MID-CONTINENT BANKER

The Financial Magazine of the Mississippi Valley & Southwest

OUTLOOK ISSUE **JANUARY, 1977**

Bank of Oklahoma, Tulsa, Opens Tower Facility** **(Page 74)

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Oklahoma City

Convention Calendar

January

Jan. 23-26: Bank Marketing Association Advertising Workshop, New Orleans, Fairmont Hotel.

February

Feb. 3-6: Assembly for Bank Directors, Mexico City, El Camino Real.
Feb. 6-9: ABA National Trust Conference, New Orleans, Fairmont-Roosevelt Hotel.
Feb. 6-9: ABA I&PD Risk and Insurance Management in Banking Seminar, Tucson, Doubletree Inn.
Feb. 6-9: Bank Marketing Association Community Bank CEO Seminar, Marco Island, Fla., Marco Beach Hotel.
Feb. 6-18: ABA National Installment Credit School, Norman, Okla., University of Oklahoma.
Feb. 10-11: Robert Morris Associates Commercial Loan Training Programs: Content and Methods Workshop, Atlanta, Peachtree Plaza.
Feb. 13-15: ABA Bank Investments Conference, Atlanta, Peachtree Plaza Hotel.
Feb. 14-16: ABA Bank Telecommunications Workshop, Atlanta, Omni International Hotel.
Feb. 15-18: ABA Conference for Branch Administrators, Atlanta, Fairmont Hotel.
Feb. 16-18: Bank Administration Institute District Senior Management Program (a Conference), Little Rock.
Feb. 20-26: ABA Operations/Automation Div. Business of Banking School, Fort Worth, American Airlines Learning Center.
Feb. 23-25: Bank Administration Institute Workshop Series, Mobile.
Feb. 27-March 1: ABA National Credit Conference, Chicago, Palmer House Hotel.
Feb. 27-March 4: ABA National Personnel School, Denver, Marriott Hotel.
Feb. 27-March 4: ABA Community Bank CEO Program, Santa Barbara, Calif., Santa Barbara Biltmore.
Feb. 28-March 3: Bank Administration Institute EDP Audit Conference, Houston.

March

March 2-4: ABA Advanced Construction Lending Workshop, Columbus, O., Ohio State University.
March 2-4: Bank Administration Institute On-Line Operation/Small Bank Seminar, Dallas.
March 6-8: Bank Administration Institute Directors Forum, Palm Springs, Calif.
March 6-9: Robert Morris Associates Financial Statement Analysis Workshop, Kansas City, Crown Center.
March 7: Bank Marketing Association Community Bank Seminar, Milwaukee, Marc Plaza Hotel.
March 9: Bank Marketing Association Community Bank Seminar, Kansas City, Marriott Hotel.
March 13-16: Bank Administration Institute Bank Presidents Forum, Place Not Announced.
March 14-15: Robert Morris Associates Loan Quality Control Workshop, St. Louis, Breckenridge Pavilion.
March 14-16: Independent Bankers Association of America Convention, Washington, D. C., Washington Hilton Hotel.
March 15-19: Bank Marketing Association Essentials of Bank Marketing Course—Midwest Extension, Chicago, University of Chicago.
March 16-18: Bank Administration Institute Audit Management Seminar, New Orleans.
March 20-23: ABA Trust Operations and Automation Workshop, Bal Harbour, Fla., Americana Hotel.
March 20-23: Bank Administration Institute Corporate-to-Corporate Electronic Funds Transfer System Conference, New York City.
March 21-23: Bank Administration Institute Corporate-to-Corporate EFTS Conference, New York City.
March 22-25: Bank Administration Institute Personnel Short Course, BAI Headquarters, Park Ridge, Ill.
March 24-25: Robert Morris Associates International Lending: Techniques & Standards Workshop, Washington, D. C., Hyatt Regency.
March 27-30: Robert Morris Associates Credit Department Management Workshop, Kansas City, Crown Center.

MID-CONTINENT BANKER

The Financial Magazine of the Mississippi Valley & Southwest

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FEATURES

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The Banking Scene

By Dr. Lewis E. Davids

Hill Professor of Bank Management,
University of Missouri, Columbia

NOWs—It's Later Than We Think!

SOME YEARS AGO in New York City, I observed a soap-box orator at the corner of Wall and Broad streets—the heart of the financial district. The man was preaching hell fire and damnation to an audience comprised mostly of bankers and stockbrokers, who the speaker obviously believed needed redemption.

A placard that the speaker carried said, "It is later than you think." More than once since then I have run those words through my mind in regard to the NOW (negotiable order of withdrawal) account, because it *is* later than we think insofar as the competitive situation is concerned!

NOWs have been around for several years and they will not fade away, as many commercial bankers would wish. NOWs have evolved in a number of ways: Some thrifts offer them free, with no conditions; some provide them free, but with a minimum balance in an interest-bearing passbook account; while others make a per-item charge for each NOW item written by a customer, or make a charge when a certain number of NOWs are used by a customer during a month's time. Some thrifts report NOW transactions through monthly or quarterly statements and some link the NOWs to a passbook posting, retaining the NOW item (although a photocopy of any item may be obtained by the depositor).

I've discussed NOWs with commercial bankers, who generally view them in a hostile light. Bankers wish they could wake up to find that NOWs are just a nightmare; or, if not a nightmare, that legislation limiting their use could be passed at both state and national levels. It may be surprising, but while many mutual and S&L executives favor NOWs, a surprising number have joined their commercial-banking brothers in opposition to them.

It's disappointing to me, as an educator, that on both sides of the issue there appears to be more emotionalism than factual data. Further, some of the data that has been cited about NOWs appears to be contrary to other data given by either proponents or opponents of the issue. It is difficult to ascertain whose data should be believed.

The *Federal Home Loan Bank Board Journal* recently published the tables accompanying this article, which were prepared by George C. Campbell, vice president, Union Federal Savings, Pittsfield, Mass. The tables show the $200-million S&L with nine branches as having approximately 50,000 savings accounts, of which 6,362 are NOW accounts. Union Federal's management, according to the article, originally was reluctant to offer NOWs, due to concern about costs involved, but management presently feels that there is no question that the accounts have been successful.

According to Mr. Campbell, the cost of NOW accounts is analyzed each quarter. Table 1 indicates that, as of last June 30, the S&L's annual cost for its NOW accounts was $224,499, or 6.2% in terms of cost-of-money. This ratio was down slightly from the 6.4% posted in January, 1974.

"It can readily be seen that, from an institutional point of view, 6% money is not high when compared with the cost of offering certificates," Mr. Campbell wrote. "Moreover, these accounts are, in more than 80% of the cases, new money, and their outstanding balances have continued to grow."

Table 2 gives a detailed breakdown of activity in the S&L's "Right NOW" accounts. Before going into these accounts, management envisioned the majority of depositors writing from 20 to 30 or more checks per account per month, but such has not proved to be the case. Overall, the monthly average ranges from a low of 3.8 in January, 1974, to a high of 6.4 in June, 1974. At the end of June, 1976, the per-account average was 5.9. Mr. Campbell feels this is not an unusually high volume when compared with the Boston Fed's statistical report of 10.7 items per month for commercial banks in its area.

"It is our experience that, of our 'Right NOW' accounts, only 457 holders wrote more than 21 checks per account in the month of June," Mr. Campbell wrote.

