, correct and of major importance to commercial banks, state or national, both in and out of Missouri. He added that it's also in accord with the public's right to derive benefits from changes in technology.

The Barksdale letter pointed out that the commercial banking industry is under competitive seige in many states, including his own, in the competition for consumer banking business. While almost all banks, he believes, have a progressive attitude and want to provide their customers with the best services and maximum benefits, many of their efforts are being frustrated. In the meantime, he said, other nonbank financial agencies and institutions are moving ahead to serve the changing needs and demands of the public.

Mr. Barksdale stated in his letter that banks face certain competitive handicaps. For example, he continued, in Missouri, S&Ls enjoy liberal branching privileges and are allowed to establish satellite offices in commercial business places. He pointed to the expanding powers for thrift institutions, including third-party-payments and NOW accounts, as well as the Hinky Dinky experiment in Nebraska, where S&Ls have established POS terminals in a food store chain. Mr. Barksdale, according to his letter, believes the latter program will spread into other states and expects the S&L industry in Missouri to start similar activities in the near future because it's legal for it to do so.

"In our opinion," said Mr. Barksdale, "the Comptroller's interpretive ruling is consistent with the requirements of modern banking and the growing demand of the consumer for convenience banking. It will only be a matter of time before our customers will come to expect the availability of off-premises machines in connection with their everyday financial transactions. If these services are not offered by banks, the customer will favor our competitors who offer the conveniences available from these devices.

"Because we believe that it will benefit the entire banking industry and the public, we are moving forward under the Comptroller's recent interpretive ruling to provide off-premises electronic services to our customers in the St. Louis area." • •

Bid to Halt CBCTs Made

Legislation to prevent the implementation of an interpretive ruling allowing national banks to establish CBCTs was introduced in the last days of last year's congressional session. Among the sponsors of the bill was Senator William Proxmire (D., Wis.), who assumes the chairmanship of the Senate Banking, Housing and Urban Affairs Committee this month.

The legislation would have declared a moratorium on the establishment of CBCTs under Comptroller of the Currency James Smith's interpretive ruling, issued last month. Effective date of the moratorium would have been December 19.

Although no action was taken on the bill, a similar bill is expected to be introduced in the new Congress.

Interstate EFT Network Is Announced For Four Mid-Continent-Area States

AN INTERSTATE electronic funds network is being developed for midwestern banks by Credit Systems, Inc., a regional processing center for Master Charge headquartered in St. Louis. This network—in design stages for a year—would have remote point-of-sale (POS) terminals and automated teller machines (ATMs).

Elsewhere in the Midwest, the Nebraska Bankers Association is going ahead with its plans for NETS—Nebraska Electronic Transfer System. The association, as of this writing, is having its legislative committee prepare a bill that would permit electronic remote service units to be located off bank premises and not be construed as branches. This legislation is expected to be introduced this month, according to Russ Browne, vice president, Omaha National.

There are six major sponsoring banks for the proposed CSI network, three in St. Louis—First National, Mercantile Trust and Boatmen's National; two in Kansas City—First National and United Missouri; and one in Kansas City, Kan.—Commercial National. The network would embrace the CSI market, comprised of Missouri, Kansas and portions of Illinois, Kentucky and Iowa.

If the sponsoring banks give the go-ahead this month to the network, CSI expects, by the fall of 1976, to be operating 1,000 POS terminals and 30 ATMs—called Financial Convenience centers—spread across its five-state market.

As the CSI plan now stands, the system would be set up on a free basis, but participating banks would be charged according to their deposit bases, number of accounts they have in the EFTS, debit cards in use and number of transactions handled.

John G. Regan, CSI senior vice president and project leader, pointed out in a letter he sent last May to CEOs of 665 banks in CSI that his firm already has "pioneered many of the essential elements of an EFTS program—descriptive billing, on-line data transmission, truncation of paper documents, net settlement between members, etc."

Mr. Regan's letter said that addition of a POS terminal system would provide another key instrument—a fully operational EFTS operation for the CSI market areas.

Mr. Regan foresees the system having the capability of expanding in an orderly fashion and offering additional EFTS services such as merchant inventory control, direct data capture and posting of all debit and credit transactions at the point of sale and interface with local automated clearinghouses.

In addition to having support of six major sponsoring banks mentioned above, CSI is checking with Iowa Bankers Association representatives on the latter's EFTS plan and a possible tie-in with CSI's program.

However, the Iowa group has joined the Nebraska Bankers Association in forming the Mid-America Payments System Committee, composed of six senior bankers from both states who will study a joint venture.

Nebraska System. NETS was started late last year after a survey showed that 85% of the state's banks favored encouragement of development of electronic banking on a state-wide basis. NETS then proceeded to have an outside contractor develop preliminary systems design and standards. The next step was preparation of the proposed bill mentioned earlier in this article.

According to Mr. Browne of Omaha National, NETS would utilize shared transaction terminals to extend competitively developed financial services to consumers where and when they want them. The terminals would enable commercial banks to compete effectively with S&Ls and other commercial banks for customers' business and merchant relationships, he continued.

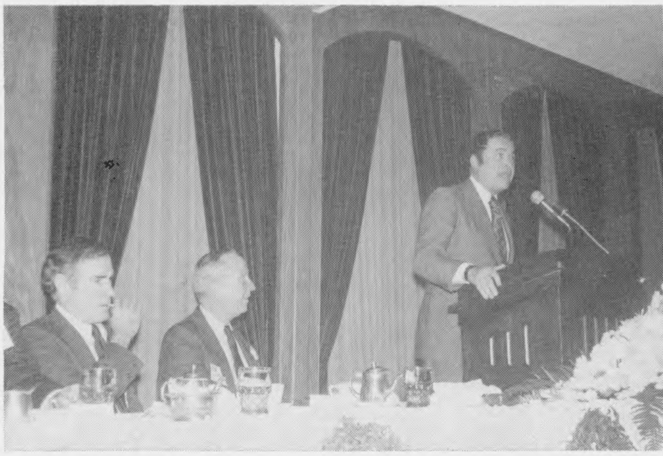
According to Mr. Browne, a cooperatively staffed and financed preliminary study has identified alternatives and options that would facilitate this competition. A minimal level of cooperation must be in evidence to define operating standards that would permit interchange of financial data. For instance, said Mr. Browne, his bank's customers could use NETS terminals anywhere in the state to accomplish their basic transaction needs—to get cash, make deposits or transfer funds. He pointed out that an outstate banker could retain his customers as they move to or shop in the larger cities. All participating banks then could compete effectively with S&Ls in the consumer-deposit marketplace, said Mr. Browne.

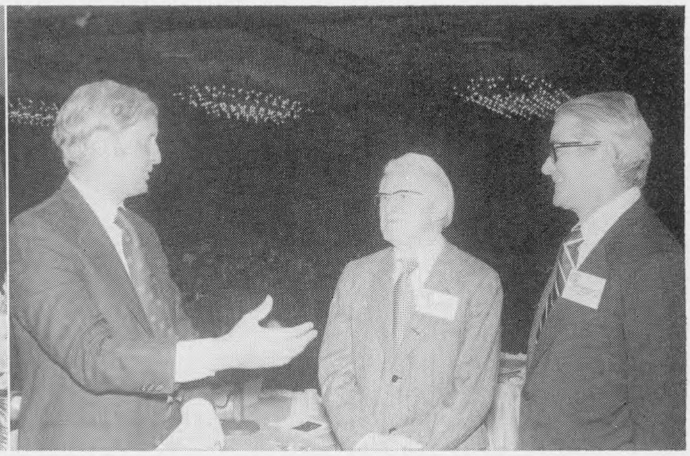
Mr. Browne emphasized that NETS is not a public utility. It would include only the transmission lines and switching system required to effect intrastate financial transaction data flow. It would not include terminals that would be owned by individual commercial banks, nor would it include ownership of any of the switching hardware. The switch would be operated by a third-party profit-motivated vendor selected as a result of competitive bidding. Operating standards and switching software would be owned by the NBA to provide for maximum flexibility.

Nebraska, of course, is the home of the famous First Federal S&L-Hinky Dinky POS terminal program. Under the latter, customers of First Federal S&L (of Lincoln) can, by using special plastic cards, deposit to or withdraw from their S&L accounts at service counters at Hinky Dinky supermarkets. The transactions are made by store personnel via on-line transaction validation terminals placed at each supermarket. • •

'Speed Banking' Introduced

The world of EFTS has come to American National, Chattanooga, Tenn., which has installed and activated an on-line computerized system linking the bank's central computers to each of the bank's Teller 24 machines. The "Speed Banking" program creates an automated total-teller terminal. By using one of these machines, an American National customer can receive instant, up-to-the-minute balance information on all checking and savings accounts that have been encoded in the magnetized brown stripe on the back of each Master Charge or Teller 24 card. "Speed Banking" was introduced into the Chattanooga market area with a heavy ad campaign that included TV, radio, newspaper and outdoor board advertising. Bank officials termed customer response as "dramatic."





LEFT: Sen. Edward Brooke (at podium) was luncheon speaker at conference. He spoke on role of National Commission on EFT. At l. in photo are Garth Marston, FHLBB director; and ABA Pres. George L. Whyel. RIGHT: Participating in panel at conference were (from l.) Stephen C. Hansen, FDIC; George W. Mitchell, v-ch., Fed Board of Governors; and moderator Harry H. Bassett, chairman, Southeast First Nat'l, Miami.

Where do we go from here?

ABA Payments System Policy Conference Explores Complexities of EFTS

By JIM FABIAN
Associate Editor

VARIOUS aspects of EFTS were explored in depth at the ABA's Payments System Policy Conference, held in the Chicago area last month. Some 450 bankers braved snow and a stacked-up airport to attend the day-and-a-half event.

What they came away with was a vastly improved understanding of the complexities of EFTS and related topics and, perhaps, a general consensus that the conference was only the beginning of a long, involved process that could turn banking on its ear.

The conference was subtitled "Decisions Needed Now!" and ABA President George L. Whyel, vice chairman, Genesee Bank, Flint, Mich., outlined questions that, he said, are far from settled. They are whether to promote a single system or several systems, how to detect a pattern from the various events in the EFTS area, what role government decisions will play and how that role will affect banks.

"But we cannot wait for conclusive resolutions of these issues before planning our bank's future," he said. "If we wait, we will find that our competition has overtaken us and that we are merely vestiges of a former age, using outmoded payments system components. We must begin making policy decisions today, based on the best available information; and we must be willing to re-evaluate these decisions in the light of new information."

Among the speakers, Barry F. Sullivan, executive vice president, Chase Manhattan, New York, suggested that bankers must distinguish between the two elements of EFTS—the mechanism and the financial product—and how they relate to cooperation and competition. He said mechanics is an area where cooperation can occur, but competition is best as far as the product is concerned.

A demonstration of a terminal, typical of those under consideration by NETS (Nebraska Electronic Transfer System) was on-line to Omaha Nat'l during conference. Exhibit drew many questioners.

It is crucial for senior management to understand what is involved, he said, because they are going to be called upon to make fundamental and significant decisions affecting their banks and banking as a whole.

Edward E. Furash, senior vice president, National Shawmut Bank, Boston, pointed out that all banks are more or less in the same boat and there is a danger of compounding the problems of all bankers in EFTS unless a common level of understanding is achieved concerning both national and local problems. He cautioned against inadvertently throwing away opportunities to make acceptable solutions that will work on a long-term basis.

Clarence G. Adamy, president, National Association of Food Chains, told how technological progress in the food industry has resulted in that industry being prepared to accept a role with the banking industry. He said supermarket customers could be offered more convenience and a broader range of

services if an interface between the checkout counter and financial institutions was developed.

Luncheon speaker was Senator Edward W. Brooke (R.,Mass.), a member of the Senate Banking, Housing and Urban Affairs Committee. He said that the most difficult issues affecting the future development of EFT systems concern who will have direct access to these systems and under what terms and conditions, as well as who will bear the massive costs of their development.

There are also important and difficult consumer concerns of privacy and security of financial records, he said. For example, how can the individual protect his financial privacy from unauthorized intrusion if a computer is capable of recalling every transaction in which he was involved at the touch of a button? How is he to be protected against errors and various fraudulent practices which may develop?

He outlined the function of the National Commission on Electronic Funds Transfers, composed of 26 members representing government, banking and consumers. The commission was authorized by H.R. 11221, the Depository Institutions Act of 1974.

He said the commisson is to consider and recommend the appropriate role of the federal government in the development of EFTS in the areas of preserving competition, prevention of unfair or discriminatory practices, the affording of maximum user and consumer convenience, the impact of EFTS on economic and monetary policy, the ramifications of EFTS regarding international expansion and the need to protect the legal rights of users.

The Hinky Dinky story was reviewed by John E. Dean, executive vice president, First Federal S&L, Lincoln, Neb. He sees point-of-sale systems being influenced by innovative people in the financial industry, regulators, the judiciary, the Justice Department and the consumer. He said that POS must be able to operate in a real-term online environment and there must be a key to operate the system, a magstripe card to activate it and the system must be capable of permitting terminal sharing.

Russell C. Browne, vice president, Omaha National, reported on the Nebraska Electronic Transfer System (NETS), which is a regional approach to EFTS. He said the key fact of the system is that the terminal must be shared, but each bank is free to design its own program of services, which preserves the competitive angle. He said NETS was developed because no single bank in the system had the resources to go it alone. He said NETS is an example of what banks can do in a relatively short time period when they are looking down their competitor's gun-barrel.

Donald I. Baker, deputy assistant attorney general, was unable to attend the conference, but he sent his speech. He said the Justice Department feels laws should protect financial institutions only where necessary to serve the consumer. He said that, should a monopoly develop in the early stages of EFTS, innovation would be impeded and the consumer would suffer as a result. Competing POS systems, he said, will generate incentives for each system to increase its coverage and its market share—as has been the case with credit card systems. He predicted plenty of opportunity for small banks to participate in the technological changes connected with EFTS.

Paul F. Glazer, senior vice president, First National City Bank, New York, warned against forcing standardization of technological systems too early in the development of EFTS. This would stifle development, he said. Standardization should come only after the techniques have been competitively tested in the marketplace and been subject to consumer acceptance. He said that commercial banks' long monopoly of third-party transfers is dying due to technological change. He also said the consumer is going to get what he wants and needs, either from nonfinancial or thrift institutions, unless individual banks or groups of banks move to develop competitive systems.

J. C. Welman Jr., senior vice president, First National, Minneapolis, spoke about the need for cooperative development of EFTS. He said the present payments system does not include charge cards and that these cards will not be an integral part of the payments system as it develops. He said the demand deposit system contains more alternatives and competition than the present credit card system and that, under the developing payments system, the consumer must be assured of retaining these alternatives, provided on a competitive basis. In order to achieve this flexibility, he said, some standardization is necessary to prevent locking the consumer into one system or another.

Conference Chairman Richard D. Hill, chairman, First National, Boston, and chairman of the ABA Payments System Policy Committee, summed up the conference by saying bankers have a lot to learn about EFTS. "We've learned that the state of the art is highly fluid. We believe now that there should be room for cooperative systems as well as individual systems, operated in a highly aggressive, and possibly innovative, manner.

"It is probable," he said, "that third-parties, or merchants, will insist on single terminals with access to several bank computers. This raises the fundamental question, Is EFTS a substitute for the present checking system or is it a new design for a totally new banking system?

"We have learned that our regulators are approaching the subject wth a great deal of flexibility and with a promotional flavor. This is good. We don't really know the responsive law, because most of it has not been written as yet. However, we have learned that the law bends in a remarkable fashion to the wishes of the consumer—witness the NOW account situation.

"The public seems to be leery of computer access to its checking accounts unless it controls access at every step. On the other hand, it seems to like Hinky Dinky.

"Banks should not panic and rush into elaborate hardware and EFT systems. But planning should begin yesterday. There is still time, but not much, to spare. We are losing our monopoly in the third-party payments system, but we should not lose our ability to innovate and market our services."

Chairman Hill closed by saying he expected this would not be the last of the ABA Payments System Policy Conferences. • •

Nuts and Bolts

(Continued from page 24)

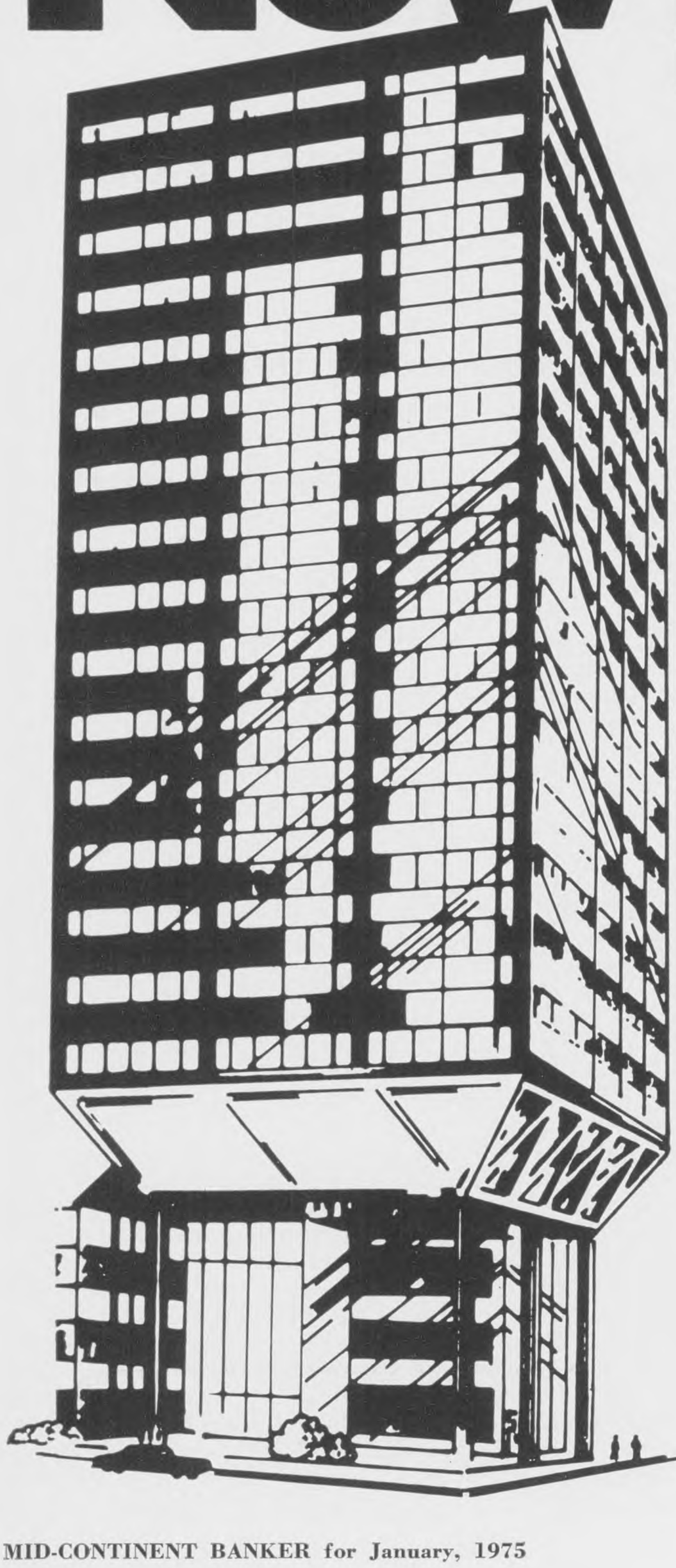
services for its personal banker department?

Mr. Rodgers: The future for personal banking seems bright for a bank of the size of Commercial National ($312 million). Our program can easily be expanded into branches and the managers for these offices could easily be chosen from individuals trained in personal banking techniques, should banking regulations permit full-service branches in the future.

Our personal bankers provide the bank with a ready-made sales force to sell any new service as it is introduced.

There seems to be a great need for more counseling services to assist people with financial problems at all stages of their lives. Our personal bankers are in an excellent position to provide this service and then cross-sell more specialized financial services. • •

Now More Than Ever.



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Banks Brace for Challenging Year

Some Bright Spots Appear in Crystal Balls

Necessities Will Prosper, Luxuries Will Stagnate

By MAURICE D. S. JOHNSON
Chairman
Citizens Fidelity Corp.
Louisville

MANY ECONOMISTS believe that the United States will have two economies running side-by-side in 1975.

One, an economy of the necessities including food, energy, transportation, commodities and other essentials, will be a high-priced, intensive economy. The other will be the economy of luxuries, including jewelry, vacations and other "expendable" choices that may continue throughout the year in a depressed state.

Kentucky leans more heavily to the economy of necessities and, accordingly, has a lively year in prospect in 1975. As the largest producer of coal in the United States, the state is already heavily involved in increasing production with new exploration, more equipment, increased employment and extensive research efforts to maximize the utilization of coal. Tobacco, having become a crop of necessity, will continue to be big in the state, as will the distilling industry, production of grain and utilization of pastures by the expansion of various livestock enterprises.

Another area of intensive activity is in manufacturing. In the last decade, Kentucky has become one of the burgeoning manufacturing states of the Southeast, and much of it is essential.

(Continued on page 41)

Sound Management Policies Will Be Tested in '75

By MARTIN C. MILER
Chairman & President
Hibernia National Bank
New Orleans

IT IS NOW no secret that the economy is in what would appear to be a "tailspin." The extent and depth of the dive—with the possible end crash—is still open to question. Where does banking stand? Where can banking stand!!!

Inflation is, according to all of the pundits, the precursor of our present problem. Further, without curing our inflationary ill, we can look forward to no cure of the ultimate sickness, which is recession-depression. In this frame of reference, banking stands in a supreme position not only as the participating physician, but also as the benefactor, in the final analysis.

How can anyone with any common sense make such a statement in a situation where we find bank after bank crying about loan losses, quality of assets and rising expenses?

Banking enjoys an environment few other industries in this country have. It is almost inflation protected. In a product-oriented company, inventory and inventory replacement suffer immediately from a continuing inflation relative to sales. In banking, on the other hand, inflation only tends to expand the bank's footings, both by needed increases in deposits and, yes, re-

(Continued on page 41)

Loan Demand Sluggish, Inflation Will Be Cut

By WILLIAM F. MURRAY
Chairman
Harris Bank
Chicago

THE DECLINE in business activity that characterized the national economy at year-end is expected to continue into the first half of 1975. Industrial production is forecast to decline by as much as 10%, and the unemployment rate for the nation is likely to rise to the 7%-8% range. As the nationwide recession worsens, the slower growth in incomes and rising unemployment will impact various areas of the Mid-Continent region to differing degrees.

The housing industry, which extends throughout most of the region, has been suffering from declining activity for almost two years. A lack of funds available for housing has been a continuous problem during past "boom-to-bust" economic cycles. Fortunately for those areas affected by the housing industry, it has been the first sector to recover from past recessions. If, as expected, the economy begins to strengthen by mid-year, then those areas directly affected by housing activity should begin to see a pickup in business early in 1975.

Although the main impact of slumping car sales has been felt in Michigan, industries directly and indirectly affected by the auto sector are found in

(Continued on page 41)

Five Prominent Bankers Assess Outlook for '75


JOHNSON


MILER


MURRAY


BOND


PENICK

Southwest Prospects Mixed; Oil Activity Bright Spot

By LEWIS H. BOND
Chairman
Fort Worth National Bank
Fort Worth

THE PROSPECTS for the year ahead in the Southwest Metroplex, as the Fort Worth-Dallas area is now called, are somewhat mixed. It appears that we are generally in better shape than many parts of the country, but a continued downturn in economic activity is bound to have some effect, even on the strong level of business activity we have enjoyed.

Among the bright spots would be oil activity and its associated service and supply functions. The increase in price of new crude has stimulated the search for new reserves, while the price increase for crude from marginal wells has encouraged producers to apply modern, but expensive, recovery techniques to the older fields that might otherwise have been abandoned. If this trend continues, substantial new reserves may be added, but this is a matter of years. It is hoped Congress will not take actions that will curtail this vitally needed activity.

On the agricultural scene, which is big business in Texas, there is also both good and bad. A generally poor crop year is being completed, but recent rains have improved the outlook somewhat for 1975, both for wheat and for ranch pastures. Farm commodities

(Continued on page 40)

Recession Minimized By Arkansas Growth

By EDWARD M. PENICK
Chairman
Worthen Bank
Little Rock

ARKANSAS' strong long-term growth trends have minimized the effects of recent business cycles, and should continue to do so. Moreover, we do not anticipate as sharp or as long a recession as some forecasters have predicted. The twin long-term problems of capital shortage and inflation will continue to dominate both national and regional economic planning.

The sharpness of the recession will cost us some jobs and income in the short term, and we will have some marginal businesses fail. As the central Arkansas economy becomes more and more similar to the overall national economy, we can logically expect that business cycles will affect us more. But, we are still more heavily tied to the agricultural sector than is the nation as a whole, and that sector looks pretty good. Our exceptional income growth in 1973, and part of that in 1974, can be traced to agriculture.

Arkansas, including central Arkansas, is still very acceptable to industry for new locations and expansions, so we will continue to get a share of what expansion occurs. We do not anticipate a sharp decrease in capital investment, at least in many of the kinds of industry that might invest here.

Overall, Arkansas' economy should

hold up comparatively well in 1975. Our problem could still be one of supplying the capital needs of our area.

Bank earnings in 1975 will depend upon acquiring adequate deposits to meet demand, controlling expenses and upon how closely the interest rates approach Arkansas' 10% usury "lid" on lending rates.

