MID-CONTINENT BANKER

The Financial Magazine of the Mississippi Valley & Southwest

JANUARY, 1976

THE 1976 OUTLOOK FOR:

LOAN DEMAND
INTEREST RATES
BANK EARNINGS
AGRICULTURE • EFTS
LEGISLATION • THE ECONOMY
MARKETING • INTERNATIONAL BANKING

1976

Outlook

Interdependence and EFTS in an evolving environment

Interdependence (Liberty style) means providing you with EFTS/Data Processing capabilities geared to an evolving environment. It means services and capabilities to help you maintain the position of leadership you've established in your community.

Just recently, National Sharedata Corporation developed the necessary computer programs for ChecOKard . . . the card that tells everyone your check's OK. To date, more than 20 Oklahoma banks have joined with National Sharedata in this vital venture. You too, are invited to ask Sharedata how you can offer ChecOKard to your merchant and DDA customers.

And with ENTREE . . . the card your customers use like a checking account for purchases at 1.7 million merchants and for cash at 45,000 bank offices worldwide . . . you now have an avenue to the future of electronic banking.

Additionally, National Sharedata has a new Integrated Financial System data base that will help you intelligently plan and project future requirements. More importantly, you'll be able to provide the services and programs so necessary to an aggressive marketing posture.

We've only begun to scratch the EFTS surface. Tellerless terminals are here . . . POS terminals are on the way. MACHA is a reality.

Do you have the capability to meet these challenges in an evolving electronic environment? Contact your Liberty Correspondent Department representative to discuss the importance of Interdependence and EFTS/Data Processing for the years ahead. We want to help you maintain the position of leadership you've established in your community.

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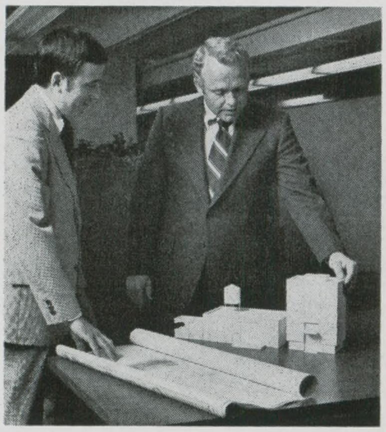

Our resources are assets to you.

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Convention Calendar

February

Feb. 1-5: 24th Assembly for Bank Directors, Honolulu, Sheraton-Waikiki and Royal Hawaiian hotels.
Feb. 8-11: ABA Branch Administrators Conference, Washington, D. C.
Feb. 8-11: ABA National Trust Conference, Atlanta, Peachtree Plaza.
Feb. 8-20: ABA National Installment Credit School, Norman, Okla., University of Oklahoma.
Feb. 9-March 3: Kansas, Missouri and Nebraska Bankers Associations' Intermediate School of Banking, Lincoln, Neb., University of Nebraska.
Feb. 11-13: ABA Bank Investments Conference, New York City, Americana Hotel.
Feb. 15-20: ABA Community Bank CEO Program, Santa Barbara, Calif., Santa Barbara Biltmore.
Feb. 15-21: ABA Operations/Automation Division Business of Banking School, Fort Worth, American Airlines Learning Center.
Feb. 22-27: ABA National Personnel School, Bloomington, Minn., Radisson South.
Feb. 24-25: Robert Morris Associates Regional Workshop on Lending to Finance Companies, Chicago.
Feb. 25-27: ABA Construction Lending Workshop, Columbus, O., Ohio State University.

March

March 7-9: ABA National Credit Conference, Atlanta.
March 7-12: Kansas, Missouri and Nebraska Bankers Associations' School of Basic Banking, Lincoln, Neb., University of Nebraska.
March 14-17: Robert Morris Associates Financial Statement Analysis Workshop, Boston, Colonnade Hotel.
March 14-18: Independent Bankers Association of America Convention, Honolulu, Sheraton Waikiki Hotel.
March 21-24: ABA Trust Operations/Automation Workshop, New York City, Americana Hotel.
March 21-26: Kansas, Missouri and Nebraska Bankers Associations' Commercial Lending School, Lincoln, Neb., University of Nebraska.
March 30-April 9: ABA National Commercial Lending School, Norman, Okla., University of Oklahoma.

April

April 1-3: ABA Meeting With Comptroller of the Currency, Lincolnshire, Ill., Marriott's Lincolnshire Resort.
April 4-6: ABA Midwestern Regional Bank Card Conference, Cincinnati, Stouffer's Inn.
April 4-7: ABA National Installment Credit Conference, Miami Beach, Fla., Fontainebleau Hotel.
April 10-13: Association of Reserve City Bankers Annual Meeting, Palm Beach, Fla., the Breakers.
April 11-14: Robert Morris Associates Financial Statement Analysis Workshop, Denver, Cosmopolitan Hotel.
April 18-23: Robert Morris Associates Loan Management Seminar, Bloomington, Ind., Indiana University.
April 21-23: ABA Governing Council Meeting, White Sulphur Springs, W. Va., the Greenbrier.
April 25-27: ABA Southern Trust Conference, Pinehurst, N. C.
April 25-27: ABA Southern Regional Bank Card Conference, Richmond, Va., Richmond Hyatt House.
April 25-28: ABA National Conference on Real Estate Finance, Dallas, Fairmont Hotel.
April 25-29: Bankers Association for Foreign Trade Annual Meeting, Hot Springs, Va., the Homestead.
April 25-30: ABA National Commercial Lending Graduate School, Norman, Okla., University of Oklahoma.
April 25-30: ABA Community Bank CEO Program, Palm Beach, Fla., La Coquille Club.
April 25-30: Robert Morris Associates Loan Management Seminar, Bloomington, Ind., Indiana University.
April 29-May 1: ABA Meeting With the Comptroller of the Currency, Buck Hill Falls, Pa., Buck Hill Inn & Golf Club.

May

May 1-4: Louisiana Bankers Association's Annual Convention, New Orleans, Fairmont Roosevelt Hotel.

MID-CONTINENT BANKER

The Financial Magazine of the Mississippi Valley & Southwest

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FEATURES

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NEWS ROUNDUP

News From Around the Nation

SEC Rule Changes Finalized

The Securities & Exchange Commission has finalized rule changes designed to give investors a better picture of bank HC finances.

Banking concerns must disclose in their balance sheets the reserves available to cover loan losses as a deduction from loans receivable, rather than just showing the generally larger loan-loss reserve figure they use for tax purposes. If the actual reserves total is "materially different" from the figure used for tax purposes, banks are required to say so in a footnote. Previously, discussion of the distinction between the two figures was entirely in the footnotes.

They must also treat bonds, notes and debentures the banks have issued as liabilities rather than as capital. The requirement applies to subordinated indebtedness as well.

They must also show unearned income as a deduction from loans receivable, a change that will cause a slight reduction in reported assets.

New IRA Rules Adopted

The FDIC and Fed have adopted new penalty and minimum-denomination rules for the treatment of Individual Retirement Accounts that consist of time deposits.

The first of the new rules creates an exception to the penalty provisions for premature withdrawal of time deposits. Those who have invested IRA funds in time deposits may withdraw their funds, before the deposits mature, at age 59½ or thereafter, or upon disability without being required to pay a penalty for premature withdrawal.

The second rule abolishes the $1,000 minimum amount requirement for four- and six-year time deposits consisting of IRA funds. This should provide IRA account holders with greater flexibility in setting up deposit accounts.

Demand-Deposit Interest Hit

Comptroller of the Currency James E. Smith said he opposes for now the idea of banks paying interest on demand deposits since such a development should go through an evolutionary period to make sure it will work.

Mr. Smith predicted that the day when banks will pay interest on demand deposits is not far off. He advised bankers to prepare for this eventuality by studying their costs and pricing on the services they render, as the burden of demand deposit interest will require a reassessment of services now being given away or priced too low.

Association Alters Name

Effective January 1, the word "registered" was removed from the name of the Association of Registered Bank Holding Companies.

The altered name reflects the fact that all corporations owning one or more banks must now register with the Fed and be regulated as bank holding companies.

Prior to the enactment of the 1970 amendments to the Bank Holding Company Act, only firms owning two or more banks were required to register as bank HCs. Thus the word "registered" distinguished multiple bank HCs from one-bank HCs.

The association has also changed the title of its full-time staff head, Donald L. Rogers, to president from executive director. The principal elected industry officer's title was changed from president to chairman.

HC Stock Owner Rule Adopted

The Fed has proposed a rule to require HCs planning to buy their own stock to give the Fed 60 days notice.

The proposal is designed to deter what the Fed calls "bootstrapping," in which a HC goes heavily into debt to purchase its own stock. Such tactics usually involve a change in ownership of the HC.

The Fed is concerned that such stock purchases can leave an HC with heavy debt and under severe financial pressure. The Fed could use its cease-and-desist powers to stop such a stock purchase if the prior notice indicated a possibly unsafe or unsound condition might result.

Bank Concentration Curb Urged

Consumer advocate Ralph Nader has urged Congress to consider legislation to bar any further concentration in the commercial banking industry.

Mr. Nader told Congress that he feared the industry would be controlled by a handful of banks within a decade if nothing is done about concentration. The committee is considering broad changes in banking regulations.

Mr. Nader said he is concerned about a recent proposal to permit interstate banking and about the emergence of a nationwide network of electronic terminals.

He recommended legislation that would prohibit banks from acquiring out-of-state banking concerns, except where state laws permit and that would bar interstate use of electronic terminals unless expressly authorized by state law.

New Call Report Form Use Delayed

The FDIC and Fed have postponed until March 31 the implementation date for the revised reports of condition and reports of income. Previous implementation date was December 31.

Thus, the formats of the year-end 1975 report of condition and the 1975 report of income will be the same as in recent years.

However, the schedule of the maturity distribution of investment securities which had previously been reported only for June 30 will also be required for year-end 1975.

By Dr. Lewis E. Davids

Hill Professor of Bank Management,
University of Missouri, Columbia

This Is Another 'FINE' Mess!

FINE, as defined in Webster's Dictionary, means "finished; refined; hence free from impurity, not coarse, gross or heavy, not thick or clumsy. Of sense, emotions, reasoning, etc. Subtle, sensitive, refined. Superior in character, nature or ability; excellent."

But "fine," as those who have been caught exceeding the 55 mile-per-hour speed limit know, has another meaning: "Money exacted as a penalty for or in settlement of an offense; any penalty. To set a fine as by judgment of a court; to punish by a fine."

". . . bankers had better ponder just what the Humpty Dumptys in the Washington wonderland have in mind with their 'fine' idea."

Humpty Dumpty, in *Alice in Wonderland*, said, "When I use a word, it means just what I chose it to mean—neither more nor less." The Humpty Dumptys on the House and the Senate Banking committees have, for some time, been using "FINE" as an acronym for Financial Institutions and the National Economy, and bankers had better ponder just what the Humpty Dumptys in the Washington wonderland have in mind with their "fine" idea.

As in much proposed legislation, FINE has good and worthy goals. It would attempt to provide equal tax treatment for all financial institutions, to reduce the likelihood of and problems associated with disintermediation from all types of financial institutions. In addition, it would attempt to make monetary policy more effective by giving a Washington bureaucracy—probably the Fed governors—greater power over required reserves of banks and other financial institutions opting to use or issue negotiable orders of withdrawal, non-negotiable drafts or the electronic technology stimulated by the success of the Hinky Dinky POS fund switchings in Nebraska. This innovation of an S&L already has spread over state lines and beyond the purview of S&Ls to include other financial institutions.

An Orwellian concept providing "greater equality," FINE would, for at least the next half-decade, provide for a higher interest-rate ceiling for deposits in non-commercial banks—the S&Ls and MSBs—than could be paid by commercial banks. In fact, the House Banking Committee would mandate at least a 0.25% higher differential ceiling for the former than for the latter. (As of this writing, U. S. Government 7⅛% notes due 5-15-78 are yielding 7.18% and the 4.25% bonds due 8-15-92/87 are yielding 6.29%.)

One can but wonder if the House and Senate Banking committees, with their concepts of "equality" and efforts to reduce disintermediation's counterproductivity for financial institutions, recognize the questionable and inappropriate monetary and fiscal policy of the federal government.

Stated another way, Washington bureaucrats should make greater efforts to mend their own ways. Much of what they criticize in our financial institutions is rooted in inept federal actions.

To illustrate, both the Senate and the House FINE bills would require mortgage lenders to provide additional reports to HUD, which, if you've had any experience with that department, is in the same class as the Department of Health, Education and Welfare. HUD and HEW both have grown like Topsy: they have momentum, but as one compares their costs to their limited benefits, one can but wonder what their value is.

A nonbureaucrat believer in the free-enterprise system, who is critical of governmental monstrosities, is likely to be classified as biased, so perhaps an observation of the workings of bureaucrats and their swollen staffs will show whether the government or the private sector is more capable. The *Chicago Daily News* quotes a staff study of the federal guaranteed student loan program, made for the Senate Permanent Investigation Subcommittee, which estimates that $1 billion of $8 billion in federal loan guarantees to date may have been lost because of "bureaucratic bungling" by HEW.

". . . Washington bureaucrats should make greater efforts to mend their own ways. Much of what they criticize in our financial institutions is rooted in inept federal actions."

One member of the subcommittee, Senator Sam Nunn (D.,Ga.), commenting on the loss, said it would be impossible to determine precise figures, due to "incredibly inaccurate or nonexistent records kept by HEW." The governmental watchdog agency, the General Accounting Office, has noted that HEW's record-keeping procedures are so deficient that the government may be repaying loans it never agreed to make.

HEW's director, James Martin, noted that a sample check of the department's loan files disclosed no data for about 15% of the default claims already processed and paid. The latest reported default rate was 18%, but it is estimated it will increase to better than one-in-four.

In the November, 1975, issue of MID-

Continent Banker, I questioned the FHLBB study in which the board had the integrity to note that part of its survey and study, when tested by "a manual check for accuracy of census tract number on randomly selected addresses, showed that substantially less than half the census tract designations were correct. (46% in Washington, D. C., 38% in Cicero, Ill.)"

Let it be understood, the point isn't that the FHLBB created the inaccurate data. The data used were obtained from S&Ls and banks that didn't conspire to provide incorrect data for the survey. More and more bankers tell me they are finding it more difficult to make a living: They are spending too much time filling out complex and, often, incomprehensible government reports. The government agency involved either is unable to exercise reasonable judgment that its data aren't worthwhile, statistically, or the agency simply is an engine without a rational hand on the throttle.

At a recent conference with a federal agency, I learned it had used another agency's statistical series to establish its own policy. The accuracy of that series had been questioned for years and now is under major statistical revision. It probably won't be ready for several more years. I was unable to ascertain the logic in one agency processing data recognized as needing major revisions, yet valuable computer and computer personnel time was being used in this manner.

There is a saying among computer operators: If you put garbage in a computer, you get garbage out. All too often, the governmental agencies have elaborate computers into which they have fed garbage, but have failed to recognize the garbage they have gotten out.

The idea behind FINE should have the support of all concerned bankers, yet it appears that FINE—in its final form—is likely to have many of the same basic philosophical errors as the Hunt Commission's recommendations.

At this stage of our financial institutions' economic, cultural and political development, it is time to step back and be humble. The span of knowledge and control, let alone wisdom of federal bureaucrats, has passed the point of being productive. They don't have the real ability to wisely regulate the thousands of banks, insurance companies, S&Ls, the hundreds of mutual savings banks, etc., let alone the retail establishments such as Sears, Penney's and Wards, which now are quasi-financial institutions.

All financial institutions, in one context, are subject to basic economic forces of capital needs and the needs of earnings and reserves, yet they have so many differences of location, market segmentation and even style of operation, that increased regulation of one type of institution simply provides opportunities to other types of financial institutions and the virtually unregulated quasi-financial institutions.

These institutions, even the less-regulated, have one problem in common, the increasing demand for completion of more governmental forms and the accompanying inter-agency competition to increase the authority they have over business firms.

Is there any hope or solution?

The best the House and Senate committees could do would be to shift the emphasis of FINE to concentrate on the reduction of regulations that don't promote efficiencies. The goal should be fewer, not more, regulations. Unfortunately, it doesn't look as if this goal will be set. In fact, just the opposite is likely: more complex regulations without a commensurate increase in public benefits, as related to their costs.

I hate to say it, but the likelihood is that FINE will develop into, as Webster puts it, "a penalty for or in settlement of an offense." In this case, Washington somehow has overlooked the fact that the "offense" has been generated over the years by its own ineptitude, growth and hunger for additional power and control. • •

Corporate News Roundup

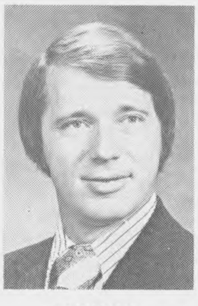
• **LeFebure.** O. T. Finley Jackson and Larry Emmons have been appointed sales specialists for automated financial systems at LeFebure, Cedar Rapids, Ia. Mr. Jackson will work in the north central and west coast areas and Mr. Emmons will service the southeastern and south central areas.

• **Nytco Services, Inc.** Robert J. Deason has been promoted to vice president/division operations manager, Nytco Services, Inc., while John W. Drew has been named vice president/regional sales. Mr. Deason will be headquartered in the Central Division Office, Des Plaines, Ill., and Mr. Drew will be in the Chicago Office. Nytco is headquartered in San Francisco. Mr. Deason joined the firm in 1959 as field representative, while Mr. Drew joined Nytco in 1965 as a member of the auditing staff.

• **Bunce Corp.** William G. Bally Jr., sales representative and contract manager, Bunce Corp., St. Louis, has moved to Topeka and is working out of the firm's Kansas City office. He has been with the firm six months. William A. Keslar has joined Bunce as assistant to the president. He is working in public relations, personnel and market research. Bunce, a design-construction firm, specializes in building bank and S&L buildings and operates in Missouri, Kansas, Illinois, Oklahoma and Wisconsin.

• **Lawrence Systems.** James H. Leonard has been named CEO, Lawrence Systems, San Francisco, in addition to the post of president. He was given the latter post in March, 1975. Before joining Lawrence, Mr. Leonard was vice president, First National, Chicago, and group head responsible for loan divisions serving Chicago-area businesses.


DEASON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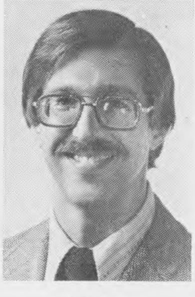
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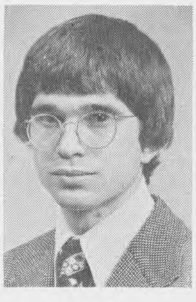
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NEWS OF THE BANKING WORLD

KEMPER

MERRIGAN

STUART

FULLER

MITCHELL

SCHMIDT

• **James M. Kemper Jr.**, chairman and president, Commerce Bancshares, Inc., Kansas City, has been elected a Kansas City Fed director for a three-year term. He succeeds Roger D. Knight, chairman, United Banks of Colorado, Inc., Denver. Mr. Kemper has been with Commerce Bank, Kansas City, affiliate of Commerce Bancshares, since 1947. He was named bank president in 1955 and chairman and president in 1964.

• **Lawrence A. Merrigan,** president, Bank of New Orleans, has been named a member of the Federal Advisory Council to the Fed board, Washington, D. C., representing the Sixth Fed District for a one-year term. That district covers a territory including Alabama and portions of Louisiana, Mississippi and Tennessee. Mr. Merrigan joined the bank in 1945 and was elected president in 1957. He also is president and CEO, New Orleans Bancshares, Inc., of which the bank is the principal subsidiary.

• **Walter B. Stuart III,** vice chairman, First Commerce Corp., and its subsidiary, First National Bank of Commerce, both of New Orleans, has been elected director, School of Banking of the South, Louisiana State University, Baton Rouge. Named registrar was Frank S. Craig Jr., president, and CEO, Fidelity National, and its HC, Fidelity National Financial Corp., both of Baton Rouge.

• **Douglas R. Fuller,** vice chairman, Northern Trust and Nortrust Corp., the bank's parent HC, both of Chicago, has retired. He continues as director of the two and of Security Trust, Miami, a Nortrust subsidiary. William G. Mitchell, executive vice president and chief administrative officer, Beatrice Foods Co., has been named a director of Nortrust and Northern Trust, replacing Solomon Byron Smith, who has withdrawn from the bank board. Mr. Fuller joined the bank in 1946, was elected president in 1963 and vice chairman in 1972.

• **Chauncey E. Schmidt,** formerly president, First National, Chicago, has been named chairman, Bancal Tri-State Corp., and president and CEO of Bancal and its principal subsidiary, Bank of California, both of San Francisco. He replaces Charles de Bretteville as HC chairman and CEO. Mr. de Bretteville becomes honorary HC chairman and continues as bank chairman. Mr. Schmidt succeeds James H. Jones as bank president and CEO following Mr. Jones' resignation. William S. Pfeifle, who had been acting as bank president and chief operating officer in Mr. Jones' absence, has stepped down and will continue as a consultant. Mr. Jones formerly was president and CEO, First National Bank of Commerce, New Orleans.

• **Richard L. Thomas,** president, First Chicago Corp., has been named president, First National, Chicago, affiliate bank. Neil McKay, formerly executive vice president of the bank and HC, has been elected vice chairman. He continues as First Chicago secretary and bank cashier. Mr. Thomas joined the bank in 1958, advanced through the ranks, and was named First Chicago president in 1974. He was elected asset and liability management chairman last January. Mr. McKay joined the bank in 1963 as associate general counsel, rose through the ranks, and was elected executive vice president of the bank and corporation in 1973.

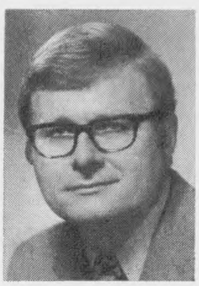
• **Oscar A. Lundin,** retired vice chairman General Motors Corp., has been elected a director, Detroitbank Corp., and its affiliate, Detroit Bank. As General Motors' vice chairman, he was responsible for all its financial affairs. Mr. Lundin also served as vice chairman of the firm's finance committee.

• **Jeffrey M. Bucher** has resigned as a Fed governor and will join a West Coast law firm. He had been on the board since 1972 and prior to that was senior vice president in charge of trusts and investments, United California Bank, Los Angeles.

• **M. Sneed Lary Jr.** has been named vice president, First National, Chicago, to serve corporate customers in Texas,

THOMAS

McKAY



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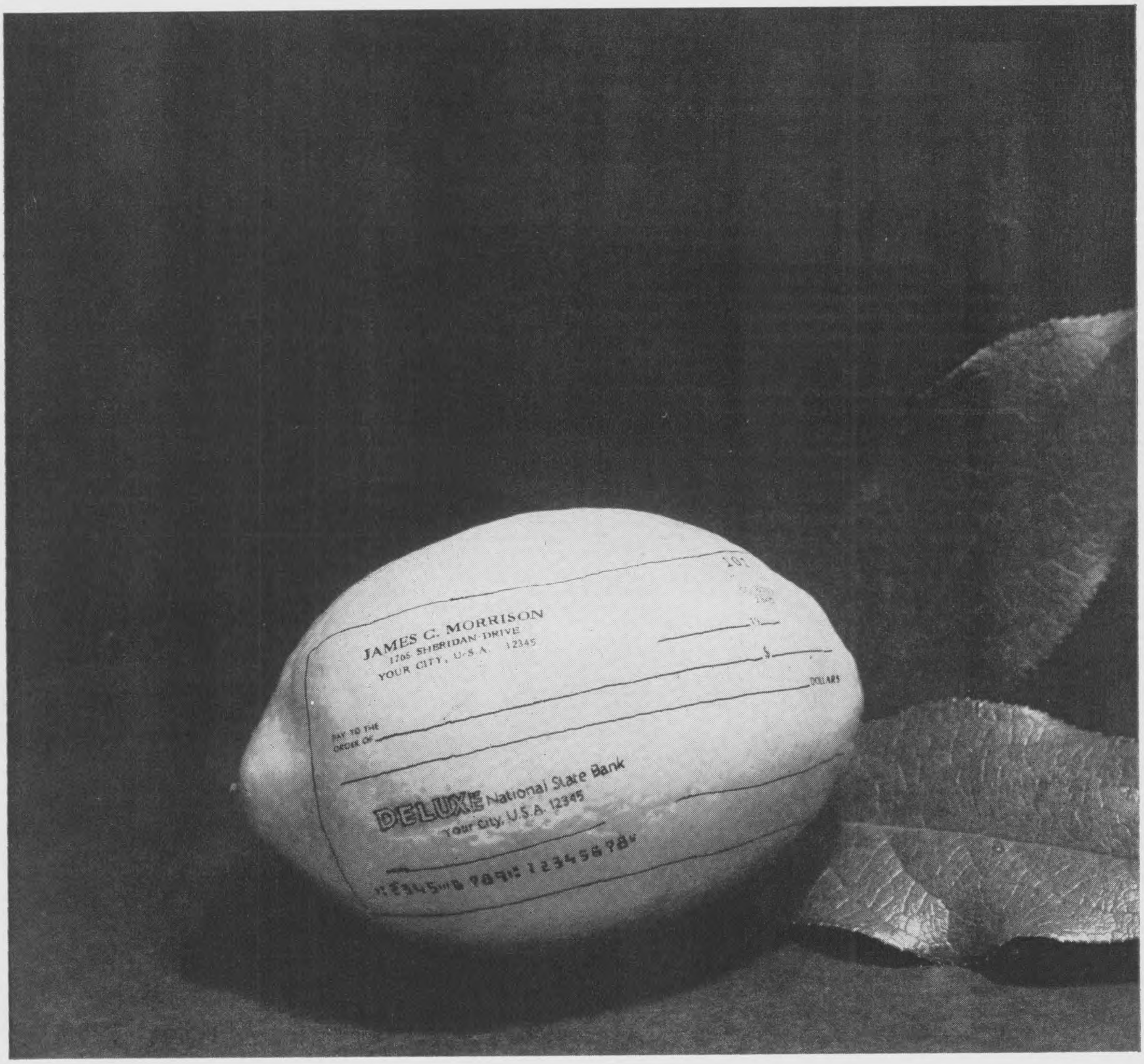

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and innovations will answer your customers needs and wants. Of course, market research doesn't make the decisions . . . but we believe it helps us make better ones. And, when we look back on some of our more recent decisions . . . like, the "Spirit of America" program . . . and "Rustic Americana", we're more than a little pleased with our market research. It's helping us to serve you better.

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Oklahoma, Louisiana, Arkansas and New Mexico. He will be headquartered in the bank's Houston Regional Office. Mr. Lary goes there from Southern National, Houston, where he was senior vice president in charge of the commercial lending division.

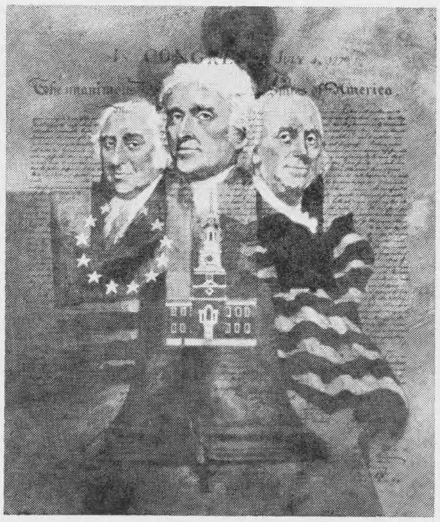
PHILLIPS

• **Jim R. Phillips,** vice president and general manager, Commercial National Bank (Little Rock) travel service, has been elected president, American Association of Bank Travel Bureaus. He joined the bank's travel service at its 1968 formation. Audrey Raasch, of First National, Mt. Prospect, Ill., has been named the association's treasurer.

New Products and Services

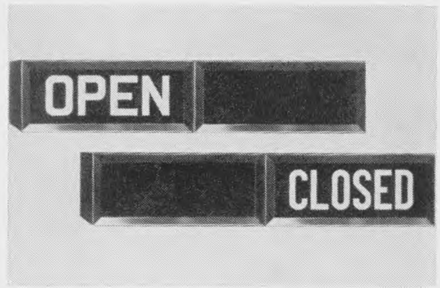
• **NCR Corp.** FOCIS (Financial Online Central Information System) is the name of new software being offered by NCR Corp., Dayton, O. It is said to enable commercial banks to update accounts immediately after a teller transaction by means of a link-up of the teller terminal and a computer operating in conjunction with the NCR Central Information File (CIF) system. It employs a variety of terminals: the NCR 279 teller terminal, 796 visual display terminal and 260 thermal printing terminal. It reportedly eventually will accommodate the NCR 770 self-service financial terminal and has a variety of other features. Write: NCR Corp., Dayton, OH 45479.

• **Sayers of St. Louis.** "Great Americans" is the name of a series of full-color portrait reproductions available from Sayers of St. Louis. The reproductions are chosen from works hanging in galleries, archives and libraries throughout the U. S. and cover historic periods in our history from the Revolu-



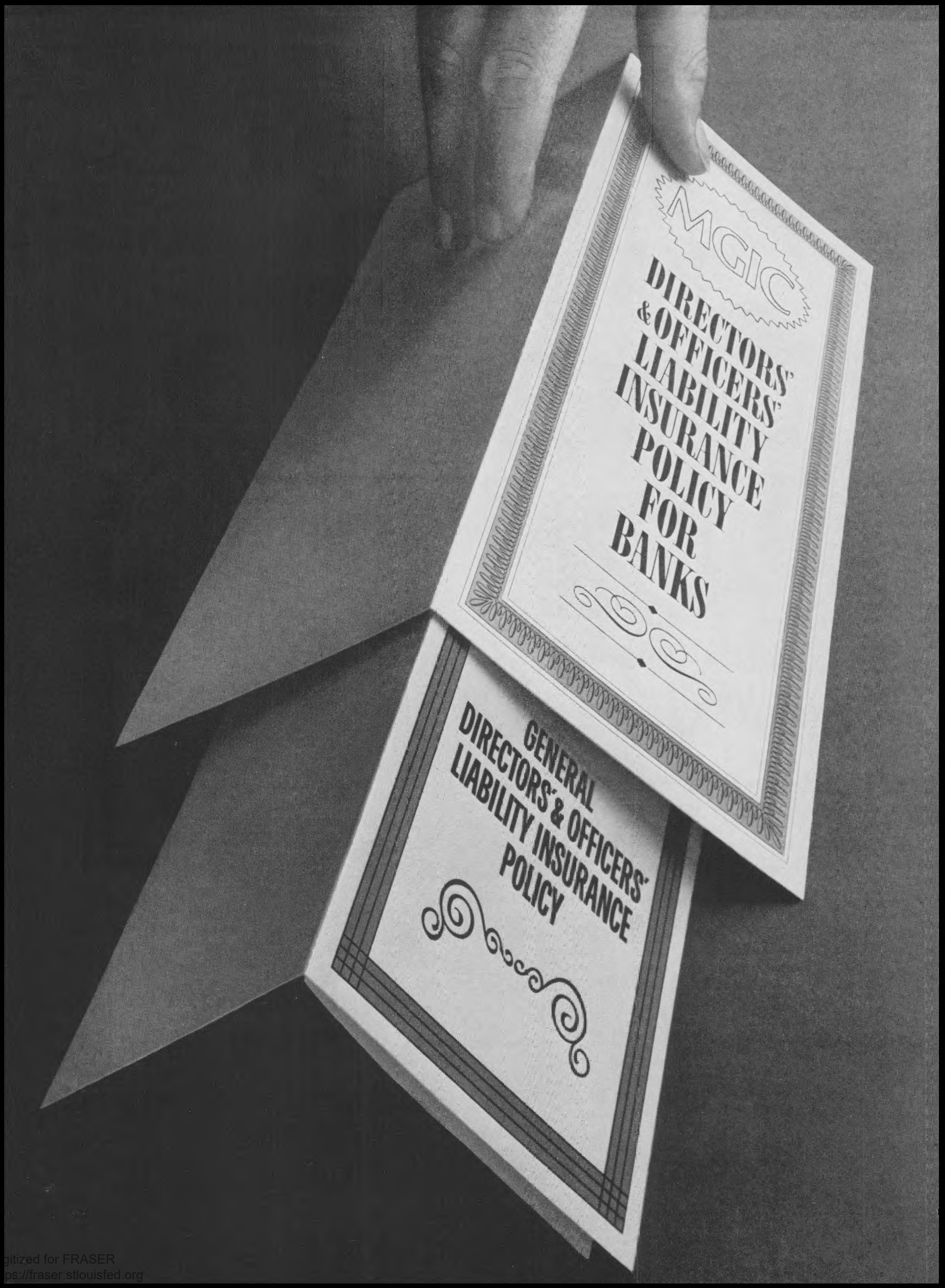
tion to contemporary times. Sold through fine art dealers and framers nationwide, the series includes the "Declaration of Independence" (shown), George Washington, Benjamin Franklin, Thomas Jefferson, Patrick Henry, Andrew Jackson, Abraham Lincoln, Robert E. Lee, Theodore and Franklin D. Roosevelt, Harry S Truman, Dwight Eisenhower and John F. Kennedy. The portraits are available in 8"x10" or 16"x20" sizes and are produced by Sayers of St. Louis and marketed nationally by J. Edward Connelly Associates, 1020 Sawmill Run Blvd., Pittsburgh, PA 15220.