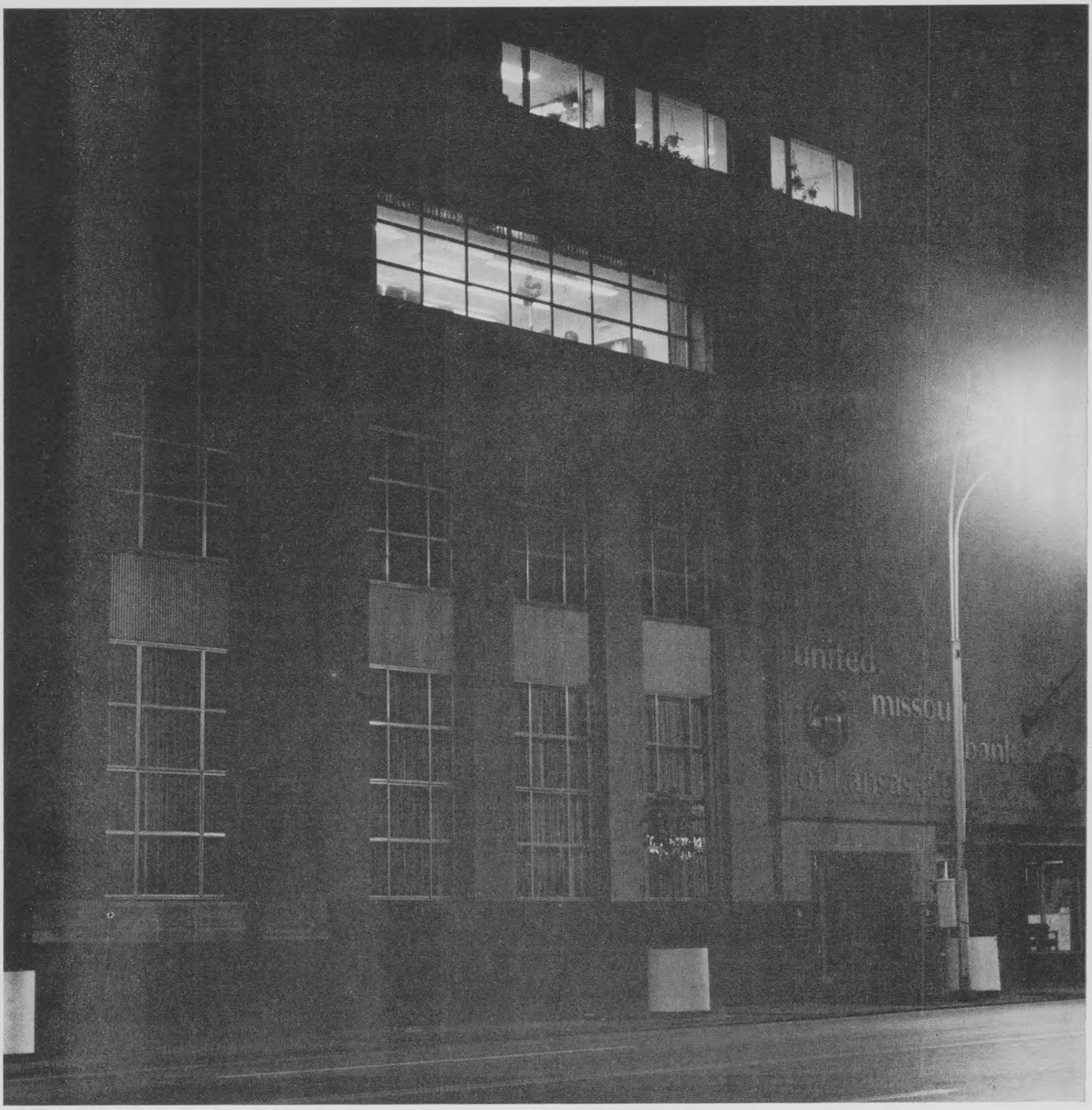
Proof that a NOW-account holder uses the account as a convenience-transactions savings account can be seen at the bottom of Table 2, where 81.2% of the balances are in 25% of the accounts with balances greater than $500. These accounts are the ones that offset the low balance, high-activity account and make NOW accounts profitable, Mr. Campbell wrote.

It is not difficult to conclude that, if NOW accounts were offered without the payment of at least 5% interest, the incentive for the customer to use them as savings accounts would be greatly diminished.

A recent NOW account study indicates that NOW accounts in New England held an $850 average balance,

> ***"Bankers wish they could wake up to find that NOWs are just a nightmare; or, if not a nightmare, that legislation limiting their use could be passed at both state and local levels."***

> ***"Hopefully, (bankers) will heed the words of J. Rex Duwe, immediate past ABA president, that once the consumer gets used to the idea of 'free' accounts, it will not be easy to begin charging for them."***



while the typical checking account, paying no interest, held only a $250 average balance, Mr. Campbell wrote. It is because of the higher average balance in an interest-bearing NOW account that the operation is profitable.

Conversely, the offering of a checking account without the payment of interest can result in a costly account, he continued. It is disheartening to observe segments of the S&L industry indicating that NOW accounts are not desirable. "I suspect that one reason why commercial banks have never been able to make money on checking accounts is because the consumer has no incentive to keep a comparatively high balance in a non-interest-bearing checking account," he said.

Readers may wish to compare tables 1 and 2 with their own banks' averages for transactions and balances, and to ponder whether their market and competition might exhibit similar characteristics.

A recent paper on the subject shows that 95% of our nation's 475 mutuals today have the authority to offer checking accounts, NOWs, or both. Because of this, commercial bankers may conclude that NOWs have been putting increasing pressure on the effectiveness of Regulation Q.

Hopefully, commercial bankers, mutual savings bankers and S&L executives will heed the words of J. Rex Duwe, immediate past ABA president, who said that, once the consumer gets used to the idea of "free" accounts, it will not be easy to begin charging for them. He cautions against bankers saying they can't afford to price NOW accounts—or any other kind of account—solely in reaction to competition. Only by knowing their costs can bankers really compete when they are faced with cut-rate pricing on a wide range of services, he said.

It is sad that few bankers are acquainted with the full spectrum of service costs. Costs aren't expressed by a single figure; there are unit costs, standard costs, average costs, functional costs and incremental costs, to name only a few.

Sadly, fewer than 1,000 of the 5,800 Fed-member banks participate in the Fed's free functional cost analysis. That basic study is a step in the right direction, yet only about one in six Fed-member banks chooses to take the time and effort needed to cooperate and get a fix on functional costs. Using this as a crude approximation, I wonder if similar attitudes and proportions exist among the thrifts. If they do (and they probably do), then Mr. Duwe's wise words are likely to have fallen on the ears of too high a proportion of bankers and S&L executives who don't know their costs. It is later than we think!

Remember the pungent words of one of banking's elder statesmen, Charles Agemian: "I don't mind competing with a smart competitor. I do mind competing with a stupid one."

A smart competitor knows his costs.

Table 1.—Cost Analysis of NOW Accounts Based on June 1976 Averages *

	Annualized cost	Percent
37,700 drafts at 0.23 per draft	$ 10,620.	.0030
37,700 drafts per month times 2 cents per (for free drafts) times 12 months	9,048.	.0025
FSLIC insurance, rent, State excise, MICRO film, etc.	10,000.	.0030
Interest on average balance annualized	182,431.	.0509
Subtotal	212,099.	.0594
Cost of $200,000 checking balance at 6.2 *	12,400.	.0035
Total cost	224,499.	.0629

*We assume money could be invested at 8% while commercial banks apply earnings at 1.8%.

Table 2.—Activity in Right NOW Accounts

Checks per account per month

Period	Number of checks	Per account average
January 1974	2,298	3.8
June 1974	8,007	6.4
January 1975	19,206	5.3
May 1975	25,062	5.4
December 1975	28,750	5.1
March 1976	37,237	6.2
June 1976	37,700	5.9

Check activity from May 30 through June 30, 1976

	Number of accounts	Percent of total accounts	Number of checks per account
Total	6,362	100.0	37,617
	1,650	25.9	0
	3,202	50.4	1-9
	1,053	16.5	10-20
	457	7.2	21+

NOW account composition by balances

Size of account balances	Number of accounts	Percent of total number		Total amount of balances	Percent of total balances		Average balances
Less than $100	1,903	35.5		$62,908.24	2.0		$33.06
$100–499	2,117	39.5		533,834.46	16.8		252.16
500–999	637	11.9		437,661.57	13.8		687.06
1,000–4,999	593	11.1	25.0	1,181,988.59	37.2	81.2	1,993.23
5,000–9,999	79	1.5		519,594.46	16.3		6,577.14
$10,000 and over	28	0.5		444,280.31	13.9		15,867.14

NEWS OF THE
BANKING WORLD

ADAMS

BOYSEN

BAKER

LASATER

LANCE

• **Thomas Bertram (Bert) Lance,** president and CEO, National Bank of Georgia, Atlanta, will become director of the Office of Management and Budget (OMB) in Washington, D. C., when Jimmy Carter becomes President January 20. Mr. Lance entered banking at the age of 20 in 1951, when he became a teller at Calhoun (Ga.) First National. He became its president and CEO 12 years later. In 1974, he was elected chairman, a post he continues to hold. On January 23, 1975, Mr. Lance was named president, National Bank of Georgia. He was commissioner, Georgia Department of Transportation, 1971-73.