Every bank will find it difficult to keep expenses under control. Materials expenses and trying to keep employees and maintain their living standards, without slashing the banks' profits, will be major management headaches. Late 1975 could well see money market rates again exceeding Arkansas' legal limit, with funds outflow again affecting our ability to finance local development. Bank earnings will probably "give" some to these combined pressures. Much can depend upon the Arkansas legislature's attitude toward negating the Brock bill. As for now, Arkansas banks can compete for the funds and make the loans that can keep development going.

Problem Mitigated

The recession will only mitigate the real long-term banking problem. The huge capital needs of the 1970s and 1980s are not being, and will not be, met by the equities market nor by retained earnings. Thus, much of the demand will be forced back into the banking system, which is not prepared, or even really able, to handle the load. Much of the research concerning the banking system, its structure and the structure and performance of the savings and loan industry cites this problem and makes numerous recommendations for change. Many of these changes will be legislated or mandated in 1975 and 1976.

The challenge to bank management will be to anticipate and be prepared to adjust to the new climate. A continuing deluge of changed conditions (EFTS, regulation Q, control of RBHCs, interstate branching, new bank-related activities, complete restructuring of allowed S&L activities, etc.) are simply a part of the world within which bankers must plan and operate. A part of the cost will include much more attention being paid to both the regulatory and legislative processes that are more and more affecting our industry.

Interest rates will continue to soften during the first quarter of 1975, although not to the extent now generally expected. The construction industry has probably already bottomed out in central Arkansas, on a seasonally adjusted basis, and should recover sharply after the first quarter of 1975.

Inflationary pressures will be increasing rates again in the second half of 1975, which, combined with the long-term capital demand, will continue to cause capital to be both tight and expensive. Arkansas' rigid usury provision will continue to limit our ability to compete for funds and to satisfy credit demands.

After the first quarter of 1975, rates paid for savings and time deposits will be under upward pressure, with rates dependent upon regulatory limits.

Even the enormously wealthy United States has limits on what can be accomplished, at what cost, in any given time frame. Obviously, we have lately attempted too much. Somehow we must find a way to balance the alternative costs of the various things we are trying to accomplish.

The basic problem is our efforts at income redistribution, particularly through governmental transfer payments, complemented by large wage increases. *If* we want to redistribute income towards the poorer people then we must *take* it from somewhere *else*. Paying out government deficits that cause inflation simply harm the whole system while failing to redistribute at all. In fact, the ending income distribution can be worsened, especially for the elderly.

Examples are almost endless, but the point is clear. So far, we cannot arrive at a consensus about *what* we really want—even though we may have already legislated part of it—and certainly we have yet to prove our willingness to accept the costs. So far we are paying those costs in inflation, confusion and unhappiness. It seems safe to project continued inflation, confusion and unhappiness—even in the midst of riches—for yet a while. • •

Bond

(Continued from page 39)

prices, although down somewhat from recent peaks, are still at historically high levels. The cattle market, however, is a shambles, and it appears that ranchers and feed lot operators are still in for some difficult times until the high cattle population is lowered to more manageable levels.

The new Dallas-Fort Worth Airport is now operating smoothly, and flight activity is increasing steadily. The side benefits of this outstanding facility are just now beginning in terms of new business for the area, and we expect increasing benefits, particularly as the economy returns to a more normal level and corporate expansion picks up momentum.

One significant new plant for Fort Worth will be started next spring—a project of Motorola, Inc., which will assemble communications equipment and will employ around 3,000 when fully staffed.

Auto sales and residential housing are suffering in our area as they are nationally, but there may be some relief for housing in sight as lower rates and a lessening of commercial loan demand make more housing construction funds available.

We have been fortunate that our unemployment has lagged substantially behind national averages. No area can remain immune indefinitely from national trends, but if the economy bottoms out by mid-year, as many expect, we may well escape the worst of this situation.

There is some possibility, however, that changes in defense spending could adversely affect our unemployment totals. As of this writing, it is not clear whether funds previously authorized for the F-111 and A-7 airplanes, both of which are assembled in this area, will be spent.

Fortunately, the widely diversified manufacturing base that has developed in recent years has sharply reduced our vulnerability to cutbacks of military procurement.

The outlook for our area banks in 1975, based on these trends, is reasonably good. Earnings so far in 1974 have been encouraging, and we would expect this to continue into 1975 in the absence of unforeseen changes. Loan-loss problems do not seem to have been as severe in Texas banks as in some other areas, at least to the present. Also, most major Texas holding companies have concentrated on banking services, and so have not been affected by the problems which have involved some nonbanking subsidiaries and bank-sponsored REITs throughout the industry. Many banks will take advantage of the slackening of demand to strengthen capital ratios and improve spreads, while holding companies will continue to consolidate and improve efficiencies until a rising bank stock market makes further acquisitions possible.

In summary: not an exciting growth year and the possibility of more difficult problems than usual. But a good basic economy to build on, which may recover more quickly than some other areas, and a reasonably good outlook for earnings. • •

Murray

(Continued from page 38)

the Mid-Continent area as well as throughout the nation. At year-end, sales of new domestic cars had fallen to only 5½ million units at an annual rate or almost half the sales total for 1972. Sluggish sales have left auto companies with about a three-month supply of new cars on hand. While a mild pickup in sales early in 1975 is expected, large inventories of new cars will prevent any significant upturn in production until later in the year.

Other durable manufacturers, such as furniture and appliance firms, also are unlikely to experience a pickup until the latter part of this year. Even if housing starts begin to increase early in 1975, the units will not be completed and ready for furnishing until later in the year.

As the economy weakens in the early part of 1975, loan demand in the Mid-Continent area is expected to be sluggish. Interest rates are likely to decline, particularly in the short-term area, where the prime rate could fall to the vicinity of 7% by spring. In the area of long-term rates, concern over future inflation is likely to prevent any significant easing.

A turnaround in interest rates is not expected until business activity turns the corner. Timing of the upturn is highly speculative at this stage, since the policies that would bring it about are just now being implemented. Past experience suggests a lag of about six to nine months between changing policies and effecting an impact on business activity. Continuation of the recent moves toward monetary and fiscal ease will allow for a recovery by the spring or summer of 1975.

Most dark clouds have silver linings, and the developing economic adjustment is no exception. The current recession is likely to cut the inflation rate in half, thus helping to bring one of the major impediments to financial stability under better control. • •

Miler

(Continued from page 38)

sultant increases in loans.

Therefore, when we think of inflation, we think of it as being bad. But it is not necessarily bad for banking. Rather, it is good for banks, if management has applied all the basic tenants of bank management. As a result, the inflation-stagflation environment of 1974 seems to have been very good for the profits of those banks that are well managed and rather bad for those that have severe or questionable management capabilities.

For 1975, inflation will tend to decrease by virtue of recessionary pressure. Because of this, bank management now will really be put under the gun to maximize cost control, as well as retain good quality business on its books.

We can continue to look forward to increasing loan charge-offs during 1975, increased costs to operate from the labor and overhead sides and particular difficulties in acquiring new, quality business.

The bank that is thinking at this time is not looking toward an automatic cutback across its stream of operations, but—instead—a continuation of productive management policies that will not sacrifice long-term profits for a short-term cutback in expenses or panic in asset liquidation.

Probably the most important consideration during 1975 will involve a most pressing question to both management and bank operation—and that is capital adequacy. Many banks, as we know, are woefully deficient in maintaining a capital-growth relationship with their increasing deposit and loan bases. This deficiency in capital continues to worry the regulators, has resulted in refusal on the part of regulators to approve applications for various acquisitions and, in the mind of the public, jeopardizes an individual bank position, if it is subjected to excessive loan charge-offs or other unfavorable publicity.

This capital question is, and will cause during 1975, a continuous pressure on all banks that have been in a constant growth mode to reduce their growth levels. This pressure on slow growth, of course, assumes that sufficient business potential for growth will exist during the year. We think it will. It is merely a question of how the individual bank attacks the problem.

We began this summary by looking at the "doomsday" view—spiraling recession-depression. Actually, this is something that ultimately will be beneficial for the country—not as severe as it would appear at first and a wonderful opportunity to "clean house" and reexamine values.

The real question, therefore, is do we have bankers who can become businessmen and who can face their problems and conquer them? • •

Johnson

(Continued from page 38)

Louisville is the second largest manufacturing city in the South, and a majority of the manufacturing enterprises are considered the essential type that will continue to produce heavily during the peculiar year just ahead. Although construction will suffer, as it will throughout the country, construction trades in the areas of coal production, both in the eastern and western ends of the state, will be active.

Banks will respond to this kind of an economy with imaginative financial assistance to the mining, manufacturing and agricultural activities. There will be a steady demand for financial services, not only by commercial enterprises, but also from their employees. This possibly could be contrasted with banks in some other areas of the country where the economy is not based on "necessity" as it is in a large part of Kentucky. Earnings of most banks in Kentucky do not depend on foreign or nonlocal activity. Most banks in the state had satisfactory experiences in 1974, and this should continue in 1975. Since the demand for money will be relatively firm and the substantial part of this demand will be for loans of more than one year, rates will be satisfactory on the lending side, and banks very likely will pay near maximum rates for time money they acquire.

Banks throughout the state in late 1974 were tuned in to the growing "essential" economy. Through the highly developed correspondent system that works so well in Kentucky, larger banks were invited into the major credits. Thus, financing of the expanding coal-energy business was handled largely within the state.

As in virtually all parts of the country, there are spots in Kentucky that will be damaged by the slowdown in consumer buying in 1975. In most communities, the other more essential businesses will compensate for this slowness. Only in isolated cases does it appear that a community will be seriously damaged by the recession.

In taking a longer view, it is evident that Kentucky will continue to thrive. Coal, on the one hand, will pour more and more funds into communities as well as into the state treasury; the attractive agricultural expansion possibilities will stimulate more beef and dairy activity, and the inviting climate, transportation, labor supply and other values will keep bringing new growth into the state. • •

Banking Association Presidents Cite Outlooks For Coming Year in Their Specific Areas

EFTS, Lessening Loan Demand, Rising Delinquencies, HC Expansion Head List of Challenges to Be Met in 1975

Coping With Future Role of Banking Requires Solution of Complex Problems

By **HORACE H. HARRISON***
President
Bank Administration Institute

IT IS QUITE possible to define banking's commercial sector in terms of having an essentially dual role. One is intermediation and the other is payments. Intermediation is the classical receiving of deposits and making of loans. The payments side of our business is our third-party-payment power, which is a fancy way of saying that some 80-90% of all payments are made through checking accounts at commercial banks.

Paper volumes from all this are enormous and still growing at compound rates. Processing is labor intensive, and because of this and many other reasons, processing costs—and errors—are rising far too rapidly.

In short, banking's systems for handling this paper—the traditional combinations of people, equipment and procedures—are just not working as well as they must, if we extrapolate the anticipated volumes of a few years from now.

So we are beginning to study hard to set up electronic networks for transferring payments, and we call the collective efforts EFTS, or electronic funds transfer systems. In simplest terms, we want to have computers take over a larger role in transferring money from one place to another—between banks and between accounts within a bank—so that we won't have to rely so heavily on pieces of paper to do the job.

This is an enormously complex series of tasks, with most of the work to date really still classifiable as experimental. Automated clearing houses (or ACHs) are now beginning to process meaningful volumes of transactions in some parts of the country. Many banks have installed unmanned electronic tellers, and a few are even on-line to computers. Apart from the finance industry, the retail trade industry is moving rapidly with on-line cash registers and other terminals. In Nebraska, two Hinky Dinky grocery stores are connected on-line to a computer at an S&L. And social security payments are being made directly to deposit accounts in many institutions—without checks being issued.

More and more banks will be looking at their service packages and integrating groups of separate services into single account, customer-oriented ones. Service-charge philosophies will undergo greater scrutiny as the impact of sharply rising service costs becomes more clearly defined. Even branch strategies will be reexamined—particularly as the understanding of EFTS grows—for surely the typical branch being built today, with a depreciable life of 30 years or more, is not likely to be what is really needed in even half that time.

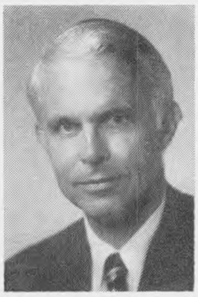
This year probably will see a continuation and extension of all these kinds of effort. Still out in the future lie solutions to such problems as how best to link together, regionally or nationally, these various isolated kinds of activities. Obviously, there is always the problem of sheer cost. EFTS, by the time it can be considered "mature," will have cost billions. And part of the dilemma to be faced is not so much the actual dollar magnitude, vast as it may be, but the consequences of failure to do something. If our present transfer systems cannot forever handle the volume growths, then we must change them somehow. Some form of EFTS seems to be the only viable answer.

And what of the consumer, the user of all these things? At the moment, he is not enthusiastically embracing all the

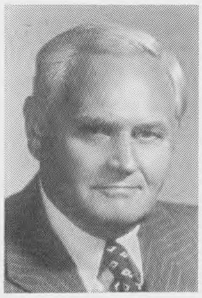
* *Mr. Harrison is executive vice president, United Virginia Bankshares, Inc., Richmond.*

underlying ideas—for many reasons. Most of them boil down to a perception of complexity and "change"—both of which are negative impact elements. So the effective marketing of EFTS and other changes will be very important if we are to make a successful transition from the old ways to the new.

All this adds up to a series of challenges to banking. They can—indeed they must—be met. • •



HARRISON



DYER

EASTERLY

TOBEY

Modest Rise in Commercial Loans Seen As Lenders Assume Cautious Stance

By FRANK R. DYER JR.*
President
Robert Morris Associates

WITH the nation facing the longest recession since World War II, bank lenders are predicting that their 1975 commercial loan portfolios will increase—but only modestly over 1974.

The mood among lenders is one of caution, tightening up, retrenching, a slowing down of the rapid market and product expansion that has characterized the banking industry for the last decade. Concerns have developed with respect to capital adequacy and loan quality, with government dictated credit controls and overerosion of confidence in banking by the private and public sectors.

The outlook for the economy, at least through the first half, is for continued sluggishness. In the second half, we should see a moderate upward turn in business activity. However, it's likely that real GNP, for the year as a whole, will decline from 1974's level.

Inflation should ease from the double-digit proportions in 1974 to the vicinity of 7% to 8% in the second half. But that is still a troublesomely high rate and will continue to influence our lending policies in a major way.

Rumblings for governmental credit allocation are ominous. This step is unnecessary and could, in fact, be counter-productive. The current period of economic stress already has led us to adopt restrictive attitudes in lending, particularly with respect to loan purpose. For months now, we have been highly selective in extending new commitments and have been giving close scrutiny to requests for additional funds from existing customers. We are going to see that proper credit needs are met, but no more. I think this will be a healthy development. Although Federal Reserve policy is moving toward ease, most lenders agree that restrictive policies will continue in the face of economic concerns and restraints imposed by capital.

Accompanying a faltering economy will be a weakening in commercial loan demand. The 15% to 20% increase in our totals during 1974 may well translate to a rise in the area of 5% this year. Additionally, this sluggishness could continue for a period following the recession.

Contributing to the reduced demand will be a curtailment in growth of receivables, as sales levels soften, and inventory liquidation at all levels, manufacturers through retailers.

We also may expect our corporate customers to seek to enhance their liquidity by acquiring funds in the long-term debt market, even if these rates remain high. An active commercial paper market with something like the historical spread in interest costs also will serve to ease the demand pressures on the banking system.

Loan demand also will be dampened by a tapering off in capital expenditures as reduced levels of output and lower corporate profits cause some cancellations and deferrals of currently planned expenditures.

I would expect reduced demand in the following loan categories: consumer-related industries, such as appliances, furniture, electronics—at the manufacturing, wholesale and retail levels; the chemical industry, such as synthetic fibers and paints, and automobile supply and accessory-related companies. All will be adversely affected by the weakness in consumer spending, especially in the first half.

One of the most likely areas for stronger loan demand may be the construction and building materials sectors, if, as projected, housing starts pick up by the second half. However, the lead time required to get housing underway again will affect the timing of this potential demand.

Continuing on the demand side, I look for strength in the following categories: energy and energy-related industries, such as petroleum, utilities, steel, mining; loans to finance the balance-of-payments deficits of oil-importing countries; the mass transportation

(Continued on next page)

* *Mr. Dyer is executive vice president, Philadelphia National.*

The Outlook for Bank Profits

Despite the fact that bank earnings have been on the upswing, profit margins have been declining, said William T. Dwyer, vice president, division F, First National, Chicago, at the bank's annual Conference for Bank Correspondents.

The margin of profit for all insured commercial banks fell from about 19% in 1968 to about 12% in 1973, he said.

The outlook includes a diminishing asset growth, which will force bankers to seek alternative ways to maintain and increase profitability, Mr. Dwyer said.

He outlined four points for better management that could result in increased profitability during a period of slower asset growth.

1. Reprice products to create adequate margins on each identifiable product. Recognize "loss leaders" and compensate for them. Insist on balances sufficient to assure profitability for all services provided.
2. "Unbundle" products where possible to create more products and packages to increase market penetration through tailored service relationships.
3. Discontinue products if they cannot generate needed profits.
4. Evaluate expenses and eliminate those caused by overlap. Check EDP systems to make sure they are not too advanced for the bank's needs.

Better management is the key to increased profits, he said.

industry and food and allied industries.

What about interest rate levels in 1975—notably, prime? Short-term rates can be expected to decline in response to a slack economy, weak loan demand and an easier monetary policy. The decline should continue through the first half of 1975, although the downward movement probably will be limited by the continued high rate of inflation. The prime rate could hit a low point of around 8% at mid-year but then start to rise again, slightly, as the economy strengthens.

Finally, as I look into 1975, I see a continuing and increasing emphasis by banks on loan quality and on loan pricing. Quality—because we manage the bank's "risk" assets, and our first responsibility is the safety of our depositors' money. Pricing—because this is a key factor that affects our bottom-line performance. Ultimately, it will be our earnings record that will attract needed capital into the banking system.

The key word for commercial lending in 1975 is "perspective." Does it all make sense, not only from an earnings viewpoint, but also in the context of the bigger picture: our communities and the essential needs of the economy? • •

Threats to Independent Banking Wane As Fed Curtails Expansion of HCs

By EMBREE K. EASTERLY*
President
Independent Bankers Association of America

CHANGE is constant and inevitable. Change is also mysterious. It is so complex that very little is known about how to effect change.

As a banker, I am interested in a change that seems to be taking place because of a complex interaction of social and economic forces. I refer to America's long honeymoon with bigness in business, labor unions and government. Concern about inflation, jobs and shortages of food, oil and other products has caused Americans to take a long, hard look at bigness and bureaucracy in all sectors. The signs are apparent. Consumer groups are demanding that competition be restored as the great regulator in many concentrated industries. A sense of misgiving over concentrations of power is on the rise in Congress. An inflation-weary public is becoming increasingly aware that supply and demand factors don't always work in highly concentrated industries, as evidenced by automobiles that have increased in price as sales have declined.

Our nation is fortunate to have a banking system that is competitive and not controlled by the few. Americans are served by some 14,200 separate banking organizations, 85% of which have less than $25 million in deposits.

In this period of economic uncertainty, it's the country banks that have provided the liquidity and the stability in our financial system.

I don't need to relate here the nightmare of some recent giant bank failures. Yet our financial system remains sound, thanks in no small measure to a banking structure that diffuses banking resources among thousands of competitive independent banks, rather than concentrating them in a handful of financial monoliths.

The greatest threat to survival of independent banking continues to be the expansion of multi-bank holding companies, but there are signs that the pace of growth is slowing.

The Federal Reserve—for years an aggressive proponent of group banking—has begun applying the brakes to multi-bank HC expansion. In a dramatic turnabout within four weeks this fall, the Fed turned down applications for overseas expansion of four of the nation's largest bank holding companies on grounds the proposed moves would drain too much capital. Subsequently, the Fed began denying some domestic holding company acquisitions for capital reasons.

The most forceful appeal for a cutback in holding company expansion was voiced recently by Federal Reserve Governor Robert C. Holland. He said expansion of holding companies has been fueled in large part by bankers seeking bigger profits for their holding companies in other fields, at the expense of building capital and liquidity in their banks.

Buttressing our work at the national level are state associations of independent banks, which have practically exploded on the scene recently. Within the past two years, 12 such associations have been formed and have scored some outstanding successes in legislative battles.

In the 41 states comprising the IBAA membership area, there are now 22 state associations of independent banks. Partly as a result of their efforts, a number of state legislatures have adopted or are considering multi-bank holding company control laws to give states a voice in a regulatory responsibility that is otherwise in federal hands.

Another indication of a new zeal among independent bankers is the growth of our own association—we now have passed the 7,300 mark in member banks, an all-time high.

One of the more encouraging pieces of legislative news for independent banking in 1974 was passage by Congress of the Depository Institutions Amendments Act. The IBAA was active both in originating and supporting several provisions of the act, such as exemption from the Truth-in-Lending Act of agricultural loans exceeding $25,000; modification of the public fund insurance provision; Regulation Q extension and the granting of authority to the Federal Reserve to supervise HC subsidiaries.

But perhaps the most far-reaching of the act's provisions was creation of the National Commission on Electronic Funds Transfers, an idea originally suggested by the IBAA to the Federal Reserve and later to Congress.

After a two-year study, the commission will report on all aspects of EFTS to Congress. During this period, changes in the present funds transfer system are to be kept to a minimum. Findings of the commission and the delay will give banking, and particularly the smaller banks, much-needed information and time to prepare for electronic funds transfer.

It would appear now that the moving forces behind EFTS have been the Federal Reserve Board, the national bank credit card organizations and the big banks that have an active interest in laying the foundation for interstate banking. Standing in the wings are the thrift institutions that would like to use EFTS to extend their asset powers further into the commercial banking field.

As far as users of the payments system are concerned—consumers, retailers and large corporations—there has been no evidence of real interest in promoting EFTS, since there are no apparent benefits of lower costs or better financial service flowing from the new system.

It should also be noted that no one has yet demonstrated that our financial system is in even remote danger of collapsing from the weight of paper in the next 10 years if EFTS is not intro-

* *Mr. Easterly is president, Capital Bank, Baton Rouge, La.*

duced.

Independent bankers are not opposed to any innovation that will help us serve our customers better, but our association firmly believes that the Federal Reserve was moving too fast into an area that had not really been explored from all angles. The National Commission on EFTS will give bankers and the public time and information to adjust to EFTS, if it is determined that such a system is in the public interest.

The times are indeed changing. We feel the American people desperately want a sense of participation in the political, social and economic institutions that control their destiny. Banking is one institution that remains human-sized and thus responsive to individuals. We believe the American people want to maintain a diffused banking system. The problem is, the wants and needs of the people do not always fit the conveniences of the giant institutions that serve them. The question is, who has the most power? And who is serving whom? • •

Collection Problems Will Be Intensified As Lenders Try to Cut Delinquencies

By ROBERT E. TOBEY*
President
Consumer Bankers Association

THE YEAR 1975 may well prove to be the most challenging that installment bankers have ever faced. Even a very cloudy crystal ball enables one to predict a continuation of current conditions, none of which are conducive to a profitable and relatively trouble-free consumer lending operation.

Problems confronting the housing, automobile and appliance industries and other consumer-related businesses will continue to drive new loan volume downward. A portion of this effect on outstandings will be offset by an increase in size of the average contract (higher prices) and a reduction in monthly liquidations (longer terms). The net effect, however, will be sharply reduced retail loan outstandings.

According to national statistics, unemployment will exceed 7% with some local situations approaching twice the national figure. Underemployment is much more pervasive than is unemployment, and the effect on the individual's ability to repay his obligations can be almost as great. We already have experienced some of these effects in our collection efforts.

It is safe to assume that present collection problems will be intensified during the first half of 1975. Unless there is some interruption in the normal pattern, record delinquencies will be closely followed by increasing numbers of repossessions and losses.

Where in this bleak picture are the challenges and opportunities? Again, despite the cloudy state of my crystal ball, it is safe to predict that few individuals will not be substantially affected by these economic conditions during the coming year. Many bank customers already are deeply concerned over the increasing difficulty in attempting to provide the basic necessities for themselves and their families and still have enough disposable income left over with which to meet the variety of obligations they assumed during a time when circumstances were more favorable. Many more will be similarly affected in 1975.

Here is an opportunity for bankers to strengthen their relationships with these customers and perhaps interrupt the rising trend in delinquency, while minimizing losses and repossessions.

Historically, the quality of collection effort has been measured in terms of past-due percentages. Collectors know this, and their approach to customers has been limited too often to a discussion of *when* past due payments will be made, with little if any time spent in the determination of *why* the delinquency occurred.

To reverse this and thereby permit bankers to take maximum advantage of this opportunity to be of service to their customers and communities, I urge them to consider the following steps:

1. *Review philosophy and policies:* Secure necessary approvals to adoption of a flexible policy concerning the handling of delinquent accounts that has as its *raison d'etre* the identification of the problem behind the delinquency and the consideration of *all* possible solutions thereto including: extension of payments, rewrites (for whatever term is required), debt consolidation, if warranted, or referral to a nonprofit debt prorating organization.

2. *Reverse attitudes on the part of all collection personnel:* Devise and implement a "reward and incentive" program for collection supervision and staff for the resolution of collection problems using more imaginative methods than repossession, charge-offs or forced personal bankruptcy.

3. *Train:* Instruct current and future collection personnel in use of alternate procedures and practices designed to offer relief to hard-pressed customers.

4. *Communicate:* Transmit these changes to your customers via media advertisements, letters, notice language —*everything* that will convince the customers of your willingness to *listen* with sympathy and *act* with compassion in the resolution of their problems.

Learn to live with a slightly higher delinquency percentage and harvest the rewards of fewer repossessions and losses, and a multitude of satisfied customers in the years ahead.