• **Mosler.** Two new products have been introduced by Mosler, Hamilton, O. The Trans-Vista II is a drive-up banking system, while the American II is a 3½-inch vault door. The Trans-Vista II is available with or without TV communications and incorporates a new tray door design, tray opening mechanism and improved carrier drive system. Trans-Vista/TV is identical to the Trans-Vista II model, having two-way TV and a customer-unit cabinet of smooth polymer plastic, styled to match the "II." The unit operates automatically at the teller end, with no buttons to push except for a carrier return, which allows the teller to stop and return the carrier in flight. Teller terminals may be mounted above or below the counter and can be set up to serve two or more lanes of traffic. The American II vault door has such options as emergency vault ventilation, two daygate designs and a choice of disc, three- or four-spoke hand wheels. Various trim options are available, while a stainless steel plate with the bank's name and symbol can be added to the door. The American II also includes all standard Mosler safety features. Write: Mosler, 1561 Grand Boulevard, Hamilton, OH 45012.



• **Actron Inc.** High intensity OPEN/CLOSED drive-up signs that reportedly are visible in bright sunlight are being marketed by Actron Inc., Arlington Heights, Ill. Of a low-profile, prewired modular design, the unit can be mounted on canopy, wall or kiosk and is available in brushed stainless steel or dark bronze. Write: Actron Inc., 810 East Crabtree, Arlington Heights, IL 60004.

On l. is photo of Mosler's Trans-Vista II remote drive-up system, available with TV as Trans-Vista/TV. Device has new tray door design, tray opening mechanism and improved carrier drive system. Operation from teller end is fully automatic, having only one button to stop and return carrier in flight. On r. is new Mosler 3½-inch vault door, American II. It features emergency vault ventilation, two daygate designs and choice of three types of hand wheels. Trim options are available.


MGIC
DIRECTORS' & OFFICERS' LIABILITY INSURANCE POLICY FOR BANKS
GENERAL
DIRECTORS' & OFFICERS'
LIABILITY INSURANCE
POLICY

Bank's 'Trick' Is Treat; Is Staffed by 'Goblins'

Halloween came a little early for customers of First American National, Nashville, last October 31. Those entering the bank, expecting the usual businesslike decorum, were surprised to find the institution staffed by goblins, hoboes and other costumed characters.

Employees of the bank's participating offices dressed in Halloween attire and treated customers to candy, fruit and punch.

Besides the fun had by visitors to the bank, recognition was given to all the offices and two offices received awards for having the best-dressed staffs of spooks.

An Unsettled Account:

Man 'Sticks Up' for Bank After 'Stick-Up' Occurs

Citizens Security Bank, Bixby, Okla., was robbed of $6,000 by a woman, an occurrence that's not particularly newsworthy.

What is newsworthy is what one of the bank's depositors did after the robbery. He admonished the robber and showed support for the bank by taking out a newspaper ad which read:

"Attention Lady Bank Robber! When you robbed the Citizens Security Bank in the sleepy bedroom community of Bixby, Okla., you robbed the most accommodating and friendliest bank the working man ever had. I know, I have dealt with them for 20 years. You should ask the Lord for His forgiveness for this sin, as much as taking the money."

The ad was signed, W.C.H. 74066 Account #40-170-3.

A suspect was apprehended and the depositor took a copy of the advertisement to the jail to make sure the alleged robber saw it.

Open Season:

Hunter Bags Five Bucks: The Kind You Can Bank

Marvin Thompson of Bedford, Ind., went hunting in the Hoosier National Forest for ginseng and "bagged" five bucks instead.

No, the bucks weren't the antlered kind; they were greenbacks that had been released in a balloon during the beam-raising ceremonies of Boatmen's National, St. Louis.

The bank had filled balloons with helium and $25 savings bonds or $5 redeemable coupons as part of the festivities officially commemorating the placing of the final steel beam on the bank's new headquarters tower in St. Louis. In all, 112 people in Indiana, Illinois and Missouri found the balloons and redeemed the contents before the September 30 cut-off date.

A total of 500 coupons had been released.

'Make a Wish' Is Anniversary Theme; Community Is Grand-Prize Winner

TRADITIONAL bank anniversary celebrations involve open houses, giveaways and color TV grand prizes, but here's one institution that handled its 75th anniversary a little differently.

Planters State, Salina, Kan., wanted to involve itself actively in the community, encourage participation in the activities by all segments of the population and show appreciation for the support and patronage it had received during its 75 years. The theme chosen was "Make a Wish for Salina," and $10,000 was offered by the bank to make the winning wish come true. Salinans were invited to submit wishes—as suggestions—on how the money could be used to benefit Salina.

A nine-month campaign was held in order to create more and more interest as time passed. Color newspaper ads, saturation radio and outdoor advertising were used. The promotion reportedly made front-page news twice during its run.

An incentive to individuals was offered in the form of $250 savings accounts to the five finalists. For a wish to be considered, the entrant had to describe his plan in detail, explaining how the project would benefit Salina. Wishers had to prepare a budget, suggest a timetable for completion of the project and, if the wish would cost more than $10,000, the entrant had to show where the additional funds could be obtained.

Complicated entry information notwithstanding, over 100 people entered the contest. A panel of civic leaders studied and evaluated the wishes, narrowing the field to five.

Advertising for the promotion then concentrated on the naming of the winning entry.

Another panel of civic leaders selected the victor, Paul E. Wilkins, who wished the $10,000 would be placed in trust, with the earnings to be used to reward outstanding citizens. Recipients of that award will be picked by a committee comprised of a representative from the city teachers, the police or fire departments, the Salina news media and the bank president.

Each fall, several Salina residents will receive the "Planters State Bank Good Citizenship Award," which will be for "those who have gone beyond the call of duty to do good work and make Salina a better place to live." • •

Bank's Gate Has New Job

This gate was in use in the Bank of Thayer (Mo.) when it opened in 1900. Retired from active duty in 1950, the gate now is serving as a bulletin board-lobby display, to commemorate the coincident grand opening of the bank's expanded and remodeled facility and its 75th anniversary. Photos and notices on the bulletin board trace Bank of Thayer's 75-year history.

More Class.

We are happy to announce that the new Prestige Check, the check with class, is now available in a new top stub style as well as wallet. Sophisticated checkbook covers, wallets and purses of genuine, soft glove leather are also available.

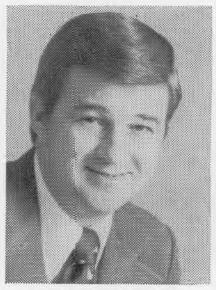
HARLAND BANK STATIONERS, P.O. BOX 13085, ATLANTA, GEORGIA 30324

Art Krebs
Arkansas-Louisiana

Ben Adams
Missouri

Jack House
Iowa

Duncan Kincheloe
Texas-Oklahoma

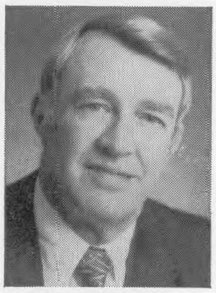


Paul Libbert
Missouri

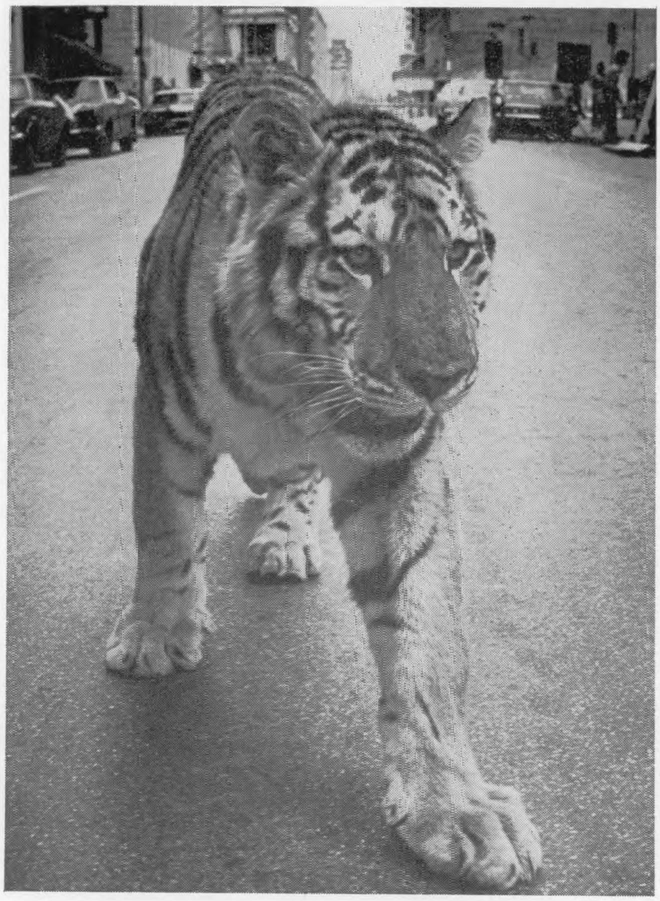
Verne Schweder
Kansas City Metropolitan

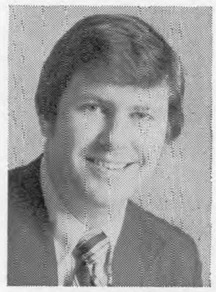
Jack Beets
Kansas

E. L. Burch
Vice President

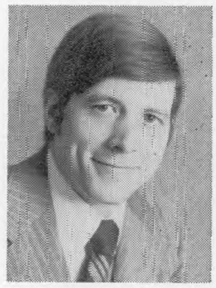


Don Thomason
Senior Vice President

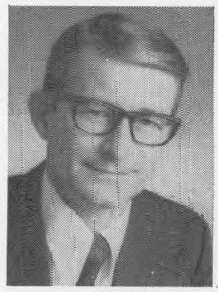




Phil Straight
Nebraska-Colorado



Tom Wood
Kansas



Bob Widlund
Oklahoma

Dave Van Aken
Kansas

We have a tiger in your territory.

Our symbol of strength and solidity is getting us everywhere.

People like a leader. And when that leader can also get behind a problem and give it a push toward a practical solution—well, that's United Missouri Bank for you.

And for you, all the way.

We are ready to come to you to help you with your credit overlines, to help you design your pension and profit sharing plans, to help you with your municipal and government bond portfolios, and to show you the many ways our expanded agri-business department can help you with your farm customers.

Call us at 816-221-6800.

united missouri bank of kansas city, n. a.

None of the others come close.

The Outlook for Business Activity in 1976

By JAMES J. O'LEARY
Vice Chairman
United States Trust Co.
New York City

AFTER the sharp drop in real GNP at an annual rate of 11.4% in the first quarter of last year and the modest increase at an annual rate of 1.6% in the second quarter, real GNP appears to have increased at a high rate in the third quarter, perhaps as much as 13%.

The heart of this increase appears to be about a $6-billion gain in real expenditures for durable consumer goods, in large measure reflecting improved auto sales. Undoubtedly, this strength is the result, in part, of the personal income tax rebate, but it's also the product of gains in personal income and employment in the third quarter.

There also has been a marked change in the business inventory component. It appears that the rate of liquidation of inventories fell from the $31-billion level in current dollars in the second quarter to about $14 billion in the third quarter. In real terms (1958 dollars), business inventory liquidation fell from $17 billion in the second quarter to something like $5 billion in the third. These were the main developments that may have produced a "double-digit" increase of real GNP in the third quarter. Because of the composition of the change in GNP in the third quarter, the inflation rate, as measured by the GNP deflator, may turn out to be surprisingly low—5%—when one compares it with what has been happening to the wholesale and consumer price indexes.

Does this sudden turnaround indicate that the business recovery in 1976 is likely to be vigorous? The recent strength in the economy probably will spill over into the fourth quarter of 1975, but I think the odds are high that the general business recovery in 1976 will be comparatively moderate and not necessarily well sustained throughout the year.

Some reasons why I anticipate that the recovery will be less than vigorous are as follows:

- The financial crises of New York City and State and other cities and states will force retrenchment in state and municipal budgets and will continue to be a major factor of public uncertainty and concern.
- Commercial banks and other lending institutions will be cautious in their lending policies due to large potential losses in their loan and investment portfolios.
- Major areas of commercial construction and condominiums will continue to be plagued by an overhang of unsold properties and financing problems.
- The capacity of housing to recover will continue to be severely handicapped by the overhang of unsold homes, high mortgage financing costs and housing costs that have priced many buyers out of the market.
- Business liquidity improved last year, but many firms have not been able to improve their liquidity positions significantly, and this will serve to retard expansion in 1976.
- Confidence of consumers and the public at large has risen from the lows earlier in 1975, but the climate ahead is likely to continue to be a difficult one for building confidence.
- Business recovery seems certain to be less than vigorous in Europe and Japan, and this will be an influence toward moderate expansion in the U. S.

In addition to the reasons given above, it seems to me that in spite of the fact that 1976 is an election year, monetary and fiscal policies will not be conducive to a strong expansion. Fed authorities have relaxed their credit policy stance a bit in view of the fact that current and demand deposits have increased at only a 3% rate during the past quarter but—given the continuing high inflation rate—it seems unlikely that any credit relaxation would go very far.

For all these reasons, I expect real GNP to increase at a moderate 5% this year, with the GNP deflator rising about 5% to 6%. The unemployment rate seems likely to remain high—probably about 8% to 8½% for the year. I don't think we can rule out the *chance* that, after a strong recovery in the third quarter of last year and a fairly strong fourth quarter, business may tend to flatten out in the first half of this year. But my quarter-by-quarter pattern calls for moderate gains in real GNP in the first half and somewhat stronger gains in the second half. I'm estimating that total corporate profits after taxes (in current dollars) will increase by about 15% in 1976. I expect total real personal consumption expenditures to increase about 4% in 1976 and total private housing starts to rise to about 1.6 million units, compared with an estimated 1.2 million units last year.

Business Fixed Investment. Turning to the outlook for business fixed investment, it will be helpful first to examine the recent behavior of significant indicators of capital spending.

- The Commerce Department survey of expenditures for new plant and equipment taken in July and August, 1975, indicated there would be only a slight improvement in such expenditures in the second half of last year. It now appears that business will have

(Continued on page 56)

Bankers Forecast '76 Prospects

Doubts Expressed About Strength of Recovery

Unusually Strong Issues Threaten Economic Future

By J. W. McLEAN
Chairman
Liberty National Bank
Oklahoma City

THERE HAS rarely been a year-end, in my opinion, when it has been more important to make a longer than 12-month assessment of some of the unusually formidable issues presently converging and which undoubtedly will determine the health of the economy for several years to come. The fashionable seasonal pastime of forecasting only the new year simply will not suffice this time. There is much, much more at stake.

But before I submit the half dozen factors which seem to me most likely to hold the key to the direction and magnitude of the major secular trends now emerging, I believe it is necessary to consider briefly conditions as they are right now:

- It is clear that the recession bottomed in the second quarter of 1975;
- Real GNP is again moving upward in a positive way and could be ahead by 5% at the end of 1976;
- Inflation has eased but is far from dead and will likely continue at a rate of at least 6% for all of 1976;
- Unemployment appears to have peaked, but will average about 7% for the new year; and, total employment will, hopefully, continue to rise;

(Continued on page 68)

Rapid, Dramatic Recovery Appears to Be Deceptive

By JORDAN L. HAINES
President
Fourth National Bank
Wichita

WITH THE WORST recession of modern times behind us and real Gross National Product (GNP) growing in the third quarter 1975 at a dramatic 11.2% annualized rate, it would appear that a rapid and dramatic recovery is at hand. A close analysis of the facts, however, reveals this apparent recovery is somewhat deceptive.

The rapid increase in GNP during the third quarter was primarily attributable to a substantial increase in consumer spending and a slowdown in the rate of inventory liquidation. A repeat performance of this surge in real GNP cannot be expected during the fourth quarter of 1975 or the year 1976.

Recent improvements have been registered in both the auto and housing industries, but it must be remembered these improvements are being compared with the depressed levels of a year ago. While it is impossible to accurately measure the exact level of the nation's unused capacity in terms of people and equipment, it is realistic to assume this unused capacity will not be quickly dissipated.

More dramatic than the unused levels of capacity that seem to exist is a major attitude change by the American

(Continued on page 68)

Good First Half in Store But More Inflation Looms

By DONALD N. BRANDIN
Chairman & President
Boatmen's National Bank
St. Louis

RECOVERY from the recession was moving forward on a broad front in the fourth quarter in the general market area of Missouri and surrounding states. Retail sales showed improvement in the quarter, employment was higher, manufacturing activity increased reflecting higher demand and more stable inventory levels, and favorable weather conditions resulted in large crops.

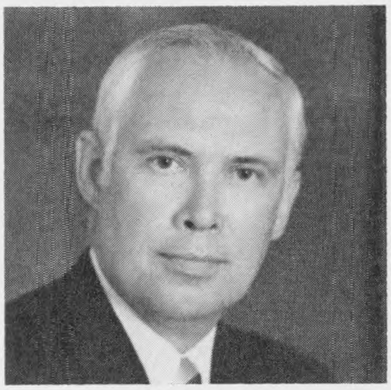
This momentum is expected to carry into the first half of 1976 at least, although there is doubt in some quarters about the strength and duration of the recovery. The economy of the area is susceptible to national forces and there is general concern that deficit spending and stimulative measures taken by government will rekindle inflationary pressures.

Based on this economic scenario, bank earnings in the area can be expected to increase moderately during 1976 from somewhat higher interest rates that can be expected as economic conditions improve. Generally speaking, most of the larger banks in the area appear to be relatively free of the highly publicized problems facing the eastern banks and should be able to main-

(Continued on page 55)

Five Prominent Bankers Assess '76 Outlook

McLEAN



HAINES

Bank Industry Liquidity Undergoes Testing Period

By CHARLES J. KANE
President
Third National Bank
Nashville

THE LIQUIDITY of the banking industry is being tested more now than at any other time since the depression of the 1930s. The industry is dealing today with the aftereffects of all the free-wheeling decisions made in the late 1960s and early 1970s and, while cleaning up these problems, it is faced with a rising challenge from other institutions in traditional banking markets. The strategic decisions being made now will determine the ability of the banking industry to survive and prosper in the final decade of this century.

The leadership of our industry has responded to these problems extremely well. Banks have improved their liquidity positions; holding of short-term Treasury securities has increased; and reliance on purchased funds has declined. Quality, rather than growth, has become more thoroughly entrenched as the current mode of banking operations.

Statistical evidence for the State of Tennessee and metropolitan Nashville seems to confirm the bottoming last summer of the national recession and the recovery trend under way since then. For example, unemployment in the state fell from an unadjusted annual rate of 9.6% in March to 9.4% in June and dropped steadily month after month to the latest reading of 7.6% in October. Unemployment in metropolitan Nashville fell from an 8.7% annual rate in June to a 7.0% annual rate in September.

Responses to a survey of Middle Ten-

(Continued on page 48)

Slow, Moderate Recovery Likely for Two Years

By J. RAWLES FULGHAM JR.
President
First National Bank
Dallas

IN ASSESSING the prospects for any year in the planning process, we typically solicit the views of our associates, especially the more senior ones accountable for specific functions.

Comments on prospects for the economy in our immediate area have been made by James A. Brickley, senior vice president and head of our Investment Division. The comments on prospects for bank earnings and a view of banking problems in the year ahead have been furnished by George Nicoud, executive vice president and head of Administrative Services. Interest-rate forecasts have been made by William D. Breedlove, executive vice president and head of General Banking Services; and the future of Electronic Funds Transfer Systems has been commented upon by George McAulay, senior vice president and head of our Operations Group. Their responses follow:

The prospects for the economy of Dallas and the whole Metroplex area in 1976 appear to be brightening progressively as the overall economic recovery continues. While I have questions in my own mind as to the strength and rapidity of the recovery, I think that a slow, moderately paced recovery can be sustained for a period of two to four years. This forecast does, however, assume that the current credit problems, particularly those related to the state and local municipal markets, can be solved without substantial additional strains on either the financial markets or the economic recovery.

(Continued on page 69)

KANE

FULGHAM

BRANDIN

Presidents of Four Banking Associations Forecast Trends for Coming Year

Getting back to basics, cautious optimism about recovery are uppermost in minds of many bankers

RMA's 'Back to Basics' Approach Gives Sound Lending First Priority

By ROBERT A. YOUNG*
President
Robert Morris Associates

No financial throe volcanic
Ever yet was known to scare it;
Never yet has any panic
Scared the firm of Grin and Barrett.
From "The Firm of Grin and Barrett" by Sam Walter Foss

SAM, your verse might well be applied to banks and bankers of this land. As we enter 1976, our grins are weak as we brace to bear a multitude of problems brought on by the economic climate and, indeed, by ourselves.

It is not often that a majority of bankers can agree on a point, perhaps any point. But we do now on this one: In our pursuit of growth and profits during recent times, we have wandered from the "basics," the fundamentals of sound credit principles.

And, the word is out all over the country—from the top managements of banks of all sizes, the largest to the smallest—to get back to those traditional concepts; to return to the time-tested "Cs" of credit: "character, capital and capacity."

In managing our loan portfolios, we must recognize as our first priority that sound lending practices are essential to the maintenance of confidence in our banking system.

Too much of our valuable talent today is, from necessity, being devoted to working ourselves out of problem credits. Loan charge-offs in 1975 will top all previous years. And, there are many among us who say that if we do not exercise greater caution and selectivity, 1976 could bring even greater disappointments.

The economic atmosphere in which we will be operating in 1976 would appear to be one of moderate growth in real terms as opposed to a negative growth in 1975. One of the keys to economic recovery—consumer confidence—has been shaken, surely. And, it is probably not going to be restored quickly or easily.

Testifying before the Congressional Joint Economic Committee at the end of October, some of our leading pollsters reported that their latest surveys showed Americans believed the nation was still in the grips of recession, that inflation was going to worsen, and that the government was not adequately responding to those problems.

In the presence of a slowly recovering economy, we can expect a similar trend in commercial loan demand in 1976. Most lenders feel that their loans will rise, but only moderately throughout the year, with most of the increase coming in the second half. The highest estimate of increase in loans is in the neighborhood of 15%; however, bankers I have spoken to lately are thinking in terms of a 7% to 10% overall increase.

The feeling is that strength of demand is most likely to come from those industries that suffered most during the recession—the basic industries such as iron and steel, textile and apparel products, autos, chemicals and porous products. Inventory rebuilding should increase the need for working capital loans in almost all areas. As the economy recovers, there will be increases in export financing, loans to finance companies and even the trucking industry. Loan demand will also be influenced by the credit needs of energy-oriented companies.

I would also look for a continuing of the trend toward more term loans to medium-size companies that are unable to generate acceptable financing in the capital market. We would also expect many borrowers to attempt to lock in term money at the lower rates available now in order to avoid predicted

* *Mr. Young is president, Northwest Bank, Vancouver, Wash.*

capital shortages later in the decade.

Most of us feel that the areas in which we can expect to see decreasing demand will include lines related to construction—particularly multi-family and condominium units, real estate development, housing-related products and heavy contractor equipment. Surely, the troubles in New York City will demonstrate to other local governments the wisdom of prudence and fiscal responsibility. In turn, this likely will result in a decrease of demand in the municipal sector.

Federal Reserve policies have sought to bring about improvements in economic and financial conditions, a difficult pair of objectives to achieve simultaneously. Interest rates—particularly on short-term loans and securities—moved to lower levels in the last quarter of 1975 as a result of declining credit demands and the efforts of the Fed to increase the money supply.

One would expect the Fed to continue a relatively modest ease in its effort to maintain an expansion of the economy without losing the battle against inflation. Nevertheless, one can make the case for increased interest rates in 1976. The prime rate will probably go no lower than 7% and could rise to 8% or 9% as loan demand increases.

There are some arguments that rates might well increase even if loan volume were not to rise during the year. First, as credit quality has deteriorated, overall loan costs have risen by virtue of the increased loan losses. Second, the cost of money is increasing as the proportion of our deposits in the demand category declines, with the latest erosion coming with the advent of the corporate savings account.

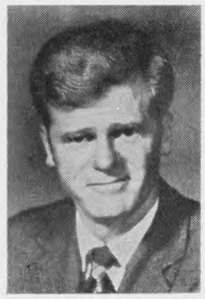
A third, and probably the most compelling reason for increased rates, is the necessity for increased bank capital to help finance the hoped-for economic upturn. The recent softening of loan demand and the low inventory levels have tended to obscure the difficulty banks themselves are experiencing in obtaining long-term capital. Most bankers agree that future increases in the near term in bank capital will have to be earned rather than sold to a somewhat lukewarm body of public investors.

Besides our troubled credits and the need for increased earnings, commercial lenders are faced with a number of other annoying difficulties as we enter 1976. As mentioned earlier, one of the most pressing problems is pricing our loans realistically to contribute to the badly needed bank earnings. I think the primary concern of each bank should be its own costs, not basing its prices on what everyone else is charging or automatically using the prime as the base. Playing follow the leader has proved to have been a losing game in recent times.

YOUNG

STANSBURY

BENDA



DENNIS

One obvious problem that has been brought home to us forcefully is our need to increase the professional competence of our lending officers. Our industry's and our customers' needs are growing increasingly complex, bringing increasingly complex credits. And, it is no longer just the giant banks that are being called upon to put together loans that require sophisticated analyses, techniques and the use of judgment to arrive at correct decisions.

I might say that loan officers are going to have to become more involved in the overall financial planning of their customers. The highly leveraged financial conditions we see on so many of our borrowers' financial statements today means that the slightest deviation in their cash flows or other once "minor" difficulties can produce instant credit problems.

There is a compelling need for improved training techniques. In many of our banks, training has been somewhat casual, and we have reaped a harvest of problems as a direct result.

Finally, another problem, pervasive in nature, confronts us all. That is the continuing encroachment of our federal government upon the free enterprise system. True, to some extent, we bankers have invited this interference with our free economy by our actions or lack of actions.

We must combat this interference by rededicating ourselves to traditional banking concepts essential to the viability and continuation of our banking system. It is not too late to demonstrate to the legislators, the regulators and the public that we do have the capacity, the knowledge and the will to govern our business properly, while meeting the financial needs of a rapidly changing society. • •

Good Consumer Lending Picture Seen Under Policy of Controlled Progress

By PAUL L. STANSBURY*
President
Consumer Bankers Association

THE OUTLOOK for consumer lending looks good and we look to the future with a great deal of optimism. The indicators all point to the fact that we are emerging from the recession—one that was deeper than most people realize.

It appears that the progress upward can and is being controlled. The present stance of the Fed is helping to control interest rates, a fact that is having a profound effect on inflation. Coming out of the recession gradually is important, and that is what we seem to be doing.

A decline of negativism is evident, both among banks and lenders—and, more importantly, among consumers.

* *Mr. Stansbury is senior vice president, Valley National, Phoenix.*

Certainly, one of the key factors for recovery is the restoration of consumer confidence, returning spending to normal levels. This must be done before capital will be sought for expanding plant and capacity. If we are using only 60% to 70% of capacity, why expand plant and equipment before the marketplace is in proper condition?

Inflation with moderate increases will be fairly level next year. We are seeing evidence of that forecast now. The unemployment rate is showing a gradual decline. Although some consumer prices will go up, the increases will be moderate through 1976. Real disposable income will show a steady growth pattern.

Our outlook indicates that auto sales will take until the end of 1976 to show a rate of 10 million units a year, but we have seen some improvement in recent months. By the end of next year, we will see auto sales back in good shape.

Housing starts are beginning to edge

back again and, by next year, should be returning to somewhat near-normal levels. The ratio of consumer savings—presently at almost 11%—will level off to a point where savings will be about 8% of disposable income, with spending rising gradually. If oil prices do not rise as much as anticipated, a powerful psychological factor will be established that will react favorably on the economy.

Although conditions differ in various areas of the country, the economy in general will improve all through 1976. By 1977, we will be cranked up to go into high gear. The Fed, as stated, is making efforts to control rising interest rates, much of which has been caused by high government spending and financing.

Legislative overkill is a matter of concern to lenders, but some hope is seen that national leaders are becoming aware of the dangers overkill can bring about.

Also, in the installment lending area, increases in volume will be seen and, again, with allowances for certain areas, we should see delinquencies and charge-offs decreasing.

All of the foregoing leads us to believe that 1976 will be a good year, with a gradually improving economy—which speaks well for the installment lender. • •

Independents Take Cautious Outlook; Majority Expects Good First Half

By KENNETH J. BENDA*
President
Independent Bankers Association of America

FORECASTING the future is an exercise fraught with hazard regardless of what basis one chooses to produce a view down the road ahead.

Crystal balls, tea leaves, tarot cards, the moss on the trees, or even the spatters of molten lead dropped on a tub of cold water by Finns in the north woods on New Year's Eve—all of these are simply unreliable.

My response for a short-range forecast in the independent banking sector has a sounder basis—the replies from 500 bank executives comprising a representative cross-section of our association of 7,500 member institutions in 41 states.

These helpful individuals provided answers to 11 questions in a December poll by the IBAA Government Fiscal and Monetary Policy Committee.

Cautious optimism is the prevailing view of the bankers responding. Sixty percent expect general business conditions will hold steady for the next six months, 30% look for an upturn and fewer than 10% look for business conditions to be down or declining by midsummer.

Responses came from various communities: 259 from the agricultural area, 87 from the agri-industrial area, 70 from the suburban area, 115 from cities between 20,000 and 100,000 population and 12 from cities with populations over 100,000.

Time deposits are expected to trend upward during the next six months while demand deposits will hold steady, the majority believes. The percentages are:

Time deposits: higher, 71%; steady, 26%; lower, 2%.

Demand deposits: higher, 38%; steady, 50%; lower, 9%.

Loan demand and interest rates are expected to remain steady in each of five categories, as tabulated this way in our survey returns:

Commercial loans: higher, 29%; steady, 66%; lower, 5%.

Installment loans: higher, 40%; steady, 57%; lower, 3%.

Interest rate trend: higher, 12%; steady, 82%; lower, 5%.

Real estate mortgage demand: higher, 33%; steady, 55%; lower, 11%.

Real estate mortgage interest rates: higher, 16%; steady, 80%; lower, 3%.

Housing starts have increased significantly since January in the communities of 41% of the responding bankers but have shown no improvement in 53% of the communities.

Government security holdings are expected to grow in 35% of the banks responding, hold steady in 60% and decline in only 5%.

The increase in those expecting it will be in maturities from zero to five years. Only 5% expect to increase their maturities of over five years. In those banks expecting a decline in government security holdings, the decrease is due to be divided between maturities from zero to five years and over five years (55% and 45%).

Forty-two percent expect their banks to buy as many municipal bonds in 1976 as in 1975, while 54% do not plan to buy as many.

Eighty-five percent oppose elimination of ceilings on time and savings deposit interest rates, while 13% favor the elimination of the limits.

Most of the respondees (64%) do not believe the government's monetary policy to control inflation has succeeded. Only 29% regard the policy as effective.

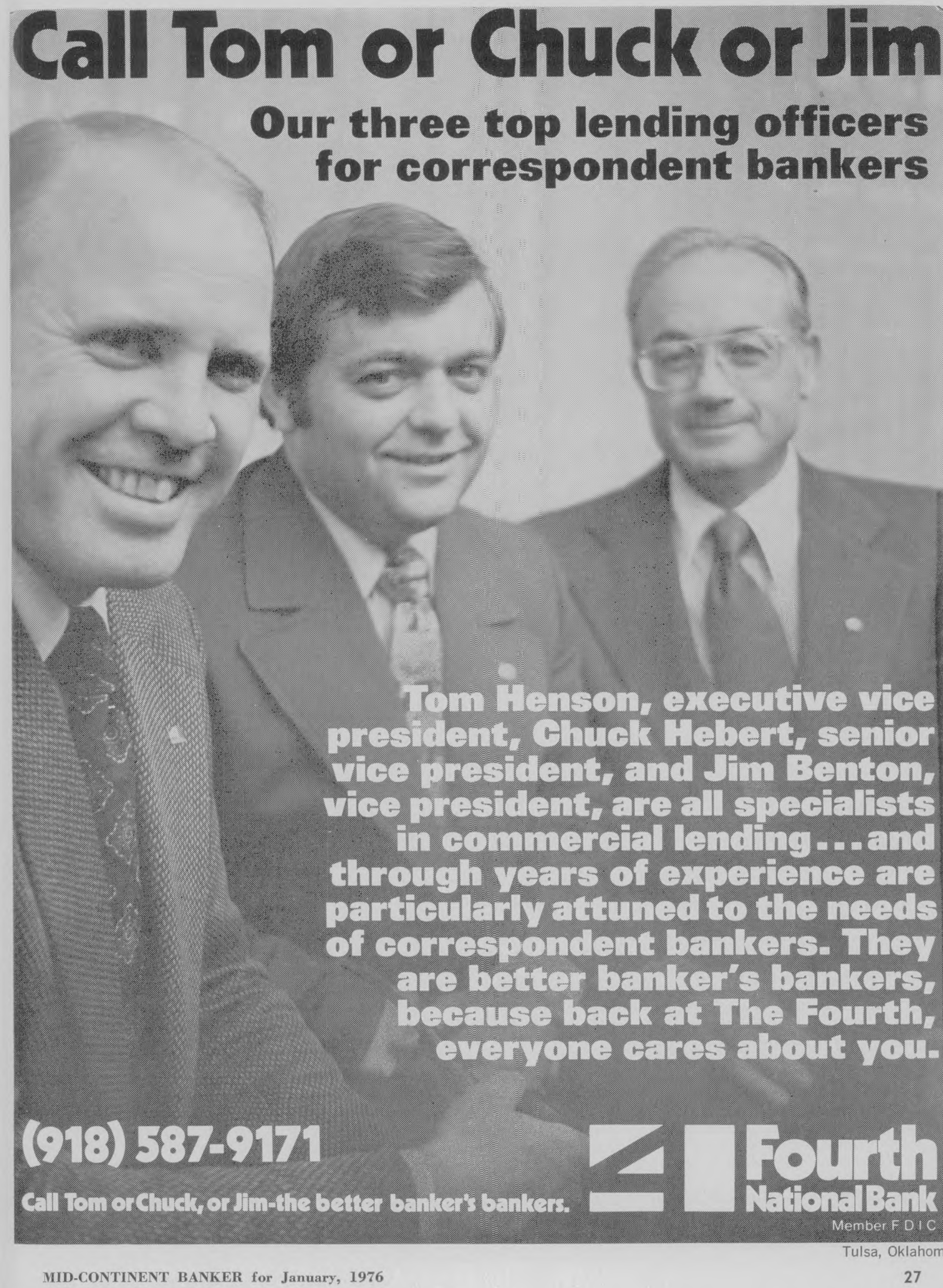
And there you have a short-term glimpse ahead, as viewed by a profile of about 500 bankers, all of them in the independent sector and each close to the economic pulse of his respective community.