• **Eugene H. Adams,** ABA president in 1972-73, retired December 1 as chairman, First National and First National Bancorp., Inc., both of Denver. He continues to serve both organizations as vice chairman until January 13, his official retirement date. A past president, Colorado Bankers Association, Mr. Adams entered banking in 1934. Theodore D. Brown will retain the First of Denver presidency and assume Mr. Adams' position as chairman of the bank and HC.

• **Donald E. Lasater,** chairman and CEO, Mercantile Trust, St. Louis, has been selected by the St. Louis Fed's board as a member of the Federal Advisory Council from the Eighth Fed District for 1977.

• **John T. Boysen** will retire January 31 as first vice president and chief operating officer, Kansas City Fed, after a Federal Reserve career of nearly 43 years. Mr. Boysen, who will be 65 this month, joined the Fed's Board of Governors in 1934 as an assistant examiner assigned to field examinations of Federal Reserve banks. He went to the Kansas City Fed in 1941. When he retires, he will leave the FRS as the dean of Reserve Bank first vice presidents.

• **James V. Baker** has been promoted from senior vice president to executive vice president, Fidelity Bank, Oklahoma City. He also has been made executive vice president, Fidelity Corp. of Oklahoma, Inc. Mr. Baker is a nationally known speaker and has been an active bank consultant and written numerous articles on banking. He also is on the faculties of the ABA National Commercial Lending School, National Commercial Lending Graduate School, National Installment Credit School and National Investment School. Most recently, he was appointed chairman of the ABA National Commercial Lending School's board of regents. Mr. Baker joined Fidelity Bank in 1972, is a member of the executive committee and board and is responsible for the bank's investment division, economic analysis and Fidelity Advisory Services.

• **William McChesney Martin Jr.,** former Fed chairman, has been elected to the board of American Express International Banking Corp., worldwide international banking subsidiary of American Express Co., New York. Mr. Martin has been a director of American Express since 1970. He is counselor to Riggs National, Washington, D. C., and served as Fed chairman from 1951 to 1970.

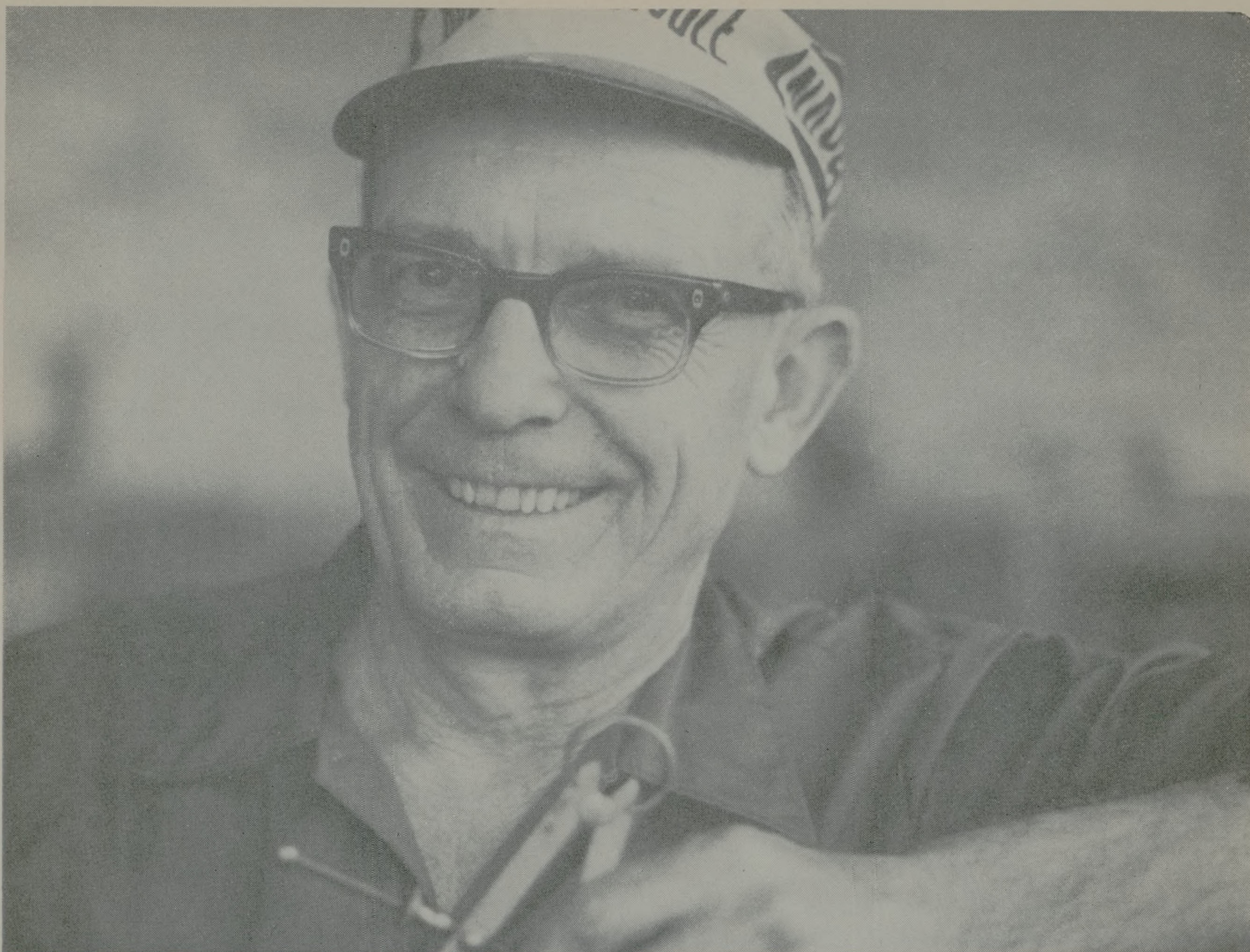
• **Two Mid-Continent-area** bankers have been elected directors of the Independent Bankers Association of America and represent their respective states on the IBAA's executive council. They are: *Indiana*—Elton H. Geshwiler, vice president, First Bank, Indianapolis; and *Tennessee*—James R. Fitzhugh, president, Bank of Ripley. Incumbent directors were reelected in five states, of which three are in the Mid-Continent area: *Missouri*—Harvey B. Young Jr., president, Bank of Kirksville; *New Mexico*—Claude E. Leyendecker, president, Mimbres Valley Bank, Deming; and *Oklahoma*—Robert L. McCormick Jr., president, Stillwater National.

• **Peter B. Smith** has been elected senior vice president, Morgan Guaranty Trust, New York City. He heads the national banking group that includes the eastern and southern states. Mr. Smith previously was president, Bank Morgan Labouchere N. V., in Amsterdam, in which Morgan Guaranty holds a 50% interest.

• **Bruce K. MacLaury,** president of the Minneapolis Fed since mid-1971, will become president, the Brookings Institution, February 1. The institution is a public policy research group, headquartered in Washington, D. C. Mr. MacLaury was deputy under secretary of the Treasury for monetary affairs from 1969-71.

• **Common shares** of First City Bancorp. of Texas, Houston, were traded December 1 for the first time on the New York Stock Exchange. The ticker symbol "FBT" was assigned to the shares. J. A. Elkins Jr., the HC's chairman, bought the first 100 shares—the first trade of the day on the stock ticker tape. He and Nat S. Rogers, HC president, were welcomed on the floor by exchange officials.