This is the challenge and the opportunity ahead for installment bankers. Let's respond to it! • •

* *Mr. Tobey is vice president, National Bank of Detroit.*

Conferences Scheduled On Planning, Policy By S.W. Foundation

The Foundation of the Southwestern Graduate School of Banking at Southern Methodist University, Dallas, will hold a conference on planning and execution of policy in small- and medium-sized banks October 12-15 at Tan-Tar-A resort, Osage Beach, Mo. CEOs, senior officers, directors and their spouses are invited.

The same conference and program will be presented at an earlier date, March 2-5, at the Greenbrier, White Sulphur Springs, W. Va.

Seminars at the fall conference will include planning strategy and executive control of growth, expenses and profits; manpower development for growth and continuity; planning the banking house, including site selection, facility sizing and financing; and scheduling capital requirements, valuation of bank stock and marketing of bank issues.

Faculty members of the conference will include Lovett Baker, president, Federated Capital Corp., Dallas; Fred T. Brooks, president, Merchants State, Dallas; Quinton Thompson, regional director, FDIC, Dallas; Ronald A. Terry, chairman and CEO, First Tennessee National Corp., Memphis; Eugene L. Swearingen, chairman and CEO, National Bank of Tulsa; Robert Y. Empie, president, Stock Yards Bank, Oklahoma City; James H. Denman, president, Citizens State, Nevada, Mo.; Gerald R. Sprong, president, American National, St. Joseph, Mo.; and Donald M. Carlson, president, Elmhurst (Ill.) National.

Sluggish Economic Performance Seen for '75; Modest Growth Forecast Until '76

Easing of inflationary pressures should occur

A YEAR AGO, there was growing uncertainty about the course of business in 1974. Would there be continued growth or would the economy slip into a recession?

The right question was posed, but the answer fell wide of the mark. I suggested that the historical odds favored continued growth, albeit at a slower rate.

Business, instead of growing, declined sharply. In short, the economy skidded into a recession!

Output dropped in the first quarter of the year at a 7% annual rate. Additional declines in the second and third quarters reflected the continuation of a trend that had been underway for about a year and a half. Real output, which is output adjusted for price gains, rose at an 8% annual rate in the first quarter of 1973 and has dropped fairly steadily since.

This decline in output was one of the sharpest in the postwar period and was contrary to what typically occurs. Eighty percent of the time, output rises as more people are employed. As a consequence, we produce, distribute and sell more goods and services.

Despite this decline in output, inflation accelerated and caused consumers and businessmen to alter their spending and investment behavior. Householders and businessmen alike found that their dollars bought less. About the only place that wasn't true was the stock market, where bargains abound.

By WILLIAM J. KORSVIK
Vice President
First National Bank
Chicago

The decline in activity is likely to persist in the months ahead, but the drop probably will be smaller than we've experienced so far.

In many areas, business will bump along, moving sideways. It is difficult to imagine the automobile industry, for example, getting any worse than it is today.

The best we can expect, therefore, is only very modest growth in the next 15 months.

• Industrial production, which measures the physical output of our nation's factories, mines and public utilities, dipped in October, and currently, the index is down about 3% from its peak in November, 1973.

• Employment growth has slowed. As a result, unemployment has moved sharply higher. Over 5.5 million are without jobs, which is 6% of the labor force.

• Personal income continues to rise. Inflation has cut buying power, but this factor will improve as inflation slows, which it will.

• Retail sales in 1974 are up about 7% over the same period in 1973. Excluding auto sales, the rise is about 11%. Surveys and the press suggest growing resistance to price rises, which also is likely to force an easing in inflationary pressures.

For the year ahead, our expectation is for a further rise in consumer expenditures. Moreover, since we anticipate an easing in price pressures, sales in real terms should improve and will be one of the forces of relative strength in 1975.

Before leaving the consumer sector, let me comment on housing starts. They are down sharply. Until the mortgage money situation deteriorated last spring, it appeared that starts had bottomed out. With mortgage money tight and rates high, recovery was delayed. Our judgment, however, is that a year from now, starts will be up. Mortgage money will be more readily available, and rates will be no higher, perhaps even slightly less expensive. The present decline in short rates aids this expectation.

Because of shortages and rising

This article is adapted from remarks made by Mr. Korsvik at the Conference of Bank Correspondents sponsored by First National, Chicago, last November.

prices, businessmen have invested substantial sums in inventories in order to service sales. In the aggregate, inventories appear to be in reasonable balance with sales, but the picture is confused. It seems reasonable to conclude, however, that businessmen will not be buying goods in order to add to their inventories; but, instead, will be striving to reduce the amount of goods they have on hand. Therefore, they will not be an expansive force in the economy.

Surveys of businessmen indicate a continued rise in plant and equipment spending. However, new orders for capital equipment have leveled off. Inflation, moreover, is distorting this picture, so there is likely to be little gain in fixed investment real terms, although outlays will be up about 8%.

In the aggregate, outlays by consumers, businessmen and government support the expectations of some resumption in real growth in the next 18 months after the rather sharp drop in 1974. Further declines are likely into next year, with growth thereafter averaging considerably below our historical experience.

As a consequence, a decline in real output of about 2% will be recorded for the year 1974 in contrast to our historical experience, which has been an increase of 3½% to 4%. Thus, while 1975 will be a lackluster year in terms of real growth, it will be an improvement over 1974!

Let me comment briefly on inflation, a source of concern to all of us, and a factor that has distorted much of the reported behavior of the economy.

Consumer prices in September, 1974, were about 12% above September, 1973. Wholesale prices were about 15% higher.

In the past year, prices were increasing at an accelerating rate. There is some evidence that this has been halted. Behavior of commodity prices indicates this.

Inflation is a concern, and rightly so. It has given rise, moreover, to the dire forecast of a new era of double-digit inflation. This seems to me to be a gross exaggeration.

Typically, in this country, we produce about 3% to 4% more goods and services each year. To keep the price level about constant, the supply of money and credit ought to grow 3% to 4% annually. If it grows more rapidly, prices will rise; but, usually, only by roughly the amount of excess growth.

Between 1952 and 1965 the money stock—deposits and currency—rose about 4.6% per year. Output rose 3.5% annually. Prices during that period were about constant, rising on average 1.3% per year. Thus, the increase in money and credit about equaled the rise in output and prices.

In the past four years or so, deposits and currency have grown at a 9.8% annual rate. This would finance the 4% growth in output—which actually averaged 3.1%—and about a 6% rise in prices. In fact, consumer prices have increased at a 6.6% annual rate. And again, the rise in money and credit about equaled the increase in output and the gain in prices.

In the past year, the growth of the aggregates has slowed. Deposits and currency have increased at an annual rate of 8.4%. The Federal Reserve gives every indication of pursuing this less expansive policy. This slower growth in money and credit does not suggest a continuance of double-digit inflation. As a matter of fact, the rate of inflation in the past year was greater than might have been expected from the growth in money and credit. It probably reflected the short-run influence of other non-recurring factors—such as controls, devaluation, harvest shortfalls—to mention but three.

Thus, while no one can accurately forecast when inflation will drop, history, logic and common sense tell me that it will drop.

To argue that two-digit inflation is here to stay, and that it is a new way of life, demands that the Federal Reserve embark on a wholly irresponsible expansive spree. Or it demands that history is no guide to the future. Neither is very likely.

The inflation outlook also impinges on interest rates. Just as I believe we are not in a new era of double-digit inflation, I also am not persuaded that recent levels of interest rates are here forever. • •

Valley National of Phoenix Negotiates Joint Building Ownership With Prudential

Shown here are Valley Bank Center and eight-story parking garage in Phoenix, subject of recent joint ownership purchase agreement between Valley Nat'l, Phoenix, and Prudential Insurance.

PHOENIX—Valley National and Prudential Insurance recently signed purchase agreements resulting in a joint ownership of Valley Bank Center here.

Under the arrangement, Prudential will purchase the land on which the downtown office complex stands, the parking garage and portions of the 40-story tower for $32 million. The joint ownership will be accomplished under the state's Horizontal Property Regimes law.

Bank officials felt that the capital received could be put to better use for the bank's benefit than to have it tied up in nonbank office space. Valley National will still own and control that portion of the building comprising its new headquarters.

The sale will include two blocks of land and the eight-story parking building. About one quarter of the 40-story Bank Center tower is to be held in common by the two companies, with the balance shared nearly equally. Ownership of floors three through 12, public use areas and floors 36 through 40 will be retained by the bank.

Valley National will have the option to lease back the garage, land under the tower and a portion of the tower space purchased by Prudential, on varying terms and conditions. The bank will also have the opportunity to buy back Prudential's portion at market value and will have first refusal to buy, should Prudential wish to sell all or any part.

Bank Has Home-Ec Display

Detroit-area junior-high home economics students are shown with their handicrafts recently displayed by Manufacturers Bank, Detroit. The exhibit showed progressiveness of today's schools and emphasized career aspects of classes.

Outlook '75

Reduced Interest Rates Predicted With Reasonably Strong Credit Demand

Tightening of corporate balance sheets predicted

THE TRAUMA caused by the year 1974 will leave an indelible mark upon the minds of bankers around the world. The impact and reverberations of the current economic dilemma are far from being solved, and the emergence of new forces from the heretofore unrecognized areas of the world is setting into motion multiple and complex social and economic problems which will have an effect upon all of us.

In fact, the present scenario is a product of our own design. It did not happen overnight. It is not the result of any one incident. And it is not the creation of a misguided individual or individuals, but rather it is the harvest of our lack of discipline, desire to ignore economic reality and the failure to recognize certain structural changes which have been occurring in our economy.

My charge is to sketch an interest rate and credit demand outlook. I would like to begin with a word of caution, noting that the forces, which you generally encountered and which have had an effect upon interest rates and credit demands, have resulted mainly from domestic economic policies. But in the future, you as bankers, regardless of your institution's size, must become more and more cognizant of the international forces which will impact upon capital requirements and their related cost.

Turning our attention first to the federal government, we know that it has been running a deficit for many years,

By NICHOLAS J. DeLEONARDIS
Vice President
First National Bank
Chicago

with the exception of 1969. However, again I must point out to you that the true size of the deficit is distorted since the financing needs of the various agencies are not included in the "unified" budget. For fiscal 1973, the federal deficit amounted to $14.3 billion, but if we were to add the amount of government-sponsored agency financing which was done during that same period, the deficit, in reality, was more like $23.7 billion. The deficit for 1974 is now recorded at $3.5 billion, but if you add the activity of the "major agencies" only, it comes out to be more like $17.6 billion.

The deficit for fiscal 1975 is projected at $11.4 billion, but although a little more than seven months remain of the current fiscal year, the budget plan does not as yet seem to be finalized. The Administration is proposing that spending be reduced from over $305 billion to $299 billion, but, while this would reduce the deficit by $6 billion, total spending would still be an increase of 11% above fiscal 1974 outlays. How successful the President will be in cutting expenditures, only time will tell, but regardless of the final figure, the deficit for fiscal 1975 could range between $22 to $28 billion, when combined with projected agency financing.

The Congress is empowered, under the Constitution, to control the "purse strings," but past activity would seem to demonstrate gross negligence of this charge. As economic activity expands and analysis becomes more complex, we cannot hope to achieve a semblance of reasonable stability in the years ahead unless we make a concrete attempt to control the overall budget process and coordinate all aspects of fiscal and monetary policy.

Contrary to the federal government, our state and local governments have been attempting to come to grips with spending. Perhaps local officials have been more attuned to the mounting displeasure of their constituencies.

This area of public finance seems to have stabilized at current levels, and for 1974, total demand should peak between $13 billion to $14 billion, with 1975 running between $14 billion to

This article is adapted from remarks made by Mr. DeLeonardis at the Conference of Bank Correspondents sponsored by First National, Chicago, last November.

'We are faced . . . with a paradox regarding the outlook for interest rates, manifested by a continued strong demand for credit and a downturn in economic activity.'

$15 billion. There continues to be a shift in the composition of municipal financing, with school and public housing requirements continuing to decline, while environmental needs have increased.

Leaving the problems of the public sector, we find our nation's corporations have been having difficulty adjusting to the pressures of a highly expansive economy.

By using two simple ratios, the "current ratio" (total current assets divided by total current liabilities) and the "quick ratio" (cash plus government securities divided by total current liabilities), we can begin to see some tightening in the corporate balance sheet. In 1960, the "current ratio" stood at 2.51, declined to 1.98 by the end of 1970 and has moved up to just slightly over two times in the early part of this year. Over this same period, the "quick ratio" moved from 52% to 19%. Part of this is the result of a shift to other money-market instruments, but overall, both of these ratios suggest a decline in corporate liquidity.

Further, an examination of the spread between the internal funds of "nonfinancial corporations" and capital expenditures for the last seven years points out the growing need for business to tap outside financial sources. Broadly speaking, the gap was approximately $14 billion in 1968, but by mid-1974 it was demonstrating a tendency to run at $49 billion.

This dependency on outside sources shows up when some of the external sources for funds are examined. During 1971 and 1972, corporate treasurers tapped the equity markets for $11.7 billion and $10.4 billion, respectively. Each of these years exceeded the amount raised during the entire decade of the sixties, but in 1973, because of low P-E multiples, the amount of capital raised in this area of the marketplace fell to $7.5 billion. The continued market slump will probably hold the amount in 1974 to around $5 billion.

In the corporate bond market, $18.8 billion was raised in 1971, $12.2 billion in 1972, $9.2 billion in 1973 and probably between $18 to $19 billion in 1974. During this same period, borrowings from banks shifted dramatically—$4.4 billion in 1971, $13.5 billion in 1972, $30.6 billion in 1973 and between $25 to $26 billion in 1974.

Looking ahead into 1975, nonfinancial corporations will want to tap the equity markets, if the market shows improvement, and could attempt to raise between $7 billion to $8 billion in this sector of the market. The corporate bond market will continue to play an important role with $20 to $22 billion coming from this area. However, the banking system will still be faced with reasonably strong demands and corporations will look to their banks for approximately $15 to $20 billion.

We are faced with somewhat of a paradox regarding the outlook for interest rates, manifested by a continued strong demand for credit and a downturn in economic activity which has already evidenced itself in many sectors of the economy. In addition, interest rates have already moved down rather markedly from their highs, and the question remains how low they will go.

Within the current economic framework, I would like to begin by suggesting a 90-day Treasury bill rate of between 6% to 6½% in mid-1975. Continuing in this same vein, Fed funds may trade below 8%, 90-day commercial paper could easily touch 7½% to 8%, and a prime rate of at least 8% is certainly within the realm of possibility by mid-1975.

As for longer-term rates, we may see three- to five-year government securities yielding 7¼% to 7½%. Yields on long-term corporate bonds will be highly reflective of our ability to demonstrate that anti-inflationary policies are taking hold, and if they are, we will see AAA corporates yielding 8% to 8½%. On the other hand, if we submit to inflation, they could rebound to a level of between 9% to 10%.

Over the last four business downturns, Fed funds have, on average, declined 64% from their peak; three-month Treasury bills, 55%; four- to six-month commercial paper, 46%; three- to five-month governments, 36%; and AAA corporate bonds, 12%.

Thus, the reduction in interest rate yields which I have just indicated is not inordinate when compared to previous declines during economic turndowns. In fact, the decline would be greater if it were not for the uncertainties caused by inflation. • •

National Bank of Detroit Promotes Nine Officers

WILLIAMS

DETROIT—National Bank of Detroit has promoted David D. Williams, who was senior vice president in charge of the trust division, to executive vice president.

Also named in recent promotions at the bank were William E. Blevins, director of personnel, and Rodney C. Linton, cashier, to senior vice presidents. Six vice presidents were advanced to first vice presidents. They are: William W. Dwire, head, mortgage division; Charles W. Elliott, head, regional banking division; John F. Fralick, head, personal trust administration department, trust division; Gerald B. O'Neill, chief general manager of overseas offices, international division; Robert E. Tobey, head, Instaloan division; and Gerald E. Warren, head, civic affairs and marketing division.

Bulla Joins Valley National As Director of Marketing

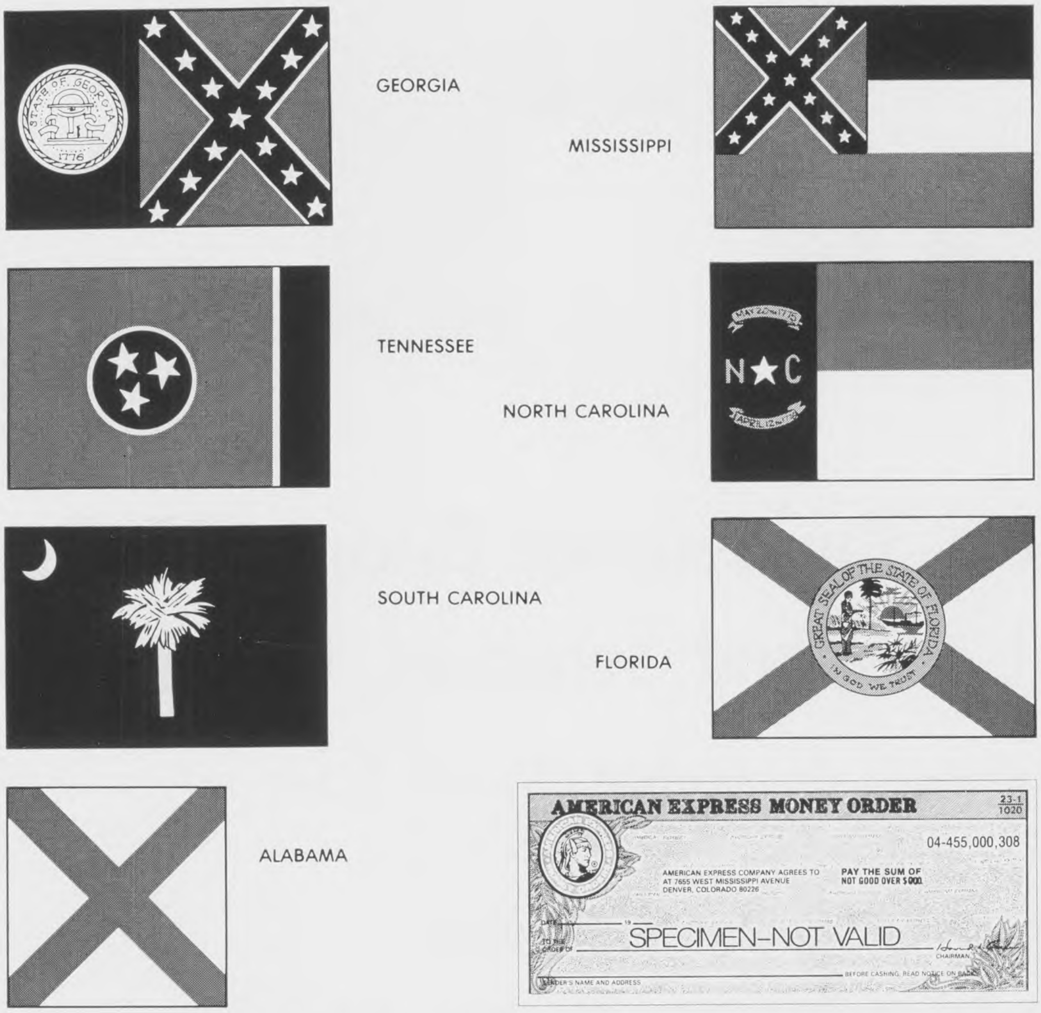
BULLA

PHOENIX—Robert B. Bulla, marketing manager of Phoenix Newspapers, Inc., was recently named vice president and director of marketing for Valley National of Arizona.

Mr. Bulla, who joined the bank January 1, is to develop a new program of marketing the institution's services.

He joined the *Arizona Republic and Gazette* in 1962 as research manager, advancing to marketing and research manager in 1966. He was named promotion manager the following year and was promoted to marketing manager and assistant public relations and personnel director in 1969.

Mr. Bulla has served as public relations director of the American Advertising Federation, Western Region, and is a past president of the Central Arizona Chapter of the American Marketing Assn.



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Participants at Boatmen's Nat'l Business Forecast Luncheon in St. Louis included (from l.) Stanley Marcus, ch., Nieman-Marcus; Donald N. Brandin, ch. & pres., host bank; and John M. Brennan, sr. v.p., host bank.

Bankers, Businessmen Discuss '75 Outlook At Year-End Seminars, Conferences

Hopefully, economic clouds have silver linings

Less Government Control of Business, Speakers Ask at Boatmen's Forum

IF GOVERNMENT would just leave business alone for a while, things might turn out all right.

This was one of the general conclusions outlined by business leaders participating in the annual Business Forecast Luncheon sponsored in St. Louis last month by Boatmen's National for its corporate clients.

The uncertain outlook for 1975 prompted Boatmen's chairman and president, Donald N. Brandin, to comment that, "If the GNP isn't up every year, if earnings don't increase every year, if everything isn't bigger and better, we conclude we're in deep trouble.

"History tells us that development has always gone in spurts," he continued, "that we have always had periods of pause."

He said the greatest problems are those created or ignored by Washington, and criticized the "persistent, critical lag in the recognition of economic change" and that remedial action, "whether honestly or politically motivated, has seldom proved timely."

The year 1974 was a humiliating year for economists, he said, and it taught many that undisciplined growth cannot be offset by monetary policy alone. He added that he didn't think the entire economy is basically unsound despite the current recession. "The recession will have to run its course and banking, like other industries, faces a real squeeze in 1975 as a result."

Mr. Brandin concluded by saying that our economy has great basic strength and resiliency.

Among the other speakers was Darryl R. Francis, president of the St. Louis Fed, whose remarks were centered on the threat to the world economy by Arab oil producing countries that are profiting at the expense of industry and the less-developed countries.

He said that, unless some better ways are found to recycle the Arab profits for the benefit of everyone, nations such as the U. S., Japan and those in Europe could tax themselves into bankruptcy.

The only way to truly relieve the burden on less-developed countries, he said, is for oil-producing countries to give less-developed countries oil at a lower cost or for the industrialized oil-consuming nations to come up with a means of payment that is acceptable to oil-producing nations. The alternative would be for less-developed countries to restrict their oil consumption and retard their development, which would have unfavorable repercussions throughout the world.

"The facts are rather simple," he said. "The oil producing countries have imposed a tax on the rest of the world. The tax may be unjust; nevertheless, it has been imposed and the main question is whether it should continue to be borne most heavily by the poor or should it be born by the wealthier industrial countries.

"If the consensus favors the latter outcome, then let's take the bull by the horns and tax industrial nations and give aid to the less-developed countries," he said.

Stanley Marcus, chairman, Nieman-Marcus, which opened a new store in the St. Louis area last year, said he does not take the current recession lightly, but he rejected a suggestion by

YOUR DOLLAR'S WORTH

Now your institution can...
Attract new depositors,
Strengthen customer loyalty,
Increase profits,
Render a valuable public service,
Enhance your image as
a consumer-oriented
financial institution...
**by reserving exclusive rights
to an outstanding new
series of consumer information
radio programs.**

EXCHANGE NATIONAL BANK OF CHICAGO

QUESTIONS AND ANSWERS ABOUT YOUR DOLLAR'S WORTH

Q Why will YOUR DOLLAR'S WORTH attract and hold a loyal audience?

A Because in today's inflationary economic climate consumerism, service and profitability go together. The public genuinely appreciates information on how to get more value in goods and services for its hard-earned dollars.

Q Will these programs really give valuable information to *my* customers and prospects?

A Yes, singles, young or established families, and older people *all* are deeply concerned about getting their dollar's worth, especially today. City dwellers, suburbanites, and rural families *all* worry about rising food prices, getting the best buy on a new or used car, preparing for retirement, and many other financially related topics—topics YOUR DOLLAR'S WORTH will cover in depth with money-saving ideas and suggestions. The broad coverage in the series relates to virtually every service and sales message you'll want to broadcast.

Q Isn't this series just an institutional "image building" radio campaign?

A Not so! YOUR DOLLAR'S WORTH provides you with a flexible, long-term sales platform that can help generate greater business activity and profits. By broadcasting fact-filled, money-saving information each day, which no local competitor can match, the series will spotlight your commercial messages and stimulate greater audience response. Offering listeners program reprints is an effective way to build walk-in traffic and cross-sell various services.

Q How can we offer reprints of program scripts to listeners?

A Together with each shipment of program tapes you will receive complete scripts for each segment. You may duplicate or reproduce these scripts in any way you choose and offer them to listeners just for stopping in.

Q What period would my exclusive license agreement cover?

A A minimum of six months, which includes 130 different program segments. This is the least time needed to build listener loyalty, and measure results of the series.

Q How often should these programs run, and how long do they last?

A The series includes one program per day, five days per week. Each broadcast runs approximately two minutes, plus your commercial message.

Q Could we use more than one radio station in our market area, or run programs more than once?

A Yes, you have complete flexibility. You may sponsor these programs as many times as you want, on any number of radio stations in your marketing area. You may even run each program more than once per day.

Q Must we sponsor YOUR DOLLAR'S WORTH five days a week?

A No. Again, this is solely your decision. A six-month license agreement provides you with 130 different programs—five programs per week. You may run fewer than 130 programs during this time, but you may not run or rerun programs after the six-month period. This restriction is for your benefit since this topical, timely program material may become obsolete after several months.

Q At the end of the initial six-month period, how do we renew our exclusive license agreement...for what period of time, and at what cost?

A Your exclusive license agreement automatically renews itself for subsequent six month cycles. However, you can cancel out anytime up to six weeks before the end of each contract period.

Q What does "exclusive rights in our marketing area" mean?