I am grateful to those who completed IBAA's questionnaire and provided a representative viewpoint of knowledgeable observers. Had they not been cooperative, my only alternative would

* *Mr. Benda is president, Hartwick (Ia.) State.*

Two St. Louis Banks Sponsor Tennis Tournament

Pictured are the winners in this year's annual "Lasater-Barksdale" tennis tournament between employees of Mercantile Trust and First Nat'l, both in St. Louis. The tourney is named for Mercantile Ch. Donald E. Lasater and First Nat'l Pres. Clarence C. Barksdale. Victors are (from l.) Franny Weitzel, Barbara Vandivort, data processing off., and Debbi Stilwell, First Nat'l; Chris Rohan, Jeff Miller, Lynn Miller, e.v.p., Helen Sienkiewicz, Tom January and Dan Pickett, Mercantile Trust; and Jim Walker and Jim Lanigan, First Nat'l. Winner of the "Lasater-Barksdale" trophy was the Mercantile Trust team.



Tulsa, Oklahoma

have been to base my forecast on opinions I have gleaned haphazardly in the past nine months while traveling from coast to coast and from border to border in my role as IBAA president.

Most independent bankers serve the farmer, and they reflect the essential optimism of the man who tills the soil and produces food and fiber for America.

The independent banker has always been a shrewd observer of economic conditions, and my impression from conversations with community-oriented bankers in many states these past few months is that we will see a steady but undramatic improvement in the economy during the first six months of the new year. • •

Implementation of Electronic Banking Principal Goal of BAI in New Year

By GEORGE W. DENNIS*
Chairman
Bank Administration Institute

IT TOOK more than 300 years for man's actions and reactions to the use of industrial technology to reshape the civilizations in the Western World into what we enjoy today. During that time, man's concept of himself, his laws, the role of government and the mysteries of economics underwent many revisions.

Today we are participating in another round of change brought about by the vastly increased capabilities of information technology. Banking, an information processing business, stands directly in the path of the impact of this technological revolution. To understand the full magnitude of these changes, it is well to review some of the related challenges at the outset of a new year.

Among the goals we will be striving more strenuously to achieve in the months ahead are:

- To devise electronic-based services that are more convenient and less expensive than our paper-based services;
- To retrain banking personnel so they can help educate and serve our customers in the era of electronic banking;
- To ensure that the new electronic systems are at least as secure and fraud-proof as our traditional services; to reorganize banks so the traditional departments which developed around file cabinets can be reshaped into better service units now that information-access limitations have been removed;
- To develop the tools and techniques for effectively measuring electronic system performance so that we can fairly price and effectively manage these systems;
- To learn more clearly where and how to cooperate with others to build productive common systems that will improve our competitive efforts to serve the public.

EFT, privacy and other issues are important, but it is more important to find a satisfactory balance between total freedom and rigid control. Clearly, the differences between financial institutions are diminishing, with S&Ls, credit unions, banks, etc., emerging as principals in a multipurpose financial services industry, bringing a host of competitive challenges.

Third-party operation associations—ACHs, bank card associations, cooperative data centers, cooperative wire networks, etc.—have evolved as a result of technological advances, and we must see that these tools continue to benefit both the industry and the consumer, with customer service personnel being retrained so that the quality of services can be improved as automation reduces paperwork tasks.

In short, bankers, regulators and the public are faced with a dynamically changing business. Costs, services, security, techniques, tools, relationships, roles, organization, competition—are all being modified under the pressure of the new information technology.

BAI—with its emphasis on administration and the problems of audit, accounting, security, personnel, automation, research and education—is currently upgrading its abilities to help bankers deal effectively with these new challenges. It is unique among banking associations in its emphasis on the technical aspects of banking and in its freedom from the political biases of special interests. Thus we are facing head-on the challenges of making the new technology serve mankind. These are secrets that can be learned only through experimentation and study, which is why we are continually expanding our efforts in the automation and EFT sectors.

For example, for almost 10 years a significant amount of BAI's resources have been committed to studies focusing on the character and efficiency of the nation's check processing system. BAI research has identified exception items, items not readily processed by high-speed MICR automated check processing equipment—MICR rejects, return items and adjustments—as the most serious problem within banking's check processing operations. Nineteen seventy-three findings, for example, revealed that although exception items accounted for only 4% of the industry's processing volume, their processing cost was approximately 25% of the industry's overall processing cost.

A subsequent BAI report, *The Impact of Exception Items on the Check Collection System*, identified many of the causes of exception items and listed a number of suggested improvements for further study, prompting BAI to launch three projects with special task forces composed of bankers and Federal Reserve representatives to perform in-depth studies and to recommend specific actions for the reduction of the operational and cost burdens in the categories of MICR rejects, adjustments and return items.

The activities of the task forces were guided by a steering committee composed of representatives from the ABA, BAI, Conference of State Bank Supervisors, Federal Reserve System and the Independent Bankers Association of America. The task forces and steering committee analyzed standards and technology, equipment performance and bank operational policies and procedures, with additional contributions being made by many bankers in the field. The results are summarized in BAI's latest report, *Recommendations for Exception Item Reduction*, which disclosed that the processing of exception items, which cost the industry approximately $285 million in 1973, could be reduced significantly if certain procedures were adopted on an industry-wide basis.

Other groups studying the problem have perceived the same conclusions and are working with BAI to bring banks and other concerned groups together to identify what is being done to reduce the incidence and cost of exception items. BAI will sponsor an action-oriented meeting in March to deal with specific issues in this vital area.

The new financial services environment is just now forming and related changes will come with increasing rapidity during the next several decades. To help meet these challenges BAI is reorganizing its resources and rededicating itself to helping bankers achieve the technical excellence they will need to ensure a viable banking community.

* *Mr. Dennis is senior vice president, Manufacturers Hanover Trust Co., New York City.*

Recovery-Generated Heavy Loan Demand Will Make Funds Tight, Rates High

By NICHOLAS J. DeLEONARDIS, Vice President, First National Bank, Chicago

TODAY'S corporate balance sheet has been eroding over the last ten years, and the problem stems from a decline in liquidity, an over-reliance on short-term debt and an inability to restore debt-to-equity ratios.

The obvious question is: "Where do we go from here?"

There are those who suggest that corporations will be able to rebuild their liquidity without fear of being crowded out of the market, and point to improved corporate earnings and the ability, thus far, of many corporations to tap the corporate bond markets as evidence of this improvement.

Unfortunately, I am not that optimistic. First, let me suggest that, while after-tax profits have demonstrated upward progress, a substantial portion of that improvement can be attributed to the adjustment in inventory profits combined with relief brought about by recent tax reductions.

In addition, while the data indicates that the gap between internal funds generation and capital expenditures narrowed substantially during the first portion of 1975, it is prudent to remember that only part of that narrowing is due to the improvement in internal cash flow, and that the dominant factor is simply the reduction of capital spending.

Further, it has been only recently that less than prime-quality credits have been able to obtain funds in the corporate bond market, and then only at a price.

Therefore, I would submit that the ease in balance sheet structures is only temporary, and that once the full impact of the current recovery begins to filter into corporate board rooms, there will be a renewed demand upon all sectors of the capital markets, and I'm not too sure this can be done without resurrecting the specter of overcrowding.

Corporations retained a relatively low profile during 1975, but we should begin to see some activity directed toward the banking system in the first quarter of 1976. This is not unusual, inasmuch as lending activity by the banking system lags behind an upturn in the industrial production index by approximately six months.

What about the banking system in general? Will it be able to once again meet the requirements of our nation's corporations? The banks were generous in meeting the demands of our nonfinancial corporations during 1973 and 1974, but only by straining their own balance sheets. As we all know, the banking system's regulatory bodies have put the banking system on notice that they are not prepared to accept the same kind of credit extension given current balance sheet structures.

Thus, it would not seem unreasonable to suggest that the nation's banks will be somewhat cautious in granting credit and will also be highly selective in the granting of their credit. If this is a correct observation, then it would logically follow that corporate treasurers may find the banking window not quite as wide open as it has been in the past.

During 1976, I submit that the corporations will tap the corporate bond market for approximately \$22 to \$25 billion; the equity markets \$4 to \$8 billion, depending upon the condition of the equity markets; and the banking system for approximately \$5 to \$7 billion. While this may not seem like an overbearing demand, it will be significant in view of the heavy Treasury funding requirements.

What does this mean for interest rates? Simply stated, I can only see interest rates moving higher during 1976.

Why do I say this? We are still confronted with the problem of inflation, which will continue to be aggravated by government deficits, structural changes in our economy, such as a shift from the production of goods to one of services and a continuing increase in our dependency on the natural resources of the world—specifically, energy—all of which make inflation difficult to control.

Let us, also, not forget that 1976 is a presidential election year, with pressure mounting for additional tax relief.

In addition, the need to adjust corporate balance sheets and the reluctance of the banking community to again strain their own balance sheets to accommodate corporate borrowers will force corporations to seek funds within a strained capital atmosphere.

Therefore, within this context, by the end of 1976, 90-day U. S. Treasury bills could very well be yielding 8% to 8½%, 3-month commercial paper 8½% to 9% and AAA corporate bonds 9% to 9½%.

This may not seem to be a very pleasant scenario, but I believe it is important that we attempt to keep these suggested levels in proper perspective. We must remember that after each cyclical downturn in our economy, we plateaued at a higher level than the previous cycle, and that we are entering the current economic upthrust at a significantly higher plateau than the last time. • •

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

Further Erosion of Bank Earnings Expected for the New Year

By GEORGE M. SALEM, C.F.A.
Drexel Burnham & Co.
New York City

THE HEART of bank analysis today is the assessment of loan quality. In view of the relatively limited amount of disclosure analysts have to work with, the job of judging present conditions and projecting the future of losses, difficult under normal circumstances, is infinitely more complex given the several problem loan areas worldwide in banking today.

This "art" of loan quality assessment is being practiced today by more banking observers than ever—not only shareholders, but depositors and other creditors of banks.

Besides the obvious impact on the earnings of banks and bank HCs, loan quality is crucially important in measuring capital adequacy, determining dividend policies and, finally, in assessing liquidity and solvency of banks.

The purpose of this article is to review the loan-loss picture for the 10 largest banks during 1975's first nine months, project losses for fourth quarter 1975 and the year 1976 and conclude with our opinion regarding the adequacy of loan loss reserves and the impact of this on 1975-1976 earnings for the entire banking industry.

Before discussing the data in the two tables, we have a caveat for readers. Figures on net loan losses, loan loss provisions, valuation reserves, etc., must be interpreted with great care owing to the differences in accounting practices of banks (quick vs. slow chargeoffs, for example), the general relative conservatism of different managements and, most importantly, the quality of the loans still on the books of each bank.

The two tables are: Table 1, containing relevant net loan loss data, and Table 2, which shows information on loan loss provisions and valuation reserves.

In Table 1, note the following:

- In all cases, third-quarter 1975 losses exceeded second-quarter and first-quarter 1975 amounts (see columns (1)-(3)).
- Nine-months 1975 losses exceeded actual losses for all of 1974 by a substantial margin—except for Manufacturers Hanover (see columns (4) and (6)).
- Losses for nine months of 1975 on an annualized basis, i.e., column (4) × 1.333, are shown in column (5) and are significantly above 1974's actual losses (again with the exception of Manufacturers Hanover).
- Net loan loss ratios in 1975 appear headed for a significant, perhaps 100%, jump from last year's average of 0.33% for the 10 largest banks (see columns (8)-(10)). Nine-month losses annualized call for a 0.62% projected average loss ratio (column (8)).
- Note the rise from the average loss ratios for the six years 1969-1974, shown in column (10), to the column (8) highs.
- Among individual banks, the loss ratio is stable for the 1969-1975 period only for BankAmerica. Worst increase is for Chase Manhattan, with projected losses in 1975 greater than 1.0%. All others jumped sharply from the 1969-1974 average to 1974, and from 1974 to 1975. There was some distortion in the third quarter 1975 net losses owing to writeoffs of about 33% of W. T. Grant loans. Without Grant, instead of the projected 0.62%, the average for the 10 would fall to about 0.51%.

In Table 2 note the following:

- In columns (1)-(3), except for Chase Manhattan, Chemical and Manufacturers, loss provisions in third-quarter 1975 were either the same or lower than the average for the earlier quarters of the year.
- The total nine months' provision as a percent of net losses for the same period averaged 129.5% for the 10, indicating that provisions exceeded losses by a "comfortable" margin and reserves increased.
- Valuation reserves in dollar terms rose for all of the 10 except Chase, which was unchanged from December 31, 1974, to September 30, 1975, as shown in columns (6)-(8).
- From June to September, the reserves were flat-to-down on average, apparently owing to Grant writeoffs.
- As a percent of loans, valuation reserves rose from December, 1974, to September, 1975, by an average of 15 basis points (from 0.81% to 0.96%), but from June to September there was a three-basis-points decline.
- Finally, in column (12) note the "coverage" ratio—of valuation reserves at September 30, 1975, to the projected loss ratio—averages only 1.8×. That is, the reserve level was less than twice the projected 1975 loss ratio, not a very healthy cushion in the face of the levels of troubled loans. In this regard, Chase was worst at 0.8× and Continental was best at 4.1× (see column (12)).

To summarize the tables, the 15-basis-points increase in the reserve was less than the roughly 30-basis-points increase in the expected loss ratio. Thus, the reserves were not beefed up enough in 1975, if our annualization of losses is a correct assumption. We think it is correct.

For 1974, the ratio of net losses to average domestic loans was 0.38% for all U. S. FDIC-insured banks—just slightly higher than the 0.33% for the

10 largest. The data are not perfectly comparable, since the loss ratios for the 10 largest are for domestic and overseas loans, while the FDIC data exclude loans and losses in overseas offices.

Since overseas losses in most cases are below loss ratios in domestic banking, this helps to explain some of the difference between the 0.33% and the 0.38%. Also, the non-top-10 group tends to be more heavily consumer-oriented where loss ratios are higher. Also, some regions of the U. S. have experienced heavy losses the last two years—especially the southeastern states.

Last year's net losses for the industry were $1.96 billion and the 0.38% loss ratio was the highest since the 0.42% of 1939. We are projecting 1975 losses for all banks of $3.15 billion and a loss ratio of about 0.60% on average domestic loans of $525 billion. If our estimate is correct, the 0.60% would be the highest since the 0.88% in the post-depression year of 1936. The all-time highs of this century (since 1928) were the 3.17% and 3.42% of 1933 and 1934.

For the 10 largest banks, we are projecting a net loss ratio in 1975 of about 0.65%, and 0.60% for all U. S. banks. The higher figures for the top 10 reflect heavier involvement in real estate investment trusts (REITs), construction loans and W. T. Grant. (Any New York City losses would not be considered loan losses.)

For next year, we expect moderately higher losses, in the 0.70%-0.90% range, for the 10 largest and a smaller increase, to perhaps 0.70%, for the 14,000 banks which are FDIC members. On the $550 billion projected average domestic loans in 1976 for the industry, the net losses would be about $3.9 billion.

Losses have some sensitivity to the expected continuation of economic recovery, but owing to the following factors, losses this year should be above 1975 levels (excluding extra-large losses in fourth-quarter 1975):

- REIT loan writeoffs should be sharply higher.
- Construction loan losses should be more important.
- W. T. Grant losses could be equal to 1975's writeoffs for that company.
- International losses could be higher, especially on shipping, (tanker) loans and possibly balance-of-payments lending.
- The "lag" effect of optimistic management vs. economic reality.
- The built-in lags of bank regulatory examinations, which occur only once or twice each year.

Banking is in the midst of a transition from steady high earnings growth to volatile, declining earnings. This transition, which began in 1974 and affected a few, gathered steam in 1975 and should achieve full effects in 1976 when we expect more banks to show earnings declines than increases.

The major "culprit" causing this unwelcome new era for banking is higher loan losses and loan loss provisions as

10 LARGEST U.S. BANKS
SELECTED LOAN LOSS DATA
1975 - NINE MONTHS' REVIEW

Drexel Burnham & Co. INCORPORATED

TABLE 1 - NET LOAN LOSSES

Companies: Listed By Assets Yr. End 1974	(1) 1975 Net Loan Losses 1Q (millions)	(2) 2Q	(3) 3Q	(4) 9 Mo.	(5) 9 Mo. Annual-ized	(6) Net Losses 1974 (Year)	(7) Avg. Loans 9 Mo. 1975 (bil.)	(8) Loss Ratio 1975E - Col.(5) ÷ Col.(7)	(9) Actual Loan Loss Ratio 1974	(10) Avg. Loss Ratio 1969-74
BankAmerica	$18.8	$23.1	$36.5	$ 78.4	$104.5	$69.5	$30.1	0.35%	0.25%	0.24%
Citicorp	44.4	54.6	81.2	180.2	240.3	96.5	35.6	0.68	0.32	0.26
Chase Man.	40.0	46.5	122.9	209.4	279.2	93.0	26.9	1.04	0.37	0.32
Morgan	12.0	10.5	38.3	60.8	81.1	23.4	13.4	0.61	0.20	0.11
Manuf. Han.	2.0	11.7	34.5	48.2	64.3	63.0	15.2	0.42	0.44	0.21
Chemical	17.0	16.0	42.8	75.8	101.1	29.6	13.7	0.74	0.26	0.21
Bankers Tr.	11.2	28.5	24.1	63.8	85.1	60.0	11.1	0.77	0.52	0.36
Cont. Ill.	5.5	3.0	25.3*	33.8*	45.1*	18.5	11.8	0.38*	0.16	0.18
First Chic.	9.8	20.2	26.0	56.0	74.7	40.3	11.8	0.63	0.38	0.30
Security Pac.	0.5	15.0	24.0	39.5	52.7	34.8	8.7	0.61	0.40	0.32
Average	--	--	--	--	--	--	--	0.62%	0.33%	0.25%

Stock Prices 11/12/75	
BankAmerica	$46
Citicorp	29
Chase	26
Morgan	51
Manuf. Han.	27
Chemical	28
Bankers Tr.	30
Cont. Ill.	33
First Chic.	17
Security Pac.	18

TABLE 2 - LOAN LOSS PROVISIONS AND VALUATION RESERVES

	(1) 1975 Loan Loss Provision 1Q (millions)	(2) 2Q	(3) 3Q	(4) 9 Mo.	(5) Col.(4) ÷ 9 Mo. 1975 Net Losses**	(6) Valuation Reserves 12/31/74 (millions)	(7) 6/30/75	(8) 9/30/75	(9) As % of Loans 12/31/74	(10) 6/30/75	(11) 9/30/75	(12) Coverage: Reserve to Projected 1975 Losses***
BankAmerica	$43.6	$35.1	$32.7	$111.4	142.1%	$217.1	$253.9	$252.0	0.69%	0.82%	0.80%	2.3x
Citicorp	72.2	67.7	72.0	212.0	117.6	262.6	313.0	305.0	0.74	0.86	0.87	1.3
Chase Man.	57.1	56.6	95.9	209.7	100.1	220.9	238.1	221.0	0.79	0.90	0.82	0.8
Morgan	30.0	25.0	20.0	75.0	123.4	118.6	151.1	132.8	0.84	1.12	1.01	1.7
Manuf. Han.	21.1	10.8	29.3	61.2	127.0	120.3	138.5	133.0	0.76	0.90	0.86	2.0
Chemical	26.2	28.4	41.4	96.0	126.6	118.4	141.0	138.5	0.93	1.03	1.00	1.4
Bankers Tr.	24.5	26.4	24.1	75.0	117.6	76.1	87.2	87.3	0.62	0.76	0.75	1.0
Cont. Ill.	22.7	22.3	12.0	57.0	168.6	157.3	194.0	179.0	1.24	1.64	1.55*	4.1
First Chic.	27.0	26.0	27.0	80.0	142.9	95.8	118.8	120.0	0.77	0.98	1.03	1.6
Security Pac.	16.3	17.2	17.5	51.0	129.1	61.8	79.8	73.3	0.67	0.91	0.86	1.4
Average	--	--	--	--	129.5%	--	--	--	0.81%	0.99%	0.96%	1.8x

* We have adjusted Continental Illinois Corp.'s 3Q net loan loss figure to reflect a $12 mil. chargeoff for W.T. Grant which was taken after 9/30/75. All other banks' net loss figures reflect approximately a 33% W.T. Grant writeoff.

** See Table (1), Col.(4).

*** Col.(11) Table 2 ÷ Col.(8) Table 1.

bank managements cleanse their balance sheets of many of their excesses of the late 1960s and early 1970s, as well as recognizing the impact of the most severe recession in the last 40 years.

We do not believe present bank reserves can absorb the expected levels of losses in fourth-quarter 1975 and 1976 without further erosion of earnings. We say this for the industry but there are a few exceptions. Unfortunately, there do not appear to be enough "positives" in the earnings equation of banks over the next 12-18 months to offset the strong drag of higher loss provisions and prevent our expected industry earnings decline of 5% or greater in 1976.

Fourth-quarter earnings in 1975 could be especially poor for several banks as outside auditors take a hard look at reserve adequacy and conservative managements of banks reassess their earlier loss estimates.

In year-end reports to shareholders, loan quality disclosure will increase markedly as a result of encouragement by the Securities & Exchange Commission. This will enable investors to distinguish better among banks, rather than being cautious on all or most. • •

Return to Basics Necessary for Bank To Be Profitable

By WILLIAM T. DWYER
Vice President
First National Bank
Chicago

THE TITLE of my brief remarks is "Old Concepts Revisited." In the climate of today's banking and in review of some of the problems that our industry is facing, the title, I think, is fitting because it says, in essence, that we should return to the basics.

Obviously, we must always strive to score well in satisfying the fundamental requirements of our business. But today particularly, because the marketplace is saying, as it views us, that there is too much leverage, that there are too many questionable assets and that there is evidence that we have not done too good a job in controlling costs. The market is much more critical in its view of our industry and its selection process among those who are performing well and those whose performance leaves something to be desired.

As members of the industry, all of us are keenly aware of those institutions that have been or are faced with critical problems and tough choices. What we shouldn't lose track of is that by far, the majority of the banks have been doing very well indeed. By and large, the medium and smaller sized banks continue to show a good return on assets and that, as a group, their balance sheet and operating ratios reveal a comfortable position. As a consequence, in predicting future earnings, say through 1976, I would say that the medium and smaller sized banks, as a group, should continue to show improved earnings.

This will occur because of an expansionary economy with growth in bank assets coupled with banker ability to maintain interest rate spreads and control costs.

In the case of the larger banks and/or holding companies, they will, as a group, do well to maintain the present level of their earnings during 1976. A number of the larger banks or holding companies will be faced with carrying a large, albeit diminishing, portfolio of non-accruing loans. Asset growth, the administration of realistic interest spreads and success in collecting and restructuring loans, will more than offset the carrying costs of the non-accruing loans for those institutions whose managerial and control policies are firmly established. But this will be happening at the same time that others continue to show a reversal in the earnings trend. As a result, you will see a wide discrepancy among large bank performances.

I said the smaller banks, on average, will do well, but I foresee one area negatively affecting this outlook in the case of the institutions whose grasp of costs and account profitability is inadequate. I speak specifically of the movement that is underway and will gain momentum toward the payment of interest on demand deposits. Interrelated with the issue of paying interest on demand deposits is the ease with which funds will be transferred from savings to demand balances. Recent evidence of this trend is the permission for corporations to maintain savings accounts up to $150,000 and the relaxation of the regulations governing the pre-authorization of bill payments out of savings. The banks might challenge this trend, but the mutual banks and savings and loan competition will drive us toward it unless we are content to lose market share.

What concerns me is that some banks may not "have a handle" on their costs and they may not analyze their accounts adequately enough to determine what must remain in a checking account balance to cover the costs.

A nightmarish illustration would be the bank which has been offering so-called free checking accounts and at the same time has not been analyzing either the costs or collected balances of those accounts. The obvious question then is, what portion of the account is eligible for interest and/or ready transfer to savings? Unless we know our costs and unless we have accurately computed available balances we could end up paying our customers a rate of return on balances which is really needed to cover expenses. This would represent a double counting of balances in its most pernicious form.

I see this burden of the payment of interest on checking accounts as falling more heavily on the smaller or retail oriented bank than on the wholesale or commercial bank. In the latter case much of the so-called free balances were long ago reinvested in large-denomination certificates of deposit.

What I am basically saying is that the smaller institution had best prepare itself for these new costs by being able to differentiate between funds which cover costs versus those which would be entitled to interest rate payment. One mandatory part of the solution is to have a modern on-line accounting system which can provide this information. Furthermore, it can put you in a position to capitalize through growth and market share as the issue and the practice of interest on demand deposits evolves. • •

This article is based on remarks by Mr. Dwyer made at the 29th annual Correspondent Conference of First National, Chicago, held in late November.

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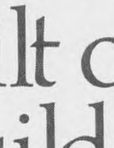

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The Future of World Banking In the International Economic Environment

By ALFRED F. MIOSSI, Executive Vice President, Continental Illinois National Bank, Chicago

THE WORLD economy has gone through tremendous change during the past several years. Some of the fundamentals upon which world economic growth were based during the post-World War II period broke down, while new institutional arrangements such as floating exchange rates and the oil cartel emerged. During this period also there was a re-

markable growth in both the number and size of international businesses world wide. A rise in the value of total world exports from $113 billion in 1970 to almost $800 billion last year gives ample evidence of the growth in importance of international business.

Certainly a large part of this increase in world trade has been generated by increases in the exports of domestically-based companies. But an increasingly larger share has arisen through the continued establishment of production and service facilities by companies in countries other than their own, that is, through the growth of the true multinational enterprise. The rise of this form of business organization, however, has vastly broadened the range of complexities with which the business manager must deal. Also, it has become evident that changing economic conditions and fundamental economic relationships within the world's major economies have made business decisions within those countries difficult.

Illustrative of the severity of the changes which have occurred was the decline in the volume of trade among the major industrial countries for the first time in more than 20 years. Consequently, a world wide export-led recovery has failed to materialize and real GNP growth for the major industrial countries may decline by as much as 2 to 3% in 1975 after declining 1% in 1974. During the past year, while there has been a marked easing of inflation, there has also been the sharpest decline in output and the highest level of unemployment since World War II. The cost of the recession has been tremendous. In current dollar terms, the major industrial countries could have lost $350 to $500 billion in production. Unemployment in these countries now stands at about 15 million, or over 5.5% of the civilian labor force, and this does not include the large number of workers who are on part-time or who have accepted less skilled jobs.

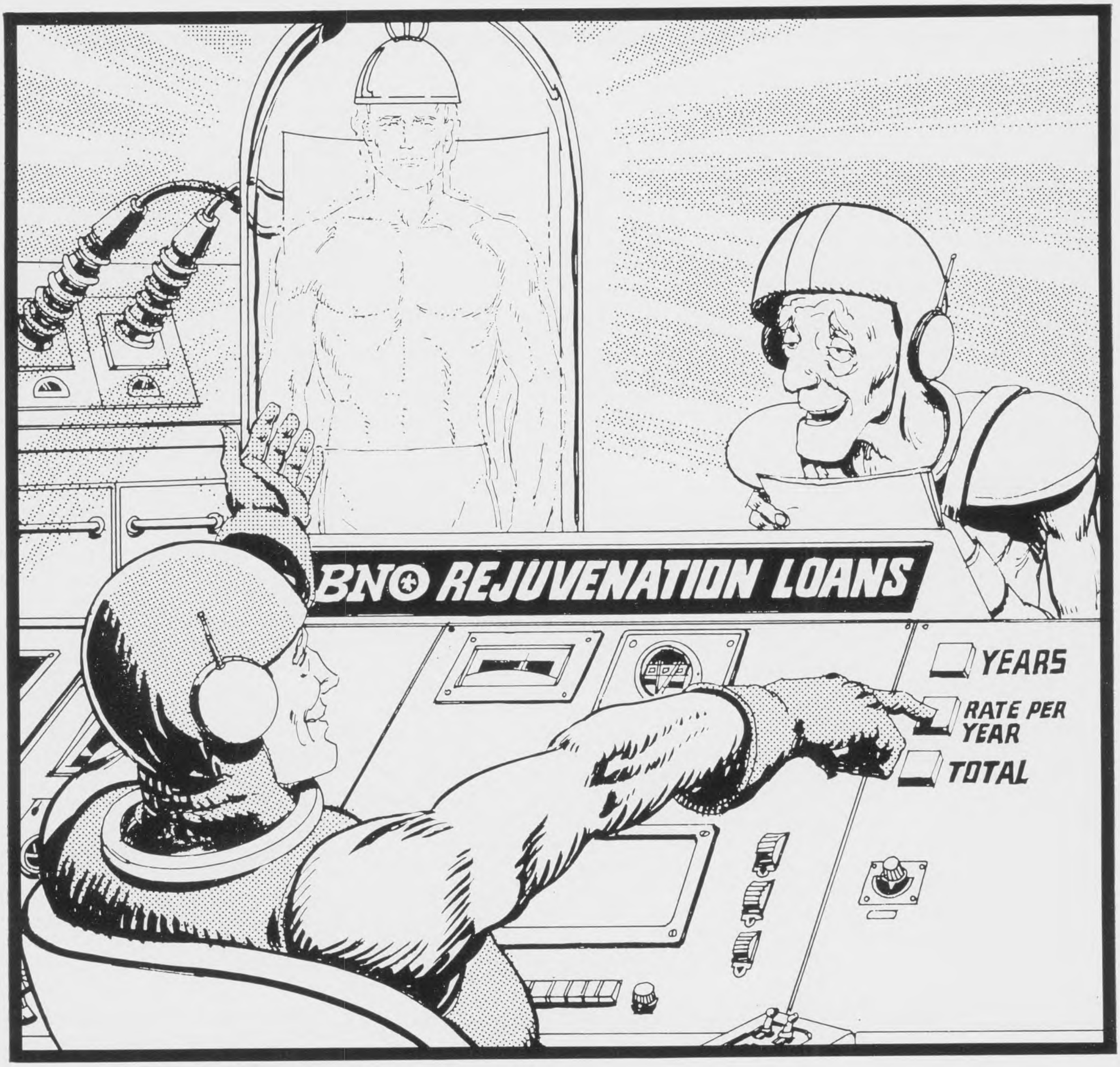
These developments, while they have created serious hardships, are beginning to become less of a problem as economic activity has started to pick up in the United States and Japan and is at least no longer declining in most other major industrial nations. Furthermore, the recession certainly has contributed to the moderation in the rate of inflation for many major industrial countries. Declining raw material and food prices, the stabilization of oil prices and a pronounced moderation in domestic demand were directly responsible for the easing of inflationary pressures.

This turbulent economic environment has led to some significant changes in the character of international banking. The rapid pace of post-war economic development, particularly in Europe and Japan, was accompanied by an equally rapid pace of overseas expansion by U. S. commercial banks. During the decade of the 1960s, many U. S. commercial banks embarked on vigorous overseas expansion programs including branching, the establishment of merchant banks, joining consortium banks, and the development or acquisition of operations in non-banking fields.

Since 1970, however, major changes in the structure of the domestic and international economic environment and a change in the attitude of U. S. regulatory authorities have resulted in a rethinking of these expansionary plans. During 1974, American banks adopted a more cautious posture on overseas expansion and began to focus more on return on assets, credit quality and net profit rather than on growth in assets and number of locations.

The events of 1974 had a very beneficial and salutary effect on the international banking community. Bankers are now adhering to much more prudent and rational lending policies with respect to who gets credit, on what terms, and at what rate of interest. Also, it is now realized that in dealings with each other, banks are extending credit and before entering transactions, such as foreign exchange contracts and interbank deposits, banks must "do their homework" more carefully. This process has upgraded credit quality and thus the entire international banking system has been further strengthened. Balance-of-payments loans to governments, a major concern in 1974,

"International banking is undergoing a change in direction as it adjusts to the new international financial environment of the 1970s."



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(This illustration is taken from a consumer campaign now running in New Orleans. We'll gladly send proofs of the series on request.)

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are not as worrisome to bankers today owing to smaller than expected payments deficits, corrective policies taken by borrowing governments, assistance of international agencies (IMF, World Bank), aid and cooperation by oil exporters and restructuring of loans by banks. This is still a longer-term problem for commercial and central banks, but the atmosphere today is no longer one of urgency or imminent danger.

The more cautious and more carefully planned approach to overseas lending does not negate the opportunities for banks to achieve continued growth in foreign markets, but large banks are approaching expansion more cautiously and smaller banks are reexamining their international activities. The high rate of inflation during the past several years, accompanied by the introduction of more flexible exchange rates and general uncertainty over economic conditions, has added to the complexity of the business decision-making environment concerning worldwide financing needs.

The change to floating exchange rates has required a much higher level of expertise in the buying and selling of non-dollar currencies. The relative certainty of forward dollar prices expressed in non-dollar currencies under the fixed exchange rate system has disappeared. Moreover, borrowing costs and rates of returns on invested funds now must take into consideration, not only relative interest rates between countries, but also the possibility of exchange rate depreciation and appreciation. Consequently, it has become both increasingly necessary and increasingly more difficult to integrate domestic with international asset and liability management.