• **Catherine Cleary,** a former president, National Association of Bank-Women Inc., has been elected chairman, First Wisconsin Trust, Milwaukee. She was president and continues as CEO of the firm, which she joined in 1947.



Personnel

Banks Should Accelerate Development And Upward Mobility of Women

By ANNA FOSTER
Vice President
Valley National Bank
Phoenix

NO ONE SEEMS sure why so many women have filled the labor market in recent years.

The main point, it seems to me, is not *why* women are now present in increasingly more statistical quantities in banking and other private industries as well as government, but rather *how* they can best enrich their own lives and those of the organizations for which they work. When we begin viewing women as individuals first, perhaps the slow-starting revolution in attitude also will follow.

My second point concerns creation of a banking environment that will foster development of better bankers, more satisfied customers and probably higher profits.

"Let's dispense with the absenteeism argument immediately . . . U. S. Public Health Service surveys have shown no difference in absenteeism rates of men and women."

The first step must be to make lower-level positions more meaningful. Typically, dead-end jobs with little opportunity to expand one's horizons are not the answer to good banking or a low rate of job turnover, particularly in lower-level clerical positions. Not every woman wants to be a vice president or part of the senior-management team. There always will be ample room for Indians and chiefs.

But every person, male and female, wants certain basic job satisfaction. A woman wants to know where and how what she does fits into the overall scheme of things. Whether secretary, teller or vice president, it is vitally important that the female in banking knows what she is contributing. Working in an isolated computer operation doesn't do much to help this concept unless we continually supplement her job experiences with more education about banking generally . . . and exactly what she does to help make the wheels of the overall machinery work. Encouragement of attendance in AIB courses at every level certainly is a start. But additionally, managers and supervisers with a broader view than their workers must make an all-out effort to communicate with women.

Providing a broader spectrum may be enough for some in lower-level banking jobs, but there always will be women who soak in the information like a sponge and cry for more. For those women, we must have the insight to provide continuing opportunity for educational and job expansion. If a woman becomes more knowledgeable than required by her job, the banking environment must be one that allows her to move into another area where she has room to continue that growth.

This involvement concept probably is the most important to women. A teller who knows about commercial lending or investments is a great asset to herself and the bank, and she probably likes her job.

We know from marketing research, for example, that no matter how sophisticated we become in banking transactions through electronic funds transfer systems, our customers still want person-to-person contact with someone who has the answers to their questions. Most tellers are women. They ought to have the answers. So should secretaries and key punch operators.

Perhaps, instead of bulldozing new employees through a two-day orientation period, we could set up internal banking courses for general banking concepts. If this were done *after* a woman has been on the job for a while, it would be possible for her to relate her job experiences directly to those general banking concepts she's beginning to understand.

The second essential in creating a rewarding environment is salary satisfaction. No doubt, that seems a basic concept to most, but it is surprisingly overlooked by many in middle- and upper-management positions. Women want to be paid for what they do—and they want to be paid fairly in comparison to their male counterparts. The banking industry still finds its way—loopholes, if you will—to elude this legally, but it rarely fools the women on which this unspoken principle is inflicted.

For example, higher rates of absenteeism and turnover among women often have been cited as reasons for their failure to advance as rapidly as men. They also have been cited as a justification for unequal opportunity, for paying women less than men and for refusing them access to higher-level positions.

Let's dispense with the absenteeism argument immediately. For the past several years, U. S. Public Health Service surveys have shown no difference in absenteeism rates of men and women.

It isn't always possible to pay everyone what they think they are worth. But it is possible to assure everyone that they are making an equitable salary in comparison with other employees doing the same or similar jobs.

Running contests to sell services can help compensate for low-salaried positions, and, of course, fulfilling the promise of making more money for doing a job well satisfies many.

I'll devote my final thoughts on accelerating the development and upward mobility of women on advancement opportunities. This, I think, also must include effective recruitment.

"In a period of cultural transition as major as the one we are facing with changing sex roles, we are all in trouble . . . until we arrive at some consensus on a new set of rules."

Banking history has given it a male image, so ambitious girls in high school and college are unlikely to think about banking as a field in which they would be welcome. Conversely, bankers have, until recently, been unlikely to think about women as potential candidates for positions offering upward mobility. Now that banks have started to think about women for officer positions—some now recruit at women's colleges—they, not surprisingly, find few women with the requisite training and interests.

It's no secret with today's research statistics that women can do almost any job put before them. They are doctors, professors, writers, bankers, lawyers, pole climbers, athletes, plumbers, electricians and dozens of other things.

Princeton's Educational Testing Service, which prepares the Admission Test for Graduate Study in Business, has found that the typical woman entering graduate business school today is not much different from her male

Mrs. Foster gave the talk on which this article is based at the Bank Administration Institute's 52nd national convention.

counterpart: Both are ambitious, aggressive, self-confident, independent and capable of making decisions. Both have the same graduate point average and test scores (*Mademoiselle,* Sept., 1974. "Executive Jobs: How You Can Land Them." Nancy Axelrad Comer).

Education magazine reported in 1974 that on the standard Law School Admission Test, female candidates have outscored men consistently for the past several years.

But isn't it interesting to note that of the 20 major corporations surveyed by *Harvard Business Review* in 1973, only 1% of the managers, officials and professionals were women. A 1972 *Fortune* survey of 1,220 large corporations showed that the ratio of men to women on top board member and officer positions was 600 to one.

Encouragingly, in the past few years, IBM has tripled its number of women managers; women (in 1974) were a grand total of 4% of its managerial work force. More grim statistics: Although 40% of the American work force is female, only 2% of workers making over $25,000 a year are women, and less than 1.2% earn $15,000 or more compared to 16% of men (*Mademoiselle,* Sept., 1974. "Executive Jobs: How You Can Land Them." Nancy Axelrad Comer).

Cynthia Fuchs Epstein, associate professor of sociology at Queens College, told a Stanford University conference on women in management in April, 1974, that "even where women are given higher-level administrative jobs, these are positions which are not on a track to management, but rather are on ancillary routes. . . . Women tend to get jobs which are actually and symbolically less visible. Actually, because they do not have contact with clients and with the market; symbolically, because the jobs they have are not defined as crucial."

Certainly, we see what Mrs. Epstein is talking about at work in banking. If we are to continue to upgrade the quality of professional bankers we have, women finally must be admitted to the avenues leading to upper ranks in real estate, commercial lending, agriculture, top-level positions in trust and, finally, to executive board positions.

We must let high schools and colleges know early in the game that women are welcome in truly responsible and productive positions in banking if we are to attract the caliber of women students who now seek professional fulfillment elsewhere.

However, advancement opportunities do not occur only in upper echelons. What are the prospects of providing advancement opportunities for the 90% of banking women now in clerical jobs? When administrative support and teller jobs were male, they used to provide avenues to advancement, but they were different jobs. The teller job, since it became a predominantly female job, has been simplified and glamorized. To change it back into an avenue for advancement, the job would have to be enriched and professionalized.

In banking's past, there was only one level of entry and a very small number of career paths. Now there are many levels of entry and multiple career paths. Women, however, were left behind at the original entry points. The new entry points have changed the nature of their jobs and put an effective ceiling on their advancement. We can't go back to the old structure to give women the opportunities they were denied in the early part of the century. Nor can we live easily with the inequities the old prejudices have bequeathed to the new structure.

"A bank that starts adding men to its teller lines deserves a higher nondiscrimination score than one that adds a woman to its board."

In a period of cultural transition as major as the one we are facing with changing sex roles, we are all in trouble —women, men and organizations—until we arrive at some consensus on a new set of rules.

The lesson to be learned from the transsexual shift in the teller job is that a switch from male to female does not represent progress in providing equal opportunity. Jobs tip just as neighborhoods do, and it takes effort to stop them from doing so.

The ideal is to have men and women coming in at every entry point in proportions equal to their representation in the labor force and from there to have movement up dependent wholly on individual ability and interests. Until men and women are in the same career paths, movement up cannot depend wholly on individual abilities and interests.

