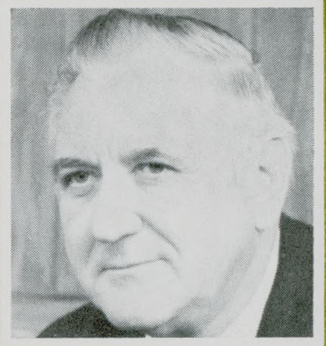
MID-CONTINENT BANKER

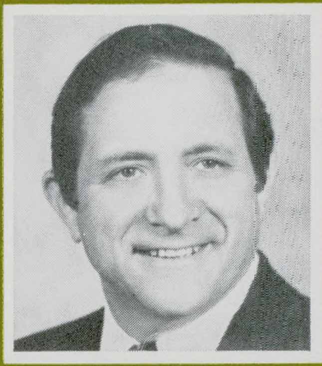
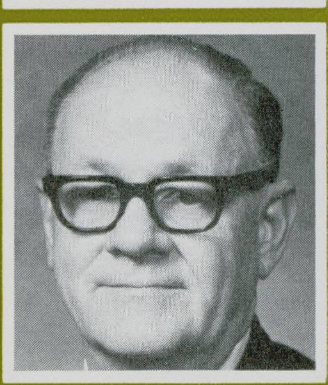
The Financial Magazine of the Mississippi Valley & Southwest

MAY 1, 1976



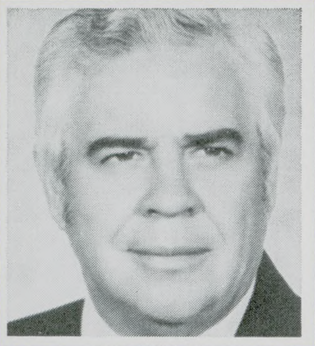
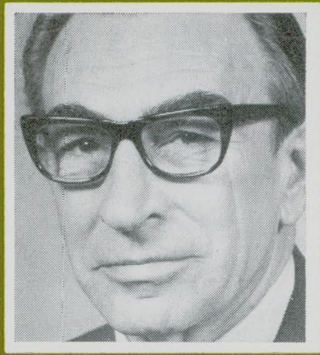


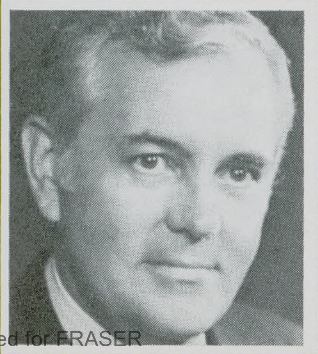
See Page 60
This Issue
For First
Installment

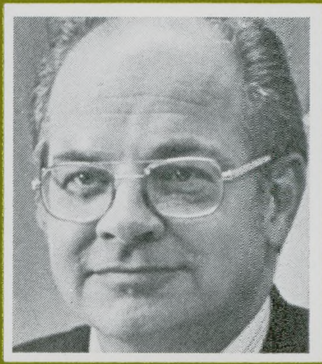




Association Presidents Speak Out on

PROBLEMS IN BANKING

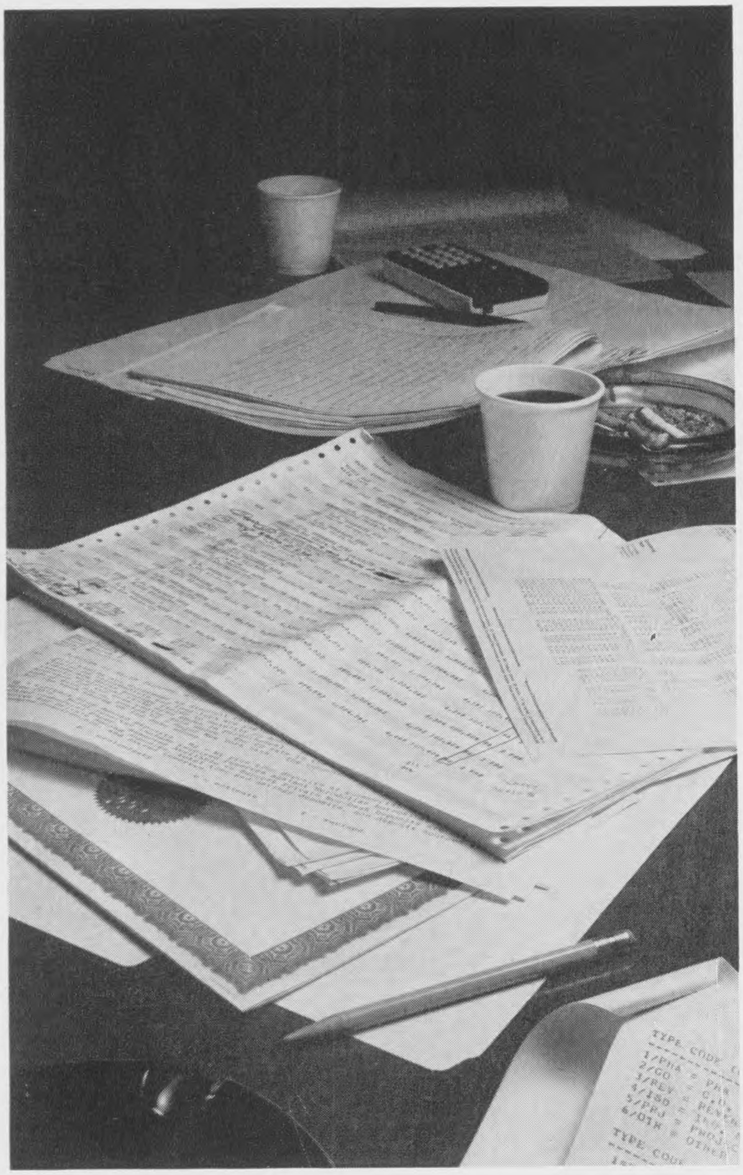


These Presidents
Will Speak Out
In May 15 Issue

MID-CONTINENT BANKER is published 13 times annually (two issues in May) at 1201-05 Bluff St., Fulton, MO 65251. May 1, Vol. 72, No. 5. Second-Class postage paid at Fulton, Mo. Subscription: $10.

Everything about the portfolio added up.

But the earnings.



A correspondent bank faced a big problem.

Their million dollar portfolio wasn't performing. And with rising expenses and decreasing loan demands, it looked like they wouldn't meet their income goals in the years to come.

Faced with this dilemma, they came to a bank with a proven earnings record. First in Dallas. Where a team of Asset and Liability Management Specialists rolled up their sleeves. And got down to business.

They started by looking long and hard at the bank. Where it was and where it was going. The debt structure, their customer profile, and a dozen other factors.

Then, after they knew the bank and the town, they used their market knowledge and the experience they had gained from managing their own portfolio to recommend changes.

Like the wider spread between "agencies" and "governments." A strategy for advance refunding maturities. And active management of both assets and liabilities.

The result was a higher earning portfolio. One that was better geared to market conditions. And supported by continuous, up-to-date management strategy.

And all it took was good thinking. Based on 100 years of experience and a concern for the customer's best interests.

If that's the kind of creative thinking your bank needs, call Charles Dunlap, Vice President of our Correspondent Division at 214-744-8030.

Because at First in Dallas, good banking starts with good thinking.

First National Bank in Dallas

Member F.D.I.C. A subsidiary of First International Bancshares, Inc.

Branch offices in London, Paris, Singapore and Cayman Islands. Representative offices in Tokyo, São Paulo and Beirut.

Convention Calendar

May

May 13-14: Robert Morris Associates International Lending Workshop, Chicago, Hyatt Regency.
May 13-16: National Association of Bank-Women Inc. Rocky Mountain/Western Regional Conference, Albuquerque, Hilton Inn.
May 16-18: Bank Marketing Association "Train the Trainer" Seminar, Rosemont, Ill., Holiday Inn-O'Hare.
May 16-18: ABA National Marketing Conference, New York City, Waldorf Astoria.
May 16-18: Missouri Bankers Association Annual Convention, St. Louis, Stouffer's Riverfront Inn.
May 16-18: Bank Administration Institute Southern Regional Convention, Oklahoma City.
May 17-18: Robert Morris Associates Secured Lending, Accounts Receivable, Inventory & Equipment-Financing Workshop, Boston, Copley Plaza.
May 18-22: Alabama Bankers Association Annual Convention, San Juan, P. R., Sheraton Puerto Rico.
May 19-20: ABA Liability/Asset Management Policy Decisions Seminar, Atlanta, Stouffer's Hotel.
May 22-26: Mississippi Bankers Association Annual Convention, Biloxi, Biloxi Hilton/Broadwater Hotel.
May 23-25: Tennessee Bankers Association Annual Convention, Nashville, Hyatt Regency-Nashville.
May 23-25: Illinois Bankers Association Annual Convention, St. Louis, Stouffer's Riverfront Towers.
May 23-26: Robert Morris Associates Financial Statement Analysis Workshop, Chicago, Airport Marriott.
May 23-28: Bank Marketing Association Essentials of Bank Marketing Course, Boulder, Colo., University of Colorado.
May 23-29: ABA National School of Bank Investments, Dallas, Southern Methodist University.
May 23-June 4: Bank Marketing Association School of Bank Marketing, Boulder, Colo., University of Colorado.
May 24-25: ABA National Conference on Urban & Community Economic Development, Washington, D. C., Lowes L'Enfant Plaza Hotel.
May 24-27: Association of Bank Holding Companies Annual Meeting, London, Grosvenor House.
May 26-27: Robert Morris Associates Automated Loan Information Systems Workshop, Houston, Hyatt Regency.
May 26-28: National Association of Bank-Women Inc., Lake/Midwest/North Central Regional Conference, St. Louis, Stouffer's Riverfront Inn.
May 30-June 4: Bank Marketing Association School of Trust Business Development, Boulder, University of Colorado.
May 30-June 11: Illinois Bankers Association Illinois Bankers School, Carbondale, Southern Illinois University.
May 31-June 2: AIB Annual Convention, St. Louis, Chase-Park Plaza Hotel.

June

June 1-2: Robert Morris Associates Loan Policy Workshop, Chicago, Continental Plaza.
June 2-3: ABA Liability/Asset Management Policy Decisions Seminar, Dallas, Fairmont Hotel.
June 6-11: Kentucky Bankers Association Kentucky School of Banking, Lexington, University of Kentucky.
June 6-18: Stonier Graduate School of Banking, New Brunswick, N. J., Rutgers University.
June 7-8: Robert Morris Associates Lending to Banks & Bank HCs Workshop, San Francisco, Hyatt on Union Square.
June 10-12: New Mexico Bankers Association Annual Convention, Las Cruces, Holiday Inn.
June 13-15: Bank Marketing Association Bank Planning Conference, Oakbrook, Ill., Drake Oakbrook.
June 13-16: ABA National Operations & Automation Conference, Washington, D. C., Washington Hilton.
June 15-17: Kansas Bankers Association Bank Management Clinic, Lawrence, University of Kansas.
June 16-17: Indiana Bankers Association Annual Convention, French Lick, French Lick-Sheraton Hotel.

MID-CONTINENT BANKER

The Financial Magazine of the Mississippi Valley & Southwest

Volume 72, No. 5 — *May 1, 1976*

FEATURES

CONVENTIONS

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No Cutbacks Here:

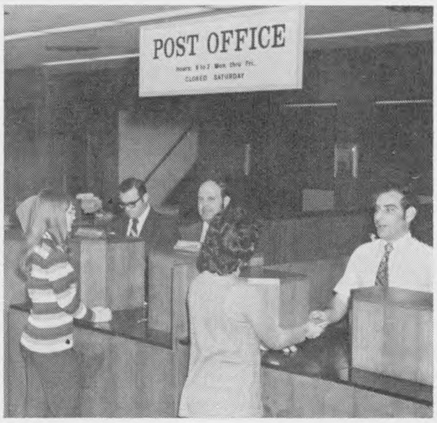
Bank Offers 'New' Service By Opening Postal Station

With the U. S. Postal Service cutting back on service and eliminating many small-town post offices, more public-oriented businesses may follow the lead taken by Southwest Bank, St. Louis. That institution, like many rural groceries, has joined the ranks of postal contract stations.

Southwest Bank, as with other contract stations, receives no federal funds for the facility's operation, except for a $1 yearly stipend for the person in charge of the station. But it is a good "drawing card" for customers and helps improve the bank's good will.

"The customers feel this is something that allows them to do their post office and bank business at the same time, and it's a great time saver," a bank official stated.

Southwest Bank must provide two persons to run the postal station, but management there believes that cost will be overcome by the extra business generated by its presence.



Customers of Southwest Bank, St. Louis, are able to do banking and postal business under one roof since bank opened this postal station. Move came after local Post Office branch was closed. Bank officials say extra bank business will cover cost of employees needed to run station.

Although postal authorities state that the move by the bank had nothing to do with an economy drive in the U. S. Postal Service that began several months ago, the bank official indicates the original decision to open the station came about when the neighborhood postal branch was closed.

Jam Spreads Loan Message

First National of Martinsville & Henry County, Va., pushes installment loans by distributing free jars of strawberry jam with special labels reading "When you need a little bread, remember us!"

Oklahoma Bank Involves Directors in Year-Long New Business Campaign

A NEW BUSINESS PROGRAM has been started at Liberty National, Oklahoma City, but it isn't being conducted among the bank's officers and employees. Called "Contributors," the new program was designed especially for Liberty National directors and was unveiled by Chairman J. W. McLean at a board meeting early this year.

According to Mr. McLean, "Contributors" offers an opportunity for the directors to earn money for their favorite nonprofit charities and civic groups by encouraging increased new business in several service areas.

The program is set up on a point system, with a specific number of points being assigned for new business increases in checking accounts, savings accounts and investment certificates. Points earned for boosts in personal trust and estates, managing agency accounts, corporate trusts, stock transfer agents, custodian agency accounts, employee benefit trusts and others are assigned depending on their relationship to income earned on deposit services.

The point system is described by Mr. McLean like this: Points are accumulated from 1,000 to 10,000. Depending on the level of achievement, a director may earn cash awards for his favorite charity of $750, $1,875, $3,750, $5,625 and $7,500. However, there's no limit on points earned and, conceivably, they could go higher than $7,500.

An unusual aspect of the campaign, says Willis Wheat, Liberty's senior vice president-marketing, is that "Contributors" was named in honor of deceased directors who still have family members represented on the current board. Awards for which the directors qualify bear the names of these former board members, although the cash contribution itself is given to the charity in the name of the director who earns it.

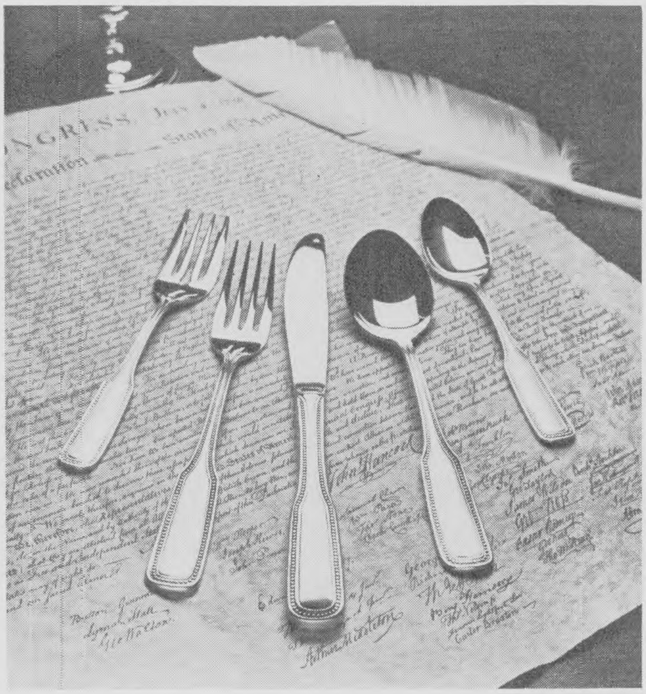
For instance, the Everest Award is named for the late C. H. Everest, a director from 1922-25, and his brother, the late J. H. Everest, a board member from 1923-53. C. H. Everest was the father of the bank's current honorary chairman, Harvey P. Everest. The Sewell and Simmons Award honors the late Felix A. Sewell, a board member from 1942-71, and the late Felix Simmons, a director from 1932-54. Mr. Sewell served Liberty in several official posts, including president and chairman. Mr. Simmons was an officer of Liberty before becoming president of his own Ardmore, Okla., bank in 1954.

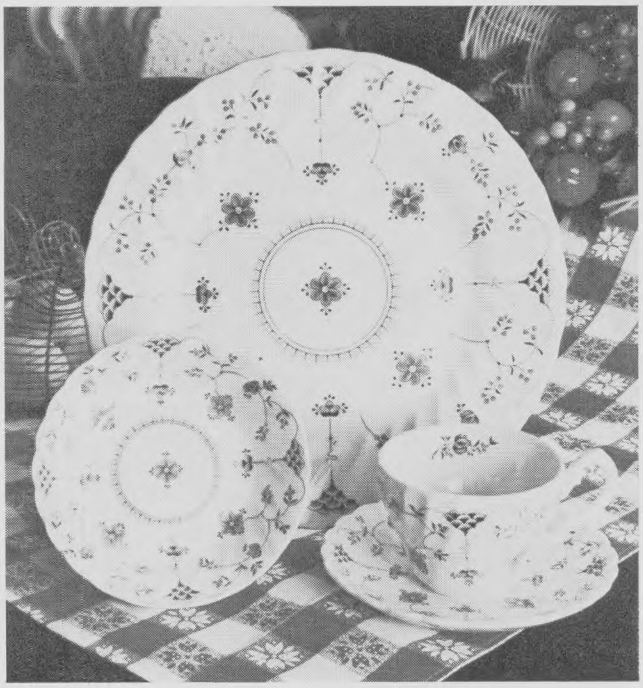
As Mr. Wheat points out: "Liberty felt this type of program would bring a much more favorable response than typical incentives of free trip offers and gift items. As is the case with most banks, Liberty's board of directors is comprised of men who are leaders in the community and take an active role in its welfare and development. 'Contributors' gives them an additional opportunity to lend financial assistance to many worthwhile organizations, while actively contributing to the growth of Liberty."

Besides its obvious function as a business development campaign, Mr. McLean says "Contributors" also is a reflection of the bank's attitude that directors should be involved more meaningfully in their banks' marketing goals.

"We believe," adds Mr. McLean, "that the directors' active participation in the implementation of marketing plans can have a tremendous effect on a bank's effectiveness in meeting the needs of its banking public. While bank marketing involves much more than business development, a true marketing program certainly isn't complete without it."

The campaign will run through next December and is open to all directors of Liberty National Corp. and Liberty National Bank. • •





No French Fries:

Bank's New Building Is Former 'Burger Stand

To paraphrase the ads of a nationally known chain of fast-food emporiums, "Watch out, hamburger stands!" United Missouri of Springfield has opened a new facility in a redesigned building that once served as a "hamburger heaven."

This is United Missouri of Springfield's new facility's quarters. Building formerly housed hamburger stand, but was completely redesigned, obliterating all traces of past use.

The structure, which is located in Springfield's Battlefield Mall, now is undistinguishable from its former self, according to bank officials. To celebrate its opening, United Missouri held a "sale" on most of the bank's personal services: personalized checks, installment loans, safe deposit boxes, travelers checks, money orders and savings accounts.

To promote the opening, the bank used newspaper ads with coupons in combination with "man on the street" radio commercials. A reception and grand-opening ceremony also were held in which over 500 local business and government leaders were guests.

The building has 5,400 square feet of banking area and a large vault with space for 4,000 safe-deposit boxes. There is an officers' area inside and four drive-up lanes under a canopy outside.

Newspaper ad for new facility of United Missouri of Springfield proclaimed "first bank sale in history." Many personal services were offered at "sale" prices during opening event.

Total Selling Program:

Officer Calling Efforts Get Boost From SAVVY

Commercial bank-marketing efforts and officer call programs are in for a boost, say officials of Princeton Partners, Inc., Princeton, N. J., which has developed one such total selling program for its client, Town & Country Bank, Flemington, N. J.

The goal of the effort, bank officials state, has been to position the institution as *the* business bank in the area and to give working tools to the calling officer.

Using the trademarked copy line, "The Business Bank with SAVVY," the bank uses media advertising, direct mail and in-hand sales tools for calling officers. Unifying the program's various parts is a manual that explains, step-by-step, how the officer should do the job. The manual also supplies work sheets to ensure that the sales track is being followed according to plan.

SAVVY's success, says an ad agency officer, is that it gains positive attention from businessmen and positive action on the calling officer's part. Officer calls become more than "friendly visits"; they are selling opportunities.

New Ad Campaign:

'We Grew Up Together' Recalls Heritage of Bank

"We Grew Up Together" is what Frost Bank, San Antonio, has been reminding its market in its 1975-76 campaign. The promotion focuses on the variety of people it has helped throughout Texas history.

Advertisements identify the bank's personality and roles it has played, such as when the original Colonel Frost sold Stetsons to ranchers or the businesses it finances today.

Television, radio, outdoor signs, counter signs and statement stuffers are used by Frost Bank to promote its message. There are eight TV spots that are coordinated with a like number of print ads and several outdoor designs. On the radio, seven spots are aired as radio theater, along with a theme song

played in five different styles. There also is a Spanish-language version.

Institutional ads were run for a number of weeks, then the product advertising phase swung into action. Since the campaign will be used until the end of the year, bank officials expect economy to be combined with quality, since all ads were produced at one time.

Additionally, the "We Grew Up Together" TV campaign was awarded a silver medal at the 20th Annual Awards Show of the Art Directors Club of Houston. It was the sole receipient of a silver award in the TV category.

The campaign also has won the top award of the Houston Advertising Club annual competition. The "Grand Prix XIV 1975" award was given for the best coordinated advertising campaign, all media considered. Bank officials indicated that the "We Grew Up Together" promotion would compete regionally, with regional winners eligible for national competition.

S&L Scores With Silliness

Here's how an S&L in Long Beach, Calif., scored with the public by taking a silly craze one step further by holding a pet-rock "race."

Since spring is a season associated with madness, the S&L set up an inclined "racetrack," complete with lane markers and start and finish lines, in its lobby. Fifty pet rocks, which were required to be unadulterated, were entered in the competition.

Prizes for the winners were appropriate: rock albums!

The Banking Scene

By Dr. Lewis E. Davids

Hill Professor of Bank Management, University of Missouri, Columbia

Independents Face the NOW Onslaught

THE THREE-DAY 1976 convention in Hawaii of the Independent Bankers Association of America (IBAA) now is history. During the convention, reactions to presentations on EFTs and controversial discussions on pending legislation in Washington demonstrated that a minority of independent bankers support at least part of the recommendations of the FINE study, especially the provision granting banks the interest-rate differential now given to thrift institutions, if the bank in question has at least 35% of its assets in housing loans.

"... the spread of the cost of funds to earnings for S&Ls has been more attractive than that of many commercial banks. This especially applies to what should be added to the interest rate—the effective interest rate—due to finder's and closing fees."

The independent banker who saw a local newspaper during the convention might have read that the statehouse in Hawaii had passed a measure—subject to Senate approval—to deter embezzlements and kickbacks by industrial-loan companies, something the committee report accompanying the measure noted had seen "phenomenal growth" in the past five years. The independent banker undoubtedly would have concluded that, as a result of these greater restrictions on industrial-loan companies, borrowers would be encouraged to seek personal loans from the more conventional (and lower cost), but more highly regulated, commercial banks.

Television programming also was interesting in Hawaii. One ad by an S&L had the title of "International Savings," a 5¼% demand account. The negotiable order of withdrawal (NOW) has effectively leaped from the East Coast to Hawaii!

Other S&Ls in that state had even more spectacular commercials that appealed to the personal saver. Pioneer Federal of Hawaii's TV commercial featured a credit card that's accepted at supermarkets, à la Hinky Dinky.

On returning to the mainland, I viewed an advertisement of Fidelity S&L, which has 20 offices throughout California, that was of interest:

> "How to make 5¼% interest on your company's checking accounts: Your business depends on cash-flow funds, but sitting in a checking account, they earn nothing. A Fidelity Federal Tel-Account makes your cash-flow funds not only available, but profitable as well. Now they can earn interest at 5¼%, compounded daily, day in and day out. Just a phone call from you and idle funds are transferred from your savings account that same day. It works the same way for transfers back to your checking account and there is no charge for this special service."

Since the S&L industry has been given clearinghouse routing symbols in only the past few months and, thus, is able to offer the equivalent of NOW accounts at the personal and business levels, it's too early to say how many individuals or businesses have switched their accounts to S&Ls for the service. It's probable that businesses that haven't been borrowing from their banks may be more inclined to do so than those that have a borrowing relationship.

However, the S&L industry certainly is aware of this limiting constraint on its expansion, and I think S&Ls are ingenious in providing a rationale that will legally comply with lending to a small businessman. The loan may not be direct, as a commercial loan, per se, but to the extent that S&Ls do issue open-end mortgages on properties, residences and multiple dwellings, one certainly can see that a simple open-end mortgage arrangement can permit some degree of accommodation to businessmen who have some real estate. Furthermore, property used as collateral is likely to be more secure and less subject to risk than the conventional loans of commercial banks.

Let's face it, the 5½-year extension of Regulation Q may have appeared to be the temporary palliative to the unit banker, even though the extension of Q still permits an interest differential for S&Ls. The fact that commercial banks having portfolios with 35% in real-estate mortgages are eligible to pay the S&L ceiling on funds at first appears to put them on relatively equal footing, interest-rate-wise, with the thrifts, but this is more illusion than fact. The reserve requirements of commercial banks must be taken into account, and they are considerably more of a drag on the bank's earnings than are the equivalents of the reserves for S&Ls.

"The fact that commercial banks having portfolios with 35% in real-estate mortgages are eligible to pay the S&L ceiling on funds at first appears to put them on relatively equal footing, interest-rate-wise, with the thrifts, but this is more illusion than fact."

It's interesting that CUNA (Credit Union National Association) has been voicing its desire that the Federal Regulator of Federal Credit Unions become

"I can help keep your agribusiness customer from crossing the street.

You're very likely to be loaned up seasonally if you have large agribusiness customers. That means overline financing, sometimes loan participation. I think you get a better deal on both with a big bank like United Missouri. Our own large correspondent business means we're not after your customers. We just want to help you serve them better. If this makes sense to you, my number is 816/221-6800. Call me."

united missouri bank of kansas city, n. a.

Joe Henderson. He runs United Missouri's Agribusiness division.

an "advocate of the credit-union movement." This is in opposition to the accepted concept of a regulator: The CUNA people note that the FHLBB, as a regulator, has become a strong advocate of the S&L movement, sharply contrasting with the role played by the FDIC or the Federal Reserve Board. In fact, independent bankers have complained that Comptroller of the Currency James Smith has become an advocate of national banks. Since national banks typically are larger than state-chartered unit banks, the situation puts the independent banker at more of a disadvantage.

As a friend of independent bankers—and one with high regard for their innovation and ingenuity—I would like to see them remain a healthy and reliable force in our financial structure; however, there are a number of adversities in the short run which may prove rather difficult for them. People in the S&L industry tell me that thrifts offering the NOW-account credit cards and fund remissions, including point of sale (POS), actually are of two classes.

One of those classes is the S&L or mutual savings bank that is *giving away* NOW accounts. These are manned by people who are aggressive in seeking numbers and totals. They strongly believe that, if one can obtain funds at 5½% and lend them at 9%, such spread management is quite profitable. That is true, even with the softening of long-term interest rates.

Note that the spread of the cost of funds to earnings for S&Ls has been more attractive than that of many commercial banks. This especially applies to what *should* be added to the interest rate—the effective interest rate—due to finder's and closing fees.

The other class of S&L executive is more pragmatic. He has recognized that adding the NOW service is going to be expensive, especially as one looks to the future of electronic fund systems. Many S&Ls are now actively utilizing EFT systems.

In Hawaii, an S&L, in conjunction with a supermarket chain, is using its debit-credit card to switch funds from S&L accounts to the payment of charged groceries and reversing these transactions by permitting S&L account holders to deposit their payroll checks at the supermarket locations, which then are switched to the S&L.

Incidentally, the EFT movement is acquiring some rather strange bedfellows. Recently, 56 Chicago-area S&Ls applied to participate in the electronic network of Continental Illinois National at a number of supermarket locations. The independent banker, observing the motivation of the S&L people to "join" big-city banks' EFT sys-

(Continued on page 106)

BRING OUT THE BRIGHTEST OF THE REDS, WHITES AND BLUES FOR AMERICA'S BICENTENNIAL, THEN ADD A DASH OF SILVER . . . OKLAHOMA CITY'S GLOBE LIFE AND ACCIDENT INSURANCE COMPANY HAS TURNED 25.

And what an All-American, star spangled history it has recorded.

From its formation in 1951 to the present, Globe Life's success typifies the 200-year American ideal of free enterprise, and demonstrates that a company can become as great as the sum total of the abilities of its people.

Originally established to sell life and health and accident insurance in Oklahoma, Globe Life now is licensed in 48 states, including Alaska and Hawaii. And, with more than a million policy holders, one out of every 200 Americans has a Globe policy.

Financially, Globe has grown incredibly in its quarter-century from an original $60,000 capital investment to a position of national prominence with near $2.5 billion of life insurance in force today. And in Oklahoma, The Globe ranks number one, with a capital structure in excess of $50 million.

That's the kind of stability that backs up Globe's full service to bankers; Credit Life, Credit Disability, Credit Line, Loan Protector, IRA Protector, and Key-Man insurance . . . 25 years of constantly growing stability!

GLOBE LIFE 25

GLOBE LIFE AND ACCIDENT INSURANCE COMPANY
OKLAHOMA CITY

Community Involvement

$653 = $1,000:

Bank Customer's Bequest Earns Dividends at Store

A bequest of $653.30 to First National in St. Louis has been turned into a gift of $1,000 in sports equipment through the help of Casey's Sports stores, St. Louis.

Walter Ewing, a resident of East St. Louis, Ill., bequeathed the former amount to First National "because employees of the bank had been courteous and helpful." On receipt of the money,

Richard F. Ford (l.), pres. and chief op. off., First Nat'l, St. Louis, presents $1,000 in sports equipment to Fred L. Teer, admin. asst. to mayor of East St. Louis, Ill. Bank was bequeathed $653.30 by resident of East St. Louis and money was used to purchase equipment for city. Thanks to Casey's Sports stores, St. Louis, amount purchased was "stretched" to $1,000.

First National officers contacted East St. Louis officials to determine how the money—in the form of a donation—could best be used, and it was learned that a variety of sports equipment was needed for the city's recreation program.

A list of equipment needed was prepared and turned over to Casey's, which "stretched" the willed amount into $1,000 worth of equipment. The donation included a weight-lifting bench, weight set, badminton, volleyball and basketball nets and other items.

Loans, Bond Purchases:

BofA Signs Contracts To Improve Local Cities

Bank of America, San Francisco, has signed contracts with the cities of San Diego, Torrance and Menlo Park, all of California, as the first participants in its City Improvement and Restoration Program.

The program is designed to pull together and coordinate the bank's efforts to improve the quality of the state's housing and older downtown commercial property. It provides for low-interest loans, bond purchases and financial expertise.

Loans and bond purchases may be made for rehabilitation of residences or commercial buildings, purchases of older homes, construction of low-cost and senior-citizen housing, physical improvement of downtown areas and acquisitions of park and recreation facilities, areas a bank-sponsored study has shown to be "problems" in California cities.

The bank has been approving individual projects at the community level. Each project demands a carefully tailored program, taking full advantage of available state and federal assistance, which allows the best possible terms for the borrower.

Bank of America officials note that cities aren't usually in a position to act in the capacity of lenders dispersing federal revenue-sharing funds for housing rehabilitation, so the institution has stepped in to offer local communities its expertise in expediting the channeling of these funds.

The monies are loaned, at below-market rates, to qualified residents designated by a city. The program had been proposed to more than 80 California cities and counties at press time.

High Rollers:

Fund Auction's Top Bidder Takes Charity in Style

Commonwealth National, Dallas, offered an evening on the town in a chauffeur-driven Rolls-Royce for the local public TV station's fund raising auction and the lucky winning bidder got more than the bank had bargained for.

The evening on the town included entertainment at the nightclub of the bidder's choice and midnight dancing. A high bid of $205 was received, but after the winner's dinner at a local discotheque, caviar and three wine courses, after-dinner entertainment by Steve Allen and Jayne Meadows at the Fairmont Hotel's Venetian Room and a nightcap at that hotel's Pyramid Club, the bill had come to $305.

What was the bank's reaction? "We were taken aback a little at first," said John Bacon, vice president, "but we're always happy to see someone get a bargain. Of course, we feel it's good for the bank and community to support public television."

For the Bicentennial:

Bank's Liberty Bell Copy Is Presented to County

Farmers Exchange Bank, Union City, Tenn., has presented a replica of the Liberty Bell to the people of Obion County.

Dignitaries of Farmers Exchange Bank and its home town, Union City, Tenn., check out half-size replica of Liberty Bell bank is displaying in lobby during bicentennial year. In 1977, bank will turn bell over to Obion County Public Library, where it will be on display permanently. Dignitaries are (from l.) Dan Weber, bank pres.; Mayor Darrell Gore; George Blakemore, county school superintendent; Baxter Wheatley, city school suprintendent; Ann Stowers, county librarian; and T. Willie Jones, county judge.

The replica, which is half the original's size, will be on display in the bank lobby until 1977, when it will go on permanent display in the Obion County Public Library.

In addition, Farmers Exchange Bank is presenting copies of the book, *Cast in America,* to the library and high schools in the county.

Gateway Nat'l Hosts Students

Lamount Davis (l.), v.p. & cash., Gateway Nat'l, St. Louis, conducts students from an area high school on a tour of the bank. Purpose of the outing was to demonstrate opportunities, operations and qualifications needed for a career in banking. The students visited Gateway Nat'l during business hours to get a firsthand look at its operation. The class instructor is at right.

Forecast for Housing, Mortgage Rates Points to Continuation of Upturn in '76

THE OUTLOOK for the economy, with emphasis on the housing industry was given to participants at one of a series of mortgage lenders' symposiums sponsored by CMI Investment Corp. recently in St. Louis.

According to CMI Chairman & CEO Bruce Thomas, real GNP growth in 1976 will be 5.5%, unemployment will drop to 6.5% and the inflation rate will fall to 7%.

Savings flows will continue strong, with 8% of disposable income being put into savings.

Total housing starts for the year will reach 1.7 million, compared to 1.5 million in 1975. Multi-family starts will reach 400,000 units, compared to 260,000 last year. Single-family mortgage rates will continue down to 8.5% from the current 8.75%; short-term rates will remain stable until the fourth quarter, when they will rise; and long-term rates will remain stable at current levels with some downward movement before an upward move begins.

Mr. Thomas said that, in order to support and sustain the recent upturn in housing, lenders should realize that they are no longer subject to disintermediation to the extent they have been in recent years. This realization, he said, will enable lenders to loosen the purse strings and make mortgage loans more freely than in the past.

He said lenders also should get rid of their high-cost CD money because too much of their money is in this category. If they can get the spread down to 2%, interest rates on mortgage loans can be reduced.

Another way to promote housing, he said, would be for builders to cut down on the cost of new houses by trimming frills. Also those in the market for houses should be educated to tone down their expectations as to the "extras" needed to make a house acceptable to their standards of living.

The cost of new houses can be reduced by offering stripped-down versions, he said. Owners can always add such things as patios and landscaping on their own—even fireplaces and family rooms. And today's house buyer can be made to realize that he doesn't have to start with a deluxe model that is priced beyond his means. He can buy the basic home and add the extras as his income permits.

Mr. Thomas called for zoning reform, stating that such could help the housing industry. Reducing the size of lots would permit more and cheaper houses to be built and reduce assessment costs. Improvements in municipal government financing could take the pressure off the real estate tax, he said, which was originally intended to be a tax levied according to the taxpayers' ability to pay. He said that most government units are slow to change and haven't come to grips with this issue.

Better and more economical uses of energy can result in better-designed homes that will be more attractive to buyers as well as more economical to maintain, Mr. Thomas said. This will go hand in hand with the current change in life style, brought about in part by smaller families and more relaxed living.

Reduced population growth will force economies in housing. It also will result in a lessening of government demands for capital, freeing it for housing and other needs, he said.

A wave of changes has taken place in the last five years regarding new lending techniques to finance mortgages, Mr. Thomas said. These include secondary-market transactions, in which half of the thrifts are now involved. He said that commercial banks no longer have to hold on to their mortgage loans; the secondary market enables them to sell the loans and place the funds into short-term financing, which is usually more to their liking.

Deferred-payment mortgages are becoming popular, he said. They permit lower payments during the first portion of the loan, followed by higher payments geared to coincide with the homeowner's rising income during the balance of the loan term.