Commercial banks in general have done a good job in adapting to the uncertainties that have accompanied the initiation of floating exchange rates and have been able to pass on their growing body of exchange trading expertise to their customers. However, the fact that there have been some significant failures of both financial and non-financial business enterprises, which have been at least partly related to foreign exchange trading losses, demonstrates the pitfalls that the unwary or unknowledgeable international banker must avoid. In the final analysis, there can be no substitute for good management abilities and good management practices for insuring sound and profitable exchange trading operations.

The newest opportunity for U. S. banks to achieve continued growth in foreign markets centers on the recycling of oil money and in the management of international liquidity. Although increased attention is being directed toward evaluating the credit worthiness of countries confronted by balance-of-payments problems, it seems unlikely that any major country will suffer financial collapse. Although the self-imposed credit restraint program on overseas loans will tend to remain in effect for some time, it seems likely that within a year commercial banks once again may begin to expand their offshore lending if it has not already begun. This expansion may proceed cautiously at first but, barring any major difficulties, will continue to grow. Loan demand by good quality borrowers is reasonably strong for the near to intermediate term. Even so, U. S. commercial bank relationships with foreign banks and governments will be scrutinized much more carefully in the future than they have been in the past, both from an asset and liability standpoint.

U. S. commercial banks have played a major role in the recycling of petrodollars and, in my view, will continue to do so. The recycling problem today appears far different than it did a year ago or even six months ago, particularly because we have seen the OPEC countries increase their imports at an unexpectedly rapid rate while at the same time OPEC revenues from oil exports temporarily have fallen because of reduced demand. While it is still a major problem, I believe that it will be reduced to much more manageable proportions with U. S. banks continuing to have the capacity to play a major role.

In the decade ahead, commercial banks will play an increasingly important role in the international field. This role, however, will probably be somewhat different from the functions provided during the decade of the 1960s because of the dramatic changes which have taken place in the international economic environment. For example, liability management will become more globally-oriented, with an increase in transactions carried out in nondollar currencies. The demand for funds by government entities will continue to grow. With concern continuing over the credit worthiness of various government borrowers, maturities are likely to continue to be shorter. In addition, unless worldwide recession persists, banks also will experience heavy demand for loans, as continuous inflation will increase the needs of business for working capital and rising labor costs will encourage major cost-cutting capital investments.

In the last part of the seventies, I believe that the expansion of commercial banks overseas may be at only a somewhat slower pace than during the late sixties. International expansion in the period ahead may be primarily in the commercial banking field as contrasted with other financial endeavors, although some of the big banks may continue to broaden the financial services they offer abroad.

Generally speaking, it would seem that expansion is likely to take place by the opening of new branches, concentrating on the commercial banking field, as contrasted with further investments in merchant banking consortium banks and other fields.

International banking is undergoing a change in direction as it adjusts to the new international financial environment of the 1970s. Although the overseas expansion of American commercial banks during the 1960s may now be history, it is difficult to identify precisely whether a new trend has been established yet for the rest of this decade. Commercial banks have done a good job of facilitating a smooth shift of financial services to meet the needs of the international community in the changing economic environment. The future course of international banking will be greatly influenced by the expertise and facilities that American bankers establish to handle these new challenges. • •

■ GENE JONES has joined First National, Santa Fe, as vice president, commercial loan department. He goes there from the National S&L League, where he was assistant vice president. Mr. Jones was instrumental in establishing the first all-Indian S&L in Window Rock, Ariz.

Bank's Sign Has Metric Temp

Merle M. Sanquinet (l.), ch., St. Louis County Nat'l, Clayton, Mo., and Anton Brasunas, regional dir., U. S. Metric Assn., and associate dean of engineering, U. of Mo., Rolla, stand beneath the bank's new time/temperature sign, which features centigrade and Fahrenheit readouts. County Nat'l is among the first banks to have such a sign, which shows the relationship of the two temperature scales and aids passers-by in understanding one facet of the metric system, which the U. S. has begun to adopt. Part of the bank's metric-related program is a free "Metrics Made Easy" conversion scale for all visitors.

New Eximbank Policies Tailored to Meet Lenders' Needs

CUSTOMERS of the Export-Import Bank of the U. S. are finding that the loan programs have been moved from the bulk goods section of the store and are now being specially packaged to meet various needs more appropriately.

Direct credits, which formerly were served by the scoopful out of a fixed-interest-rate bin to support virtually any sound export transaction that required official help, now bear interest rates that are scaled according to the term of the loan, and there is a priority based on the nature of the customer's need. Rates are kept close to the commercial level in cases where lack of adequate financing is the problem, but are lowered where necessary to meet foreign competition. Just as before, all credits authorized by Eximbank require participation by commercial lenders.

The changes in interest rate policy are as follows:

Rates on loans to foreign purchasers of U. S. goods and services now range from 8¼-9½%. The lowest rate applies to total terms under six years and the highest to total terms over 14 years, as measured from authorization to final repayment. The rate notches up ¼th of 1% for each two years between years six and 14.

These rates are only slightly higher than those offered by the export credit agencies of other nations, when allowance is made for insurance premiums and other required charges in the foreign programs.

The higher earnings make it easier for Eximbank to meet credit competition on a case-by-case basis. It is possible under this policy, in fact, to follow the competition down to the point where the blended rate on Eximbank and commercial financing is 7½%. That is the floor on which major industrial nations have agreed.

Direct loans from Eximbank will usually cover from 30-45% of the export price, but may go as high as 55% to save a transaction of special economic significance to the U. S. In addition to extending credits, Eximbank guarantees export loans by commercial banks and will support up to 90% of a transaction with a loan and guarantee combination, or up to 85% with a guarantee only. The guarantee fee ranges from ⅜th of 1% to 1½%.

Eximbank's discount loans are now essentially a stand-by protection that is available only for loans with fixed interest rates. The discount program is no longer loosely available to keep assuring the liquidity of floating rate obligations on an in-again-out-again basis. Under the new arrangement, the banks can still cash in on their discount loan commitments whenever they wish, but only once, and in this way avoid major loss under any liquidity conditions. That, actually, has always been the basic objective of the program.

These are the new basic provisions of the discount loan program:

• Fixed interest rate loans, but not floating rate loans, are eligible for discounting.

• A minimum discount loan rate, presently set at 8%, will be reviewed periodically by the bank's board and is subject to change by the board. The objective is to keep the financing competitive and still cover the cost of money to Eximbank which, unlike its foreign counterparts, is a self-sustaining agency, without access to appropriated funds. Eximbank charges commercial banks 1% less than the yield to the commercial banks on their export loans, but not less than Eximbank's minimum discount loan rate.

- Redrawing on the same discount loan commitment is no longer possible.
- A one-time, front-end commitment fee equal to ¼th of 1% of the requested discount loan is being charged at present, payable within 120 days of authorization of the commitment, or the commitment will lapse. In a competitive bidding situation, this period may be extended to ensure that no fee is paid unless the order is actually won.
- Only 50% of the financed position of an export sale is eligible for discount loans on transactions which appear suitable for Eximbank's direct loan financing.

The impact of the changes is being carefully studied at Eximbank and commercial bankers are urged to make their experiences known. The process of tightening the official U. S. export credit support programs, while bringing them more sharply to bear on vital areas of export needs and opportunities, has been going on for the past two years. Problems encountered during that time have included the rising cost of money, the inflated rise in the dollar value of trade, and the oil price crisis with the resulting drain-off of foreign exchange reserves to the oil producing countries and the intensifying competition among nations trying to earn more reserves to pay their oil bills.

Eximbank's assignment has been dichotomous. It has been told to remain self-sustaining and also to meet foreign competition. Under such conditions, when it must borrow at, say, 8-8½% and lend at 7½% in order to meet subsidized foreign competition, the only recourse is to operate on a case-by-case basis; to charge the market interest rate ordinarily assessed and to bend when the competition makes it necessary to do so. Such a process balances out by virtue of the fact that Eximbank is able to use reserves built up by interest and fee earnings in past years, when the cost of money stayed below the late, lamented 6% interest rate that Eximbank charged traditionally. • •

Trust-Business Development, Marketing To Be Taught at New BMA School

THE BANK MARKETING ASSOCIATION, Chicago, has announced a new school, Trust Business Development and Marketing.

The new, one-week school will be offered May 30-June 4 at the University of Colorado, Boulder, and will run concurrently with BMA's Essentials of Bank Marketing Course and School of Bank Marketing.

The new school's faculty members have been drawn from the ranks of business and academia.

The course is designed for the bank business development specialist and the trust staff member disciplined in trust product knowledge who is working in the business development area. The school's curriculum will focus on the building of such business development skills as retention selling, closing the trust sale and effective letter writing.

Students also will get an in-depth look at how marketing principles can be applied to the sales effort.

William J. Copeland, vice chairman, Pittsburgh National, will discuss "Developing a Workable Plan for Trust Business Development, while Faculty Member E. Laird Landon will demonstrate "How the Prospect Makes Up His Mind."

A session on "Communication" will be overseen by Lee Kilbourne, who heads the Management Training Associates firm in Waukegan, Ill.

Other lectures, selling skills sessions, case examples and videotape practice also are planned for the school.

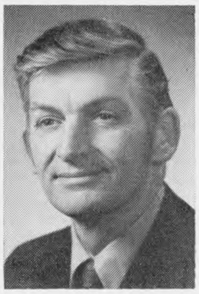
Applications are being accepted for a limited number of openings. All qualified applicants are eligible, but BMA members have priority over nonmembers. Tuition for members is $400; $600 for nonmembers.

Write: Dr. James L. Faltinek, Vice President and Director, Association Services Division, BMA Headquarters, 309 West Washington Street, Chicago, IL 60606. • •

■ OSCAR LOVE SR., president emeritus, Albuquerque National, has been honored by the Albuquerque CofC for his service to the Chamber and community. He was CofC president, 1935-41. Mr. Love joined Albuquerque National in 1925 as assistant cashier and was named cashier and director, 1930; vice president, 1941; senior vice president, 1957; and president, 1963. He served as co-chairman, 1965-69, and was named president emeritus, 1965.

The Outlook for EFT

Most banks will be joining common networks



By JOHN F. FISHER
Vice President
City National Bank
Columbus, O.

LET'S GAZE into the EFT leaves to predict the future of our industry as it's being changed by electronic banking systems.

The "T" leaves hold four predictions that include, first, a dismantling of the fences that provide geographic protection from competition; second, a crumbling of bricks and mortar, which is the basic delivery system of today; third, a crunching together of banking services; and finally, the EFT leaves predict a serendipitous fallout.

Let me explore each of these predictions with you.

It is becoming more apparent that electronic banking will slowly wear away the geographic protection from competition as each state addresses the legislative issues of EFTS.

The thrifts, which have much more liberal laws and fewer restrictions than banks, will introduce area-wide acceptance of automatic teller machines (ATMs) and point-of-sale (POS) devices as they attempt to attract retail customers—the net suppliers of funds. You should expect the Federal Home Loan system to supply switching services to its members starting in San Francisco and then spreading district by district across the country.

This forthcoming announcement will have a galvanizing effect on our industry, causing banks to develop area-wide shared switching systems. Then, as the electronic systems mature, the computer networks will provide local banks with outlets on a national basis, jumping the unit and branch bank restrictions of today.

The EFT leaves are also predicting that electronic banking will reduce the number of teller-assisted transactions, thereby changing the bricks and mortar orientation of today. Retail banking will become "self-service" banking with personal contact—the cornerstone of today's service—restricted to consultation or financial counseling, not transactions.

Branches will be replaced as the principal method of delivering service, as "self-service" through non-branch units becomes popular. The understanding of this will come to you as you struggle with the problem of raising the capital to maintain the present branching rate, which has increased by 170% in the last 15 years.

The crunching together of banking services is also predictable as electronic banking forces a redesign of basic deposit services. The overdraft business is going to become much more important to us as purchases will be made against a pre-authorized line requiring credit screening for all deposit customers. The recently begun national debit card system will demonstrate this need. Overdraft outstandings will eventually bypass installment outstandings, helping to offset the increased cost of funds as TDA & DDA merge into a single deposit account.

The final EFT leaf prediction promised a serendipitous fallout—an unexpected, pleasant experience may result as electronic banking stimulates price differentials as a reward for self-service. We must lean this way since cost-cutting will become imperative to compensate for the increased funds cost, plus transferring check losses to banking from retailing.

Don't lose the thought behind that statement. Clearly, the banking industry, by installing and funding authorization systems, which will now accept debit items, is beginning to transfer the cost of check losses to its own scrawny shoulders.

Finally, prearranged transactions, primarily passing through the automated clearing house and self-service banking, will cost significantly less than the paper- and people-based systems of today.

Developing an action plan that will produce profits from these predictions will require some definite leadership on the part of bankers. But remember, to hit a target, you must guide the shaft to aim the point. We must coax the entire industry, not just a few banks on the point, to move in a common direction.

With that in mind—here are two bets as to how EFT systems are likely to develop. The first bet deals with automatic teller machines and it is:

ATMs will develop as fully shared, stand-alone systems using the point-of-sale network which will be installed as an automated clearing house (ACH) enhancement.

The hedge against that bet is that

This article is adapted from remarks made by Mr. Fisher at the ABA's Payment System Policy Conference.

the automated clearing house development will be delayed causing ATM networks to form in another way.

Here are the arguments for that bet:

• The major development for ATMs will be in non-branch locations along with the ACH, while "in-lobby" ATMs will complement financial-counseling type branches.

• ATMs will be chosen as communication solutions using point-of-sale switching systems and presenting difficult service problems.

• Regional beginnings growing to national interchange will force solutions to deposit interchange problems.

The second bet deals with the point-of-sale development and it is: POS will develop as a full-function interchange service in concert with ATM switching systems. The hedge is that interchange will be restricted by action of the Justice Department or others.

The argument for bet #2 goes like this:

• POS will utilize national full-function, fully interchangeable bank cards, regionally accessing DDA and TDA accounts plus the existing credit card systems.

• The major development will come from new devices, including an interface providing printing, mag stripe reading, and communications to the funds network.

• Cost justification will come from data capture volumes through shared devices at check-out and with no—or at least limited—deposit ability.

Let me try to wrap up these thoughts with some capsule comments about where our industry is going.

First—what does the customer expect from electronic banking?

The customer will react to—not demand—new services. He will relegate more low-level decisions to the computer and require that financial service follow his unrestricted mobility. The customer will not be restricted in his choice by the political or geographical boundary lines of banking.

How are the people in our industry changing?

Banking is changing from a profession which pivots around a few unique individuals to a business staffed by specialists. Banking is changing to a group of people who supply the *systems* that do the banking business.

The future direction of our services looks like this: Banking will supply more *interchange* services competing with product differences of financial planning and record-keeping—not competing through the *delivery* of the services. I firmly believe that banks will not compete in seeing which bank will install the greatest number of machines. We look at machines as a delivery system.

Finally, the most important of all—the computer. Banking is evolving into a limited number of financial firms organized around computer-based interchange networks rather than paper-based clearing houses. The "product-line"—the service offered—will be computer-generated and computer-distributed.

As these computer networks evolve and mature over the next five or six years, they will challenge the root structures that make up our industry today—unit banking, branch banking, correspondent banking and holding company banking.

The computer network systems will supersede our present structures. As an example, these systems are being established without regard to holding company affiliation. There appears to be limited effort at the holding company level to establish a proprietary customer bank communications terminal (CBCT) network. Instead, it appears that most banks, whether holding company affiliates or not, are joining common networks.

As one consequence, the identity of the holding company, or the individual bank, becomes subservient to the computer network system. These technology-based networks will be heated and cooled and hammered into place, and in the long run, they may prove to be the right system at the right time.

Salary Study Published

The first official study on compensation for members in charge of the bank marketing function has been published by Bank Marketing Association.

Purpose of the study was to probe the pattern of compensation for the chief marketing officer. The study states that the typical head of marketing at BMA-member banks under $50 million in assets earns a total annual cash compensation (salary and bonus) of $19,000, while those in banks with assets of over $1 billion earn up to $36,000.

Copies of the "1975 Bank Marketing Compensation Survey" are available at $12 each to BMA members from the Order Department, BMA, 309 W. Washington Street, Chicago, IL 60606.

Low-Cost Deposit Quest, EFT Introduction Among Marketing Projects for '76

By JIM FABIAN, Associate Editor

WHAT is the outlook for bank marketing in 1976? While outlooks have traditionally been limited to aspects of interest rates and loan demand, marketing has become such an important aspect of banking that it deserves its place in forecasting.

Comments on this topic were solicited from a number of prominent bank marketing people. Here's what they have to say about 1976:

"Bank marketing in the year ahead will center around and reflect two significant trends in our industry," said Jack W. Whittle, vice president and director of marketing, Continental Illinois National, Chicago, and treasurer, Bank Marketing Association.

"First, a change in our methods of payment, and second, a growing need for adequate and fresh capital. The success or failure of banks to cope with these two concerns will to a great degree depend upon the adequacy of their marketing efforts."

One of the major thrusts of future bank marketing efforts, Mr. Whittle said, will be in response to liberalized legislation regarding EFT systems. Both federal and state legislatures are coming to grips with the nature of EFT and it is hoped financial institutions will be granted the authority to provide services for customers on a demand basis. Those institutions which can best meet the public's need for convenience will gain a greater share of the market in the future.

Sound marketing principles will also play a major role in guiding institutions toward defining their most profitable customers and determining how to attract this segment, he said. "We have gone through the age of asset management and we have spent the last four years in liability management. Now we have resolved that the most successful approach is a mixture of the two—and that spread management could very well be a salvation for American banking."

Mr. Whittle said that institutions will have to use good, sound marketing research and costing principles to determine which segment in the market they can best serve at a profit. For it is primarily through internally generated profits that institutions will be able to grow.

"The most pressing marketing activity for the foreseeable future will be to devise methods to run a profitable retail operation in the face of substantially increasing cost pressures and moves toward the 'equality' of financial institutions," said Warren B. Wiethaupt, vice president, First National, St. Louis.

He said his bank will be spending a great deal of time developing ways to offset competitive thrusts from the thrift industry as well as from larger banks bent on making national gains in retail, corporate and correspondent markets.

"I think a big activity in the year ahead will be to develop ways to profitably develop new products to permit transfers from interest-bearing accounts to pay third parties," he said. "And we'll be spending some time and effort in ways to help the state legislature understand the need for fair and equitable treatment among financial institutions."

Mr. Wiethaupt sees a need for innovative retail "packages" tied to fee income, to help offset costs of additional banking conveniences being provided to customers.

"On balance," he said, "I think we'll be trying to identify the needs of each of our many different marketplaces more succinctly—consumer, corporate, commercial, correspondent and merchant—and to develop programs that will better serve those markets at a profit to the bank."

J. Lillard Templeton Jr., senior vice president and director of marketing, First American National, Nashville, sees a two-fold job for his department in 1976—the introduction of automated teller machines and a hard push for fee income and consumer loans.

The year 1975 was an unusual one for First American National, he said. Loans were high and the bank found itself in a position of discouraging the consumer from borrowing. The spigot was cut off. Now the bank finds a tremendous runoff in consumer loans, especially in auto financing.

"We have just launched a campaign to offer a free $50 U. S. Savings Bond with every auto loan advance in excess of $2,000," he said. "This program will not sell autos, but it might encourage the consumer to use First American for his financing, either through the dealer or direct through the bank."

He said that plans are to encourage people in every area of the bank that can produce fee income to get out and sell. "Our market research department will go after attitude and usage studies, branch location studies and any other form of research that will produce income. The data processing division will continue to promote correspondent bank services along with commercial payrolls and accounts receivables. It will also be on the lookout for new and innovative programs, such as the merchant check verification system which has been well accepted but has plenty of room for growth."

"Nineteen seventy-six may well wind up being a crazy mixed-up year in terms of the programs and services that banks will be testing and marketing," said Paul F. Steen, vice president, Bank of New Orleans.

Mr. Steen said he's not sure there will be one major thrust to banks' marketing efforts in 1976. A combination of different and sometimes conflicting factors is going to largely preclude the emergence of one dominant area of services testing or marketing.

Among the factors are the high cost of research and development in a period of capital scarcity; the still questionable profitability of a number of emerging banking services, especially in the EFT area; the absence of unanimity among commercial banks and banking associations in many of the critical areas of EFT; the nagging unanswered question of how much consumers are willing to accept in the way of EFT (and how much they are willing to pay for EFT); and the realization among a growing number of banks that they still have a lot of EFT homework to do before they can expect to achieve significant penetration with its external application.

EFT won't be the only concern of bankers, Mr. Steen said. They will be equally concerned with seeking more efficiency and income from existing services. More banks will be getting back to more basic applications and promotions of their services.

He expects to see more "reason why" advertising copy, more detailing of information about services, a return to more emphasis on print media and to the simpler, more easily understood appeals of checking accounts, savings and loans.

There will be a continuation of the trend of recent years to go after small business accounts, he said. "It's pretty well been proved that a volume of small commercial accounts can potentially be much more profitable than fewer big business accounts."

"Inasmuch as overall loan demand is expected to be somewhat weak (in 1976), particularly during the first half of the year, substantial time will be spent in upgrading loan portfolios and building a solid foundation from which to meet the increased credit demands anticipated later in the year," said Daniel C. Ulmer Jr., executive vice president, Citizens Fidelity Bank, Louisville.

He said the most important marketing opportunity involves retail banking as it applies to the far-ranging implications of EFT services, which are expected to be aggressively marketed by many banks.

Citizens Fidelity is implementing a POS program with selected merchants called "Service Tree Service." Customers can now verify balances and deposit to and withdraw from their checking and savings accounts at stores.

Mr. Ulmer says this service is not expected to completely replace branch bank expansion, but it surely will alter the size and configuration, as well as the location, of future banking offices.

Areas requiring immediate marketing concern at Central Bancshares of the South, Birmingham, Ala., include legislative, EFT and loans, said Grantland L. O'Neal, director of advertising and public relations.

Legislatively, the paying of interest on demand accounts, the removal of regulatory restrictions on the amount of interest a commercial bank can pay on savings and EFT laws will all have wide-reaching repercussions in the industry, Mr. O'Neal said.

In respect to the changes brought on by EFT, Central Bank feels that its short-term marketing efforts should be aimed at increasing its customer base, particularly in the area of deposit services. When EFT is widely in use, banks will find it increasingly difficult to obtain significant numbers of new deposit customers. Interest-bearing checking accounts will increase the cost of operations and savings will become the major battleground for marketing, he said.

Loans of all types will be a major source of profits as the economy recuperates, he said.

The acquisition of low-cost funds, the upgrading of commercial loan quality and an aggressive posture on seeking consumer loans will receive marketing attention at BancOhio Corp., Columbus, this year, said James W. Wentling, vice president. Mr. Wentling is also a director of the Bank Marketing Institute.

"Frankly," Mr. Wentling said, "I don't see one major marketing effort. We will emphasize the use of automatic teller machines in our advertising and educational programs. We'll promote consumer deposits and relate them to the use of automated teller machines.

"Although we'll go on-line in 1976, I don't see this as a marketing responsibility. Business development efforts will be concerned with automated payrolls and individual retirement accounts," although the latter won't be a significant source of deposits in 1976.

"Much discussion will revolve around point-of-sale check guarantee and the national asset card, and our banks will be gearing up to meet competition in these areas.

"If the Comptroller's suit is resolved to allow off-premise total tellers, we'll aggressively enter this market, as will most other progressive banks," he said.

For Agriculture—

Another Favorable Year Seen

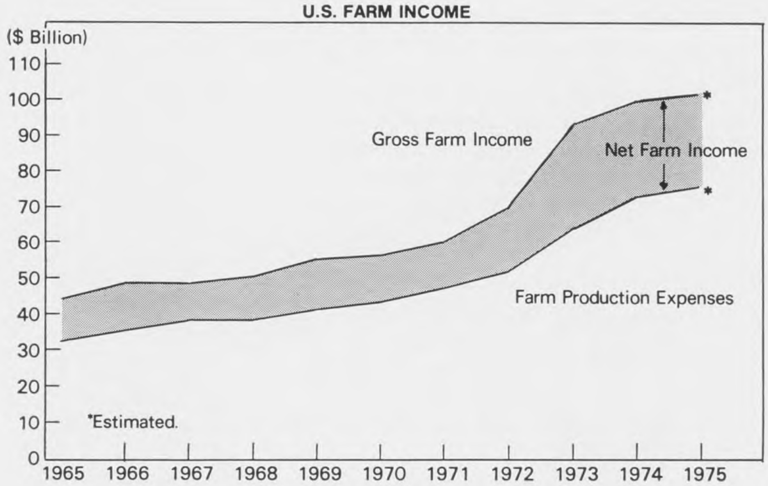
By FOREST L. GOETSCH
President
Doane Agricultural Service, Inc.
St. Louis

WE ARE CLOSING out a relatively good year in agriculture, and the outlook is for another favorable year in 1976. Realized net farm income for the U. S. was, according to our estimates, about $25.7 billion in 1975. This was down $2 billion from 1974, the drop resulting from rising costs outrunning a modest increase in gross income. Although net farm income declined in 1975, it was the third best year on record and better than seemed likely a year ago.

Looking ahead to 1976, Doane economists project an increase in gross farm income of about $3 billion, which will be matched by a similar increase in operating costs. Thus, realized net income is expected to come pretty close to that of 1975. However, not all segments of the farm economy will fare as well as last year, and some will do better. In general, it appears that livestock producers have somewhat brighter prospects while crop producers may slip a bit.

An important underlying factor in the livestock picture is the improving national economy. After the worst recession in many years, economic activity has turned the corner and is on the way up. In our view, the economy will make good, if unspectacular, progress in 1976. The consensus forecast seems to be for real GNP growth of about 6%, with approximately a 6% inflation rate. We do not believe this is overly optimistic. Consumers' purchasing power should recover as wage increases outpace inflation. Unemployment rates may be slow to decline, but significant improvement seems likely. All this suggests that effective demand for livestock products should improve some.

U.S. FARM INCOME



With good demand, livestock prices should hold up well in 1976. Hog prices have been phenomenal in 1975, reaching well over $60 at one time and averaging around $50 for the year. Indications are that producers are responding to these high prices and will be turning out more hogs this year. But because of the lag between farrowing and marketing, there will not be a large increase in number of hogs placed on the market for the year as a whole, and there probably won't be any significant increase before midyear. With only a moderate increase in pork offered to consumers in 1976, prices should be quite good again. The yearly average could be near that of 1975, although the pattern will be quite different. Hog values may start the year high and end as much as $20 lower.

The cattle situation generally is looking up. A sharply higher rate of feedlot placements last summer and fall likely will result in a price-depressing number of fed cattle on the market in the forepart of this year, but for the year as a whole, we look for choice fed steers to average around $45, perhaps approaching $50 at times. In 1975 we witnessed a big cutback in number of fed cattle marketed and a huge jump in non-fed cattle slaughter.

We expect cattle feeding will increase materially in 1976, with fed marketings rising at least 10%. Non-fed slaughter will decrease some this year, as feeding increases. We doubt that cow slaughter will drop sharply, although the number of cows has apparently been reduced. Calf prices don't figure to improve enough to make cow-calf operations profitable this year. Therefore, a liquidation rate of slaughter may continue for a while. The longer-run outlook is considerably brighter for ranchers if, as we believe, the national cow herd has been reduced. January 1 inventory numbers will be released by USDA in

February.

The dairy situation looks better. In the last couple of years, dairymen have been squeezed severely between milk prices and feed costs. In recent months, there has been considerable relief on the feed cost side and milk prices have improved. We are hopeful that milk prices will remain firm, and, with favorable weather, feed should remain reasonably priced.

Cash Crop Problems

As indicated earlier, cash crop producers may have some problems ahead, at least compared to the last couple of years. The 1975 harvested grain crop was a record, and soybeans came close to the previous high mark. Crops of corn, wheat and soybeans were all large enough to allow increases in use, as well as increases in carryover at the end of the crop year. Reflecting this looser supply situation, prices of feedgrains, wheat and soybeans will average lower. We're currently projecting corn at $2.65, Chicago, compared to $3.12 for the 1974-75 season. Kansas City wheat may average around $3.80 versus $4.14 last season. Chicago soybeans look like $5, down from about $6.45 in 1974-75.

Price probabilities for the 1976 crop are not encouraging at this time. Chances are there will be a larger acreage of wheat and feedgrains other than oats. Soybean acreage will be reduced. If weather is normal, 1976 grain crops will be more than adequate and soybean output could equal needs. Without an unusual increase in demand, grain prices will slip further in the 1976-77 year. Beans probably will increase moderately.

The "if" related to weather is a big one. Worldwide, grain stocks are low. A serious drought this year, which some students of weather events expect, would have dramatic bullish effects on crop prices. The recovery in livestock feeding could be stopped, and consumers could end up paying more for less. So once again, there is a lot riding on weather. • •

Kane

(Continued from page 23)

nessee businessmen conducted during the third quarter by the University of Tennessee at Nashville indicated a marked improvement in the business outlook following the spring recovery. Businessmen were questioned on their fourth-quarter 1975 expectations for their individual companies in such areas as number of employees, net income, revenues and profit margin before taxes, all in comparison with fourth-quarter 1974 levels.

A simple index of the percentage of respondents expecting an increase, less the percentage expecting a decrease, rose from two in the second quarter survey to three in the third quarter for the first item, from minus nine to 15 for the second item, from 15 to 26 for the third item and from minus nine to 17 for the last item. These indices had been declining from quarter to quarter in earlier surveys. The chances of the recovery being aborted are now negligible, but it is likely that the road will be bumpy.

Commercial banks in the Nashville area showed diverse earnings trends in the first nine months of 1975, although there were some common elements. Net interest income increased moderately, reflecting mostly a marked improvement in average lending margins compared with the same period of 1974, although spreads were narrowing as the third quarter ended. Loans declined several percentage points year-to-year for two of the three largest Nashville banks and rose about 8% for the third. Investment securities holdings increased materially for all.

The primary earnings retardant for Nashville banks was their increase in provision for loan losses. The southeastern part of the country has been a major growth area and, consequently, has experienced extreme real estate problems. For the three major banks, this charge rose from two to threefold over year-earlier levels. Opportunity cost on non-accrual and foreclosed loans was also a drag. Such loans, mostly real estate-related, ranged from 2.5% to 6.2% of these banks' total loans at the end of the third quarter.

Nashville banks have made progress in improving loan-to-deposit ratios and ratios of primary and secondary reserves to total assets over the past year. Their ratios of stockholders' equity to total assets, however, increased little or not at all during this period. The continuing need to improve these ratios and the general quality of their loans will likely be a constraint on loan expansion for some time to come.

A Saving Balance

The Middle Tennessee economy did not suffer grievously during the recession, primarily because of the balance among its commercial, industrial and agricultural sectors and the lack of dependence upon any one company or economic activity. Commercial construction along the three interstate highways converging on the city and private and state office building construction in the downtown area have been sustaining influences during this period.

Gradual improvement in local business and trade is expected to at least keep pace with the recovery in the national economy in coming months. The accompanying growth in demand for bank credit should permit some expansion of bank lending and further improvement in loan quality. The Federal Reserve's presently accommodative stance, if continued, should allow lending margins, which are now widening again, to be maintained or widened further—perhaps during the next quarter or two.

A quickening pace of activity by mid or late 1976 could bring narrowing spreads once again. If we have a period in which federal funds reach the 9% or 10% level, it would once more severely restrict Tennessee banks' earning power as the prime rate bumps up against the 10% lending rate ceiling embedded in the state constitution.

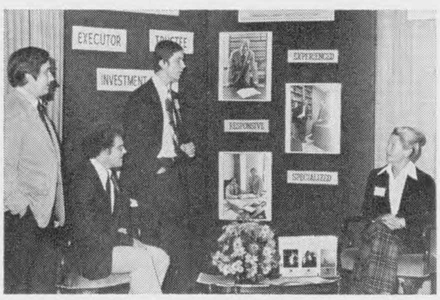
As for the interest rate outlook, our most likely scenario calls for a bottoming of the federal funds rate at about the 5% level before year-end 1975. A gradual climb would carry it from 5¼% in January to a level of 6½% in June and July, then to 7¼% in September and October, and, finally, to 8% in December. We see the prime rate generally paralleling this pattern and bottoming at around the 7% level by year-end 1975, then climbing to 8½% by mid-summer, remaining at 8¾% through late summer and early fall, and finally reaching 9% in December. Thus, Middle Tennessee banks would not be penalized by negative lending margins in 1976.

The American banking system has proved itself to be the most successful system in the world. Not only has it recognized and met the needs of industry, but it was first to recognize the needs and wants of consumers, which has helped us to have the highest living standard in the world.

What we must do now is guard against too-rapid change. Banking took a beating when the Senate Committee on Banking, Housing and Urban Affairs reported out the latest Financial Institutions Act. We must continue to work to see that there is fair treatment for all.

The future will be bright, if only we can get there. Our industry has moved in the right direction during this consolidation year, especially in view of the strong earnings performance that banks have recorded. I am sure that 1976 will witness further success in our efforts. • •

Bank Sponsors Info Booth



This is the information booth that was sponsored by the trust division of American Nat'l, Chattanooga, during the Tennessee Valley Medical Assembly Convention. The convention was attended by physicians from throughout the Southeast. Pictured discussing the booth's theme—"Trust Services"—are (from l.) Howard B. Sheorn, a. tr. mktg. off., William J. Navel, a. tr. op. off., and Robert E. Wilkins Jr., a. tr. mktg. off., all of the bank, and Mrs. William B. MacGuire Jr., pres., Women's Auxiliary to the Hamilton County Medical Society.