A bank that starts adding men to its teller lines deserves a higher nondiscrimination score than one that adds a woman to its board. Men as clerk-typists and secretaries earn even more points.

Our modern world is filled with causes and issues. All seem very important to the people involved in them. But I think it's safe to say that the rewards to be found in offering women a creative and fair environment in which to work, as well as the proper training and opportunity for advancement, are abundant for both men and women.

Women, after all, are nothing more nor less than human beings and individuals first. The mystique and false assumptions that have so long surrounded any area they occupy should be cast aside now to everyone's benefit.

By freeing women to whatever capacity each is capable of, we build a better and more productive world for us all. For truly, the liberation of women is nothing more than the liberation of men and all of society as well. • •

Assemblies for Directors Beef Up Next Program

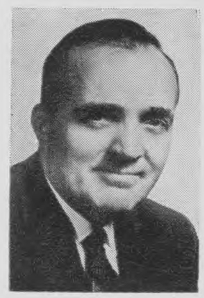
Due to the recent devaluation of the Mexican peso, additions have been scheduled to the program of the Assembly for Bank Directors, to be held in Mexico City February 3-6.

Program additions include daily breakfasts, a dinner and program at a well-known restaurant and additional informal discussion sessions.

The Assembly program meets the standards specified in the new tax law regarding deductions for foreign conventions, according to Richard B. Johnson, director.

Information about the Assembly can be obtained by writing to Box 214, Southern Methodist University, Dallas, TX 75275.

Edgar Savidge Dies



Edgar T. Savidge, former ABA executive manager, died last month at the age of 61 in New Brunswick, N. J.

His career spanned 25 years at the ABA. He joined the association's staff in 1946, following military service in World War II. In 1948, he was named secretary of the ABA agricultural commission; in 1967 he was appointed director of the banking education committee; and he took the executive manager post in 1969.

On his retirement from the ABA in 1971, he became business administrator of the city of New Brunswick, a position he held until 1975.

He was named a trustee of Rutgers University in 1965 and served as chairman from 1974 to 1976. He was a member of the university's board of governors at the time of his death.

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Community Involvement

Community Commitment:

Bank Appoints Officer To Help in City Planning

For six years, Citizens State, Milford, Ill., has backed a commitment to its community by having a community development officer on the bank's staff. That post was filled just recently by William Adsit, who was reared in Milford and holds a master's degree in public administration from East Texas State University, Commerce. He also has had experience with the Texas Rehabilitation Commission and was an administrative assistant to the city manager of Commerce.

According to Citizens State, the objective of the community development officer post is to help Milford improve and realize its stated goals. This will involve working with the city; the village administrator; the steering committee, which serves as a planning commission; Jack Sheaffer, city planner, and all other interested persons and organizations. Mr. Sheaffer is a noted planner from Chicago and has been employed by Milford to help develop plans for business-district improvements as well as to provide guidance in trying to realize community goals.

By adding Mr. Adsit's efforts to those of the other groups and persons working for a better Milford, Citizens State hopes that real progress will be made toward the city's goals.

Informative, Yet Entertaining:

Nat'l Geographic Specials Sponsored on TV by Bank

For the second consecutive year, First National in St. Louis is underwriting the expenses of St. Louis' educational TV station (Channel 9) in airing a series of eight National Geographic specials.

The series began December 7, with the telecast of "Treasure," the story of the dramatic search for the remains of a Spanish galleon that sank off the Florida Keys 350 years ago while carrying a fortune in gold and silver. Seven other programs are planned: January 18—"Voyage of the Hokule'a"; February 15—"The New Indians"; March 8—"The Volga"; March 29—"The Incredible Machine"; April 19—"This Britain: Heritage of the Sea"; May 17—"Search for the Great Apes" and June 14—"The Animals Nobody Loves."

"We are very pleased once again to bring this award-winning series to St. Louis viewers as a public service," says Clarence C. Barksdale, chairman and CEO of First National. "These programs, while highly informative, also rank among the highest quality of entertainment."

The programs were produced by the National Geographic Society, Washington, D. C., under a Gulf Oil Corp. grant.

For Employees, Tenants:

'American Enterprise' Films Sponsored by Bank in Tulsa

Employees of First National, Tulsa, and tenants of First National Tower are receiving in-depth looks at the country's economic system through a film series entitled "American Enterprise."

The films trace the growth of the economy "from colonies to computers" in five 30-minute installments covering the topics of land, people, innovation, organization and government.

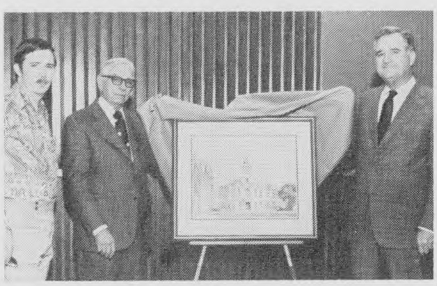
The films are shown in the bank's First Place Auditorium during lunch hours and after work on five separate days.

The films were produced by the Phillips Petroleum Co. as part of the firm's marketing emphasis on free enterprise.

Six Historical Drawings:

Bicentennial Art Project Unveiled by Ark. Bank

As the nation's 200th year came to a close, National Bank of Commerce, Pine Bluff, Ark., announced a bicentennial art project. President William H. Kennedy Jr. kicked it off by unveiling the first of six historical drawings that will be included in the project collection. The first drawing—created by Arkansas artist Richard DeSpain—is called "Jefferson County Courthouse—April 27, 1976." It depicts the 136-year-old building as it appeared the day before it was destroyed by fire.



William H. Kennedy Jr. (r.), pres., Nat'l Bank of Commerce, Pine Bluff, Ark., presents drawing of "Jefferson County Courthouse—April 27, 1976" to Jefferson County Judge Joe T. Henslee (c.). At l. is Arkansas artist Richard DeSpain, who did the pen-and-ink original. Courthouse, 136 years old, was destroyed by fire April 28, 1976.

"This drawing of our beloved Jefferson County Courthouse is representative of the historical content that we hope to offer the citizens of this area through the remainder of the commissioned program," said Mr. Kennedy at the unveiling. "Plans to implement the art project were begun several months ago with historical research, scheduling and the commissioning of Mr. DeSpain. We are extremely happy about this first drawing and look forward to publicly presenting the remaining drawings as they are created."

Mr. Kennedy presented the framed original drawing to County Judge Joe T. Henslee to be displayed by Jefferson County for three months. After that, the drawing will be retained by the bank as part of its permanent art collection. In turn, NBC will give the county the first of a series of signed, limited-edition prints of the courthouse drawing.

Remaining limited-edition prints will be presented to the National Archives, the governor's office, the Arkansas History and Jefferson County Historical commissions, the Southeast Arkansas Arts & Sciences Center, the Pine Bluff Library, the National Bicentennial Commission and other selected organizations and individuals.

"To our knowledge," said Mr. Kennedy, "this is the only drawing of its kind of the courthouse. It is a beautiful representation of the architectural design of the structure. This creation not only has historical significance, but deep, sentimental value as well. It is a recreation of the courthouse as it looked the day before it burned and as we will always remember it."

Helping the Needy:

250 Thanksgiving Treats Given by Bank Employees

For the fifth consecutive Thanksgiving, City National, Detroit, and its 1,100 employees put together 250 holiday baskets of food to help less fortunate families have special holidays.

The bank purchased a turkey for each basket and employees provided canned goods and dry staples to complete each basket. Employees also coordinated assembly and delivery of the baskets.

Names of recipients were provided by social agencies.

Complete Data Processing Service Provided by $160-Million Bank

"THERE'S A whole new world in banking today, and we intend to be leaders in it!"

Those words would be predictable, coming from financial leaders in the nation's money centers, but attribution to G. Thomas Andes, executive vice president, First National, Belleville, Ill., might surprise some bankers throughout the country.

Why?