Thrifts are issuing capital notes to supplement the savings flow, Mr. Thomas said. And piggyback financing, the use of Ginny Mae, mortgage-backed bonds and the mortgage futures market are a few of the innovations currently being adopted by lenders.

Variable-rate mortgages will be slow to catch on nationally, he said, because of the struggle to arrive at a fair formula for all parties. The formulas must be more reliable before this innovation becomes more popular, he said. • •

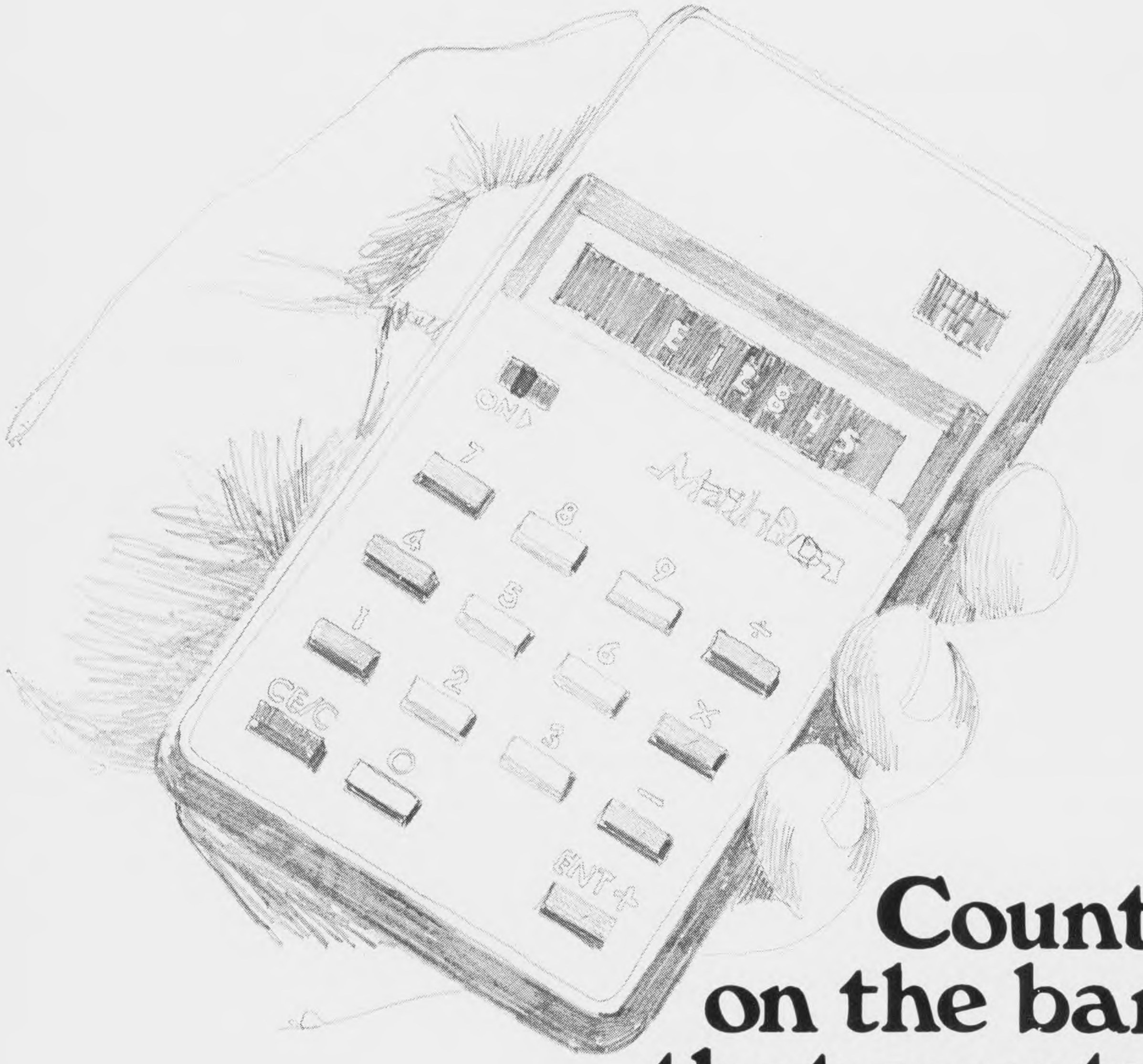
Pictured at recent mortgage lenders' symposium sponsored by CMI Investment Corp. in St. Louis, are CMI personnel (from l.) Dennis L. Oliver, Milwaukee, regional dir.; Robert Nevitt, Louisville, dist. dir.; William O'Brien, Peoria, Ill., dist. dir.; Victor Thompson, St. Louis, dist. dir.; William K. Adair, Wichita, regional dir.; and Bruce Thomas, Madison, Wis., ch. & CEO.

Anti-Redlining Regulations Proposed by Fed Board

The Fed has proposed comprehensive regulations that would require financial institutions in principal metropolitan areas to disclose where they make mortgage loans. The regulations resulted from a law passed by Congress aimed at curbing redlining.

Lenders have registered strong opposition to the disclosure provisions. They say that such disclosures will be costly and that consumers could misuse the information.

The proposed regulation requires an-



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nual disclosure by all federally insured or regulated financial institutions that have offices in principal metropolitan areas or standard metropolitan statistical areas and have assets of $10 million or more. The Fed says the regulations will affect approximately 4,400 commercial banks, 3,000 S&Ls, 470 mutual savings banks and 600 federal credit unions.

The disclosure would have to be conveniently available to customers at the offices of the financial institutions.

The proposal would require lenders to disclose loans they made on one-to-four family residences and family residences of more than four units, loans on individual units of cooperatives and condominiums and secured and unsecured home improvement loans.

The Fed states that nothing in the regulations is meant to encourage unsound lending practices or the allocation of credit.

The Mortgage Disclosure Act of 1975, which triggered the Fed regulations, goes into effect June 28.

American Safe Deposit Assn. To Hold Convention May 19-22

PHILADELPHIA—The Benjamin Franklin Hotel will host the 52nd annual convention of the American Safe Deposit Association May 19-22. Its program features educational sessions, workshops and panel discussions.

Knowledgeable and interesting speakers from the safe-deposit field will be on hand, and entertainment and social events along with tours to historical spots will round out the schedule.

The program will open with a luncheon for association officers and executive and advisory committees on May 19. A get-acquainted party is planned for delegates and guests that evening.

Philadelphia Mayor Frank Rizzo has been invited to welcome convention-goers at a May 20 breakfast, while Governor Milton Shapp will speak at the annual business meeting. Master of ceremonies for the various convention sessions will be Leonard E. Barnes, retired assistant vice president, Wilmington (Del.) Trust, and former TASDA president.

Saturday evening, May 22, will bring the convention to a close with a reception honoring the incoming officers and President John A. "Andy" Robertson of National Bank of Greenwood, Ind. The reception will be followed by the annual banquet.

To Profit or Perish Is the Question Facing the Trust Industry Today

By RAY F. MYERS
Executive Vice President
Continental Illinois National
Chicago

I WOULD BET that most of you have more trust assets today than you had, say, 10 years ago. I would bet you have more accounts today than you had 10 years ago. And if you'll think for a minute, you're providing services today that weren't even in existence 10 or 15 years ago. And yet, the fact is, today our industry is seriously threatened because we are failing to manage our businesses in such a way that they are profitable. And that in itself will take us down the tubes in a very few years if we're not careful.

Am I sounding the death knell of the trust business? Not at all, though I am trying to get you to realize how serious the trouble is that we are facing in the trust industry.

You say, I just can't imagine our bank going out of the trust business. Let me tell you something. In the last six months, one of the largest trust departments in the country, with gross earnings of something over $25 million, has launched a very serious study questioning whether it ought to get out of the trust business, cut out certain parts of the trust business, spin the department out, or find ways to turn it around so that it is a profitable adjunct to that bank.

I'm not presumptuous enough to tell you how to run your organization, by any means. I will try to tell you some things that we have done in ours which may have an application to yours, if you'll think about them and adapt them a little bit.

Let me enumerate several steps to more profitable trust departments. The first very obvious step is that you have to begin to plan for those profits. "Oh," you say, "I'm already planning." Let me give you a little test. Ask one of your key managers, "How are you coming on your profit plan for this year?" If he says to you, "What profit plan?"—you've got a problem! He should have in mind some very specific objectives in the management of that division on which you and he have agreed. He should have set objectives in terms of the gross income that he is going to generate and in terms of the control of expenses that he is going to exercise.

I took over the trust department of our bank in 1970, and it wasn't until six months before I took over that I had even seen, or that anybody other than the head of the department had ever seen, the figures on our organization. Now, there is no way you're going to get the cooperation of the fellow down the line if he doesn't even know what the goal is. One of the first things I did was to disseminate that information right through our organization so that every division, every officer, and quite a few of the troops knew precisely what we were earning, knew what our problems were, and began to be concerned about them themselves.

Let me suggest five areas in which you ought to set some objectives with your key people.

The first would be profitability, and I mean specifically a dollar amount, a percentage increase that your manager is expected to realize for you, stated in terms of gross income, in terms of net, etc., in each of the areas of his responsibility.

"In our organization . . . we have set a goal of bringing on line one new service a year. That's hard. We've made it in recent years, but it is very tough and takes a lot of work."

Second, I think you ought to set some objectives for innovation. Now you say, "Wait a minute, we've got five people in our trust department; we can't innovate." Perhaps you can't. That may be for the money center banks that have lots of money to throw into research. But you can imitate, you can modify, you can adapt. I say this with some caution, because the worst thing you can do is decide that just because your competitor is going down a certain road, you ought to go down it, too. It may be a blind alley, or it may fit his situation much better than yours. You've got to study your alternatives, make your choice, and then adapt it to your circumstances. At the very least, you ought to be alert to the innovation that is going on in the industry and get some goals for adaptation established.

In our organization, for example, we have set a goal of bringing on line one new service a year. That's hard. We've made it in recent years, but it is very tough and takes a lot of work. But you can follow the major banks by adapting, and you ought to set some objectives in that area.

Third, you ought to set some objectives in the service area. How quickly do you respond to the letter that you receive from your beneficiary? "Oh," you say, "pretty promptly." Well, test yourself. Keep a record for a week and see whether that response goes back tomorrow or three days from now or a week from now or doesn't even go back at all. I'm sure you've gotten some letters from beneficiaries who say, "I wrote to you four weeks ago, and nobody answered me." Or, "I've called that officer three times, and he hasn't called me back." You need to have some clear understanding with your people about what the level of service is going to be and let them set some objectives in terms of responding to correspondence, visiting with their customers, or doing whatever their particular jobs may be.

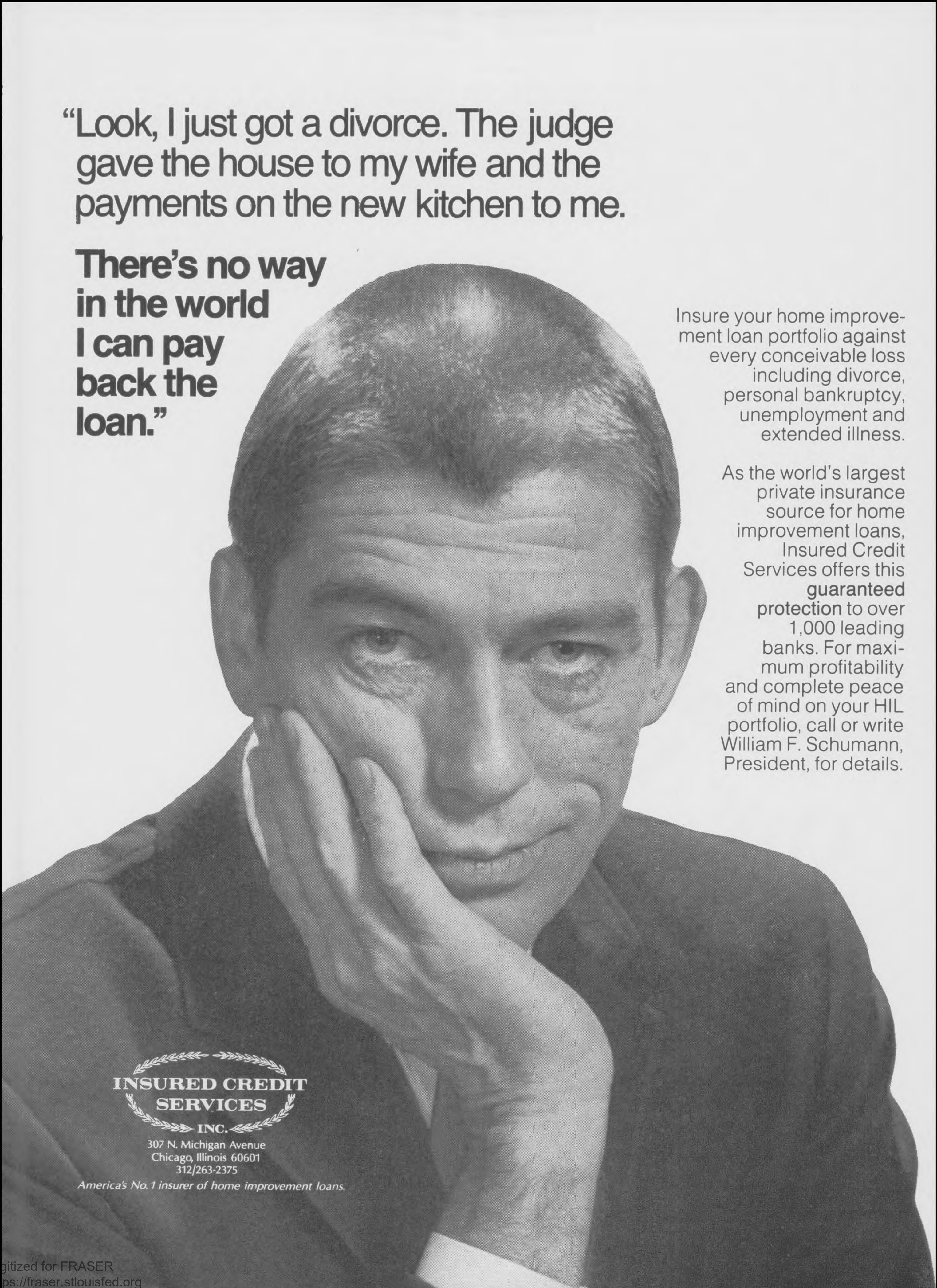
Fourth, you need some objectives defining manpower and management development. You need to know how many people you're going to have to hire; what kinds of training programs you're going to put them through. Your correspondent bank may help you with this.

The final objective I would suggest concerns your public responsibility, and by that I mean setting some specific affirmative action goals for the numbers of women and minority group members who will—or should—be promoted and hired over the course of a year.

All right—that's the first step to profitability—careful planning. It's the essential element that's going to bring you out of your profitability slump.

Second, you've got to learn to sell. I only want to make two points. Selling is not the job of your trust business development man alone. It's your job. You and I had a beneficiary on the phone yesterday or sitting at our desk, but did we ask for that savings account? Did we attempt to change that agency account into a living trust? Did we attempt to move that will appointment into a living trust appointment so that we begin to get that income today? I think all too often we fail to do so.

The other thing I think you need to be concerned about if you have people who are doing a full-time job of business development—or even a part-time job—is whether those people are zeroed-in on the right target. You can send me out today and I can make 10 cold calls. On the average, I'd find four people


"Look, I just got a divorce. The judge gave the house to my wife and the payments on the new kitchen to me.
There's no way in the world I can pay back the loan."
Insure your home improvement loan portfolio against every conceivable loss including divorce, personal bankruptcy, unemployment and extended illness.
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home, and three of them would have no interest in doing anything about their estate plans. I might strike fire with the next one, but it'll be a year from now before I'll have that appointment on the books.

Now, contrast that kind of selling with a situation in which you send me out to see somebody you know, who has, say, a quarter of a million dollars—because of ownership of a closely-held corporation, because of money in a savings account, or because of the balances he keeps in his checking account. OK, now we've got a real target, somebody who is worthy of the time it's going to take to do that job of business development.

But we're not home yet. There is one more step we ought to take.

There are lots of people out there with a quarter of a million dollars who aren't the least bit concerned about doing anything about their personal affairs today. But there are some people out there who have suddenly got stirred up, and this is the day that you can strike and get something done. So what you need is a customer radar system that's going to identify for you these people who have not only the means but also the desire to do something.

The third move I would make is to begin to take a hard look at the way you are controlling *your* costs. If you don't know your costs by the kinds of services offered, then that's one of the first things you ought to be doing.

You cut out your advertising—nobody's going to miss it for a year anyway. You cut out your training program. You fire the newest person around. He may be the brightest star you have in the place, he may be the person who is going to run that place 10 years from now, but you fire him because he's the newest. OK, you've made your 10% cut. The heat's off. You wait six months, then you begin to ease these things back in again, and your costs are right back up.

That's not what I mean by cost cutting. What I mean is that you ought to know what it's costing you to take care of a particular customer, not the whole department. And the only way you're going to know whether Bessie, that customer who is taking a lot of your time, is profitable is to zero in on her account individually.

How do you do that? The first step, of course, is to determine what your unit costs are in handling various phases of your operation. It costs you so much to buy a security, it costs you so much to transfer a security. I would hope all of you have established costs for your separate operations long ago. Once you have those, then it is easy to multiply the 50 securities you sold in Bessie's account during the year times "X" dollars per security sale. Now you have the cost of that particular operation. But you've got a very big chunk missing. And that's the amount of time an administrative man has put into handling those phone calls and working on those discretionary payments, etc.

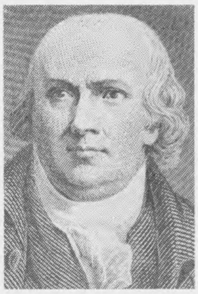
You're going to capture those costs only if you ask an administrative man to keep a time diary, just the way a lawyer does. Now this is the most painful thing you can possibly install in your organization, but it is also the device that is going to pay off the most for you. Get your people to keep a time diary, using 15-minute intervals, to record two things—the account number on which they're working and a number indicating the type of job they're doing—discretionary payments, correspondence, whatever it may be. You can rack those up at the end of the month, quarter, year, and you'll know how much time each employee has put into that account. You take the average cost per hour for that employee

(Continued on page 106)

Name of Unsung Revolutionary War Hero Lives on in Robert Morris Associates

WHEN the Revolutionary War is studied in schools, when it's written about in history books or historical novels or when it's the subject of movies or TV programs, who are the men most often featured? George Washington, Thomas Jefferson, John Adams, Benjamin Franklin, John Hancock, Alexander Hamilton and the infamous Aaron Burr and Benedict Arnold. Seldom is one man even mentioned. Yet without him, this country today might well be a colony owned by Great Britain.

Who is this unsung hero? He's Robert Morris, who brilliantly financed the war for our independence from Britain, was a signer of the Declaration of Independence and the new nation's first superintendent of finance under the Articles of Confederation. He helped establish the Colonial Navy and later was elected senator from Pennsylvania.



MORRIS

He is best remembered, however, as the man who secured the funds to enable Washington to move his army from the New York environs to Yorktown, which ultimately resulted in the surrender of Lord Cornwallis in 1781. To finance this and earlier military operations, Morris performed financial miracles, including advancing his own money or that borrowed on personal credit.

But his memory is unfairly dimmed perhaps by historical footnotes documenting his postwar investment ventures that were instrumental in leading him to financial ruin. Morris spent a portion of his last days in a Philadelphia debtors' prison, an embittered bankrupt. Thus, Colonial America's genius of public finance was denied much of the fame and respect that many feel should have been his.

Nevertheless, Robert Morris is not forgotten. Today, in the most select of banking circles, his name lives on—bright and untarnished. Over 6,500 bank commercial loan and credit officers in banks of all sizes, in every state, honor the memory of the financier through their organization, Robert Morris Associates (RMA).

Chartered in 1914, this national association, headquartered in Philadelphia, states as its goals the ". . . continuous improvement in principles and practices of commercial lending, loan administration and asset management in commercial banks."

The national RMA membership is divided into 30 chapters. Some cover a major city and its surrounding areas. Others cover an entire state, and still others are comprised of several states. Each chapter conducts its own business, including electing its officers and planning its own programs and projects.

Close to 3,000 commercial loan and credit officers in 845 banks in the states covered by MID-CONTINENT BANKER are members of eight of the association's chapters.

Presidents of these local chapters for 1975-76 are: Lee R. Farmer, vice president, Valley National of Arizona, Tucson—Arizona Chapter (which includes bank members in New Mexico); Dave A. Makeever, vice president, Harris Trust, Chicago—Chicago Chapter; and James F. Nissen, executive vice president, National Bank of Commerce, Lincoln, Neb.—Missouri Valley Chapter.

Also, Ronald L. Kirkpatrick, vice president, Lincoln National, Fort Wayne, Ind.—Northern Indiana Chapter; Frank L. Compton, president, Harpster (O.) Bank—Ohio Valley Chapter; R. Joseph Heisler, vice president, American National, St. Louis—St. Louis Chapter; Edward Herbert, senior vice president, First Alabama Bank, Montgomery—Southeastern Chapter; and Thomas J. Vance, vice president, Fort Worth National—Texas Chapter.

In addition, an Indiana banker, Dan W. Mitchell, president, Old National, Evansville, will become RMA's national president September 1.

The national association provides its members with an atmosphere for development and exchange of ideas and a guiding standard of ethics in banking. RMA offers a host of educational and research programs geared to development of capable personnel in the commercial lending and credit fields. In addition, through its committee system, it provides a means for communicating with related professions for mutual problem solving.

Selecting Robert Morris as the namesake for such a banking association is not without irony. But RMA bankers believe they could not have chosen better.

The Morris dictum was ". . . confidence is the source of credit and credit is the soul of all pecuniary operations," a maxim any banker could support.

And though Morris may have erred with his personal fortune, his position in American finance was, and is, unchallenged and ranks with that of Alexander Hamilton. In fact, with Hamilton and Haym Solomon, Morris organized —in 1781—America's first national bank, the Bank of North America.

While historians and biographers still probe the shadows of Morris' life, they do appear to agree on at least one point. As Samuel Eliot Morison says in his *Oxford History of the American People,* "Morris in finance accomplished as much for independence as Washington and Franklin did in their respective fields." • •

Automation and Lending Are Topics of Workshops Slated by RMA for 1976

PHILADELPHIA—Robert Morris Associates' Domestic Lending Division has announced three new workshops for 1976: "Automated Loan Information Systems," "Secured Lending: Accounts Receivable, Inventory and Equipment Financing" and "Lending to Banks and Bank Holding Companies."

Registration for the workshops is open to personnel from non-RMA-member banks, but those from member banks will receive preference.

The loan automation workshop has been designed to help bankers meet the increased reporting requirements of the SEC and other federal regulatory agencies. It also will help in meeting internal needs of management for better information about the nature and condition of the loan portfolio.

This workshop is intended for institutions which are considering automation of loan information systems and those seeking to upgrade existing systems. Banks are encouraged to send three persons to the workshop: the senior loan or credit officer assigned to the project, the bank's note and discount officer and the electronic data processing representative who will be assigned to the project.

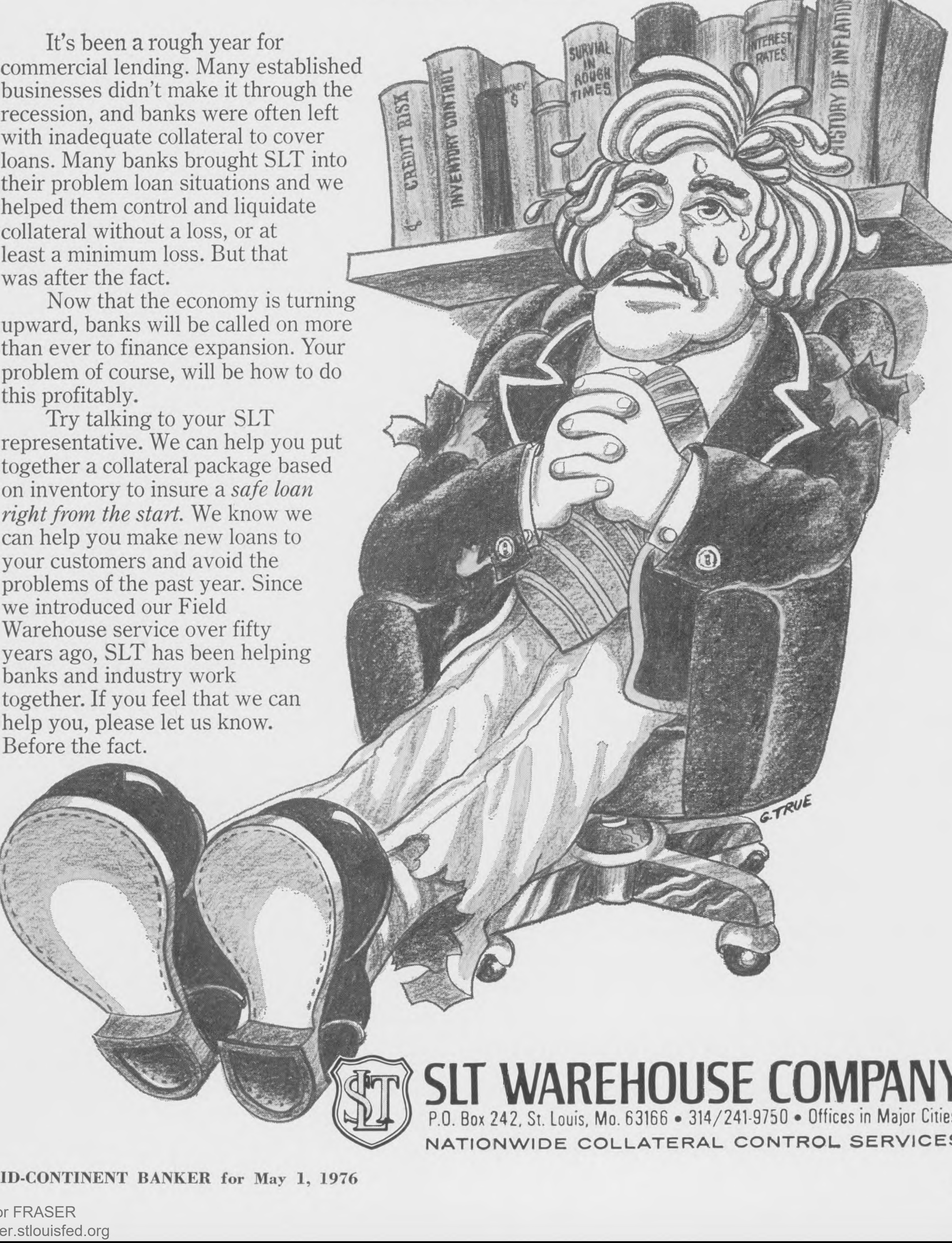
The first loan automation workshop was held March 25-26 in Chicago. The next one is scheduled to be held May

YOU'VE HAD A ROUGH TIME!

It's been a rough year for commercial lending. Many established businesses didn't make it through the recession, and banks were often left with inadequate collateral to cover loans. Many banks brought SLT into their problem loan situations and we helped them control and liquidate collateral without a loss, or at least a minimum loss. But that was after the fact.

Now that the economy is turning upward, banks will be called on more than ever to finance expansion. Your problem of course, will be how to do this profitably.

Try talking to your SLT representative. We can help you put together a collateral package based on inventory to insure a *safe loan right from the start.* We know we can help you make new loans to your customers and avoid the problems of the past year. Since we introduced our Field Warehouse service over fifty years ago, SLT has been helping banks and industry work together. If you feel that we can help you, please let us know. Before the fact.



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The secured lending workshop has been developed in response to renewed interest by banks in lending on a collateralized or secured basis and has been designed to familiarize bankers with procedures and techniques peculiar to this area of lending. Stouffer's Riverfront Inn, St. Louis, will host the Mid-Continent-area workshop June 17-18.

RMA's third announced workshop will cover lending to banks and bank HCs. It has been developed to help banks improve the analysis and management of inter-bank credits, giving special emphasis to measurement and control of inter-bank risk and its implications on credit policy. The Mid-Continent-area workshop will be held September 27-28 at the Hyatt Regency O'Hare, Chicago.

Registration materials for the workshops have been mailed to all RMA members. The fee is $150 to members and $175 to nonmembers.

New International Lending Textbook Is Released by Robert Morris

Offshore Lending by U. S. Commercial Banks is the title of a new book published by Robert Morris Associates (RMA) and the Bankers' Association for Foreign Trade. The book is believed to be the first contemporary text to provide detailed international lending information to American banks.

The book, edited by F. John Mathis, vice president and international economist, Continental Illinois National, Chicago, examines basic principles, opportunities and problems in lending abroad, from a philosophical and a practical viewpoint.

According to the RMA, each of the book's 13 chapters was written by an author with proved credentials in international commercial banking and most are senior officers with leading U. S. banks. An academician, an accountant and an attorney also penned chapters in the work.

Chapters of *Offshore Lending* cover country risk, counting practices, foreign credit analysis, legal aspects, import and export financing, corporate loans to foreign branches, subsidiaries or affiliates with parent support, lending to foreign local companies, loans and placements to foreign banks, financing foreign governments and official entities, syndication, funding risks and overviews of the past and future of international lending.

Price of *Offshore Lending by U. S. Commercial Banks* is $16 per copy (U. S. funds). Write: RMA National Office, 1432 Philadelphia National Bank Building, Philadelphia, PA 19107.

ABA's Commercial Lenders Elect Officers for '76-'77

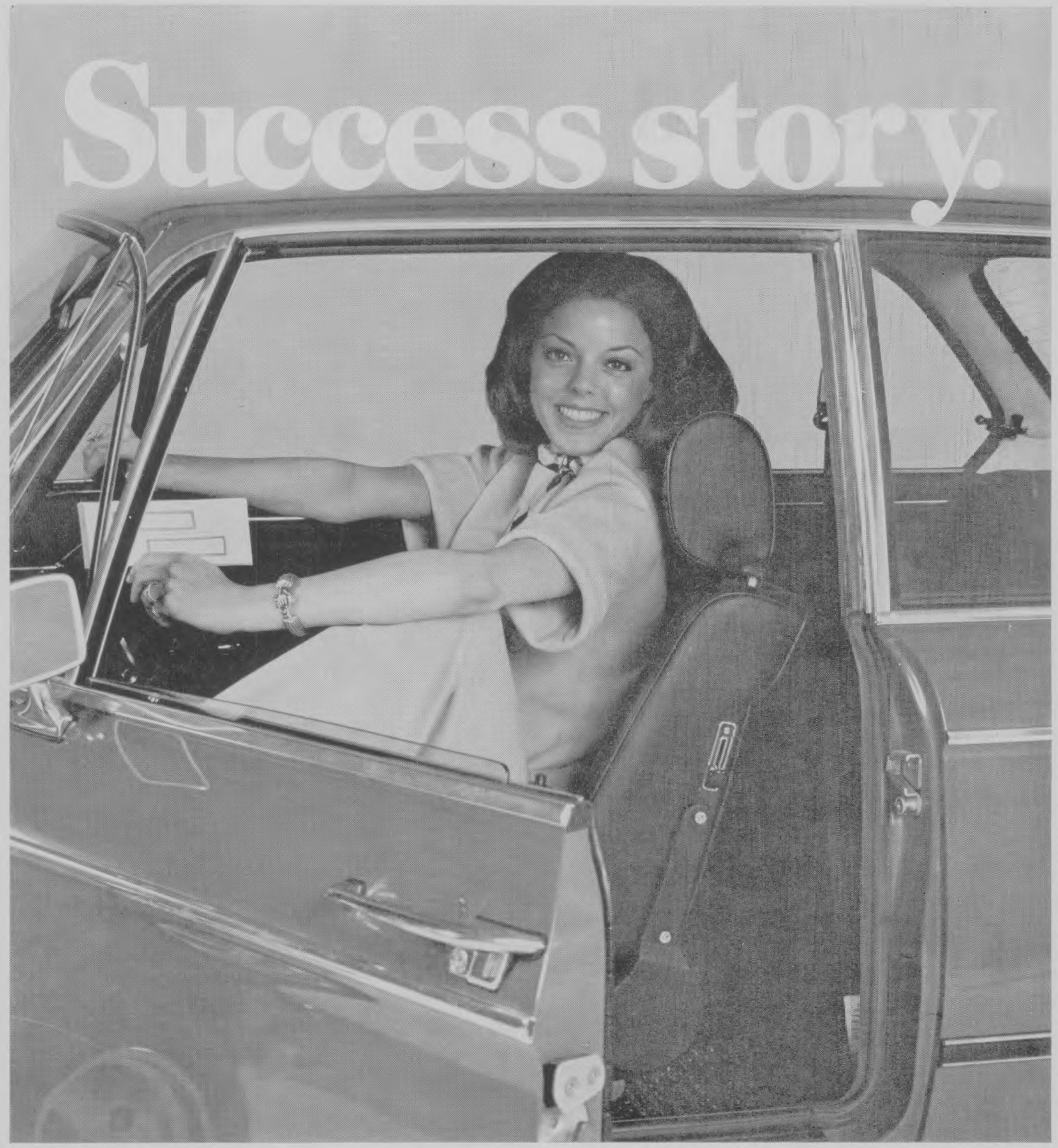
New leaders for the ABA's Commercial Lending Division were elected during the 28th annual National Credit Conference, held in Atlanta recently.

New chairman is Harry S. Meily, vice chairman, Security Pacific National, Los Angeles; vice chairman is Ralph B. Gilpatrick Jr., senior vice president, Mellon Bank, Pittsburgh.

Mid-Continent-area bankers serving on the executive committee include Richard F. Ford, president, First National in St. Louis; Gerald W. Fronterhouse, executive vice president, Republic National, Dallas; Charles J. Kane, chairman, Third National, Nashville; Joe Semrod, president, Liberty National, Oklahoma City; and E. Norman Staub, vice chairman, Northern Trust, Chicago.

Dan W. Mitchell, first vice president, RMA, and president, Old National, Evansville, Ind., will serve as an ex-officio member of the executive committee.

Members of the division's 1976-77 advisory council will be Charles E. Woodruff, vice chairman, Manufacturers Hanover, New York, and A. Robert Abboud, chairman, First National, Chicago.



She's happy, she got the car with your money. You're happy, she's locked in as your customer for 36 months, and as she makes her car payments you're cross selling her on other bank services with the ads in her MICR-encoded coupon payment book.

You'll like Kansas Bank Note's coupon payment system too. It's personalized with the borrower's name, the bank name and address, the payment number, payment amount, account number, term of loan, net and gross payments and dates, the total owed before and after the payment, and on every December coupon we show the interest paid for the year for your customer's tax purposes.

If you can find a better MICR loan payment coupon book at a better price, do it. But we don't think you can. So call or write Kansas Bank Note Company and find out.

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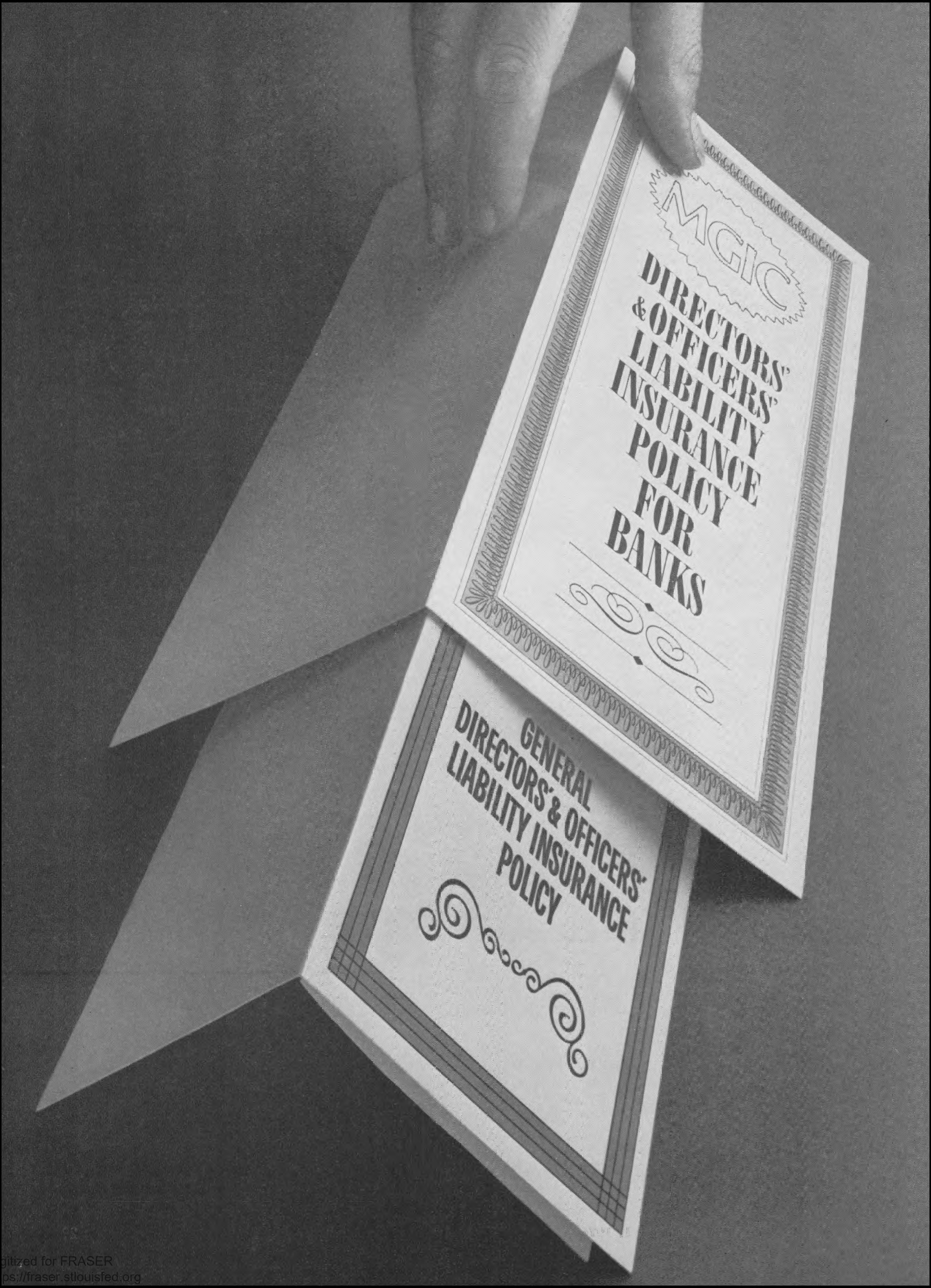
MGIC
DIRECTORS' & OFFICERS' LIABILITY INSURANCE POLICY FOR BANKS
GENERAL DIRECTORS' & OFFICERS' LIABILITY INSURANCE POLICY

"MGIC gives us more Directors' & Officers' liability coverage than any other insurer, at a reasonable premium."