FIA, FINE Bear Watching in Congress

Financial reform to be more clearly defined in '76

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

THE LEGISLATIVE forecast for financial institutions is almost as uncertain as we enter 1976 as it was at the beginning of 1975.

The year just past greeted the financial industry with the prospect of radical changes. Among them were proposals for the allocation of credit, a moratorium on the development of electronic funds transfer systems and a Home Mortgage Disclosure Act.

These proposals clearly indicated the basic interests of legislators as the 94th Congress opened. While both Representative Henry Reuss (D.,Wis.) and Senator William Proxmire (D.,Wis.) were new to the chairmanships of their banking committees last year, both came to the positions with considerable experience. Representative Reuss had 20 years' experience in the House and Senator Proxmire, 17 years' experience.

Each chairman stepped into his post with established convictions and considerable aggressiveness toward accomplishing his goals—goals that were spotlighted by a period of deep recession and inflation.

In the face of these and many other changes, the ABA Government Relations Council adopted a set of criteria for determining ABA posture on policy issues consistent with broad public policy aims. In an effort to establish some means of reaching accommodations between competing ideas and interests, the criteria ask the following questions:

- Do bank customers benefit from the proposal?
- Will the proposal enhance competition?
- Is it consistent with national economic and social priorities?
- Does it maintain equal competitive ground rules for any size financial institution?

In separate pieces of testimony, the ABA asserted that the objectives for the allocation of credit, the EFT moratorium and the redlining bills were worthwhile, but that in light of the criteria, the approach to accomplish these objectives could do more harm than good. ABA efforts were channeled into managing the proposed changes by offering alternative measures.

For the most part, accommodations between legislators and financial institutions have been reached, but the original forces behind these proposals, including the uncertainty about the ability of our economic system to respond to renewed recession and inflation, keep the issues in the forefront.

Commitments made early by the chairmen of the House and Senate Banking committees are still valid reflections of their legislative efforts, and shades of their proposals will continue to show up in work that carries on into the new year.

At the heart of all proposals made last year toward altering the functions of the financial institutions are the Financial Institutions Act (FIA) and the Financial Institutions and the Nation's Economy (FINE) Study being carried on in the House.

Passed by a vote of 79 to 14, the FIA, after two years of study by the Banking Committee, has now completed a run through the Senate. Controversial features of the bill include the payment of interest on checking accounts, abolition of Regulation Q, expanded lending and deposit powers of savings and loan associations and a mortgage investment tax credit.

The caveat to this comprehensive package of reforms is that the FIA provisions covering deposit and lending powers cannot become law until the tax provisions become law, and the tax provisions must be approved separately after consideration by tax-writing committees of Congress.

But with FIA out of the way, the Senate Banking Committee will now devote time to other issues that deal with banking services as well as financial reform.

Heading that list are the consumer lending issues. Senator Proxmire is still seeking a comprehensive consumer-oriented bill that would get most of the consumer lending ideas into public law.

The senator has also introduced a Competition in Banking Act, a controversial bill (S. 2721) to curb banking industry concentration by limiting the size of bank mergers and bank holding companies.

Senator Proxmire also introduced legislation (S. 2298) to consolidate into one commission the three separate federal agencies that regulate banks: the Federal Reserve Board, the Federal Deposit Insurance Corp., and the Office of the Comptroller of the Currency.

Another major issue for banks is before the Senate Subcommittee on Securities, chaired by Harrison A. Williams (D.,N. J.). That subcommittee has already begun an investigation to determine what role banks play and what role they should play in securities and investment management. The study will

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

lead to possible amendments to the Glass-Steagall Act.

On the House side of Capitol Hill, the Banking Committee has pursued a massive study of financial institution issues—the Financial Institutions and the Nation's Economy (FINE) Study.

FIA reforms approved by the Senate are included in the FINE Study, but FINE represents even more, including such issues as the rules affecting foreign banks, bank branching and mergers, electronic funds transfer systems, reforms in the Federal Reserve System and consolidation of the federal regulatory agencies. The consolidation issue is being considered in the Senate as a legislative proposal aside from FIA.

Just prior to the holiday recess, three weeks of public hearings on the FINE Study "discussion principles" were held. These discussion principles represent a broad approach toward restructuring financial institutions and will lead to specific legislative proposals to be introduced early this year. At that time, further hearings will be held.

In presenting testimony before the Financial Institutions Subcommittee of the House Banking Committee, a panel of four ABA witnesses elaborated on nearly every element of the FINE Study—elements that have been considered elsewhere during the past two years, whether in the House or Senate. The ABA testimony, therefore, presented positions that have received considerable scrutiny by the Government Relations Council and many banking leaders.

In the testimony, the ABA made clear the assertion that if thrift powers are expanded, interest rate ceilings lifted and the rate differential ended, the transition period must be managed so that all financial institutions remain viable and are confident that equal treatment will be the end result.

"We believe that the public interest will be served only by a strong financial system in which all participants compete on a level playing field," J. Rex Duwe, ABA president, told the subcommittee members. "Substantial differences in competitive regulations must be avoided if the nation is to move toward a more responsive financial system." Mr. Duwe is chairman and president, Farmers State, Lucas, Kan.

The testimony also pointed out that the FINE Study discussion principles represent a tremendous management responsibility for regulators and financial institutions and could create overwhelming public confusion. Certain related parts of the study could best be treated as separate pieces for legislative action, the ABA said.

Chairman Reuss has set his target for completion of congressional action by July 1. This process includes consideration of the FINE Study proposals and resulting legislation, incorporating House proposals into the Senate-passed FIA bill, putting the package on the House floor, consideration by a conference committee and final passage.

The question is whether or not this is a realistic goal. Complicating the procedure is the disagreement that is heard on many issues and the fact that this is an election year. Considerable energy could be channeled to partisan politics.

In addition, there are sure to be the perennial events that are not part of FIA or FINE, such as the GAO audit of the Federal Reserve and special proposals for aiding housing. The Glass-Steagall Act amendments, consumer lending legislation and proposals for limiting bank holding company activities—all of these issues and more are sure to demand attention in the House once the Senate has done its work.

What might be more realistic is that, as ABA suggests, specific matters of FINE and FIA be pooled together in separate legislative packages. Items dealing with problems pertinent to bank holding companies—or the restructuring of the federal regulatory agencies—and issues relating to the Federal Reserve system could be taken together.

In testimony before the House Banking Committee, ABA urged that issues geared to aid housing and increase the viability of thrift institutions—major parts of Titles I and II of the FINE Study discussion principles—should receive priority consideration.

An ambitious legislative agenda has been served to financial institutions for the new year. For the most part, the plans for that agenda were laid last year. In this new year, financial reform will take on a more defined shape. It may take yet another Congress before this work is translated into public law.

Will '76 Be a Quiet Legislative Year?

Bankers hope so as state legislatures prepare agendas

NO SINGLE issue stands out from the lists of legislation expected to be handled in state houses in the Mid-Continent area this year.

Interest rate ceilings, EFT, anti-redlining measures and the designation of thrift institutions as public funds depositories will be among the issues to come up.

Following is a summary of expected legislation:

• **Alabama.** Relief from the state's 8% usury ceiling will be sought in this year's legislature, although it is doubtful that Governor George Wallace will go along with any such measure that will be sent to him by the legislature. A bill has not yet been drafted, but banks are expected to favor either the authority to charge the same rate of interest charged by national banks or to peg the usury ceiling at 5% above the Fed discount rate. Other possibilities would be to set the usury rate at 1% per month or raise the usury ceiling to 10%.

Last year, bankers won a battle with independent insurance agents over a bill to prevent bankers from selling all but credit-related coverage. The issue is expected to come up again this year.

In the last regular session, S&Ls received permission from the legislature to serve as depositories for county funds and municipal or county sinking funds. Their attempt to get similar permission for state deposits failed, but they may try to achieve the latter goal this session. The issue is opposed by Alabama bankers on the constitutional grounds that the state is not permitted to buy shares in a corporation or an association.

• **Illinois.** Since the General Assembly will consider only appropriation and budgetary matters in 1976, no banking legislation is expected.

• **Indiana.** An effort will be made by the Indiana Bankers Association to submit a bill covering EFT. The IBA is working with the Independent Bankers Association of Indiana, the League for Economic Development and the Department of Financial Institutions to arrive at a unified industry position on EFT.

Legislation will be introduced to correct a situation that developed with the adoption of the Uniform Commercial Code in 1963. A law was repealed at that time which made it a crime to remove or dispose of mortgaged property without the approval of the mortgagee. The IBA will support legislation to reinstate the law.

A bill is expected to be introduced to require banks and other financial institutions to file reports with the state concerning loan applications received and loans made, and to require some financial institutions and insurance companies to provide information regarding checking and savings deposits and insurance premiums received. Information on loans and deposits would be given by neighborhoods designated by ZIP code area. Failure to report would invoke penalties and in some cases imprisonment. The IBA plans to oppose such legislation because it would not solve the problem of deteriorating neighborhoods and so-called redlining practices.

Legislation is expected to be introduced to change the method of taxation of state financial institutions by calling for a net income tax to replace the present bank tax on capital. Such a bill was supported by the thrift industry last year. The Indiana Bankers Associa-

Missouri Seeks Funding for Overseas Trade Office

BEN A. PARNELL, chairman, Peoples Bank, Branson, Mo., has been elected a co-chairman of an ad hoc committee to promote the financing of an overseas trade office for Missouri.

The committee's purpose is to seek funding for the establishment of an overseas office to increase the state's economic involvement in international trade and investment. The Missouri legislature has approved the establishment of such an office, but has not appropriated funds for its operation.

According to Mr. Parnell, a large and rapidly growing market for U. S. products exists in the Common Market countries. Any office opened by Missouri would need an annual budget of from $150,000 to $250,000; an executive director knowledgeable in the way business is done overseas; and strong, nonpolitical support from state government.

Location of the office would be Brussels, Belgium.

Among the members serving on the committee are Richard J. Pfleging, president, Bank of St. Ann, Mo., and president, Missouri Bankers Association, and Bob N. Reed, Kirksville, Mo., president, Missouri Savings & Loan League. • •

PARNELL

PFLEGING

tion is studying the system of bank taxation and expects to come up with input for a bill changing the method of taxation.

• **Kentucky.** The following topics could be raised in the legislature this year: An increase in the fee for state bank examinations, a change in bank structure statutes, modification of the holder-in-due-course doctrine, permission for S&Ls to be depositories for public funds and an adaptation of Kentucky law to certain aspects of the Uniform Probate Code.

• **Mississippi.** Bankers are expected to amend the state statute that restricts the frequency that banks can pay interest on savings accounts to semiannually. Such a change is expected to permit corporate customers of banks to enjoy savings account privileges in accordance with recently revised federal regulations.

• **Missouri.** The Missouri Bankers Association will support the following bills in this year's General Assembly:

EFTS, with out-of-state entry with reciprocity, with terminals providing all banking functions, provided all banks have the option to share terminals on an equitable cost basis;

Authorization for banks to make loans from facilities;

An increase in the installment loan interest rate;

A conflict-of-interest bill that would make it possible for a public body on which a bank officer or director sits to make deposits in the bank of the bank officer or director, provided the bank officer or director does not vote on the particular matter;

A trust bill to authorize all banks to commingle their trust assets in a common trust fund.

• **New Mexico.** The New Mexico State Department of Banking is working on EFT legislation, but it has not been decided if such legislation will be introduced in the 1976 session.

• **Texas.** The state legislature will not meet in 1976. • •

ABA Investments Conference Set for New York Feb. 11-13

NEW YORK—More than 1,200 bankers are expected to attend the ABA's annual Investments Conference, to be held at the Americana Hotel here February 11-13.

Topics will range from New York City municipal problems to municipal portfolio management for the small bank. Also included will be discussions of consumerism, performance management, bond portfolios and the outlook for interest rates.

Appearing on the program will be the following Mid-Continent area bankers: James V. Baker, senior vice president, Fidelity Bank, Oklahoma City, and Edward M. Roob, senior vice president, First National, Chicago. Also on the program will be syndicated columnist Art Buchwald.

Conference chairman is Samuel B. Stare, senior vice president, Union Bank, Los Angeles.

24th Swigsbie Assembly To Be Held in Honolulu; 317 Have Registered

The Foundation of the Southwestern Graduate School of Banking, Southern Methodist University, Dallas, has announced its 24th Assembly for Bank Directors, to be held February 1-5 at the Sheraton-Waikiki and Royal Hawaiian hotels, Honolulu.

SWEARINGEN

Registrations for 317 directors and spouses have been received by the Foundation.

Serving as director of the event will be Dr. Eugene L. Swearingen, chairman and CEO, Bank of Oklahoma, Tulsa. Also taking part will be 40 Swigsbie faculty and staff members.

Spotlighted first-time participants include James L. Hayes, president, American Management Associations, Inc., New York City, who will speak on "Officer Evaluation," while Robert L. Parker, president, Parker Drilling Co., will discuss "What the Director Should Expect."

Ben F. Love, chairman, Texas Commerce Bank, Houston, and J. W. McLean, chairman, Liberty National, Oklahoma City, both also first timers, will speak about "Planning and Budgeting—Designing Your Bank's Future," and "The Bank Director's Role in Marketing," respectively.

Former ABA presidents—Nat S. Rogers, president, First City National, Houston; Willis W. Alexander, ABA executive vice president; and Jack T. Conn, chairman and CEO, Fidelity Bank, Oklahoma City—will participate in the Assembly, as will J. Rex Duwe, the current ABA president. Mr. Duwe is chairman, Farmers State, Lucas, Kan.

Optional tours of points-of-interest throughout the islands have been scheduled for Assembly-goers.

Swigsbie will hold its 25th Assembly at The Broadmoor, Colorado Springs, September 4-7.

General Optimism Seen for Recovery By Businessmen at Boatmen's Confab

By JIM FABIAN
Associate Editor

THERE WAS general agreement among the businessmen taking part in the third annual Business Forecast Conference sponsored by Boatmen's National, St. Louis, last month that 1976 would see an upward turn in the economy.

The short-term outlook, at least, was optimistic, although several "ifs" were attached to the forecasts.

Taking part in the conference were Frank Borman, former astronaut and current president, Eastern Air Lines, Inc.; Stanley J. Goodman, chairman of the executive committee and CEO, May Department Stores Co.; Charles F. Knight, chairman and CEO, Emerson Electric Co.; Lee M. Liberman, president and CEO, Laclede Gas Co.; R. Wayne Skidmore, chairman and CEO, Pioneer Hi-Bred International, Inc.; and Donald N. Brandin, chairman and president, Boatmen's National.

Mr. Borman, who was just one day away from celebrating the 10th anniversary of his historic Gemini 7 space flight, said that a plateau of productivity had been reached in his industry. Some 42% of the cost of running an airline goes for labor and the productivity plateau has prompted Eastern to negotiate a one-year moratorium on wage increases.

Mr. Borman said there has been a noticeable lag in the ability of the airlines to increase fares commensurate with increasing costs of operations. However, a noticeable general improvement in consumer attitude toward flying has occurred, which means more tickets will be purchased in 1976.

He predicted a real GNP growth of 5.5% and an inflation rate of about 10% for 1976, plus a 6% growth in airline traffic, but only a 5% capacity growth. He said the problems of the airlines are prototypes of the problems other industries will find themselves in soon.

Mr. Borman said Eastern will stress cost control in 1976 in an attempt to counterbalance higher material costs and local airport fees. He predicted disaster for the airlines if fare increases are not granted and also said an unregulated industry would result in chaos.

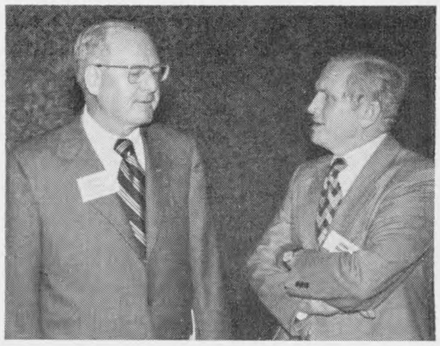
Mr. Goodman expressed the most optimism of all the speakers. He said the retail business has been good despite continued gloomy forecasts. His firm just had the best third quarter in its history.

He said the consumer is pulling the nation out of recession. There has been a mini-boom in casual apparel; in fact, there was no slowdown in that area despite the recession. He added that buying was of an emotional, not logical, nature.

He said that his store's inventory situation was better in 1975 than in 1974 and looked forward to the one extra day in 1975 for Christmas shopping.

Mr. Goodman predicted the GNP would be up 4½%, that department store sales would be up at least 10% and that disposable income would be up 4% in 1976. The first quarter of next year will be particularly strong, because of the weakness a year ago. The second quarter is expected to continue increasing at a slightly lower pace.

He expressed concern about inflation gaining ground in the second half of 1976. "If inflation starts up again and a downward economic cycle is set in motion before the recovery has a chance to mature," he said, "our public might face a bitter, discouraging prospect. Fortunately, this is a minority opinion among the forecasters and may



Host of Boatmen's Nat'l conference in St. Louis was Donald N. Brandin (l.), pres. & ch. of bank. At r. is Frank Borman, pres., Eastern Air Lines, who appeared on luncheon program. Mr. Borman is former U. S. astronaut who participated in Gemini 7 space flight 10 years ago.

Industry Outlooks for 1976

EACH YEAR, at its Correspondent Conference, First National, Chicago, presents capsule reports on the outlooks for various industries. The following reports were given at the 1975 conference:

- **Apparel**—A continued pattern of volatile sales is foreseen as the consumer continues to stress value in the purchase of apparel. There will be a modest strengthening of manufacturers' profits with problems continuing to plague those with heavy investment in double-knits where over-capacity will continue to be a problem.
- **Retailing**—The country is over stored, which has caused major retailers to defer expansion plans announced previously. A sluggish consumer economy in 1976 does not necessarily mean that retail profits will be sluggish. Stores that have tight controls on their inventories and closely monitor costs and sales trends should show profit increases that outstrip sales gains.
- **Durable Goods**—Domestic auto sales should increase to about eight million units in 1976, steel production will be up 15% and aluminum could expand to 30% over its present depressed sales level. The bright spot should be agriculture and heavy construction equipment, which should be among the leaders in the market recovery in 1976.
- **Trucking**—1976 should see a return to profitability for well-run motor carriers. Consolidation is taking place in the industry, resulting in firms with professional management and modern systems and equipment, which is the type of firm that will turn a profit in 1976.
- **Construction**—Housing starts should reach 1.6 million units with an additional 350,000 mobile homes. But if interest rates begin to climb by mid-year, a slow-down will occur. Industrial construction should be a growth area but commercial building will continue down. Government spending for sewers, conservation and recreation could be big.
- **Television**—A further shakeout will occur in the industry, total sales of sets will level off, but sales of color sets will continue to rise and prices will rise as marginal producers fall by the wayside.

not be in tune with the happy paradox of the U. S. consumer in a recession."

Mr. Knight of Emerson Electric predicted that capital investment would be down in 1976 because capacity levels now are under those of 1973 in some sectors of the economy. Such a situation dulls incentive for investment, he said.

He said the outlook for manufacturing in 1976 appears promising. The economy is strengthening; employment, purchasing power and consumer confidence are on the uptrend. Even though 1976 is not expected to reach the levels of 1973 in terms of manufacturing output, a 7% increase in real manufacturing output is forecast. As capacity utilization increases and the productivity gains of recent months continue, manufacturers should see profits for the year turn positive once again, although not reaching 1974 levels.

He cited the threat of double-digit inflation as the dark spot in the 1976 outlook, which would either severely impair expansion or prevent it altogether, depending on its severity. He said that there is a 30% possibility that this will occur in 1976.

Mr. Liberman of Laclede Gas said that the electric utility industry figures to return to a greater growth rate in the future than it enjoyed in the last two years, but it will probably not return to pre-1973 levels. Sales are estimated to gain at a rate of about 6% rather than at the historic levels slightly in excess of 7%.

Gas industry sales will probably not grow in the immediate future, he said, because of supply problems, but the industry may be able to maintain revenue growth by upgrading its sales.

He said that, for both industries to survive, a rational federal energy program must be worked out.

Mr. Skidmore of Pioneer Hi-Bred International recounted the good fortune the nation's farmers had this year with near-record crops, yet the farmer is worried about future government food policies. He expressed fears that the government's food policy with Russia will cause that nation to seek grain from other nations before coming to the U. S.

He said farmers fear that their efforts to build foreign markets through support of such organizations as the U. S. Feed Grains Council and commodity groups are being thwarted by government agreements.

"Our hope is that government will recognize that agriculture should be given its opportunity to produce for a world market," he said. "Given that opportunity, U. S. agriculture can provide us with ample amounts of reasonably priced food and help maintain the dollar's purchasing power overseas."

Mr. Brandin, the conference host, said his personal opinion was that the recovery in 1976, at least in the first half, will be sluggish. The actions of the government will be critical in determining the future course.

Since 1976 is an election year, he said, "and while the crystal ball is cloudy, I think we can safely predict that the year will go to its grave shell shocked by repeated assaults from the Administration and Congress, leaving behind a rocky road strewn with economic time bombs. If there is any present consensus among economists, it is that these bombs will start going off in 1977."

He said that confidence has been severely shaken by events of the past few years and a period of reasonable stability is badly needed. "It would be helpful to this cause if our elected representatives displayed some shred of old fashioned statesmanship and the media disciplined itself with a dose of objectivity, but I am not optimistic that these somewhat idealistic concepts will be accepted by either," he said. • •

Brandin

(Continued from page 22)

tain reasonable margins in their commercial business. Smaller banks should benefit from a somewhat higher return on surplus funds as the year progresses. Both will face the necessity of controlling expenses to achieve even this modest goal.

One of the major economic decisions that banks throughout the country will face concerns electronic funds transfer systems. In the Missouri trade region, which covers all or parts of five states, our bank, together with several others, has just completed the development phase of a major project which, if undertaken, would place thousands of point-of-sale terminals and a large number of free-standing automated teller units in all high density retail locations throughout the region. All banks in the region would have an opportunity to participate in this network and, if certain legal and regulatory problems can be resolved, will have to decide whether they are prepared to make the initial investment and whether such a service can be marketed on a profitable basis.

Simultaneously, our bank, with a similar group, is developing an automated clearing house for the St. Louis area. While not involving economic decisions of the magnitude of the larger electronic funds transfer project, use of an automated clearing house will have both short- and long-term impact on the operations of individual banks.

While most Missouri-area banks may be largely free of the special problems facing eastern banks, they unfortunately do feel the effects of the adverse publicity arising from these problems and share some general industry problems with a deeper root.

Perhaps the most serious effect of the adverse publicity has been the resultant decline in confidence on the part of investors in securities of banks. The banking industry has been providing an increasing percentage of capital requirements for industry and inability to finance itself on satisfactory terms to meet these requirements is a matter of real concern. The increased reliance of industry on banks is in turn indicative of a growing national crisis—the lack of sufficient incentive for capital formation.

One area of general concern that banking shares with industry is the rising tide of anti-business sentiment that has resulted in a wave of excessively restrictive law and regulation. While most responsible businessmen acknowledge the necessity for intelligent regulation, current trends in Washington are basically socialistic in nature and pose a serious threat to the free enterprise system. Bankers and businessmen together must meet this challenge with a major public relations campaign. • •

Chicago-China Tie Made

First National, Chicago, has announced establishment of a "modest" correspondent relationship with Bank of China, Peking.

"The correspondent relationship that we are establishing will of necessity be a modest and limited one until such time as relations between the U. S. and the Peoples Republic are further normalized, and particularly until the problem of blocked funds is resolved between our two governments," said William J. McDonough, senior vice president in charge of First of Chicago's international banking department.

"However, it marks the beginning of a relationship that should become increasingly useful and significant to our bank, to our U. S. correspondent banks and to our commercial and industrial customers, particularly in the Midwest," Mr. McDonough said.

Business Activity

(Continued from page 21)

spent $113.5 billion in current dollars for new plant and equipment in 1975, or 1% more than in 1974. Business anticipations of capital spending have been scaled down—the March survey indicated a 3.3% increase and the June survey a 1.6% increase. With only a 1% rise last year in current dollars, there would, of course, be a sizable decrease in real spending. Given the strength of business recovery in the third quarter, I would expect the next survey to show some rise in planned capital spending.

- New capital appropriations of manufacturers (as compiled by the Conference Board) dropped sharply from $16.38 billion in the third quarter of 1974 to $9.42 billion in the second quarter of 1975. The backlog of capital appropriations, after rising sharply in 1973 and 1974 to a peak of $50 billion in the third quarter, fell to $46.79 billion in the second quarter of 1975. Some strengthening of capital appropriations may be expected in the succeeding surveys.
- Total contracts and orders for plant and equipment (in 1967 dollars) fell from $10.40 billion in July, 1974, to $7.02 billion last March. The level from April through July improved only slightly, to $7.59 billion.
- New orders in the durable goods industries, which peaked at $49.46 billion in August, 1974, and then fell to $35.49 billion in March, 1975, rose again to $41.82 billion last August. This series is one of the important leading indicators. Similarly, manufacturers' new orders in capital goods industries (excluding defense), after falling from $12.80 billion in July, 1974, to $9.52 billion in March, 1975, increased to $10.28 billion in July, 1975.
- The index for total value of construction contracts (1967 = 100) fell from 199 in August, 1974, to 135 in January and February, 1975, but rose again to 165 in July. Total commercial and industrial contracts, expressed in millions of square-feet area, dropped sharply from 95.42 in July, 1973, to 39.69 in March, 1975, but recovered to 52.62 in July.

Thus, it appears from the leading indicators—such as new orders for durable goods and construction contracts—that some recovery of capital spending has been underway since last spring. But the surveys of expected expenditures for plant and equipment and capital appropriations suggest that the recovery of capital spending will be gradual. My guess is that the next surveys will show somewhat more strength as a reflection of the third-quarter improvement in business. (Note: they did show a modest increase.)

Let's take a look at the principal forces that will influence the pace of capital spending in 1976. An important factor is that the ratio of output to capacity in manufacturing had fallen to 66.5% in the second quarter of last year, as compared with 79% (on average) in 1974. This low-level use of plant capacity, although it undoubtedly increased in the third quarter, will exert a moderating influence on capital spending in the remainder of 1975 and this year.

Of key importance as an influence on capital spending will be the behavior of consumer spending in 1976. We're estimating that total personal disposable income will increase about 9% this year in current dollars and about 3% in real terms. This assumes a continuation of present tax withholding schedules, but not another tax rebate. We expect consumer confidence to be irregular and restrained.

It also appears, from examining consumer liquidity (defined as the ratio of financial assets to liabilities), that some further consumer caution and rebuilding of savings are likely. In spite of a good increase in total financial assets in the first half of 1975, the liquidity ratio remains lower than at any time from 1960 to 1973. We expect the personal savings rate to average 8.2% in 1976. Based on those assumptions, it appears that total personal consumption expenditures will increase about 4% in 1975 in constant dollars and about 9% in current dollars.

Capital spending this year will be importantly influenced by the performance of corporate profits and cash flow. Total corporate profits after taxes in current dollars fell from an annual rate of $94.3 billion in the third quarter of 1974 to $62.3 billion in the first quarter of 1975 with an increase to $67.4 billion in the second quarter. In 1958 dollars, total corporate profits after taxes dropped from an annual rate of $58.2 billion in the third quarter of 1974 to $35.9 billion in the first quarter of 1975 and then rose to $38.3 billion in the second quarter.

Total corporate profits and inventory valuation adjustment as a share of national income have fallen to a low level. In early 1955, the share was close to 15% and, in late 1965, was still as high as 13.5%. In the second quarter of last year, it was only 8.6%, after having risen from a low of 8.2% in the first quarter.

Accordingly, although corporate profits are on the rise, they're moving from a severely depressed level. We're estimating that total corporate profits after taxes (current dollars) will rise from about $75 billion in 1975 to about $86 billion in 1976, or an increase of about 15%.

The net cash flow of corporations (retained earnings and depreciation allowances) fell from an annual rate of $138.6 billion in the third quarter of 1974 to $109.6 billion in the first quarter of last year. It rose again to $116.4 billion in the second quarter. We're estimating that corporate net cash flow will have improved somewhat in the third and fourth quarters of last year and, for the year as a whole, will average $124.5 billion. For 1976, we're estimating that net cash flow of corporations will rise to $139.5 billion, or by 12%. This should be a real plus for capital spending.

Behavior of interest rates in the months ahead will have an important bearing on capital spending. If the Fed should move to bring short-term rates down a notch or two, there undoubtedly will be a rally in the corporate bond market. Moreover, if the business recovery should falter early this year, some softening of interest rates probably would occur. But, taking into account the various forces likely to be present in the long-term capital markets, I think it's safe to assume that long-term interest rates will, on average, remain quite high this year, even if they come down somewhat from the current high levels.

Taking into account the various factors I have noted—personal consumption expenditures, corporate profits and cash flow, interest rates and rate of utilization of productive capacity—we're estimating that total business spending for new plant and equipment will rise from $113.8 billion (current dollars) in 1975 to $123 billion in 1976, or an increase of about 8%. The increase in real terms would be less than half that figure. Total *real* fixed nonresidential investment spending is expected to increase from $81.5 billion in 1975 to about $84.5 billion in 1976, or 3.7%. Within this total, real expenditures for producers of durable equipment are expected to rise from $57.5 billion in 1975 to about $60.5 billion in 1976, or by 5.2%. We expect the structures component to remain at about $24 billion in both 1975 and 1976.

Business Inventories. Turning now to the outlook for business inventories, it will be helpful to examine the recent behavior of significant indicators. In 1974, as the result of the move to double-digit inflation and speculative forces, the total of manufacturers' inventories rose from about $120 billion (seasonally adjusted) at the beginning of the year, to $150.4 billion at year-end. The total peaked at nearly $152 billion in February, 1975, and, by last August, had declined to $146.3 billion.

Thus, we have had six months of reduction of manufacturers' inventories, and the total probably declined again in September. At the same time, total manufacturers' new orders have risen from a low of $74.4 billion last March to $85.5 billion in August, and shipments have risen from $77.5 billion to $85.1 billion in the same period. The ratio of manufacturers' inventories to shipments rose from 1.63 in August, 1974, to 1.95 in March, 1975, but since then it has fallen gradually to 1.72 last August. This still is a somewhat high figure relative to the average of about 1.60 that prevailed in 1973 and much of 1974. Nonetheless, there has been a significant inventory correction.

In the fourth quarter of 1974, total business inventories were being increased at a $17.8-billion annual rate in current dollars. During the first and second quarters of last year, total inventories were being liquidated at a $19.2-billion and $31-billion annual rate, respectively. It appears that the annual rate of liquidation of inventories fell to about $6 billion in the third quarter. In real terms (1958 dollars), total business inventories were being increased at a $10.9-billion annual rate in the fourth quarter of 1974. During the first quarter of last year, they were being liquidated at an $11.7-billion annual rate and at a $17.1-billion rate in the second quarter. It appears that the rate of liquidation fell to about $2 billion in the third quarter.

The ratio of inventories to sales for manufacturing and trade reached a peak of 1.70 in March, 1975, but by June had fallen to 1.60. It undoubtedly fell further in the third quarter. It's interesting to note that the ratio has moved between a 1.45 to 1.70 range since 1954 and probably today is moving toward the lower end of the range.

Forces that will affect business inventories in the period ahead are as follows: The strength of consumer spending in the second and third quarters should encourage a swing toward business inventory accumulation. This may be cautious, however, given the uncertainty about further strengthening of consumer spending. In some lines, inventories are still high, relative to sales. The expectation that inflation will persist at a high rate—even though at a more moderate rate than in 1974-75—will tend to encourage inventory accumulation.

Looking to the future and taking account of the forces that probably will influence business inventories, I expect inventory liquidation to have run its course in the third quarter and, in some lines, for moderate inventory accumulation to begin.

By the end of 1975, the ratio of manufacturing and trade inventories to shipments should have been close to the lower end of its range. It appears that in 1975 there will have been a net *reduction* of $15 billion in total business inventories in current dollar terms. I expect that in 1976 there will be a net *increase* of about the same magnitude. The pattern is expected to be a gradual increase in the rate of accumulation, with the rate higher in the second half.

Business Financing Needs. What does my forecast for capital spending and inventories imply for the financing needs of business in 1976? It suggests that in the short-term money markets, there will be a gradual recovery of private loan demand to add to a continued heavy schedule of financing by the federal government and its agencies.

At the same time, however, the stronger net cash flow of business firms will help business finance itself from internally generated sources. So far as interest rates are concerned, it does not appear that the increase in private loan demand will be a strong force toward higher rates. The key to rates will continue to be the inflation rate, federal borrowing and Fed policy.

The net increase of corporate bonds last year has been enormous—nearly $35 billion at an annual rate during the first half—despite the weakness of capital spending. The reason is that business has been under great pressure to improve its liquidity by funding short-term debt. The funding of short-term bank debt is a big reason why banks' industrial and commercial loans have fallen so sharply.

Lately, the volume of corporate bond financing has fallen off. This may mean that the burst of funding of short-term debt is coming to an end, or it may mean that high interest rates have caused the postponement of issues. Probably, it is some of both.

In 1976, the rise of capital spending will contribute to the volume of new corporate bond issues, but there will be a lessening of the pressures to fund short-term debt. On balance, however, I would expect the net increase of corporate bonds to be smaller this year than last.

The net increase last year of mortgages on commercial properties has been quite low—at an annual rate in the first three-quarters of about $5.5 billion—compared with $11.5 billion in 1974 and $17 billion in 1973. It seems that the demand for funds in the commercial mortgage market will rise somewhat this year, but not markedly.