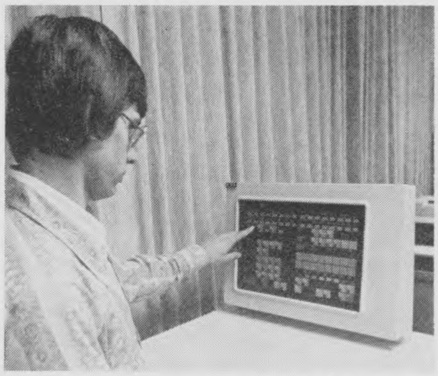
First, First National is a relatively small bank of about $160,000,000 in assets. Second, the Belleville bank is located in a solidly conservative midwestern town of 44,000 where one might expect a reluctance to adjust to innovations in banking philosophy and services.

But officers of Belleville's First National don't thrive on the aged maxim that "what worked yesterday is good enough for today."

Instead, First National has emerged as a leader in modern banking practices, being the first commercial bank in the nation to process customer transactions with the International Business Machines 3614 consumer transaction facility, a component of the IBM 3600 finance communication system.

In August, 1975, First National installed three IBM 3614 self-service terminals at its banking sites—the main bank in downtown Belleville, a drive-in facility several blocks from the main bank and a branch office at nearby Scott Air Force Base.

Three employees of First Nat'l of Belleville's data processing dept. operate IBM 3270 information display terminals. From left, women are Vicki Westerfield, Sunae Holtgrave and Virginia Kaemmerer.



Eugene A. Busekrus of First Nat'l of Belleville's data processing dept. operates IBM 3704 communications controller.

Using their "Magna Carta" magnetic stripe identification cards at any of the three automated teller machines, customers may make cash withdrawals from their checking or savings accounts, as well as a variety of other transactions.

"We went into the automated banking facility system for several reasons," Mr. Andes says. "Basically, we have the philosophy that we are a retail bank and that we cater to the consumer public. We have a large base of 36,000 customers."

Emphasizing services, Mr. Andes explains, "We're interested in anything to improve our offerings to the customer. We feel they are the new world in banking. Our background in data processing really has prepared us to provide them the new services at a rapid pace."

Data processing at First National includes a complete IBM customer information file system programmed on the bank's IBM System/370 Model 135 computer. The IBM 3600 finance communication system at the bank features the three IBM 3614s, an IBM 3601 finance communication controller, an IBM 3604 keyboard display terminal and one IBM 3610 document printer.

Mr. Andes and other First National officers studied the ATM system carefully. Mr. Andes says, "Though we knew we wanted to go with the automated teller machine, we also knew we did not want to go with just a cash-dispensing machine. It would have been just an advertising and marketing gimmick. With just a cash-dispensing system, a bank serves only an elite 20% of its customer base. That did not meet our criteria. We wanted to serve *all* our customers, and that meant the automated teller machine had to have the means to be on-line to all the information they might need to do their banking."

The move into electronic funds transfer systems (EFTS) is a vital move for any bank—and it can be expensive. Vice President Andes states, "A tremendous number of bankers are not aware of changes, such as the electronic funds transfer system, taking place in the business; others have not admitted these changes are coming. But many of us say the changes are here now and we want to exploit them."

Mr. Andes continues, "Take some owner of a comfortable $20-million bank in central Illinois where everything is going smoothly. If I come along and start talking about EFTS, the natural response deals with cost justification. Well, you're barking up the wrong tree when you try to cost justify the inevitable. We bankers have never tried to cost justify drive-in windows. We put them up because they obviously were needed, and the cost justification came through increased business."

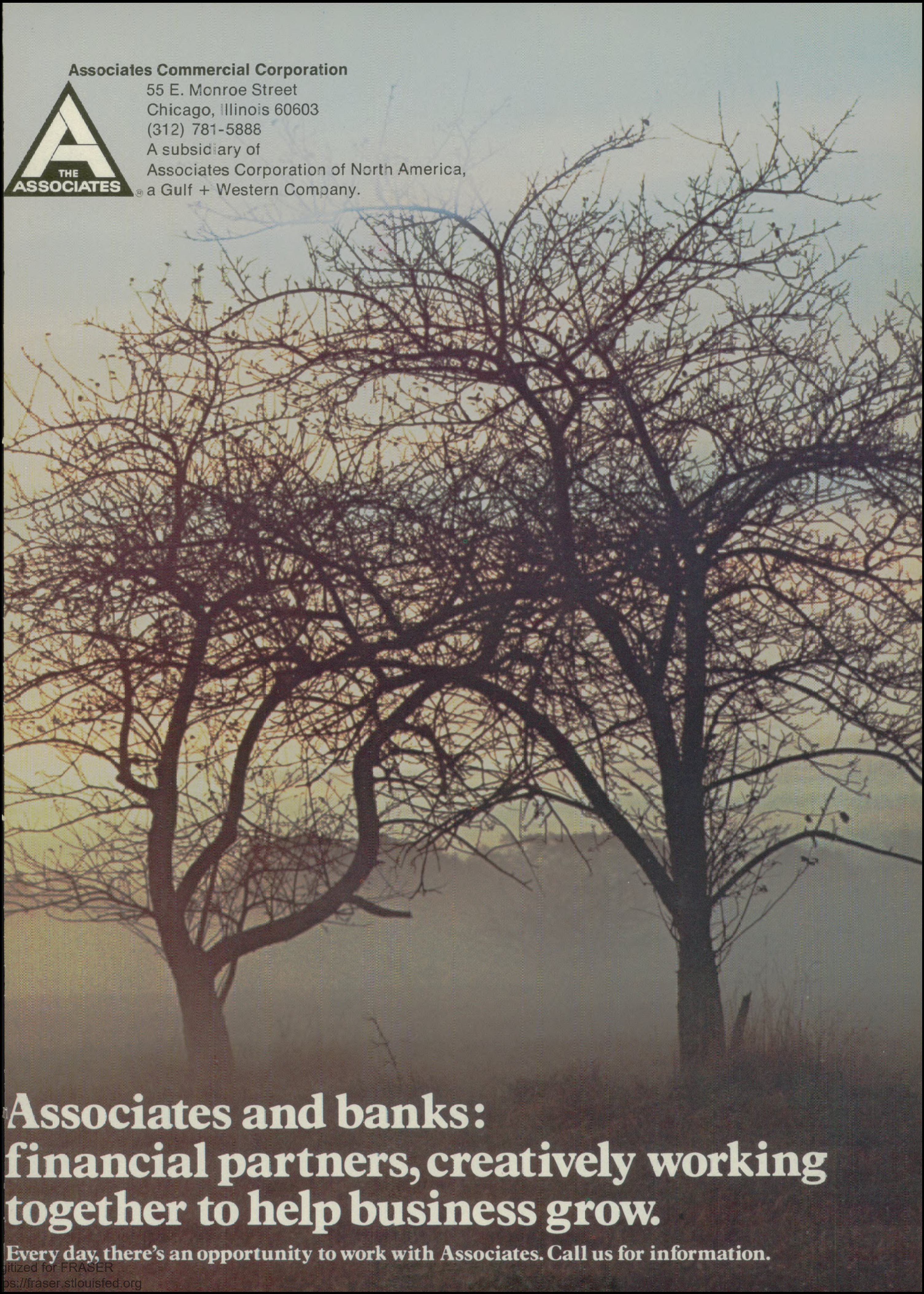
Another banking concept undergoing great change across the nation has to do with customer service. In the past, personal contact was of extreme importance; today, the focus is shifting to "convenience."

"Customers don't fight traffic every Friday or Saturday night because they like us," explains Mr. Andes. "They have a need. They want to cash a check or make a deposit. Banking is no big thing to the guy on the street who has a job."

"EFTS means convenience," Mr. Andes says. "We're giving our customer 24-hour service with the ATM. Last Thanksgiving day (and the preceding night), we had 751 ATM transactions. That is meaningful convenience."

First National officers offer many services through their automated teller machines, including customer deposits, transfer of funds between accounts and accepting payments with either a check or cash or from an account. Such services give First National the honor of being the first bank in southern Illinois to offer such services.