Dale L. Jernberg, Exec. V.P. and Director, National Bank of Washington, D.C. tells how MGIC provides coverage for directors and officers, plus an exclusive combination of key features tailored to a bank's needs.

Did you analyze coverage offered by a number of D & O liability companies?

"Yes. Four besides MGIC. And very thoroughly. We found that types and quality of coverage varied all over the lot. But only MGIC provided a complete protection tailored to our bank's needs. And for a reasonable cost."

How do MGIC's features compare with the others?

"Their various plans, limits of liability, and deductibles offer extremely attractive options. The $5 million policy we have with MGIC protects all directors and officers. In any case covered, it pays 100% over the deductible limits we selected.

"Also, when we indemnify to the extent permitted by law, MGIC's coverage has far fewer exclusions than many other insurers. This 'waiver of exclusions' is most important to us.

"In our judgment, MGIC's D & O liability coverage is by far the best value we could buy. Other companies just couldn't provide us the kind of protection that MGIC offers."

How do you feel about your right to participate in selection of counsel in the event of a lawsuit?

"It is very important. MGIC would give us a free hand to choose counsel, subject to their approval. They also could advance legal fees in the event of a costly lawsuit which is covered. And they would cooperate with us to counter unfavorable publicity that could be damaging to the named individuals and to our bank."

Do you find greater awareness of your specific needs and greater flexibility in MGIC's D & O policy?

"Absolutely. The other policies seemed pretty general, and not tailored to a bank's needs. MGIC, on the other hand, really knows the financial community, because they're part of it. This, coupled with the fact that they did their 'homework' before the initial proposal, proved the key to our decision. MGIC thoroughly knew what we needed and the result is a very secure feeling that we have the best D & O liability insurance we could buy."

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Agricultural News

Financing Available for Young Farmers With Management Ability, Good Cash Flow

YOUNG farmers who have management ability and can produce a healthy cash flow will receive the financing they need to enter farming, a group of agri-bankers said recently at a meeting sponsored by ABA's Agricultural Bankers Division.

Marlin D. Jackson, chairman and president, Security Bank, Paragould, Ark., said bankers use the following techniques to find and work with likely young farmers:

- Identifying those people with the abiding, sincere desire to become farmers. It is much easier to work with the sons and daughters of successful farmers, he said, than with young people who have little real farming experience.
- Identifying those with the management ability and the willingness to endure the many hours of arduous labor connected with farming.
- Counseling with young farmers and assisting them in locating farming opportunities. "We consider ourselves active partners," he said, "all the way down to family financial planning."

Mr. Jackson said a usual progression for young people entering farming includes first obtaining their own equipment, then leasing land from their parents or others, building a healthy cash flow and, finally, acquiring their own land.

To evaluate farm credit applications, the bankers said they use as many of the following tools as possible: past, present and projected financial statements; comparative analysis of past years' operations; cash-flow statements (often using the 1040F federal tax form); profit-and-loss statements; farm visitations; analysis of the farmer's bookkeeping system; and a complete chronological history of the individual's farming activity.

"There is no question of our commitment to finance the young farmer—the question is which one and how," Robert L. Walton, president, Farmers & Merchants State, Bushnell, Ill., pointed out.

"Does the young farmer have the ability to do the job, given the other necessary inputs? If, as bankers, we can answer this question 'yes,' then it is up to us to find some way, not only to help him get started, but also to keep him going and growing in his farming venture, as his success is the key to the future of agriculture."

Wendel D. Willer, vice president, Decorah (Ia.) State, said that, with the amount of capital required today, it helps if a young farmer has a father or other relative who can assist him financially.

Otherwise, "we try and work with the proposed customer through the Farmers Home Administration (FmHA)," using that agency's direct operating loan program and its guaranteed loan program. Under certain arrangements with FmHA, "payback by the young farmer is minimal during the first two years, giving him an opportunity to build his cash flow."

The bankers urged that both young and well-established farmers take active steps to control their risks, including:

- Purchasing life insurance (at least enough to cover real estate debt) and casualty insurance.
- Using forward contracting on a regular basis to at least cover basic operating costs. Hedging, they said, should perhaps be used only by more sophisticated farm operators.
- Planning to minimize estate taxes, which can destroy a farm family's financial health, through trusts, family corporations or other arrangements.
- Using realistic cash and operating plans to allow for occasional and inevitable reverses which are beyond the farmer's control, such as declines in market prices, sharp increases in input costs, bad weather or outright crop failure.

Revision of federal tax laws to cut the impact of estate taxes on farm families was unanimously urged by the bankers. "Just within the past two weeks we had to loan a young fellow $94,000 to pay off his estate taxes and keep him in business," said one of the bankers. "And that's not unusual, I'm sorry to say."

Farm bankers today look at a young farmer's management ability, financial responsibility, purpose in seeking credit, ability to repay and collateral, said C. P. Moore, president, Northwestern National, Sioux Falls, S. D. "It all boils down to management and cash flow," he said.

"Young farmers know they have to start out with some kind of a base, and many will use various means to acquire this base, including renting land, using machinery in exchange for labor, wife working at an outside job, starting a small labor-intensive hog farrowing operation, taking a winter job or growing light calves.

"For this kind of operator, opportunities will present themselves along the way." • •

Farm bankers look at a young farmer's management ability, financial responsibility, purpose in seeking credit, ability to repay and collateral. "It all boils down to management and cash flow."

Postal Interruptions: ABA Offers Contingency Guide

WASHINGTON, D. C.—Guidelines for banks reviewing or developing contingency plans for handling postal interruptions have been made available by the American Bankers Association.

"A Contingency Plan in the Event of an Interruption in Postal Service" is an eight-page booklet that expands on a checklist of items developed in late-spring 1975 when contract negotiations between postal workers and the U. S. Postal Service threatened an interruption. The checklist was developed by the ABA's Operations and Automation Division and the Postal Service Task Force, in cooperation with the Federal Reserve System.

As the booklet points out, "In the remote possibility of a postal service interruption, contingency planning for mail-service alternatives would be facilitated by two important considerations: an understanding of the postal regulations and the legal and technical terms employed in the regulations; and a checklist providing items the bank should consider before initiating contingency plans for the delivery of mail and other materials."

"A Contingency Plan in the Event of an Interruption in Postal Service" may be obtained for $5 from the ABA Order Processing Department, 1120 Connecticut Avenue, N. W., Washington, DC 20036.

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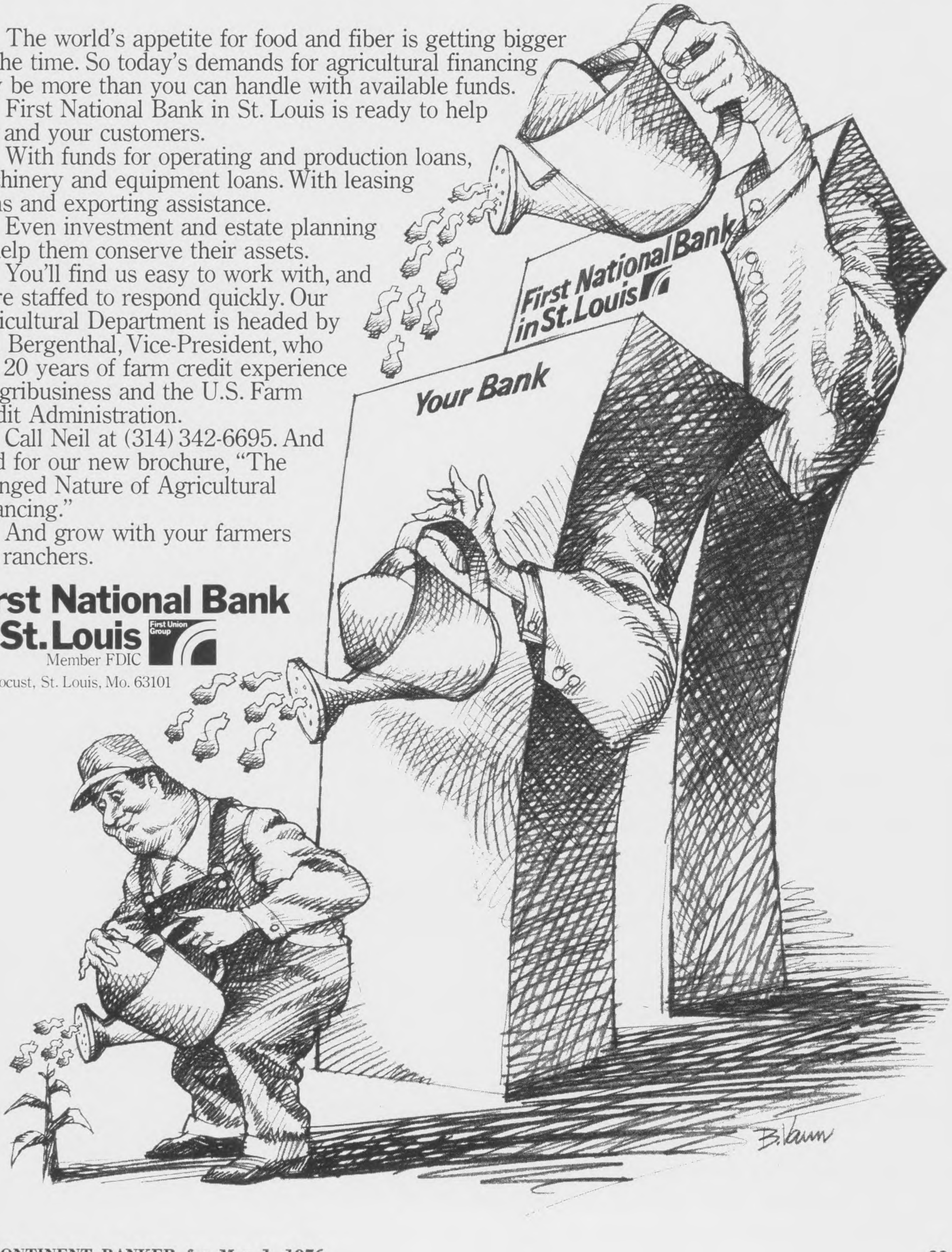

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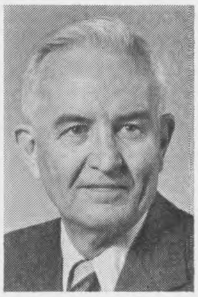
MAY

• **Peter Jay,** vice president, international department, First National, Fort Worth, has accepted the invitation of U. S. Commerce Secretary Elliot Richardson to join the District Export Council. The councils were established nationwide to serve as part of the joint government/industry export expansion endeavor. Prior to joining First National in 1973, Mr. Jay was area executive for Latin America at Indiana National, Indianapolis.

• **Hugh C. Daly,** vice chairman, American Natural Gas Co., has been elected a director of Detroitbank Corp. and its principal subsidiary, Detroit Bank. He joined American Natural Gas in 1950 and advanced to vice chairman last year.

• **John B. Tullos,** executive vice president and cashier, First National, Jackson, Miss., has been named a member of the Alabama-Mississippi District Export Council by Commerce Secretary Rogers Morton. The district councils serve the President's Export Council and the President's Interagency Committee on Export Expansion, providing advice on expansion of export trade and policies affecting U. S. export performance.

• **William S. May** will be elevated from vice president and secretary of the Federal Land Bank, Wichita, to president, following the retirement June 30 of G. A. "Bud" Wiles. Mr. May has been with the Land Bank System since 1941.

• **Ellmore C. Patterson,** chairman, Morgan Guaranty Trust, New York City, has been elected president of the Federal Advisory Council of the Federal Reserve System. William F. Murray, chairman, Harris Trust, Chicago, has been named vice president of the council. Elected as directors were James F. Bodine, president, First Pennsylvania Banking & Trust, Philadelphia; M. Brock Weir, president, Cleveland Trust; and George H. Dixon, chairman and president, First National, Minneapolis. Herbert V. Prochnow, president (retired), First National, Chicago, has been reelected secretary, while William J. Korsvik, First National of Chicago vice president, has been reelected associate secretary.

• **Charles L. Tull,** vice president of planning at First National, Little Rock, has been named to the faculty of the Stonier Graduate School of Banking, Rutgers University, New Brunswick, N. J. Mr. Tull joined First National in 1969 as a systems analyst in the data processing division. He formed the bank's planning department in 1972 and was elevated to vice president two years later.

• **Peter O'Malley,** president, Los Angeles Dodgers, Inc., has been named a director of Bank of America, San Francisco. Mr. O'Malley formerly was an advisory director.

• **Samuel B. Stare,** senior vice president, Union Bank, Los Angeles, has been elected chairman of the American Bankers Association's Bank Investments Division. He succeeds D. Dean Kaylor, senior vice president, National Bank of Detroit, and will serve a one-year term. Perry B. Wydman, president, Third National, Dayton, O., has been named division vice chairman, while one Mid-Continent-area banker, William T. Springer, senior vice president, Boatmen's National, St. Louis, has been elected to serve as a division member.

Marvin Holderness Jr. Dies

NEW YORK CITY—Marvin E. Holderness Jr., 54, senior vice president and a director of the advertising agency, Doremus & Co., died April 11 after a long illness. Mr. Holderness headed the agency's bank marketing/advertising group, which served major commercial and savings bank clients.

Mr. Holderness was born and began his advertising career in St. Louis, where his father was a leading banker. The younger Mr. Holderness joined Doremus in New York City in 1949, became a vice president in 1955, a director in 1970 and a senior vice president in 1972.

Q: CAN YOUR TRUST OPERATION AFFORD SURCHARGE LIABILITY LITIGATION?

Every bank with trust operations is exposed to litigation. Increasingly, the beneficiaries of trusts are challenging investment decisions and account servicing by trust departments.

The concept of the "prudent man" rule in trust handling is changing. It is now felt that bank trust departments will probably be required to exercise a higher degree of care beyond that of the ordinary "prudent man". And, with the passage of the Employee Retirement Income Security Act of 1974 (ERISA), fiduciaries of pension plans, as well as personal trusts, have been exposed to new interpretations of the "prudent man" rule. The Federal standards set by ERISA define rules and conduct, but interpretations of the law will be made by the courts.

A: WHAT SCARBOROUGH CAN HELP TO DO ABOUT IT...

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News From Around the Nation

Exception-Item Problem Spotlighted

A solution to the exception-item problem was sought last month at a meeting of the Joint Exception-Item Task Force. This group is made up of representatives of the ABA, Bank Administration Institute and the Fed. As bankers know from painful experience, an "exception item" is a check that cannot be processed through the normal processing stream for various reasons and, consequently, requires additional handling.

The task force, at its two-day meeting, focused on three functional areas—return items, rejects and adjustments—and tried to analyze proposals in each area.

The task force will be in existence for a year.

IRS Summons Authority Opposed

The ABA has announced support for measures that would limit the Internal Revenue Service's authority to issue administrative summonses for taxpayers' records.

In testimony before the Senate Finance Committee, where the House-passed tax bill now is being considered, William M. Horne Jr., chairman, ABA Taxation Committee, said the IRS should be required to notify a taxpayer of a pending summons for his financial records. He added that the taxpayer should be allowed to object to the summons and to stay compliance before any records are turned over. Mr. Horne is senior vice president and general tax counsel, Citibank, New York City.

The ABA urged tax-reform provisions that would give the taxpayer 14 days to notify the record holder and the IRS to not comply with the summons.

The ABA also supported tax-reform provisions that would limit issuance of "John Doe" or "no-name" administrative summonses for taxpayers' financial records to protect the rights to financial privacy of individuals not under tax investigation.

No More 'Bootstrapping'

A new Fed ruling, which goes into effect May 15, requires bank HCs to notify the Fed 45 days before purchasing their own stock.

The Fed said the requirement will help it supervise bank HCs "by providing advance notice of redemptions of bank HC stock that could have a significant impact on the company's capital structure."

According to the Fed, the new rule is intended particularly to discourage the "bootstrapping" practice, by which a holding company incurs substantial debts to buy or redeem its own stock outstanding, generally to help a shareholder or shareholder group gain control of the HC.

When the stock purchase would appear to create "an unsafe or unsound condition in a holding company," the Fed said, the Federal Reserve Board would use its powers to prevent the transaction.

Money-Order Sales for HCs?

The Fed invited comment by April 30 on proposals to add a new nonbank activity to the list of those allowed bank HCs.

The proposals—to sell money orders or money-order-like instruments of various denominations—were made in connection with applications by bank HCs to engage in this activity.

The Fed also invited comment by April 30 on whether the applications to engage in the new activity can be expected to produce public benefits that outweigh any adverse consequences.

More Bank Trust Funds Disclosure?

The Securities & Exchange Commission may ask federal bank regulators to require broader disclosure by bank trust funds. This possibility was indicated in a *Wall Street Journal* interview last month with SEC Chairman Roderick Hills.

The SEC's Division of Investment Management Regulation is making a sweeping study that, according to the division's new director, Anne P. Jones, will examine all types of indirect investments. This study includes mutual funds and bank trust funds and all situations where professionals manage other people's money. According to Mr. Hills, one thing the study will do is compare the regulation of mutual funds with that of bank trust funds. Among other things, he says, the SEC wants to determine "what kind of regulatory disadvantages" mutual funds operate under.

The SEC doesn't have any jurisdiction over bank trust funds, except indirectly through disclosure requirements it imposes on bank HCs. Mr. Hills says he doesn't think his agency would want direct authority over bank trust funds. As he puts it, "Our aim isn't so much to regulate (bank trust funds) more, but to see what regulations mutual funds have that are anti-competitive."

The SEC will consider, according to the *Journal*, whether additional protection is needed for investors whose money is held by bank trust funds. The newspaper quoted Mr. Hills as saying that he hoped any changes the SEC might recommend for bank trust funds would be achieved in cooperation with federal bank regulatory agencies without requiring new legislation.

Do We Need Better Bank Supervision?

By J. REX DUWE
President
American Bankers Association

DO WE NEED better bank supervision?

In the wake of recent congressional inquiries and newspaper articles, this question has demanded increasing public attention. People are asking whether a strengthened regulatory system would lead to a more stable banking industry and to fewer bank failures.

In this atmosphere, it is important for bankers and the public to examine the facts, to see how stable the present banking system is, and to determine whether greater supervisory authority is in order.

The first fact we must acknowledge is that this nation is just beginning to emerge from the worst recession since the 1930s. Production declined and unemployment rose dramatically. At the same time, we experienced double-digit inflation. Never before in our history had we been buffeted by the dual problems of high inflation and high unemployment. Economists, politicians, the general public and bankers sought answers to the question: How can the nation reduce unemployment without fanning the flames of inflation?

As a result of the poor economic picture, some businesses and individuals found it difficult to repay loans—loans owed to banks. When the economy goes sour, businesses and individuals are hurt, and banking is no exception.

Yet, during these past few troubled years, bank services were needed more than ever to help the struggling economy. Businesses that could not obtain money in the money market turned to banks for loans. Banks had a choice: They could retrench, refusing to make loans to companies unless they had the best credit ratings. Or banks could affirm their confidence in the economic system and grant these loans. To retrench would have meant that the recession would have been longer and deeper. In fact, had banks refused to grant loans, I doubt that we would presently be emerging from the recession.

As a result of these policies and as a result of the overall economic picture, banks suffered greater loan losses than they had in previous years. More specifically, in 1975, net loan losses after recoveries were about $3.3 billion, compared with $2 billion in 1974. But does this reflect a danger to the banking system?

I think not. The 1975 figure should be seen in the light of total bank loans, profits, loan-loss reserves and capital.

Yes, the banking industry had loan losses of $3.3 billion. But total bank loans (not counting Fed funds) were roughly $505 billion at the end of the year. In other words, loan losses were 65/100 of 1% of total loans.

More importantly, most banks were able to cover their loan losses with their current earnings. Earnings for banks in 1975 are estimated at $7¼ billion.

When banks cannot cover their loan losses with current earnings, they turn to their next line of defense, loan-loss reserves. At year-end 1975, loan-loss reserves totaled about $8.64 billion, an increase of $260 million over year-end 1974.

A further cushion against loan loss hazards is bank capital. Figures for 1975 show that bank equity capital had grown to $64 billion.

These figures clearly indicate that the banking industry as a whole is well protected against losses that would do permanent damage to its stability.

But aggregate figures don't show individual bank weaknesses. The fact of the matter is that some banks do have problems and some banks do fail. However, it's important to place failures in perspective.

In 1975, a difficult year for all businesses, 13 federally insured banks failed out of a total of more than 14,000 nationwide. But even in these failures there was no cause for alarm. Depositors were insured for up to $40,000. But it is rare for depositors in a failed bank to lose any money, even if their deposits exceed the insured amount. In most cases, the failed bank is merged with a healthy one and all deposits are effectively safeguarded.

FDIC insurance is backed by a $6.7 billion fund, and this fund is growing every day. It is comprised of insurance

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Mr. Duwe is chairman and president, Farmers State, Lucas, Kan.

assessments paid by individual banks and interest earned by the fund. It is out of this fund that losses and expenses are paid. In 1975 alone, $410 million in interest was earned on the fund. This interest is more than enough to cover the total losses of all FDIC-insured banks that failed from the day the FDIC was established through 1975.

Now let's look at the 13 federally insured banks that failed in 1975. If past experience on the percentage of disbursements recovered by the FDIC is applied to outlays for these banks, the net loss will be about $50 million in insurance funds, even though the total deposits of these banks was $343 million. In other words, the FDIC doesn't just accept the liability for insured deposits; when a bank fails, the bank still has assets and the FDIC seeks to make the most of these assets and thereby cut losses.

In sum, the evidence clearly shows that the nation's banking system is in good shape. But that doesn't mean that there is no need for change in the supervisory authority of banking agencies. In fact, the ABA has testified in favor of strengthening federal bank supervisory authority.

The federal bank regulatory agencies have encountered serious practical difficulties in discharging their responsibilities to protect depositors and ensure a sound banking system. The agencies lack effective sanctions against individual violators of banking laws and regulations. Short of the drastic remedies of removing a bank officer or taking criminal action, bank regulators have few options. For this reason, civil penalties are needed.

What actions can presently be taken by regulators when banks violate laws or regulations? The agencies can issue cease-and-desist orders in these situations or when a bank's actions are endangering deposits. But the regulators do not have the authority to punish past conduct.

For example, if a regulatory agency found that a bank had been violating Regulation Q, dealing with restrictions on interest rates, the regulator could issue a cease-and-desist order that would stop the practice. But what could it do either to deter other potential violators or to punish the bank? Nothing. The regulatory agencies need to have an enforcement mechanism that can be administered selectively and in appropriate gradations so that improper conduct can be punished. They need more than cease-and-desist powers.

Federal bank regulators also need more leeway to remove a bank officer or director. Under current law (Finan-

(Continued on next page)

Duwe, Woodruff Speak Out on Disclosure, Overreaction

APPEARING at the ABA's National Credit Conference in Atlanta in March were ABA President J. Rex Duwe (r.), president & chairman, Farmers State, Lucas, Kan., and Charles E. Woodruff, chairman, ABA Commercial Lending Division, and vice chairman, Manufacturers Hanover, New York.

Keynoter Duwe spoke on disclosure, which, he said, was not a dirty word. He said that bankers, in dealing with the demands for greater disclosure, cannot ignore the public interest factors of privacy, the effect disclosure might have on a bank's willingness to make loans that involve a degree of risk and the cost of increased disclosure. He said the three factors must be weighed against the potential benefit to be gained from more widespread dissemination of facts about bank operations and performance. He said, that, although the public could benefit from increased disclosure, bankers should not delude themselves that simple disclosure will provide the solution to the crisis of confidence facing America's financial institutions.

Mr. Woodruff, in welcoming remarks, cautioned against overreaction on the part of the press, the public, regulators and even bankers to the "crisis-of-confidence" situation facing the industry.

He said that, although bankers' objective must be to achieve better return on assets, they should not revert to such shortsighted tactics as rate-cutting and reaching for questionable business. He said profitability must become much more than a byword. Bankers must develop more sophisticated management information systems with which to measure credit risks and to insure adequate rates of return.

He stated his concern that regulators will overreact to critics in the Congress and the press with overly severe regulation that could inhibit banks from performing their lending function. He said that banks have a job to do and they must do it, regardless of the level of loan losses, classified loans or the heat of criticism in and out of Congress. • •

Also In This Issue

Watch the May 15 Issue for More on This Topic!

Do We Need Better Bank Supervision?

"I believe the answer is yes, but due process of law must be protected. Regulators need added powers to regulate banks, not because banks are unstable, but because regulators have lacked alternatives for taking effective action against the small number of banks that are abusing their powers."

cial Institutions Supervisory Act), regulatory agencies can remove a bank officer only if they find him or her guilty of "personal dishonesty." An individual who has been grossly negligent in the management of a bank, but not personally dishonest, cannot be removed. In such a situation, regulators are faced with a difficult choice: They can continue to attempt to persuade the officer to change his or her course of action or they can terminate the bank's insurance.

On March 26, the ABA testified before the Senate Committee on Banking, Housing and Urban Affairs in favor of S. 2304, with certain amendments. The bill was designed to provide federal bank regulatory agencies with more effective enforcement tools. It would establish civil penalties for the violation of certain existing banking laws; clarify the authority of the banking agencies to institute cease-and-desist proceedings against individuals; and provide more practical standards for officer and director removal.

In addition, the bill would strengthen Fed supervision of bank holding companies by giving the Board of Governors authority to order an HC to terminate activities or to divest a subsidiary which threatens the safety or soundness of a bank which also is a subsidiary of the same HC. The bill also seeks to reduce the concentration of risk in a bank's loan portfolio caused by excessive loans to bank insiders.

Although the ABA supports the general goals of the bill, we believe certain amendments are necessary. The ABA's suggested amendments would ensure due process in the assessment of civil penalties; provide the Fed with needed flexibility in divesting a bank HC of a subsidiary; and help assure that communities and their banks are not hurt by laws designed to prevent abusive insider dealings.

This last point is quite important. Although ABA supports efforts to curb abusive self-dealing, provisions in the proposed law could affect legitimate practices and be counterproductive. The proposed bill would amend the Federal Reserve and Federal Deposit Insurance Acts to require that loans by a bank officer or director or to an individual owning more than 5% of the bank's voting securities must be aggregated with loans to companies controlled by that officer, director, or shareholder so that the bank's lending limit can be applied. This provision could hurt communities where banks depend on the managerial talent of directors whose businesses may also be prime bank customers.

Outside directors are common on bank boards throughout the nation and provide banks with sources of financial expertise in situations where alternate management talent may not exist. Some communities and their banks cannot afford to lose this management talent. Therefore, S. 2304 should contain authority for exemption of these communities and their banks. The ABA also believes the 5% standard is unrealistically low and, in absence of other factors, doesn't indicate either control or an insider position. The association has said that a requirement of loan aggregation in the case of individuals owning or controlling 10% of a bank's voting securities would be much more realistic. We have suggested that the proposed law be amended in this manner.

Legislation to strengthen the regulatory powers of supervisory agencies is needed, not because the banking industry is unstable, but because the federal agencies lack the tools with which to compel a small number of banks that are operating outside the realm of acceptable bank practice to behave responsibly.

Such legislation would not end bank problems. As long as we have 14,000 banks making independent decisions, we are going to find that some of these banks make decisions that prove to be wrong. As Robert C. Holland, a member of the Board of Governors of the Federal Reserve, has said, "It is humanly impossible—and even undesirable—for supervisors to prevent all bank problems; but it is practical to aspire, as we do, to recognizing problems early and moving promptly to try to remedy them."

So, I ask once more, do bank regulators need additional powers to regulate banks?

I believe the answer is yes, but due process of law must be protected. Regulators need added powers to regulate banks, not because banks are unstable, but because regulators have lacked alternatives for taking effective action against the small number of banks that are abusing their powers. • •

Take Banking's Case to Public, Urges Chemical Vice Chairman

The vice chairman of Chemical Bank, New York City, recently urged bankers to be more aggressive in fostering a general enlightment about the banking industry.

"We cannot depend on the media to educate the public about issues involving banking," said Richard K. LeBlond. "The complex subjects cannot be properly treated in a few paragraphs.

"The banking industry is a great deal stronger and more stable than the public and some legislators might believe," Mr. LeBlond said. "In highlighting the occasional weakness of our system, the media seems to have obscured banking's virtues and vitality, and it's time to put things into perspective."

He urged bankers to carry "our case" directly to the public and said the place to begin is with their friends and neighbors. "Just as elections are won in the precincts, public attitudes are shaped in local communities. It is here," he emphasized, "where we are known personally and respected individually that we can gain a fair hearing from our fellow citizens."

Mr. LeBlond pointed out that the number of "so-called bank failures" since the early 1930s averages about 10 each year, compared with more than 600 a year in the 1920s. "The term 'failure' can be misleading," he said. "Among the banks that went out of business, the larger ones were successfully merged with other institutions or were able to resume viable operations later."

He pointed out that the FDIC has sustained insurance losses of only some $125 million over its entire history out of a total insurance fund exceeding $5.25 billion. "The fund is better than 99% intact. It's hardly a record that should make us blush or cause others to lose confidence."

The biggest challenge the banking industry faces today, according to Mr. LeBlond, is how to communicate the truth about banking to the American people "because misunderstanding can easily lead to unwarranted legislation, regulation that would hamper the industry and ultimately hurt the public."

Bank Surveillance System Developed To Fight Problem-Bank Situation

By JAMES E. SMITH
Comptroller of the Currency
Washington, D. C.

ANSWERING the question "What can be done to prevent more banks from becoming problem banks?" was a basic objective of a recent independent study of the Comptroller of the Currency. That study covered numerous aspects of the Comptroller's office and one of the principal recommendations of the study pertaining to that question was the establishment of a National Bank Surveillance System (NBSS). The process of implementing the study's recommendations began in September, 1975, and the Comptroller's office is making good progress in the development stage of the NBSS.

The NBSS is an early warning system that is designed to effect timely and appropriate decisions by bankers, by examiners and by the various supervisory and enforcement sections of the Comptroller's office. The NBSS consists of four basic elements: (1) a data collection system, (2) a computer-based monitoring system that can detect unusual or significant changes in circumstances within a bank and within the national banking system, (3) an evaluation of that data by experienced personnel and (4) a review procedure that would provide administrative control over all proposed remedial actions.

The basic information in the NBSS data base is derived from the official reports of condition and income that are submitted to this office on a quarterly basis. These reports, beginning with the March 31, 1976, reporting date, have been revised to make them more meaningful for supervisory purposes. For example, all banks have been divided into two groups: Banks with resources of $300 million or more are required to file supplemental reports and to report the details of their income and expense quarterly on a fully consolidated, foreign and domestic basis; smaller banks will file detailed reports of condition on a quarterly basis and detailed income and expense reports on a semi-annual basis.

Instead of the five- to six-month period traditionally required to assemble this data through a three-agency process, this office now collects, edits and enters this data in a computer in a fraction of that time. Other information from reports of examination and from special reports also is entered, and the computer produces a multi-page five-year analysis of each national bank.

This computerized analysis also is prepared for peer groups of banks for comparative purposes and for the purpose of analyzing the national banking system. The NBSS is flexible in dealing with peer groups. For example, if we are analyzing a bank which has branches and which has resources of $350 million, we could compare it with a peer group consisting of other branch banks having resources ranging from $100 million to $500 million. If the bank has been a seller of fed funds, we could compare it with a peer group of other banks which have been sellers of fed funds.

National bank examiners already have demonstrated their professional ability as analyzers of the financial condition of a wide range of borrowers from national banks. We will use the professional analytical ability of national bank examiners, who have been trained as NBSS specialists, to analyze the financial condition of the national banks. These specially trained examiners will use the data produced by the computer to assess a national bank's financial condition just as they would analyze a borrower's financial reports in a bank's credit file.

Their findings, summarized in a brief memorandum and including a series of relevant questions requiring further investigation, will be forwarded to each regional office. This data will be reviewed and analyzed on a quarterly basis, and every national bank examiner will receive one or more of the computer-produced reports for each national bank he is assigned to examine.

Our initial review of these computer-produced reports, as analyzed by trained specialists, suggests that in many instances loan problems, liquidity problems, earning problems, and capital problems can be detected years in advance of their occurrence. Thus, early supervisory action can be taken in time to avoid permanent impairment of a bank's soundness.

Bank failures generally result from decisions made by bankers. While the NBSS cannot detect or prevent fraud or thefts, it will detect the early results of decisions made by a bank's management and it will trigger a prompt investigation of those results.

I would emphasize, however, that this office has no intention of making banks conform to a theoretical average or preconceived set of statistics. That is not the purpose of the National Bank Surveillance System. Banks are expected to try different approaches, but this office wants to be alerted to these perhaps innovative methods, as well as potential problem areas. The NBSS will assist us in this identification process.

Once a national bank has been identified as a "problem" by the NBSS or a field examiner, the enforcement division of the Comptroller's office may be required to take a form of action to assist the "problem" bank in resolving its difficulties. These problems normally constitute violations of law, rules, or regulations and unsafe or unsound banking practices. Some examples of these are: Violation of lending limits (12 U.S.C. 84); violations of provisions governing the purchase of securities by a bank from one of its directors (12 U.S.C. 375); violations of loans to executive officers (12 U.S.C. 375a); violations of lending limitations on real estate loans, commercial loans, etc. (12 U.S.C. 371); violations of Regulation Z, Truth in Lending Act; a high percentage of bank's assets criticized by one of the Comptroller's examiners; maintenance of a dangerously low liquidity ratio; or, an insufficient level of capital.

There are several actions available to the Comptroller for attempting to cure the above deficiencies. Among the most drastic are: Revocation of a bank's charter (12 U.S.C. 93); appointment of a receiver (12 U.S.C. 203); and termination of FDIC insurance (12 U.S.C. 1818a). In addition, the Comptroller has the power to publish examination reports (12 U.S.C. 481), after a substantial delay. Admittedly, these remedies would only be used in cases where the problem bank is in severe financial trouble and, in fact, have rarely been used.

Under the Financial Institutions Supervisory Act of 1966 (12 U.S.C. 1818), the Comptroller was accorded some intermediate administrative remedies that are of a less drastic nature and are considered rehabilitative in nature. Commonly called the cease-and-desist provisions, they are intended to assist the bank in reducing or eliminating its problems.

While the stringent measures available to the Comptroller are considered too harsh, the cease-and-desist order, our immediate remedy, does require some strengthening. Some improvement in the current cease-and-desist power would be gained through enactment of a bill currently before Congress, S.2304. Currently, only a bank may be named as a party to a cease-and-desist proceeding and only a bank may be served with a temporary cease-and-desist order. A final order, however, may be directed not only to the bank, but also to its directors, officers, employees and agents.

Section six of S.2304 would permit

(Continued on page 72)

At ABA Credit Conference:

Non-Banking Influences Brought on Crisis According to Panel of 'Old Time' Bankers

THE BANKING INDUSTRY is not the culprit responsible for the most recent recessionary period, according to the members of a panel of experienced bankers, who discussed "Banking's Greatest Challenge From the Perspective of Experience" at the recent ABA National Credit Conference in Atlanta.