A No other financial institution competing for depositors in your market area will be given rights to sponsor the YOUR DOLLAR'S WORTH radio series on your local radio stations.

Q Will Exchange National Bank require that we use certain radio stations, or be involved in contracting for broadcast time?

A No. You and your agency know best which stations in your area lend themselves to this type of programming and deliver the most valuable audience listenership. You will contract for your own broadcast time.

Q How far in advance of broadcast will we receive the taped program material?

A You will receive tapes and scripts in one-month programming units. Each unit will arrive approximately three weeks before the beginning of that particular broadcast month. This schedule gives you and your radio station ample time to prepare for programming, commercials, and duplicate scripts.

Q **Why don't we receive all six-months of programming at once?**

A For a very good reason! By preparing one month's programming at a time, we are better able to keep the subject material immediate, timely and relevant. The fresher and more relevant the contents are, the more valuable the series is for your listeners.

Q **In what format are program recordings shipped to licensees?**

A Each month's programs are recorded on 7½ inch per second tape on a 7" reel—ready for station broadcast.

Q **Who selects the subject material and writes the scripts for YOUR DOLLAR'S WORTH programs?**

A Exchange National Bank's Research Division carefully supervises all program content and approves all scripts.

Q **What would be our cost to sponsor these programs?**

A License fees for YOUR DOLLAR'S WORTH vary from market to market. The fee for exclusive use in your area will be included with your cassette presentation. This figure will cover the cost of 130 YOUR DOLLAR'S WORTH taped programs and accompanying scripts. It *does not* include the cost of radio time, which you will purchase.

Q **Will we receive any special materials to help us introduce the YOUR DOLLAR'S WORTH series?**

A Yes! Together with your first month's broadcast package, you will receive sample opens and closes for your local announcer to read with each program. You'll also get a press release for distribution to your local newspapers, which announces the beginning of the series, the time, station, and your sponsorship!

A CUSTOMIZED SERVICE FOR YOU

Q **What is the cost of having David Rogers record a personalized package of commercials for our institution, and what does this package include?**

A This package provides a program opening and close using the name of your institution, four commercial messages in your choice of 30-second or 60-second length, and two short spot announcements promoting listenership to the YOUR DOLLAR'S WORTH series. You will provide radio scripts. The cost of this complete package is only $250.

*Rates are higher for the top 50 radio markets: please contact us for price quote if you plan to broadcast on one of them.

WAYS TO CUT COSTS AND GET YOUR DOLLARS WORTH PLUS

Q **What if we want to license YOUR DOLLAR'S WORTH, but find the cost of radio time too expensive for our budget?**

A Cut your broadcast costs in half with "co-operative" advertising, a strategy many of the nation's largest advertisers use very successfully. Simply locate a non-competitive firm, like an insurance agency, real estate broker, even a retail store, to be co-sponsor. You might each run a commercial with every program (one at the start and one at the close). Or you might alternately sponsor programs. Other companies in your area would benefit through association with this informative, public service series. Your radio station or advertising agency should be able to assist you in finding a co-sponsor.

Q **Can special price arrangements be made for multi-unit financial organizations or groups?**

A Yes. We will arrange special price packages for multi-bank holding companies, bank groups, and savings and loan holding companies.

YOUR DOLLAR'S WORTH

To get your complete YOUR DOLLAR'S WORTH cassette presentation, just fill out and mail this postage-paid reply card.

DETACH HERE AND MAIL TODAY!

YOUR DOLLAR'S WORTH REPLY CARD

Please tell me how I can reserve exclusive program rights to this series in my marketing area. Send me the YOUR DOLLAR'S WORTH cassette presentation including three sample programs, complete information and a price quotation, *without cost or obligation.*

NAME: (Please print) TITLE:

INSTITUTION: ASSETS:

STREET ADDRESS:

CITY: STATE: ZIP:

Please list the call letters of the radio station(s) on which you might sponsor YOUR DOLLAR'S WORTH:

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President Ford to stop buying as a means of curbing inflation. He likened the process to 18th century doctors who bled their patients in an attempt to cure them, but soon found they had dead bodies on their hands.

He said people should continue to buy, based on their financial ability to pay and not on their ability to borrow.

He also commented that the majority of his firm's executives have never experienced a severe recession, thus, it has been difficult to get them to adjust to cost-cutting methods.

He predicted serious potential social changes because of the rising unemployment situation, commenting that the unemployed won't take their hardship lying down.

He predicted sales for 1975 would be from 10% down to 10% up.

R. Hal Dean, chairman, Ralston Purina Co., said the American farmer and the food industry have been unjustly blamed for the high cost of food. "American agriculture is nearly twice as productive as American industry as a whole, with one farm worker producing three times as much food as he did 10 years ago. This is a record unmatched anywhere in the world."

But, in order to survive, he continued, agriculture must be able to pass on the costs of land, energy, fertilizer, labor and transportation. He predicted some stabilization of food prices for 1975, but "little chance of major declines."

Mr. Dean said he was concerned about the increasing worldwide demand for food, with abundant supplies available to those who can afford to pay.

"But we will find where the needs are most acute, there will be the least ability to pay—a condition that conjures ominous overtones to a shrinking world."

Ellis L. Brown, chairman and president, Petrolite Corp., which serves the oil industry, called for the nation to free itself from its dependency on foreign oil. He said the U. S. would be producing an extra two million barrels of oil daily if the Alaskan pipeline had gone in when first proposed.

He said the oil industry has been made the villain of the energy crisis by public opinion, but the public doesn't know that the oil industry has been investing $12 billion a year in exploration, drilling and production, with another $7.5 billion in refineries and pipelines.

He added that "Punitive taxation of the oil companies will not make us more self-sufficient in energy."

Charles J. Dougherty, president, Union Electric, said minor cutbacks in

(Continued on page 58)

The Industry Outlook for 1975

CAPSULE reports on the outlooks for various industries are a regular feature of the Conference of Bank Correspondents sponsored annually in November by First National, Chicago. The following reports were given at the 1974 Conference:

- **Autos.** Modest gains in sales of new cars are a possibility before spring, according to Francis G. Foster Jr., vice president, division C. A slow recovery is expected to take place late in the model year. Sales of domestic autos for the 1975 model year may not go much over seven million units, resulting in total auto sales of about 8.4 million units, including imports.

- **Cattle.** Prospects for the next year or two are clouded with uncertainties, according to Jay L. Doty, vice president, division A. Over the next several years it is anticipated that, around the world, more grain will be needed to feed people, rather than livestock. This doesn't mean the beef industry won't be profitable, but that the basis of production will change from grain to grass. Feedlots will be used only for finishing cattle, not growing them. This change will call for more expertise on the part of cattle feeders.

- **Discount Industry.** Most of the difficulties being experienced by this industry are internally generated, said James S. Brannen, vice president, division B. Lack of professional management and overexpansion have been plaguing the industry. The well managed firms, both national and regional, that have paid attention to market planning, location of stores and controlling balance sheet leverage will survive and prosper.

- **Education.** The current recession will cause individual gifts to colleges and universities to decline, and with government cutting back on assistance to higher education, private schools will have to rely more heavily on tuition and income from endowment funds to sustain current operations, according to Joseph C. Fenner, vice president, division L. Bankers should watch for declining applications, admissions and enrollments and beware of the lack of adequate budget procedures and planning for both short and long term. Advice from bankers can go far in saving schools from going under.

- **Electric Utilities.** The most critical challenge to the industry is obtaining sufficient capital to finance growth, said Robert H. Blanchard, vice president, division G. Capital expenditures through 1980 should average about $20 billion per year, compared with an average of $15 billion annually during the first half of this decade and $8 billion annually from 1966 to 1970. Rate increases, granted on a timely basis and sufficient to protect the fair return allowed, are essential and inevitable if the industry is to survive.

- **Finance Companies.** The finance company business is changing, said John A. Anderlik, senior vice president, division D. The way of the future points to fewer and larger loans, larger offices, credit scoring, on-line operations and contractual delinquency standards. Good training programs and a promote-from-within philosophy are important to combat high personnel turnover. The high costs of operations make old methods too expensive. It is not in the best interests of banking to force finance companies out of business during tight money periods.

- **Real Estate.** Robert L. Hollis, vice president, western real estate division, says the housing industry can look to better days in 1975. The recovery may occur very slowly, but a reversal in the trend of long-term mortgage rates has already begun. Provided some consumer confidence can be reinstilled, it is possible to have a level of starts at the 1.8 million annual rate by the end of 1975.

- **Securities.** The year will be filled with uncertainties, not the least of which is just how long the depressed market will last, said H. James Douglass, vice president, division H. Investment leaders are apprehensive about the final form congressional legislation is going to take. They are concerned about the impact of fully negotiated rates, come May 1. Leaders must adjust or face a third depressed year.

the use of energy will not solve the problem. The only answer, he said, is to increase production, utilizing two sources of energy that are not in short supply—coal and uranium.

He expressed fear that the energy industry might be hit by "governmental edicts and decisions rendered by those least able to understand the problem."

S. H. Anonsen, president, Mallinckrodt, Inc., forecast a 10% growth in sales and profits for the fine chemical industry, especially pharmaceuticals. He said this figure would be down sharply from the gains recorded for the first three quarters of 1974.

At least half the growth in sales in 1974 was due to price increases, he said. He predicted that costs in 1975 would be rising at a considerably lower rate, with some softening of prices in selective chemicals expected.

Although the chemical industry has been hurt by the decline in house construction, automobile output and other factors, he said the increased demand for fertilizer and other agricultural chemicals was a plus factor. • •

Interdependence of Banks on One Another Is Theme of Liberty National Conference

INTERDEPENDENCE of banks on one another was the theme of the 17th annual Conference for Correspondent Banks, held last month by Liberty National, Oklahoma City.

Featured speakers at the day-long meeting included Dr. Paul S. Nadler, professor of business administration at Rutgers University; Herbert V. Prochnow, former president, First National, Chicago; Dr. Joyce Brothers, psychologist; and James B. Cash Jr., ABA senior legislative representative. A number of host bank personnel also took part in the program.

J. W. McLean, chairman of Liberty, set the theme for the conference by decrying the lack of unity on the part of bankers. "For too long now," he said, "we bankers have let anything and everything divide us, with no concern for the fact that time is running out."

He proposed a declaration of interdependence for banks, modeled after the Declaration of Independence, that called on bankers to put aside their differences for the common good.

He reminded his guests that bankers have consistently refused to recognize their real competition and the steady encroachment of this competition into banking's domain.

He chided bankers for refusing to accept the inescapable fact that the status quo is not a liveable alternative to working together toward achievement through unity.

He said bankers seem almost blind to the identical problems they share concerning regulatory authorities, shareholders, capital adequacy, depositors, borrowers, investments, personnel, operations, automation, cost control, liquidity, taxation, diversification, planning and growth.

He called on bankers to strive to work together to shape the future of banking and develop the best solutions to day-to-day problems, such as those posed by the following questions:

- What constitutes adequate capital?
- What dividend policy builds capital best?
- Do you know exactly what is happening to your interest margin from month to month?
- Do you know how to widen it without impinging upon credit quality or liquidity?
- What should your liquidity level be?
- Which of the many yardsticks should you use to measure your liquidity?

TOP: Participating at Liberty Nat'l conference were (from l.) Dr. Paul S. Nadler, J. W. McLean, Herbert V. Prochnow and William P. Dowling. BOTTOM: "Smorgasbord of Interdependent Services" panel featured bank personel describing Liberty Nat'l's new services. Panel was moderated by T. Joseph Semrod (far l.), pres. of Liberty.

Only by working together, he said, can bankers find the best solutions to the problems posed by these questions.

He said that the best banks will be those with managements that are willing to combine their talents with the talents of other bankers in a joint search for better ways to answer these questions and to solve more and more problems for the customer.

Points made by Dr. Nadler included the following:

- When gold is legal for Americans, we're going to see the general public get taken for a ride.
- Should government allocation of loans become a reality, banks will have to get permission to grant loans from Oklahoma City (in the case of Oklahoma banks) and Washington, D. C.
- The public's loss of confidence in banking, due to the demise of Franklin National and other banks, may be one of banking's future problems.

Mr. Prochnow spoke on the role of the banker in an interdependent society. He traced the history of America's greatness and explained how banking contributed to that greatness.

In speaking about the economy, Mr. Prochnow said it's a sad time when the people begin to cry for regimentation and regulation because of abuses by various interests. He concluded by asking if Americans have the will and character to confront their problems, stressing the fact that they could if they have the will to do so.

He said that the biggest problem facing the nation today is the $60 billion we are paying to oil producing nations—an increase of $56 billion in just one year.

Mr. Cash of the ABA predicted that the consumer protection bill proposed by Senator William Proxmire (D., Wis.) may pose a real headache for bankers. The bill would create a federal consumer credit code that would include a limit on the rate lenders could charge for consumer loans. The bill would also consolidate and expand under one federal statute all existing consumer credit protection laws, such as truth-in-lending, credit discrimination, fair credit billing and fair credit reporting. A new federal agency would be created to administer the bill.

A smorgasbord of interdependent bank services panel brought bankers up-to-date on such topics as proof of deposit service, bank security, investment services, asset and liability management, commercial finance, what's new in BankAmericard, packaging for different markets, industrial development, economic education, insurance and bonding, international banking, loan portfolio management, trust and

real estate services. The panel was moderated by T. Joseph Semrod, Liberty's president.

Bankers were also informed on the posture of the Oklahoma Bankers Association on EFTS, which was described by Tracy Kelly, OBA president-elect, as "the ultimate in interdependence." He termed the development of EFTS as inevitable. Mr. Kelly is president, American National, Bristow.—*By Lawrence W. Colbert* • •


LEFT: Participants on Bank Forum program included (from l.) Winn E. Martin, ch. & pres., Clayton Banking Co.; Norman D. Pless, ch. & CEO, Exchange Security, Birmingham; Watt Jones, sr. v.p., First Nat'l, Wetumpka; R. F. "Bobby" Blake, pres., Auburn Nat'l; and James S. Gaskell Jr., pres., First Nat'l, Montgomery. RIGHT: Frank A. Plummer (r.), pres., First Ala. Bancshares, chats with (from l.) Lynn Moseley, pres., City Nat'l, Tuscaloosa; Hugh Dale, dir., Camden Nat'l; and Ed Clapp, ch. & pres., Bank of Maplesville.

Banks Have Economic Recovery Role Says Plummer at 1st Ala. Bank Forum

THE BANKING industry can be a constructive force to curb inflation and restore economic activity in 1975, according to Frank A. Plummer, president, First Alabama Bancshares.

Mr. Plummer was speaking to over 500 Alabama bankers and their spouses during the 29th annual First Alabama Bank Forum, which was concluded on December 10 in Montgomery. Mr. Plummer added that "banks' loan thrust should be in the area of productivity that creates employment. Economic recovery will be slow and sluggish, but will accelerate when the public has confidence that run-away inflation has been curbed."

Mr. Plummer expressed the hope that "future interest rate ceilings in Alabama would protect the consumer and at the same time have the flexibility to recognize national money market rates." He added, "Failure to provide this flexibility could slow the growth of Alabama and retard the utilization of its human and natural resources. Intelligent banking legislation will move Alabama ahead rapidly with economic recovery."

The state bankers also heard an economic and financial forecast for 1975 from Dimitris N. Balatsos, vice president and economist, Manufacturers Hanover Trust, New York. Mr. Balatsos stated, "A setback for inflation is getting under way and by mid-1975 the U. S. economy should start on a gently upward trend in real terms."

"Consumer spending," according to Mr. Balatsos, "is likely to get a boost by the rising personal income exceeding the rate of price inflation, thus helping to lift the economy out of the recessionary environment by late 1975. Caution, meanwhile, should be exercised by the federal government in avoiding over-stimulation and risking a repeat of the '73-74 inflation explosion."

James S. Gaskell Jr., president, First National, Montgomery, presided over a panel discussion of "Banking In Inflation." Ed Herbert, senior vice president with First National, predicted that the loan strategy of most state banks could possibly be more conservative in 1975. He indicated that every category of loans should be reviewed as to its soundness, profitability and economic benefit to the community and to the bank itself.

On the same panel were John Holleman, vice president and investment officer at First National, who discussed bond portfolio strategy, and Rick Horsley, comptroller, First Alabama Bancshares, who reviewed budgeting and expense control.

The recent increase in insurance coverage on deposit accounts from $20,000 to $40,000 was discussed by Dan Miles, senior vice president of operations, First National, Montgomery. Mr. Miles agreed with bankers that the public only hears about the FDIC and does not realize that banks in Alabama pay thousands of dollars in premiums annually for the protection of deposits.

Another item of high public interest is the new Individual Retirement Act which allows a person to deposit a maximum of $1,500 per year into a tax deferred savings account until retirement. First National's Al Byrne, vice president and trust officer, answered questions from bankers concerning this new development arising out of the Pension Reform Act of 1974. Mr. Byrne indicated that the available information on these new acts shows that a gap is being filled that has existed in the area of retirement plans for individuals.

John O'Connell, First National's personnel director, reviewed the basic requirements of an affirmative action program which is required for banks having at least 50 employees.

Mr. O'Connell also discussed the Occupational Safety and Health Act (OSHA-70) which applies to all businesses, including banks, engaged in interstate commerce.

Paul Norris, senior vice president for installment loans at First National, commented on the Alabama Uniform Certificate of Title Act, placing particular emphasis on the critical need for accuracy in preparing title applications. Mr. Norris also stressed the problem of interest rate ceilings and discussed recent congressional action which offered some relief in the area of business and agricultural loans of $25,000 or more. • •

Bank Sells Olympic Coins

Richard E. Chapin (l.), Olympic chairman for Michigan, discusses offering of Olympic coins commemorating 21st Olympic Games in Montreal in 1976, with Richard D. Flinn, vice president, Manufacturers National, Detroit. Bank is offering coins for sale as a gesture of Canadian-American friendship. Series of 28 sterling silver coins will be struck by Royal Canadian Mint and will be offered by each of bank's 72 branches. A portion of proceeds from sale of coins will go to U. S. Olympic Committee. Samples of coins are shown in lower photo.

Don Thomason, Senior Vice President — E.L. Burch, Vice President — Jack Beets, Kansas — Art Krebs, Arkansas-Louisiana — Ben Adams, Missouri

Jack House, Iowa — Duncan Kincheloe, Texas-Oklahoma — Paul Libbert, Missouri — Verne Schweder, Kansas City Metropolitan — Phil Straight, Nebraska-Colorado — Tom Wood, Kansas

Total Agricultural Exports Expected to Decline But Higher Prices Will Cancel Out Loss

AMERICAN AGRICULTURE, the economic mainstay of the U. S. foreign trade balance, will come through for the American economy again in 1975, though total exports of farm products will be considerably less than last year.

That is the assessment of the U. S. Department of Agriculture as reported in its grain and agricultural products situation report. These reports correspond with the most reliable private forecasts.

Agriculture's contribution to the U. S. trade surplus has been substantial. It was $11.8 billion in fiscal 1974 and is projected by government analysts to reach $10 billion to $11 billion in fiscal year 1975, still a healthy surplus, but a decline from last year's record.

The reason for this anticipated decline could be summarized in a word: "weather." Poor growing weather in the American corn and soybean belt this past season resulted in a significant decline in total feed-grain production. A recent crop report estimated a 27-million-metric-ton reduction down to 160.3 million tons from the 1973 record crop. Of necessity, exports will be cut back.

America's leading export commodity, wheat, also is projected lower for 1974-1975, at one billion to 1.1 billion bushels, down from 1.15 billion bushels this year.

Projected wheat surpluses by year's end will not top 300 million bushels. Exports in hard winter and red winter wheat are estimated at 685 million bushels, down from 750 million bushels in 1974.

The USDA forecast in the September 25 *Agricultural Outlook Digest* put the matter succinctly: "Because of our reduced 1974 (grain) crops, especially feed grains and soybeans, their high prices and the sluggish economies of many nations, our exports are going to slide in volume.

"Over 100 million metric tons (of feed grains and soybeans) left U. S. ports in fiscal year 1974, but only 75 million tons may be shipped in fiscal year 1975."

The United States has less grain to sell this year than last. Less grain and higher prices for it also are expected to affect livestock production, which would cause a reduction in foreign meat trade. Any change in foreign demand for our food and feed products will be a function of price. Since different nations have differing abilities to foot their food bills, the outlook for the world markets next year is somewhat mixed.

Grain exports to the oil exporting countries of the Middle East and North

(Continued on page 67)

The Case Against Export Controls

THE FUNCTION of the grain futures market, such as the Chicago Board of Trade, in the world export market is to provide a medium for anticipating price moves on the basis of all existing market information, and to provide a hedging medium where exporters can project future price levels for their foreign customers.

To the exporter of grains, the futures market is an indispensable asset to orderly operation of his business. He must be able to make commitments to his buyers worldwide many months in advance of his shipment of grain.

The futures market is effective in serving these needs of the exporters so long as the market remains free of governmental intervention and competitive interference, which prevent prices from seeking their natural levels based on supply and demand.

Government controls on farm exports create the temporary illusion of fighting inflation at home and would at best result in a Pyrrhic victory over our economic ills.

This was the message of Warren W. Lebeck, president of the Chicago Board of Trade, in a recent speech to the National Association of Farm Broadcasters.

Mr. Lebeck challenged the need for, and the wisdom of, export controls. "Export controls provide the appearance of 'protecting' the domestic food supply and, thus, achieve the political-

(Continued on page 66)

Major Legislative Changes Face Banking In New 94th Congressional Session

Patman, Proxmire Expected to Press for Reforms

By JOHN H. PERKINS*
Chairman
Government Relations Council
American Bankers Association

THE CURRENT economic crisis, a backlog of legislation not resolved by the 93rd Congress, new faces appearing in the makeup of both the Senate and House banking committees, a higher ratio of Democrats to Republicans on the banking subcommittees—these are the variables indicating that 1975 will be a year of substantive legislative change for the financial community.

Senator John Sparkman (D.-Ala.) will most likely step aside as long-time chairman of the Senate Banking, Housing and Urban Affairs Committee to become chairman of the Senate Foreign Relations Committee. Senator William Proxmire (D.-Wis.) is slated to succeed Senator Sparkman. The House Banking Committee probably will see the return of Representative Wright Patman (D.-Tex.) as chairman, although a last-minute challenge may be considered. Mr. Patman, who has served as a member of the House for 46 years, has the most seniority of anyone now in Congress.

Already indicating that he will press for passage of important financial reform laws in 1975, Mr. Patman has established these major congressional goals for the year:

• Reconstruction of financial institutions to assure maximum competition and maximum flow of funds in the mortgage market.

• Restructuring of financial regulations to enhance competition and to provide the consumer with an efficient and fair delivery of credit.

• A system of credit allocation to assure that socially desirable areas—such as housing—receive a steady supply of loan funds.

• Monetary policy reform to assure a more responsive policy to national needs and to provide long-range economic stability.

To be sure, these are the areas where bankers will see major efforts for change in 1975.

High on the list of financial reform priorities is the Financial Institutions Act (FIA). An outgrowth of recommendations made by the Hunt Commission, the Act calls for a balanced restructuring of America's financial institutions. With an endorsement from President Ford, the Senate Banking Subcommittee ended the year by laying the groundwork for action in the 94th Congress.

A revamping of the tax structure for financial institutions by providing a mortgage income tax credit and repeal of federal interest ceilings on rates of deposits are important aspects of the many-faceted bill.

While ABA has proposed four amendments to FIA, the association believes the FIA provides the best vehicle for effective restructuring of the statutory and regulatory framework. The alternative is a continuation of the piecemeal legislation which often serves only the interests of special groups.

The amendments ABA is proposing are:

• Eliminating extension of NOW account powers.

• Continuing Regulation Q and eliminating interest rate differentials between banks and thrift institutions on time and savings accounts until the time when an environment is created that relaxes or eliminates restrictive state usury ceiling laws.

• Establishing equity of size and form of reserve requirements.

• Giving all lenders a 3.5% residential mortgage interest income tax credit. This is proposed instead of a sliding scale based on the percentage of assets an institution has invested in mortgages.

Another many-faceted bill signed in-

* *Mr. Perkins is president, Continental Illinois National, Chicago.*

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to law last October is H.R. 11221. The new law increased deposit insurance coverage from $20,000 to $40,000 per account and up to $100,000 for public funds.

Two acts in the reform package will not take effect until October, 1975, to give the Fed time to write necessary regulations to implement the law.

One of the provisions in the Fair Credit Billing Act will require creditors to acknowledge credit inquiries within 30 days and resolve any dispute within 90 days. The Equal Credit Opportunity Act will prohibit discrimination in granting of credit on the basis of sex or marital status. Another provision will prohibit credit card issuers from preventing retailers from offering discounts, not to exceed 5%, to induce payment by cash or check rather than using the credit card.

Running headfirst into growing political pressures during this new year and on into future years are the credit allocation proposals for channeling funds into sectors of high social priority, such as housing and public utilities. The ABA legislative program will encourage incentive-oriented plans as a substitute for proposed compulsory government credit allocation schemes.

A new law to regulate foreign banks that operate in the U. S. will be high on the list of legislative items for '75. The Fed proposal introduced during the closing days of the 93rd Congress would place foreign banks basically under the same rules and regulations that must be observed by domestic banks. However, the proposal would give permanent status to existing activities of foreign banks even though they do not conform to the restrictions placed on U. S. banks, such as the ban on multi-state operations and curbs on securities affiliates.