Thus, market pressures in the long-term sectors of business financing do not look particularly strong this year. The key to interest-rate behavior again appears to be the inflation rate and Fed policy. • •

Regional Banking Center Announced for Knoxville By Hamilton National

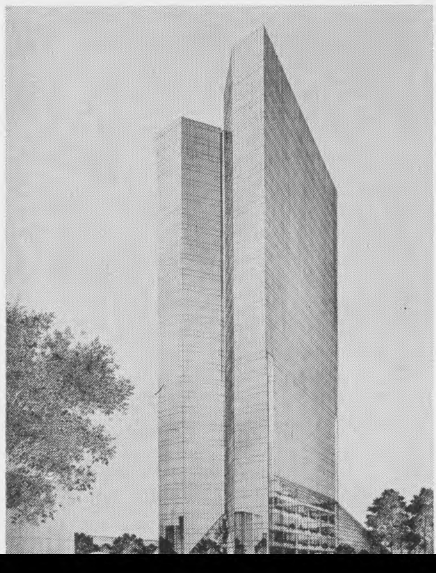
KNOXVILLE—Hamilton National has announced construction of a $25 million regional banking center for the downtown area. Completion of the project is set for mid-year 1978.

The project will consist of a 30-story building on a square block bounded by Gay Street, Cumberland Avenue, State Street and Main Avenue. The site is said to be the only downtown location with two-way access from interstates 40 and 75, which border the downtown area.

The complex will contain 450,000 square feet of office and retail space and will include a 500-car parking garage. Hamilton National plans to lease 200,000 square feet of space.

The bank will own the land and ground lease the site to the developers—Knoxville Properties, Ltd., a partnership comprised of Lawler-Wood Associates and the Franklin Haney Co. Hamilton National is said to have the right to purchase the project.

"This new and dominant structure will be appropriate for the new corporate image of the bank," said Jake F. Butcher, CEO. "The building will reflect the regional significance of the bank by carrying its name and reinforcing its image as the largest and most dominant factor in banking throughout the East Tennessee and Appalachian region. It will also serve to coordinate bank operations more effectively and create greater efficiencies by consolidating all of the central banking services now scattered in several different locations."



Taking part in MBA-BMA Marketing & Public Relations Seminar in St. Louis were (from l.) Robert F. Bastilla, v.p., First Nat'l, Highland, Ill.—co-ch.; Richard J. Pfleging, MBA pres., and pres., Bank of St. Ann; June Darby Ellison, adv. & p.r. officer, Mercantile Bancorp., St. Louis—co-ch.; and Jack W. Whittle, v.p., mktg., Continental Illinois Nat'l, Chicago—keynote speaker.

Bank Marketers Get Sobering Advice At MBA-BMA Marketing, PR Conference

By JIM FABIAN
Associate Editor

SPEAKERS laid it on the line to bank marketers and public relations people from Illinois and Missouri recently at the Second Annual Marketing and Public Relations Seminar, sponsored jointly by the Missouri Bankers Association and the Bank Marketing Association in St. Louis.

Keynote speaker Jack W. Whittle, vice president, marketing, Continental Illinois National, Chicago, and BMA treasurer, concentrated on the changes in bank marketing strategy that will be brought about by remote electronic banking machines.

He said that banks will have to reappraise their approaches to marketing and will have to adjust to the new systems because of EFT.

In the past, Mr. Whittle said, bank customers chose their banks because of convenience factors. But this rule of convenience will become outmoded with the installation of shared automated tellers.

He also said that, once small banks see the benefits of EFT, they will "come charging in wanting to join in a system."

Mr. Whittle told bankers that EFT services will make all banks equal in the services department; therefore, banks will have to choose target markets to attract customers.

Lynn Miller, executive vice president, Mercantile Trust, St. Louis, spoke on what bank management expects from marketing. He said too many small banks are trying to emulate large banks by setting up services they see at big banks and then trying to sell those services.

A better method, he said, would be to locate a need, then develop services to fill that need. He urged bank marketing officers to assume the initiative in establishing marketing plans, to come up with accurate budget figures and to be responsive to constructive criticism.

"The basic thing to remember," he said, "is that the marketing effort has to be responsive to the bottom line."

James B. Watt, senior vice president, Essex County Bank, Lynn, Mass., advised marketing officers to shed the small-cage habit, in which they react like animals who, once released from their cages, refuse to roam beyond the area of their imprisonment.

He pointed out that marketers have to satisfy four groups: customers, employees, stockholders and the public. The bank's success depends on satisfaction from these groups, he said, but especially from stockholders, the ones who concentrate on the bottom line.

He said that consumer banking is the source of future profits and that consumers have become mini corporate treasurers in that they are refusing to let banks get away with not paying for demand deposits. This attitude has resulted in a new look at consumer loan rates on the part of banks seeking to recoup the funds they are paying out for demand deposits, such as NOW accounts.

He advised marketing officers to look on their banks' problems as their own rather than only as their CEOs' and to participate in finding solutions to the problems facing bankers today.

Channels of distribution should be substituted for accessibility, he added. A wrong decision on EFT could sink a bank and if bankers continue in their old ways, they will be making a wrong decision.

The consumer isn't satisfied any longer with former banking practices, a point that is illustrated by legislation such as Truth in Lending, RESPA, etc. If bankers were really doing the job correctly, he said, such legislation wouldn't be needed.

Marketing people must know the answers to the questions, they must know what a marketing program will do for the bank to help it solve its problems, Mr. Watt said.

A trend is coming that will see marketing directors being replaced by bankers who will be taught marketing techniques, not the opposite, as has been the case in the past, he indicated. The marketing person of today faces the prospect of going the way of the dinosaur.

The concluding speaker was Barry Deutsch, vice president and director of marketing, Provident National, Philadelphia. He called on bankers to get back to the basics and reminded his listeners that the *marketing* problems of 1976 will not be any different from the *banking* problems of 1976.

Three new expressions will become common in banking terminology, he said. They are cost avoidance, service delivery and product cost review.

Cost avoidance is finding ways to do more while spending less. This is de-

Paul F. Holmes, mgr., marketing research & planning, Mercantile Bancorp., St. Louis, conducts marketing research workshop at MBA-BMA Marketing & Public Relations Seminar.

manded by the current cost crunch. An example of this would be for someone in the bank to anticipate the service a customer needs so as to prevent that customer from waiting in a line only to find that he or she had to see an officer before being served. Shortening lines is cost avoidance; it enables a bank to operate with fewer personnel.

Studies have concluded that bank customers think all banks are alike, that they are not enthusiastic about new services and that they don't enjoy going to the bank, he said. Service delivery is a concept to enable the bank to reverse these conclusions on the part of the public.

It is the job of the bank marketer to try to make people think their bank does things others don't. If this is done successfully, the bank will be able to attract newcomers, it will be able to cross-sell customers better and it will be able to win customers from its competition.

Mr. Deutsch said the time has come when all bank services have to be cost justified as part of the effort to recoup loan losses. He said it should be no great embarrassment to kill a service, such as a Christmas club, since a service that is losing money for the bank can only result in disaster.

The seminar was co-chaired by June Darby Ellison, advertising and public relations officer, Mercantile Bancorp., St. Louis, and Robert F. Bastilla, vice president, First National, Highland, Ill.

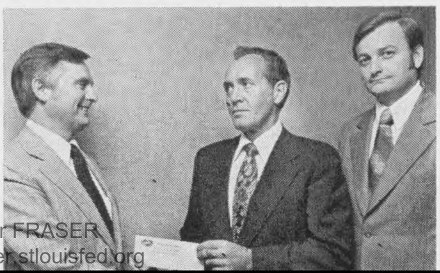
Bank Reimbursed After Robbery; Criminals Are Being Sought

CHICAGO—Scarborough & Co. has reimbursed Bank of Elmhurst Ill., with $162,315 in insurance funds as a result of the bank's robbery November 25.

Persons with information leading to substantial recovery of money and apprehension of those responsible for the robbery are asked to call the FBI, (312) 431-1333. A reward of 5% of the amount stolen is offered, and all information will be kept confidential.

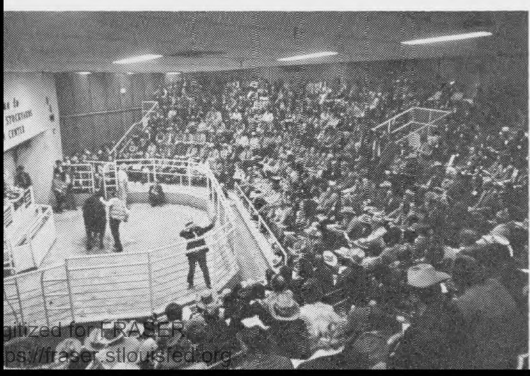
Bank of Elmhurst was insured for the loss under a bankers special bond written through Scarborough, which is a subsidiary of GSI, Inc., financial and business services arm of Esmark, Inc.

From l., Norman Clark, pres., Scarborough, Inc., Chicago, presents check to William Giova, pres., Bank of Elmhurst, Ill., as Ronald Frederickson, Scarborough v.p., looks on. Bank was robbed Nov. 25 but was insured by Scarborough under bankers special bond.



Feed Grain, Cattle, Swine Outlook And Energy Situation Are Studied At Bank's Agribusiness Seminar

By ROSEMARY McKELVEY, Managing Editor



ENERGY, which has been the dominant world problem the past two years, also was the principal topic at one session of the United Missouri Bank of Kansas City's agribusiness seminar in mid-November. Discussions centered on energy's impact on transportation, fertilizers and chemicals and machinery and equipment.

The two-day seminar was attended by bankers, as well as food producers, processors and distributors. Speakers included agricultural leaders from business, universities and government. In addition to discussions on energy, there were talks on the national and international outlook for food.

The tone of the meeting was set by Joseph D. Henderson, UMB vice president-agribusiness division and host for the seminar. Mr. Henderson told delegates they were going to examine three broad categories of outside influences that none of them control, but must recognize and reckon with because of their effects on their businesses. Mr. Henderson said the seminar's purpose was to define, in a helpful way: "Where in the World Are We on Energy?," "Where in the World Are We on International Trade, Exports and the World Food Situation?" and "Where in the World Are We on the Major Agricultural Commodity Outlook?"

TOP: Dr. D. Gale Johnson (c.), speaker at United Missouri Bank of Kansas City's agribusiness seminar, is flanked by Edward A. Huwaldt (l.), v. ch. of bank and its HC, United Missouri Bancshares, and Joseph D. Henderson, bank v.p. and host for seminar. Dr. Johnson is v.p. and dean of faculty, University of Chicago, and spoke on "World Food in Perspective."

SECOND FROM TOP: R. Crosby Kemper (r.), ch., United Missouri Bank and United Missouri Bancshares, Kansas City, is pictured at agribusiness seminar with Mr. and Mrs. J. H. Bedene. Mrs. Bedene (Frances) is pres., First State, Arma, Kan., and Mr. Bedene is e.v.p &. cash.

THIRD FROM TOP: Thomas E. Henning (l.), ag. rep., United Missouri Bank, visits with Ronald Vlasin, Vlasin Simmental cattle ranch, Crete, Neb., during seminar.

BOTTOM: Delegates to UMB agribusiness seminar had opportunity to witness sale of grand champions in American Royal Pavilion.

All these are major outside influences with or against which seminar delegates must manage, he continued, and all have major dollars-and-cents effects on the structure of their agribusinesses and well may cause: 1. A change in their forms of organization. 2. Changes in ownership or control of certain inputs, facilities or products. 3. A shifting of the risks. 4. Their decision-making processes.

"As long as labor was *the* major agricultural input," said Mr. Henderson, "it was a matter of out-muscling your competition. It's something else entirely to match wits with competitors when you may have $1 million in capital in the game along with each worker. This makes most agricultural people . . . managers of capital. The rewards go to those who use capital most efficiently and, thereby, the control of agriculture is moving to those who control capital.

"It follows that to be highly successful in agriculture and to control (though not necessarily own) a sizable amount of capital makes it necessary to develop a sound financial strategy—something that used to be for other industries, but is now found throughout the various sub-industries that make up agriculture. Some have learned through hard knocks and others through fantastic successes that such a strategy is a necessary part of any agribusiness.

"It used to be thought that lenders were followers and that any changes in lending techniques came sometime behind changes in technology or innovations. With capital playing such a major role, innovations in lending actually are leading the way to new organizational forms and new methods of decision-making.

"Any time productivity is greater than the cost of money, there is the urge to bring more dollars into the picture, but is equity capital there and in such form as to service more debt capital? To safely move ahead with the tactics, one needs first to be sure his financial strategy is well thought out and in place."

Mr. Henderson then listed five areas in which this strategy basically deals:

1. Overall strategic planning, including both long-term capital budgeting and short-term operational programs. It's necessary to set goals and to put a time schedule on where an agribusinessman wants to be, and when.

2. Cost and budget control. This area is highly important as cash flows (both in and out) reach *astounding* proportions, making it necessary that actual expenditures be kept close to realistic projections. Such comparisons may be simple and prepared by hand or quite complex and produced with computer equipment. In any case, they must be *prompt* and *adequate* so that corrective action may be taken in time.

3. A new attitude—that "debt is a salable item" and that credit can and must be merchandised wisely and prudently; that lenders are buyers of credit and have many buying opportunities from which to select. Therefore, it's necessary for a borrower to tell his lender continuously what he has done, is doing and will be doing—in such form as the lender can record and maintain and analyze the process of the borrower's business.

4. Maintenance and management of financial reserves—these include cash, unused credit, insurance programs and securities. Not all can be foreseen, and a ready financial "pillow" can put a company back on its feet when otherwise it might have stayed down for the count.

5. Recognition that no funds will bring a higher return than those spent outlining, maintaining and updating a good estate plan. No other *one move* can be made by management that will do more to assure the availability of capital for the future of an agribusiness. High tax rates, inflation and new lending techniques are accelerating the industrialization of agriculture at such a pace that any lack in this area of estate planning means a major exodus of capital out of that particular business. Most simply cannot withstand such an amputation every generation.

In the session devoted to discussions about energy, the effect of the energy shortage on the manufacture of fertilizers was the subject of John F. Anderson, executive vice president-manufacturing and production, Farmland Industries, Inc., Kansas City. He pointed out that nitrogen fertilizers constitute nearly half the total fertilizer tonnage in the U. S., and, currently, natural gas, water and air are the basic raw materials for production of ammonia, which is the base material for nitrogen fertilizers. Because there's no particular problem in obtaining air or water, he continued, availability of natural gas becomes the critical factor.

In view of the present and continuing shortage of natural gas, Mr. Anderson asked what alternatives are available to the ammonia industry. He answered by saying:

First, and most obvious, the ammonia producer must continue to search for additional sources of natural gas. *A second option* is to reduce the volume of natural gas required to produce a ton of ammonia. *A third alternative* is consideration of alternate feedstocks and energy sources for new plants. *Finally*, the national policy on natural gas must impose *end-use restrictions* that would give a high priority to agricultural uses and specifically assure that low-priority users will convert to alternate fuels. This restriction should be paralleled with specific investment incentives for converting to alternate fuels.

Seminar delegates were among the first to hear about a new government energy study. The speaker was Clifford L. Hayden, a member of the Federal Energy Administration's Food Industry Advisory Committee, which made the study. Mr. Hayden is general manager, transportation planning, Interstate Brands Corp., Kansas City. He said that the study found that of the approximately 37 million barrels of oil equivalent (BOE), more than six million BOEs are used in the entire food process, including the consumer. He said the study is segmented by crops and every phase of processing until it reaches the final consumer, thus pinpointing usage in every sector of the industry. He believes the effects of the study could come in its use as a guideline for establishing mandatory energy conservation in Congress if the industry doesn't respond with voluntary programs.

In the study, said Mr. Hayden, it was determined that agribusiness could save 903,000 barrels, or 20% of its consumption, simply through good housekeeping and with little capital outlay. This, he said, represents a potential savings of $5.8 billion yearly to the industry. He illustrated his presentation with charts and graphs developed by the committee.

Talking about the impact of energy on agriculture was Otto C. Doering III, department of agricultural economics, Purdue University, West Lafayette, Ind. According to Dr. Doering, agricultural use of energy has some special characteristics. For example, a guarantee of enough fuel for agriculture from the federal government does nothing

United Mo. Initiates Hunting Classic; Features Trap, Live Game Shooting

THE CORRESPONDENT department of United Missouri Bank, Kansas City, has held its first annual United Missouri Bank Hunting Classic and 60 of the state's bankers were in attendance.

Reportedly a first for area bankers, the day-long event featured trap and live game shooting, which resulted in nearly every participant taking home at least one bird.

The classic took place at Game Hill, a hunting preserve in Weston, Mo., north of Kansas City. There was competition on two trap ranges, including a trip into the "Walk-Thru Game Trail," which simulated upland game bird shooting.

Following the day's shooting, guests toured the nearby McCormick Distillery. The Hunting Classic ended with a barbeque and social hour.

E. L. Burch, bank vice president and one of the event's organizers, noted that the number of guests at the first classic was kept small so the bank could determine if the idea was workable.

Bankers wait in blind during first annual Hunting Classic of United Mo. Bank, Kansas City. Saturday event, held at nearby hunting preserve, initially was limited to correspondents from Mo., but will be expanded in future due to good response to this classic, say bank officials.

"Judging from the response of our guests," Mr. Burch said, "it looks as though we'll be hosting another classic next year. We hope to open it up to our correspondents from more of the states we serve." • •

for a farmer when his local dealer runs out of LP gas, unless there are sufficient emergency supplies available in the region.

He advised his listeners to distinguish within the high-energy agricultural systems those energy inputs that increase yield and those that may increase energy efficiency as opposed to those energy inputs that produce convenience or a less labor-intensive operation. Agribusiness' ability to increase its energy efficiency, Dr. Doering continued, is going to depend on its ability to decide correctly which practices should be modified and which maintained.

In discussing the impact of energy on machinery and equipment, Gordon H. Millar said it's often falsely stated that farming uses more petroleum than any other single industry. According to Mr. Millar—vice president-engineering, Deere & Co., Moline, Ill.—this misconception leads to the false idea that there's great potential for conserving energy in agriculture.

Mr. Millar then compared the amount of energy agriculture uses with that used by other segments, such as autos, trucks, buses, motorcycles, recreational vehicles and lawn and garden equipment. The result? Off-highway agricultural consumption accounts for only about 3% of total motor fuel. In fact, Mr. Millar emphasized, reducing highway speed of motor vehicles to 55 mph will save more motor fuel than is used for all off-highway agricultural purposes.

Mr. Millar also discussed the energy situation as it applies to chemicals used in agriculture and crop drying and irrigation. Like Mr. Hayden, he illustrated his talk with charts and graphs.

The seminar's afternoon session was devoted to situations and outlooks for feed grains, cattle and swine.

The night before the business sessions, UMB was host to delegates at a banquet at the Muehlebach Hotel, site of the seminar, and to a performance at the American Royal Show. In addition, on the morning of the seminar, the bank took its guests to a sale of grand champions at the American Royal Pavilion.

Liberty of Okla. City's Bank Note Sale Proves Both Buyer and Seller Can Win

LIBERTY NATIONAL, Oklahoma City, experienced a "moment of truth" March 24, 1975. That was the date the bank announced a $10-million subordinated capital note offering at 8½% and 9% interest, when some regional banks were paying well over 10% to obtain capital.

The big question: Would the public consider the notes attractive?

But Liberty's management was convinced there was a genuine market for such securities, issued by a strong and respected regional bank, at a rate both fair and attractive to buyer and seller—somewhere between limited Regulation Q yields available to individual thrift depositors and the painfully high rates (and "kickers") charged by large securities firms to place only selected longer-term bank capital notes. After all, Oklahoma's largest bank had turned in 26 out of 31 quarters (nearly eight years) of increased earnings, had built up an almost-unheard-of 2% loan-loss reserve (of total loans) and had no significant REIT problems.

The Comptroller authorized the offering in $10,000 minimum multiples; Liberty's board approved; a circular was prepared, and the entire officer staff became involved in the effort.

About five months later, Liberty had sold $7.5 million in minimum multiples of $10,000. Thirty days later, another $2.5 million was placed privately with an insurance company at the then existing market rate for a single transaction of such size.

Commenting on the success of the note sale, J. W. McLean, Liberty's chairman, said, "The average cost to the bank corresponds to a high-grade industrial or utility offering and is well below rates some competing regional banks have had to pay for similar capital placements. At the same time, it was a considerably better yield opportunity for the 'thrift-oriented' individual buyer than is usually obtainable from other financial institutions."

On the day Liberty announced its offering, an individual could get 6⅛% on a $100,000 CD and approximately 6% on commercial paper. However, by late May, a significant decline in interest rates saw 30-day, $100,000 CDs drop to 4⅞%, along with similar rate declines for other investments.

"This enabled our officers and employees to offer a very attractive return on investment," Mr. McLean said, "especially when compared with the 6.42% average yield of commercial paper and CDs over the past seven years."

By September, however, rates had shifted dramatically upward, with such firms as Western Union offering 12½% for six-year subordinated debentures. One of Liberty's directors said afterward, "I wasn't sure they could do it; but it just goes to show that the public is discerning and will buy a quality product." Admittedly, there were moments when Liberty management felt the pressures of higher competitive rates. But, in Mr. McLean's words, "the determination of our people to market a good product based on Liberty's strength, reputation for growth, profitability and assets of $947.7 million, was proved out by the sophistication of the investors who bought the notes." According to Liberty's records, they included churches, corporate pension trusts, retirement plans, foundations, estates, life insurance companies, unions, profit-sharing trusts, other banks' trust departments and directly to some commercial banks to take the place of needed quality loans.

Mr. McLean said the subordinated capital notes were issued as a result of Liberty management's decision to increase the bank's funds in order to sustain and keep pace with certain long-range growth objectives.

"The 'monetization' of this fresh capital through expanded lending of deposits, obtained at lower average rates, will benefit both the community and our shareholders. It's a classic case of a 'good sale'—one where nobody loses, rather, both the buyer and seller benefit."

According to the most recent ranking by "American Banker," Liberty is the 137th largest bank in the United States in total deposits, representing a 15-position gain from the mid-year 1974 rankings. It was one of the first banks in the southwestern United States to provide credit card services, automated data processing and, according to a spokesman, has the largest Oklahoma network of correspondent banking relationships. • •

Long-Time Mo. Banker Dies

ST. JOSEPH, MO.—William F. Enright, 80, director, American National, died last month.

He joined Empire Trust in 1919, serving as president from 1935 to 1960, when the bank merged with Tootle National to become Tootle-Enright National. He served the new bank as chairman until its consolidation with American National in 1963.

Mr. Enright's son, William F. Jr., is executive vice president, American National.

Hooray, Elbert:

Bank's 'Word' Is Spread Through Mascot Promos

First National, Denver, has been using its mascot—a caricature of Colorado's state animal, the bighorn sheep—with great success since its introduction last spring.

A promotion featuring stuffed, 14-inch-high Elberts (as the mascot is called) increased the bank's regular savings balance by 3.41%, added 7.1% to its total number of savings accounts and increased its share of the regular savings market by a reported one point.

Elbert also makes regular appearances on the animated scoreboard of the Denver Broncos football team, but a new marketing plan by First National has made it possible for Denver residents to wear a likeness of the mascot on T-shirts: An iron-on advertisement was run in the *Denver Post*.

The newspaper ad used a plastic ink which permits the transfer of pictures from the page to cloth with the application of a hot iron. Total cost of the ad was $4,265 and a bank spokesman says the response was exceptional.

One national department store with 11 outlets in the area reported that its entire supply of T-shirts was depleted in several outlets and asked First National for advance notification in the event of another iron-on ad and the *Denver Post* had a request for 40 tear sheets of the iron-on ad from a local high school's Future Homemakers of America chapter.

Besides resembling the state animal, Elbert ties in with Colorado history in other ways. Elbert is the family name of a former territorial governor, the name of the state's highest peak and of a county.

Nadler Talks on Economy at Commerce of KC Meeting

Dr. Paul Nadler (at podium) is shown speaking to Kansas City businessmen at a mid-November meeting sponsored by Commerce Bank of Kansas City. He is professor of business administration, Rutgers University, New Brunswick, N. J. In center is P. V. Miller Jr., pres. of bank. At right is James M. Kemper Jr., ch. Dr. Nadler discussed inflation, which he described as the "basic cause of everything," the state of the country's economy, which, he said, was brought to its knees by high interest rates, and the plight of New York City (the talk was given before President Gerald Ford recommended federal aid for that beleaguered city). Dr. Nadler asked his audience whether NYC's problems were all its own fault and then answered by saying that many of its difficulties were caused by the federal government. Letting New York City go, said the professor, would be like "going out in a row boat with your own worst enemy and then drilling a hole in the boat." He added that it would cost the U. S. government more after NYC's default than it did before.

What's Going On?

Bank Begins Newsletter For Businesses, Banks

Itasca (Ill.) State has published the first of four quarterly editions of a banking newsletter for corporate and commercial businesses in the northern and western Chicago suburbs.

The newsletter—"BANK VIEWS"—is designed to provide financial and banking information to its readers. The publication, besides offering current information, interprets banking trends and services.

The inaugural issue features a report on the nation's economy, with a projection for 1976. It also examines the business advantages of company credit cards and automated payroll processing.

The first edition's news covers the availability of management publications from the Small Business Administration, while special banking services also are discussed.

In Bank-by-Mail Operations:

Thousands of Dollars Saved Annually By Elimination of Return Receipts

By ROSEMARY McKELVEY
Managing Editor

HOW MUCH will the new first-class postage rate (13¢ an ounce) cost your bank in 1976? Are you aware of a relatively new program for your bank-by-mail operations that actually will help you *cut costs,* as opposed to adding some 30% to operating expenses in 1976 (because of the postage increase)?

A number of banks around the country already have eliminated the *return receipt* on bank-by-mail deposits. Savings have been substantial and will look even better under the new 13¢ first-class rate!

How does the program work?

Banks send envelopes to their bank-by-mail customers, usually in packets of eight to 14 imprinted envelopes. Customers use these envelopes to mail in their deposits (as they always have done), but the bank *does not return a receipt!* Savings: 13¢ on each transaction in 1976!

Each packet of envelopes placed in the hands of the customer includes a reorder envelope, which the customer uses when his deposit-envelope supply is about to run out.

The firm that devised this technique—Tension Envelope Corp., Kansas City—reports many of its banking customers are saving from $5,000 to $50,000 annually with this procedure. However, many banks are reluctant to do so, but experience has shown there's really little notice made of the change.

Tension Envelope explains that the practice of sending receipts by return mail apparently has been perpetuated over the years because banks assume that if a customer sends in a deposit, he expects to receive tangible evidence that the bank has received it. Then, about 10 years ago, some brave bank decided to eliminate the mailed deposit receipts and took a chance that it might rankle a customer or two. (Tension Envelope points out that a bank can afford to furnish quite a few "special receipts" in order to save many thousands of dollars in postage costs.)

To illustrate how eliminating the mailing of receipts can cut costs, MID-CONTINENT BANKER offers this hypothetical example: First National of Anytown, with 12,000 bank-by-mail accounts, has 240,000 deposits mailed in annually requiring return-mail verification. At 13¢ per receipt, the cost would be $31,200 for postage and about $2,400 for the return window envelopes. Thus, mailing receipts would cost our hypothetical bank some $33,600 a year. Question: How many bank-by-mail deposit receipts does your bank mail back in the course of a year?

Under the receiptless system, our bank sends 12 return envelopes in one packet to its bank-by-mail customers at a hypothetical cost of about 2¢ per envelop. Total cost per year for mailing these packets is $4,800. The cost of envelopes in which deposit envelopes are mailed is $600 (approximately 25% of the cost of the window envelopes used in the receipt system). Thus, it costs

Packet-System Estimate Form

Here's a comparative cost analysis of immediate mail-back of verified deposit versus verified deposits returned with monthly statements. The form was provided by Tension Envelope Corp., Kansas City. Note: Both systems require one deposit envelope per transaction. Therefore, quantities and costs of this item are the same, whichever system is used.

Immediate Mail-Back System

		System Cost
A. Number of deposits mailed in annually with return-mail verification	______	
B. Multiply by postage @ 13¢ per receipt	X .13	
C. Total postage cost for year (A times B)	______	
D. Add cost of window envelopes .... M @ $........ per M	______	
E. Annual cost of immediate mail-back system (C plus D)	______	______

Packet System—Receipt With Statement

F. Annual number of bank-by-mail deposits (same as A above)	______	
G. Multiply postage per deposit envelope mailed in packet (24¢ mails packet of 12 envelopes @ 2¢ per envelope)	X .02	
H. Total postage cost per year for mailing packets (F times G)	______	
I. Cost of envelopes in which deposit envelopes are mailed out (Approx. 25% of window envelope costs in D above)	______	
J. Annual cost of bank-by-mail packet system (H plus I)	______	______
K. Annual savings from using packet system (substract J from E)		______

FILL IN—DETACH ALONG PERFORATED LINE—PLACE INSIDE ENVELOPE

TAKE THIS TIP AND SAVE A TRIP...

SAVE BY MAIL

MAY WE SUGGEST THAT YOU OPEN OR ADD TO A SAVINGS ACCOUNT ONE CHECK DOES IT ALL

1. MY LOAN PAYMENT .... $______
2. ADD TO MY SAVINGS ACCOUNT .... $______

THE TOTAL OF MY ENCLOSED CHECK IS .... $______

NAME______

ADDRESS______

CITY______ STATE______ ZIP______

NAME OF JOINT TENANT______

IF YOU DO NOT HAVE A SAVINGS ACCOUNT CHECK SQUARE AND WE WILL START ONE FOR YOU.... ☐ PLEASE OPEN A SAVINGS ACCOUNT FOR ME

CONSUMER LOANS

AUTO LOANS ★ HOME IMPROVEMENT LOANS ★ PERSONAL LOANS

I'm Going To Need $______ For______

Please call me at ______ (PHONE NUMBER) Best time to call is ______ (DAY OF WEEK — HOURS)

Name ______ Address ______

City ______ State ______ Zip ______

LEFT: State Bank, Hudson, Wis., cross-sells its services via its bank-by-mail enevlopes by attaching coupons like this one to envelopes. RIGHT: First Nat'l, Toledo, O., uses bank-by-mail envelopes as cross-selling tool. This coupon copy invites recipients to seek auto, home improvement or personal loans from bank. Both banks are among many that have stopped sending receipts for each bank-by-mail deposit received. Instead, they include these receipts with monthly statements. This receiptless system is producing postage savings of thousands of dollars per year.

$5,400 a year to use the receiptless system—a saving of over $28,000 a year over sending receipts.

Of course, another intangible saving that results from the receiptless system is in time for bank personnel, who are freed from the job of sending out receipts.

Banks in the twin cities of Minneapolis-St. Paul offer good examples of the use of the receiptless bank-by-mail program. According to Tension Envelope, only 11 out of 117 banks there are returning receipts to customers. In 1970, 56% of the banks in the two cities were still using receipts, according to Tension Envelope. By November, 1974, only 20% were using receipts. The latest survey revealed the 11-out-of-117 figure.

In another state, First National, Toledo, O., began using Tension Envelope's bank-by-mail packet system last spring and is completely satisfied with it. When the bank initiated the program, it sent a packet of seven envelopes to its personal-account customers and 23 to its business-account customers. Since then, the bank has found it advisable to send 14 envelopes to personal-account bank-by-mail customers.

Here's how the First of Toledo program works: Each bank-by-mail customer receives a packet of envelopes, along with encoded deposit slips and a "reorder" identified envelope. The bank returns the deposit slip with the monthly statement.

Personal-account customers receive their packet of bank-by-mail envelopes in colored kraft open-end envelopes. White kraft envelopes identify those for business accounts.

There's only one difference in instructions printed on the back of the open-end envelopes. Those sent to commercial customers indicate that a receipt will be sent by return mail *if* a self-addressed, stamped envelope is enclosed with the deposit.

Bank-by-mail customers of First of Toledo *furnish their own postage on the deposit envelopes!* In fact, says Mary Hitchcock, assistant vice president-operations, *the bank pays no postage on any incoming mail!*

First of Toledo did not advertise the new system, but treated it as a change in procedure. Mrs. Hitchcock reports that its customers, on the whole, accepted the new program, with less than 2% voicing any objections. In the cases of *extremely good customers who request return-mail receipts,* the bank has set up a simple system. Each one of these customers receives a re-usable pouch folder in which to place his deposit, along with a window envelope. When a deposit comes in enclosed in one of these folders, the bank-by-mail personnel know immediately that a return receipt is mandatory. In fact, the bank will pay postage both ways on these very good accounts rather than risk losing them.

The bank still sends receipts for direct deposits such as social security, insurance-premium payments, dividend and payroll checks.

Using the receiptless system pays off well for First of Toledo. If it sent 14 individual receipts and deposit envelopes to personal-account customers, the postage cost—under the new 13¢ rate—would be $1.82 each. However, by sending out one batch of 14 envelopes at the third-class rate of 24¢ (estimated), it realizes a postage saving of $1.58 per customer. If the bank had mailed 23 envelopes individually to commercial customers, the postage cost would be $2.99. However, by mailing the 23 in one batch at the 34¢ third-class rate, the savings are $2.65 per customer.

Mrs. Hitchcock points out that the First of Toledo packet system not only reduces the bank's mailing costs, but the envelopes, which incorporate special perforated coupons, also serve to cross-sell services. Each envelope in a packet promotes one of the following: savings accounts, personal lines of credit, consumer loans, Master Charge and automated-teller service. There's room on the back of each envelope coupon for the customer to indicate whether he wants the particular service mentioned and to fill in the information the bank needs to start providing the service.