Rather, they said, the poor economic situation that the nation is now slowly emerging from was caused by various factors, including the Vietnam War, poorly written holding company legislation and a nationwide speculative fever.

Panelists included George Champion, chairman, Economic Development Council of New York City, Inc., and retired chairman, Chase Manhattan Bank; George S. Eccles, chairman and CEO, First Security Corp., Salt Lake City; Sam M. Fleming, chairman of the trust board, Third National, Nashville; and Rudolph A. Peterson, retired president, Bank of America, San Francisco. Panel moderator was James E. Smith, Comptroller of the Currency.

Banking, however, did make some mistakes, the panelists agreed, including putting too much emphasis on growth, forgetting the basics and not profiting from the lessons it should have learned from the depression of the 1930s.

Mr. Fleming, in tracing the origins of the recent recession, harked back to the buildup of the Vietnam War, when "our political leaders told us we could support both arms and butter without additional taxation."

We believed them because we wanted to, he added, despite the few "warning voices in the wilderness," such as William McChesney Martin, then Fed chairman, who, in the late 1960s, said he saw disparaging similarities between what was happening then and the conditions that brought on the depression.

Mr. Martin was scoffed at, Mr. Fleming said, particularly when the stock market reacted adversely to his statement.

"The nation was caught up in a speculative fever," he said, "that affected, first, the stock market, then the real estate market. Growth was the established requirement of management and the governing factor of what price earnings ratio a company's stock sold for."

Until 1970, he continued, banks were considered too bound in by regulations and supervision to keep pace with other types of industry. The price of bank stocks fell behind the market for other securities and bankers were pressured to show better results than normal in-bank growth permitted. Partly as a result of this situation, and partly as a means to circumvent anachronistic state branch banking laws, the Holding Company Act was passed in 1970 by the unusual procedure of bypassing the House Banking Committee and having debate and action take place on the floor of the House at a time when few congressmen were in attendance.

The result, he said, was poorly thought-out legislation. Banks were allowed to expand by acquiring other banks and also by going into specific bank-related activities, such as mortgage banking, small loan firms, factoring and leasing activities, he said.

The responsibility for approving and supervising such expansion was placed in the hands of the Fed, Mr. Fleming

Comptroller of the Currency James E. Smith (c.) moderates discussion by "old-timer" bankers at recent ABA National Credit Conference in Atlanta. From l., Sam M. Fleming, ch., Third Nat'l, Nashville; George S. Eccles, ch. & CEO, First Security Corp., Salt Lake City; Mr. Smith; Rudolph A. Peterson, retired pres., Bank of America, San Francisco; and George Champion, retired ch., Chase Manhattan, New York.

"I said in the late sixties that we were beginning to do the things that we did in the twenties that caused the troubles in the thirties. We didn't take note what happened."

—George Champion

said, but the law made no provision as to how the HC itself, and, more importantly, the related financial activities, would be examined.

"The new law was no sooner effected," he said, "than large city and central banks rushed to outdo each other, bidding against each other for mortgage and finance companies, and then expanding the new acquisitions beyond managerial capacity and prudent reason.

"To compound the evil, at about this time the law gave a tax break to real estate investment trusts, thus pouring additional billions of dollars, seeking high yields, into the real estate stream. A real estate boom of unprecedented proportions resulted. An apparent unending supply of money for all types of projects, good and bad, was available in the hands of unsophisticated, growth-minded people.

"Soon, as should have been expected, problems arose," he said. Projects were delayed because of materials shortages resulting from price and wage controls. The price of materials and labor escalated, rapidly distorting severe, take-out commitments of operators when a project was not completed on time, causing costs to exceed original estimates. Interest rates skyrocketed. The entire situation ended up in the bankers' laps.

During this period, there was regulation, but practically no examination of new HCs, because enabling legislation did not provide for it, Mr. Fleming stated. Financially related HC affiliates were improperly staffed and necessary in-bank auditing checks and balances were lacking.

"The result of this almost unbelievable series of events is all too well known," he said. "Non-accrual assets skyrocketed and losses mounted. But what is not well enough recognized is the fact that, as soon as the situation became apparent, banks lost no time in beginning to strengthen their managements and to put their own houses in order. In time, well-managed banks were working out of a difficult situation."

Mr. Fleming said that the worst is over and that progress in correcting a bad situation is being made. HC examinations are being conducted by the Fed and management now is much wiser, having learned the hard way that proved policies, such as don't borrow short and lend long or the necessity of subordinating growth to sound banking principles, still prevails.

Younger bankers, he continued, have learned that leverage has its limitations and must bow to liquidity and asset management.

Mr. Peterson tied the emergence of HCs and the internationalizing of U. S. banking together, stating that they were the result of the forces at work in the marketplace to some extent. He termed them both positive phenomena and said he is convinced that the success of the banking industry depends on how well banking takes advantage of both as they continue to evolve.

"If we expect to understand the implications of these phenomena for the future," he said, "we must unburden ourselves of the notion that growth of HCs and the expansion of banks locally is the result of some grand design or a conspiracy."

Both trends were accelerated by far-ranging events taking place in the middle sixties, he said.

The U. S. was in a costly war that was not funded by taxes, he said, and it was immersed in a series of ambitious domestic programs that were funded by inadequate taxes. This caused a balance of payments deficit that led to what we now know to be the "most pervasive and longest period of inflation in history."

Mr. Peterson said that both our government and those of major trading partners sought to reduce the market impact of this situation with one form of restraint or another. In one January weekend in 1965, for instance, President Lyndon Johnson put a lid on U. S. direct foreign investments and created a mesh of so-called voluntary restraints on banks doing business overseas to augment the already imposed international interest-equalization tax. "The effect was to close U. S. sources of U. S. dollars to foreigners and to force U. S. banks to expand overseas," he said.

The U. S. economy was still in an expansionary cycle, he continued. Corporations were eagerly seeking new markets wherever they could find them. The government sought to mix domestic economics with global diplomacy that created a situation comparable to placing a lid on a steaming cauldron.

"Inflation accelerated along with inflation expectations," he said, "monetary authority tightened credit and we learned the meaning of the term 'credit crunch.' The euphoric investor public began viewing savings interest the same way it views stock yield and the rapid flows of hot money brought legislative attraction to protect one group of financial institutions—notably S&Ls and thrifts—at the expense of commercial banks.

"The Administration, meanwhile, stepped up the war in Vietnam and cut taxes. Inevitably, commercial banks sought funds to satisfy clamoring customers in offshore centers and inevitably new forms of obtaining money—with numerous ingenious financial instruments—proliferated."

Mr. Peterson said the conclusion from all this is that the existence of the HC is not the cause of the problem. He added that the problems have been less damaging than they might have been because the banking industry is well managed and innovatively structured. The economic turmoil that has occurred has been better than what would have occurred had a major financial breakdown taken place. He added that the vast majority of HCs is being run pretty well today, offering good and needed services.

"As for the trend of internationalization," he continued, "there's no rational way to avoid it. Internationalization of American business was not a trend of the 1960s, it's been going on since World War One. And if American banks don't follow their business customers to new markets, their offshore competitors will.

"If our goal is a world that is stable politically, and productive economically, we must do more than just see that the nations on this planet are interdependent, one on the other. We have an obligation, moral as well as pragmatic, to make interdependence work."

He concluded by stating that "our most immediate danger lies in trying so hard to eliminate all risk in the world that we create a mutation that will leave us a population of financial eunuchs."

Mr. Champion said that, among the mistakes bankers have made is that, in planning for the future, "we didn't study the past. I said in the late sixties that we were beginning to do the things that we did in the twenties that caused the troubles in the thirties. We didn't take note what happened."

He pointed out, however, that things are different today than they were in the thirties. For instance, there was no FDIC then to protect bank customers. He also said that, in the thirties, "there wasn't any kind of press that thought it should tell us how to do it. There wasn't any academia to teach us how to be critical but not analytical. We had the Fed and the Comptroller and the Potomac was not then surrounded by administrative mine fields that feel they should be directing our every move."

He called on bankers to defend their industry against regulators in Washington who think they have "to direct everything in America." He called on bankers to set their own standards and chided bankers for not blowing the whistle on those who were not acting prudently.

He said he was optimistic that bankers are going to move in the right direction, "but I don't think we're going to move anywhere unless we show self discipline and individuality and tell the bureaucrats where to go!"

Mr. Eccles defended the HC concept, stating that it is not faulty. Rather, he said, HC management has been at fault for expanding too fast and taking on non-related activities. He blamed supervision as being faulty and stated that regulation cannot be handled by a single agency. He urged regulators to wait until the expansion period for HCs is over before finalizing regulations.

He said the earnings stream from HC affiliates has been good in the past and will remain so in the future. • •

Loan Portfolio Administration:

A Number of Actions Need to Be Taken To Establish, Administer Credit Policy

By A. ROBERT ABBOUD
Chairman
First National Bank
Chicago

OBVIOUSLY, there is no one single action that will do the whole job in the area of loan review and credit administration. There are a number of actions that can be taken.

The first is to establish credit policy. There should be clear articulation of what sector of the market the bank seeks to serve, what limits in terms of totals it wishes to have in any one kind of loan and what policies it chooses to follow with regard to secured and unsecured, guaranteed or unguaranteed.

These broad standards must be established by senior management. In our bank, the formulation of such standards is assigned to the credit policy committee—one of the three most important committees in our organization.

Once the overall credit policy is established, it is necessary to administer that policy. And the best way to do this is not to put bad loans on the books.

What are some of the procedures that make it difficult to put bad loans on the books?

• Determine a credit classification system that ranks credits from "excellent" to "poor."

• Make each loan officer rank every credit when it first goes on the books and record that self-classification in the credit files.

• Require each loan officer to make an annual review of each of his credits, record the findings of that annual review in the credit file and, once again, make a self-classification and record it in the credit file.

• Establish a loan review division independent of the lending departments and require that loan review division to make its own annual independent classification of each and every credit worldwide and record this classification in the credit files. The dual procedure of classification by the loan officer in conjunction with the annual review followed by an independent loan classification by the loan review division permits senior management to rate the judgments of both the loan officers and the loan review division.

• Publish clear sets of instructions to the lawyers who work with the loan officers in setting up a loan. Senior management must tell the lawyers in what areas the loan officer is permitted to establish specifications and in what areas the specifications are only to be established by senior management.

• Build a good, strong discount department with a seasoned and experienced credit officer in charge. The best defense is not to permit an improperly constructed loan from going on the books. The head of the discount department is the "gatekeeper." If the note and the accompanying documents aren't in order, the loan doesn't go on the books. And the organization must be made to understand that senior management intends to back the discount department fully.

• Publish a clear set of lending authorities and make sure that each lending officer signs off annually that he or she understands what that lending authority might be. Make sure that the discount department has a list of these lending authorities and hold it responsible for refusing to put through new loans or increases to existing loans unless the notes carry the initial of an officer authorized to approve a transaction of that size.

• Emphasize the importance of the collateral cage. Require that all collateral be current and up to stipulated levels. Once again, changes in collateral requirements should only be implemented if authorized in writing by an officer with authority to do so. Any shortages in collateral should be promptly brought to senior management's attention.

• Emphasize the importance of the credit department. It's not just a place

Appearing on panel discussing loan portfolio administration at the ABA National Credit Conference in Atlanta were (from l.) Reuben F. Richards, e.v.p., Citibank, New York; A. Robert Abboud, ch., First Nat'l, Chicago; Moderator Richard F. Ford, pres., First National Bank in St. Louis; and Richard L. Kattel, ch. & pres., Citizens & Southern Nat'l, Atlanta. At earlier luncheon session, Mr. Abboud was recipient of ABA's Eagle Award in recognition of his significant contributions to banking.

This article is adapted from remarks made by Mr. Abboud at the ABA's National Credit Conference in Atlanta in March.

to house the files and to service requests for credit checks. It should be charged with responsibility to determine that the files are current and complete, that extraneous or old materials are withdrawn and sent to the warehouse, that memoranda in the files coincide with and support assertions in the formal write-ups, which in our bank we call credit commitments, which, in turn, are approved by the executive committee.

In too many instances, we have had the credit commitments indicate one thing, and, when the credit file was checked, the impression was quite different. It should be the responsibility of the credit department to make sure that assertions in the credit commitments are supported by materials in the credit files, and discrepancies, if any, brought to the attention of senior management.

• We also have a division called "travelling auditors" and its duties include auditing the receivables and inventories of customer accounts, as well as preparing cash budgets for the loan officers servicing these accounts. Recently, we have not properly utilized the protective services of this division and we compounded the error by having it report to a unit in the corporate banking department.

Under our new alignment, the travelling auditors will report directly to the chairman of the credit policy committee. Not only will it perform its policing function, but it will also serve as a training ground for management trainees wishing to be assigned to lending activities—both in the bank or any subsidiary.

To be effective, the loan review division must be free of any intimidation by any of the lending departments. Conversely, of course, its ratings must be balanced and exhibit good judgment. Our loan review division reports administratively to the chairman of the credit policy committee and functionally to the general auditor, who, in turn, reports directly to the board of directors.

Finally, there must be direct involvement by senior management in the details of the major credits, particularly the more sensitive ones. The impact on the organization is remarkable when one of the seniors calls a loan officer into his office and discusses a particular credit in some detail. This not only keeps the organization on its toes, but also imparts confidence and re-affirms standards. Don't get the reputation in the community of being a "soft touch" bank and don't be afraid to play the "lone wolf" and stand up and be counted when you think you're right.

Obviously, all of this elaborate procedure is expensive to administer properly. This is why we must price our product adequately. Too often, we have underestimated the cost of proper and effective credit administration. Perhaps we weren't giving it the necessary attention and priority. And so, it was probably natural that we underestimated the cost. But now that the priorities are rapidly being re-established, let's make sure we get paid enough to cover the cost and still make a profit.

I don't mean to imply that all of the above is, as yet, fully in place at First Chicago and operating satisfactorily. Truthfully, we still have some distance to go, but the process is well underway and there should be no question in anyone's mind about our commitment. • •

Loan Portfolio Administration:

Quality Should Be Goal of Loan Portfolio, But 'How Do We Get There From Here?'

By RICHARD L. KATTEL
Chairman & President
Citizens & Southern National Bank
Atlanta

THE DRIFT of what I hear about loan administration from bankers all around the country is the same: "We're all going to be looking for quality, and we're less willing to reach for loans." The question is, "How do we get there from here?"

We've all built better systems and are getting better information in the loan administration area. I'm sure many bankers, as we did, looked at their lending procedures and guidelines and modified them in light of current experience. We'd be foolish if we didn't do this; but the key ingredient to improving the loan portfolio is the training and the controlling of lending officers and instilling in them and in ourselves a discipline to stick to the policies we set up.

I say this because the most common problems we've seen are our mistakes rather than mistakes of our borrowers. After a review of every charge-off in our bank for 1975, we came up with a number of recurring themes.

First, in many cases, we relied too heavily on collateral to bail us out. Then, we either valued it incorrectly, failed to determine its marketability, or failed to control it when necessary.

We either failed to properly appraise management quality or assumed that good management could overcome some pretty obvious deficiencies on the balance sheet or elsewhere.

We didn't get adequate information.

We loaned far too much to highly leveraged borrowers.

We forgot the importance of character.

We didn't maintain proper control of the credit, or somehow didn't get the whole story.

We experienced a lack of proper documentation.

We confused innovative lending with being the only unsecured creditor in a deal.

Since we're still working out from under the 1973-1974 real estate crash, it's not likely that we can look forward to dramatic results in the near term from the changes we've made. But, while it's fresh in our minds, we've done our best to use the lessons I've just mentioned.

From the point of view of loan administration, the changes we made were pretty simple.

For the first time in our recent history, we assigned lending limits to all banking officers. Beyond that limit, the officer must get supervisory approval. We set these limits based on the size of the portfolio of the branch or department and the experience of the officer. We also made it clear that when formal approval by higher authority is required, this does not relieve the loan officer of the responsibility for his decision, although it does signify the supervisor's joint responsibility for administration of the credit.

We also set an absolute dollar limit on the size of credit which can be maintained on the books for a branch or department.

We cleaned up our credit review committees. We always thought of these as our first line of defense, but we found we had to put teeth into them and tell them exactly what they were supposed to do in order to get results.

We continued our internal system of rating credits according to quality, as well as size.

We require the members of each credit review committee to make a semiannual written appraisal of each lending officer who reports to it so we have a continuing permanent record of each officers' performance in the specific area of credit judgment.

Of course, our system credit function

This article is adapted from remarks made by Mr. Kattel at the ABA's National Credit Conference in Atlanta in March.

pulls regular exams of all the loans in a branch or department to get a feel for the overall portfolio quality and to look specifically for documentation deficiencies.

We've designated some industry specialists and consolidated all our lending to certain industries to that group of officers.

After setting up this framework, we followed up with specific "do's" and "don'ts" and drilled these into each officer. Probably the most important single lesson we try to teach them is to ask for help when they need it.

With this in mind, let's take a look at the overall thrust of our asset management.

I've designated a general officer of the bank for asset management, with system responsibility to see that our portfolio conforms to our expectations and policies in all respects. He has direct responsibility for the planning function, credit administration and recovery.

His blueprint is our five-year plan for the bank. This plan is updated annually and it is the game plan which ties together all activities. This is the vehicle for coordinating the growth of assets and liabilities and coming up with the mix we're looking for.

This five-year plan is a composite of those submitted by our 23 major profit centers at the beginning of each year. Each of these profit centers works up its own asset management strategy, incorporating certain assumptions and financial management standards that we've adopted for the bank as a whole. Then these plans are consolidated and adjustments are made to assure that the parts equal the whole.

Our fundamental assumption is that, over the long pull, the Southeast will continue to grow but will be capital deficient, providing ample lending opportunities for us.

In light of our recent experience, we revised the financial management standards that will serve as the foundation of our asset growth. These standards deal with capital adequacy, liquidity, interest sensitivity, stability of earnings, desired return on equity and desired dividend payout. These have been communicated to the heads of our profit centers for incorporation in their plans.

In coming up with a mix of loans, we've told each profit center head there are five basic desired characteristics we're seeking. These are in no particular order of priority.

We've told them we want quality.

We're looking for liquidity—and here we've given them some standards by which to measure this factor.

We're looking at return, including both interest yield and any other benefits, such as deposits, which may be derived from the total customer relationship.

Interest sensitivity is the degree to which the interest yield on the asset moves in coincidence with the interest cost of money-market funds that we employ. Our objective here is to maintain the balance in interest sensitivity and total assets with total liabilities.

Loans should be employed in a way that will create economic growth of our local markets. We believe the long-term growth of our bank will be determined largely by the growth of our local markets. The growth of core deposits will be the single most important factor shaping the growth of the bank, and it is largely from our local markets that these core deposits must be derived. The ability of our markets to grow will depend on the financing provided by the banks in those markets. We must be willing to support the growth of payrolls, sales and other productive economic activity.

We've told our profit centers that lending resources are scarce and that they are, in fact, competing with others within our system to put together the kind of portfolio that most closely conforms to these qualities.

All of this is methodology, or the kinds of things we consider in managing our loans and planning our asset mix. But the most important factor in the quality of our portfolio is the management of our people who are putting these policies into action. I believe lending is still more an art than a science, and the artistic part is guiding our lenders to balance our bank's objectives with the needs of the marketplace. So, a great deal of responsibility lies with the individual lending officer.

What we've tried to do is to give our loan officers enough flexibility and freedom to encourage them to use individual initiative. What we don't want is a lending officer bucking each decision to a committee. The controls and central direction we've installed have been done from a policy viewpoint.

We said to our loan officers: "Here are your limits, here are our objectives, here are our standards. Now you must evaluate these in light of your customer's needs." We've tried to follow this up with more emphasis on professionalism in lending, better training and, in general, a better effort in matching each officer's experience and capability with the authority he's given.

We want our officers to be bankers with initiative and imagination, but we've instilled in them a discipline that they did not previously have.

The key word is discipline—to stick to what we've set out to do, both as managers and as lenders. • •

Loan Portfolio Administration:

What Are the Factors That Make Lending Profitable or Unprofitable for Banks?

By REUBEN F. RICHARDS
Executive Vice President
Citibank
New York City

EVERY BANKER has his own opinion on just what it is that determines the profitability of a loan. I'm no exception.

Certain pat formulas come quickly to mind. Increment over base (or prime) rate plus value of balances and fees, for one. Or loan rate minus funds cost plus earnings on balances, for another. Certainly, equations like these do relate to loan profitability in the sense that they are useful in measuring the profitability of a loan—*after the fact*. But that is *all* they are—measurements to tell us how we fared on one loan as against another in our portfolio.

A *determinant* of profitability, however, strikes me as another kind of animal altogether—far different from a pure mathematical measurement. In fact, a determinant cannot be reduced to a simple formula. Rather, determinants are those factors behind the numbers that actually make bank lending profitable or unprofitable.

I want to divide these factors into three parts.

• *First:* those consistently applied factors that are fundamental to loan profitability—namely, *pricing policy* and a *measurement system*.

• *Second:* a factor that I believe will change over time—of utmost importance today, but likely to diminish in importance in the future—the factor of *usage*.

• *Third: loan losses*—a determinant which has an undisputed effect on the bottom line of any bank. Given the loan-loss experience of the banking industry during 1975, I think you'll agree that the subject is essential to any informed discussion of profitability. Yet, interestingly enough, as recently as two

This article is adapted from remarks made by Mr. Richards at the ABA's National Credit Conference in Atlanta in March.


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years ago, analyses of loan profitability frequently played down—and sometimes omitted—the loan-loss factor.

Let's consider these three categories in order.

A consistent pricing policy, much like credit policy, is a cornerstone of profitable lending. To be effective, a bank's pricing policy must be *centrally set* at a senior level within the bank. This is the only way to be sure that pricing is effectively coordinated with the entire asset-liability structure of the organization.

A pricing policy must establish guidelines and minimums. They shouldn't be carved in stone, however, because they will need adjusting from time to time, as money market and competitive conditions change. The central administration of pricing policy also allows senior management to make appropriate trade-offs among such overriding bankwide objectives as growth rate of risk assets, liquidity, capital adequacy and—last but far from least—market penetration.

Pricing policy must also be *target oriented* so that every lending officer in the bank clearly understands the goals set by the organization. These target amounts should be ample to cover all fixed and variable expenses associated with the lending business—including adequate provision for loan losses. Certainly, the targets should define a goal which, if achieved, would allow the bank to reach a specific earnings goal, meet a specific return on equity and maintain or improve capital ratios.

None of this is meant to imply a *rigid* set of pricing guidelines. In the real world, where a stream of curve balls flies at us from all directions, the last thing we need is rigidity. Pricing policy must be *flexible* enough to permit lending officers to price in a variety of ways—both to meet competition and to meet the particular requirements of various customers.

Simply put, the policy should not prevent lending officers from pricing their transactions in whatever way is appropriate—provided the bottom line is right. Within this flexibility, however, certain barriers must be erected to assure that loan pricing does not become *speculative*. The business of banking—in essence—is acquiring funds and providing credit to borrowers at a *predetermined* spread. In my opinion, it is not our business to provide insurance against rate fluctuations. Given the variable rate funding which most of us rely on, clearly the rate risk must be for the account of the borrower. Thus, any sound pricing policy will actively discourage speculative pricing techniques. In this category I include such exotic items as fixed rates, cap rates and collars. I realize that all these innovations were hailed as imaginative products when they were first dreamed up, but our bottom-line experience so far is that most of these gimmicks end up costing us money.

Unfortunately, even floating rates occasionally create profit problems for a bank, so it is important always to consider alternative pricing techniques.

Pricing policy should encourage—if not require—pricing that will protect the bank during the next inevitable return to tight money and a probable period of constrained rates. There are two commonly used protective techniques. One is an alternate base rate tied to a money-market rate, such as short-term commercial paper. The other is an open rate in which the actual loan rate is not determined until the time of borrowing.

I have a particular preference for open pricing on commercial paper backstop lines. Because we live in a highly competitive financial environment, however, this type of pricing will not always be possible. But for certain types of credit facility, it is becoming more common and represents added insurance against loss of profitability during tight-money periods.

To summarize the pricing area, I believe clear and concise pricing guidelines are indispensable to loan profitability. To be fully effective, this centrally set policy should not bind lending officers to fixed prices. Rather, it should define the outer boundaries within which they have the requisite flexibility to deal with individual cases.

The next fundamental of loan profitability is a consistent measurement system. As with pricing, the measurement system must be flexible enough to apply across an entire portfolio. Once in place, the measurement system should be able to evaluate each loan, not only against the policy guidelines, but against all other loans, regardless of type. Only then can variances in profitability between loans be correctly analyzed in terms of contributing factors, such as risk of transaction, or possibly the type of loan itself.

At Citibank, we have adopted the *net spread* concept as our uniform measurement system. Simply defined, net spread is the revenues associated with a loan expressed as a percentage of funds outstanding. It represents rate-of-return measurement. But more, it encompasses all funds-related income and expense, including increment over base rate (if any), base-pool spread (whether positive or negative), fee income and earnings from balances.

The net spread can be calculated for any particular loan or for the entire portfolio. Going one step further, if we include all non-funds expenses and revenues, then deduct taxes, we arrive at a return on risk assets—more commonly known as "RORA."

Although the net spread indicates our gross margin, it is by no means the only measurement on which we should focus. We know, for example, that a loan with little usage may have an extremely high net spread. But the absolute dollar earnings it brings down to the bottom line may be much less than a similar loan with greater usage. Accordingly, the net spread should always be viewed in conjunction with the bottom line when evaluating earnings targets.

At this point I'd like to backtrack to the base-pool spread. Obviously, one crucial aspect of any measurement system is determining the cost of funds employed—what we call the pool rate. In pricing our loans, we have found that the best definition of the marginal cost of funds is "the cost of the next dollar from an open market source available in quantity." For this purpose, the CD rate is usually a reliable indicator of the marginal cost of funds. However, a few years back, when CD rates were restricted under "Regulation Q," the marginal cost of funds shifted to the Eurodollar market as the only source which could be tapped in depth.

Finally, as to the measurement system, it must distinguish clearly between balances supporting credit and balances supporting activity. At Citibank, we do not permit balances to be double-counted. If you allow that, you are just kidding yourself and your stockholders.

With pricing policy and measurement system in hand, the fundamentals of profitable lending are complete. Unfortunately, as we have all learned, it doesn't end there. So, I come to another important determinant of profitability—usage.

In today's world, usage plays a dominant role in determining the bottom line in the lending business. Neither our measurement system nor any other yield-forecasting device can be truly

Confidence Remains Strong

Public confidence in the safety of money deposited in bank accounts has grown in the past year and, at the same time, concern over bank failures is low, a Gallup survey indicates.

That survey, commissioned by the ABA, revealed that 93% of those interviewed believe that their money deposited in bank accounts is either very safe or fairly safe, up slightly from the 90% reported a year ago.

Sixty-six percent of those interviewed feel that the problem of bank failures is not too serious, or not at all serious. Only 8% believe it is very serious.

effective without fairly accurate assumptions about usage. With the single exception of write-offs, usage is probably the leading determinant of loan and portfolio profitability.

The net spread for any given period is *always* a direct derivative of usage under a facility. In other words, even given the base rate, the marginal cost of funds, the increment and the balance arrangement—one still cannot compute the spread without knowing (or estimating) usage. Yet this factor is perhaps the most difficult to predict and control.

It seems ironic to me that loan profitability in a bank should be so utterly dependent on the most commodity-like aspect of our business. And yet, the one truly *unique* capability of our industry —providing *availability* to potential borrowers—has never been properly compensated. The facility fee was a positive step toward correcting this lapse. I would not be surprised to see further evolution—and substantially greater success—in the future unbundling of loan pricing.

The final factor determining loan profitability, already mentioned, is loan losses. Somehow the notion has become deeply rooted in the history of banking that an increment over the base rate represents adequate compensation for risk. But unfortunately, that increment only partially compensates for loan losses. We are heavily dependent on the law of averages and, of course, our own good credit judgments, to realize a profit on our loan portfolio.

Let me offer an example to suggest just how dependent we are on judgment and averages. Given our return targets at Citibank, and assuming a 50% tax rate, a million-dollar loan loss wipes out one full year's after-tax earnings on a portfolio of $67 million! Or to turn the matter around, a banker making 67 $1-million loans has to be right on 66 out of 67—just to break even! That means a batting average of .985 or you don't get to first base. The example is simplistic, but it illustrates the mental attitude required of lending officers—an attitude I don't see every day.

On existing portfolios, of course, the die is already cast. Here, control of credit losses depends heavily on an early warning system to identify potential problems. And the more serious cases should be tracked on a monthly basis.

Perhaps out of our recent experiences with problem loans we have salvaged at least one positive benefit. We now have the advantage of a lending officer corps that has been through a difficult period, learned some valuable lessons the hard way and will now be able to evaluate new credit requests on a more informed and realistic basis. • •

Credit Policy—Broad Issues

Traditional View of Loan Portfolio Quality Neglects Factors of Significant Importance

By JAMES V. BAKER
Senior Vice President
Fidelity Bank
Oklahoma City

THE TRADITIONAL view of loan portfolio quality has invariably focused on the ultimate collectability of various loans. This myopic view of quality neglects several other factors of significant importance, such as liquidity, diversification, profitability and capital position.

The importance of all these factors cannot be underestimated, as evidenced by the recent surge in bank failures. Since January 1, 1975, 17 bank failures have occurred with 13 taking place in 1975 and four in 1976 (at the time of this writing). In general, those failures resulted from a lack of loan quality in its broadest sense.

Numerous bankers have appropriately noted that earnings are the first line of defense for loan losses. It is interesting to observe that, last year, the banking industry recorded another excellent earnings year despite all the well-publicized problems with specific types of credits and the accompanying large charge-offs. The return on capital for the banking industry in 1975 exceeded 10% for the ninth consecutive year. In the 48 years since 1928, there has been only one other year—1945—when the banking industry's return equaled or exceeded 10%.

We were able to achieve yet another record earnings year because of improved pricing and beneficial spread relationships. The spread between the prime rate and the federal funds rate averaged 204 basis points in 1975, and that was the largest spread since 1961, when we had 293 basis points. Our 1975 spread was the third largest favorable spread in the last 21 years.

Without question, the differential between the prime rate and federal funds will narrow during 1976 as the economic recovery continues to gather momentum. The spread this year will probably average 140 basis points, representing a 30% decrease from last year. Such a spread would still be relatively high, based on recent history.

Looking forward to 1976 and 1977, I am enthusiastically optimistic. A significant number of banks, corporations and individuals have been able to reestablish integrity in their balance sheets by obtaining a better balance between their short-term assets and liabilities. The progress which has already been made is a mere first step that will be reinforced by a 20% to 25% increase in corporate profits and wage gains in excess of inflation.

The economic recovery and abating inflation, along with the improved bond and stock markets, have already allowed some borrowers the opportunity to refinance burdensome short-term debt positions. At present, this trend is primarily evident only among the AAA- and AA-rated credits. Gradually, however, the trend should expand to include the A- and Baa-rated credits.

This article is adapted from remarks made by Mr. Baker at the ABA's National Credit Conference in Atlanta in March.

Discussing the broad issues of credit policy at recent ABA National Credit Conference in Atlanta, were (from l.) Charles H. Pistor Jr., pres., Republic Nat'l, Dallas; Moderator John A. Hooper, e.v.p., Chase Manhattan, New York; James V. Baker, s.v.p., Fidelity Bank, Oklahoma City; and Ralph B. Gilpatrick Jr., s.v.p., Mellon Bank, Pittsburgh.

Credit Policy—Broad Issues

Realistic Loan Quality Standards Needed Because of Economic Environment Impact

By RALPH B. GILPATRICK JR.
Senior Vice President
Mellon Bank
Pittsburgh

THE QUALITY of loan portfolios has been impacted during the past couple of years by the economic environment. It is important, therefore, to keep in mind the need to maintain realistic and consistent loan quality standards.

Our basic approach in trying to determine the quality of our portfolio is to utilize a variety of financial ratios, many of which are familiar to all of you. After analyzing these ratios, we set standards for various classifications and compare each borrower against these standards in order to determine into which classification the borrower should fall.

Obviously, other criteria besides financial ratios are essential to the quality gradings. Some of the other factors we consider are the company's ability to access capital markets in different economic situations, its management's capabilities and its position within the industry.

Our purpose is not simply to identify high-risk or marginal loans, but to zero in on the entire loan portfolio, including the prime customers. The basic reason for this is that any credit can deteriorate rapidly. We have made it a point of emphasis that all loans will undergo continuous review under this system. Lower-quality ratings will, out of necessity, be reviewed more frequently than prime credits, but, in any case, all credits will be reviewed periodically.

The rating of the various loans has a number of benefits other than analytical. The administration of credit policy becomes more consistent and enables a bank to provide more realistic loan pricing. Another obvious benefit is that it targets credits that should bear more than normal credit analysis and, further, it targets companies where we would hope to increase our penetration.

A thorough knowledge of the volume of lines and commitments and their related borrowing patterns is essential to successful loan management and adaptation to changing economic conditions. It is important to know the relationship between total commitments and the unused portion of those commitments in order to achieve a sounder management of funds supporting those commitments.

A solid grasp of the usage patterns—this is the percentage of how both lines and commitments have been used in business cycles—enables a banker to simulate a variety of alternative plans and react much more quickly to any significant change in economic conditions. That is, if usage rates reach certain levels, what probable loan levels will be attained and what will be the level of purchased funds necessary to support those loan levels? This is important in policy planning for asset and liability management.

To accomplish this task, we have developed a system utilizing computer techniques to analyze the quality of our portfolio, trace the borrowing patterns over a historical period and continually update the information to provide us with the best management information on which to develop our loan posture. • •

This article is adapted from remarks made by Mr. Gilpatrick at the ABA's National Credit Conference in Atlanta in March.

Credit Policy—Broad Issues

Effective Historical Information Base Is Becoming More Imperative for Banks

By CHARLES H. PISTOR JR.
President
Republic National Bank
Dallas

THERE is no question but that it will become more imperative for all banks, but especially for the larger ones, to develop and have an effective historical information base.

Commitments and the usage under them will need to be defined by several various cuts, including financial quality of the company, industry concentration, regional locations, experience in tight money times and experience in easier money times, pricing and specific definitions as to whether the commitments are legally binding or those of a general friendship nature.

Exactly how this information can be used as a management tool, and how soon, is unknown—and hence we may be tempted to postpone its gathering as an exercise in futility. But as the credit appetites of our customers grow, especially the Baa's that may find it harder to get financing except from the commercial banking system, we will have to be able to better anticipate the potential demands on our loan accounts.

Why?

First, our pricing, especially for back-up lines for less than the top companies, will continue as today—too cheap and too uniform. More proper pricing of bank services surely seems to be the worn out phrase, but all industries must constantly be evaluating and changing price policies vis-a-vis the value to the market. Look at the telephone company and "usage-sensitive" rates on your residential and corporate bills to cite but one major policy change within a giant industry. We have no one to blame but ourselves if we subordinate pricing and profits to uniformed habit!

This year certainly gives us little encouragement for a favorable environment to take a firmer price line, but ultimately, the banks that have thought

This article is adapted from remarks made by Mr. Pistor at the ABA's National Credit Conference in Atlanta in March.

through the standby line of credit issue the most thoroughly will figure out faster and better how to gain from the customer for a valuable service rendered. Our beginning point is to do our homework!

Second, combining empirical knowledge of commitments (and their usage) and the experience on the outstanding portfolio with proper pricing (synonym for profitability) is the best way to answer the $64 question: Can we honor our commitments?

Given a free market, the liquidity issue is best answered and managed by stability of sourcing.

There seems to be little doubt but that commercial bank portfolios will continue to lengthen, whether by annual lines regularly used and regularly renewed, or by revolver-terms or term loans. At the same time, it is going to be more difficult to match maturities of assets and liabilities, as, of course, the big banks can't do today.

What we can do is to match the levels of assets and liabilities that respond to interest changes, so that our profitability—and, hence, our financial health—is maintained.

If my present premise is correct, that "mismatching of maturities"—that is, borrowing short and lending long—will intensify for banking (in spite of Corporate Finance I), then the challenge to bank management is obviously to maintain the integrity of its sourcing.

Shortened, more volatile business and economic cycles effectively add cost, because we always have "to have the gun ready to fire," so to speak, and these pressures may well tempt us to run away faster from industries reporting troubles—back again to the imperative need to maintain the "Mr. Clean" image and the integrity of our sourcing. I hope we can resist this temptation if it is merely "herd philosophy."

But, in thinking through and dealing with these commitment and sourcing issues, let's remember well the ability of our customers to pay. Corporate profits are going to be up 20+% this year. And let's also remember well the value of our commercial banking services.

If we don't, then the resultant mediocre profit performance will properly drive equity capital elsewhere and make the saying of Roman antiquity pertinent: "The fault, dear Brutus, is not in our stars, but in ourselves. . . ."