EFTS will continue to gain prominence during the year. ABA's EFTS-related activities provide the banking industry with a broad-based approach to changes that could affect every aspect of banking. The Comptroller's ruling which permits national banks to install Customer-Bank Communication Terminals (CBCTs), plus the Fed's proposed changes in Regulation J pertaining to the future regulation of EFTS activities and the Federal Home Loan Bank Board's (FHLBB) proposals to expand existing pilot project funds transfer regulations and extend their effectiveness by one year all promise to keep the EFTS issues in the forefront during the year.

Pending regulatory issues that would dramatically change account structure and widen customer options available to banks are the Fed proposals to permit transfer of funds from savings to demand deposit for check overdrafts to make third party payments from savings accounts and to allow transfer from passbook savings to demand accounts on telephone order of depositors. The Fed has suggested that this may be its response to the FHLBB proposal to broaden third-party payment powers for S&Ls.

Adding to these specific legislative issues are items such as national usury laws, interest on demand deposits, competition with S&Ls, restructuring the federal agencies and a potential review of the Glass-Steagall Act. These will also demand considerable attention from the financial community.

While the financial system in America continues to remain complex, it also remains strong, even during periods when it is necessary to take extra precautions in the way it is conducted. Most important to all bankers is that they remain open and alert to change to assure the preservation and vitality of a responsive banking system. • •

Export Controls

(Continued from page 62)

ly desired effect of lower grocery prices. In reality, the ultimate results are quite different," he said.

He related the following potential results of the imposition of controls on farm exports in his speech, "Wet Sidewalks, Export Controls and Other Illusions":

- Export controls, by leading to reduced prices, are a disincentive to production and, hence, would reduce grain supplies in the future rather than increase them.
- Lower prices are a signal to consumers to buy more, and this also would aggravate the shortage situation—"Controls interfere with the free market's ability to solve the problems of scarcity," Mr. Lebeck noted.
- Export controls create a price umbrella for our competitors in the world market, creating incentives to their production of grains to fill the void left by reduced American contributions to supply.
- As an instrument of domestic policy, export controls invite retaliatory trade restrictions against the U. S.—both in terms of our exports and in tems of what we wish to purchase abroad (e.g., petroleum, coffee, cocoa, bauxite, copper, iron ore).
- Export controls destroy our credibility as a dependable supplier of produce.
- Curtailment of exports reduces the surplus in our foreign trade balance

of payments, which, of course, upsets further our shaky monetary situation and could lead to another dollar devaluation—"The dime we save out of one pocket may cost us a dollar out of the other pocket."

• An export pullback not only would worsen inflation, but would hamper efforts to curb recession—roughly one half million farm workers' jobs depend on exports, and another half million are engaged in assembling, processing and distributing agricultural commodities for overseas shipments.

"While the arguments against export controls could be added to and elaborated on, the point should be clear that no matter how urgent—or desperate—the search for solutions to inflation is, this nation cannot afford the high price of illusions," Mr. Lebeck concluded. • •

Agriculture

(Continued from page 62)

Africa are expected to continue at present record levels. The major Latin American markets, except Brazil, are expected to rise moderately, the USDA reported in its November forecast.

This year, demand for U. S. farm products in the developed countries of Western Europe and Japan is at a much lower level than last year because of increased production of grains and internal financial difficulties that have reduced real economic growth in those countries nearly to zero.

The People's Republic of China has already canceled its import commitment for soybeans, and the PRC might defer its commitment for wheat because of a generally good crop year in that nation.

Last year, China purchased $852 million worth of American grain and grain products, a mere sliver of the $21.3 billion total agricultural export figure.

The big buyers of American farm products were Western European nations, which took an aggregate of $6.8 billion worth, and Japan, which purchased $3.4 billion worth of food products. Our continued high level of trade with these nations are all contingent on our ability to deliver the goods at the time they need them and at the price they can afford.

Price also is an important consideration in American export volume, because the U. S. competes actively in the world market with Canada, Argentina, Australia, Brazil, France and other grain-exporting nations for the world's business.

The official government analysis of farm products does not specify prices or price ranges, but trends indicate another record year for export prices, topping 1974, which would virtually offset losses due to the drop in volume.

The Chicago Board of Trade, the world's largest futures market, where 95% of all grain futures are traded, is the first place where the supply-demand balance in these products begins to take shape in terms of price.

Because of reduced supplies in corn, wheat and soybeans and soybean products (soybean oil and soybean meal), higher prices have been reflected in the futures market. A strong demand from our foreign buyers will further this trend.

If prices weaken, it likely will be because of a lack of demand for domestic grains, weakening economies abroad and larger than expected harvests in importing nations. • •

Usury, Branching, HC Expansion, EFTS Topics Set for Statehouses in 1975

USURY, branching, HC curbs and authorization for banks to operate remote POS and other equipment associated with EFTS are expected to dominate the state banking legislative news in 1975.

As has been the case in the past, none of these topics is expected to see smooth sailing in statehouses. While bankers tend to agree on some topics, they are at odds on others. Thus, legislators can expect to be caught in the middle in some cases. In other instances, interests opposed to banking will do their utmost to sway legislators to their non-bank views.

Missouri bankers are expected to renew their attempt to have the state usury ceiling raised from 8% to 10% in the 1975 legislature. The new legislature convened early this month, hard on the heels of a special session that was called in part to tackle the usury question.

The special session came close to enacting what the financial community wanted, but last-minute objections and lack of a compromise between two versions of the legislation—one senate and one house—could not be reached. Legislature-watches declared the usury issue dead when the senate adjourned prior to the Christmas holidays, despite the fact that there was a slight chance agreement could be reached on the special session's last day, January 6.

The branching issue continues to dominate the Illinois financial legislation scene. The Association for Modern Banking in Illinois (AMBI) opened its new public campaign to liberalize antibranching law with a forecast that it expects to win passage of legislation this year lifting the state's restrictions on branching and multi-bank HCs.

The organization conducted a two-day statewide media drive to acquaint the Illinois public with pro-branching data, and predictions were made that legislators would vote in favor of branching and multi-bank HCs.

"We have a feeling that the mood is changing among Illinois lawmakers," declared Neil McKay, an AMBI director and executive vice president and cashier, First National, Chicago. "We think both political parties have become more receptive to AMBI-backed legislation."

AMBI is expected to have legislation introduced in the Illinois General Assembly that is identical to that introduced last year, but not acted upon.

The bills provide for a system of limited county branching coupled with the entry of multi-bank firms operating within the boundaries of five regional banking districts.

Walter J. Charlton, AMBI chairman and president, First Trust & Savings, Kankakee, outlined plans of the association to present a series of "white papers" to legislators that outlined the advantages of branching to the Illinois economy. The series of 10 papers will be presented to legislators by key AMBI bankers located within the legislators' districts.

At a statewide series of press briefings, AMBI officials distributed copies of a 71-page report titled "The State of Banking in the State of Illinois." The report has been described as "the most extensive study ever made of the differences between banking services in Illinois and other major states."

The study said Illinois is seriously hampered in providing jobs and maintaining industrial growth because of restrictive banking legislation. It said that loan funds that banks have available to consumers are growing more slowly in Illinois than in branching states like New York and California.

A number of topics are on the legislative agenda of the Indiana Bankers Association for 1975, but final plans had not been made in regard to some topics by press time.

There is a possibility that legislation to exclude POS terminals and cash machines from being termed branches will be introduced, depending on whether Comptroller of the Currency Smith's ruling permitting the national banks to operate these units off-premises is challenged in court or not.

The IBA plans to oppose any legislation by insurance interests that would eliminate financial institutions as competitors for insurance agents.

Continuing opposition to legislation that would permit the deposit of both state and local public funds in S&Ls is expected and the IBA will propose amendments to present law providing for the bidding by banks to obtain local public funds. The amendments would provide for those banks not submitting the highest bid to be able to match the highest bid and obtain their pro rata allocation of public funds.

The IBA will seek legislation to allow annual stockholder meetings of state-chartered banks at a date specified in the bylaws instead of within four months after the close of each calendar year, as the law currently specifies. The association will also sponsor legislation to amend Indiana law pertaining to wage assignments for loan payments. The law presently permits

only credit unions to receive wage assignments for loan payments and the IBA wants to amend the rule to permit banks to do likewise.

In Kansas, the Kansas Bankers Association has approved proposed legislation to permit operation of automated teller and point-of-sale terminals, but to not require banks to share automated teller or other remote service units installed on premises of its own main bank or on the premises of its own detached facility.

The Mississippi legislature is expected to take up the topics of multi-bank HCs and the reappraisal of property throughout the state to accomplish equalization of property taxes, as well as numerous other bills affecting banking.

The Oklahoma legislature is expected to enact legislation authorizing state banks to participate in POS terminals on a state-wide basis. The terminals will be defined as service facilities and not as branches.

Legislation authorizing banks to operate an additional drive-in facility within city limits is expected. Oklahoma statutes currently allow one drive-in facility not more than 1,000 feet from the main office.

Limited multi-bank HCs are expected to be authorized by the legislature. The limitations will involve total assets or deposits as well as the number of individual banks that can be acquired.

Amendments to the state banking code are also expected. These changes will bring the banking laws of the state up to par with national banking laws and regulations, primarily in the area of lending activities.

Restrictions on the size of HCs is expected to be introduced in the Texas legislature this year by the newly organized Independent Bankers Association of Texas. It is estimated that about 60% of the state's banking assets are controlled by HCs.

Consumer credit laws are expected to be amended to bring them into conformity with federal regulations. • •

Corporate Banking Dept. Begun at Irving Trust; Adams Is Named Head

NEW YORK CITY—Irving Trust has formed a corporate banking department to serve major account relationships within its metropolitan division.

Senior contact officers, several of whom previously served as heads of the bank's branch offices for corporate business, will staff the division. They will report to William W. Lyon, division senior vice president.

Hamilton Adams, a vice president with 20 years' corporate lending experience, will head the new department. Assisting him will be George J. Boslet, vice president and head, Irving's Rockefeller Center Office since 1969; Vice President Charles B. M. Douglas, head, 245 Park Avenue Office; and George W. Cannon, vice president and lending officer with over 15 years in the bank's national division and the Wall Street corporate banking unit, metropolitan division.

Key Working Committees Are Formed by NACHA; Chairmen Also Named

WASHINGTON, D. C.—The newly formed National Automated Clearing House Association (NACHA) has formed three key working committees. The three committees and their chairmen are:

Systems/operation committee. James H. Jarrell, vice president, Trust Co. of Georgia, Atlanta, representing the Georgia Automated Clearing House Association (GACHA). This committee is expected to begin immediately to develop improved computer software for ACH processing centers.

Legal/legislative committee, W. Robert Moore, senior vice president, Chemical Bank, New York City, representing the New York CHA.

Education/communications committee, Virgil M. Dissmeyer, senior vice president and cashier, Northwestern National, Minneapolis, representing the Upper Midwest Automated Clearing House Association (UMACHA).

Messrs. Jarrell, Moore and Dissmeyer also are on the NACHA board. Among other directors are NACHA President Russell L. Fenwick, senior vice president, Bank of America, San Francisco, representing the California CHA; Phillip M. Montross, executive vice president, Chicago CHA; Jerome H. Scott Jr., president, United Misouri Bank, Kansas City, representing the Greater Kansas City CHA; Lawrence R. Chapman, vice president, First Union, Inc., St. Louis, representing the St. Louis CHA; Ian Arnof, senior vice president, First National, Memphis, representing the Mid-South Automated CHA; and John C. Farrell, senior vice president, Republic National, Dallas, representing the Southwestern Automated CHA (SWACHA).

Paul B. Rossan, senior vice president, First National, Kansas City, is on a three-member, nonvoting advisory council. He represents the Bank Administration Institute.

The ABA provides administrative and staff support for NACHA. However, the latter has been established as an entity independent of the ABA. Frank P. Curran, ABA staff director of payment systems planning, is serving as NACHA secretary-treasurer.

Boost in Insurance Coverage Subject Of Newspaper Ads Placed by FDIC

IN RECENT WEEKS, large ads signed by the FDIC have shown up in newspapers across the country and such prestigious national publications as *The Wall Street Journal*. Purpose of these ads is to tell the public about the recent increase in federal deposit insurance from $20,000 to $40,000.

An FDIC spokesman said the corporation has never before spotlighted such increases, but believed it should do so this time because of the amount of the insurance boost and to answer some of the questions many people outside banking were asking about FDIC insurance. In fact, the ad was in question-and-answer form and was based on actual questions the FDIC had received from the public.

The questions and answers included when the increase became effective (November 27, 1974), how a person can tell whether his bank has FDIC coverage, whether and how he can get more than $40,000 insurance at the same bank, how he can obtain additional information and facts about the FDIC and federal deposit insurance.

Several questions and answers covered such subjects as how frequently FDIC-insured banks fail, what the record of depositor protection is for insured banks that failed, how large insurance losses of the FDIC have been over the years and how good is FDIC insurance. To the latter, the ad emphasized that the FDIC has never failed to honor its deposit insurance commitment. A related question and answer dwelt on how a person can get his deposit back if an FDIC-insured bank fails.

The ad didn't shy away from discussing the two recent big bank failures, U. S. National of San Diego and Franklin National of New York. One question was: What about the $1-billion U. S. National and $3.6-billion Franklin National?

The answer was: The FDIC laid out about $370 million in connection with the failure of U. S. National, but it expects to recover a substantial portion of this amount as the receivership of that bank progresses. In the case of Franklin National, the FDIC's only outlay so far has been $100 million for a capital note of European-American Bank and a small amount for initial liquidation expenses (since repaid). Further outlays are possible, but the FDIC's net loss, *if any*, will probably be very small. No depositor, of course, lost a nickel in either failure.

Another question also was on the above subject—I thought the FDIC agreed to pay $1.7 billion to the Federal Reserve System to retire the liquidity loan Franklin needed before it closed. The ad's answer: It did, but it has the right to collect assets carried on Franklin's books at more than $2 billion in order to pay off this loan.

Before the ads were published, the FDIC sent notices to chief executive officers of each of the 15,000 FDIC-insured banks advising them of the ads. The notices were accompanied by order forms for teller window signs, statement stuffers, window decals, etc., that contain copy saying that each deposit at these banks is now insured up to $40,000 by the FDIC. • •

Commissioner Appeals Pine Lawn Bank Ruling Approving Relocation

ST. LOUIS—Pine Lawn Bank, located in the St. Louis suburb of Pine Lawn, received circuit court approval to move to the Clayton area and change its name to Ladue Inner-Belt Bank in late November.

However, Missouri Finance Commissioner William R. Kostman has appealed the ruling in the Missouri Court of Appeals in Kansas City.

The court decision was the result of an appeal made to the Cole County Circuit Court, Jefferson City, following a ruling by the Missouri State Banking Board giving Pine Lawn Bank permission to make the move. The Board's ruling overrode Commissioner Kostman's denial of permission to relocate.

Pine Lawn Bank has been attempting to relocate since 1971. Its first request for permission to remove was denied by Commissioner Duane Pemberton, Mr. Kostman's predecessor. Mr. Pemberton's ruling was upheld by the State Banking Board and the courts at the time.

Joining Commissioner Kostman in opposing the move are the City of Pine Lawn; Clayton Bank; First National, Clayton; and the St. Louis Minority Economic Development Agency.

The two Clayton banks oppose the move because Pine Lawn Bank's new location would be in the Clayton area. The Minority Economic Development Agency opposes the move because the Pine Lawn community would be without a bank if Pine Lawn Bank relocated. Also, the move could trigger similar moves by other banks located in minority areas.

Commissioner Kostman has stated that Pine Lawn Bank has not been adequately serving its community and that, if it were allowed to move, there is little indication that it would serve its new trade area any better.

Outlook for the Installment Credit Industry

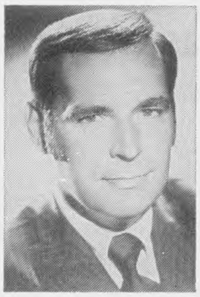
A question-and-answer session with William F. Schumann, president, Insured Credit Services, Inc., Chicago.

Q. WHAT IMPACT will inflation have on the installment credit industry in 1975?

A. I don't have a crystal ball, but I'd say delinquencies, up 40% in 1974 from the previous year, will go even higher. Economic prognosticators predict an inflation rate of around 8% in 1975, which means a loss of 2% to 3% of disposable income for the average worker over 1974. Translated into terms of loan repayments, it means that in many cases, one or perhaps two of the 12 loan repayments receivable in 1975 won't be made.

Second, as the delinquency rate rises, consumer groups will more forcibly lobby for far reaching modification of our consumer credit laws. The end result will probably be more legislation, which tells the installment credit industry not only what it must *not* do, but what it must do.

For example, take the proposed revision of the Bankruptcy Act. Under this legislation, it will be illegal to refuse to grant credit for the sole reason that the applicant filed bankruptcy. In addition, it is our understanding the borrower, after the bankruptcy, will be able to reclaim collateral securing a loan included in the filing, not for the balance due, but for the fair market value. And the creditor will have no choice but to return the collateral to him. Further, the cost of filing bankruptcy, will drop 50% to 60% from present levels.



Mr. Schumann began his credit career with General Finance Corp. In 1960 he became affiliated with First National, Evanston, Ill., and in 1965 he joined Insured Credit Services. ICS is said to underwrite the largest privately operated plan of credit insurance in the U. S. for home improvement loans, with over one billion dollars in modernization credit insurance having been written during the firm's 20-year history.

In my opinion, today's legislative direction is a one-way street where the huge majority of debtors who *do* pay their bills are being penalized to protect the small minority of debtors who *don't*.

This consumerist idealism won't solve the problem. It just adds to the cost of credit extension, and the consumer—the man who goes about his business properly, the little guy who takes care of his obligations—ultimately winds up paying for the additional bureaucracy.

Q. Is there any specific area of bank operations having an adverse effect on loan profitability?

A. Yes, definitely, Insured Credit Services (ICS) recently conducted a survey of all the claims paid during the previous six months, to determine the primary reasons for default. This survey showed that 61% of the defaults resulted either from over-obligation or unemployment. Undoubtedly, some of these losses could have been avoided with experienced, well-trained adjusters.

There is a tremendous profit leakage in delinquency. Yet time and time again, banks use the collection department—one of the most vital operations in the bank—as little more than a training ground. Far too often, we see an adjuster as a man with no experience, completely uninformed as to collection techniques, with practically no training and very little knowledge of recessions, unemployment or marital problems and the effect these things have on loan repayments. He is simply handed a portfolio of delinquent accounts and told to go out and collect them.

Q. What would you tell a consumer banker to look out for in the way of "high risk" potential in the home improvement lending field?

A. Certain credit characteristics come up regularly in our claims. First, the improved property is located in a questionable area or out of the bank's general trade area where there is no familiarity with land values or neighborhood conditions.

Second, the analysis of income and outgo by the credit officer is superficial. The crux of a good credit decision is an in-depth determination of the borrower's capacity to repay. Far too frequently we see consideration given only to fixed monthly obligations, with no knowledge of the size of the family, and no recognition of month-to-month living expenses, such as auto maintenance, utility bills and groceries.

A third characteristic would be lack of reasonable background information on the borrower or where the bank does not take the time to determine past credit history. Today's situation, particularly, makes it imperative to obtain an up-to-date picture of income and indebtedness.

Finally, we find an abundance of borrowers who are in less than stable occupations or occupations heavily subject to economic influence.

These characteristics are not inevitable in a portfolio. They can be minimized easily. Just know your borrower! Get a complete picture of his financial condition, conduct a thorough investigation and then make a professional analysis of the facts at hand. Information, followed by investigation, followed by analysis, will eliminate virtually all of the bad risks.

Q. In spite of the general business outlook, many economists are predicting a record year in the home improvement market. How do you account for the upsurge in home improvement loans?

A. The timing is absolutely perfect for greater emphasis on home improvement lending. The baby boom of post World War II has just come of age. The bulk of these people are married, raising families and buying homes. They are interested in improving the livability of their surroundings, and because of the current mortgage money crunch, they are unable to move to larger quarters. As a result, they are expanding their present homes and are making the changes in their homes necessary to add to their individual comforts.

The people are putting in the wall-to-wall carpeting, the patio and the rec room that they might not previously have thought about because they expect to stay where they are for the next five to 10 years, rather than moving to a larger home.

Q. Are home improvement loans profitable?

A. Absolutely! Probably the most important reason for active participation in property improvement lending is the fact that such lending will make a strong contribution to bank earnings. Earnings generated on the average direct home improvement loan that we insure amount to slightly more than $1,100. Compare that to the earnings on other types of consumer loans. The set-up cost on a home improvement loan is about the same as for other loans, and the cost of handling a loan, once it's on the books, is not much different. But the home improvement loan produces substantially more income for the bank.

Q. Can we expect any new trends in 1975 regarding dealer-originated home improvement lending?

A. Yes, for the first time in years, bankers are in the driver's seat, and the money situation being what it is, they are able to insist on adequate profitability in all dealer relationships, purchasing paper that is on sound terms at realistic rates, with acceptable credit and a minimum of complaints.

An indirect property improvement loan portfolio can be one of the highest-yielding operations in a bank. But to assure a continuing profitable relationship with dealers in the property improvement field, we recommend that a number of steps be taken.

First, make absolutely certain that the dealer is financially stable and able to install and service the job to be financed. Obtain a current financial statement as well as a Dun & Bradstreet report and up-to-date credit report on the principals. Then make certain that all of this material is updated on a regular basis.

Second, analyze losses and delinquencies on a dealer-by-dealer basis. If the portfolio of a particular dealer is out of line, pinpoint the cause and either impose limitations or revise standards on that dealer's offerings. Analyze rejects, also. A rejected loan produces no income and creates a substantial investigation expense. A high reject ratio could mean a relationship with the dealer that has no profit in it whatsoever.

Third, review all complaints completely. If they relate to workmanship, double check the product and installation. If they involve sales practices—a real danger signal—take immediate corrective action.

Finally, visit the dealer's place of business on a regular basis. Evaluate his showroom and his shop. Meet his salesmen and his mechanics, and get all sales literature and information available concerning his product and sales techniques. Look at completed jobs periodically and talk to borrowers to determine their opinions of the dealer.

Indirect loans can be a highly profitable source of home improvement business, but it does take a commitment to stay on top of an operation if success is expected.

Q. What trends, if any, do you see developing in regard to bank management's concept of "full-service" in regard to the consumer?

A. In recent months, management philosophy has made a dramatic swing toward the retail concept. The in-depth study of banking made by Booz, Allen & Hamilton a couple of years ago has received wide current recognition. Their report concluded that optimum banking success will be most readily achieved by cultivation of the *retail* consumer. Bank management has taken this conclusion to heart, and practically all marketing efforts of the past year have been directed toward the retail banking goal.

A primary example of the redirection of marketing efforts in banking is the "servicing package" concept, where a number of bank services are combined and the package is offered at a nominal monthly fee. The entire purpose of this concept is to get the consumer to be a multiple user of bank services.

Another example of the present bank marketing strategy is the personal banking center, where one officer handles all retail phases of banking, from opening a checking account to arranging for a personal loan or a mortgage.

This change in marketing concept from the wholesale to the retail offers a real opportunity for the consumer banker and, in my opinion, the profit rewards can be most quickly achieved in the home improvement loan field.

We're in a new ball game economically, legislatively and in the marketing area. The climate has changed, and in order to remain successful in the months ahead, consumer bankers must adapt these changes to their best advantage. • •

The Case Against Curbs on Fed Funds Purchases

By DARRYL R. FRANCIS
President
Federal Reserve Bank of St. Louis

BORROWING and lending between banks on a day-to-day basis has become increasingly important in recent years. Such operations, commonly known as Federal funds transactions, rose nine-fold from June 30, 1967, to June 30, 1974. The volume of Fed funds purchased by all banks rose from \$3.9 billion to \$35.3 billion, respectively, between the above dates. The liabilities created by Fed funds purchases rose from an average of 1% of total bank liabilities in mid-1967 to 4% in mid-1974.

The market for Fed funds is well developed. It provides a convenient means for shifting credit from areas where the supply is relatively large compared to demand for loans to areas where demand is relatively large compared to supply.

The Fed funds market allocates credit throughout the nation to its most efficient uses. Each of the nation's independent commercial banks can participate in the market by purchasing or selling funds at a rate determined by national supply and demand conditions. Some banks are typically net sellers and others are net purchasers of funds for extended periods of time.

A number of bank regulatory agencies are reported to be considering placing ceilings on bank purchases of Fed funds. While not giving specific details as to the type of restrictions "needed" or their specific objectives, such controls are intended to limit the amount of liabilities that any one bank can incur through Fed-fund purchases.

In my view, such restrictions are not compatible with an efficient national financial market. As pointed out by the Hunt Commission in a thoughtful report on our financial institutions published in 1971, the quality and efficiency of financial services have declined because of excessive regulation. Recognizing that the public would be better served by increased competition among various financial institutions, the Commission recommended the removal or relaxation of most restrictions on banking. The removal of most restrictions on banks would lead to increased efficiency in financial markets.

Restrictions on the purchase of Fed funds would reduce credit flows through efficient commercial banking channels. The supplies of loan funds to areas experiencing relatively greater loan demand would be reduced, affecting borrowers adversely. Savers in areas with lower credit demand relative to supply would likewise be affected adversely, since returns on their savings would be reduced.

Any impediment to the efficient flow of funds within the economic system leads to higher average interest rates on loans, lower returns to savers and slower economic growth than would otherwise occur. The contribution of the financial system to economic growth is maximized when credit flows most efficiently from savers to investors. The direction of Fed fund flows is determined by the interest rates in the various regions of the country which are in turn determined by the supply of savings relative to the demand for loans.