Being only 10 miles from St. Louis places First National in competition with Gateway banks. Most Belleville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residents work in St. Louis. Recognizing this competitive problem, the Belleville bank decided in 1965 to enter the customer information world with the purchase of a computer.

Prior to 1974, First National processed for itself and two other banks. Now, the bank does data processing work for nine banks. Three of these banks previously dealt with larger St. Louis banks. "Bank sharing helps reduce cost factors," says Mr. Andes. "If we can share our terminals, we increase revenues. And the name of the game is returning profits to our shareholders."

The IBM System 370 Model 135 computer has been a big help to First National's Scott Air Force Base facility.

"At our Air Base office," Mr. Andes notes, "A military person's pay check may be mailed directly to the bank for deposit. Prior to this service, which we couldn't do without our computer, we had to get everyone in the bank to help deposit the 5,600 military checks. There were many errors. Now with the computer, instead of bundles of checks, we get computer tapes. The computer automatically credits the account and types the deposit slip. Then we mail it to the customer. Few, if any, errors occur."

The bank's data processing manager, Melvin F. Weck, reemphasizes taking banking services to the customer.

"If you're providing the kinds of services your customer deserves," he says, "you have no fear of losing that customer. I don't believe people who have been banking at one institution want to change that rapidly, if they are getting the type of service they ought to be getting. We thrive on competition and we're ready for the large banks across the river in St. Louis if they decide to install automatic teller machines."

Mr. Weck feels First National is a genuine leader in EFTS, saying, "Our last two banks signed up for processing with us because of our leading role in EFTS. One already has an IBM 3614 installed and has issued our Magna Carta card."

Any great change in banking services necessitates a strong marketing plan and Wayne Schlosser, director of marketing for the bank, says, "I knew our greatest challenge would be getting people to accept the new service. Other bankers told me that customer education was a primary concern, and I knew that our customer base here would be prone not to accept something new. They are very hesitant to accept innovative things—except for Scott Air Force Base, where they were very eager."

Mr. Schlosser feels that having people demonstrate the system at the bank's three facilities was extremely important.

"We worked with each individual customer who was interested in seeing how the machine worked," he says. "The demonstrators were trained and chosen because they had outgoing personalities and were friendly."

"Our printed instructional materials were kept very simple," Mr. Schlosser adds. "We had one instruction per page with photographic illustrations. When we add new ATM services, we go back and follow the same methods."

Mr. Schlosser expects 60% to 70% of the bank's customers to use the ATMs eventually.

In summarizing the future in banking, Mr. Schlosser says, "Our business will always need a friendly, personal attitude in dealing with our customers, but the friendly banker of tomorrow must provide other services than just dispensing money or receiving deposits across the counter."

And Belleville's First National seems to be well into that future. • •

First Nat'l of Belleville's IBM 3614 consumer transaction facility—"Magna Carta"—enables customers, by using special magnetic-stripe identification card, to deposit to or withdraw from their checking and savings accounts, check balances in those accounts, transfer funds between accounts and make payments. Customers may withdraw up to several hundred dollars from their accounts. Terminal is linked to IBM System/370 Model 135.

EDITOR'S NOTE: Banks that want to set up programs similar to the one described in the accompanying article can save themselves trouble by taking advantage of First of Belleville's offer of a complete software package and marketing program. The latter is available for a fee by contacting G. Thomas Andes, executive vice president of the bank, located at 19 Public Square, Belleville, IL 62222.

Ambrosiana:

Holiday Art Exhibition Features Rare Treasures

Sears Bank, Chicago, held a holiday-season exhibition of 102 art treasures usually seen only by select scholars. The fourth in a series of major exhibitions at the bank, the selection was comprised of medieval and renaissance art from the University of Notre Dame's Ambrosiana Collection.

Included were works by da Vinci, Dürer and Michelangelo; illuminated manuscripts and art from the Middle Ages also appeared in the showing. The collection was obtained from the Ambrosiana Library—said to be the first public library of its time—which was created in 1609 from the collection of its founder, Cardinal Federico Borromeo, archbishop of Milan.

The works in the Sears Bank showing were microfilmed from books, and, because of that, their colors and contrasts haven't faded from exposure to light. The exhibition was open to the public on weekdays during banking hours.

Bank Tax Management Program Offered by Citibank

NEW YORK—A program offering banks a broad range of services in the management of the bank tax function is described in a recently issued brochure by Citibank. Thrust of the program is determining how a specific bank administers taxes within the institution and the impact proper tax planning can have on profits.

The program is managed by Citibank tax authorities who review financial statements, prior tax returns, annual reports, 10-Ks, etc. A survey is made to determine the areas of greatest financial impact on a bank's current tax position and to suggest what procedures should be modified to assure more adequate control.

Clients of the program are usually banks with $200 million or more in assets.

Arthur Norris Dies

ST. LOUIS—Arthur C. Norris, 68, contributing editor, MID-CONTINENT BANKER, died of a heart attack Thanksgiving Day, November 25. Mr. Norris, on MCB's staff about eight years, wrote articles for the magazine and wrote or edited several books, including "How to Write Bank Publicity and Get It Published," "How to Plan, Organize and Conduct Bank Anniversaries, Formal Openings, Open Houses" and "How to Plan, Organize, Conduct an Incentive Campaign."

During Mr. Norris' long journalistic career, he worked for various newspapers, including the Chicago *Tribune* and the St. Louis *Post-Dispatch*.

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Our people never stop working to minimize annoying rejects, returns, and lost items. And they really do a job.

Just take lost items for example. Continental's lost item rate per 100,000 checks processed is only 13...while the national average is 29.*

And this means our correspondents save money by spending a lot less time inquiring about problems.

Join the Continental Correspondents who enjoy the advantages of our check processing service. Call John Tingleff at (312) 828-2191 to find out why it's the best in the business.

*National figure is taken with permission from the 1975 Bank Administration Institute Survey of the Check Collection System. Continental Bank figure is as submitted to the Survey.

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New Orleans Site:

Bank Marketing School To Hold Session in April

The Graduate School of Bank Marketing will conduct its first session April 3-8 at the International Trade Mart in New Orleans. Director of the new school is Dr. Donald E. Vinson, associate professor of marketing, University of Southern California.

Enrollment in the school is limited and is open to employees of retail banking institutions. The curriculum consists of two sessions, held a year apart. Between sessions, each banker will work on a marketing plan for his or her bank.

The faculty will come from universities, business corporations, advertising agencies and commercial banks. Bankers on the faculty include Peter G. Vajta, vice president and manager, marketing department, Crocker National, and John J. Nachtrieb, vice president in charge of marketing for the California division, Bank of America. Both banks are headquartered in San Francisco.

Paul Steen, vice president, Bank of New Orleans, and a director of Bank Marketing Association, serves as an advisory director of the school.

Information on the school can be obtained by writing to Box 17390, Baton Rouge, LA 70893.

Seeing Double in Ft. Wayne

Peoples Trust Bank, Fort Wayne, Ind.—with the help of paint and a brush—turned an uninspiring side wall of its building into an exact duplicate of the front exterior. The clock is there, as are the bank's columns, a cat in one window and a bald-headed man watering a plant in another. According to Wallace J. Fosnight, a.v.p., the "doodling" project has created a lot of favorable comment.

Football Pro Judges Dolls

Bob Rowe, defense tackle, St. Louis Football Cardinals, was judge at 27th annual doll dressing contest at Boatmen's National, St. Louis, last month. Dolls were purchased by bank and given to employees, who provided clothes. After being displayed in bank's lobby, dolls were donated to needy children as Christmas gifts.

Service Still Counts:

TV Ads Improve Image Of Banking, Report Says

Television advertising by the American Bankers Association has improved public attitudes toward banks, according to a report by Communicus, Inc., Los Angeles, a firm commissioned by the ABA Communications Council.

According to the study, the TV ads produced changes in a number of public attitudes during the nine-month period ending last May: improved image of banks, increased support for private ownership of banks and increased opposition to more government regulation of banks. In addition, an ABA spokesman says, the campaign offset negative changes that would have occurred without advertising.