Banking's record has in the past been good. The future challenges and complexities are tough for us, as they are for our customers, and as they should be within an enlarging, changing economy. We will continue banking's good record dependent upon our willingness to work harder, tougher and smarter.

What banking needs is not a super agency of regulators, but the right to continue using its management skills and dollar resources to work things out within a reasonable atmosphere of privacy—and to then be held accountable by our boards and the marketplace! • •

Credit Policy Decisions

Loan Review Man Now 1st-Class Citizen As Emphasis Given to Portfolio Critique

By CHARLES J. KANE
Chairman & President
Third National Bank
Nashville

UNTIL about two years ago, the loan review officer was considered necessary by most banks but was not looked upon as being a first-class citizen. He was there; we reviewed his reports; but we didn't listen to him to the degree we should have.

If we were on trial today, the evidence would weigh heavily against us. Either we did not listen or, in many cases, we did not have the proper loan-review procedures in operation at our banks.

Most bankers will agree that fewer workouts would be necessary if sounder judgment is used and proper documentation is at hand when a loan is made.

Loans become lost because the loan officer didn't get enough information on which to make a reasonable credit judgment. Or he took a chance on a borrower who had too little stability. Or he failed to document the loan properly.

This article is adapted from remarks made by Mr. Kane at the ABA's National Credit Conference in Atlanta in March.

Charles J. Kane (r.), ch., Third Nat'l, Nashville, speaks on the day-to-day decisions of credit policy at ABA National Credit Conference in Atlanta. Looking on are Moderator Harry S. Meily, vice ch., Security Pacific Nat'l, Los Angeles (and then vice ch., ABA Commercial Lending Div.); and Frank E. McKinney Jr., ch., American Fletcher Nat'l, Indianapolis.

The type of loan review best suited to a bank depends on several factors, including the size of the institution in terms of personnel and assets as well as the current quality of the loan portfolio.

Questions that should be asked include the following:

- What is the function of loan review?
- What should be a loan review department's scope of operations?
- Who should staff the loan review department?
- Where should loan review be positioned within the organization and to whom should it report?

Loan review personnel, regardless of the varying degrees of authority they possess, must maintain objectivity in determining the quality of a bank's loan portfolio. Because loan review should be a staff function, the word "authority" must be qualified and defined.

The procedure for handling and rating loans at Third National is as follows:

Loan review is a highly visible staff function of foremost priority in the overall administration of the bank. We have chosen to make it totally and completely independent of our day-to-day lending activities and this includes our most senior lending people. Loan review is a separate department that is independent of the banking division. The head of the review area must have independence and report to senior management.

Thus, loan review personnel are free to fully develop their criticisms. While not an auditing function, per se, they do act in a similar capacity and, there-

fore, the chips fall where they must with a general disregard for rank and position.

Our staff numbers six, which is adequate for a $600-million loan portfolio. The department brings all credits of $75,000 and over under a periodic review that is detailed and comprehensive.

We employ a one-through-four rating system.

Rating number 1 includes borrowers with seasonal loans of highest quality that we expect will be paid in full at maturity or which could easily be refinanced or transferred, normally under confirmed lines of credit. Loans in this category are unsecured and are seasonal or short-term. Usually this rating is reserved for national firms. These loans normally make up a relatively small portion of the portfolio, in terms of the number of borrowers.

Rating number 2 includes other sound loans protected by the borrowers' net worth or collateral that can be repaid according to terms or within a reasonable time without adversely affecting the borrower. In general, loans in this category are sound loans of a short-term or term nature, secured or unsecured, made to local companies or individuals. Term loans or revolving credits to national firms are in this category. The majority of loans receive a "2" rating.

Rating number 3 includes loans considered collectible, but, because of size and composition of the borrowers' assets or net worth, inadequate collateral or other factors of an unfavorable nature, the terms of the loan may not be met or the date of repayment is undeterminable at the moment.

Loans to companies that habitually cannot effect seasonal payout; loans to companies that are operating at a loss; or loans to companies with other unfavorable operating trends are normally rated in category 3. Loans are not normally rated "3" just because it is felt they should be followed more closely or reviewed more often than other loans. Other factors must be considered before a loan is rated "3."

Rating number 4 takes in high-risk loans requiring careful servicing. Number "4" loans are those where a loss or a work-out situation is possible. Careful servicing is required to prevent or reduce a possible loss.

We feel our approach is highly effective. For example, each week our finance committee, made up of senior management and rotating outside directors, meets to consider new as well as existing loans and lines of credit up for annual review. The bulk of the material in these presentations deals with the essentials of the credit. In addition, any variance with loan agreements or with the intent of the original loan proposition is highlighted. Missing, stale-dated or defective documentation might well be noted.

At these meetings, we also go over what we call a "large-note report." This formal report details full and increased renewals and loan reductions. Here again, loan review may comment clearly and strongly on matters of incomplete credit information, lack of compliance to reduction programs, unfavorable developments or trends in the company, documentation, etc.

As we are structured, superficial explanations by lending officers to loan review, whether oral or written, will rarely, if ever, serve to satisfy criticism. The questions of loan review are satisfied when the proper documentation is physically in-house or, in the case of credit factors, the majority of the members of the loan or finance committees agree and formally vote to waive or forego a condition that might be nice to have, but one we can live without—in other words, a consensus of management. These decisions become part of the record and the point raised by loan review is then considered satisfied.

The following elements should be present in any loan-review program:

- Independence and objectivity in evaluation of the loan portfolio.
- Clear lines of communication.
- Personnel trained in credit analysis and familiar with the lending function.
- Personnel with the ability to make the program work.
- Support from all areas of management and the directors.
- Clearly defined reporting, reply and follow-up procedures.
- Well-defined guidelines, known to all officers, clearly stating loan review's function and scope of operations.

With the liquidity of the banking industry being tested now more than at any time since the depression, loan review procedures are becoming more comprehensive. Some fear that this could lead to over-conservatism. I do not feel it will. If handled correctly, it will benefit management. • •

Factors Affecting Day-to-Day Decisions Include Loan Approval, Reserve Policies

By FRANK E. McKINNEY JR.
Chairman
American Fletcher National Bank
Indianapolis

LOAN APPROVAL procedures, valuation reserve adequacy and credit training procedures are important factors among the day-to-day decisions bankers must make.

In order to better understand loan approval procedures, we must first focus on organization—the key to implementation, communication and control.

There are six main organizational groups at American Fletcher, two of which lend money—the corporate banking group and the consumer banking group. Four divisions under the corporate group lend money and there is one division under the consumer group that lends money, and that is through the banking center (branch) system.

Under the staff support group, one of the six main groups in the bank, there exists the loan policy and operations division, which is a staff function reporting directly to executive management. The head of that division is also chairman of the loan committee.

The loan committee is more of a policy-making committee than a credit-approval committee, although it serves both functions on larger credits. Members consist of group and division heads as well as executive management.

To better understand lending limits, the legal lending limit of a bank must be stated. Our legal lending limit is $12 million.

Every lending officer is assigned a discretionary lending limit up to $500,000 (a little over 4% of our legal lending limit) by the loan committee, upon recommendation by group heads. These authorities range from a small amount ($5,000 to $50,000 for a banking center officer) to $500,000 for a division manager. Loans up to these amounts are made without prior loan committee approval. The committee, however, reviews all credits from $100,000 to $500,000. It also must approve—before the loans are made—all credits in excess of $500,000 and up to the legal limit. Individual lending authorities are reviewed, based on performance, every 90 days.

All loans in excess of $500,000 must be reviewed and recommended for approval by the respective division head, the group head and the chairman of the loan committee before they are placed on the weekly agenda of the loan committee.

The loan committee meets every Wednesday morning to review and set lending policy and approve loans and/or lines of credit over $500,000. Between meetings, there exists an emergency loan-approval system for loans in excess of $500,000, as follows:

- For loans from $500,000 to $2.5 million—A lending officer, plus a division head, plus a group head can approve.
- For loans from $2.5 million to $5 million—A lending officer, plus five members of the loan committee (which must include two division heads and the group head) can approve.
- For loans from $5 million to the legal limit—All of the above, plus either the bank's chairman, vice chairman, president or executive vice chairman in charge of the lending group, can approve.

The key to the success of the system

This article is adapted from remarks made by Mr. McKinney at the ABA's National Credit Conference in Atlanta in March.

of loan-approval procedures is how the bank is organized. If properly organized, given the operation of the bank, those lending money should know the system and where they fit in it. They should know lending policy and what is and what is not expected of them. If properly organized and communication is constantly in the forefront, the lending officer will not be intimidated by the system and will be free to make prudent decisions and pursue planned business development.

In determining the adequacy of the bank's valuation reserve, the following policy is considered and performed at American Fletcher:

- The adequacy of the valuation reserve is viewed in light of past charge-off experience.
- The percentage of the valuation reserve to total loans outstanding should at least be equal to, but planned to exceed, the industry average for the bank's peer group, in our case, the $2- to $5-billion banks.
- A formal analysis and review of each significant non-performing credit is made for the purpose of determining an estimate of the possible risk exposure on such credit. In determining the amount of any risk exposure, many sources are used, such as independent appraisals on real estate projects, economic studies of areas where loans exist and information prepared by our loan review section concerning industry trends.

The above information is then reviewed in detail by executive management and final conclusions are made as to the amount of valuation reserve needed to include reserves for normal losses on consumer credit based on experience and review. A cushion amount is also determined and added to the reserve.

This material is then furnished to our outside auditors, who make their own independent analysis and review of such material, plus a review of other loans to see that all significant exposures are covered.

A meeting is then held with the independent auditors to discuss any differences, and final conclusions are reached.

The key here is that we initiate and perform the analytical and review function and provide our opinion to the auditors. We then review their work based on our system. This system is only successful if the self-employed analytical methods are extremely realistic and will stand the test of time.

Due to the experiences of the recession, have we changed credit training procedures? What are the important areas of emphasis?

The few changes that were made were not prompted by the recession, but rather, occurred in the ordinary course of development as our loan portfolio grew or broadened in scope.

The loan committee and corporate group were reorganized in late 1975. Originally, the loan committee chairman was a line officer. It is our opinion that this responsibility is a full-time job and, accordingly, has been assigned as a staff function.

The chairman of the loan committee evaluates lending officer performance and recommends the necessary training programs, where needed.

Performance standards are created for each officer, describing in detail the performance expected. More detailed delinquency reports are being required. Division heads are required to report on past-due loans each week at the loan committee. Action and strategic plans are required from each group, division and department, outlining how loan objectives are going to be met. • •

For Banks Under $100 Million:

Lending Policies Can Be Structured To Enable Banks to Avoid Problems

ADMINISTRATION of loan portfolios, loan review systems and problem credits and the determinants of loan profitability for banks under $100 million in assets were discussed by a panel of three bankers at the ABA's National Credit Conference in Atlanta in March.

Panelists included D. Bruce Adamson, chairman and president, First National, Joplin, Mo.; Pat Moore, president, American State, Thomas, Okla.; and Alford C. Sinclair, president, Atlantic National, Jacksonville, Fla.

Mr. Adamson said that spread management and profitability are the names of the game today. Rapid growth demands additional capital, which is difficult to raise, and management at First of Joplin has adjusted the bank's lending policies accordingly.

Each new loan must be justified in its spread factor, he said. "We've gone from high loan volume with low markup to low loan volume with high markup."

Consistency in earnings is the key to success, Mr. Adamson continued, and profitability is what regulators look for. Good earnings are the key to a sound banking system for the U. S., and there is much work to be done in the area of increasing loan portfolio profitability.

He said that the basic determinants of loan profitability are (1) knowing costs, (2) maintaining spread and (3) collecting the loan at maturity. "You will have to admit that the last one is probably the most important."

Most bankers don't know the cost of their operations, he said, and they don't know how to use loan pricing formulas effectively. Thus, they don't have answers for customers who think they deserve the prime rate on their loans.

"We make good by accident, not design," he said. If bankers can overcome these deficiencies, they will be able to increase their dividends.

Mr. Adamson outlined the following steps to maximize loan profits:

- Be sure the bank's data processing gives the average collective balance on deferred deposits.
- Know costs—join the Fed's cost analysis program.
- Establish an internal loan review system that includes a grading system.
- Establish basic internal policy. Know what rate you want to achieve on capital funds and make it a practical figure—no wishful thinking.

Then, design the system. Determine the interest rate the loan should carry, establish a loan review system. Know what you want to achieve in the way of profits.

Loan review, he said, should be a continuing analysis. Deduct costs from income to determine profit and see if it agrees with the profit goal. If it doesn't, reset the interest rate at renewal time.

Mr. Moore advised that a bank's directors should establish a bank's loan policy and it should be written. When establishing the policy, consideration should be given to the consumer and a continual update of the policy should be provided for.

Written parameters for credit allocation should be established and a marketing emphasis necessary to consume the allocated funds should be determined. For new types of loans in a portfolio, know where to get answers fast and establish early warning signs so that problems with loans will be readily recognized when they appear, he said.

A constant analysis of the loan portfolio should be maintained, Mr. Moore said, and it should be carried out according to the written loan policy and acceptable regulatory procedures. It should include direct verification.

"Analyze your loan officers," he advised. "Have them submit property statements so you can determine their level of living. Check up on loans granted to personal friends or granted

out of the bank's trade area."

In the area of insider loans and conflicts of interest, Mr. Moore advised adhering to the new procedures outlined by the FDIC, issuing written instructions to loan officers and directors and holding meetings periodically with directors and officers to discuss procedures to avoid conflicts.

In the loan documentation area, he advised that each loan folder include the following information: Name and address of borrower, interest rate, type of loan, a section for comments and flow of funds.

Financial information on the borrower should include financing statements, cash-flow projections and annual sales information.

Collateral documents should include financing statements, security agreements, accounts receivable, inventory lists and valuations, mortgages and safekeeping receipts.

Supporting documents should include insurance, warehouse receipts and correspondence.

Loan limits should be established for each loan officer according to his ability and experience, Mr. Moore said, and a policy should be formulated for loan officers who encounter applications in excess of their limits.

"Each loan your officers place on the books should be analyzed," he said, "along with the ability of loan officers to develop new business."

It's good to know how tough a loan officer can be under trying conditions, he said. Can the officer handle the situation or will he need assistance? Immediate action in the case of a bad loan can often save money for the bank.

Mr. Sinclair said loan review really consists of three facets: technical review to ascertain correct documentation, credit review to ascertain good judgment and past-due review to make certain loans are kept reasonably current.

In a well-run bank, he said, the technical review starts at the loan teller's window. When a loan officer and a customer walk up to the window to complete the loan transaction, a good loan teller will look carefully at the note to be sure that it's filled in correctly, will use his or her training to ascertain if the collateral documents called for by the note are attached and will quickly count stock certificates or other documents to see if they appear correct. This is done while the customer is standing at the window.

Having passed inspection, the loan documents should next be inspected by the collateral clerk, who has the responsibility of following up on auto titles, insurance policies or other documents that cannot be presented when the loan is made.

The third phase of internal technical review should be from the bank's auditors, he said. At least once a year, the auditing department should conduct a full-scale examination of the loan portfolio. The primary purpose of this examination is to look for technical exceptions and past-due loans.

The bank should require written reports from each loan officer regarding technical exceptions and it should be understood that sloppy documentation will not be tolerated.

Any bank near $100 million in deposits should separate the collateral-control function from the loan-teller function. This improves the loan-review system and cuts down on opportunities for embezzlement of collateral, Mr. Sinclair said.

The task of reviewing credit judgment is somewhat more complex because credit judgment is so much more subjective than documentation, he said. "A loan is either properly documented or it isn't, but credit judgment comes in infinite shades of gray."

Mr. Sinclair described the credit review system at Nashville (Tenn.) City Bank, with which he was associated as president prior to his joining Atlantic National. The majority of the bank's lending officers were inexperienced, he said.

"The first thing we did was cut lending authorities to the minimum amount we could reasonably do business with. We formed an officers' loan committee consisting of all officers who had lending authority and we met first thing every morning to consider every loan that exceeded an officer's authority.

"This way, we could give reasonably quick service; we could get the benefit of group judgment; and the meetings served as a training ground for lending officers. It was no rubber-stamp committee. Questions and reasonable dissent were encouraged.

"As an added protective device, our officers' loan committee reviewed, post-facto, each new loan for more than $10,000, regardless of whether the loan was within the lending authority of the officer who made it. This was a fairly fast review, but each committee member was handed a copy of what we called the 'loan officer's worksheet,' prepared on each new loan or non-conforming renewal.

"A fringe benefit was that our young loan-review officer was an ex-officio member of the committee. The presentation of loans, the discussion of them and the enthusiasm or lack of it on the part of committee members gave the loan-review officer a lot more insight into each loan than if he had merely seen a file that came across his desk.

"To help the young loan-review officer with all the small loans, we developed our own credit scoring sheet, which, incidentally, we encouraged our less-experienced lending officers to use as a tool. In our loan-review system we had one of the persons in our credit department score, post-facto, every personal loan of less than $10,000. This included both time and installment loans, since we had abolished our installment loan department and had every lending officer in our Main Office and nine branch offices make whatever kind of loan best suited the customer's needs, regardless of whether it was repaid in monthly installments or on a 90-day basis."

Mr. Sinclair said each personal loan of less than $10,000 was scored and the scoring served three purposes:

- It cut the loan-review officer's workload to a manageable level, since he didn't need to look at those that scored in the upper range.
- It gave him a running start on the loans he did review because it told him something useful about the borrower.
- Since the bank kept a tally on the number and percentage of marginal and submarginal personal loans made by each officer, it gave the loan review officer an opportunity to meet regularly with the loan officer's supervisors to discuss the loan officer's performance.

"You have to be careful with scoring systems," Mr. Sinclair said. "First, to comply with current legislation, and, second, not to rely on them too heavily. Yet, properly used, they can be of great help.

"The score sheet we used was weighted in an unscientific, but reasonably accurate, fashion to measure the stability of the borrower. That's about all a scoring sheet *can* measure. But stability is important. Borrowers who have lived in the same location for several years, who have worked at the same job and who score well on the other criteria that measure stability are much more likely to repay their loans than those without stability.

"You cannot overlook a good system of reviewing past-due loans. Just as with any other account receivable, their real value drops rapidly as they become more and more past due.

"I like an automated loan system that divides past-due time loans into two categories—those less than seven days past due and those seven days or more past due.

"Whoever is doing the reviewing should not concern himself with loans less than a week past due. Those are the worry of the loan officers and the loan officers should be working their past dues and trying to keep them off the seven-day list. Properly handled,

(Continued on page 66)

"With the First as a partner, we've succeeded as we've helped Jim Boone's farm implement business succeed."

George Dudley, First National Bank of Kansas City
Robert Bugbee, First National Bank of Quinter
Jim Boone, Ideal Industries

The First National Bank of Quinter, Kansas is a true success story. A correspondent bank relationship has helped it develop and grow with an important new customer.

In 1965, Robert Bugbee, president of the bank, called upon the First National Bank of Kansas City to participate in a major line of credit for Mr. Jim Boone, founder of Ideal Industries in Quinter, manufacturer and distributor of specialized farm equipment.

The First National Bank of Kansas City extended credit used for seasonal working capital and in recent years for major business expansion and distribution of Jim Boone's own invention, the Flex-King stubble mulch plow.

Credit assistance and the additional help of business expertise of the people in our Correspondent Department like George Dudley have been important in the success of First National Bank of Quinter.

And as Jim Boone's small husband-and-wife company has expanded to a thriving corporation, First National Bank of Quinter has grown with important new business.

Call the professional staff of the Correspondent Department of the First National Bank of Kansas City. We can help your bank with the development of new business.

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J. D. Acklin, pres., Louisiana Bankers Assn., and ch. & pres., Planters Bank, Haynesville.

Richard J. Pfleging, pres., Missouri Bankers Assn., and pres., Bank of St. Ann.

J. R. Ayres, pres., Kansas Bankers Assn., and pres., Citizens State, Miltonvale.

The 'Problem-Bank' Situation

LOAN LOSSES, problem banks, REITs—these are much in the news lately and also the subject of many bankers' conversations. Therefore, as convention time approaches for state bankers associations, MID-CONTINENT BANKER editors think it appropriate to solicit comments on the above subjects from presidents of the various associations and publish them in the magazine's two convention issues.

Each of the two May convention issues will feature remarks by a number of chief executives of the state banker associations in the Mid-Continent area. These bankers are in the position to know the loan-loss situation in their respective states due to their long association with banking affairs in their areas.

This issue features contributions from the presidents of the following associations: Louisiana, Kansas, Texas, Arkansas, Oklahoma and Missouri. In the May 15th issue, there will be comments from the presidents of these associations: Alabama, Illinois, Indiana, Mississippi, New Mexico, Tennessee and Association for Modern Banking in Illinois.

J. D. ACKLIN, president, Louisiana Bankers Association, and chairman and president, Planters Bank, Haynesville:

IN RECENT YEARS, banks in this country have been encouraged to overextend themselves by a liberal Congress, which somehow has gotten the mistaken impression that the Constitution guarantees every citizen the right to an electric dishwasher and two cars in the garage. Whenever Congress encourages bankers to make unsound investments in the interest of stimulating the economy, you can expect trouble.

The lesson bankers should have learned over the past year is that they should stick to their knitting. They should stick to the business they have been trained for instead of expanding into businesses where they have little or no expertise.

Bankers in this country need to worry less about asset growth and more about profits. If the guy across the street starts building branches like crazy that you know he can't pay for, you don't try to impress your directors by building more than he does.

I really think bankers need to become less afraid of being labeled as conservatives. Banking is a conservative business. It has to be that way because we're dealing with other people's money that's been placed with us for safekeeping. We can't make the kind of investments that people in other types of business make; they're just too risky for us.

I don't mean we should not be ready and eager to accept the challenges that the new electronic banking will bring to us, or that we should not be on the lookout constantly for new and better ways to serve our customers and increase our profits. The fact is, however, that banking is not a get-rich-quick business. There aren't any shortcuts to success in banking.

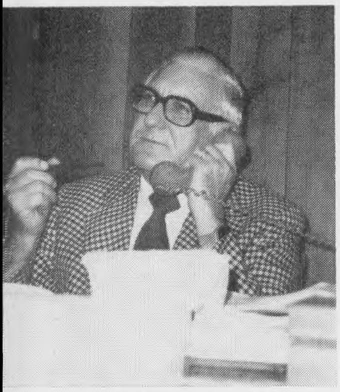
Now there's talk about strengthening our regulatory agencies because of the problem that some banks have had because they moved too quickly into REITs and other things where they had no business. But there's nothing wrong with our regulatory system. The present system has just seen us safely through the greatest financial crisis we have had since the depression without the first penny of insured deposits being lost.

The problem, in my opinion, is just that the liberals in Congress are convinced that the solution to all problems is bigger government. If these totally uninformed people are going to continue to meddle in the banking business, we're just going to have to try to educate them in economics. We're going to have to have a larger, stronger lobby in Congress that can get the message to them.

For example, who but a person who knows nothing about banking or economics would propose something as ridiculous as credit allocation. The present movement to politicize the regulatory authorities is nothing more than a subterfuge aimed at installing credit allocation.

In my opinion, the regulators have done a good job over the past 40 years. If these agencies need to be strengthened, we certainly can achieve this through administrative change without junking the entire system.

Some banks may be guilty of moving into areas where they had no business over the past several years, and some regulators may be guilty of allowing this to happen, but the liberals in Congress would place a bank examiner at the elbow of every loan officer to tell him that A is a "socially desirable" loan and B is not. We certainly don't need that. • •



Dorman F. Bushong, pres., Arkansas Bankers Assn., and pres., Farmers & Merchants, Rogers.

J. B. Wheeler (r.), pres., Texas Bankers Assn., and pres., Hale County State, Plainview. Mr. Wheeler is shown at 1975 convention receiving badge of office from outgoing TBA Pres. Gene Edwards, ch. & pres., First Nat'l, Amarillo.

Tracy Kelly, pres., Oklahoma Bankers Assn., and ch. & pres., American Nat'l, Bristow.

How Do We Avoid a Repeat?

J. R. AYRES, president, Kansas Bankers Association, and president, Citizens State, Miltonvale:

GENERALLY, the banking industry is strong, vibrant and responsive to the public needs and capable of offering valuable and productive services to the communities and territories served. It will emerge from the experiences of the past few years more capable of meeting the challenges of the future.

For a long period of years, the U. S. economy experienced continued improvement and growth. There emerged from this period the theory that, in case of adversity, governmental intervention in the economy with stimuli to prevent deep decline was generally acceptable. Industry managements were indoctrinated and oriented to continual expansion and growth and managements were measured and rated by their growth performance.

Emphasis was placed on expanding the economy with no thought for resulting inflationary and recessionary conditions. It was a new experience and the problems induced by the resulting condition were not readily discernible by industry, but are now evident in the bankruptcies of new and old businesses.

The banking industry was no different from other industries. The measurement of management performance was expressed in terms of expansion and growth. The rules of prudence, in some instances, were disregarded and substituted for a growth and expansion theory. This phenomena was particularly observed in regard to investment and loan portfolios.

A large sector of the management teams of industry, as well as financial institutions, had never experienced a period of adverse economic climate and was not prepared to meet the challenges and problems created by inflation and recession operating at the same time; deterioration of the general business climate, creating the problems of unemployment; and failures of businesses, with the decline of work opportunities. Financial institutions faced liquidation of their investment portfolios to meet public demands, and, in the case of forced liquidation of investment portfolios, a decline in asset value occurred that resulted in the deterioration of liquidity positions, which were most important to financial institutions, particularly banks.

Kansas—being a diversified agricultural state—generally escaped many of the serious setbacks familiar to some of the other sections of the country and, generally, the banks of the state adhered to the rules of prudence in expanding their investment portfolios as well as maintaining secondary reserves to meet the challenges of adversity so they would not be exposed to the many problems of liquidity.

The sector of the economy most adversely affected was the livestock industry. Substantial losses were incurred but, fortunately, in general, losses were absorbed by adequate capital structures, as these were not compounded by overexpansion and overextensions of credit.

Banking is a risk business and, as such, losses are to be expected. Measurements of management should be changed to de-emphasize overexpansion and growth and past experiences should signal a return to more prudent investment programs.

Also, regulatory authorities should be more restrained in granting permission for expansion into high-risk operations. • •

ON THE COVER: Association presidents are (top row, from l.) Richard J. Pfleging, Missouri; J. D. Acklin Jr., Louisiana; Dorman Bushong, Arkansas. Second row: J. B. Wheeler, Texas; Tracy Kelly, Oklahoma; J. R. Ayres, Kansas. Third row: W. E. Howard Jr., Mississippi; Wayne Stewart, New Mexico; C. L. Griffis, Indiana; Horace W. Broom, Alabama. Bottom row: Jack O. Weatherford, Tennessee; Arthur F. Busboom, Illinois; Lester A. Kassing, Association for Modern Banking in Illinois.

J. B. WHEELER, president, Texas Bankers Association, and president, Hale County State, Plainview:

FORTUNATELY, Texas has not suffered as much from the current recession as have other sections of the country, nor have our banks experienced the large loan losses that banks in other states have been reporting. I'll qualify that by saying that banks in Houston and a few of the other big cities in Texas have had some loan losses, but, again, not to the same extent as banks in the rest of the country, because of real-estate loans.

Because business generally has continued to be good here, I would say that the state's own economy has been the best deterrent to the recession. Part of our healthy economy is due to the fact that unemployment has not been as pronounced in Texas as it has in other areas.

The loan losses that occurred last year resulted primarily from the depressed real estate and construction industries. Milwaukee and Chattanooga come to mind as two of the areas that really suffered. A bank even failed in Chattanooga, and one reason was real-estate loans.

A bank should never put too much of its money into non-income-producing assets such as real estate when inflation becomes rampant. When real estate stops moving, banks with a lot of their money tied up in it are in trouble. The REITs (real estate investment trusts) are a prime example of problems plaguing large banks.

A bank can avoid tremendous loan losses in the future by being more careful about taking appraisals on real estate geared to a given economy that causes equity to disappear. That is, be sure that somebody's money besides the bank's also is in the venture.

I certainly don't agree with those congressmen who are blaming Comptroller James Smith for the so-called "problem banks" that have been in the news lately. The best regulatory authorities in the world can't prevent bankers from making mistakes. They can provide guidelines for bankers, but it all comes down to the man making the loan. He must study each situation and then decide whether to grant the loan and, at the same time, protect the bank's investment. A bank examiner can't stand at his side and give advice.

The same holds true for state regulatory authorities. Here in Texas, the national and state bank examiners each have about 600 to 700 banks to examine. They can't possibly be available to every bank when a questionable loan situation develops.

Neither should holding companies be scapegoats for problem banks. In fact, I've seen this happen at various times: A bank that gets into serious trouble, may, in fact, be in danger of failing. However, a holding company steps in, buys the bank and pumps additional capital into it and provides additional management for it. As a result, the bank is saved. Thus, its depositors don't lose their money and the community keeps its bank. This is especially beneficial when a town has only the one bank. It's equally beneficial in cities with more than one bank.

In defending HCs, I want to emphasize that our bank is independent; it does not belong to a holding company, and we have no intention of selling to one. Neither does it belong to the Fed.

I guess what I've really been trying to say in this article is that bankers must use old-fashioned common sense when making loans and not submit to pressures nor take advice from any person, persons or groups on real-estate loans during periods of double-digit inflation! • •

RICHARD J. PFLEGING, president, Missouri Bankers Association, and president, Bank of St. Ann:

I HAVE not found that banks in Missouri have experienced extraordinary losses compared to other parts of the country. True, the economic recession brought about serious unemployment that was reflected in increased delinquencies throughout the state and the nation, but the rate of impact on different parts of the state varied and the overall quality of the loan portfolio was such that Missouri banks were generally quite able to weather this situation exceedingly well.

Of course, those loans covered by government-backed insurance or guarantees that came under forebearance directives contribute to overall delinquency totals.

All things considered, Missouri banks are in sound condition. Few, if any, went overboard in real estate investment trusts, condominiums and other speculative real estate financing to the extent that was done by banks in Florida, Georgia, Tennessee and some other areas.

It is ironic that, at the very time MID-CONTINENT BANKER is soliciting banker opinions on the problems that have arisen in loans, and principally real estate lending, the Congress is considering the Financial Reform Act of 1976. That bill, among other things, proposes (1) to channel more depositor funds into the real estate area, (2) to create minimum totals of involvement in that area in order to qualify for higher interest ceilings on deposits and (3) to authorize the Federal Home Loan Bank Board to sell debt obligations to further flood that market with funds at any time it deems assistance is needed. At no time does the bill address itself to problems in the housing industry other than the availability and cost of money.

"Missouri banks are strong and have weathered the recession well. They will be stronger and will fare better the next time only if bankers involve themselves in managing the changes that will come about, rather than accepting them apathetically."

Recent figures released by the National Association of Home Builders stated that, while disposable income rose 183% in the 20 years ending in 1975, real estate taxes soared 341%, insurance 351%, maintenance and repairs 269% and utilities 199%. In the same period, mortgage interest rose from 4.8% to 9%, an increase of only 87.5%. On top of these figures, available credit for real estate loans was at an all-time high at year-end 1975.

If the housing losses that some banks throughout the country have experienced have taught us nothing else, they have shown us that something is wrong with the housing industry besides fund availability.

I am not at all confident that I can predict what will keep the loan-loss situation from recurring or what government at any level can do to prevent loan losses. Supervisory authorities can actually do little in the way of formulating policies to eliminate risks. If they could, they would not be supervisors but, rather, grantors of credit.

Certainly, the heaviest losses would have appeared in larger banks or HC situations, but that does not necessarily point the finger of guilt at such a structure. Large projects eventually require larger loans, which then create larger risks. Magnified across the whole country, these risks came tumbling down with layoffs brought on by a recession that was publicly predicted three years ago.

Perhaps I oversimplify the picture, but I feel there are two causes to any problem—lack of knowledge and apathy. We soon forgot the real estate losses of the thirties. How long will it take us to forget those of the seventies?

The only time a banker should feel he knows enough is after he has retired from all participation in banking. Also, there is no time when it is appropriate for a banker to "let George do it." Because of such attitudes, because of lack of deep involvement in what our government has been doing to our economy (and because of such nonaction today, the economy that our children will be living under tomorrow), we have suffered and are still involved in, to a lesser degree, not only a terrible inflation and a costly recession, but, at one point, both together.

We can easily gauge the losses of imprudent lending and then groan when government imposes regulations on us to ostensibly keep such events from recurring again. Why can't we compute and publish for all to see the magnitude of the economic losses brought upon the country by poor judgment on the part of the government?

Bankers have made mistakes that have resulted in loan losses. Some have been serious enough to close banks, but nothing has been worse than the bankers who do not speak out to elected officials about their responsibility to keep our country's finances in order.

Missouri banks are strong and have weathered the recession well. They will be stronger and will fare better the next time only if bankers involve themselves in managing the changes that will come about, rather than accepting them apathetically. • •

DORMAN F. BUSHONG, president, Arkansas Bankers Association, and president, Farmers & Merchants Bank, Rogers:

RECENTLY I was dismayed to hear a speaker say that the premise that adequate capital accounts for commercial banks are a "safety cushion" for depositors is false. Nothing could be further from the truth. To the contrary, it has been clearly demonstrated by the banking industry during the recent recession (which has been called the most severe since World War II), that its capital accounts can absorb the shock of unexpected asset deterioration and retain its viability to supply the legitimate credit needs of both the private and public sectors.

Except for a few isolated cases, no depositor's funds were ever in jeopardy (it has been many years since a commercial bank depositor has lost a single penny), and, as a matter of fact, most banks were able to absorb their losses and still produce a modest profit for their shareholders.

At this point, we must admit that the problem was not as great as the news media led the public to believe. Bank failures were few when viewed in the proper perspective that there are more than 14,500 banks in this country. The highly publicized accounts of the U. S. National Bank of San Diego and the Franklin National Bank of New York failures were classic examples of dramatization rather than reporting. An indepth journalistic approach would have included that the alleged defalcation causing one failure and the alleged "maverick" managerial practice causing the other were isolated cases, far removed from the norm in the industry.

If I sound like a Don Quixote fighting a non-existent windmill, let me hasten to add that there was a problem—a real problem—of liquidity in many, many banks during the recession. This same spectre affected our industrial and commercial customers, turning previously "sound" loans into "sour" loans almost overnight. Real estate investment trusts were the nemesis of some unwary bankers; while heavy investments in municipal bonds, which suddenly and unexpectedly lost their favorable credit ratings, created additional headaches. In the midst of the recession, the heads of the regulatory agencies implored bankers to supply the necessary credit to maintain a viable economy. Apparently they forgot to impart this message to their field examiners, who stringently assessed classification for "slow" loans, creating more charge offs against reserves and capital accounts. To their credit, most banks were able to cope with these problems, absorb the losses and yet actively support the economic recovery with the necessary flow of funds.

Apparently the worst is behind us, at least for the moment. The FDIC currently lists only slightly over 300 banks on its problem list and less than 100 on its critical list. In retrospect, it can be presumed that most bankers will become a bit more cautious—less tempted to lend funds for speculative ventures; less prone to accept the reports of the bond-rating agencies; and willing to sacrifice some earnings for the sake of liquidity.

But danger far greater than recent experience lies ahead, danger that appears to be almost beyond the control of bankers themselves. The danger of erosion of reserves and capital accounts through forced reductions of earnings, to the point of inability to absorb unexpected losses, is apparent and real. Bankers are fully aware of the situation and are desperately trying to prevent it from happening. Unless the *consumer* (both depositor and borrower) soon realizes how detrimental the end result will be for him and sets up a hue and cry to protect his interests, it will be an uphill battle.

At the same time that the Internal Revenue Service seems to be trying to eliminate all reserves for loan losses, self-serving politicians at the national level, who obviously place reelection ahead of everything else, are trying to sell the consumer the old "free lunch" line. By this I mean the *free lunch* of interest on demand deposits and competitive bidding for time and savings deposits; which will result in higher loan interest rates, especially for the consumer; all to be passed on to the more affluent who have money to deposit. I also refer to the free lunch of making banking more competitive by permitting easy entry into the field by other financial institutions (for cheaper services) without regard to capital requirements, which will result in elimination of the capital safety cushion and perhaps the destruction of deposit insurance (a complete disregard for the depositors' safety).

Yes, the danger is real. However, there is hope. The consumer knows there is *no free lunch* and may become resentful of politicians who think he is stupid. Then his *voice* will be heard in Washington. • •

TRACY KELLY, president, Oklahoma Bankers Association, and chairman and president, American National, Bristow:

EXCEPT for a few banks, loan losses in Oklahoma have been minimal. This can be attributed to a strong and stable resource base consisting of agriculture and energy.

Last year, substantial losses would have occurred in cattle loan portfolios if it had not been for the FHA Emergency Livestock Program. This program has been used extensively by banks with customers who were caught by the precipitous drop in the market.

These cattle customers will be several years in recouping their losses, but Oklahoma banks did not sustain abnormally large losses in this area because of their margins and their ability to shore up their collateral positions with second mortgages on land and the FHA Emergency Livestock Program.