If returns on investments in one area of the nation are greater than in other areas, banks in the high-interest rate area will purchase Fed funds from banks in the other areas, and funds will continue to flow to the high-rate area until the rates are equalized in all areas. In this manner the nation's savings will be used for those purposes which provide maximum yields. Such uses are consistent with the maximum well-being of the people.

In contrast, when credit markets are shackled by controls on fund flows, such as the proposed restrictions on Fed funds transactions, savings will not always be used for those purposes

Citibank's Fed Fund Policy

First National City Bank, New York, agrees with St. Louis Fed president Darryl R. Francis that curbs should not be imposed on purchases of Fed funds (see accompanying article).

"It is our basic position that free-market forces should be allowed to operate for Fed funds as well as for all other money-market instruments, including savings deposits," said Donald S. Howard, senior vice president-finance, at Citibank.

"However," he continued, "we do recognize there exist abuses in the over-reliance upon Fed funds by a few banks. In this connection, at Citibank, we have established an internal policy limitation that our net purchases of Fed funds shall not exceed the amount of our required reserves at the Federal Reserve Bank for a given day."

Mr. Howard offers a suggestion for lengthening the maturities of funds that flow into the Fed funds market. Presently, he said, inter-bank time deposits are subject to double reserves, with reserves being required on the banks obtaining the deposits which are derived from sources external to banks and on the bank in turn receiving time deposits from other banks.

If banks were permitted a reserve credit for inter-bank CDs they have at other banks similar to the credit received for inter-bank demand deposits, they would have an incentive to shift from overnight Fed funds to longer time deposits. This would serve to increase the liquidity of the banking industry by lengthening the maturities of such funds, by providing a more stable base of such funds for the borrowing bank and by issuing such CDs as a source of liquidity for the banks holding the certificates.

"Our reaction to the possibility of curtailing loans to reduce bank reliance upon borrowed funds is not very enthusiastic," Mr. Howard said. "Borrowed funds are simply a facet of liquidity, with Fed funds being an important factor. We believe loan growth should ultimately be tied to bank profitability, loan loss experience and capital."

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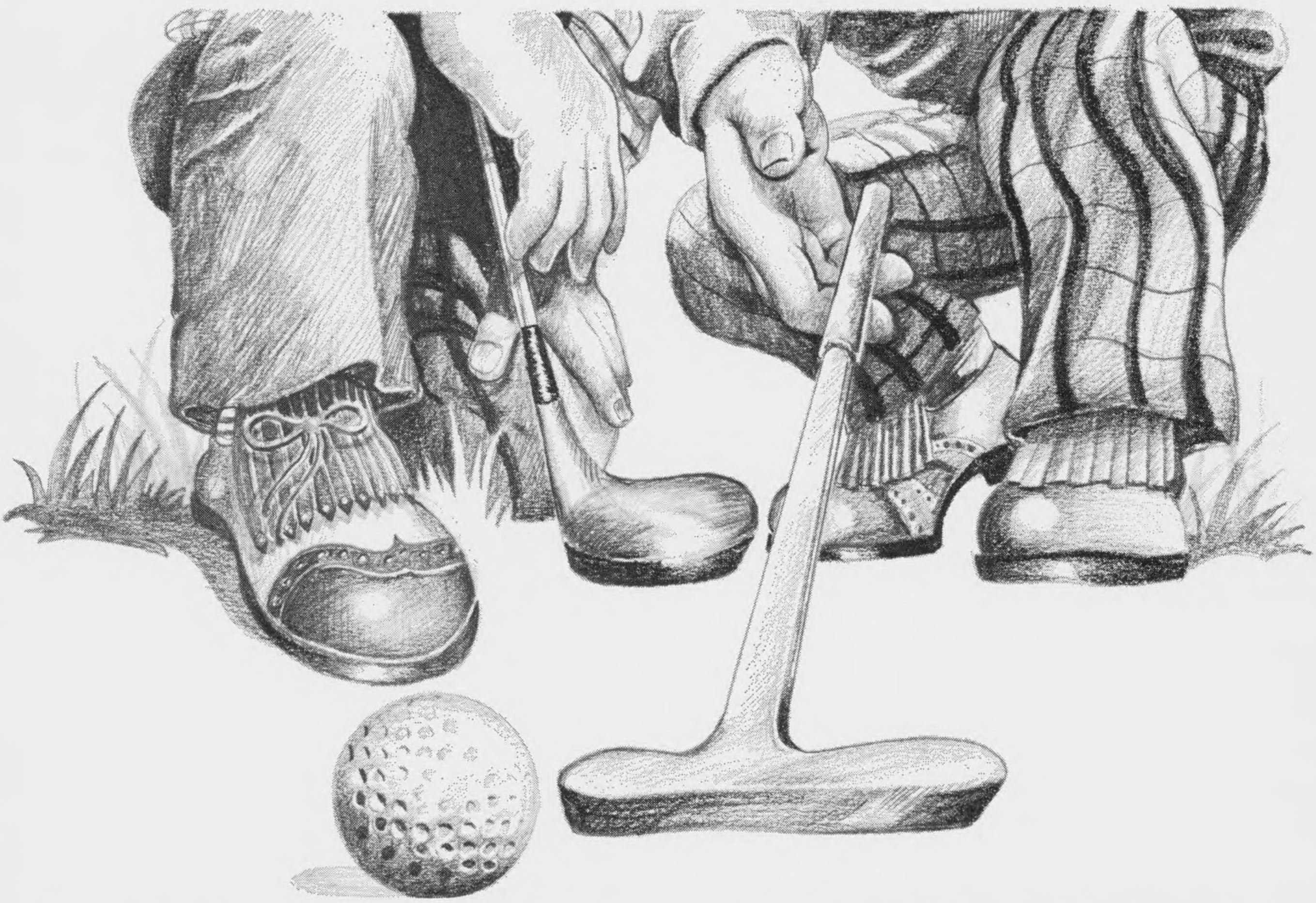

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which maximize the nation's wealth. With such restrictions, savings cannot freely flow from relatively low- to high-rate areas, and part of the savings would be used for purposes that yield less than they would in the absence of restrictions. Both the higher cost of funds in the high-rate area and the diversion of credit from its most efficient uses retards economic growth and reduces benefits to the public.

The argument that banks must be restricted from competitively purchasing funds dates back to the great Depression of the 1930s, when it was thought that excessive competition caused the large number of bank failures. In my view, the failures were caused largely by a sharp and persistent decline in the quantity of money.

The proponents of controls argue that there was nothing to prevent banks from taking one imprudent step after another in purchasing funds until risks became intolerable and bankruptcy ensued. They have argued that high rates paid and a large volume of purchased funds could force banks to make high-risk loans. I do not believe that bankers are that imprudent with their own future, and with depositors' and stockholders' assets.

Wealth maximization is a more rational explanation of bank behavior. In my view, bankers use the same reasoning in deciding what rate to pay for purchased funds, and the amount of funds to purchase, as is used in making other decisions concerning expenses. They will hire additional help or purchase additional automated machines as long as the increase in expected revenue from the last unit purchased exceeds the increase in total costs.

Marginal costs and returns, after allowance for risks, likewise determine the amount of credit that will be supplied by any one bank. The rate of return on such credit determines the bank's demand for Fed funds, and the demand for and supply of such funds determines the amount that will be purchased.

In summation, restrictions on Fed fund transactions by banks would be economically inefficient. The concerns over possible losses of depositors through any bank failures that resulted from a more competitive financial system, as implied by a freely functioning national Fed funds market, must be evaluated in comparison with the lower-cost financial services resulting from such a market.

Any additional exposure of the FDIC to the possibility of losses as a result of Fed funds transactions could be handled at less cost through FDIC insurance premiums based upon the risk exposure of banks than through controls.

Such controls would deny savers in areas of relatively low credit demand the right to a freely functioning national credit market. They deny investors in areas of relatively high loan demand the right to freely tap such savings, and they deny the public the gains in production accruing from a more efficient financial market. • •

In San Diego:

Banker Chairs Session On Energy Crisis

Earl Sneed, president, Liberty National Corp., Oklahoma City, recently chaired a session on "Transportation and the Energy Crisis: Rethinking Priorities" at the 80th National Conference on Government in San Diego.

The conference was sponsored by the National Municipal League, a nonpartisan organization for the promotion of good government. Mr. Sneed serves as its vice president.

He said that by bringing together a combination of public officials, civic, business, labor and civil rights leaders and members of the academic community, the conference provides an opportunity for the exchange of viewpoints from a vast cross section of the nation's people.

Other topics covered by this year's annual conference, to which the public was invited, were public access to information, ethics in government, citizen involvement, financing public services and reorganization of government at the local level.

Bank Honors Judge

Cook County Circuit Court Judge Helen McGillicuddy (l.) views American National Bank of Chicago's display honoring her as a recipient of the 1974 YWCA of Metropolitan Chicago leadership award for outstanding performance in the professions. Also pictured (l. to r.) William G. Ericsson, bank pres.; Marjorie H. Ericsson, chairwoman, 1974 YWCA Leadership Luncheon; and Betty Saville, pres., Metropolitan Chicago YWCA. The bank will continue the display honoring seven local women for achievements in business, professional, community and cultural activities.

First of Denver Bldg. Sold to Equitable

DENVER—First National and Equitable Life have announced that the latter is buying the 28-story First National Building in Denver as the first phase in a multimillion dollar transaction. Equitable also will buy a new six-story structure connecting the First National Building with the new 32-story First of Denver Plaza Building and a new four-story "Galleria" building and open plaza.

Ultimately, Equitable will own all properties in the soon-to-be-completed First of Denver Plaza, except for the First of Denver Plaza Building. Equitable will take immediate possession of and manage both the bank building and garage.

First of Denver will continue as major tenant in the First National Building, occupying the first seven floors, while Equitable will house all Denver operations in the rest of the building.

New Charge Card Billing System Announced by First of Tulsa

A more efficient and accurate BankAmericard billing system has been put into effect, according to officials at First National of Tulsa's BankAmericard Service Center.

The new "electronic value exchange" will change the appearance of customers' monthly bills, eliminate the mailing of more than a million pieces of paper a day among BankAmericard banks and will furnish information to customers more promptly, accurately and legibly, said Peter Van Straten, center manager.

Rather than individual copies of all sales drafts, cardholders will receive machine-produced facsimile sales drafts describing all transactions with their cards.

The facsimile draft is printed by computer. It contains the cardholder's account number, identity of the merchant from whom the purchase was made, a date and dollar amount of the transaction.

The facsimile drafts are said to be an interim step toward a new "descriptive" billing statement, to be introduced early in 1975.

Under the proposed billing system, the cardholder will receive a single printed statement describing all BankAmericard transactions for the billing period, specifically described by a date, merchant identity and dollar amount. Total amount of the bill, minimum payment due, finance charges and other account information also will be furnished.

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Study Reveals Possible Future Interest Rates

THE CURRENT structure of interest rates suggests that the financial community is expecting an annual rate of inflation of about 6.4% over the next 25 years. If that develops, total returns on common stocks should average about 14.1% per year, according to a study released recently by two economic researchers.

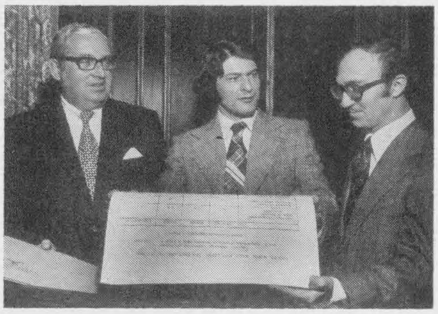
Roger G. Ibbotson, professorial lecturer in finance at the University of Chicago's Graduate School of Business, and Rex A. Sinquefield, trust investment officer, American National, Chicago, revealed findings of their 18-month research project entitled "Stocks, Bonds, Bills and Inflation: The Past and Future" at a seminar on the analysis of security prices at American National, Chicago.

Appearing with the research team at American National was the bank's president, William G. Ericsson. The bank helped fund the Ibbotson-Sinquefield project. "We are continually interested in academic research of this nature and the Ibbotson-Sinquefield study should have significant impact on future capital market forecasting," Mr. Ericsson said. "Earlier studies have led to practical investment applications, such as the market index fund, which we at American National utilize with great success in our investment procedures," he added.

The study was approached in two phases: historical and future. In the first phase, Messrs. Ibbotson and Sinquefield measured the total rate of return on a market weighted common stock portfolio for a 48-year period from 1926-1973. Included also were total rates of return over the same period on long-term U. S. government bonds, Treasury bills and inflation. In phase two, the research team developed a model which simulated future total rate of return distributions for stocks, bonds and bills, and related them to forecasted inflation rates from 1974 through the year 2000. The model incorporated the historical data from phase one and recent theoretical and empirical academic findings.

The principal historical findings in phase one of the research, 1926-1973, were:

- The annual rate of return on common stocks was 9.3% per year.
- In 32 of the past 48 years, stock returns were positive and in 16 years negative. The total annual returns ranged from a high of 54.0% in 1933 to a low of –43.4% in 1931.



Participating at briefing at American Nat'l, Chicago, were (from l.) William G. Ericsson, bank pres.; Roger G. Ibbotson, University of Chicago; and Rex A. Sinquefield, bank trust investment officer.

- The annual rate of return on long-term U. S. government bonds was 3.6% per year from 1926-1973.
- The annual rate of return on U. S. Treasury bills was 2.1% per year from 1926-1973.
- Inflation, as measured by the Consumer Price Index, was 2.1% per year from 1926-1973.
- The annual rate of return by which stocks exceeded Treasury bills was 6.9%.
- The annual return on bonds in excess of bills, sometimes referred to as the liquidity premium, was 1.3%.
- The returns on bills in excess of inflation, sometimes referred to as the real or true rate of interest, was 0% over the period 1926-1973.

The principal predictions of simulations for the years 1974-2000 include the following:

- The expected compounded rate of return on common stocks through the year 2000 is 14.1% per year.
- The forecast inflation rate through the year 2000 is 6.4% per year and this rate is reflected in stock returns. There is a 5% chance that inflation for the period 1974-2000 will be as low as 3.8% per year, and a 5% chance that it will be as high as 8.5% per year.
- The expected compounded rates of return on U. S. government bonds and U. S. Treasury bills through the year 2000 are 8.4% and 7.1%, respectively.
- For any given year, conditional upon the forecasted 6.4% inflation rate, there is a 5% chance that returns on stocks will be below –25.5% and a 5% chance that they will be above 56.0%.
- Through the year 2000, there is a 5% chance that annual returns on stocks will be below 7.0% and a 5% chance that annual returns will be above 23.1%.
- For the period 1974-1980, there is a 20% chance that stock returns will not be sufficient to offset inflation. Even for the period 1974-2000, there is a 3% chance that stock returns will not offset inflation.
- There is also a 3% chance that the stock market will produce returns of almost 24% per year, or that $100 invested at the end of 1973 would be worth about $32,000 by 2000.
- For the period 1974-1980, there is a 96% chance that stock returns will be positive and only a 4% chance that returns will be negative. • •

Arizona Bank's Travel Offer Eliminates *Quien Sabe*

PHOENIX—Arizona Bank has announced its Mexico Travel Pack, designed to take the *quien sabe* (who knows) out of traveling in that country.

The compact unit sells for $10 and contains 100 pesos ($8) in Mexican currency, a conversion chart, map of Mexico and Boye DeMente's newly revised *Insider's Guide*.

The guide includes information concentrating on five major Mexican tourist areas, on recreational opportunities, cultural facilities, dining, lodging accommodations, shopping tips, personal services and an extensive section on "Advance Information."

BAI Veteran Dies

The first full-time employee of Bank Administration Institute—Darrell R. Cochard—died recently in Los Angeles at age 78. He had been retired since 1961.

Mr. Cochard joined BAI—then the National Association of Bank Auditors & Controllers—in 1940, coming from Cleveland Trust, which he had served as auditor since 1924.

Among his BAI positions were managing editor of the monthly magazine, assistant secretary and managing editor, executive secretary and managing editor and executive vice president.

Will Sale of Gold Be Boom or Pitfall For Nation's Banks?

These are samples of gold bullion and coins, ownership of which is now legal for U. S. citizens following lifting December 31 of 40-year ban on such ownership. Photo supplied by Mocatta Metals Corp., New York City.

By ROSEMARY McKELVEY
Managing Editor

THE 40-YEAR BAN on U. S. citizens' ownership of gold was lifted at year-end 1974, and the metal that has had a unique and attractive mystique for 6,000 years can now be bought, sold and traded in this country. Of course, this development has special significance for banks because they can be not only sellers of gold, but can—if the buyers wish—store the gold they sell. Under the law that permits this gold ownership, however, gold also can be sold by brokerage houses, retail establishments, mail order novelty houses and coin dealers. Thus, gold sales won't be strictly a bank service.

In addition, as this issue of MID-CONTINENT BANKER was going to press, the United States was holding an auction of two million ounces of gold from its official stocks.

Although it's too early to tell whether there will be a mad rush to buy gold, many banks as early as last October indicated they will sell it, and others are constantly being added to the sellers' list.

Because the sale is a new program for this generation of bankers, there are many questions for which they need answers. Knowing this, the ABA is holding a Gold Seminar January 8-10 in New York City's Americana Hotel. In addition, the ABA has published a six-page folder for bank customers, "Facts About Buying Gold."

The ABA's Gold Seminar is designed to make bankers aware of some of the potential in America's new gold market and some of the pitfalls, such as problems of verifying authenticity and purity of gold presented as collateral or for sale, handling and storage/safekeeping, according to A. Robert Abboud. Mr. Abboud is chairman of the ABA's Commercial Lending Division and deputy chairman, First National, Chicago, which has announced its decision to sell and warehouse gold.

The Gold Market

More than 12 million people, or 18% of the American public, have indicated they would be likely to purchase gold, now that ownership of the precious metal has become legal. The figure resulted from tabulation of a survey made for Mocatta Metals Corp., New York City, said to be the largest U. S. bullion dealer.

Banks were heavily preferred as the place to buy gold. Some 56% of those surveyed said that, if they bought gold, they would expect to do so at a bank, a nationwide Gallup sampling among 1,557 adults found.

Interest in buying gold was not restricted to higher income individuals. Approximately the same percentage of individuals in all income groups over $5,000 indicated interest in buying gold.

The ABA's Gold Seminar features panel discussions by experts, who are exploring questions pertinent to both individual and bank involvement in gold. These questions include: Can and will banks take a position in gold? If so, should they purchase gold coins or bullion, or both? Will banks be asked to accept gold as collateral for loans? Should loans be granted for gold purchases?

The ABA booklet, "Facts About Buying Gold," has been designed as a useful handout regardless of whether a bank offers gold for sale. The association suggests that banks consider using copies as statement stuffers and on lobby counters and racks. Banks may order quantities of the folder by contacting the ABA's Order Processing Department, 1120 Connecticut Avenue, N.W., Washington, D. C. 20036.

A complete gold program for banks is being offered by Mocatta Metals Corp., New York City, a dealer in gold and silver bullion. Participating banks will receive gold bullion and selected gold coins from five countries on consignment from Mocatta and offer them to investors, both through their own branches and through correspondent banks. Participating banks will be offered coined and cast gold bars manufactured by the Engelhard refinery in weights of one-half, one, five, 10, 32.15 (kilogram) and 100 troy ounces. (The word "troy" is derived from the French town of Troyes, where a system of weights for gold, silver and precious stones was first used at medieval fairs.) Gold coins included in the program will be the U. S. $20 gold piece, Mexican 20- and 50-peso coins, the South African Krugerrand, the Austrian 100-Crown piece and the British sovereign.

The Mocatta Corp., Mocatta Metals Corp.'s marketing arm, has developed what it describes as "a vigorous marketing support program to aid banks, with a model plan for administrative procedures, personnel training, sales seminars, promotional and advertising materials and consumer education aids."

According to Mocatta, a unique feature of its marketing plans will be a daily fixed price for several of the gold items in the program. The bank will call Mocatta on opening each morning for the day's price, which Mocatta will guarantee until the bank's closing that day. Thus, Mocatta continued, the firm is enabling participating banks to establish their own prices to the public with some assurance of the price they will pay for replenishing supply. At the same time, said the firm, it's protecting participating banks against market variables in price and sales. Banks can return any unsold consignment to Mocatta.

As a professional bullion dealer, Mocatta always quotes a bid price for gold, and participating banks will be able to repurchase Mocatta gold bars and coins from the public to whom they sell, thus assuring a market for the product. Similar repurchase arrangements are likely to be established between the "wholesale" banks that receive direct consignments and the correspondent banks they serve.

On all Mocatta delivery orders, insurance is arranged with Lloyd's Underwriters and London Insurance Companies on gold while it's in storage.

Mocatta Metals Corp. is the U. S. affiliate of Mocatta & Goldsmid, Ltd., the British firm that has served as bullion dealer for Bank of England since 1696.

Gold Futures. The end of the four-decade moratorium on ownership of gold by this country's citizens also signals the beginning of a new era in the futures market. As the Chicago Board of Trade has pointed out, "Gold's price volatility heightens the risk of holding inventories, but this added risk can be minimized in the gold futures market. Commercial firms use the futures markets to manage their risks. They hedge in the futures market. Speculators assume this risk in the hope of making a profit."

The Chicago Board of Trade—which began trading gold futures January 2—described hedging as the initiation of a position in the futures market that's intended as a temporary substitute for the sale or purchase of the actual commodity. Firms use selling edges to protect inventory, limiting some of the risk

(Continued on page 98)

Burns Worried About Gold

An "uncomfortably large sum" of money may be pulled out of savings accounts and other assets to buy gold, disrupting financial markets, warned Fed Chairman Arthur Burns last month.

Dr. Burns is so concerned about the possible disruption that he endorsed a bill that would have postponed for six months the date on which Americans could purchase gold.

The Fed chief openly disagreed with Treasury Secretary William Simon about the effect public ownership of gold would have. While Secretary Simon was reported to be sanguine about the consequences of reopening gold trading, Dr. Burns expressed considerable concern. Mr. Simon believes that gold should be dethroned to the status of an ordinary commodity like soybeans, but Dr. Burns predicted that gold would continue to play an important role in the international monetary system for some time.

Dr. Burns warned that disturbances of the money and capital markets, caused by a rush to purchase gold, could hurt those sectors of the economy most dependent on credit, such as housing. It could also drain funds from the stock and bond markets, crimping the supply of funds for business capital spending, he said.

Regulatory Agencies Issue Policy Statements on Gold for Banks

THE REGULATORY AGENCIES have issued rules commercial banks must follow if they decide to sell, buy or store gold. As of December 31, the 40-year ban on public ownership of gold was lifted, and many banks already have announced their intentions to sell gold.

Both the Fed and FDIC believe banks should consider confining their trading in gold to purchases and sales on a consignment or agency basis. The FDIC said this was wise because the four-decade-long prohibition against U. S. citizens holding and trading in gold has meant that few persons have even a nominal degree of expertise in such activities. The Comptroller said that national banks may deal only in gold that qualifies as coin, or bullion of at least .900 purity or better.

The Fed and FDIC also warned banks that the new law allowing U. S. citizens to own gold doesn't make the Joint Gold Resolution of 1933 obsolete. That resolution says it is against public policy for obligations to be payable only in gold or in an amount of money measured by the value of gold and that contracts to such an effect are not enforceable.

The Fed's Policy. The Fed has announced that gold may not be used to satisfy reserve requirements and Federal Reserve banks won't accept gold as collateral for advances to member banks or perform services that have to do with gold. Also, Fed-member banks were advised to act only on a consignment basis or otherwise as agent in gold-related activities.

The Fed warned banks not to issue receipts for gold without considering the implications of securities laws, and any gold for which a bank issues any form of receipt must be physically held on hand at all times and under strict safeguards. Also, said the Fed, gold-related loans will be considered nonproductive credits unless extended for commercial or industrial purposes.

Furthermore, the Fed continued, as with any commodity loan, it's anticipated that banks will carefully consider such matters as adequacy of margins on loans collateralized by gold, precautions to assure authenticity and safe custody of gold held as collateral and total risk exposure from gold-related loans. Fed examiners will closely monitor relevant accounting and record-keeping practices of banks dealing in gold. They also will be concerned with bank-management expertise in gold-related transactions, risk undertaken in relation to a bank's equity capital and needs of customers.

FDIC's Policy. The FDIC's policy

(Continued on page 98)

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Scenes at First of Hutchinson's bankers' open house in November. LEFT: (from l.) Fred N. Coulson, Commerce Bank, Kansas City, Mo.; Clyde O. Burnside, American State, Great Bend; Jordan L. Haines, Fourth Nat'l, Wichita. MIDDLE: (from l.) Mrs. E. W. Farrell, First Nat'l, Sterling; Mrs. C. A. Abercrombie, Mr. Abercrombie, Citizens Nat'l, Minneapolis; Mrs. Leonard J. Beutler, Mr. Beutler, host bank. RIGHT: (from l.) Mrs. Rook, Mrs. Nation Meyer, host bank; Bob Rook, First Nat'l, Amarillo, Tex.

In Kansas:

Eight-Story First National Center Tower Completed by First of Hutchinson

DEDICATING itself to another century of service to Hutchinson and southwestern Kansas, First National, Hutchinson, recently completed its new eight-story First National Center.

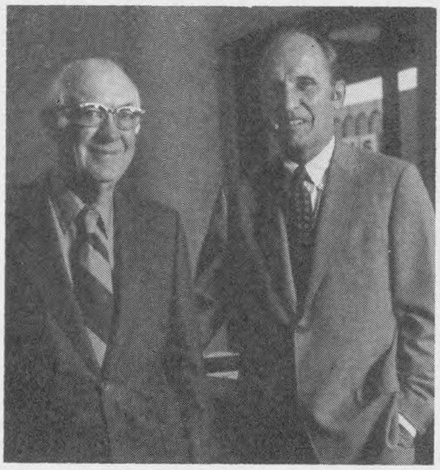
Dominating the city's skyline, the new 90,000 square foot structure allowed the bank to more than double its area and triple space available to tenants. Completely designed, engineered and decorated by Hutchinson firms, the building stands as testimony to the talent and expertise located in the home community.