Tension Envelope calls these cross-selling envelopes with the coupons "hot potato" envelopes. According to many financial marketing people, this type of contact with seldom-seen bank customers is essential now, and—with EFTS coming on the scene—real cross-selling of services will be imperative.

The receiptless system and the "hot potato" envelopes also are in use at Valley National, Sioux Falls, S. D., and State Bank, Hudson, Wis. The latter bank features three kinds of installment loans on one of its envelopes—snowmobile, home improvement and auto. Another envelope copy suggests that the customer make a loan payment or add to his savings account via the envelope (if he doesn't have a savings account, there's also a place for him to ask the bank to open one for him). The Valley National envelopes also spotlight installment loans, including ones for boats and autos, and cross-sell the bank's savings certificates and drive-up facilities.

Banks that continue to mail individual receipts to their customers should calculate the potential savings under the plan described in this article. A table supplied by Tension Envelope Corp. accompanies the article and should be helpful in showing banks how to compare the receipt with the receiptless program. • •

Soundness of Borrowing Banks Raised At ABA Correspondent Bank Conference

THE TOPIC of the soundness of banks as borrowers was prominent at the recent National Correspondent Bankers Conference, sponsored by ABA.

It was first raised by Roger A. Lyon, executive vice president, Chase Manhattan, New York, who noted that banks should have the internal fortitude "to differentiate and provide responsible leadership and guidance in weak situations, and in so doing, make ourselves better bankers."

Mr. Lyon is chairman of the ABA's Correspondent Banking Division. His topic at the conference was "A Framework for Analyzing Bank Performance."

He said that interbank credit appraisal is probably one of the least taught subjects in bank training programs and that credit analysis of another banking institution seldom concerned bankers in the past, because, until recent periods, banks were not really major borrowers from other banks.

"Further," he said, "as bankers, we assumed we knew our own profession and could easily make snap credit judgments based on thin financial data. Knowing the quality of the underlying assets didn't seem a problem."

Bank examinations were another element that probably entered into a lax review of the question, Mr. Lyon said.

This is because banks are heavily regulated and it was assumed the examiners would take care of checking them out, he said.

"But there are a number of reasons why we should have been looking closely at bank credits," he said.

One of the reasons cited by Mr. Lyon was that, in many institutions, the total guidance and confirmed facilities entailing credit risks to the banking industry exceed that of most other discreet industries to which banks lend.

"Also," he said, "there are few industries where the quality of assets is more difficult to determine, performance more difficult to project and accounting classifications and treatments more difficult to standardize. We may 'read' a financial statement, but can we interpret a financial report?

"Further, as we all know, the examining authorities are not perfect. Their role is to protect the depositor, not us. A poor bank credit is your problem, not the regulator's. If you end up with a loss, management looks to you, not the examiners, for shortcomings."

Mr. Lyon said that credit analysis in determining the quality of a borrowing bank is a key function for the lending bank and should be structured on a detailed examination and scrutiny.

Among the elements to be considered in such an analysis, he said, are the structure of the borrowing bank's funds, the nature of its liabilities, the quality of its assets, a determination of its liquidity position, its capital structure and the flow of funds.

"When all is said and done, if we've done our homework, we should be able to come to some informed judgment of the relative credit worthiness of the customer," he said.

He recommended that an analysis as he proposed should be part of a continuing process. He said that banks usually don't get into trouble overnight; rather, it takes longer because of an unwillingness or inability to correct debilitating policies.

In cases where a correspondent relationship is established and an insight gained into a borrowing bank's standard of quality, but no credit situation is created, such an insight is still worth the effort, Mr. Lyon stated.

"In such cases, we have helped confirm the customer's policies or problems and made him aware of opportunities that may have escaped his attention. Any customer who doesn't appreciate this aid couldn't have been much of a client in the first place," he said.

In a similar vein were remarks made by Keynoter Gaylord Freeman, at that time chairman, First National, Chicago. He retired from that post last December 1.

Mr. Freeman noted the variety of standards that have been accepted as a mark of excellence and stability in the banking field over the years and pointed out how those standards have changed since he began in the business.

He said there were four basic principles when he began in banking over 40 years ago and everyone knew them well.

The principles were (1) That deposits should not exceed 10 times capital, (2) that loans should not exceed 20% of deposits, (3) that each bank had to provide its own liquidity through cash, short-term governments and self-liquidating paper, and (4) that the goal of bank management was soundness, not profits.

That multiple criteria changed to something more basic during the Depression, he said, and that was concern for survival.

The new goal of size became important in the 1950s, he said, and banks also were competing heavily in the capital markets with all other business firms. Thus Mr. Freeman said he concluded that the goal was maximum profits.

Mr. Freeman earned the attention of some older bankers after he had given a speech before the Reserve City Bankers convention in the late '50s on profits as a bank's goal.

"They spoke of soundness, of service and said that banking was different from other business corporations," he said. "I laughed to myself. How confused they were, how uncertain, how out of date! By the '60s, the profit goal was quite well established. I knew I had been proved right.

"But I am not so certain now. I am not laughing anymore. I am the one who is confused and somewhat uncertain, but not out of date."

Mr. Freeman said that bankers have to compete in capital markets and that they are more conscious of that fact today than ever before. Profits are extremely important and bankers are working hard to increase them. Yet the stock of many of the best banks is selling below book value.

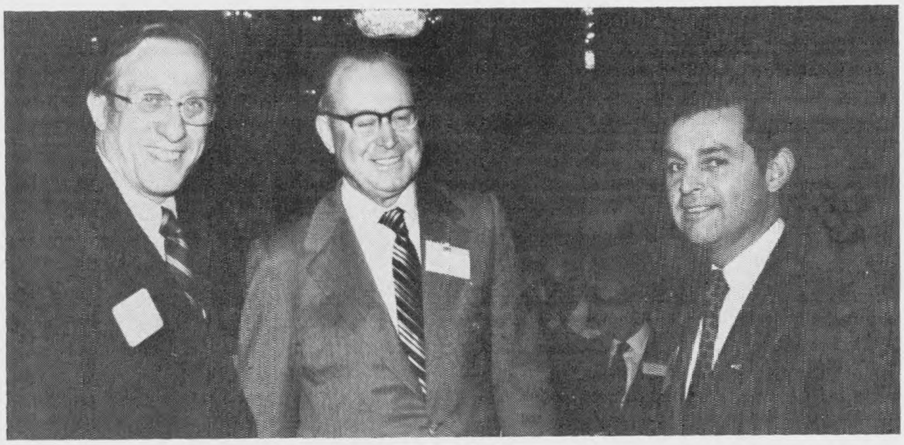
"Maybe there is a message there," he said. "Perhaps the market is saying: 'Yes, we like record profits year after year, but we would be willing to take a little lower rate of gain in exchange for a little greater soundness. Earnings growth is desirable, but soundness is essential.' "

Rating a bank through its personnel also was cited by Mr. Freeman as being important in establishing a correspondent relationship that, among other things, may lead to extending that same bank credit.

One target, he said, is the boss of the bank. He noted that, depending on where the bank is located and the bank's size, that could be a chairman, a president, or someone with only the title of cashier.

On rating such CEOs, Mr. Freeman listed determinations that would answer questions of what kind of man the officer is, his intelligence, his working habits and hours, his attitude toward people and his role and acceptance in the community.

"These are (all) useful appendices to a banker," he said. "But by far the most important characteristic you must find in each bank, if you are to extend it credit, is, today, just as it was 40 years ago, soundness." • •



Participating on 'Yes' Panel presentation at First Nat'l, Chicago, Correspondent Conference were First Nat'l Pres. Chauncey E. Schmidt (r.) and Donald Jacobs (l.), dean, Graduate School of Management, Northwestern University. They are talking with Charles L. Peery, ch., First Nat'l, Florence, Ala. Mr. Schmidt moved January 3 to Bank of California, where he serves as pres. & CEO.

'Yes' Package of EFT Services Unveiled By First National, Chicago, at Conference

FIRST NATIONAL, Chicago, unveiled its "Yes" system recently at its 29th annual Correspondent Conference. The "Yes" system is a package of EFTS capabilities available to correspondents of First National.

Included in the package are the following services, which can be used according to the needs of a correspondent bank: an on-line processing system, automatic teller machines (ATMs), point-of-sale (POS) terminals, a communications network, a switching computer, plastic ID cards and a marketing program.

According to Homer J. Holland, First National vice president, the system was designed and will be made available based on the underlying principles of "What's right for the customer will ultimately succeed as the EFTS system."

Mr. Holland said First National's thinking includes the following conclusions about EFT:

- That access to a POS network should be available to all financial institutions via a shared network.
- That the legal environment will provide for EFTS even though the evolution of the regulations and statutes may suffer from fits and starts. Bankers cannot wait for complete clarity in the legal environment before taking steps for a new kind of banking future. Preliminary experience in EFTS will enable bankers to recommend necessary changes in regulations.
- That a large bank's role is to provide the technology, marketing, procedures and assistance to enable its correspondents to serve their local markets.
- That there can be in EFTS a mutually beneficial relationship between a large bank and its correspondents.
- That the profits in EFTS will accrue to those banks that look to what the customer wants and is willing to pay for.
- That definite changes in the pricing of retail banking services are inevitable.

According to Mr. Holland, the "Yes" system offers a package characterized by flexibility and variety to enable customers to choose the kinds of EFT services they want. "This will result in profits for you as well as a meaningful adaptation to trends that are going to change the face of banking."

One of the major advantages of EFTS, Mr. Holland said, is to move transactions away from the capital-intensive teller lines in banks and distribute those transactions electronically to other places at lower cost.

Mr. Holland said First National will begin introducing its own debit "Yes" cards by this month, but did not say what portion of the bank's customer base would receive the cards. The system will operate initially in the Chicago and Minneapolis areas.

First National's concept of the importance of EFTS was summed up by a bank spokesman, who said, "Now we are faced with one of the major historic decisions in banking. In the future, banks may well fall into two groups—those that did make themselves ready for EFTS and those that did not." • •

Kansans attending First Nat'l, Chicago, Correspondent Conference included (from l.) Clifford W. Stone, ch., Walnut Valley State, El Dorado; Henry G. Blanchard, ch., Commercial Nat'l, Kansas City; H. L. Schram, ch. & pres., Morrill & Janes Bank, Hiawatha; and T. M. Higgins Jr., pres., Twin City State, Kansas City.

Chicago ATMs 'Illegal'

A U. S. District Court judge has ruled that the automatic teller machines (ATMs) operated off-site by Continental Illinois National and First National, both in Chicago, are branches and are in violation of Illinois' anti-branching statute.

The ruling was issued shortly after a judge in St. Louis ruled that the two off-site ATMs being operated by First National, St. Louis, were illegal and must be disconnected.

First of St. Louis is appealing the ruling and the judge has given the bank permission to keep the machines in operation until the appeal is decided.

Continental Bank has stated it will appeal the Chicago judge's ruling.

The Chicago judge stated that the ATMs would be legal if their use was confined to dispensing cash. The machines had been accepting deposits, which, the judge ruled, made them branches.

McLean

(Continued from page 22)

• Personal income nationally is up about 8%, but is still lagging slightly behind the consumer price index (in Oklahoma, it's up 11% and above the price index);

• Agricultural and livestock prices are relatively strong and will remain stable (a big stimulant for Oklahoma's economy, already supported by a revival of deep exploration for hydrocarbons in the Anadarko basin);

• Monetary policy is *moderately stimulative,* with no signs of change well into next year; while fiscal policy is and will be *aggressively stimulative* through 1976 and beyond.

In banking, interest margins have become a little more manageable, with short-term rates having declined from record high levels. But the wide disparity in bank earnings reports will continue for a couple of years, with those banks which have resisted over-ambitious real estate lending and avoided large non-accruals leading the way. Most of Oklahoma's leading banks are relatively free of these problems.

That same period of time will probably be needed to resolve the many EFTS debates going on in various state legislatures and in Washington. I doubt if many bankers have begun to realize the impact on their costs that electronic payments will impose, especially if some of the several hundred pending "privacy bills" become law. 1976 will not be a year for "give away one-upmanship" or for "pseudo-statesmanlike utterances" advocating such things as interest on demand deposits—clearly *not,* with the shape and expense of the payments mechanism undergoing such revolutionary change. In the meantime, even in restrictive states like Oklahoma, a point-of-sale check guaranty system would seem to be a logical and economically feasible way in which to stay abreast of the "state of the art."

Against this background, here are my six super-issues for '76—and beyond:

• Will the final effects of *New York City's financial crisis and its experimental remedy* restore confidence in the capital markets, which presently appear to be sadly inadequate to accommodate $100 billion of state and local government needs and a massive $4.4 trillion short-fall for other purposes (producer durable, residential and non-residential construction) projected by the Commerce Department in 1985?

• Will the *current gains in automobile sales* be sustained as a genuine acceptance of the new models; rather than a mere carry-over of last year's deferred demand?

• Can the nation's *ambivalent grain export program* yet be turned into a long-range policy which can be relied upon, without inflationary consequences?

• How much longer will we play "OPEC Roulette" with the *nation's energy supply* and a policy which is thus far sadly lacking in incentives for the crucial exploration and development of petroleum reserves?

• Can we maintain the *delicate balance between war and peace abroad* in a dozen or more restive areas of the world with such a serious dichotomy in philosophy and goals in the Congress and still smoldering between our State and Defense Departments?

• Finally, with *consecutive federal deficits approaching $90 billion,* how can we expect anything but a new high rate of inflation within 18 to 24 months, accompanied by record interest rates and inevitably the highest unemployment we have yet seen?

Despite the threatening impact of these unresolved super-issues, I'm still idealistic enough to believe that the *final outcome can be influenced* if we bankers will only make the small personal sacrifices necessary to *share our views with others,* both privately and publicly. What other profession has a greater incentive to be more totally objective? Bankers have absolutely no interests in conflict with supporting those economic alternatives which contribute to, rather than detract from, the *net productivity of goods and services*—the only long-term antidote yet found to cure the poison of inflation. • •

Haines

(Continued from page 22)

consumer. After four successive rounds of inflation and recession within the past decade, the American consumer appears to be more concerned about whipping inflation than having full employment. We believe that the consumers' current attitude of building liquidity and cautious spending will continue for the foreseeable future. This more conservative posture by the consumer and the current low level of business activity will dictate a slower, but more orderly, rate of economic growth.

The Kansas economy, unlike the national economy, was virtually unscathed by this most recent world-wide recession. The minimal effects felt by our area can be attributed to three economic strengths within our local economy. The first of these can be found in the agricultural sector. While this industry has faced some severe cost and price pressures, current prices, when compared to years past, seem favorable. With growing expectations of international trade and acceptable climatic conditions, the future of this industry appears bright.

Another economic strength of Kansas is its oil and gas production. With higher energy costs, reserves which in the past appeared marginal now are very profitable to develop. Subject only to a change in the sources of energy, this industry will remain a big plus for Kansas' economy in the future.

Finally, we have the aircraft industry. With permanent reductions in national speed limits and further escalation of fuel prices, corporations are realizing the feasibility and economies of private air transportation. There has been a traditional correlation between the general aviation industry and business cycles, but with this correlation broken, the future for general aviation is excellent.

The current economic condition of the banking industry, both locally and nationally, reflects their counterpart in the national and local economy. The nation's banking community within the past two years has had to deal with an unprecedented confidence crisis. Little did we know that the Franklin National debacle was the tip of the iceberg. Since that time tanker loans, REITs and New York City tribulations have found their way into the day-to-day conversations of not only bankers, but also their customers and stockholders. More questions are being asked today than ever before about banks' capital structures and capital adequacy. The result has been and will continue to be a severe deterioration of many banks' accessibility to capital markets.

Locally, the Kansas banking community, while not immune, has been scarcely touched by the current crisis. Earnings continue to improve and losses remain within manageable limits.

Consistent with the view of a slow, deliberate recovery for 1976, it is probable the demands for credit—both in the corporate and consumer sectors—will be relatively weak. As these demands are recognized and the effects of reintermediation are felt, banks could begin to incur an earnings' squeeze. This period of economic sluggishness and high liquidity should dictate lower interest rates throughout most of 1976.

The problem of the banking industry's accessibility to capital markets will be fully tested in 1976, as banks prepare for the EFTS revolution. We can approve or disapprove of the concept of EFTS, but the thing we must not do is ignore it. Electronic Funds Transfer has become a child of necessity. With the volume of paper to be handled within our industry and the ever-presence of external competition, the question of EFTS is not "whether" but "when." This is, also, an opportunity for the banking industry to take banking to the consumer rather than forcing the consumer to come to the bank.

In summary, 1976 should be a year of further consolidation in banking as we respond to known areas of recessionary impact and cope with a still uncertain economy. Each organization's challenge, in Kansas, and elsewhere, will be to interpret its market, extend credit and operating services consistent with business realities and foster a spirit of optimism about the productive capabilities of our nation. • •

Fulgham

(Continued from page 23)

This area is relatively free of the problems that exist in areas that are more dependent on cyclical industries such as the more heavily industrialized areas of the northeastern United States. The chief mainstays of this area's economy have been related to the energy, construction, financial, merchandising, distribution, electronics, insurance, light-manufacturing, transportation and service-related industries.

With the exception of the real estate and construction-related businesses, which have and are continuing to undergo retrenchments, the rest of those areas I have enumerated are all well placed to grow apace with the overall growth of the economy, especially if the consumer is to be relied upon so heavily for support in the early stages of the current recovery.

The energy-related industries will continue to be in the forefront of economic activity and development for the foreseeable future, if the Congress and Administration can agree on a palatable energy program for the country as a whole that can provide the companies with an acceptable rate of return commensurate with the risks associated with energy exploration and production.

Merchandising has and will continue to develop as an important segment of the regional economy as more and more firms are attracted by the breadth and depth of the southwestern regional market and the facilities that are available for their use along with the growing base of an experienced and stable labor force.

The financial institutions in the area have all experienced rapid growth over the past five years and are now more than ever able to support most, if not all, the needs of a steadily growing area. Beyond the size of these institutions, the financial community has assumed the primary role of leadership in the business community and, therefore, attracts all types of businesses to the area, rather than appealing only to one or two special industry categories, which further strengthens and broadens the economic base.

Certainly the pleasant climatic conditions prevalent for so much of the year, a growing stable work force and the maturing of the new airport as easily accessible for both people and business shipments are attractive to companies considering new locations.

Frankly, from my perspective and past experiences, it is hard to conceive of this area's overall economic prospects as anything but bright.

Prospects for bank earnings for 1976 in our area appear to be mixed and clouded at this time. Smaller and medium-sized banks in rural areas should benefit from a local economy which is historically stronger than the national economy. In particular, those banks in the "oil patch" should enjoy increased earnings due to the renewed interest in exploratory drilling. The earnings picture for the larger and regional banks is not quite so clear. Most should enjoy increases but some could suffer the continuing effects of the depressed state of the real estate market. Those banks that have converted real estate loans into other real estate face carrying costs and the possibility of a write-down of a certain percentage of the carrying value. Both of these factors, while uncertain at this time, could have a significant effect on the earnings prospects for a limited number of banks.

Certainly banking faces many problems in the year ahead. Foremost among these problems is the uncertainty occasioned by pending legislation and congressional studies. Sometime in 1976 some legislation should be enacted as a result of the FINE study and Financial Institutions Act. While the form of this legislation is not known, it's certain to provide the competitive segments of the financial industry—such as thrifts and credit unions—with more of those powers which have been traditionally in the domain of banks. This will present challenges to the banking industry to respond aggressively to the needs of its customers on a sound economic basis.

Since 1976 is an election year, it is almost certain that inflation will continue to be with us. The rate of inflation must be held to a minimum (less than previous years) in order that consumer confidence may be restored. Until this confidence is restored and the consumer is willing to venture into the housing market and make disposable purchases, the economy as a whole will continue to suffer.

A forecast for short-term interest rates for 1976 is undeniably difficult. Not only is there much controversy over the path the national economy will take during 1976, but its effect on various short-term interest rates is complicated by, among other things, another year of large public-sector credit demand and the probability of banks continuing to enjoy the prevailing interest rate margins in the face of relatively low private-sector loan demand.

Current loan demand in and of itself would argue for a much lower bank prime rate today because of the cost of CDs, fed funds, repos, etc. Whether these margins will continue well into or substantially throughout 1976 is difficult to answer with any degree of certainty.

While loan demand in the Southwest will probably continue to be stronger than that experienced nationally, the effect of local competition—which has always been highly aggressive—on both rates charged on loans and paid for savings and time deposits is also difficult to forecast.

In our bank, we have come to view EFTS as the Evolution of Financial Transaction Services, understanding that electronics is merely the current technology with which some financial transaction services can be delivered. The evolution of these services depends more in the next few years on economic and legal grounds than on further developments in technology. As we have previously witnessed, the computer is not an end in itself, but rather a means to deliver services at a reduced unit cost. The electronic cash registers, point of sale terminals, automated teller machines and automated clearing houses are likewise not ends in themselves, but means to more efficiently deliver financial services.

The real challenge for our bank and the entire banking community is in the use of these elements to structure profitable services that offer added convenience or reduced cost—both if possible—to the banking public. The risk is that other institutions will replace banks as the providers of these services while the banks prolong their debate concerning branching and other matters which complicate the current environment.

While the resolution of legal and legislative matters will definitely affect the future of financial services, we trust that the development of the proper economic perspective will ultimately determine the success of financial services, electronic or not. • •

NEWS
From the Mid-Continent Area

Alabama

■ FIRST NATIONAL, Florence, has announced plans to build a multi-story Main Office. While plans for that structure are being finalized, First National has established a temporary branch with drive-ups and parking adjacent to the new Main Office site. The present Main Office will continue in operation until the new building is complete, when the temporary branch will be removed and the old Main Office will be converted to a downtown branch, subject to regulatory approval.

■ G. A. PRIBBENOW SR. has joined National Bank of Commerce, Birmingham, as marketing officer. He has 20 years' banking experience and most recently was a registered representative and principal with a securities firm.

■ JACK M. PATE has been named vice president and trust officer, City National, Birmingham. Mr. Pate, a lawyer, most recently was with a local law firm, working in the areas of tax, corporate, probate, wills and trusts.

■ RICHARD G. TRAMMELL has been named vice president, First Shelby National, Pelham, which is organizing. He has been in banking seven years and most recently was assistant vice president and branch manager, First National, Columbiana.

■ WILLIAM M. FACKLER has joined First National, Birmingham, as vice president and marketing department head, and its HC—Alabama Bancorp., Birmingham—as vice president-marketing. Prior to that, Mr. Fackler was vice president and manager, marketing research and product development departments, First National, Atlanta.

■ FIRST ALABAMA BANCSHARES, INC., Montgomery, has announced the opening of its Bienville Square Office in Montgomery.

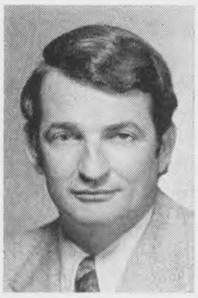
■ FIRST NATIONAL, Mobile, has announced the following promotions: Ronald Hays and Earl McDonald, to vice presidents; Bobby Johnson, to assistant vice president and trust operations officer; and Dale Duncan and Larry F. Trice, to assistant vice presidents. Mr. Hays joined the bank in 1968; Mr. McDonald, in 1970; Mr. Johnson, in 1957; and Messrs. Duncan and Trice, in 1972.

■ SAM B. WHITE JR. has been appointed assistant vice president, marketing and business development, at Bank of Anniston. He goes there from another bank in Anniston, where he was collections manager and loan officer trainee.

Arkansas

■ WORTHEN BANK, Little Rock, has announced the promotions of Fritz B. Goodbar and Jerry L. Futch to vice presidents. John Robert Lopez has been named assistant vice president. Mr. Goodbar joined the bank in 1940, served during World War II and returned to Worthen in 1946. He heads the consumer savings department, Main


GOODBAR


FUTCH

Office. Prior to joining Worthen in 1972, Mr. Futch was a branch manager with Central Bank, Monroe, La. He is a regional branch manager with responsibility for operations of six branches. Mr. Lopez, manager, Asher Avenue Branch, joined the bank in 1973, going there from another bank in Little Rock.

■ ZACH McCLENDON JR. has been elected president, Union Bank, Monticello. He formerly was with a local boat firm and has been a Union Bank director since August. In addition, Mr. McClendon is a director, Bank of West Memphis.

■ ROBERT L. STRINGER, president and CEO, First National, Mena, has been recognized by the American Bankers Association as a Certified Commercial Lender (CCL). The ABA's CCL program is sponsored by its Commercial Lending Division and recognizes persons with high levels of knowledge of principles and practices of, and laws affecting, commercial lending. Mr. Stringer began his banking career in 1946 and has been with First National since 1971. Prior to that, he was president, Arkansas Valley Bank, Dardanelle.

James Penick Sr. Dies

James H. Penick Sr., 78, died December 4. He was sr. ch., Worthen Bank, Little Rock Mr. Penick, a former pres., Arkansas Bankers Assn., joined W. B. Worthen Co., Bankers, as Worthen Bank then was called, in 1919. He moved through the ranks to e.v.p. and pres. before becoming sr. ch. One son, Edward M., is ch. & CEO, Worthen Bank, and his other son, James H. Jr., is pres. of the bank.

■ UNION NATIONAL, Little Rock, has promoted the following: Sheila Gunderman, to installment loan officer; Steve Armstrong, to customer service officer; Bill Greene, to commercial loan officer; and Bill Prince, to personnel officer. James E. Gaston, vice president and treasurer, National Old Line Insurance Co., has been elected a director of the bank.

Illinois

■ GEORGE L. BARR, senior vice president, has been promoted to executive vice president and director, Drovers National, Chicago. He joined the bank in August.

■ STATE BANK, Rockford, has promoted Roberta J. Wahlquist and Richard Sesterhenn to personal loan officers. Miss Wahlquist joined the bank, 1974, going there from Colonial Bank, Rockford, while Mr. Sesterhenn went there from Central National, Rockford.

■ SHIRLEY BERTRAND has been promoted to assistant data processing manager/systems and programming, Belleville National. She has been in the computer field 10 years and joined the bank in 1973.

■ LAKE SHORE NATIONAL, Chicago, has elected Charles F. Harding III senior vice president and trust officer; Willard J. Weibel, senior vice president and loan division head; and Ernest V. Peterson, senior vice president and comptroller.

■ SUBURBAN NATIONAL, Palatine, has opened its Mini-Bank. The new facility has one walk-up window inside a sheltered foyer. In observance of the opening, free gifts were given away and a drawing was held for prizes of a "Get-Away Weekend" at the Lincolnshire Motel, a $100 and a $50 savings bond.

■ RICHARD K. PEARSON has been elected vice chairman and CEO, Seaway National, Chicago. He goes there from Heritage/Pullman Bank, Chicago, where he was vice president and commercial loan division manager. Prior to that, he was senior examiner, Chicago Fed.

AMBI Elects Regional Chiefs

AMBI—the Association for Modern Banking in Illinois—has named five bankers as regional presidents. They are: Frank S. Read, chairman and president, First National, Lake Forest—Region I; Carl Kautz, executive vice president, Moline National—Region II; Eugene R. Mischke, president and CEO, Colonial Trust, Peru—Region III; Frank Strieby, president and CEO, Illinois State, Quincy—Region IV; and Donald P. Brown, president and CEO, First National, O'Fallon—Region V.

■ FIRST NATIONAL, Des Plaines, has promoted Bruce I. McPhee to senior vice president and Richard J. Lingl and Thomas J. Utzig to vice presidents.

■ THE FORMATION of a one-bank holding company has been authorized by the directors of Millikin National, Decatur.

■ A. JESSE HOPKINS has been elected president of Airport National, Bethalto, a new bank expected to open in mid-March. Elected chairman was George M. Ryrie. Mr. Hopkins also serves as vice president, First National, Alton, and Mr. Ryrie is president of that bank as well as its HC, First Illinois Bancshares Corp.

■ EXCHANGE NATIONAL, Chicago, has elected C. Andrea Greiser a commercial banking officer and Robert C. McCool an assistant cashier.

■ CENTRAL NATIONAL, Chicago, has elected Eric H. Null, Ronald K. Vetterick and Howard P. Blechmann senior vice presidents and Gene R. Boba and Harold J. Hogen vice presidents.

■ CONTINENTAL BANK, Chicago, has elected Arthur J. Theriault, Richard A. Beutel, Richard W. Whiteman and John R. Stevenson vice presidents and named the following second vice presidents: Lawrence P. Anderson, Stephen A. Barry, Barry M. Johnson, Laurence G. Foy, Thomas M. Hughey, James E. Kofron, Larry H. Stevens, Louis N. Strike, Arthur A. Schultz, Robert L. Champion Jr., R. Lawrence Johnson, Robert G. D. Bennett, Roger R. Farleigh, William A. Saer and Robert H. Weitzman.

■ JOHN D. O'MALLEY has been appointed vice president and trust officer at First National, Winnetka. Mr. O'Malley has over 20 years' banking and trust administration experience and previously served as vice president, secretary and trust officer, First National, Highland Park.

Indiana

■ PAUL N. DINKINS has been named chairman, Irwin Union Corp., Columbus, while John A. Nash has been named vice chairman. Garnett L. Keith has been elected president and Irwin Miller has been named honorary chairman. Shown in the accompanying photo (from left) are Mr. Nash, who also is president and CEO, Irwin Union Bank, Columbus, HC affiliate; Mr. Miller, also executive committee chairman; Mr. Dinkins, also bank chairman; and Mr. Keith, also bank vice chairman.

■ NORTHERN INDIANA BANK, Valparaiso, has broken ground in Hebron for a new full-service location, the bank's fifth. The building will be a contemporary design in brick, with 3,150 square feet of space.

■ THELMA V. SMITH has been elected assistant vice president, Lafayette National. She is training director for the bank and has been there since 1957. Prior to that, she was with the Tippecanoe County Treasurer's office.

■ JOHN L. PAULSON has been named assistant vice president, commercial loans, American National, South Bend. He joined the bank after five years as owner of a private business and will be responsible for development of commercial depository and lending arrangements.

Died: Paul G. Gronauer, 63, president, Anthony Wayne Bank, Fort Wayne. He was with the bank 31 years and was an auditor initially, becoming president and CEO in 1961.

■ INDIANA NATIONAL, Indianapolis, elected Patrick H. Beane, A. Malcolm Buck and Patrick J. Quinn vice presidents. Messrs. Beane and Buck are in the installment loan division; Mr. Quinn is the bank's London representative. Robert H. Kohrs, vice president, has been named head of the bank's newly combined national/international division. He was previously in charge of the international division.

■ RICHARD A. CANTIN has been promoted to vice president at Merchants National, Indianapolis. He will be responsible for the bank's commercial accounts, including the correspondent and national accounts. Mr. Cantin succeeds Robert F. Hinkley, vice president, who has been placed in charge of staff credit responsibilities. James D. Massey, vice president and senior branch administration officer, has been given the additional responsibility of the installment loan and revolving credit departments. In other action, the bank has promoted Mrs. Donna S. Legan and James D. Knotts to vice presidents and Thomas E. Bale and Richard L. Belser to assistant cashiers.

CANTIN

■ FIRST BANK, South Bend, has named Curt A. Foster vice president and investment officer and Jack K. Matthys, George W. Corr Jr. and Karl R. Weis assistant vice presidents.

■ AMERICAN FLETCHER NATIONAL, Indianapolis, has promoted Charles B. Lauck to vice president, Joseph F. Stetzel to vice president and branch manager, and Philip L. Conover and Daniel L. Fleck to assistant vice presidents and branch managers.

Kansas

■ THE FED has approved a move by Stanley Bancshares, Inc., to become an HC through acquisition of State Bank, Stanley. Approval also has been given for the HC to acquire the assets of Stanley Insurers, Inc., and engage in the sale of credit life and credit accident and health insurance.

■ H. RICHARD NOON has joined Roeland Park State, Shawnee Mission, as vice president in charge of mortgage lending. He most recently held a similar position with General Savings, Shawnee Mission. Mr. Noon has been in real estate and mortgage since 1958.

■ THE STATE BANKING DEPARTMENT has announced these changes: State Bank, Hutchinson, has been renamed Bank of Kansas; Randall National has been issued a state charter and changed its name to Randall Bank; and Security State, Fort Scott, has been granted limited trust powers.

■ TOWNE WEST BANK, Fourth National of Wichita's new branch, has opened. It features five inside teller stations, four canopy-covered drive-up stations using Diebold pneumatic tubes and is managed by Charles H. Neal III, operations officer.

Banker Honored for Service

J. Wesley St. Clair (r.), pres., Southgate State, Prairie Village, receives a plaque from Jack Sanders, ch., Johnson County Airport Commission, on his retirement from the Commission after eight years' service. Mr. St. Clair was the former ch. and an original Commission member.

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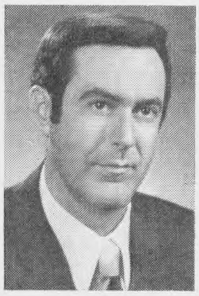
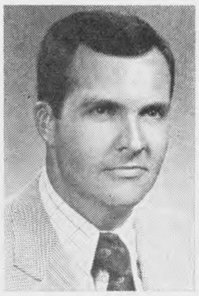


HOLT



RITCHEY

■ FOURTH NATIONAL, Wichita, has elected two vice presidents—James J. Holt and Michael R. Ritchey. Named assistant vice presidents were R. M. Briley, Charlotte A. Gragg, Keith L. Isham and Marilyn B. Pauly.