Oklahoma banking is a barometer of the state's economy, which is healthy and viable. The most devastating condition confronting Oklahoma banks is the malady that plagues the entire country—inflation. The rampant erosion of the purchasing power of the dollar is unconscionable. Bankers need to educate their constituencies toward fiscal responsibility in government. • •

State Regulators Give Loan-Loss Views

Bankers Must Solve Ills With Encouragement From Regulatory Agencies

By WILLIAM R. KOSTMAN
Commissioner of Banking
State of Missouri
Jefferson City

IT IS MY belief that there has been too much publicity concerning problem loans and problem banks. The current difficulties of the banking industry and those of its recent past will not be cured by airing them in the media. Rather, I believe the bankers themselves are the only ones who can solve their problems. In some cases, they must be encouraged to do so by aggressive regulatory response.

Banking is still a private business enterprise and, as such, is also a risk enterprise. Accordingly, a banker who doesn't have some difficult loans in his portfolio probably is not serving his community to the fullest. The function of a regulatory agency is to keep those risks within reasonable bounds and to ensure that the banks operate within the confines of the applicable statutes and sound and prudent banking practices. However, it is my firm conviction that anything less than a complete commitment on the part of a regulator to use whatever means are available to him (within governing statutes) in problem situations will definitely result in bank failures.

The medicine which bankers must always take when the examiners discover uncollectible loans in the note case is that of charging them off. It is at this point that others, who may not be involved in the lending or management functions of the bank, i.e., the shareholders, have a bitter pill to swallow in the form of recapitalization.

It is clear that the statutory and discretionary powers of the bank regulator provide ample tools to cope with the banking problems in Missouri. Where necessary, we have in the past and will continue to take appropriate action to require additional capital, as well as other action justified by the circumstances. • •

Early Warning System Developed in Illinois To Detect Problem Loans

By RICHARD K. LIGNOUL
Commissioner of Banks
State of Illinois
Springfield

DURING THE PAST few years, bankers, because of undue pressure from directors and stockholders for continued dividends, ignored basic credit principles and placed emphasis on growth of assets with little regard for quality. This resulted in marginal loans, higher yields and less regard to risk.

The lenders, because of steady loan demands and inflation, expected the continued boom and inflation to retire these debts. In some cases, the bankers were too close to their borrowers and ignored credit principles usually applied to all others; in other cases, the decline in the quality of loans had nothing to do with any economic conditions. Unqualified management simply made bad loans.

A lack of director-interest in some banks, particularly as to the quality of loans, permitted active management to ignore the simple rules of credit analysis. Lack of credit information, investigation, repayment programs, documentation and poor credit administration resulted in classified loans. When these classifications were permitted for a time without corrective programs to remedy them, deterioration caused charge-offs.

The responsibility for maintaining high loan and investment standards is vested, of course, in the board. When these responsibilities are ignored, active management assumes authority without the necessary guidelines and drifts much like a rudderless vessel. The importance of periodic loan review and policy adjustments, particularly during a period of economic downturn, can never be overstressed.

Then came the recession. General economic conditions, unemployment and operating deficits of many businesses contributed to the deterioration

(Continued on page 66)

Sound Bank Management, Not Overregulation, Key to Loss Prevention

By HERBERT H. HUGHES
Commissioner of Banking
State of New Mexico
Santa Fe

IT IS IMPORTANT that regulation of loan activity in banks be reassessed, but the hard evidence does not suggest that from an overall regulatory standpoint the problem of loan losses is so serious and widespread as to call for extreme overregulation.

What we need now are regulatory solutions that reduce losses without suffocating our credit system and the ability of banks to serve the public interest.

An ounce of prevention is worth a pound of cure. The ultimate key to prevention of bank loan losses is management—its total commitment to a sound, no-exception loan policy and a no-nonsense policy of prompt, continuous monitoring of potential and actual problem loans. Regulators can lend a hand to management at various points, but should not get directly into the business of banking and the internal management of bank loans. The responsibility of regulators is to ensure that bank management has formulated sound loan policies, is committed to these policies, is enforcing these policies without favoritism and is always aware of the critical relationship between large loan losses and bank problems.

There are a number of specific ways regulators can fulfill this important responsibility. I will list only a few to which we are giving attention.

- We are sharply increasing our surveillance of self-dealing and inter-family concentration of credit within individual banks and multibank groups. We are tightening enforcement of arm's length principles and formal loan policies where we see such practices occurring.
- We are encouraging our examiners to search for potential, as well as actual, problem loans; and we are emphasizing proper loan documentation and updat-

ing of loan files.

- We are continuing to monitor problem loans, and more importantly, the attitude and response of bank management to these loans.
- We are not procrastinating—as bureaucrats are tempted to do—when we uncover serious loan problems requiring immediate and drastic corrective action.
- We are forcing management to carefully evaluate its role as banks increase the scope of their activity in real estate, construction, data processing, small loans and other areas. Our concern is that banks maintain their fundamental role and not become second-class real estate, construction, or data processing firms.

Of course, we cannot do as good a job in some of these areas as we would like. As banking becomes more complex, examination of banks becomes more complex and requires more examiners and greater expertise. The money needed is not always available, so we do the best we can with what we have. We do need support to improve our regulatory staffs, but not so much that we regulate all the free enterprise out of the system. • •

Commissioner Lignoul

(Continued from page 64)

of loan portfolios. Marginal loans were the first to surface. The recession has brought to light not only marginal loans, but unwise investments that caused or will result in charge-offs. These losses, in most instances, can be covered by profits and reserves without impairing capital. The reduced profits, of course, will result in decreased or—in some banks—no dividend payments. In analyzing losses experienced by some banks, we found that many loans were not made during the economic downturn but were the direct consequence of unqualified management making loans that were never bank quality.

Supervisory authorities have always recommended the establishment and enforcement of firm loan and investment programs, with the directorate periodically reviewing these procedures. In connection with these programs were suggestions and recommendations that banks service their own areas and refrain from seeking other loans or deposits from outside their trade areas. Regulators can counsel and encourage careful and reasoned credit extensions, but never make the actual credit judgments. We can and will assist with systems and procedures, but this can never be substituted for banker judgment.

The commissioner's office in Illinois was well aware that bank supervision and examination practices had changed little over the years, despite the continued changes within the industry. A few years ago, this agency initiated a multifaceted approach to improve examination effectiveness and efficiency. The Bank Management Evaluation System (BMES) was designed as an early warning system of potential problems and enables this agency to classify each state bank based on performance and condition relative to standards established by law and custom. Within this system was developed a list of approximately 50 financial factors which were found to be potential indicators of a bank's soundness—two of the most important factors being the loan and investment portfolios. Banks that have excessive amounts of loan or investment classifications are monitored monthly, along with quarterly reports that cover those factors found in the BMES.

The computerized BMES program and the manual program, developed for use by our field examiners, permit us—during an examination—to assist directors and active management with corrective programs to return loan or investment portfolios to sound condition and avoid excessive losses.

We will use our programs to facilitate and encourage our banks to follow careful loan and investment programs, examine as much as necessary and monitor them constantly until this has been accomplished. Our examiners will apply the same standards in a business turndown as we have in prosperous periods, but will call for the continued closer monitoring of the condition of the banks in order to detect weaknesses in their incipient stages and counsel management to immediately implement corrective programs.

The banking industry in Illinois is fundamentally sound and this agency, through the Bank Management Evaluation System, expects to assist all Illinois banks in keeping it sound. • •

Lending Policies

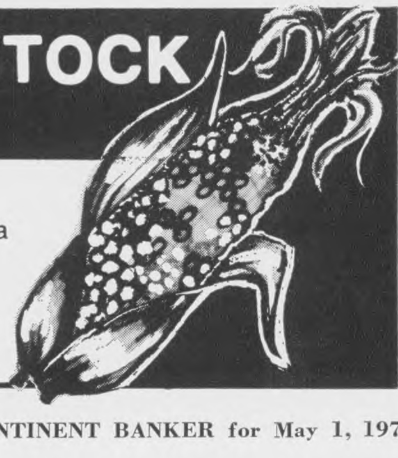
(Continued from page 58)

this keeps the list of loans a week or more past due down to manageable size so the bank can afford to spend a little time reviewing each loan and finding out why it's a week or more past due and, specifically, what the loan officer is doing to collect it.

"The loan officer should feel some serious pressure to do something about potential losses. I don't buy the explanation that a borrower is 'just slow.' A borrower who is careless in tending to his loan obligations is, undoubtedly, careless in some of his other practices, like paying taxes and accounts payable. Eventually, it will catch up with him and you stand a good chance of losing money on him.

"On past-due installment loans, one good practice is to split your report, by officer, into loans that are 30, 60 and 90 days past due. Those 90 days or more past due have reached the crisis stage and should be getting your best efforts. At the same time, you have to give attention to the 30- and 60-day groups so they won't get to be 90 days past due.

Mr. Sinclair said his system was designed to have someone look critically at every loan made in the bank; the more dollars committed, the more people looked at the loan. It is important, he said, to know more than is on the note and it is necessary to concentrate attention on those loans that, because of their size or their potential for loss, deserve the most attention. • •




THE BOATMEN'S TOWER
atmen's is moving into bold new headquarters, reflecting their strength
d commitment to the future. That same strength and commitment
cks our correspondent bank team, a team well-versed in today's
ctronic banking environment. Put Correspondent bankers
o know the answers and have the back-up on your team.
atmen's Correspondent Bankers, technicians when
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THE BOATMEN'S
NATIONAL BANK
OF ST. LOUIS
314 / 421-5200

NEW OFFICERS of IBAA are (l. to r.): treas., Howard H. Peters; 2nd v.p., Ivan Fugate; 1st v.p., Edward A. Trautz; pres., Charles O. Maddox Jr., and immediate past pres., Kenneth J. Benda.

Independents' Convention Focuses Its Spotlight On Financial Reform

FINANCIAL REFORM was the dominant topic at the annual convention of the Independent Bankers Association of America in Honolulu March 15-17. In fact, the association issued a position statement criticizing the proposed Financial Reform Act of 1976, and it was unanimously adopted at a special session March 16.

Legislation pending in the House of Representatives would, among other things, give checking-account powers to all financial institutions and lift the ban on payment of interest on these accounts by 1978.

To give IBAA leaders an opportunity to fly to Washington, D. C., to testify March 18 on the legislation, the association departed from its usual procedure by advancing the election of officers one day.

The new president, Charles O. Maddox Jr., president, Peoples Bank, Winder, Ga., and new second vice president, Ivan D. Fugate, chairman, Western National, Denver, left for the nation's capital immediately after the March 16th session.

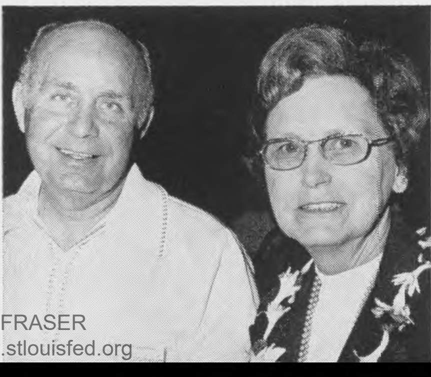
Immediate Past President Kenneth J. Benda, president, Hartwick (Ia.) State, presided at convention events.

The IBAA bases its concern about the proposed legislative package on a belief that many of the changes would spell trouble for the nation's economy, consumers, home owners and small rural banks.

"We are just coming out of a terribly rough economic period," Mr. Maddox said. "Now Congress wants to enact legislation which would, undoubtedly, hurt banking, the nation's economy, farmers, large and small businessmen and the man in the street. Paying interest on checking accounts is a case in point. The very wealthy and the corporations will benefit at the expense of the new borrower—the low- and middle-income citizens and young families —people who can least afford the higher interest rates on loans that would result from making the wealthy wealthier. Any banker in New Hampshire, where this practice has been allowed for some time on an experimental basis, will tell you the same thing."

Potential adverse effects on the country's agricultural sector is of particular concern to the association, many of whose more than 7,000 small to medium-sized commercial bank members are located in the Midwest.

"It is the farmer who has put this country's balance of payments in the black," Mr. Maddox continued. "And it's agricultural products that pay the nation's energy bills. Congress' current financial reform proposals give savings and loan associations, mutual savings banks and credit unions—which lend only minor amounts to farmers—com-



SECOND FROM TOP: Two Oklahoma couples breakfast during IBAA convention. They are Mr. and Mrs. R. J. Wesner (l.) and Mr. and Mrs. J. R. Symcox (r.). Both Mr. Wesner and Mr. Symcox are with Farmers National, Cordell—Mr. Wesner as pres. and Mr. Symcox as ch.

THIRD FROM TOP: Ben H. Ryan Sr., past pres. of IBAA, and Mrs. Ryan enjoy IBAA breakfast. Mr. Ryan is ch., State Bank, East Moline, Ill.

SECOND FROM BOTTOM: Another Illinois banking couple, Mr. and Mrs. Donald Dempsey, enjoy IBAA breakfast. Mr. Dempsey is e.v.p. & cash., Washington State.

BOTTOM: Elton Geshwiler, v.p., First Bank, Speedway, Ind., and Mrs. Geshwiler look up at photographer during IBAA breakfast.

petitive advantage over banks that will severely curtail the flow of funds to agriculture."

Electronic funds transfer (EFT) also was a high-priority issue among convention delegates. The IBAA successfully brought suit last year against the Comptroller for permitting unregulated and nationwide use of customer-bank communications terminals (CBCTs). The association charged that the devices were branches, operating in violation of state branching laws. The U. S. District Court in Washington, D. C., concurred and ordered a permanent injunction against implementation of the Comptroller's ruling. The suit currently is under appeal, but the IBAA, at its convention, adopted a resolution endorsing continued efforts to obtain affirmation of the judgment of the Washington District Court.

Dale Reistad, president, Payment Systems, Inc., New York City, discussed independent banks' role in the electronic banking phenomenon and urged them not to ignore the issue, even if their banks are located in areas not yet touched by the many EFTS developments taking place. He said the IBAA quite rightfully is active in EFTS and disturbed about some implications the technology has for the future. However, he added, through an informed membership, knowledgeable in the real world problems and prospects of EFTS, the IBAA will be in the best position to take part in the restructuring of the commercial banking industry. Independent banks will survive in EFTS, according to Mr. Reistad, because they must.

The key to survival in an EFT environment, according to Mr. Reistad, is preparedness, and preparedness consists of a variety of action steps. He described initial steps like this: an initial assessment to determine the extent to which EFT is having an impact on a bank's marketing area; a determination of a bank's EFT goals and priorities; selection of an EFT officer; analysis by the officer of his bank's customer base and an estimation of that of its principal competitors; a list of debit-card requirements and an exploration of the feasibility of an on-premise cash-dispensing machine; development of debit-card marketing goals through a survey of the bank's checking-account customers and a budget to complement the debit-card service and purchase of the cash dispenser.

Such steps, he contended, would prepare a bank to participate in EFT developments within its market area. Depending on customer and merchant acceptance, the bank then could expand or contract its EFT system, and—because customers had been conditioned to card transactions—the bank would have paved the way for new EFT services.

Pictured during IBAA breakfast are Mr. and Mrs. James P. Marcum Jr. He's v.p., Mission (Kan.) State.

Max Sample, e.v.p., First Nat'l, Springdale, Ark., shares IBAA breakfast with Mrs. Sample.

Resolutions. In other resolutions, the IBAA:

- Urged continued opposition to federal S&Ls' acquisition of banking powers while maintaining favored reserve and tax status.

- Encouraged subjecting multibank holding companies to state control.

- Suggested limiting HC expansion to a percentage of statewide commercial bank deposits.

- Opposed further geographical expansion of branching.

- Supported compliance by federal S&Ls with applicable state branching laws.

- Opposed interstate mergers.

- Endorsed tax equality between thrifts and commercial banks.

- Encouraged development of bank-owned correspondent banks along the lines of Minnesota's Independent State.

- Asked for a revamping of the method for challenging bank regulations and orders.

- Encouraged continued formation of state associations.

New Officers. In addition to Messrs. Maddox and Fugate, other new IBAA officers are: first vice president, Edward Trautz, president, East Lansing (Mich.) State; and treasurer, Howard H. Peters, president, American State, Wessington Springs, S. D.

Next Year's Convention. The IBAA will hold its 1977 convention March 14-16 at the Washington Hilton Hotel in Washington, D. C. • •

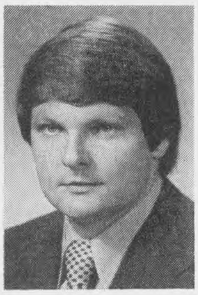
Convention 'First-Timers'

These new faces will be representing city-correspondent banks at state conventions this year.

Oklahoma Convention

• **Jim Burgar,** assistant vice president, First National, Oklahoma City, joined the bank in 1972. He calls on banks in eastern Oklahoma and adjoining states. He is a former quarterback for the Oklahoma Sooners.

FRANKLIN



BURGAR

• **Kenneth S. Franklin Jr.** is an assistant vice president at First National, St. Louis, which he joined in 1971. He has served in the credit department, metropolitan division and commercial department.

• **Stanley A. Latham** is a division loan rep for First National, Chicago. He is assigned to the western territory and services accounts in Oklahoma, Texas and adjacent states.

BAUMAN

LATHAM

• **H. C. Bauman** is an assistant vice president in the correspondent division of Commerce Bank, Kansas City. He is a former executive vice president of Wyandotte County State, Kansas City, Kan.

• **Stephen H. Paneyko** is an assistant vice president at Citibank, New York City. He joined the bank six years ago, following service with Philadelphia National.

PANEYKO

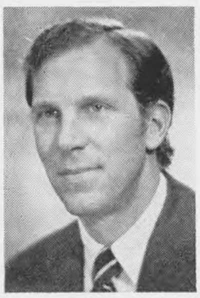
BROOKS

• **Richard W. (Dick) Brooks** has been with First National, Kansas City, since 1969. He is an assistant cashier in the Master Charge Department.

Arkansas Convention

• **David M. Culver** is an assistant vice president and head of the regional banking division at First National, St. Louis. He joined the bank in 1967 and is a former commercial banking officer.

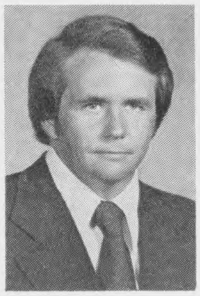
DIERKS



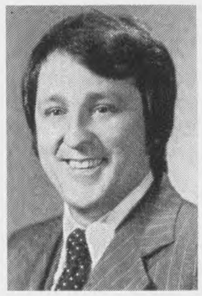
CULVER

• **David A. Dierks** is an assistant vice president at First National, St. Louis, which he joined in 1969, following service with Ralston Purina Co., Pittsburgh.

• **Al Montgomery** joined First National, Memphis, in 1971, after graduating from Spring Hill College, Mobile, Ala. He has been in the correspondent department since last June.



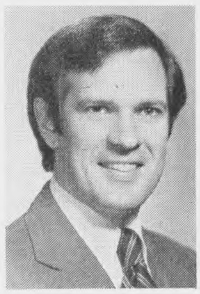
MONTGOMERY



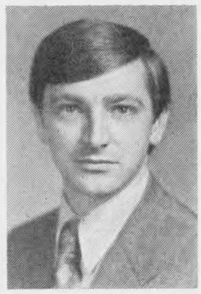
BERRY

• **Paul Berry** is vice president for public affairs at Union National, Little Rock. He works with various local, state and national agencies.

• **Mike Bowers** is assistant vice president in the corporate division at Union National, Little Rock. He primarily works with corporate accounts on the national level.



BOWERS

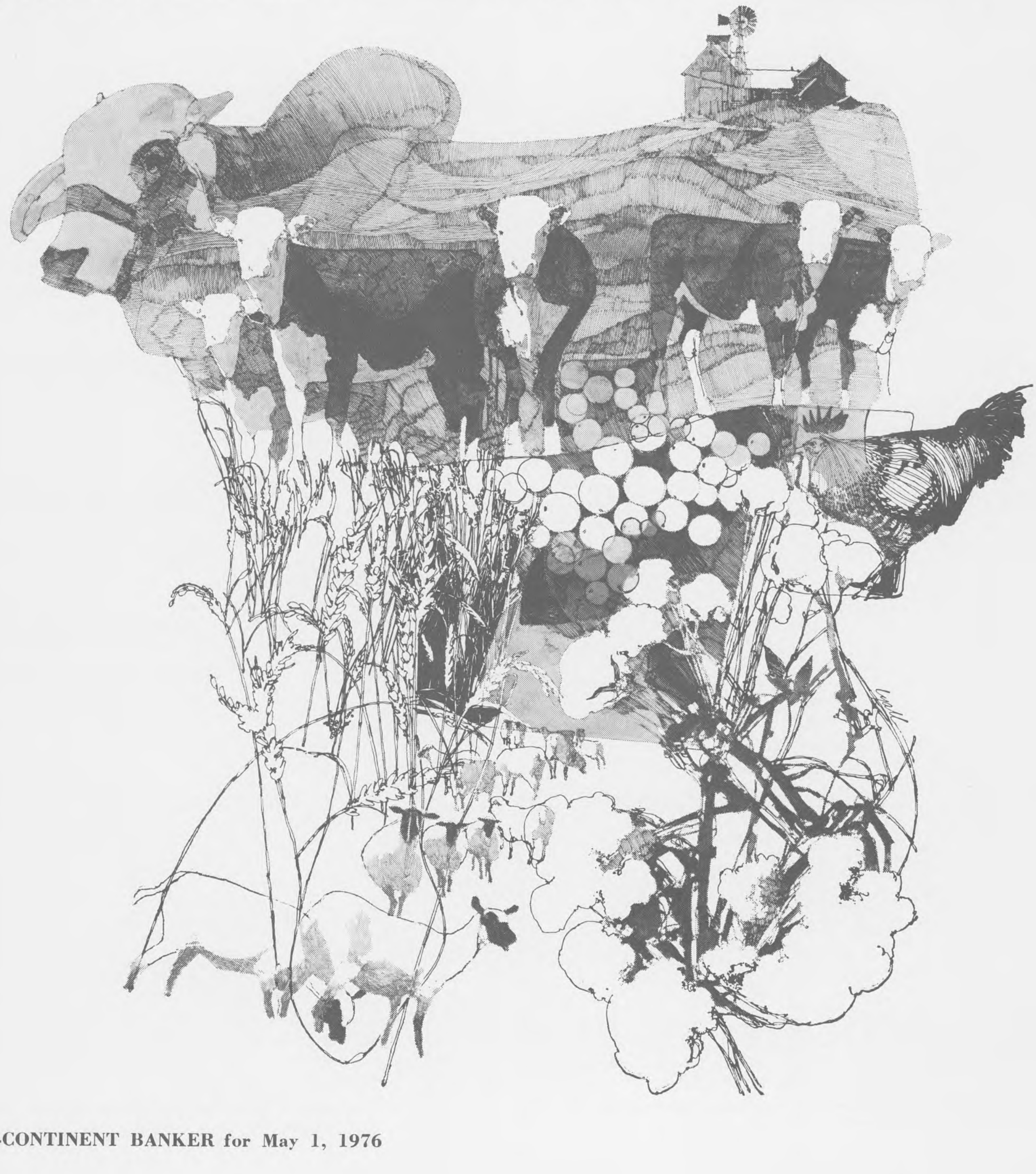


CULLUM

• **R. David Cullum** is an assistant vice president in the correspondent department at Deposit Guaranty National, Jackson, Miss. He joined the bank in 1972 as a research analyst.

• **Adona Yelton** is an account officer at Citibank, New York City. She has been with the bank for seven years and

YELTON

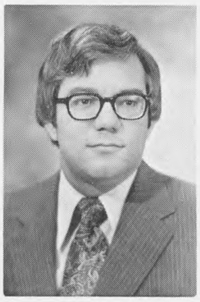


is assigned to the West and Southwest District, which includes Arkansas.

• **Stephen H. Paneyko** is a unit head at Citibank, New York City, which he joined in 1970. He holds the title of assistant vice president and travels in eight states.

Missouri Convention

• **Bernard J. McSorley** is a commercial banking officer at First National, St. Louis, which he joined as a trainee in 1970. He has served in the credit and real estate departments.



McSORLEY

WATSON

• **M. Douglas Watson** is an account officer at Citibank, New York City. He joined the bank in 1972 and is now in the Correspondent Banking Department.

• **Al Montgomery** is with the correspondent banking department at First National, Memphis. He has completed the bank's management training program and worked in the branch system.

• **Richard W. (Dick) Brooks** is an assistant cashier in the Master Charge Department at First National, Kansas City. He joined the bank in 1969.

Surveillance System

(Continued from page 42)

the agency to name as full parties to a cease-and-desist proceeding any director, officer, employee, agent, or other person participating in the conduct of the affairs of the bank. The new provision would permit the Comptroller to deal more effectively with situations where the culpable party is not the bank, but an individual or corporation directing the bank's affairs.

This same legislative proposal contains some other provisions which, if enacted, would significantly improve the supervisory ability of the Comptroller's office. These additional provisions include new grounds for removal of bank officials and the streamlining of procedures to effect this process, and civil money penalties for violations of banking laws.

On March 26, 1976, this office testified on S.2304 before the Committee on Banking, Housing and Urban Affairs in the U. S. Senate. That testimony contained some recommendations for change in the bill that are intended to suggest to the committee ways to strengthen the bill and to eliminate some foreseeable problems, but the Comptroller supports this legislation and hopes the committee will issue a favorable report.

In conclusion, I would stress the point that the function of bank supervision and regulation is not to manage the bank, but rather to establish broad "yes and no" parameters within which the bank is free to operate according to market forces. Supervision, then, involves the monitoring of the safety and soundness of those activities occurring within those regulatory parameters.

The challenge to the banking regulatory agencies is to apply sufficient regulatory constraints for ensuring sound financial policies and practices without impeding those competitive forces that are so necessary to achieve the goal of providing to the public the best possible financial services at reasonable cost.

THE BANKER'S NEWS

BANK EDITION | **VOL. I, ISSUE I** | **MEMPHIS, TENNESSEE**

OLD PROS JOIN MB&T TEAM!

Pictured with Earl H. Triplett, president of Memphis Bank & Trust, (seated) are MB&T correspondent bankers, Lynn Hobson, Jim Newman and Gus Morris.

Memphis, Tenn. Earl H. Triplett, president of Memphis Bank & Trust, announced that James M. Newman, Jr., and C. G. (Gus) Morris, both former vice-presidents and Correspondent Bank Department managers for Union Planters National Bank, Memphis, have been elected vice-presidents of Memphis Bank & Trust, and have joined with MB&T vice-president, Lynn Hobson, in assuming correspondent banking responsibilities.

Newman joined UP in 1946, was elected a vice-president in 1960, and was appointed head of the correspondent bank department in 1968.

Morris had been with UP for 29 years, and entered the Correspondent Bank Department in 1957. He was elected vice-president in 1966 and served as manager of the Correspondent Bank Department from 1972 until November, 1975.

Triplett said, "We are delighted to have men of the calibre of Jim Newman and Gus Morris join our correspondent bank staff. They are well-known and highly respected by bankers throughout the country, and their addition to this department puts added emphasis on our growth in correspondent banking."

ALL-STAR TEAM WILL ATTEND CONVENTIONS

Together with Lynn Hobson, Jim Newman and Gus Morris will be attending the upcoming bank convention in your state. Look for Lynn, Jim and Gus. They want to share that famous Memphis Bank & Trust hospitality with all their banking friends.

Correspondent Bank Department

MEMPHIS BANK & TRUST

Memphis, Tennessee 38101

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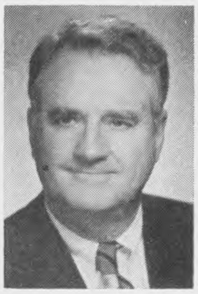
Arkansas Convention

President

BUSHONG

Dorman F. Bushong, Ark.BA pres., became a banker in 1946 at Bank of Gainesville, Mo. After service with other banks in Missouri, he joined the FDIC in 1952 and Farmers & Merchants Bank, Rogers, in 1956. He became pres. & CEO there in 1964 and presently chairs the State Bank Board.

President-Elect



KENNEDY

Pres.-elect of the Ark.BA is William H. Kennedy Jr., a native of Pine Bluff, where he is pres., Nat'l Bank of Commerce. Mr. Kennedy is a past ch., ABA Government Relations Council, and has chaired the Ark.BA's Federal and State Government Relations Committees.

Vice President

CUPP

Cecil W. Cupp Jr., Ark.BA v.p., is pres. & CEO, Arkansas Bank, Hot Springs, and ch., Citizens First Nat'l, Arkadelphia. He is a past dir., St. Louis Fed, and is the ABA state v.p. Mr. Cupp also is a dir. of First Arkansas Development Finance Corp.

Hot Springs, May 16-18

Headquarters—ARLINGTON HOTEL

PROGRAM

FIRST SESSION, 9:30 a.m., May 17

Call to Order—DORMAN F. BUSHONG, president, Arkansas Bankers Association, and president, Farmers & Merchants Bank, Rogers.

Invocation.

President's Address—DORMAN F. BUSHONG.

Address—GEORGE LeMAISTRE, director, Federal Deposit Insurance Corp., Washington, D. C.

Address—LAWRENCE KREIDER, executive vice president, Conference of State Bank Supervisors, Washington, D. C.

Address—H. JOE SELBY, First Deputy Comptroller of the Currency, Washington, D. C.

Announcements and Awarding of Door Prize.

Adjournment.

SECOND SESSION, 9:30 a.m., May 18

Call to Order—DORMAN F. BUSHONG.

Report of the Treasurer—JAMES D. COOK, treasurer, Arkansas Bankers Association, and president and CEO, National Bank of Commerce, El Dorado.

Meeting of Arkansas Members of the American Bankers Association.

Resolutions Committee Report—W. M. CAMPBELL, committee chairman, and chairman and CEO, First National of Eastern Arkansas, Forrest City.

Election of Officers.

Announcements and Awarding of Door Prize.

Adjournment.

Convention Speakers

LeMAISTRE

KREIDER

Three Washington Speakers Scheduled To Appear at Arkansas Convention

THE ARLINGTON HOTEL will host the 86th annual convention of the Arkansas Bankers Association, May 16-18. Scheduled to address the first business session, May 17, are George LeMaistre, FDIC director; Lawrence Kreider, executive vice president, Conference of State Bank Supervisors; and H. Joe Selby, First Deputy Comptroller of the Currency, all of Washington, D. C.

The past-presidents' dinner has been scheduled as a pre-convention event. It will be held in Hot Springs May 15 and all past association presidents are invited.

Hospitality suites will be open every night of the convention, courtesy of the Little Rock banks, while exhibits will go on display Sunday, May 16, and will be open every afternoon of the convention.

The tennis tournament will get underway at 1 p.m. May 17 at the Hot Springs Country Club and will be concluded there beginning at 1:30 p.m. May 18. The Hot Springs Country Club also will host the annual golf tournament on May 18. Awards for those events will be given at the annual banquet.

During the annual banquet, which is slated for May 18, the new president of the association will be installed, and the Berl Olswanger Orchestra from Memphis will provide the entertainment.

Resolutions committee members include W. M. Campbell, chairman, First National of Eastern Arkansas, Forrest City; Beverly Lambert, president and CEO, First State, Crossett; Richard Butler, chairman, Commercial National, Little Rock; Claud T. Frank, chairman and president, Merchants & Farmers Bank, Dumas; Jack K. Hogan, president and CEO, Bank of West Memphis; L. E. Hurley, chairman, Exchange Bank, El Dorado; George Peck Sr., chairman, president and CEO, Commercial National, Texarkana; Marvin E. Phelps, president and CEO, Bank of Waldron; Louis L. Ramsay Jr., president and CEO, Simmons First National, Pine Bluff; Leon C. Castling, president, First National, Marianna; Means Wilkinson, chairman and CEO, Farmers Bank, Greenwood; and Thomas G. Wilson, chairman and CEO, First State, Conway. • •

Bank Holds 'Money Sale'

LITTLE ROCK—The new $2 bills became available last April 13. To take a promotional advantage of the event, First National proclaimed a money sale on that day.

The new bills were exchanged for the bargain price of $1.95, one to a customer. The uncirculated notes were enclosed in special cellophane "first-day" packets for collectors.

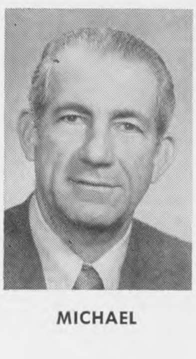
Michael, Brannon & Smith To Leave Executive Council

Three Arkansas bankers will be leaving the Arkansas Bankers Association's executive committee this year: Fred Michael, president, First State of Lake Village; Johnny Brannan, president, Bank of Prescott; and Horace Smith, executive vice president, Bank of Harrisburg.

Mr. Michael has served as his bank's president since 1962 and is a graduate of the School of Banking of the South at Louisiana State University, Baton Rouge. He has served as chairman of the Ark.BA Group Five and of the association's Agricultural, Resolutions and Education committees. In 1972-73, Mr. Michael was Ark.BA treasurer and has served as an instructor in agricultural credit in the association's Basic School of Banking and the Lending Course, 1969-75.

Mr. Brannan, a native of Hope, was in the agricultural business until he joined First National, Dallas, in 1960. He returned to Arkansas in 1962 to join Commercial National, Little Rock, where he advanced to senior vice president before resigning 10 years later. He then was named to his present post, president and CEO, Bank of Prescott. Mr. Brannon has served in a number of capacities on committees of the ABA and the Ark.BA.

Information on Mr. Smith wasn't available at press time.



MICHAEL

BRANNAN

Ark.BA Treasurer

James D. Cook is treas., Ark.BA, and pres. & CEO, Nat'l Bank of Commerce, El Dorado. He joined his bank in 1954 and served there as t.o., cash. and v.p. prior to advancing to his present position. He attended the Southwestern Graduate School of Banking and presently chairs the Ark. BA Operations Committee.

■ COMMERCIAL NATIONAL, Little Rock, has reorganized its data processing department to accommodate major expansions in the computer services field. Data processing responsibilities have been placed under direction of Commercial National Financial Services Corp., a wholly owned subsidiary of the bank. E. Thomas Bridgers is that company's president and five managers have been named for the divisions: Dick Nannen, data processing; Marvin Stumpe, systems development; Ron Strother, management services; Tom Ford, data operations; and Ralph Munday, systems support.

■ DALE M. TAYLOR has been elected executive vice president of Commercial National Mortgage Co., Little Rock, a wholly owned subsidiary of Commercial National, Little Rock. Also promoted at Commercial National Mortgage were B. J. Wiess, to vice president and secretary-treasurer, and Janis Montgomery and William G. Roehrenbeck, to assistant vice presidents. Messrs. Taylor and Wiess have been with the company since 1972; Miss Montgomery, since 1974; and Mr. Roehrenbeck, since 1973.

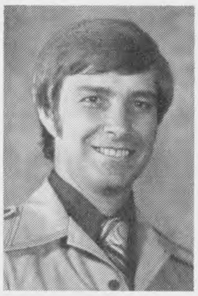
ABA Marketing Conference Set for New York City

NEW YORK—"Marketing in an Age of Uncertainty" is the theme of the 1976 ABA National Marketing Conference, set for May 16-18 at the Waldorf Astoria Hotel here. The conference has been designed to zero in on major professional concerns of today's bank marketing officer, according to Warner N. Dalhouse, chairman, and executive vice president, First National Exchange Bank, Roanoke, Va.

Topics to be covered include economic, legislative and operational developments that may affect the condition of the industry during the next year, and the role marketing should play in light of these factors. In the legislative arena, emphasis will be placed on current financial reform proposals.

Their credit life teacher is the best.

Bankers and Educators Are in Lineup June 12 For Junior Bankers Conf.



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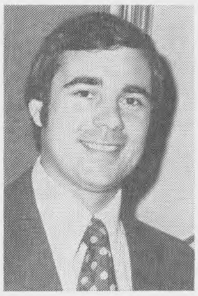
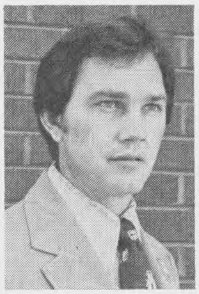


LINDSEY



RUSK

BLANCHARD

HOT SPRINGS—The Arlington Hotel is scheduled as the site of the 1976 educational conference of the Junior Bankers Section of the Arkansas Bankers Association June 12. On hand will be noted bankers and educators to provide insights on a number of topical issues.

A panel discussion giving an "EFTS Update" will be led by William Brandon, president and CEO, First National of Phillips County, Helena, while Arkansas Bankers Association President William H. Kennedy Jr. will address the conference-goers. Mr. Kennedy is president and CEO, National Bank of Commerce, Pine Bluff.