Completion of the building was celebrated in November and December by a series of events for stockholders, customers and friends. Approximately 400 people attended a Bankers Open House. During the public open house, approximately 6,000 people viewed the facility.

Although construction lasted only two years, the project required some unusual and specialized planning, design and construction techniques. The dual-phase construction was completed without sacrificing a day of business or the 98-year location the bank has retained since its founding in 1876.

Plans for the major expansion were announced in January, 1972, by President Nation Meyer. Ten months later, on October 27, groundbreaking ceremonies were held.

The bank had already purchased the land and building adjacent to its existing structure on the north. On this site a new foundation was completed and an eight-story steel superstructure was erected. This superstructure was connected to the steel in the existing six-story bank building that had been completed in 1912. In addition, two more floors of steel structure were erected directly atop the old building.

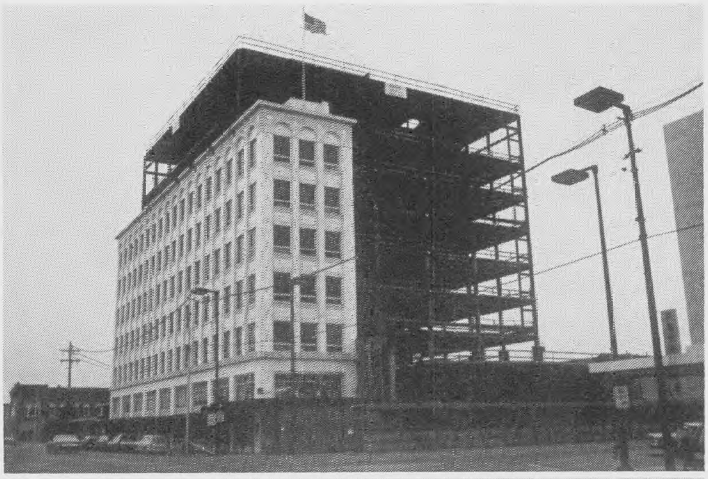


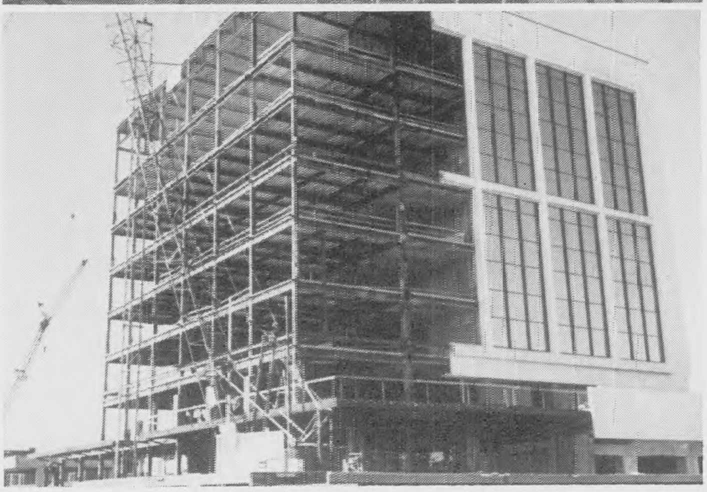
Leonard J. Beutler (l.) chairman, and Nation Meyer, president, First Nat'l, Hutchinson.

One year later, the northern part of the project was completed. Tenants in the old bank building moved north into their new offices. In most instances, the new offices for tenants were located on the same floors as the old ones. Moving involved knocking a hole in the bank's north wall on each floor and walking through into the new space.

Once the bank and tenants were located in this new space, demolition of the old six-story building began. Only the original 1912 superstructure was left intact. New floors, new mechanical and electrical systems were installed, while the facade of white marble, reflective glass and bronze was put in place.

The final result is a building 150 feet × 125 feet at ground level and a





seven story office tower 100 feet square. Also, Hutchinson's only multi-level parking garage was constructed to the west of the new building on a site previously occupied by an attached motor bank. A new extended facility, the bank's second, was built less than one block to the southwest.

With 738,000 pounds of marble, steel and concrete as its foundation, First National Center contains 90,000 square feet of carpeted floor space.

Located in the basement of the center is the bank's new, computerized automation center, one of two in the state of Kansas. The system saves building engineers countless hours, according to bank officials, as ventilation, water pressure and air conditioning are monitored from one central location.

The bank now occupies the entire 17,000 square feet on the first floor, plus parts of the second and third floors. The large lobby accommodates all bank departments except bookkeeping and the proof and transit operations, which are located on third floor. In addition, the bank maintains private meeting, conference and dining facilities on the second floor, adjacent to the Hickory House Restaurant, leased and operated by a Kansas City, Mo., restaurant chain. First National is said to be one of three banks in Kansas to have a public restaurant on its premises.

Hutchinson was just four years old, a village of 1,500, when First National was organized by E. L. Meyer, S. W. Campbell, L. A. Bigger and their associates. Known simply as "Bank," the institution began operations in a one-story frame shack at Sherman and Main streets.

"Probably no institution received a more cordial welcome and more public appreciation," said the Hutchinson *News*, for in those days, banks were unknown to the settlers west of Emporia. Up to the time the bank was opened, businessmen and general merchants handled the finances of the pioneers.

First of Hutchinson has long been a leader among Kansas banks. Over its 98-year history, the bank has experienced a steady growth of total resources. Starting almost a century ago with $19,800 of capital and total resources of $56,700, the bank's total resources are now in excess of $96 million. Only two months ago, at a stockholders meeting, the bank increased its capital stock from $1,500,000 to $2,250,000 by stock dividend. First National is said to have the largest equity capital structure of any bank in southwestern Kansas.

Chartered in the days when banks were unknown to the settlers west of Emporia, First National has had a rich and solid history. The bank looks forward to another century of progressive service to its community and its state. • •

Construction of First Nat'l Center began with erection of superstructure on property adjacent to existing bank (top photo). Northern portion of new tower was completed and occupied before old bank building was demolished (second from top). Superstructure of old building was retained and tied in with that of new building (third from top). Finished structure (bottom photo) shows center as it looks today. Phased construction enabled bank to avoid relocating during project.

NEWS
From the Mid-Continent Area

Alabama

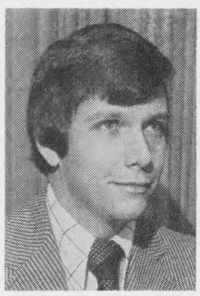
■ HAROLD G. GRAHAM JR. has been promoted to vice president, business development, First National, Birmingham. In other bank action, Albert D. "Pete" Smith, employee benefit department; John A. Bostwick, personal trust administration department, and C. W. Scott Jr., manager, trust operations department, have been promoted to vice presidents and trust officers. Mr. Graham has been with First National since 1965, while Mr. Smith has had 21 years of banking experience. Mr. Bostwick has practiced law and dealt in stocks and bonds, and Mr. Scott has been with the bank since 1962.

■ MARY GEORGE JORDAN WAITE, chairman and president, Farmers & Merchants, Centre, was recognized by the Future Farmers of America at the organization's 47th annual convention in Kansas City. During 1974, Mrs. Waite served as a member of the sponsoring committee of the FFA Foundation, which raises the funds to support the FFA National Awards programs each year. She was elected to the National Foundation Board of Trustees, Kansas City, for two years. Mrs. Waite also has served as Alabama state chairman for the FFA Foundation the past four years. She is the recipient of the Honorary American Farmer Degree, Honorary State Farmer Degree and Honorary Chapter Farmer Degree.

Mary George Jordan Waite, ch. & pres., Farmers & Merchants, Centre, shakes hand of Ed Carter, 1974-75 ch., Future Farmers of America Foundation Sponsoring Committee, while Mark Mayfield, National FFA pres., looks on. Mrs. Waite received recognition from FFA for service.

■ JOHN P. WILSON has been elected vice president, City National, Dothan. Mr. Wilson was a chapter service consultant for Alpha Tau Omega Fraternity, Inc., until going to the bank in 1971. He has been an assistant cashier and loan officer since 1972.

■ E. HARRIS REYNOLDS has been promoted to assistant correspondent loan officer, Central Bank, Birmingham. Mr. Reynolds joined the bank in 1973.



REYNOLDS

■ JERALD L. IKNER has joined Central Bank, Eufaula, as cashier. Mr. Ikner was formerly assistant accounting officer for Central Bank of Alabama, Decatur.

Died: William C. Bowman, 92, on November 23, after a brief illness. Mr. Bowman was chairman emeritus, First National, Montgomery. He joined the bank in 1922 as vice president and trust officer, becoming president in 1929 and chairman in 1948. Mr. Bowman also served as an Atlanta Fed director. He retired from First National in 1964.

Arkansas

■ GARY L. BONNER, controller/operations division; Margaret A. Brooks and Loma L. Duer, consumer division; Dorothy H. Johnson, properties management division; and Virginia Wideman, consumer division were named administrative assistants at Worthen Bank, Little Rock. In other bank action, Mattie Agee, Patricia Brasko, Michael L. Fendley and W. Paul Lawson have been named assistant cashiers, while James E. Fisher has been promoted to data processing marketing officer.

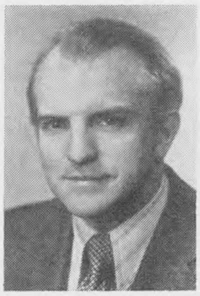
■ ED WALTON, Commercial National, Little Rock, has been promoted to vice president, commercial loan department. In other bank action, June M. Baskin has been promoted to assistant to the president; Ken Cadman, assistant vice president, bookkeeping; Hollis Pruitt, branch officer, Park Plaza; and Doris Jean Jackson, assistant cashier. Donald White has joined the bank as trust officer. He was a trust investment officer, Union National, Little Rock. Mr. Walton joined the bank staff in 1973 as assistant vice president, commercial loan department.

■ VERTIS DAUGHERTY has been promoted to assistant vice president, Union National, Little Rock. Mr. Daugherty has been with the bank 27 years, having been assistant auditor since 1970.

Illinois

■ HARLEY G. DAVIS has been appointed vice president, First Granite City National. Mr. Davis has been in banking since 1953, beginning his career with Harris Trust, Chicago. In 1968, he became assistant vice president, commercial loans, First Trust, Kankakee. Mr. Davis has served as president, Group Two, Illinois Bankers Association.

MARRAZZO



RAPP

GRANDA

■ THOMAS P. MARRAZZO, department of the comptroller, Exchange National, Chicago, has been promoted to vice president. Also promoted were Michael J. Mascheri, loan review department, to assistant vice president. John J. Farrell, department of the cashier and John D. Hill, executive department, to assistant cashiers.

■ HOWARD C. RAPP has joined Bank Building Corp., St. Louis, as a consultant services manager, Central Financial Facilities Division, representing the company in central and northern Illinois. Prior to joining BBC, Mr. Rapp was a registered representative for Hornblower & Weeks, Hemphill, Noyes of Peoria.

■ NORTHERN TRUST, Chicago, announced the following promotions: Clyde W. Reighard, international department, and Lawrence H. Brown, John P. Byram and Robert L. Yoder, bond department, became senior vice presidents. Named vice presidents were Harry B. Wilson, international department (on loan to London Multinational Bank) and J. David Brock, bond department. In the trust department, Thomas N. Boyden and Jonathan A. Veeder have been promoted to second vice presidents.

Plum Grove Bank Opens Building

Plum Grove Bank, Rolling Meadows, recently occupied this new building, constructed by Bank Consultants of America, which maintains an office in the structure. The 12,000 square foot building includes more than 7,000 square feet of expansion space. The building also houses the offices of Financial Shares Corp., whose president is George Morvis, former secretary of the Illinois Bankers Association.

■ VICTOR F. GRANDA JR. has been elected assistant cashier, National Stock Yards National, National City. Mr. Granda will be in charge of automation and transit. He has been with the bank 29 years.

Robert Suhr Dies

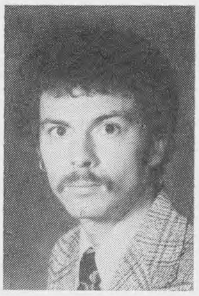
Robert C. Suhr, 63, exec. v.p., commercial banking dept., Continental Bank, Chicago, died unexpectedly December 12. He joined the bank in 1933, became sr. v.p. and head of the national divisions in 1965 and an exec. v.p. in 1971. Mr. Suhr was a director, Continental Bank Internat'l, New York City, a subsidiary of Continental Bank.

■ ILLINOIS BANKERS SCHOOL, June 1-13, at Southern Illinois University, Carbondale, recently announced its new board of trustees. J. Gordon Bicket, president, Watseka First National, is chairman. Members are: Charles F. Arbuthnot, executive vice president, First National, Wood River; Anthony C. Duvall, vice chairman, Marquette National, Chicago; John H. Thode, executive vice president, Evergreen Plaza Bank, Evergreen Park; Richard T. Reid, vice president, State Bank, Prairie du Rocher; Richard K. Pettenger, assistant cashier, City National, Dixon; and Richard E. Colbert, vice president, American Bank, Cerro Gordo.

■ JAMES L. ROBERTS, banking department, Harris Bank, Chicago, and John M. Alogna, trust department, were elected vice presidents. Lillian M. Kluses, banking department; Stacy A. Lyle, staff department; James H. Overholt, investment department; John L. Butler, Richard A. Lemmert and Vincent O'Brien, all of the investment department, New York office, were appointed assistant vice presidents.

Indiana

SETEAR



BAKER

■ JOHN W. SETEAR has been appointed a consultant services manager, Northern Financial Facilities Division, Bank Building Corp., St. Louis, representing the company in northern Indiana. Mr. Setear had been a consultant services manager for BBC Health Care, another Bank Building division, prior to his recent appointment. Previously, he had been associated with F. W. Dodge Corp.

■ DONALD A. BAKER has been named sales engineer for the Indianapolis branch of LeFebure Corp., Cedar Rapids, Ia. He will sell LeFebure banking equipment and security systems within a 15-county area.

25-Year Employee Honored

Bessie Kneisley, asst. mgr., Northern Indiana Bank, Kouts, shows a necklace made with a rare $5 gold piece, presented to her by Joseph W. Bibler, bank pres., commemorating her 25 years' service with the bank.

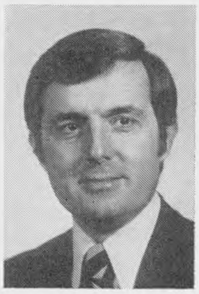
■ RICHARD A. RANDALL was elected controller, while Londele White and Edith Ivy Payne were named assistant cashiers, Marion National. Prior to joining the bank staff, Mr. Randall worked for American Marketing and Management, Fort Lauderdale, Fla. Mr. White joined the Marion National staff in 1971. Mrs. Payne has been with the bank since 1966.

Kansas

JOHNSON

AMSTUTZ

RYAN



SMITH

■ FOURTH NATIONAL, Wichita, named four officers as senior vice presidents. They are: P. T. Amstutz Jr., oil and gas department, general loan division; Monte C. Johnson, marketing division; Paul E. Ryan, computer services division; and Robert M. Smith Jr., commercial loan department. Other management promotions at Fourth National included: Gary L. Gamm, investment division; Paul D. Stephenson, commercial loan department; Richard L. Strecker, consumer loan department, all to vice presidents. A. W. Kincade Jr., trust division, was named vice president and trust officer.

Charles J. Chandler Dies

WICHITA—Charles J. Chandler, 72, member of a prominent Kansas banking family and chairman, First National, died December 15.

He entered banking by organizing First State, Gage, Okla., in 1924. He moved to Wichita in 1928 and joined First National, where he became president in 1944 and chairman in 1952.

Mr. Chandler had two sons and three brothers, all of whom are in banking in Kansas. His sons are Charles Q. III, president, First of Wichita; and Jerome L., president, Farmers State, Sterling. His brothers are William W., chairman, Chandler National, Lyons; George T., chairman and president, First National, Pratt; and Anderson W., president, Fidelity State, Topeka. In addition, a brother-in-law, Robert M. Clogston, is president, First National, Ottawa, where Mr. Chandler's sister, Mrs. Clogston, is a director.

■ HAROLD E. HENTON, executive committee chairman, Southwest National, Wichita, retired recently. Mr. Henton began his banking career as a bookkeeper for First National, Phillipsburg, in 1928. He served as a national bank examiner in the 10th Federal Reserve District for six years, joining Southwest National in 1946 as assistant cashier. Mr. Henton was named secretary of the board in 1955 and a director in 1959. He assumed his last position in 1972.

HENTON

■ SECURITY NATIONAL and Victory State, both of Kansas City, recently merged. Security National was formed in 1933, while Victory State was

Southwest Kansas' Correspondent Center.

All-new...all yours.

The First National Bank's 98-year-old corner, at Sherman and Main in Hutchinson, is sporting a brand new building.

We're open and ready. Yours, as we've been for years, for overnight check clearing, grain collections, loan participations, Federal Funds, safekeeping, trust and farm management services.

For all your correspondent banking needs, call Gary Karrer at the New Correspondent Center with the same ol' number: (316) 663-1521.

1ST **First National Bank of Hutchinson**

Sherman & Main/Hutchinson, Kansas
Since 1876

organized in 1926. Gary Breidenthal is president and CEO of the merged bank, the same posts he has been holding at Security National.

■ MARVIN W. SEITZ, vice president, Kansas State, Wichita, has been promoted to senior vice president-loan administrator and elected to the board. Mr. Seitz had been a commercial loan officer with the bank since 1970.

■ JAMES H. HENTZEN, Kansas City, Mo., and Gaylon M. Lawrence, Poplar Bluff, Mo., have purchased controlling interest in Boulevard State, Wichita.

■ CRAIG BACHMAN, president, First National, Centralia, has been elected a director of the Kansas City Fed. He succeeds John A. O'Leary, chairman, Peoples State, Luray, who had been a Fed director since 1969.

Kentucky

■ FIRST KENTUCKY TRUST, Louisville, has named Robert M. Biggs vice president, as manager, trust and estate administration department, personal financial management group. Dennis W. Weihe has moved from senior corporate trust officer to vice president. Other promotions in that group were: Charles Edmonson, to vice president and manager, fiduciary real estate department; David Y. Wood, investment-marketing officer; and John J. Davis, trust officer. Mr. Biggs has been with First Kentucky Trust since 1963.

MARSHALL

■ LEONARD B. MARSHALL JR., president, Louisville Trust, has been elected chairman and CEO, effective February 1. John H. Hardwick, current chairman, will retire after 40 years' service, continuing as a director and executive committee chairman. Mr. Marshall joined the bank as vice president in 1968, was promoted to executive vice president in 1969 and, in 1972, was named president and a director. Prior to joining Louisville Trust, he was vice president-commercial loans and business development, Indiana National, Indianapolis.

■ JOHN R. CROCKETT II and Jack O'Reilly were promoted to senior vice presidents, First National, Louisville. W. Grier Martin, vice president, was named director, metropolitan banking, corporate group, while Leonard V. Hardin, senior vice president, was elected director, corporate banking group. Promoted to vice presidents were John V. Bonifer, James L. Dentinger, John L. Hoagland, Virgil T. Larimore, Douglas K. Steele and Robert E. Wilson.

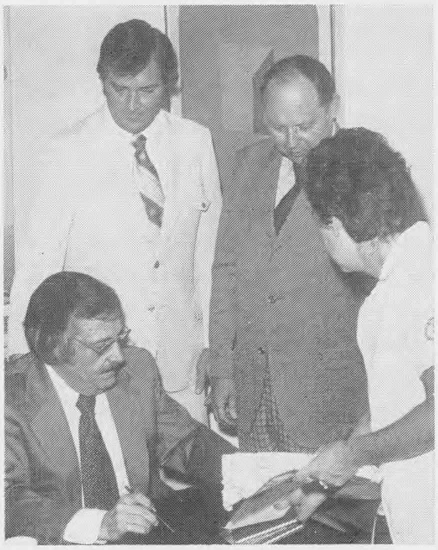
Louisiana

■ EMILE T. GENEUX, vice president, Commercial National, Shreveport, has retired after 47 years' service. Mr. Geneux joined the bank in 1927 and was named assistant cashier in 1952. Promoted to assistant vice president in 1955, he attained his last position in 1958. Mr. Geneux served as personnel director for many years and was named manager, operations center, in 1969. He was admitted to the Louisiana Bar in 1943.

■ BANK OF NEW ORLEANS has opened its new Lake Forest Banking Center. It features four interior paying and receiving tellers and four outside drive-in banking lanes connected to the main building by pneumatic tubes. Vault and night depository facilities are included, with off-street parking provided. The building's design is modern, with exterior of cedar board-and-batten. Interior features include pecan panel walls decorated with framed wildlife prints and oak furniture and fixtures. Wall and fixture colors of pecan, bamboo and red are accented by grey tweed carpets in the office and public areas.

Bank of New Orleans President Lawrence A. Merrigan (r.), congratulates James H. Bradshaw Jr., assistant vice president and manager, new Lake Forest BNO Branch, prior to official opening, while Michael G. Landry, new branch's assistant manager, looks on.

Bank Holds Autograph Party



Pontchartrain State, Metairie, was host to New Orleans TV personality Jim Metcalf at a Saturday morning autograph party for his recent book, "Jim Metcalf's Journal." Several hundred were said to be in attendance. Looking on, as the TV philosopher-poet autographs, are Kenneth A. Kuebel (l.), bank director, and Edward C. Boldt, president. Pontchartrain State has been a sponsor of Mr. Metcalf's weekly show for over a year.

Mississippi

■ CHARLES E. BAILEY JR., Herbert H. Coleman and Clyde B. Edwards Jr. have been named senior vice presidents, First National, Jackson, and E. E. Laird Jr. has been named senior trust officer. Promoted to vice presidents were Tracy H. Adams, Commercial National, branch of First National; E. A. Fleming, Commercial National, Leland Branch manager; W. S. Still Jr., manager, First National Master Charge center; William H. Wardlaw, trust officer; and A. P. Ford, trust officer.

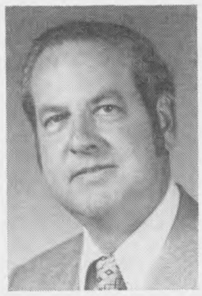
■ ROY K. MOORE, former special agent in charge, FBI, Jackson, will join Deposit Guaranty, Jackson, January 13, as director of security. Mr. Moore retired from the FBI December 13.

■ WILMER K. "BILL" PAINE has been appointed a director, Mississippi Bank, Jackson. Mr. Paine is a local businessman.

■ DIANA LEATHERWOOD, corporate services department, First National, Jackson, has been elected vice president, projects, Southern Association of Business Communicators. Mrs. Leatherwood is editor of the bank's "News Teller."

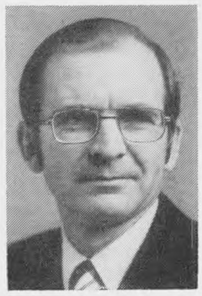
BAILEY

COLEMAN



EDWARDS

MOORE



PAINE

Missouri

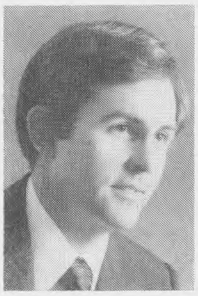
■ JOHN W. MARTIN, CEO, Manchester Financial Corp., St. Louis, has retired. George H. Pfister has been elected CEO of both the HC and its affiliate, Manchester Bank, St. Louis. J. Pat Flanagan, bank vice president, also has retired. Mr. Martin, who has been with Manchester Bank more than 30 years, will continue as bank and HC chairman. He also will serve as

PFISTER

MARTIN

consultant, with emphasis on the bank's investment portfolio. Mr. Pfister, who was chief administrative officer of both institutions, will continue as their president. He has been with the bank more than 30 years. Mr. Flanagan joined Manchester Bank in 1944.

■ FRAMTON T. ROWLAND JR. has joined the correspondent division, Commerce Bank, Kansas City, as vice president. Ronald E. Harlow has been elected vice president and head, personal trust department, trust division, and Bruce D. Roberson has been named vice president, trust division. Philip A. Barth has joined the bank's international department and Walter T. Falls Jr. will assume duties in the correspondent division, both as assistant vice presidents. Mr. Rowland has been with the HC, Commerce Bancshares, since 1963, most recently serving as an officer in the installment loan department, Commerce Bank, Columbia. Mr. Harlow and Mr. Roberson have been with Commerce Bank, Kansas City, since 1971.


FALLS


ROWLAND

■ JAMES M. MOFFAT, head, personal loan division, retail banking, Mercantile Trust, St. Louis, has been elected vice president. In other bank promotions, John Ashenfelter was named assistant vice president; James T. LaBelle, assistant cashier; Dorothy J. Clark, banking officer; and Gerald J. Lammers and Jeffrey F. Kernan, assistant data processing officers. Mr. Moffat went to the bank from Union National, Wichita.

■ RICHARD J. GUDINAS has been elected senior vice president-operations, Boatmen's Bancshares Inc., St. Louis, and Jim P. Cato has been elected vice president and cashier, Boatmen's National, St. Louis. John R. Bradbury has been elected a vice president, banking division. Mr. Gudinas will continue as bank senior vice president and, in his dual capacity, will be responsible for operations throughout the HC. He joined Boatmen's National in 1960, was elected vice president and cashier in 1972 and senior vice president and cashier in 1974. Mr. Cato has been with the bank since 1970.