■ CHARLES HAVERTY has been elected president, Lawrence National. He formerly was a registered New York Stock Exchange representative with H. O. Peet & Co. Mr. Haverty succeeds Earl Chandler, who resigned last year. In addition, Al Hack and Stephen Matthews have been named senior vice presidents and directors.

■ SECURITY STATE, Great Bend, has celebrated its 25th anniversary with a stockholder dinner, during which a four-to-one stock split was voted. The bank originally was opened with an investment of $210,000 and now is worth $2.4 million, according to President J. A. Mermis Jr.

Maxine Breidenthal Dies

Mrs. Maxine Breidenthal, 63, died November 23 of injuries suffered November 13 in an auto accident. She was the wife of Gray Breidenthal, pres. & CEO, Security Nat'l, Kansas City. She was pres., Victory State, KCK, until its merger late in 1974 into Security Nat'l. Mrs. Breidenthal joined Victory State in 1942 and had advanced to vice president when she was elected president in 1972.

Kentucky

■ CITIZENS FIDELITY, Louisville, has promoted Jo Frances Thompson and Joseph A. Shroat to assistant cashiers and Terry Leech to assistant real estate officer.

■ FIRST SECURITY CORP., Lexington, has announced it will open two new branch offices in 1976. First Security is the HC for First Security National, Lexington.

Garvice D. Kincaid Dies

Garvice D. Kincaid, 63, founder and CEO, Kentucky Group Banks, Lexington, died November 21 of a heart attack at Ireland Army Hospital, Ft. Knox. He also was pres., Kentucky Finance Co., and ch., Central Bank, both of Lexington. Mr. Kincaid, who was a lawyer, bought controlling interest with several associates in Central Bank in 1945, becoming the state's youngest bank president at age 32. He served on the boards of 17 banks in Kentucky and three in Florida at the time of his death.

■ VANN I. DOYLE has been promoted to vice president in the correspondent banking division, Louisville Trust. Also promoted were Kennedy H. Clark Jr., to vice president and trust officer, and William H. Hagan, to vice president. Norma A. Heick was promoted to assistant auditor and Jack M. Combs Jr., William B. Hamilton Jr. and Douglas P. Neal were named assistant trust officers.

DOYLE

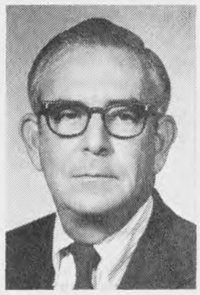
■ JACK E. DARNELL has been named president, Owensboro National, following its sale to a group of local businessmen. Mr. Darnell succeeds Thomas G. Bartlett, who has become vice chairman and bank consultant. Wyndall Smith, one of the purchasers of the bank, has been named chairman. He has been serving as acting chairman since the death of Charles E. Field. In addition, Carl R. Whitehouse, former vice president, has been elevated to executive vice president. Messrs. Darnell and Whitehouse have been with the bank since 1946. Mr. Bartlett has been with the bank since 1917 and Mr. Smith is a local businessman who has served on the bank's board in the past and formerly was chairman, Central Bank, Owensboro.

Louisiana

■ HUB CITY BANK, Lafayette, has begun construction of its new Main Office building. The two-story structure will be of the French architectural style reflecting the heritage of the Acadian people, with gaslights, archways and a courtyard entrance. It will have 14,000 square feet of space on the main floor and 8,000 square feet of space on the second, and will have four drive-up windows.

■ S. WALTER STERN JR., coffee importing executive, has been elected to the board of Whitney National, New Orleans. He is a former vice president of the bank, joining it in 1938 and serving for 21 years.

STERN



■ JEFFREY D. AUSTIN has been elected vice president and auditor, Guaranty Bank, Alexandria. He goes there from Fidelity American Bankshares, Lynchburg, Va., where he was corporate auditor. Mr. Austin is a CPA.

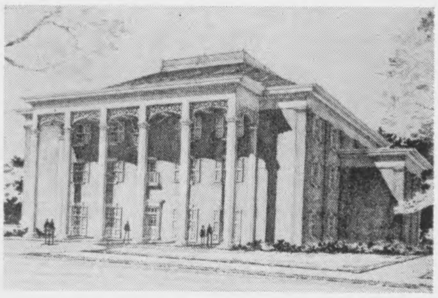
■ THE NEW ORLEANS BAI Chapter has been named the outstanding chapter in District Eight. Chapter President is Charles Russo Jr., vice president, Metairie Bank.

■ HIBERNIA NATIONAL, New Orleans, has appointed Jon R. Hepner vice president, marketing division, and J. Barth Reilly assistant vice president, personnel division.

Mississippi

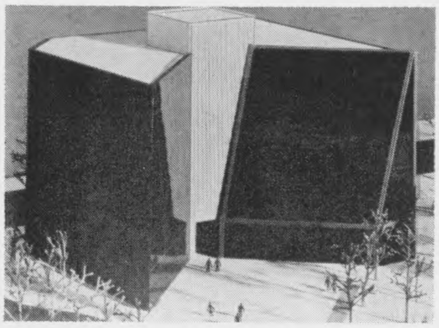
Died: William A. Hughes, 66, vice president and manager, Coahoma Bank, Clarksdale, Jonestown Branch. He was cashier of People's Bank, Jonestown, before its merger with Coahoma Bank in 1961. He was named vice president and manager in 1971.

■ FIRST COLUMBUS NATIONAL plans to build a new Main Office building in the antebellum style of the area. The structure will be built on the site



once occupied by the 1850 mansion, Homewood, which has been sold to a local business firm and moved to another location for restoration.

■ BANK OF MISSISSIPPI, Tupelo, has announced plans to build a seven-story bank administrative building having 100,000 square feet of space. It will have glass exterior walls, an open air



atrium and should be under construction by mid-year 1976, according to bank officials. In addition, the top four floors will be available for non-bank tenants.

MBA Scholarship Winners

The four student-winners from the University of Mississippi who won this year's MBA Chair of Banking scholarships are shown with other participants in the awards ceremonies (front, from l.): Lee Crane Caldwell, Bank of Mississippi Scholarship; Elaine Kinney, First National, Oxford, Scholarship; Betty Busby, Young Bankers Section Scholarship; UM Chancellor Porter L. Fortune Jr.; (back row, from l.) Harvey S. Lewis, professor of economics and banking and head, MBA Chair of Banking; Jim W. Collins, e.v.p., Bank of Mississippi, Tupelo; Williams G. Lewis, George James Robertson Scholarship; and Garner Hickman, president, First National, Oxford.

Missouri

■ ELMER ERISMAN, vice president, correspondent division, Commerce Bank, Kansas City, has retired. His duties included responsibilities for correspondent customers in Missouri. Mr. Erisman joined the bank as an office boy in 1924 at age 13 and has served in nearly every operational department since that time. He was named assistant cashier, 1950; assistant vice president, 1954; and vice president, 1969.

■ RICHARD L. JOHANNESMAN has been elected senior vice president and bond/investment department head at Mercantile Trust, St. Louis. He formerly was involved in underwritings, trading and sales and succeeds the late Thomas L. Ray as department head. Mr. Johannesman joined the bank in 1955 and is president, St. Louis AIB Chapter. In other promotions at Mercantile, Dennis E. Bielke and Charles V. Monaghan have been named assistant vice presidents, while Lona L. Friedman has been elevated to assistant trust officer.

■ FIRST NATIONAL in St. Louis has announced the promotions of Larry M. Smith, Ferdinand A. Vogt and O. William Wing Jr. to vice presidents. Mr. Smith joined the bank in 1967 and is in charge of operations, retail banking; Mr. Vogt, who also is cashier and security officer, joined First National in 1962; and Mr. Wing, who is in the metropolitan division II, joined the bank in 1969.

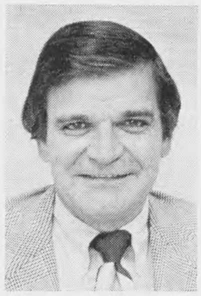
■ LEE M. LIBERMAN, president and CEO, Laclede Gas Co., St. Louis, has been elected a director of Boatmen's Bancshares, Inc., St. Louis. He also is a director of the HC's affiliate, Boatmen's National, St. Louis.

■ JOHN R. WELLS, personnel director, Commerce Bancshares, Inc., Kansas City, has been elected vice president. He joined the HC in 1969.

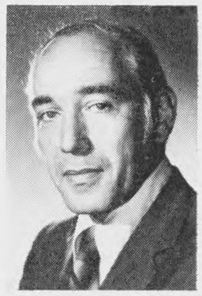
■ ST. LOUIS COUNTY NATIONAL, Clayton, has announced the following changes: Jerry L. Dempsey has been named vice president, to direct the activities of the newly formed corporate services division, and Clinton U. "Bud" Imboden has been named vice president, commercial loans. Terry Cowee has been named assistant vice president in the newly formed commercial services department, which was established to market specialized computer

JOHANNESMAN

ERISMAN



SMITH



VOGT

WING

LIBERMAN

DEMPSEY

IMBODEN

systems. Mr. Dempsey goes there from Cass Bank, St. Louis, where he was vice president and director of marketing; Mr. Imboden joined the bank in 1956; and Mr. Cowee goes to County National with seven years' banking experience.

■ R. LESTER WHITED, executive vice president, First National, St. Peters, has been elected president and CEO, succeeding Paul Richter Jr., who has been named chairman. Patricia D. Gajarsky has been elevated to cashier. Mr. Whited began his banking career, 1956, with Bank of Higginsville. From there he went to North Kansas City State; North Hills Bank, Kansas City; Missouri State, Sedalia; and Common-

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wealth Bank, Wentzville, which he helped organize. He joined First National as executive vice president, cashier and CEO, 1972. Mr. Richter had been president, First National, since 1968, while Mrs. Gajarsky has been with the bank since 1970.

■ AMERIBANC., INC., St. Joseph, has announced plans to construct a multi-story headquarters building, which will occupy the present site of the Hotel Robidoux. The new building will have six stories, over 100,000 square feet of space and will house the main banking activities of American National, affiliate bank. American National has been in its present site since 1889, while the Hotel Robidoux has been open since 1908.

■ CHRIS W. LEAR has been elected vice president, National Bank of North Kansas City, while Marilyn Boeding has been named assistant cashier. Both joined the bank in 1972.

■ BANK OF THAYER has held an open house to celebrate its 75th anniversary and its expansion, which added over 6,000 square feet of space to the bank. Following the ribbon cutting, refreshments were served and gifts given away.

■ GEORGE W. ROTH, president, Hillyard-Eastern, St. Joseph, has been named a director of American National, St. Joseph.

Virginia A. Rehme Retires

ST. LOUIS—Miss Virginia A. Rehme, who headed the National Association of Bank-Women Inc. in 1955-56, has retired from Southern Commercial Bank, where she was vice president.

Miss Rehme entered banking in 1941 as secretary to the president of Southern Commercial. She had been working for the Reconstruction Finance Corp. She became vice president of the bank in 1955, and her duties have included being in charge of its advertising and public relations.

In NABW, Miss Rehme also was chairman, Metropolitan St. Louis Group, Midwest regional vice president and vice president before becoming president.

The Metropolitan St. Louis NABW Group honored Miss Rehme at a recent meeting by presenting her with a "memory book" containing letters to her from other past NABW presidents and several officers in the Midwest Region.

MBA Management Conf. To Be Held Feb. 10-12 At Tan-Tar-A Resort

OSAGE BEACH—The MBA's 36th annual Bank Management Conference is slated for February 10-12 at Tan-Tar-A resort here. John J. Harlin, chairman, MBA bank management committee, and president, Bank of Gainesville, will call the conference to order.

Several noted guest speakers will be on hand at the conference, including Eugene E. Jennings of Michigan State University's Graduate School of Business, East Lansing; Jack W. Whittle, vice president-marketing, Continental Illinois National, Chicago; Ben A. Rogge, director, Wabash Institute for Personnel Development, Wabash College, Crawfordsville, Ind.; and Harlan C. Phillips, FBI special agent in charge, St. Louis.

Tentatively scheduled to appear is J. Rex Duwe, ABA president, and chairman and president, Farmers State, Lucas, Kan.

Topics to be covered during the meetings include an "Economic Outlook," "Bank Security/Extortion," "MBA Group Insurance and Retirement Programs," "Blanket Bond," "Ins and Outs of IRAs and Keoghs" and "High Profit Banks and How They Got There." EFTS also will be a discussion topic, while Charley Willey, business consultant, lecturer and humorist, will speak on "The Magic of Words."

Other topics to be covered during the 36th Conference will be "Personnel Administration," "Affirmative Action" and "Investments in a Presidential Election Year."

■ FARMERS STATE, Cameron, has celebrated the completion of its expanded and remodeled quarters with an open house. The interior and exterior have been remodeled and the entrance moved. A glass canopy covers the entrance and all new furnishings and carpeting complete the interior. In addition, a new lighting system, safety deposit boxes and a Mosler vault door have been installed. Refinished chairs and table in the directors' room are the only pieces remaining from the previous remodeling in 1955. A highlight of President Sam Hiner's office is an original oil painting of Longs Peak, Estes Park, Colo., by George Elbert Burr, while a mosiac of ponderosa pine covers the bank's east wall.

Newly remodeled and expanded quarters of Farmers State, Cameron, feature new entrance covered by glass canopy. Glass walls have been added and entire interior has been redone. Grand opening featured punch and cookies made by banker's wives. Contest for guessing number of coins in a jar offered savings accounts of $100, $75, $50 and $25 as prizes.

■ JAMES SPAINHOWER, state treasurer, cut a ribbon of dollar bills to mark the opening of the renovated quarters of Missouri State, Sedalia. Edwin Jones, chairman, First Union, Inc., St. Louis, HC affiliate, can be seen partially hidden by Mr. Spainhower in the accompanying photo, while William

R. Mills, bank president, holds the ribbon. The expanded facility has 2,100 square feet of space on the main floor and 2,000 square feet of space on the new terrace level. A buff brick exterior matches the original building and the expansion includes three new drive-up lanes. The building's interior has been redecorated with new carpeting, fixtures, furniture and wall coverings. Grand opening activities included refreshments and gifts for everyone in attendance, plus registrations for prizes, with a 25-inch color TV as grand prize.

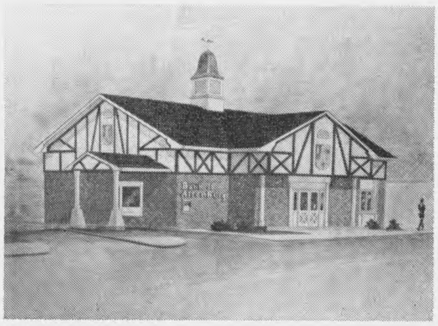
■ WEBSTER GROVES TRUST has announced expansion plans for its drive-up facility on Moody Avenue. The project will double the size of the facility.

■ C. ED NELANDER has been elected vice president at Commerce Bank, St. Joseph, going from Commerce Bank, Kansas City, affiliate bank. John B. Rost has been named assistant cashier and installment loan officer, while Jerry Curley, Michael Casey and Robert Craig Duncan have been elected assistant vice presidents.

New Drive-Up Facility Opened

Pictured during the ribbon cutting for the new drive-up facility of United Missouri of Jefferson County, Arnold, are (from l.) Tim Hallemann, project mgr., Bunce Corp., the firm that built the drive-up; Wally Geoghegan, Bunce contract manager; Bob Clark and Elmer Mangelsdorf, bank directors; Jim Boyd, bank pres.; Jim Finks, bank e.v.p.; and Bob Little, Kurt Koenig and Elmer Heiligtag, bank directors.

■ BANK OF ALTENBURG has opened its enlarged and remodeled building. The new addition has 1,000 square feet of space and the exterior has been redesigned to reflect the community's heritage—Altenburg was settled in 1839 by German immigrants.



The new interior includes two offices in the lobby and new tellers fixtures and security camera and alarm system were added. A basement, to be used as a community room, was built under the addition and a drive-up window and night depository were part of the new construction.

New Mexico

■ GUY ROGERS, chairman, New Mexico Bank, Hobbs, has celebrated his 90th birthday. He joined First National, Albuquerque, as an office boy at age 16 and remained there 37 years, reaching the post of vice president. In 1937, Mr. Rogers and several associates purchased Lea County State and after finding that 75% of the bank's assets were in Hobbs, moved it there. He took over management of the bank in 1938. The bank's charter was changed again when Western Bancorp. acquired the majority stock, changing the bank's name to New Mexico Bank. Mr. Rogers was New Mexico BA president, 1946, and has served 70 consecutive years in banking.

■ ALBUQUERQUE NATIONAL has promoted the following to assistant cashiers: Scott K. Browning, appraiser, mortgage loan; Benjamin Russell Raskob and Delmar Gardener Jr., loan officers, East Central Branch; Monte Ray Patterson, manager, Master Charge collection; Richard N. Rose, assistant manager, Wyoming Branch; Kathryn M. Urban, loan officer, Eastdale Branch; Noel C. Matthews, marketing research specialist, marketing; and Steven O. Garret, loan officer, Winrock Branch.

■ FIRST NATIONAL, Santa Fe, has announced that Robert Short and Fred W. Reynolds have joined its trust division. Mr. Short, former state investment officer, becomes vice president and trust officer, while Mr. Reynolds, formerly assistant vice president, First National, Albuquerque, has been named assistant vice president and trust officer.

■ SAN JUAN NATIONAL, Farmington, is slated to open in temporary quarters sometime this month. Floyd Parker serves as interim chairman.

Oklahoma

■ SCOTT GARDNER has been elected assistant vice president and loan officer, Diversified Mortgage & Investment Co., Tulsa. He was formerly assistant cashier, Fourth National, Tulsa, which—like Diversified Mortgage—is owned by Fourth National Corp., a bank HC. Mr. Gardner joined the bank in 1973.

■ FIRST NATIONAL, Oklahoma City, has announced that Thomas E. Johnson and Willard C. Huskins have joined the bank as vice presidents and trust officers, while Randy Royse has been elevated to assistant vice president and trust officer. Scott G. Davis has been named assistant cashier. Mr. Johnson went there from Simmons Enterprises, Dallas, and Mr. Huskins, from Hamilton National, Chattanooga. Mr. Davis has been with the bank since 1972, and Mr. Royse, since 1973.

Tennessee

■ WILLIAM J. NAVEL has been named trust operations officer at American National, Chattanooga. He joined the bank in 1967.

Davis Honored by Treasury

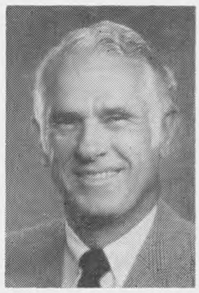
Joe H. Davis Sr. (c.), retired e.v.p., First Nat'l, Memphis, receives a special certificate in recognition of his work in supporting the sale of U. S. savings bonds from Rex Baker (l.), area mgr., Department of the Treasury's Savings Bonds Division, and Norvell Rose, division state dir. The certificate was signed by Treas. Sec. Simon and Allen Steele, state savings bonds ch.

■ JOSEPH A. RICH has been elected assistant cashier, installment loan department, Hamilton National, Chattanooga. He joined the bank as an adjuster, loan department, in 1970. Prior to that, Mr. Rich was assistant manager, Fidelity Loan Co.

■ R. WALTER HALE III has been elected treasurer, Third National Corp., Nashville, while Charles G. Moore has been named vice president and secretary. At the HC's lead bank, Third National, Nashville, Edgar W. Anderson has been promoted to assistant vice president.

Texas

■ GENE EDWARDS, president, First National, Amarillo, has been elected to the additional position of chairman, succeeding V. P. Patterson, who has retired. Mr. Edwards has been president since 1964 and attained the additional title of CEO in 1969. Mr. Patterson was president from 1943 until 1964, when he became chairman. In other promotions at the bank, Bob McMurry has been named executive vice president for administration; Kenneth Sloan, executive vice president and trust officer; James Cox, senior vice president and controller; Jack Little, senior vice president and trust officer;



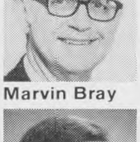
EDWARDS

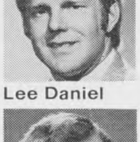
Charles Rice, a banker's banker.

Correspondent Bankers


Marvin Bray


Lee Daniel


Charles McNamara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H. Joe Horn, vice president and trust officer; Jerry Polvado, vice president and cashier; and Noma Brown, vice president and auditor. Hayden Hardin, Stan Morris and Richard Womack have been elevated to vice presidents, while Boyd Milner and Jim Porter have been elected assistant vice presidents.

■ REPUBLIC NATIONAL, Dallas, has promoted the following to senior vice presidents: Phil R. Allen, auditing; Richard R. Cloutier, international Americas group; John D. Dienes, United States department; Banks E. Eudy, real estate; and Stanley M. Josephson, management information systems division.

ALLEN

DIENES

EUDY

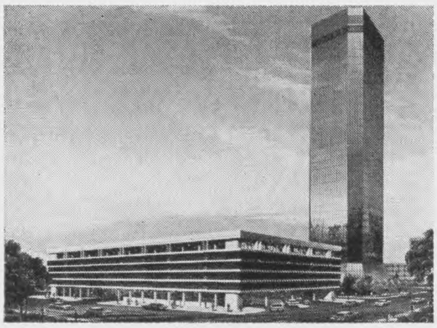
JOSEPHSON

CLOUTIER

RATLIFF

■ JOHN E. RATLIFF has been elected vice president, First United Bancorp., Inc., Fort Worth. He formerly was a manager in the Arthur Andersen & Co.'s Forth Worth Office. Mr. Ratliff, a CPA, will monitor and coordinate internal controls functions in the HC's banks.

■ EDWARD C. McNEEL, senior trust officer, First National, Odessa, has been elected senior vice president. He joined the bank in 1961.



■ FORT WORTH NATIONAL has announced plans to build a one-story addition to its five-story motor bank and parking garage, making more tenant space available in its 37-story tower. The glass-sheathed tower currently houses tenants on floors 11-15 and has 15,470 square feet of space per floor. The new addition to the motor bank will have 70,000 square feet of space, will be roofed and will be glass-enclosed, complementing the main building.

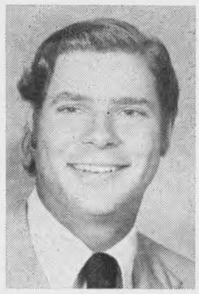
■ ARTHUR M. ALPERT has been named president, United States National, Galveston, while Harris L. Kempner Jr. has been elected president, United States National Bancshares, Galveston, parent company for the bank. Those promotions follow the resignation of William G. Spruill and Dale Ware, former president and executive vice president, respectively, who intend to form their own company. Mr. Alpert formerly was executive committee chairman and CEO of the bank and HC, while Mr. Kempner was an advisory director of the bank.

■ JAMES ROBERT ELDER has been named assistant vice president and trust officer, Mercantile National, Dallas. He goes there from a bank in Oklahoma City, where he served as manager of several trust department operations and as head, trust operations division.

■ DALE W. YATES has been promoted to executive vice president, First National, Temple. He joined the bank 29 years ago as bookkeeping department supervisor and held the position of senior vice president and mortgage loan/real estate head at the time of his promotion.

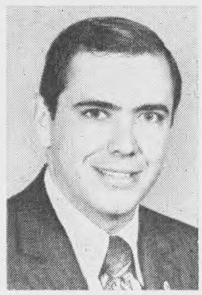
■ SAM P. BEATY, vice president and trust officer, Fort Worth National, has retired. He joined the bank in 1945. He plans to become an independent accountant specializing in income, gift and inheritance taxation. Kenneth D. Roach has been elected assistant vice president and trust officer. He joined the bank in 1967 and left for a short time during 1975 to work for an insurance company.

■ FROST NATIONAL, San Antonio, has promoted the following to senior vice presidents: Stephen M. Dufilho, who also is controller; Richard W. Evans Jr., marketing services; and Morris E. White Jr., retail lending. Robert J. Buckley has been elevated to vice president, trust department. Mr. Dufilho also is vice president and controller, FrostBank Corp.

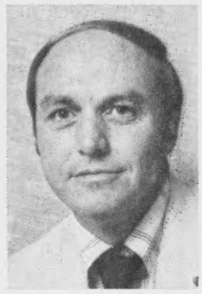


DUFILHO

BEATY



EVANS



WHITE

■ EDWIN E. FINN has been promoted to senior vice president, First City Bancorp. of Texas, Inc., Houston, while R. E. Lain has been appointed senior vice president at the HC. He has been with the lead bank, First City National, Houston, where he held a similar position. At the bank, Edgar R. Smith has been named vice president and trust officer and manager, trust employee benefits; Terrence W. Imes Jr. has joined the bank as vice president, real estate; and William C. McCain Jr. has joined the bank as assistant vice president and financial accounting manager.

■ GUY J. BARBA JR. has retired as senior vice president, Houston National, after 43 years' service. He joined the bank in 1929, worked in nearly all the bank's departments, was named assistant cashier, 1953; assistant vice president, 1956; vice president, 1958; and senior vice president, 1962. Mr. Barba continues as director and chairman, loan and discount committee, Highlands State.

BAI to Hold Security Conference; Will Feature Marshal's Study

THE UNITED STATES' Marshal's Service study will be a focal point of the BAI's 7th National Conference on Bank Security in New Orleans January 25-27. About 600 bank security officers and law enforcement officials are expected to attend.

SNYDER

The conference is being conducted by the Bank Administration Institute's Security Commission, of which Milton L. Snyder is chairman. Mr. Snyder also is vice president-audit and security, First National, Minneapolis.

The Marshal's study concludes that crime protection regulations are largely inadequate. The study calls for a tightening of the Bank Protection Act of 1968, so that banks must, among other things, train tellers and security officers at least five hours initially and then retrain them for a minimum of two hours each year.

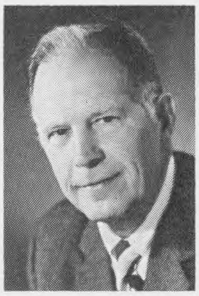
FBI figures show a 50% rise in crimes against financial institutions during fiscal 1975, a factor that has prompted renewed interest in enforcing the Bank Protection Act.

Outlining the conference program, Mr. Snyder said the meetings will focus on the "how-to" aspects of bank security: developing effective security programs, evaluating alarm systems, reviewing strategies for kidnap-extortion crimes and understanding the legal aspects of bank security.

A focal point of the conference will be the illegal use of plastic credit cards by criminal elements, especially in automated teller machines (ATMs). Besides reviewing various methods for maintaining the integrity of the plastic cards from manufacturer to user, speakers will outline various aspects of physical security necessary to protect ATMs and cash dispensing machines. • •

• Index to Advertisers •

Need for Responsible Fiscal Management Emphasized by NYC Economic Woes



By ALLEN P. STULTS
Chairman
American National Bank
Chicago

THE MEDIA have been crowded these last several months with news of the economic woes being suffered by New York City and, while these are the most severe, New York is not alone. At the heart of each problem is a common cause—fiscal imprudence. There are a number of lessons—costly indeed—that should be learned from these situations, but one fact should be always kept in mind as the situations are reviewed—the money a government spends is our money.

The successful economic management of any entity, whether a family unit, a business, or a governmental entity, has always and will always depend on the judicious use of finances to accomplish an end. There never has been and never will be a substitute for responsible fiscal management.

In spite of this obvious, often reconfirmed truism, the deficits that are being accumulated by many governments throughout this land, unfortunately, seem in far too many instances to be a way of life. And adding to the dilemma, government deficit spending continues to grow. The horrible truth is that there isn't any way of keeping a balanced pace with the level of spending, since most of these governments have virtually exhausted the practical or legal limits of their taxing power.

The obvious result of increased spending with sources of added income closed is more debt, which has grown in the last 10 years at epidemic proportions—federal from $317 billion to $538 billion or 70%; state from $27 billion to $63 billion or 133%; and local from $72 billion to $140 billion or 94%. Overall debt has gone from $416 billion to $741 billion or 78%.

The lack of a full understanding by our citizenry, elected representatives and government officials of the economics of government in a free enterprise system is the root of our problem.

That the government creates nothing is an obvious but generally disregarded fact. Our governmental units are clearing houses or middlemen for the expenditure of our money. Anything and everything the government spends costs each of us, because of administration expenses, about 30% more than if we did it ourselves. If a government spends more than we give it, the government must borrow the difference for us and we, of course, must pay the interest. In fact, if the debt isn't retired, we must pay the interest year after year after year resulting in our giving the government even more money than it is spending. If the debt grows, so does the interest cost each of us must pay year after year.

Added to this vicious costly cycle, the government must go to the same money market and compete for funds with our business enterprises. This increased demand pushes rates up, and this increase is passed on to us in both our taxes and the price of goods and services.

The sum total of all this fuels the fires of inflation and the velocity of the cycle increases.

So what should each of us do? It seems to me that as good citizens we should think and act in long-range terms, even though it entails some short-term detriment. And, closer to home, we should be at least as frugal with our money when spent by our elected representatives as when we spend it ourselves.

Implementing this philosophy would express itself in our demanding fiscal prudence at all levels of government. The test applied to all issues would not be just whether it is desirable but, more importantly, whether we can afford it. In our personal and business lives we are daily exposed to things that are highly desirable but if we cannot afford them, we don't even consider them. Those who ignore this suffer adverse consequences.

All of us would like to help the disadvantaged—it is both admirable and makes us feel good—so how can anyone be against it? I'm certainly not, but the help must be kept within our means. Ironically, the adverse consequences of ignoring this rule are high inflation, recession and unemployment, which most hurt the very people we're trying to help.

Federal, state and local expenditures for domestic social programs are now running at approximately $240 billion per year. The total national income of the U. S. in 1950 was $241 billion. The food stamp program, which cost $14 million in its first year, 1962, will cost $6.6 billion next year, a 47,000% increase!

We must stop looking to the government for solutions—stop asking the government for help—stop government paternalism. The truth is that our "rich uncle" is a myth. And worse yet, our mythical "rich uncle" is on relief, has come home to live with his poor relations and we are footing the bills. • •

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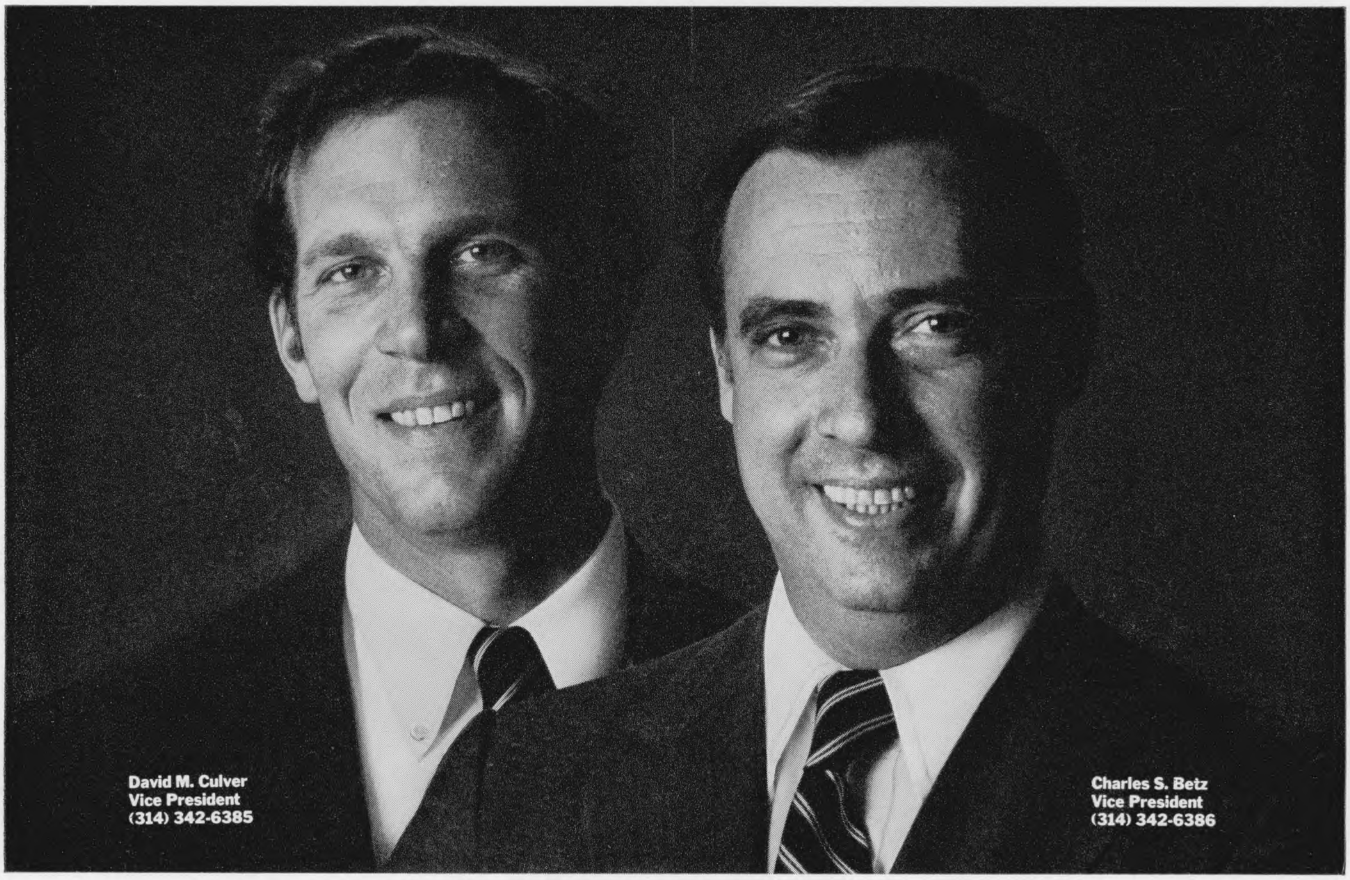

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