Nicholas A. Beadles of the University of Georgia, Athens, will take a look at "Economic Indicators," and Morris E. Massey of the University of Colorado-Boulder will tell the Junior Bankers "What You Are Is Where You Were When." Bessie Moore, director, Arkansas State Council on Economic Education, Little Rock, is scheduled to discuss "Economic Education in Arkansas."

President of the Junior Bankers is Ralph E. White, assistant vice president, Arkansas Bank, Hot Springs, which he joined in 1964. He served as a note teller until 1966, when he was named manager of the commercial note department. Mr. White was promoted to his present position in 1968 and currently serves as a real estate loan officer.

Bart R. Lindsey, marketing department head, First National of Phillips County, Helena, is vice president of the Junior Bankers. He joined his bank in 1970 and is a graduate of the Arkansas School of Basic Banking and of the School of Banking of the South at Louisiana State University, Baton Rouge.

Serving as Junior Banker treasurer is B. J. Rusk, assistant cashier and auditor, First National, Stuttgart. He began his career as cashier for Stephens, Inc., investment bankers, going to First National in 1974. In addition, Mr. Rusk served as the 1975 Junior Bankers Section convention chairman.

Secretary of the Junior Bankers is Charles H. Blanchard. He is assistant vice president, First State, Conway, which he joined in 1974 after serving as commercial manager of Southwestern Bell, Dallas. Mr. Blanchard is a graduate of the Arkansas Banking School's Basic/International, Lending and Trust courses and was president of his class in the Trust Course.

■ DANIEL R. GRANT, president, Ouachita Baptist University, Arkadelphia, has been elected a director of Union National, Little Rock. Mr. Grant is an authority on urban and metropolitan and inter-governmental relations.

Union Nat'l of Little Rock Offers Training Program To Under- and Unemployed

LITTLE ROCK—While all banks provide some type of training for new employees, Union National has taken a step that it believes to be the first in the nation. It is training those who aren't employees.

The program is for unemployed—or underemployed—individuals who get the chance to train themselves for jobs in the financial community. Bank officials felt that unemployment and underemployment were community problems and that it was Union National's responsibility to help alleviate the situation.

The Customer Service Training Project, as it is called, is operated under the joint sponsorship of the bank and the Opportunities Industrialization Center (OIC), a federally funded nationwide organization. Eligible individuals—ages 18-25—who have no work or who are working for less than the minimum wage, get a seven-week course: four weeks of classroom work at OIC headquarters as a general orientation, then three weeks on-the-job training in Union National's Main Office.

Trainees receive no pay, a factor that serves to motivate them, a bank official states. Most of the trainees feel that "the door to a promising career was being opened" for them, the official adds.

Curriculum for the course is varied, covering topics such as how banks are organized, security procedures, bookkeeping, new accounts, proof, installment loans, etc. Since most job openings are in bookkeeping, proof and teller training, those areas get heavy emphasis in both phases of the training. But trainees aren't limited to those areas.

Eugene B. Smith Jr., first v.p. and exec. comm. ch., Union Nat'l, Little Rock, presents certificate of completion in bank's training course to Nadine Pashel, who works in vault. Course is co-sponsored by bank, Opportunities Industrialization Center—federally funded nationwide organization—and trains under- or unemployed area individuals for jobs in financial community.

Instructors place emphasis on two themes: clarifying the theory behind each banking function and explaining the desired result of each. Familiarization with bank terminology is another important aspect.

Trainees who complete the course are considered for any available job openings at Union National. Most have been hired there, while others have been taken on by other central Arkansas banks.

The bank reports that the program is so successful that it will be continued throughout the foreseeable future. There will be one class per season, for a total of 40 trainees enrolled yearly.

A factor in the bank's decision to continue the program is the uniformly high performance record of the graduates who have been added to the Union National staff. In fact, several are said to be under consideration for management potential and are being groomed for added job responsibilities.

Colorado, N. C., Mexico To Be Assemblies Sites During Coming Months

DALLAS—The Foundation of the Southwestern Graduate School of Banking, Southern Methodist University here, has announced three upcoming Assemblies for Bank Directors:

- 25th Assembly, The Broadmoor, Colorado Springs, September 4-7.
- 26th Assembly, Pinehurst Hotel & Country Club, Pinehurst, N. C., November 4-7.
- 27th Assembly, El Camino Real, Mexico City, February 3-6, 1977.

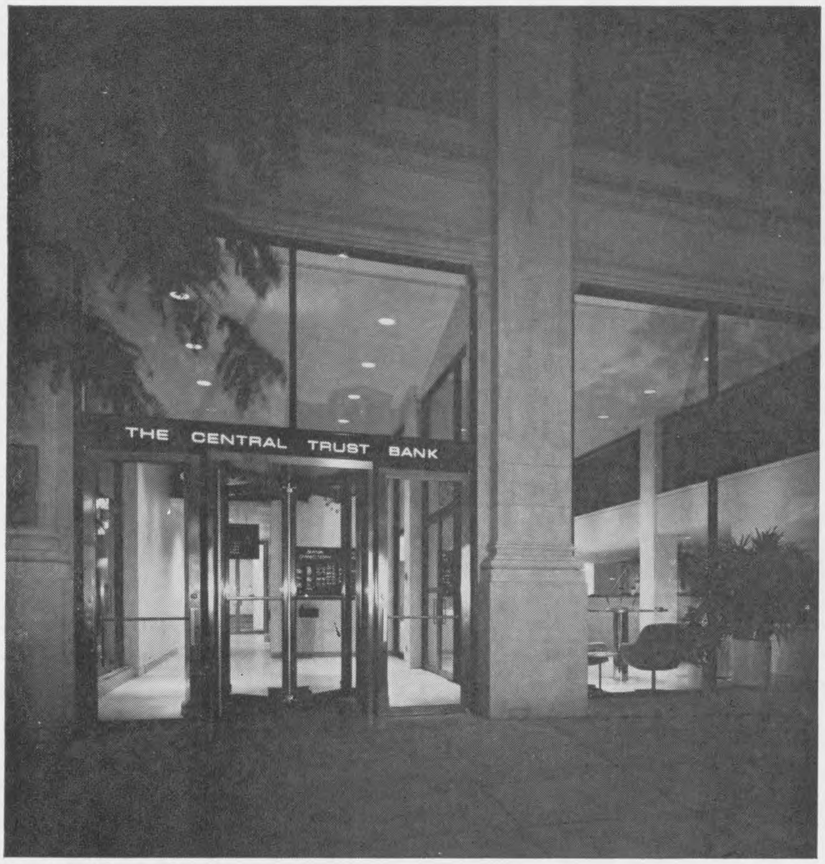
Serving as directors of the Assemblies will be: 25th Assembly—Dr. William H. Baughn, dean, School of Business, University of Colorado, Boulder, and director, Stonier Graduate School of Banking; 26th Assembly—C. C. Hope Jr., executive vice president, First Union National of North Carolina, Charlotte; and 27th Assembly—B. Finley Vinson, chairman, First National, Little Rock, and past president, Arkansas Bankers Association.

Purpose of the Assemblies is to increase the director's understanding of how he can serve his bank; to indicate ways in which the director can best serve as a representative of his bank in the community; to provide better understanding of and respect for bank management's functions; and to acquaint the director fully with issues of critical interest to his bank and banking. The Assemblies incorporate discussion groups led by bank CEOs and directors as well as lectures and a special educational program for spouses.

New emphases developed for upcoming Assemblies will be on EFTS and its implications; analyzing bank operations; the director's role in bank audits; loan problems today—what the director should know and do; planning, budgeting and capital management; the customer and the market; and liability insurance and other programs.

For information about the Assemblies for Bank Directors, write: Dr. Richard B. Johnson, President, The Foundation of the Southwestern Graduate School of Banking, SMU, Box 1319, Dallas, TX 75275.

From the Heart of Missouri



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President

PFLEGING

Richard J. Pfleging, MBA pres, is pres., Bank of St. Ann. He entered banking in 1948 at Orange County Trust, Middletown, N. Y. Mr. Pfleging served with Hanover Bank, New York City, 1949-55, and the New York Fed, 1955-61, then went to Brentwood (Mo.) Bank. He joined Bank of St. Ann in 1964.

Vice President

RICHMOND

Charles K. Richmond is MBA v.p. He joined American Nat'l, St. Joseph, 1946, and was elected an officer in 1949. Mr. Richmond advanced to his present position, e.v.p., in 1973.

Treasurer

ANDERSON

Treas. of the MBA is Mills H. Anderson, pres. & CEO, Bank of Carthage, which he joined in 1946, advancing to his present position in 1959. Mr. Anderson has chaired the following MBA committees: Governmental Affairs and Consumer Finance.

St. Louis, May 16-18

Headquarters—Stouffer's Riverfront Inn

PROGRAM

FIRST SESSION, 1:15 p.m., May 17

Call to Order—JOHN H. OBERMANN, convention chairman, and president, Mercantile Commerce Trust, St. Louis.

Welcome—JOHN POELKER, mayor, St. Louis.

Remarks—RICHARD J. PFLEGING, MBA pres., and pres., Bank of St. Ann.

Executive Vice President's Report—FELIX LeGRAND, Jefferson City.

Treasurer's Report—MILLS H. ANDERSON, MBA treasurer, and president, Bank of Carthage.

Introduction of Regional Vice Presidents, Secretaries and Chairmen of Standing and Special Committees.

Report of Committee on Nominations and Election of Officers.

Address—"The Economic Outlook in an Election Year"—MURRAY L. WEIDENBAUM, professor of economics, Washington University, St. Louis.

Address—"Beyond '76, America's Best Century"—BILL MONROE, Washington Editor, NBC Television Network, Washington, D. C.

Announcements and Adjournment.

SECOND SESSION, 9:30 a.m., May 18

Call to Order—RICHARD J. PFLEGING.

Address—CLIFFORD M. HARDIN, vice chairman, Ralston Purina Co., St. Louis.

Address—"Banking: The Rich Get Richer"—HARRY V. KEEFE JR., president, Keefe, Bruyette & Woods, Inc., New York City.

Announcements and Adjournment.

THIRD SESSION, 2 p.m., May 18

Call to Order—RICHARD J. PFLEGING.

Meeting of Missouri Members of the American Bankers Association—JAMES J. LANNING, ABA state vice president, and chairman and president, Red Bridge Bank, Kansas City.

Election of Member and Alternate Member of Nominating Committee to Serve at 1976 ABA Convention.

Address—"It's What You Learn After You Know It All"—CYLVIA A. SORKIN, St. Louis economist and business consultant.

Address—"U. S. Savings Bond Presentation"—HARRISON E. COERVER, ABA savings bonds coordinator and state banking chairman, and president, Mercantile Trust, St. Louis.

Installation of New Officers.

Unfinished Business.

New Business.

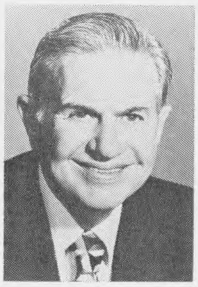
Announcements and Adjournment.

Noted Speakers, River Trip Are on MBA Schedule For St. Louis Convention

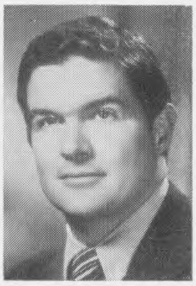
ST. LOUIS—A variety of noted national, regional and local speakers and an evening on the steamer *Admiral* are some of the highlights of this year's Missouri Bankers Association convention. The event will take place May 16-18 at Stouffer's Riverfront Inn.

Presiding over the first business session in the Mississippi and Illinois rooms, beginning at 1:15 p.m. May 17 will be Convention Chairman John H. Obermann, president, Mercantile Commerce Trust, St. Louis. He will introduce the business session's first speaker, St. Louis Mayor John Poelker, who will welcome the convention-goers.

Members of MBA convention committee gather for pre-convention meeting: (standing, from l.) Felix LeGrand, MBA e.v.p.; Webe H. Naunheim, ch. & pres., Charter Bank, Overland; William Stephenson, MBA admin. asst.; George M. Baggott, a.v.p., Mercantile Trust, St. Louis; Roy Schumacher, MBA PR dir.; Richard J. Pfleging, MBA pres., and pres., Bank of St. Ann; Thomas M. Fitzgerald, corres. off., Mercantile Trust, St. Louis; and Al Dix of Brede, Inc., St. Louis, in charge of convention displays. Seated from l. are John H. S. Dressel, pres., Gravois Bank, Affton; John H. Obermann, convention comm. ch., and pres., Mercantile-Commerce Trust, St. Louis; and Dru D. Salveter, pres., Bank of Crocker. Not present are Don V. Thomason, convention comm. v. ch., and s.v.p., United Missouri Bank, Kansas City; June Darby Ellison, PR off., Mercantile Trust, St. Louis; and William O. Weis, v.p., First Nat'l, Kansas City.



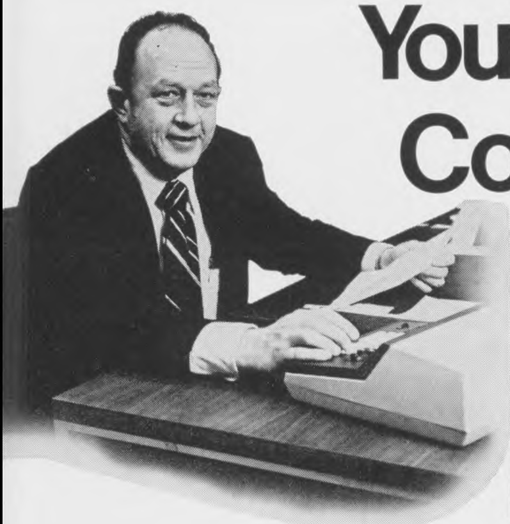
POELKER



BOND

Also on hand to address the first session will be Murray L. Weidenbaum, professor of economics from Washington University, St. Louis. His subject will be "The Economic Outlook in an Election Year." Following Mr. Weidenbaum will be an address by Bill Monroe, Washington editor, NBC Television Network, who will discuss "Beyond '76, America's Best Century."

(Continued on page 86)



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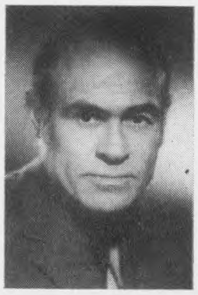

MONROE


WEIDENBAUM


KEEFE


HARDIN


LANNING


COERVER

Clifford M. Hardin, vice chairman, Ralston Purina Co., St. Louis, will give the first address of the second business session, which will begin at 9:30 a.m.


SORKIN

Tuesday, May 18. On hand to discuss the topic "Banking: The Rich Get Richer" will be Harry V. Keefe, president, Keefe, Bruyette & Woods, Inc., New York City.

Following that session will be a luncheon with the governor in the Missouri and Meramec rooms, during which Missouri Governor Christopher S. Bond will speak.

On hand for the final general session, May 18, will be Cylvia A. Sorkin, St. Louis economist and business consultant, who will address the convention on "It's What You Learn After You Know It All." The "U. S. Savings Bond Presentation" will be given by Harrison E. Coerver, ABA savings bond coordinator and Missouri state banking chairman. Mr. Coerver is president, Mercantile Trust, St. Louis. That session also will feature James J. Lanning, ABA state vice president and president, Red Bridge Bank, Kansas City, who will preside over the meeting of Missouri members of the ABA.

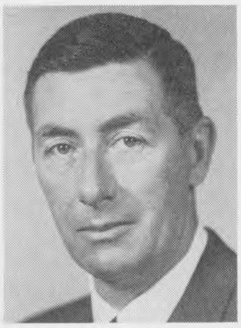
A variety of social events is planned for the 1976 convention, beginning with the MBA cocktail party for exhibitors in the Exhibit Hall at 4:30 p.m. May 16. All convention registrants are invited.

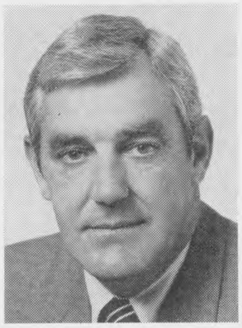
Tee-off time for the golf tournament will be 8 a.m. Monday, May 17, at the Glen Echo Country Club, while the tennis tournament is slated to start at 9 o'clock at the West Chester Tennis Club. From 9 to midnight Monday will be the "Gala Riverboat Party and Dance" aboard the steamer *Admiral*. There will be an open bar and dancing to the music of Johnny Polzin and his Orchestra, plus a dixieland jazz band. Shuttle buses will provide transportation from Stouffer's main entrance to the levee beginning at 8 p.m.

The president's cocktail party is

While you're at the convention...

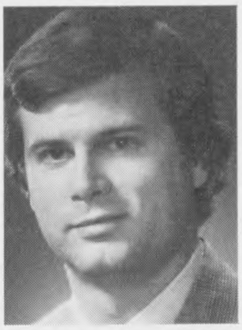

James M. Kemper, Jr.


P. V. Miller, Jr.


Fred N. Coulson, Jr.


Larry E. Lumpe


John C. Messina


George W. Porter

Put us on your meeting list.

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slated for 6 p.m. Tuesday, May 18, in the Exhibit Hall and the East and West Assembly areas of Stouffer's. Following one hour later will be the president's banquet in the Grand Ballroom. The invocation will be by The Reverend John W. Ott, Pastor, Holy Cross Lutheran Church, St. Louis, and dinner music will be by Russ David at the piano. Following dinner will be the "Spirit of '76" musical variety show featuring Russ David and his Orchestra with songstress Bonnie Murray. Also on hand to provide entertainment will be Metropolitan Opera Star Robert McFerrin and Storyteller Charles Dink Freeman.

A number of activities for invited guests also have been planned for the MBA convention. At 9:30 a.m., May 17, will be the First Missouri Development Corp. stockholders' meeting in the St. Louis Regional Commerce & Growth Association Office in the Equitable Building. At the same time, the sergeants-at-arms' meeting will commence in the Hickok Room of Stouffer's. The nominating committee will meet at 11 a.m. in Atrium "A," Lobby Level, while the Spirit of St. Louis Room will be the site of the 50-Year Club reception and luncheon at 11:30.

On Tuesday, May 18, the School of Banking of the South alumni breakfast will begin in the Lewis Room at 7:30.

Convention committee chairman is Mr. Obermann and Don V. Thomason, senior vice president, United Missouri Bank, Kansas City, is committee vice chairman. Also serving on the convention committee are George M. Baggott, assistant vice president, June Darby Ellison, public relations officer, and Thomas M. Fitzgerald, correspondent banking officer, all of Mercantile Trust, St. Louis; John H. S. Dressel, president, Gravois Bank, Affton; and Webe H. Naunheim, chairman and president, Charter Bank, Overland.

Other committee chairmen are J. Richard Furrer, executive vice president, South Side National, St. Louis—nominating; George M. Baggott—commercial exhibits; Rosina Huck, manager, St. Louis Clearing House Association—registration; John H. S. Dressel—golf; and Thomas M. Fitzgerald—tennis.

Richmond, Anderson and Lea Are MBA Officer Nominees

At its 1976 meeting, the MBA Nominating Committee named Charles K. Richmond to run for president of the association, Mills H. Anderson for vice president and Pat Lea for treasurer. Committee members in attendance at that meeting were its chairman, J. Richard Furrer, executive vice president, South Side National, St. Louis;

G. Jack Jones Jr., president and CEO, Clifford Banking Co., Clarksville; Charles Belshe, senior vice president, First National, Gallatin; Ivan D. Wilson, vice president and cashier, First State, King City; Robert V. Plummer, vice president, Columbia Union National, Kansas City; L. Delbert Harper, president and CEO, National Bank of Caruthersville; David C. Lewis, vice president, Bank of Table Rock Lake, Reeds Spring; and J. Helm Davidson, vice president, First Bank of Commerce, Columbia.

LEA

Mr. Lea, the treasurer nominee, is chairman and president, First National, Sikeston. He began his banking career as a teller at First State, Conway, Ark., in 1953. He later was associated with First National, Jonesboro, Ark., and in 1960 organized and served as executive vice president, Arkansas Valley Bank, Dardanelle, Ark. Mr. Lea then went to Bank of Sikeston as executive vice president and was named president and CEO of First National, Sikeston, in 1971. Since that time, he also has served as president, State Bank, Morehouse, and as a director of First National, Malden. He has served in the Junior Bankers Section and is a former president of the Southeast Missouri Bankers Institute. Mr. Lea has been on the faculty of the School of Banking of the South, Louisiana State University, Baton Rouge, for the past two years.

New 50-Year Club Members To Be Inducted May 17

The MBA 50-Year Club luncheon, which will be held Monday, May 17, at Stouffer's Riverfront Inn in St. Louis, is scheduled to begin at 11:30 a.m.

New additions from the St. Louis area include S. H. Wamhoff, Northwestern Bank; Leonard J. Schrewe, vice president, and Ralph Rudolph, First National; and Fred H. Kruse, president (retired) and H. R. Meckfessel, executive vice president and secretary (retired), North St. Louis Trust.

Other inductees will be Helen E. Rolufs, Rolla State; Robert Brown Jr., senior vice president and assistant trust officer, and James Hickey, senior vice president and treasurer, Webster Groves Trust; Sam G. Hiner, president and CEO, Farmers State, Cameron; and Nate L. Bassin, executive vice president, Peoples Bank, Kansas City.

Insured Pension Plans Can Take Sting Out of ERISA

By JOHN M. BUCKLEY
The McPheeters Group
St. Louis

ONE OF THE most complex pieces of legislation ever enacted by Congress became law in 1974—the Employee Retirement Income Security Act (ERISA). Bankers probably have read much about this legislation, but its full impact won't be known for many years.

What is now known is that numerous new requirements have been added for the trustees, administrators, employers and the industry associated with qualified pension plans. Naturally, a number of these individuals were not, are not and cannot become knowledgeable about all the new requirements of this law. Therefore, most of these people will have to seek outside advice and counsel to make their plans conform with the requirements.

The question now is whether the vehicle used to provide the funding of their plan can also provide the actuarial and administrative services necessary to comply with the law. If they can, what will be the cost on an annual and continuing basis? In addition, there is always the question of whether the cost for these services is reasonable.

Non-insured plan administrative costs will increase in the future because the expense of meeting the actuarial requirements will increase due to the necessity of new report forms, maintaining accurate records and increased compensation to actuaries for certifying the plan as an "enrolled actuary." In this area of administrative expense, a fully insured pension plan utilizing life insurance policies in most cases will have a definite advantage over a non-insured or trusteed plan, particularly where the trustees are not part of a national organization.

Insured plans are funded by insurance companies that generally are large national organizations with sizable groups of back-up people with the expertise necessary to handle qualified pension plans. In addition, they are also involved on a daily basis with the requirements of the law.

Further, they have the advantage of being able to utilize economies of scale. That is, an insurance company with over 20,000 pension plans in force is better able to provide services at a nominal fee (or no fee) than a local trustee with 500 plans or less. A national insurance company would be more apt to have individual specialists in particular sections of the law who are current in all aspects within their scope of expertise, than would a regional or local group supposedly providing the same services. Therefore, it can be expected that the services provided by a large insurer would, first of all, be more apt to be complete and current and, secondly, would most likely be on a lower unit-cost basis (or a no-cost basis) in most cases.

There are a few other major areas where the insured pension plan automatically complies with ERISA, thereby avoiding many costly services necessary for the non-insured plan.

If a plan is funded exclusively with the purchase of individual insurance contracts that provide guaranteed benefits, as long as the premiums are paid and there are no loans outstanding on the policies, the plan is deemed to be an insurance contract plan. The advantage is that there is an automatic exemption from the intricate calculations required to determine the mini-

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mum funding standard account. These calculations are outlined in section 412(b) of the legislation. A review of these requirements should indicate that the calculations involved in a minimum funding standard account are indeed lengthy and will be expensive to perform by an independent actuary. However, a plan which is deemed to be an insurance contract plan is automatically exempted from the requirement of performing these calculations. Therefore, insurance contract plans will not require the additional calculations to be done annually, hence a savings can be expected over the life of the plan.

An insurance contract plan also derives significant advantages in the accrued benefit area. An insured plan may equate the accrued benefit of each participant to the cash value of the contracts on each participant. The advantage is that the accrued benefit of each participant is easily determined by the cash value and need not be determined through another intricate series of calculations which will prove costly to perform. Again, this savings of expensive time and effort each year can produce significant savings over the life of a plan.

The legislation charges the trustees or other fiduciaries responsible for investing plan assets to do so in accordance with a prudent-man standard. Moreover, ERISA has provisions in it for disgruntled employees and their beneficiaries to bring legal actions against fiduciaries and trustees who do not perform their obligations in accordance with law. Based on this, it is easy to see that if the trustees do not provide the funds adequate to fund the benefits under a particular plan, it is not unreasonable to expect that plan participants and beneficiaries would bring legal actions against the trustees and fiduciaries.

However, if a plan were funded exclusively with insurance contracts that provide the benefits on a guaranteed basis, it is highly unlikely that any plan participant could file a suit against the fiduciaries of the plan. Therefore, in this day and age of high malpractice and errors and omissions suits, it would appear to be advantageous to fund a pension plan with insurance contracts that provide guaranteed benefits equal to the benefits provided under the plan.

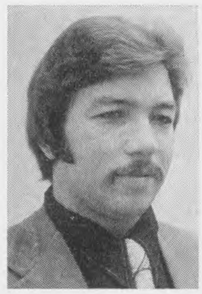
Lastly, there is a significant advantage to insured plans which has not changed with the advent of ERISA. This is the advantage of having guaranteed annuity rates at retirement which are known at the inception date of the plan and over the lifetime of the pension plan. That is, the insured plan is able to guarantee the employer, beneficiary, participant and trustee exactly

what the cost to provide his retirement benefit will be at the time the plan is installed.

In any other kind of plan where annuity guarantees are not involved, this factor is not resolved until the actual time of retirement. Therefore, until that time, the true cost of providing benefits to participants and their beneficiaries is never known until the benefits are ultimately payable. Therefore, there is definitely an element of security and predictability involved in an insured plan that is not present in a trusteed plan funded with other than insurance contracts. • •

■ BOB ROWE has joined Boatmen's National of North St. Louis County as a business development representative. Mr. Rowe is a defensive tackle with the St. Louis Football Cardinals.

MOELLERING



ROWE

■ MELVYN MOELLERING, chairman and president, Florissant Bank, was one of five nominees from St. Louis County for "outstanding St. Louis County business person of the year." The award was sponsored by the St. Louis County League of Chambers, and Mr. Moellering's name was submitted by the Florissant Valley Chamber of Commerce. He joined Florissant Bank 40 years ago and was elected to his present posts in 1956. Mr. Moellering received the "man of the year award" from the Florissant Junior Chamber of Commerce in 1961 and was named "man of the year" by the Business & Professional Women of Florissant in 1971. He is chairman of the board of Christian Hospital Northwest, which has two facilities—Christian Hospital Northwest in Florissant and Christian Hospital Northeast in north St. Louis County.

■ HARLAN L. EVERETT III has been elected assistant director of public relations and advertising at United Missouri Bancshares, Inc., Kansas City. He joined the HC in 1974.

■ GEORGE L. HILLER has been named an international banking officer at Commerce Bank, Kansas City. He formerly was an international banking representative.

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■ BEN A. PARNELL JR. has been named interim president and CEO of Bank of Springfield. He currently is chairman of the bank and of Peoples Bank, Branson, Bank of Crane and Bank of Kimberling City and is a past president of the Missouri Bankers Association. At Springfield, Mr. Parnell succeeds Charles Lear, who went to First National, Hutchinson, Kan., as executive vice president.

ABELN

PARNELL

■ LAWRENCE D. ABELN has been appointed vice president and comptroller of St. Louis County National, Clayton. In addition, he has assumed responsibility for data processing, operations and cashier departments. Mr. Abeln joined the bank in 1970 and was named comptroller two years later. At the bank's affiliate HC, County National Bancorp., Clayton, Robert C. Wolford, executive vice president of the bank, has been elected a director. He joined the bank in 1974.

■ MARVIN L. KIRKPATRICK, executive vice president, has retired from Bank of Gainesville. Succeeding him with the title of vice president is Roy Jones, formerly of Bank of Bourbon. Mr. Kirkpatrick joined the bank in 1948 and was named cashier in 1955, a post he held until his promotion to executive vice president last January.

■ LAWRENCE F. STEIN has been named assistant vice president at Chippewa Trust, St. Louis, and manager of the bank's facility at 5440 Gravois. He goes there from Continental Bank, Richmond Heights, where he served as vice president.

■ EDGAR M. RATLIFF, formerly vice president and installment loan department manager, Fort Madison (Ia.) Bank, has joined Commercial Bank, Lexington, as vice president. He had been with his former bank since 1955.

New Bank Planned

ST. LOUIS—Application has been filed for a state charter for the proposed Manchester Bank of West County, which would be located in a free-standing building in a 25-acre shopping center being developed on Dorsett Road. Capital and surplus would be $500,000 each and undivided profits, $200,000.

If the charter is approved, the bank would be owned by Manchester Financial Corp., St. Louis-based HC, which owns Manchester Bank of St. Louis and National Bank of Affton. W. C. Johns would be president and Ronald K. Hammelman, vice president. Mr. Johns now is senior vice president and chief lending officer, Manchester Bank of St. Louis, where Mr. Hammelman is commercial loan officer.

The new bank would offer all services, including drive-up facilities. The shopping center in which it would be located is to have about 40-50 stores, anchored by a Schnuck's supermarket. Bank organizers hope to open it early next spring. In addition to Messrs. Johns and Hammelman, they include: Newell A. Baker, president, Streett Industries; Harry A. Baumstark, who is in real estate investments; John W. Martin, chairman, Manchester Bank of St. Louis and the HC; George H. Pfister, president of that bank and HC; and Daniel F. Sheehan Sr., chairman and CEO, Dolan Co.

First Mo. Development Commits $5 Million To Businesses in State

JEFFERSON CITY—Jerry Stegall, executive vice president, First Missouri Development Finance Corp., has announced that total stock sold as of last December 31 amounted to $500,250, over the halfway mark in the 10,000 shares First Missouri is authorized to sell by the state legislature. Of this amount, $73,750 was sold in 1975 to 44 new shareholders, bringing the total number of shareholders to 152.

First Missouri is a private lending organization created to provide financing for Missouri businesses unable to get funds through regular channels. It is funded by 198 Missouri banks, the members of the corporation and by its shareholders.

Total line of credit pledged by First Missouri member banks stands at $4.9 million. Of this amount, $344,500 was pledged by the members gained during 1975. Interest paid to member banks last year was $241,397.

As of December 31, total loan commitment stood at $5.8 million, almost $1 million more than a year earlier. Total loans outstanding were $3.8 million.

According to Mr. Stegall, loans made by First Missouri have provided more than 4,000 jobs throughout the state since the corporation's inception in 1968.

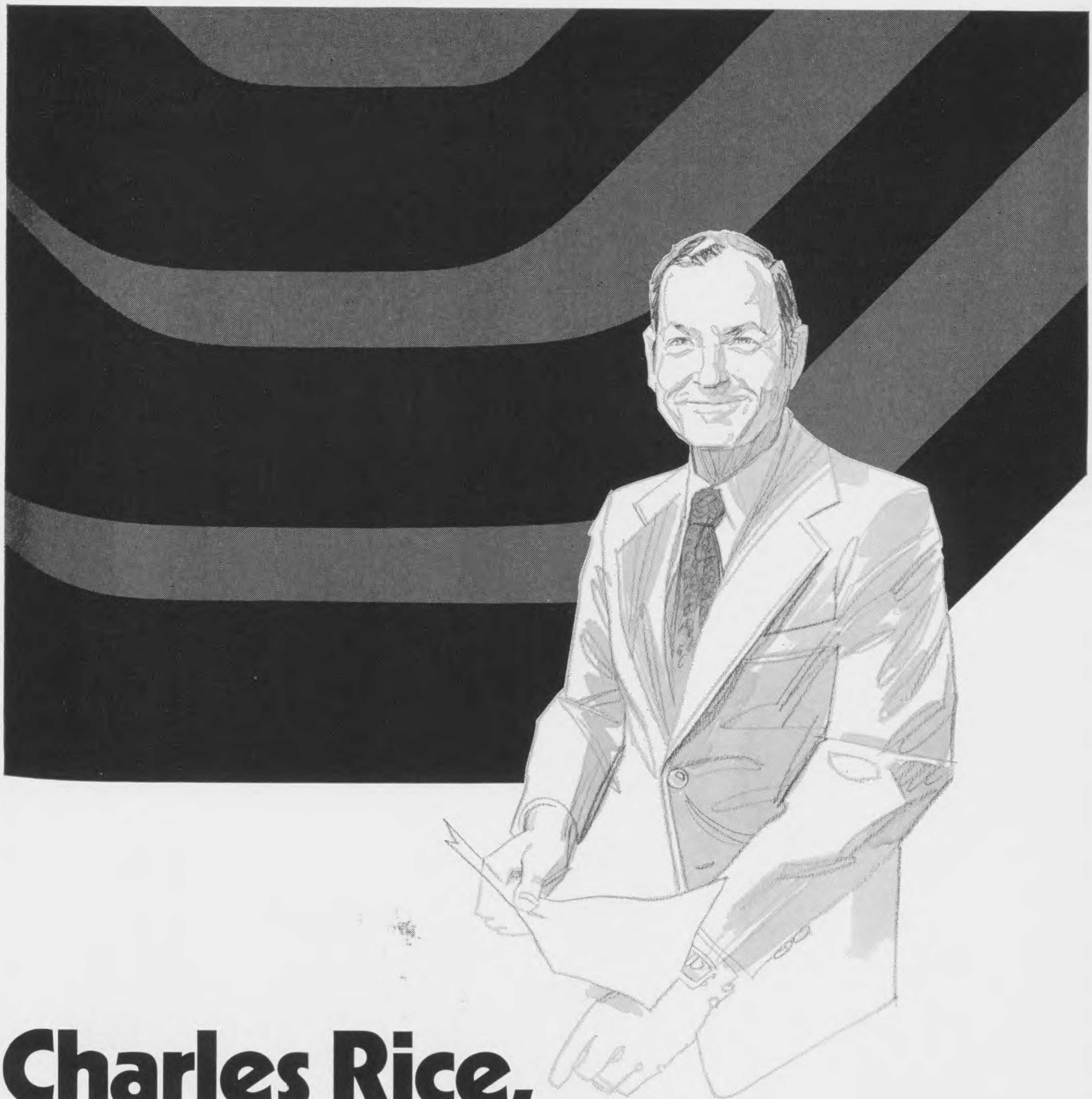
Among new investments for First Missouri are loans to a plastics firm, a sanitation service, a wood craft business and a lumber firm. The loans have been spread throughout the state, Mr. Stegall said.

Due to a change made recently in usury laws, First Missouri has made its first loan to a proprietorship type of business. The corporation has three loans pending amounting to about $626,000. About $700,000 in additional loans was favorably considered last year but not granted.

Pfleging To Head HC

ST. ANN—An agreement in principal has been reached between the Charles F. Vatterott family and Richard J. Pfleging, president, bank of St. Ann, for sale of controlling interest in the bank to a one-bank HC to be headed by Mr. Pfleging. Regulatory approval is pending.

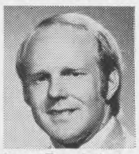
Mr. Pfleging joined the bank in 1964 and was named president and a director one year later. He is president of the Missouri Bankers Association.



Charles Rice, a banker's banker.

Correspondent Bankers


Marvin Bray


Lee Daniel


Charles McNamara


Bill Hellen

Charles Rice heads our correspondent banking department. He's one of five who can turn on the expertise, facilities and resources of Bank of Oklahoma for you.

Call him, and find out how your financial needs fit into our capabilities—fast.

(918) 584-3411

BANK OF OKLAHOMA (NA)

P.O. Box 2300 / Tulsa, Oklahoma 74192

Oklahoma Convention

President

KELLY

OBA pres. Tracy Kelly is pres. & ch., American Nat'l, Bristow, and ch., Citizens State, Okemah. He is dir. & treas., Mid-America Automated Clearing House Assn., Kansas City, and serves on the U. S. Small Business Administration's advisory council.

President-Elect

MOORE

Serving as OBA pres.-elect is Pat Moore, pres., American State, Thomas. He entered banking at First Nat'l, Clinton, joining his present bank in 1958. Mr. Moore also is ch., First State, Keyes, and is a graduate and regent of the Stonier Graduate School of Banking at Rutgers University.

Treasurer

HANNAH

John T. Hannah, pres. & ch., City Bank, Muskogee, is OBA treas. He helped organize his bank in 1973 and formerly was v.p., First Nat'l, Muskogee, which he joined in 1940. Mr. Hannah is a former v. ch., State Planning & Resources Board, and chairs OBA's Group Three.

Oklahoma City, May 11-13

Headquarters—Skirvin Plaza Hotel

PROGRAM

FIRST SESSION, 9 a.m., May 12

Call to Order—TRACY KELLY, president, Oklahoma Bankers Association, and president and chairman, American National, Bristow, and chairman, Citizens State, Okemah.