GUDINAS


MOFFAT


BERGENTHAL


SCHMID

■ ARTHUR E. S. SCHMID has been elected vice president and general counsel, First National, St. Louis. He was formerly president, CEO and a director, Azcon Corp., St. Louis. Neil F. Berganthal has become a bank vice president. Before assuming his new post, Mr. Bergenthal was supervisory loan examiner, U. S. Farm Credit Administration, St. Louis. He will have responsibility for directing new First National programs in the agricultural finance field.

A Look at Banking In 1985 Planned For MBA Conference

OSAGE BEACH—A specially prepared ABA film, "Face of the Future—Banking: 1985," will be shown at the Missouri Bankers Association's 35th annual Bank Management Conference at Tan-Tar-A resort in the Missouri Ozarks, February 11-13. Richard M. Reilly, MBA bank management committee chairman, will call the conference to order. Mr. Reilly is president, National Bank of Affton.


REILLY

The film stars Edwin Newman, the well-known NBC correspondent, who, with several of his colleagues, presents a "recap" of domestic and world events from 1975 to 1985. A special emphasis is placed on the banking industry.

Darryl R. Francis, president of the St. Louis Fed, will be on a panel that will take "An Economic Look at 1975," and Frank Spinner, senior vice president, First National, St. Louis, will moderate the "Investment Panel."

One of the highlights of the conference will be a Menninger Executive Seminar Series, "Toward Understanding Human Behavior and Motivation," designed for delegates and their spouses. Topics will include "Man at a Glance," "Transitions of Mid-Life," "Toward Understanding the Meaning of Psychological Structure and Change," "Psychological Contracts," "Transitions of Late Life" and "Responsibility to Self." Presentations will be conducted by Herbert L. Klemme, M.D., senior associate for marketing, and David E. Morrison, M.D., senior associate and director of consultation, both of Topeka's Menninger Foundation, Center for Applied Behavioral Sciences.

A variety of other talks and speakers will be featured, and one that is sure to attract much attention is entitled "EFTS . . . Where Are We?"

Louisiana's Newt Heilscher will present his humorous message, "The Contagious Cure," and Tan-Tar-A's Chef Wolf will demonstrate, especially for the women, "How to Prepare and Decorate an Hors d'Oeuvres Tray."

■ ERNEST J. BRUDICK, Manufacturers Bank, St. Louis, has been elected vice president and comptroller. He was assistant vice president and comptroller. Thomas B. Mock was elected assistant vice president and Peter L. Deibel, assistant treasurer.

■ AFFILIATION of First National, Richmond, with First National Charter Corp., Kansas City, has received Fed approval. Leland M. Walker has been appointed assistant auditor of the HC, which he joined in 1973.

■ LARRY V. PARMAN, United Missouri Bank, Kansas City, has been promoted to assistant vice president. He was bond investment officer. In other bank action, Lawrence E. Russell and James R. "Ron" Hybarger were elected bond investment officers. Mr. Parman has been with the bank since 1962.

■ RONALD C. SMITH has joined Mercantile-Commerce Trust, St. Louis, as senior vice president and chief lending officer. He went to the bank from United Missouri Bank, St. Louis, where he was executive vice president, and succeeded Walter Kaltwasser, who retired from Mercantile-Commerce December 31.

Before you look at bonds, look at bond departments.

The men who run them can make the difference.

At Commerce Bank, we make it our business to do business with experts.

Walter E. Knowles, vice president in charge of our Bond Department, has had 17 years of experience in municipal securities, first in Chicago, now in Kansas City.

Cecil Denton, our vice president of sales for government and municipal securities, has been a bond department manager since 1967.

These men run the kind of bond department you'd expect to find in Kansas City's largest Bank. They **know** the bond market. So they can help you make intelligent investment decisions.

If you or your corporation is interested in investing in government or municipal bonds, or commercial paper and certificates of deposit through our money market center, call the specialists at Commerce Bank.

Walter Knowles and Cecil Denton in our Bond Department—the men who make the difference.

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■ FRANCES CROWLEY was recently elected assistant cashier, Missouri State, St. Louis. Mrs. Crowley has been with the bank since it opened in 1967 and has served as new accounts and personnel officer since 1973.

■ W. D. AGNEW has been elected president, Security National, Sikeston. He succeeds N. E. Fuchs Jr., who died last August. Mr. Agnew was employed for 15 years by Union Planters National, Memphis, and went to Security National in 1965 as cashier. He was executive vice president there for five years.

■ PAUL R. ABERSOLD has been elected president, Belt National, St. Joseph. He succeeds Billy R. Cole, who becomes vice chairman. Mr. Abersold went to the bank from American National, St. Joseph, which he joined in 1939, and most recently was managing officer of that bank's Plaza Office. Gilbert "Gib" Tootle, senior vice president, American National, succeeds him in that post. Mr. Cole was president, Belt National, since 1972. Mr. Tootle joined American National in 1947.

■ THE FED has given County National Bancorp., Clayton, clearance to acquire First National, Arnold, a new bank organized by several of the HC's directors. Kenneth Nunn, HC vice president, and Roy Panchot, head, installment loan department, St. Louis County National, Clayton, will be the new bank's president and vice president and loan officer, respectively.

■ WARREN DRUSCHKY, president and chief administrative officer, Webster Groves Trust, has been elected a director at the bank. He has been with Webster Groves Trust more than 30 years.

This Gazebo Is a Bank!

This is a bank? Columbia Union Bank, Kansas City, has given its beat-up temporary drive-in trailer facility at Country Club Plaza a facelift that has resulted in a transformation into a colorful gazebo. Bank expects to begin construction on its new Plaza Facility in the spring.

New Mexico

■ PLAZA DEL SOL NATIONAL, Albuquerque, announced that Paul Hernandez has been named president. Mr. Hernandez went there from San Gabriel National, El Monte, Calif., where he was vice president. His work in California was with business development, analysis and correction of defects in operational systems. He holds a law degree from Glendale (Calif.) College of Law.

■ MARK SPARKS has been named a loan officer, Jal Office, New Mexico Bank, Hobbs. He previously worked for Safeway Stores and a local milk company. In other action, Robert C. Dunn Jr. has become a loan officer at the bank. Mr. Dunn previously worked for GAC Finance Corp. and was a branch manager for that firm in Dallas prior to his bank appointment.

■ FRED VOGL, senior vice president, American Bank of Commerce, Albuquerque, has been named manager of the new San Mateo Branch. The new office consists of a conference room, offices, inside and drive-up teller stations and a 5,200 square foot safe deposit department.

■ OLETA SHEA was promoted from assistant cashier to assistant vice president, Albuquerque National. Mrs. Shea is in charge of the bank's new Juan Tabo Office and is the bank's first woman branch manager. She went to the bank in 1961 and was elected assistant cashier in 1970.

Robert L. Tripp Dies

Robert L. Tripp, 55, ch., Albuquerque Nat'l, died December 11 in an Albuquerque hospital following a stroke December 7. He began with the bank as a bookkeeper in 1936 and was elected president in 1965. Mr. Tripp, a former president, New Mexico Bankers Assn., helped form First New Mexico Bankshare Corp. and became its president in 1968.

Oklahoma

■ CHARLES M. HEBERT was recently elected senior vice president, commercial loan division, Fourth National, Tulsa. In the bank's trust division, Sydney Jordan was promoted to vice president and trust officer and William T. Sperry was named assistant trust officer. James Bryant Jr. and Larry Wells were promoted to assistant vice presidents. In other action, Fourth National Corp., the bank's parent HC, and Fourth National have elected Donald Bradshaw, president, Kiska Oil Co., Tulsa, an HC and bank director. Bob Bradshaw, chairman, Kiska Oil Co., was named an honorary director, having served on Fourth National's board since 1933. Mr. Hebert is a former national bank examiner who joined the bank in 1969.

HEBERT

JORDAN

FLANAGAN

■ NATIONAL BANK of Tulsa has appointed Gregory J. Flanagan vice president and Helen Hart as a commercial banking officer. Mr. Flanagan will serve as manager, national accounts department. He previously served as assistant vice president, Midwest corporate group, National Bank of Detroit. Mrs. Hart joined NBT in 1961.

■ FIRST NATIONAL, Tulsa, is remodeling its drive-in facility, increasing capacity by an estimated 140%. Six automated teller units, remote-controlled by four additional tellers, are housed in a new, central facility. It will be completely roofed, and the tellers' windows will feature bullet-resistant glass and other security measures. New paving and landscaping also will be added. Bank officials indicate that services through existing drive-in windows will not be interrupted during construction.

■ ANDY BRICE, Walter Deppe, Harvey Fifer and Ray Pruitt were recently named vice presidents, National Bank of Tulsa. In other action, Virginia Domingos, Gene Griffin, Bob Keith, Bill Pappan and Joe Wilkerson were promoted to assistant vice presidents. Mr. Brice joined NBT in 1971, Mr. Deppe, January 1, Mr. Fifer, in 1970, and Mr. Pruitt, in 1974.

■ LAWRENCE E. UNDERHILL JR. has become vice president, commercial lending, May Avenue Bank, Oklahoma City. Mr. Underhill had been a vice president and loan officer for a Houston bank.

Tennessee

■ C. DUFFY FRANCK JR. was named executive vice president, loan administration, and James A. Hall was elected senior vice president and manager, commercial loans, at Hamilton National, Chattanooga. Mr. Franck, formerly senior vice president, has been with the bank since 1957 and Mr. Hall, who was a vice president, since 1948.

■ MAURICE H. MARTIN and W. Fred Speakman Jr., both of American National, Chattanooga, have been promoted to vice presidents and trust officers. Mr. Martin was senior trust officer, and Mr. Speakman is in the personal trust department.

HALL

FRANCK

MARTIN

SPEAKMAN

■ CITY NATIONAL, Memphis, has broken ground for a new building as part of its Mid-South expansion. The three-story facility, with over 25,000 square feet of office space, is expected by bank officials to be completed within a year.

■ WILLIAM S. HUNT III, vice president in charge of acquisitions, First Tennessee National Corp., Memphis, has been elected president, National Bank of Murfreesboro. He replaces R. Murry Hawkins, who joined the Tennessee Bankers Association as director, public and economic affairs. Mr. Hunt, who took over First Tennessee's acquisition program in 1971, also will have the titles of CEO and director of the bank.

■ O. B. "BUDDY" CHANDLER has been elected president, Sumner County Bank, Gallatin, succeeding S. B. Jones, who became chairman. A. J. Swaney, the former chairman, is now honorary chairman. Mr. Chandler was previously vice president, commercial lending, First National, Memphis, having been with that bank since 1963.

■ CLARK MELTON has been promoted to assistant vice president and Deborah Isbell to assistant operations officer at National Bank of Commerce, Jackson. Mr. Melton and Mrs. Isbell joined the bank in 1969.

■ FIRST TENNESSEE National Corp. and its subsidiary bank, First National, both of Memphis, have promoted six: "Deke" Iglehart, FTNC finance division, to FTNC assistant treasurer and First National bank officer; Fletcher Maynard, Buddy Lanier and Mike Sanders, correspondent banking division, to correspondent bank officers; Charlie Poor, international division, to international officer; and Don Berge, mortgage loan division, to loan officer.

■ WHITE'S CREEK BANK has received a national charter and changed its name to First Tennessee National. The bank, which belongs to First Tennessee National Corp., Memphis, also has a new president, William R. Parnell, and has expanded into the Nashville metropolitan area with the opening December 18 of its Madison Branch. Mr. Parnell, formerly president of another First Tennessee National Corp. affiliate, Banking & Trust Co., Jonesboro, also has been placed in charge of all the HC's operations in the Nashville metropolitan area. As manager, he supervises operations of two other affiliates, National Bank of Murfreesboro and Sumner County Bank, Gallatin.

■ LEW WEEMS, Banking & Trust Co., Jonesboro, has been named president. He was first vice president and succeeds William R. Parnell, new president, First Tennessee National (formerly White's Creek Bank). Mr. Weems gained the additional title of CEO. William D. Smith, a bank director, became chairman and senior vice president.

Texas

■ EARL J. LASSERE, vice president, Bank of the Southwest, Houston, has been promoted to manager, correspondent bank department, while James A. Garrity has been elected a vice president of the bank. Mr. Lassere joined Bank of the Southwest in 1963, serving as a correspondent representative in Louisiana, Mississippi, Alabama, Arkansas and a portion of East Texas. He became assistant vice president in 1966 and vice president in 1968. Mr. Garrity went to the bank from Union Bank, Los Angeles, in 1974 and serves as a commercial loan officer.

GARRITY

LASSERE

■ JOHN W. HAZARD has resigned as chairman and CEO, National Bank of Commerce, Dallas, effective sometime in January. Edward G. Nash Jr. will remain as president. Mr. Hazard will become president, Capital National, Houston, replacing Lovett Baker, who will continue as a bank director and president, Federated Capital Corp., Houston, the bank's HC.

NASH

HAZARD

WILLISON

■ TOM WILLISON recently was elected senior vice president, National Bank of Commerce, Dallas, and head of the correspondent department. Mr. Willison began his banking career at Republic National, Dallas, in correspondent banking. Prior to his election at NBC, he served as president, Bank of Scottsdale (Ariz.), which he helped organize in 1963.

■ FIRST CITY NATIONAL, Houston, recently announced the promotion of five to executive vice presidents. They are: George Darsey, manager, administrative division; Grover Ellis, manager, domestic banking division; Robert C. Howard, manager, international department; R. G. Sneed Jr., senior credit officer; and Gerald R. Williams, senior financial officer and manager, finance division. In other bank action, Robert C. Clayton was elected vice president, real estate and mortgage banking, and Thomas C. Nixon was named marketing officer.

Gold Sales

(Continued from page 81)

of falling prices. Others, including manufacturers and processors, use buying hedges to establish prices of commodities to be bought in the future.

According to the Chicago Board of Trade, the gold futures market will provide the ability to minimize price risk for producers and users of gold. The Chicago Board of Trade explained that its gold contract was developed only after lengthy research and consultation with commercial users and leading world gold bullion dealers. The contract, according to the Chicago Board of Trade, is carefully designed to enable commercial firms, speculators and investors to take advantage of world price movements, while ensuring deliverable stocks of gold bars of the most desirable grade and size.

Under the Chicago Board of Trade's futures program, the contract standard is three one-kilogram bars. For example, on a gold futures contract, a speculator would buy three kilo bars at say, $160 an ounce, or $15,360. He would deposit a margin of $2,000.

The choice of kilo bars is logical, said the Board of Trade, because stocks of such bars, a commonly traded bar in Europe and the Middle East, are ample enough to ensure delivery even in the early months of futures trading. They are made and sold in Canada, too, and potential U. S. production capacity is estimated at more than 1,000 bars a day.

Also under the program, a buyer receives a bank depository vault receipt bearing the serial numbers of the gold bars. There's only one delivery point—Chicago—and no difficulty in taking possession or in redelivering, said the Board of Trade.

Gold is the 12th commodity to be traded on the Chicago Board of Trade, said to be the world's largest commodity exchange and the primary futures market for food and feed grains, forest products, poultry and silver.

ACLI International Commodity Services, Inc., New York City, has published a research report called "Gold." The report describes gold production, estimated world gold production, gold consumption, non-industrial gold consumption, monetary and speculative roles of gold and the price outlook. Charts and graphs illustrate this discussion of gold. ACLI has offices in Chicago (in the Chicago Board of Trade Building) and in London.

The Gold Market. Most persons living in this country now weren't even alive when the ban on owning gold became effective in 1934. Therefore, they may decide to buy gold because of the novelty of owning such a commodity or because they have more faith in it than in the U. S. dollar. On the other hand, they may not attach as much significance to owning gold as did people years ago. Herbert E. Neil Jr., vice president and economist of Chicago's Harris Trust, believes the major impact of the new gold era will rest with individual speculators in the marketplace. He forecast that the average American's interest will be moderate, in fact, a "short-term phenomenon." And, he continued, "since industrial demand for gold is small, compared to other resources, gold would shortly take its place like any other commodity."

Historically, gold has served as a principal store of wealth and measure of relative value. Will it be so as far as this generation of Americans is concerned? • •

Management Seminar Held

Picured at American National of Chattanooga's management seminar for local businessmen and regional bankers are: (l. to r.) W. Ray Powell, sec.-treas., Selox, Inc.; J. A. Phillips Sr., sr. v.p., Gilman Paint & Varnish Co.; Robert R. Cook, pres., Plastic Industries; W. Neil Thomas Jr., Thomas, Leitner, Mann, Warner & Owens law firm; and Sam I. Yarnell, bank ch.

Regulatory Agencies

(Continued from page 81)

statement advised insured nonmember banks that are considering dealing in gold for their own accounts to evaluate carefully the experience and ability of their present staffs in this regard before proceeding. Further, said the FDIC, such banks should remember that gold ownership exposes them to possible loss due to adverse fluctuations in market value. To minimize such exposure, according to the FDIC, banks may find it necessary to conduct limited trading in gold futures for hedging purposes. Banks considering holding inventories of their own gold were reminded by the FDIC that any such inventory should be reflected as "other assets" and should be periodically adjusted to current market value.

No matter how insured state nonmember banks intend to deal in gold, they must notify the FDIC of their intentions.

The FDIC listed four problems that could arise for a bank dealing in gold:

1. Banks may bear the risk of any loss with respect to gold they hold, even when it is held on consignment. Banks considering holding gold should, therefore, evaluate the adequacy of their present security arrangements.

2. Gold purchase or consignment agreements entered into by a bank may not provide it with the right to resell to the dealer any gold which the bank's customers ask the bank to repurchase. Thus, a bank might be forced to refrain from repurchasing gold it had sold previously to its customers.

3. Banks should try to minimize the possibility of receiving and, ultimately, selling bogus gold by entering into agreements only with responsible, reputable dealers. In this connection, insured nonmember banks should be especially wary of proposals that purport to offer gold to them at or below the current market price. They should pay particular attention to the degree of fineness (purity) of the gold so offered. The inadvertent sale of gold that doesn't conform to a bank's representations may well expose the bank to unfavorable publicity or legal action.

4. Banks that repurchase gold from their customers should consider retaining possession of the gold pursuant to a sale/safekeeping agreement. Unless the gold has constantly remained in the possession or control of the bank, it may be necessary for the bank to acquire or utilize facilities for weighing

and assaying gold it plans to repurchase.

The Comptroller's Policy. The Comptroller told national banks they may be responsible for insuring coins and bullion in their possession even if they don't own the gold. Further, if a bank's supplier insures gold shipments in transit, the receiving bank may be responsible for insuring gold in its vaults.

In addition, the Comptroller warned banks to provide for internal control of employee access to its gold inventory, and any safekeeping receipts issued must represent gold physically on hand at the bank.

According to the Comptroller, gold owned by a bank should be placed on its ledger under the category "other assets," and the book value of a bank's gold inventory should be adjusted monthly to reflect the current market value.

Other regulations include: Trained personnel are required for banks that provide gold services to their customers; banks must follow prudent lending practices in using gold as collateral for loans; and banks should take care in handling gold transactions for customers, with any questionable gold subject to assay.

Banks considering trading in gold for their own accounts, he continued, must have their boards' formal authorizations. Texts of such authorizations must be sent to the appropriate regional administrator of national banks. • •

Banks, HC Explore Future Problems With Use of Financial Planning Computer

AS MORE BANKS set up asset/liability management teams, time sharing on BANKMOD—the computer model developed by Bank Administration Institute for medium-term financial planning—is increasing in volume.

According to Virgil H. Disney, research director at BAI, about 15 banks are now using BANKMOD to test optional decisions against projected bank statements and forecast economic conditions. The Fed is also experimenting with BANKMOD in a research environment, using it not as a regulatory tool but simply to explore banking problems.

Basically, BANKMOD allows bankers to "war-game" a bank's financial performance one to two years ahead. A statement projection model, BANKMOD simulates a bank's financial reporting system by computing future bank statements resulting from forecast conditions and management decisions based on those conditions. Bankers can thus play the "What if . . . ?" game, testing alternative strategies to determine what effect current decisions will have on future scenarios, and lay their plans accordingly.

Bankers using the system dial-up the computer on their own time-sharing terminals, with access to the model via telephone. With the appropriate terminal, any bank in the country can use BANKMOD.

In the 12-to-24 month time frame, asset/liability management focuses on *financial* decisions, as opposed to marketing decisions, in long-range planning. Financial decisions require anticipating future problems and opportunities and developing the appropriate strategy *now* to minimize the problems and exploit the opportunities. With BANKMOD, therefore, bankers can:

- Manage the "funds gap" (shifting differences between deposit supply and loan demand, in the maturities of asset/liability instruments, and in retained earnings);
- Exploit interest-rate trends;
- Manage earnings growth;
- Develop annual profit plans;
- Train both management and technicians in A/L management techniques.

To use BANKMOD, however, a bank must be properly organized internally. "A bank's asset/liability management team must be at the executive level and headed by the CEO, because you're working with the allocation of funds within the bank," says Marlin L. Mosby Jr., director of management sciences at First Tennessee Corp., a 13-bank HC based in Memphis.

Mr. Mosby, who has played a leading role in the development of BANKMOD since the system's inception by BAI in 1969, helped install the system at the corporation's lead bank, First National, Memphis.

At First National, BANKMOD is used in managing the funds gap by projecting bank statements ahead 18 months, then testing alternative strategies on the best use of purchased funds.

"One of BANKMOD's main advantages is its ability to quickly evaluate alternative funding strategies," says Mr. Mosby. "It can develop 15 to 20 alternatives in minutes."

Although BANKMOD is designed for use by individual banks, it offers certain features which can be applied to the multi-bank structure. United Vir-

Principal research associate Dr. Wolfgang P. Hoehenwarter (seated) of BAI inserts bank ledger data into computer terminal during recent BANKMOD seminar at Computer Sciences Corp., Oakbrook, Ill. Seated next to Dr. Hoehenwarter is Carmichael Fels (left), planning officer, Third Nat'l, Nashville. Also observing the procedure (left to right, standing) are: Robert F. Polk, operations staff assistant, First Wisconsin Nat'l, Madison; Edward L. Mercaldo, sr. v.p., Equibank, Pittsburgh; Dr. Gerald Hanweck, Federal Reserve System, Washington, D. C.; Barnett Grace, v.p. & tr. off., Commercial Nat'l, Little Rock; Ms. Betty Douglass, research assistant, Nat'l Bank of Tulsa; and Bruce Vliek, profit planning coordinator, BancOhio Corp., Columbus.

ginia Bankshares, Inc., a multi-bank HC based in Richmond, tested BANKMOD in funds-gap management at two of its 15 banks for about six months.

"Testing BANKMOD helped us clarify how we wanted to structure our decision-making process," says United Virginia's Assistant Vice President Donald G. Quinby. "In funds management, you want to determine the alternatives between minimum requirements and ideal requirements. How long or how short, for example, are you going to be in your CD or investment positions? BANKMOD's capacity to differentiate between CDs, commercial paper, Eurodollars, various types of investment securities and less discretionary funds like loans and deposits allows management to evaluate alternative funding decisions."

The decision-orientation of BANKMOD allows ongoing corrections to forecasts, Mr. Quinby continues. "This is a difference between strategy and tactics," he points out. "BANKMOD allows you to make tactical decisions to constantly monitor and modify your strategic position. The system is also capable of storing assumptions and decisions. Technically, this is a new feature and allows you to test a set of decisions against several sets of economic assumptions."

In the multi-bank structure, however, BANKMOD requires much computer time, since it must be used simultaneously in both individual banks and in centralized planning. United Virginia therefore developed its own system, incorporating many of BANKMOD's features.

Although BANKMOD isn't currently adaptable to the multi-bank structure, it can be used in a multi-branch environment. The 61-branch Idaho First National, Boise, has been using BANKMOD since last February as a profit-planning tool, while gearing-up toward using the system in asset/liability management by the end of the year. The bank projects an annual profit plan 15 months (five quarters) ahead, then tests optional decisions against the plan.

"We use BANKMOD to test our 'rough-cut' profit plan," says Assistant Cashier William R. Basom. "With BANKMOD, we can test the overall effects of changing economic factors on the bank's profit plan."

Other banks using BANKMOD include:

• Bank of New Orleans, which uses BANKMOD for A/L management in the 12-18 month time frame. According to Assistant Controller Michael D. Charbonnet, the bank's asset/liability management group consists of the top managers from each of four areas—deposits, loans, purchased funds and investments—plus administrative executives and the bank's controller.

• Deposit Guaranty Corp., a one-bank HC in Jackson, Miss., which is also using BANKMOD as a profit-planning tool while organizing for asset/liability management with a "source and use of funds committee" composed of top management.

BANKMOD injects sensitivity to changing market conditions into the bank's manual profit plan, says Research Officer R. David Cullum. "We can now play the 'What if . . . ?' game, using BANKMOD to test quick decisions, as well as different strategies in the longer mix."

As an example, Mr. Cullum cites a recent state regulatory change which could have affected the bank's future profits. "With BANKMOD, we were able to test 14 different strategies in two days and determine our best course of action," he points out. "Without BANKMOD, it might have taken us months and cost us profits."

• Fulton National, Atlanta, which is currently gearing-up to use BANKMOD in A/L management. William L. Adcock, vice president of research and planning, points out that the bank is ready to go, having already organized internally for A/L management.

For bankers interested in learning how to apply BANKMOD to their own operations, Bank Administration Institute offers one-day introductory courses on the system. Arrangements can be made by contacting: Director of Research, Bank Administration Institute, 303 S. Northwest Highway, Park Ridge, Ill. 60068. • •

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