Introduction of New 50-Year Club Members.

Address—ROBERT L. PARKER of Parker Drilling Co., Tulsa.

Address—DAVID BOREN, governor of Oklahoma.

President's Message—TRACY KELLY.

Presentation of Service Awards.

Adjournment.

SECOND SESSION, 9 a.m., May 13

Call to Order—TRACY KELLY.

Address—"An Update on Loans and Membership of the Oklahoma Business Development Corp."—FRANK G. KLIEWER JR., president, Cordell National.

Meeting of ABA Membership—PHILIP C. KIDD JR., president, First National, Norman.

Address—JUDGE WILLIAM J. HOLLOWAY.

Installation of New President.

Installation of New Chairman.

Message of New President—PAT MOORE, president, American State, Thomas.

Election of New President-Elect and Treasurer.

Adjournment.

Convention Speakers

KLIEWER

KIDD

IRS, ESOPs To Be Workshop Topics At Oklahoma Convention May 11-13

THE SKIRVIN PLAZA HOTEL in Oklahoma City is scheduled to host this year's convention of the Oklahoma Bankers Association May 11-13. Features of the event will be workshops covering Employee Stock Option Plans (ESOPs), the IRS, the Uniform Probate Code, EFTS and governmental relations.

Prior to the convention, on Monday, May 10, will be the past presidents' dinner at 7 p.m. at the Petroleum Club. Archie Lewis of Jamaica is slated to entertain, and all past OBA presidents are invited.

Registration and exhibits will open at 8 a.m. May 11. Also planned for 8 o'clock are the golf and tennis tournaments. The golf tournament will be held at the Greens, while no site for the tennis tourney had been set at press time.

From 2-4 p.m. Tuesday, workshops will be held. "When IRS Calls" and "ESOPs" are part of the OBA program and the "Uniform Probate Code" workshop, which will be held twice that afternoon, is planned as part of an ongoing Trust Division program.

The Trust Division program will begin at 11:30 a.m. with a luncheon, during which James D. White, executive vice president, Lincoln First Bank, Rochester, N. Y., will discuss conflicts of interest. After lunch, the workshops will commence.

At 7 p.m., the evening events will begin with a social hour, followed at 8 o'clock by the Trust Division dinner. On hand to provide the after-dinner speech will be William J. Copeland, vice chairman, Pittsburgh National. All attending the convention are invited.

Wednesday's schedule will begin with three concurrent breakfasts at 7 a.m.: the Stonier Graduate School of Banking, the OBA 50-Year Club and the National Association of Bank-Women.

Registration and exhibits will open at 8 o'clock Wednesday, followed one hour later by the first business session. On hand to address the OBA convention will be Robert L. Parker of Parker Drilling Co., Tulsa, and State Governor David Boren.

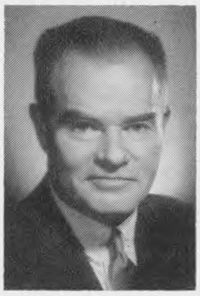
At noon, a reception and delegates' luncheon is planned, while two workshops, "Automation: EFTS" and "Governmental Relations," are set to begin at 2 p.m.

On the evening of May 12, a 6:30 reception is scheduled, to be followed one hour later by dinner. Providing the dinner entertainment will be Archie Lewis of Jamaica and Morey Amsterdam.

Thursday, May 13, the convention's final day, will begin with the opening of exhibits at 8 a.m. They will be on display until noon.

The second business session will be called to order at 9 a.m. and will feature "An Update on Loans and Membership of the Oklahoma Business Development Corp." by Frank G. Kliewer Jr., president, Cordell National. Presiding over the meeting of members of the American Bankers Association will be Philip C. Kidd Jr., president, First National, Norman, and Judge William J. Holloway will address the convention.

OBA Chairman to Retire



Morrison G. Tucker, 1975-76 OBA ch. and immediate past pres. of the association, will retire from the former position after this year's convention May 11-13 in Oklahoma City. Mr. Tucker is ch., Will Rogers Bank, Oklahoma City, and is associated with four other local banks. He retired from Liberty Nat'l, Oklahoma City, in 1969 and remains an advisory dir.

■ WILLIAM M. CAMPBELL has been promoted from assistant vice president and systems department manager to vice president-operations at Bank of Oklahoma, Tulsa. Lee Daniel has been named a correspondent banking officer and Shirley Startz and David M. Smith have been elevated to assistant vice presidents. Mr. Daniel will handle correspondent banking activity in western Oklahoma, southern Kansas, northern Texas and the Texas Panhandle.

■ STOCK YARDS BANK, Oklahoma City, has promoted the following: Wil Pippin, to personal banking officer; Robert T. Luttrell III, to commercial officer; and Pat England, to loan administration officer.

■ MICHAEL S. LEONARD has been promoted to assistant vice president, First National, Tulsa. Emma L. Crockett and John Robert Forrester Jr. have been named banking officers. All three joined the bank in 1974.

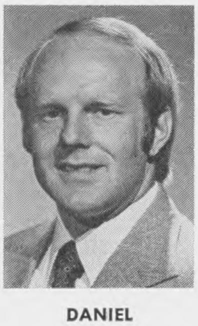
■ LIBERTY NATIONAL, Oklahoma City, has named the following directors: John R. Grantham, vice president-administration, Apco Oil Corp.; William G. Paul, partner, Crowe, Dunlevy, Thweatt, Swinford, Johnson & Burdick; and Ford C. Price, president and treasurer, Economy Co.

■ WILLIAM O. JOHNSTONE has rejoined Fidelity Bank, Oklahoma City, as vice president, commercial lending department. He originally joined the bank in 1970 and left a short time ago to pursue an unrelated endeavor. In addition, the bank has named Tommy R. Kelley assistant cashier. He will serve as assistant manager of the operations unit of the banking services department.

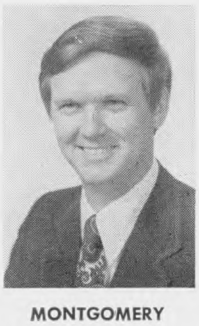
■ FIRST NATIONAL, Oklahoma City, has named Ted J. Strybosch assistant vice president and D. Patrick McCoy assistant cashier. Mr. Strybosch goes to the bank from First National State of New Jersey, Newark, while Mr. McCoy has been with First National since 1974.

■ DAVID J. MONTGOMERY has been elected vice president, Fidelity Bank, Oklahoma City, and will head the bank's new international banking department. Mr. Montgomery formerly was with another Oklahoma City bank.

CAMPBELL

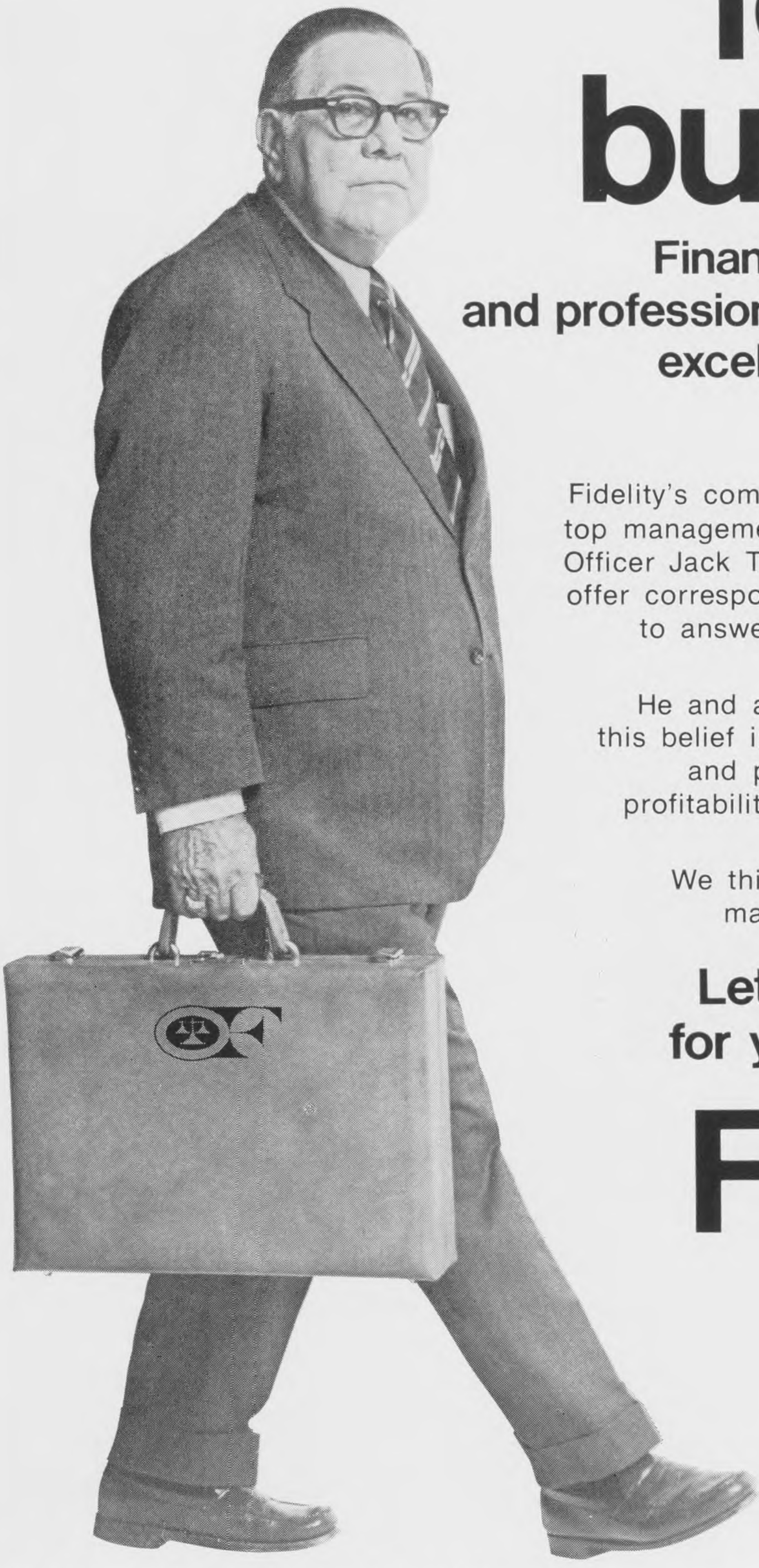


DANIEL



MONTGOMERY

Fidelity's case for business



Financial strength, resources and professional people dedicated to excellence in correspondent banking service.

Fidelity's commitment to excellence begins with top management. Chairman and Chief Executive Officer Jack T. Conn believes a total bank must offer correspondents the professional know-how to answer the demanding needs of today's banking business.

He and all the professionals at Fidelity put this belief into action with innovative services and programs designed to increase the profitability of your bank and enable you to better serve your customers.

We think you'll find it reason enough to make a change . . . to Fidelity Bank.

Let us present our case for your bank's business.

Fidelity Bank N.A.

Robinson at Robert S. Kerr
Oklahoma City

Member F.D.I.C

NEWS From the Mid-Continent Area

Alabama

■ JOHN MAPLES JR. has been named president, Union Bank, Montgomery, succeeding John H. Neill Jr., who has been elected chairman. Mr. Neill, a past Alabama Bankers Association president, retains his title of CEO and succeeds Thomas B. Hill Jr., who has been named chairman emeritus. Henry A. Leslie, formerly senior vice president, has been appointed executive vice president. The following have been elevated to senior vice presidents: J. Vance Walker, from vice president, retaining his title of cashier; Robert E. Kelly, from vice president, retaining the title of senior trust officer; William R. Johnson, who heads the installment loan department; and Gentry A. Martin, marketing and public relations head. Edmond J. Dowe, vice president, has been promoted to vice president and comptroller, while John W. Cox has been elevated from assistant vice president to vice president.

MAPLES

NEILL

LESLIE

■ JOHN M. CAMPBELL III has been promoted to assistant vice president, southeastern banking department, at First National, Birmingham. Martha Jean Oelschlaeger, manager, Century Plaza and Century/Eastwood branches, has been named an assistant cashier. Mr. Campbell joined the bank in 1972 and Miss Oelschlaeger, in 1971.

■ ROBERT J. BLACKWELL has been elected executive vice president and director of First Bancgroup-Alabama, Inc., Mobile. He will be in charge of investments. Mr. Blackwell joined the affiliate, First National, Birmingham, in 1961 and presently serves as acting president and CEO, Henderson National, Huntsville, an affiliate bank.

Illinois

■ MELVIN C. LOCKARD, chairman, First National, Mattoon, Mattoon Bank and First National, Cobden, and vice president, Cumberland County National, Neoga, has been in banking 50 years. He joined the Cobden institution in 1926 and was named CEO 10 years later. In 1956, Mr. Lockard was named president, First National, Mattoon. He has served two terms as a director of the Chicago Fed and was president of the Illinois Bankers Association in 1952-53. He was an originator in 1953 of the Illinois Bankers School at Carbondale and has served as a director of AMBI. Mr. Lockard was AMBI's membership committee chairman in 1973.

LOCKARD

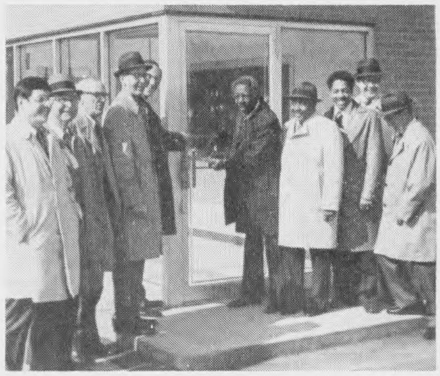
■ EUGENE L. FRIZZO has been promoted to senior installment loan officer of First National, Alton. Mr. Frizzo joined the bank last January and has been named installment loan department manager.

New Banco do Brasil Office

CHICAGO—Banco do Brasil, said to be Latin America's largest bank, has opened a representative office at 33 North Dearborn.

The event was marked by an interview given by Bank President Angelo Calmon de Sá, and a reception at the Mid-America Club.

Union Nat'l Expansion Opened



Officials of Union Nat'l, East St. Louis, and local dignitaries perform opening ceremonies for new drive-up/walk-up expansion of the bank (from l.): Louis Schlafly, v.p.; John J. Kassly and Harry A. Lutz, directors; Albert J. O'Brien, ch.; R. W. Wallace, pres.; Fred Teer, admin. asst. to mayor of East St. Louis; Willie Nelson, pres., East St. Louis C of C; Frank Davis of radio station WESL; and H. F. Chalfant and L. L. Schaltenbrand, directors. The new expansion includes three drive-up and two walk-up windows.

■ THE NEW Airport National opened in Bethalto April 7 with capital and surplus of $400,000 each and undivided profits of $200,000. George M. Ryrie is chairman; A Jesse Hopkins, president; Eugene V. Wrischnik, executive vice president; and Myrna K. Mandorca, cashier and board secretary. Mr. Ryrie is president, First National, Alton.

■ THE NEW HEADQUARTERS building of Wheeling Trust has opened. Built of structural steel, its exterior is of precast concrete and insulated glass. The building has 72,000 square feet of space and parking for 364 cars. Wheeling Trust occupies the first two floors, while the third is for tenant use. A feature of the bank's interior is the 16 tellers stations and two walk-up tellers. Behind the tellers area is a three-dimensional wall-hanging of woven rope by the Canadian artist, Senior.

■ CHICAGO BANK OF COMMERCE has elected Harold Meitus, president and chief operating officer, Superior Match Co., and Victor H. Brown, comptroller, Standard Oil Co. (Indiana), as directors.

■ JOSEPH R. FREY has announced his retirement as chairman, Lake Shore National, Chicago. He will continue as chairman emeritus and will be succeeded by A. Thomas Etcheson, former vice chairman. Mr. Frey, a past president of the Illinois Bankers Association, joined Lake Shore National in 1929, was elected bank president in 1933, president and chairman in 1952 and chairman and CEO in 1961.

■ KAI JOHNSON has been promoted to cashier at Darien Bank, while Barbara Owen has been elected assistant cashier. Mrs. Johnson has been with the bank since its opening 2½ years ago, while Mrs. Owen has been there two years.

■ JAMES E. GATTON, senior vice president, United Bank of Illinois, Rockford, has been elected a director of the affiliate, United Bank of Rockford.

■ LAWRENCE P. McDONNELL has joined Heritage/County Bank, Blue Island, as trust officer. He has 24 years' trust experience and will develop a full-scale trust department at the bank.

■ MILLIKIN NATIONAL, Decatur, is known as "O'Millikin National" each March 17 (St. Patrick's Day). This year, the event was celebrated at the bank with invitations—via newspaper ads—for one and all to come in and receive four-leaf clovers and "shamrock" doughnuts and coffee. During the noon hour, the "talented lads and fair colleens of O'Millikin University Chamber Singers" gave a recital of Irish songs in the bank's lobby. The musicale was carried live on the local radio station.

"Talented lads and fair colleens of O'Millikin University Chamber Singers" entertain noon-hour audience on St. Patrick's day in lobby of Millikin Nat'l, Decatur. Visitors to bank that day also received four-leaf clovers and "shamrock" doughnuts and coffee.

■ VINCENT P. BARRETT has been named vice president, cashier and a director of Gladstone-Norwood Trust, Chicago. His banking background includes posts with a number of Chicago-area banks.

■ RICHARD A. CONRAD has been named assistant vice president at Bank of Elmhurst, while Lily Harkins and Z. John Koper have been advanced to assistant cashiers.

■ WILLIAM E. HORN, assistant vice president, Bank of Naperville, has been named installment loan department head, succeeding Wallace E. Zook, who has been elected CEO of the new First Security Bank, Fox Valley Center. Mr. Horn joined Bank of Naperville in 1970.

■ CONTINENTAL ILLINOIS NATIONAL, Chicago, has announced that the following have been promoted to second vice presidents: David L. Atkins, James R. Icklan, James P. Long, Dennis J. Amato, Gary A. Breidenbach, Richard L. Coen, James W. Dutton, Patrick M. Goy, William D. Michael, Evan R. Patterson, William R. Smith, Jon E. Vance, Gerald E. Buldak, Helen L. Chase, Kenneth W. Johnson, Michael J. Adler, John M. Busscher, Paul D. Moore, James R. O'Brien, Phillip H. Wilhelm, William R. Church, Jeanette S. Flaningam and D. Nicholas Manocheo. Three of the bank's directors have announced their decisions to retire: Donald M. Graham, former chairman; Tilden Cummings, former president; and Stewart S. Cort, former chairman and CEO, Bethlehem Steel Corp.

■ THADDEUS E. WITWICKI has been promoted to assistant vice president at National Boulevard Bank, Chicago, while Jack L. Riley has been named assistant systems officer and Gregory F. Udell has been appointed an assistant cashier.

■ HARRIS BANK, Chicago, has elected Francis O. Mignano and William M. McKinley vice presidents. Mr. Mignano is in the banking department, while Mr. McKinley is international operations division administrator. Thomas S. Hardin has been named assistant vice president, investment department, and in the trust department, James W. Isaacson has been elevated to trust officer and Stephen C. Sieling, to operations officer.

■ PATRICK C. O'MALLEY has been elected executive vice president, First Bank, Oak Park. He goes there from Drovers National, Chicago, where he was senior vice president, commercial loan division.

Indiana

■ OLD NATIONAL, Evansville, has promoted Carl Root to operations officer and Gary Chattin to operations analysis administrator. Mr. Root joined the bank in 1973 and assumes overall responsibility for deposit bookkeeping and transit, while Mr. Chattin, who joined the bank in 1974, has been serving as assistant manager, 41 North Office.

■ JAMES A. THREATT has been named assistant controller at St. Joseph Bank, South Bend, while Stephanie Maher has been elected an assistant cashier. Prior to joining the bank, Mr. Threatt was with Bank of Indiana, Gary. Miss Maher manages St. Joseph Bank's Cleveland Road Office. The bank also has announced the opening of its new 4854 Western Avenue Office. Its manager is Tim Wroblewski.

■ PURDUE NATIONAL, Lafayette, has named the following assistant vice presidents: Ross W. Biddinger, branch administration, and Warren Burget and David T. Strother, data processing. Deane A. Nelson has been elected assistant vice president and trust administration officer, while Michael A. Presti has been elevated to trust administration officer.

■ EDWARD M. MEYER has been promoted to assistant vice president at Merchants National, Indianapolis. Lucy A. Emison has been named investment officer; David L. Scott, manager, Hanna & Shelby Office; and Ronald C. Tierney assistant cashier.

■ AMERICAN FLETCHER NATIONAL, Indianapolis, has promoted the following to assistant vice presidents and investment officers, trust and asset management: James L. Kennedy Jr., F. Daniel Kritsch and Thomas L. Sharpe. Named assistant vice presidents, personal banking, were James C. Hannah, Southport Banking Center, and Stephen R. Smith, Glendale Banking Center. John S. Bennett has been named Tacoma Banking Center manager, and Patrick E. Chesebrough has been elected banking center officer, Speedway Office. Stephen P. Fahy has been advanced to investment operations officer, portfolio and money market group, and James R. Gambaini has been named trust officer. Robert M. Kiesle has been elected manager, 38th & Mithoefer Banking Center, while the following have been named data processing officers: Francis D. Sanders, Frederick N. Scott, Stephen J. Schuff and Ronald J. Tarplee.

Kansas

'Small Business Advocate Of Year,' SBA Award, Goes to KDCC, Wichita

WICHITA—The Kansas Development Credit Corp. (KDCC), has been named the "1976 Kansas Small Business Advocate of the Year" by the U. S. Small Business Administration's (SBA) district office here.

The award entitles the KDCC to compete for the title of "National Small Business Advocate of the Year."

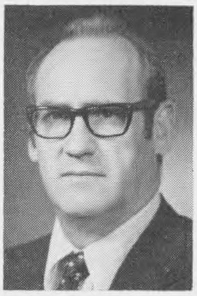
Since its 1965 organization, the KDCC has created an estimated 14,100 jobs in Kansas by making loans or commitments in excess of $62 million to 460 industrial and commercial firms. This action has resulted in as much as $50 million in payrolls to be generated or sustained in the state.

The KDCC has 426 members from the state's 600 banks and makes loans to small industries that demonstrate community value but have financial needs beyond what can be covered by a normal bank loan.

In 1971, the corporation began its secondary-money-market project, "Kansas Funds Promote Kansas Jobs," to purchase from banks in the state the portion guaranteed by the SBA. Such loans then are resold to a number of institutions in Kansas, generating employment opportunities and expanding the lending capabilities of banks in Kansas. This year, a total of $3.9 million in loans was purchased.

KDCC officials include: S. H. "Pete" Clow, chairman; Maurice E. Fager, vice chairman and treasurer; George L. Doak, president; G. R. Katzenbach and Larry J. High, vice presidents; and Ellyn M. Tyrell, secretary.

The "Small Business Advocate of the Year" competition is sponsored annually by the SBA to recognize outstanding achievement by a person, organization, educational institution or any such entity that goes above and beyond the expected for betterment of small business, that advocates the small-business cause and that promotes the free-enterprise system.


STANLEY


RIESEN

■ JIM STANLEY has been named correspondent division head at First National, Wichita, succeeding John H. Riesen, senior vice president, who has been assigned responsibility for all national account relationships. Mr. Stanley joined the bank as assistant vice president in 1968 and advanced to vice president two years later. Mr. Riesen has been with the bank since 1937 and had been in the correspondent division since 1955. He was named correspondent head in 1966.

■ KANSAS STATE of Wichita's capital has been increased from $1,780,800 to $1,905,800 by sale of new stock.

■ AUGUSTA STATE has changed its name to Augusta Bank & Trust.

■ FIRST STATE, Larned, has undergone a name change to First State Bank & Trust Co. of Larned.

Kentucky

■ PHILIP R. HAYES, formerly senior vice president and correspondent head of Liberty National, Louisville, has joined Citizens Bank, Elizabethtown, as president and CEO. Mr. Hayes had been with his former bank 11 years.


HAYES

■ COMPTROLLER OF THE CURRENCY James E. Smith has approved the merger of New Farmers National, Glasgow, and Hiseville Deposit Bank. The merger went into effect April 1, and the additional banking office now is known as Hiseville Banking Center. Jack London, vice president, is the new office's manager.

Louisiana

Junior-Banker Officers Named

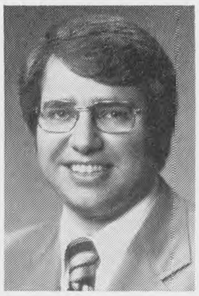

The new officers of the Junior Bankers Section of the Louisiana BA got together for a photo after their election at the 1976 Study Conference and Convention of the Junior Bankers (from l.): Jerry A. Fielder, v.p. & t.o., Louisiana Bank, Shreveport—pres.; Donald L. Bordelon, v.p., Guaranty Bank, Alexandria—v.p.; Harold E. Edwards, a.c., National Bank, Bossier City—sec.; and Rayford J. Simon, a.v.p., Guaranty Bank, Lafayette—treas.

■ GUARANTY BANK, Alexandria, has elected the following directors: Jerome A. DeKeyzer, a local farmer; W. Ray Frye, president and chairman, AFCO Industries, Inc.; Dr. Edward C. Uhrich, acting director of laboratories, V. A. Hospital; and Myron D. Wellan, president, Wellans, Inc.

Mississippi

■ DEPOSIT GUARANTY NATIONAL, Jackson, has appointed Wilfred E. Irish Jr. director of employee relations and H. A. Whittington Jr. director of industrial development. Mr. Irish, a retired Army colonel, formerly was chairman, Department of Military Sci-

IRISH



WHITTINGTON

ence, University of Southern Mississippi, while Mr. Whittington formerly was marketing specialist, Mississippi Marketing Council.

New Young-Bankers' Officers

After their election during the 26th annual Study Conference in Hattiesburg and Convention in Biloxi, the new officers of the Young Bankers Section of the Mississippi Bankers Association gathered for this photo (from l.): Cecil R. Burnham, e.v.p., Truckers Exchange Bank, Crystal Springs—pres.; Glynn Hughes, pres., South Central Bank, Monticello—v.p.; Charles A. Jordan Jr., v.p., Delta Nat'l, Yazoo City—treas.; and R. David Cullum, a.v.p., Deposit Guaranty Nat'l, Jackson—sec.

New Mexico

Bank Week Recognized

Gov. Jerry Apodaca (c.) meets with Reba Thomas, ch., NMBA Bank Week Comm., and v.p., American Bank of Commerce, Albuquerque, and Wayne Stewart, NMBA pres., and pres. and t.o., First Nat'l, Alamogordo, in recognition of Bank Week in New Mexico. The event was set for April 12-18.

The Brumlows Die in Crash

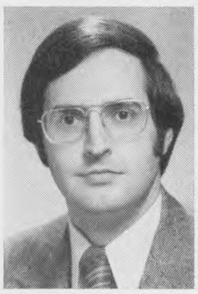
Grant O. Brumlow, former New Mexico commissioner of banking, and his wife died recently when their twin-engine airplane crashed near Ruidoso.

Mr. Brumlow, at the time of his death, was president, Cibola Life Insurance, and was the principal shareholder of First National, Clovis, American National, Silver City, and Bank of Santa Fe. He also was president of Viva Oil Co., which has holdings in Oklahoma and west Texas. Mr. Brumlow had served as campaign manager for Joe Skeen during his unsuccessful 1974 gubernatorial bid.

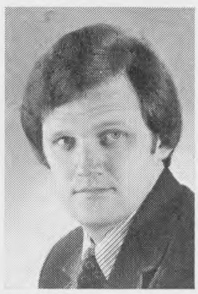
■ THE MALOOF FAMILY of Albuquerque has purchased majority ownership of First National, Albuquerque. Principal members of the family who will own the shares are George J., Phillip F., Mike J., Helen (Sei) and Mary Jean (Koury). The bank formerly was owned by Popular Services, Inc., Passaic, N. J. A Maloof family spokesman has indicated that there will be no staff changes at First National.

Tennessee

■ THEODORE L. LAMB has been promoted to assistant vice president at American National, Chattanooga. He joined the bank in 1970 and most recently was a marketing officer. Mr. Lamb will continue with his responsibilities in the marketing and public affairs department.



SEXTON



LAMB

■ MERRILL SEXTON has been appointed executive vice president in charge of administration of First Tennessee National, Chattanooga. He goes there from the affiliate, First Tennessee National Corp., Memphis, where he was vice president in charge of strategy development and control. Mr. Sexton also supervised investor relations at the HC and is succeeded by Ian Arnof, vice president. As the Chattanooga bank's head of administration, Mr. Sexton will oversee operations, information systems, properties management, accounting, audit and personnel.

C. H. Orndorff Jr. Dies

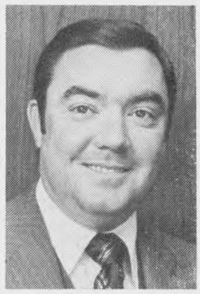
Charles H. Orndorff Jr., v.p., nat'l accounts division, Nat'l Bank of Commerce, Memphis, died March 9 of an apparent heart attack. He joined the bank in 1937 and had served in the correspondent dept.

Texas

■ JAMES C. ALLEN has been advanced to assistant vice president, commercial banking department, American National, Beaumont. In the check processing department, Dalton Andrew Beadle Jr. and Shirley Irene Smith have been promoted to assistant cashiers.

■ H. M. DAUGHERTY JR. has been elected president and CEO of Pan-National Group, Inc., El Paso, succeeding B. Glen Jordan, who resigned to pursue business opportunities. Mr. Daugherty will retain his position of president and CEO of the HC's flagship bank, State National, El Paso, which he joined in 1970, while Gordon L. "Don" Hollon has joined that bank as trust officer and trust marketing department manager. He formerly was trust business officer, National Bank of Commerce, San Antonio. At another affiliate, Metro Bank, Dallas, Bob A. Littlejohn, former treasurer of Centex Corp., has been named chairman and CEO. Prior to his service at Centex, Mr. Littlejohn had been associated with First National, Dallas, as a correspondent banker.

■ FROST NATIONAL, San Antonio, has announced several promotions: to vice presidents, Richard Kleberg III, commercial lending, and Jerry Allen, trust farm and ranch; to assistant vice presidents, Carole Arnold and Shirley Floyd, personnel, and John Stover, methods and planning; and to personal banking officer, Gloria A. Munoz.



KLEBERG

DAUGHERTY

Profit or Perish

(Continued from page 24)

and add in all of the fringe benefits and everything else he costs you. Multiply that out. Now you've got your administrative expenses by account. You already have all of your operating expenses by account, and you can now look at Bessie's account and say to yourself, "We are getting a fee of $500 a year for this account, but it's costing us $1,000 the way we're handling it."

Now what do you do? Well, first you go to the customer and say, "Look, Bessie, you know how much we've been working with you on that son of yours who's in college having all these problems. That takes time, takes money, and the fact is, we are not being compensated for the job we're doing." If you're not doing it well, she's going to fire you, but that's another story. Suppose she doesn't agree to pay you. Now you have two other choices. You either get rid of the account (and there is not much point in carrying it if you're not making any money on it) or you begin to bring the account into line so that you can make money on it. You begin to cut out some of those extra services. You begin to cut down on those conversations you have with her. Try to bring her into line so that this becomes a profitable account.

The other day, I saw some graffiti on a wall that I enjoyed. It said, "If everything seems to be coming your way, you're probably in the wrong lane." Despite my seeming pessimism when I started this article, I think things are coming our way—I've never been more optimistic about the future of the trust business. We do have a lot on the plus side. Many of us—many of you—have magnificently trained staffs who put a lot of energy and dedication into their work.

As I move around, I'm always impressed with the caliber of trust people that I find across the country and their enthusiasm for their jobs—that's a real plus in any business. You have a lot of customers whom you're serving with considerable skill. But the fact is that there are many people out there you're not reaching. I'd be willing to bet that in your county, you as trust companies probably handle 20-30% of estates over a certain size. The rest of the population names a spouse, or some other individual who is far less qualified than you. Our markets are far from saturated—indeed the trust business can retain all the elements of a growth business if we'll but manage our companies well so as to return them to profitability.

NOW Onslaught

(Continued from page 14)

tems, is in a quandary. He clearly recognizes that such a relationship, at least initially, is going to be a substantial drain on earnings. Yet if he waits in the background too long, the market may become saturated before he gets in.

The typical independent banker at the Hawaii convention found the weather delightful and the topics discussed during the event to be thought-provoking and quite serious. Outside of the convention, the observable developments were perhaps of more concern. There is no simple solution to the problems facing independent bankers. They recognize that other financial intermediaries—S&Ls, mutuals and credit unions—are moving aggressively into the area of fund remission and payment systems, and they are paying interest on their customers' or members' funds. The bankers also recognize that many of the IBAA member and nonmember banks are offering interest-paying NOW accounts, which are the equivalent of demand accounts, though they aren't called that.

What can the independent banker do under these circumstances? It's likely that the successful community banker will be the one who has taken time and thoughtfully perused the situation confronting his own bank. I recommend that independent bankers spend additional time to study what costs are involved in their competitors' operations and in their own. Inevitably, if the cost of a bank's funds goes up, it must pass on at least part of those costs in the form of higher interest rates to its borrowers and it must hike charges for services that it previously gave away.

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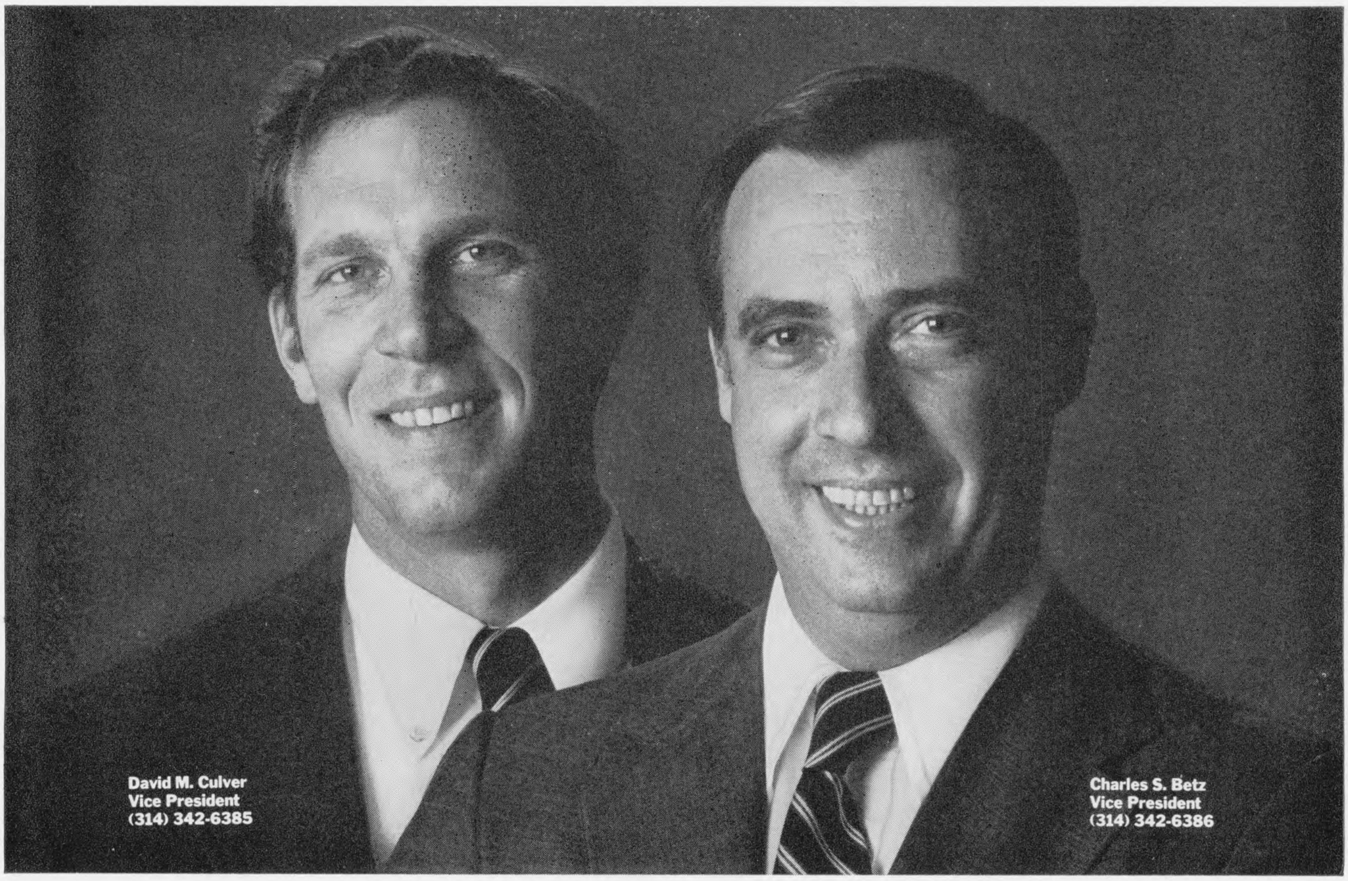

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