While the advertising campaign was "factual" and "low key," the spokesman adds, the ABA advertising is "only an adjunct to the grassroots performance of America's bankers" and that "banking's good public image results primarily from day-to-day service rendered by thousands of individual bankers."

Communicus interviewed hundreds of adults in 15 cities throughout the nation in August, 1975, and again last May, correlating their attitude changes and awareness of ABA advertising. The first interviews resulted in 36% of the respondents favoring more government regulation of banks, but by May that figure had decreased to 27%. A Communicus spokesman attributes the decrease almost totally to the ABA advertising, since the decrease was 19% among those aware of the advertising and only 2% among others.

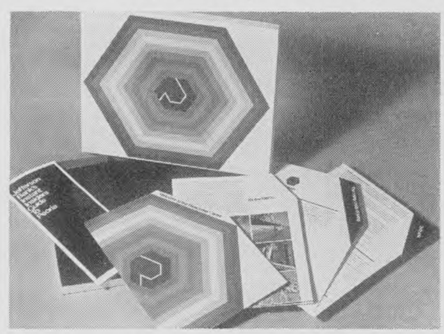
In the August survey, 66% were found to favor continued private ownership of banks, a figure that decreased only 2% by the time of the second survey. However, the Communicus spokesman says, a breakdown showed a range from a 5% decline among those unaware of ABA advertising to an 8% increase among those aware of two or more commercials.

In the August survey, 62% agreed that banks "help us get many material things we would not have otherwise," and in May, the percentage had risen to 65. The advertising offset a slight decline, the research firm spokesman says, because in this category there was a 3% decrease among those unaware of ABA advertising, an increase of 9% among those aware of one commercial and an increase of 5% among those aware of two or more commercials.

For Newcomers:

Bank Builds Business With 'Irresistible Boxes'

Jefferson Bank, Peoria, Ill., has been employing an "irresistible box" as the focal point of its campaign to attract new residents and businesses as customers. The brightly colored gift boxes, which are sealed in a transparent plastic "skin," are said by a bank spokes-



"Newcomer Box" of Jefferson Bank, Peoria, Ill., is brightly colored box containing guides to entertainment, living costs, history and other features of Peoria. Used as gifts to new residents, business customers, the boxes have proved to be a successful promotional item and low-cost means of introducing bank to newcomers.

man to be "virtually impossible not to open."

The boxes contain a map and street guide of Peoria, an insiders' guide to Peoria (featuring information on arts, dining and a number of services available in the town) and printed materials delineating costs of living in Peoria, the town's history and data on the local schools.

A similar "newcomer box" was designed for new business banking and trust customers. Besides the above materials, these boxes contain small premiums such as tape measures or money clips.

Has the program met with success? Yes, says the Jefferson Bank spokesman. Peoria is a town with 12 banks and seven S&Ls, and in the first four months of the "Newcomers" program, more than $1 million in mortgage applications was received by Jefferson Bank. The community's business leadership pledged its support of the concept because of its value as a public service, and in the program's first week, a local medical center requested 23 of the boxes for physicians who were about to move to Peoria. By the end of the campaign's third week, the boxes had been shipped to points throughout the U. S. and one had been airmailed to Caracas, Venezuela.

The bank spokesman says the institution's visibility in the business market has been raised measurably, at a per-head cost of about $3.50. Jefferson Bank uses the boxes with success for "cold canvass" calls, allowing new-business personnel to concentrate on follow-ups.

"Besides being a viable form of promotion for any of our bank services," the Jefferson Bank spokesman adds, "the newcomer boxes, whose cover design is an 'amplification' of our logo and service mark, is attractive enough just to hang on a wall." As a matter of fact, one of the boxes was displayed last June at the International Design Conference in Aspen, Colo.!

Club Project:

High Schoolers Make $ Delivering Bank Ads

National Bank of Commerce, Austin, Tex., came up with a unique idea that enabled it to conduct a community relations program and promote bank services at the same time.

The bank utilized the Anderson High School Distributive Education Club to deliver brochures touting the bank's NBCAdvantage package services plan. Club members delivered the brochures to homes in the bank's trade area at a cost considerably less than postage rates.

Bill Cone (l.), pres., NBC, Austin, Tex., presents $600 check to Steve Bessner, pres., Anderson High School Distributive Education Club, as payment for delivery of package account brochures to homes in bank's trade area. Faculty sponsor of club (r.) and other club members register approval.

From the first day of distribution, the bank received response. Some were inquiries and some were new accounts. During the first month following the promotion, 30% of all new accounts opened were NBCAdvantage accounts. During the second month after distribution of the brochures, 67% of the new accounts were NBCAdvantage accounts.

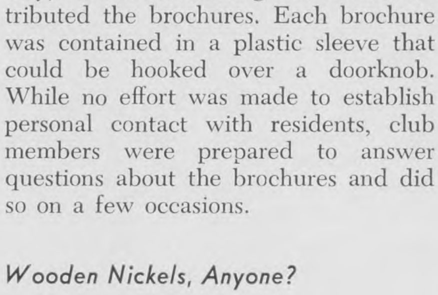
After the bank defined its trade territory, club members organized and distributed the brochures. Each brochure was contained in a plastic sleeve that could be hooked over a doorknob. While no effort was made to establish personal contact with residents, club members were prepared to answer questions about the brochures and did so on a few occasions.

Wooden Nickels, Anyone?

Late-1800s Festivities Mark Branch Opening

What do you do to call attention to the opening of a new branch in a country store setting in a historic neighborhood? Hold a country fair in a big blue-and-white striped tent!

But that's not enough, according to officials at Liberty National, Louisville, the bank that recently opened its 37th branch, this one in nearby Anchorage. A jug band provided Bluegrass music and those attending the Saturday afternoon fair could watch puppet shows, a checkers tournament, take part in a ragtime piano sing-along, drink hot cider and eat roasted peanuts. For souvenirs, they could scoop up wooden nickels!



Exterior of Liberty National of Louisville's Anchorage Branch recreates appearance of old country store.

Anyone opening a new checking or savings account at the branch with $100 or more was the recipient of a hardback pictorial history of Anchorage architecture published by the bank as a community service. Customers adding a like amount to an existing account were also eligible for copies of the limited-edition book.

The branch occupies about 110 square feet in the Country Store in Anchorage. Decor is late 1800, and the building's exterior is finished in rough-sawn red oak, set in a chevron pattern. A hand-wrought iron grille, with an arched teller's window typical of the last century, circles the top portion of the interior installation. An antique safe with decorative decal ornamentation is among the special equipment. It is a hand-me-down from one of Liberty's other branches and hadn't seen service for a number of years.

More Profits:

Value of Christmas Clubs Is Indicated by Survey

An increased marketing effort by a bank to generate Christmas club memberships is likely to result in increases in other account relationships and greater profitability. Those were the findings of Christmas Club a Corp., Easton, Pa., in a nationwide study.

Conducted by Unidex Corp., Bloomington, Ind., and using a sampling of 2,051 adults in 34 scientifically selected locations across the country, the report showed that members of Christmas clubs are significantly more profitable to their financial institutions than are nonmembers.

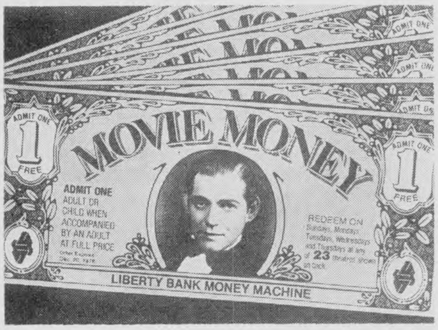
According to the survey findings, members of Christmas clubs are more likely to avail themselves of all other major banking services, passbook savings accounts, CDs, overdraft checking, installment loans and credit cards in particular.

The study also showed that slightly more than 75% of Christmas club members have used their primary institution more than six years, compared to only 61% of those not belonging to such clubs.

Bank Invites ATM Customers To Evening at Movies

LOUISVILLE—Liberty National has invited all customers of its "Money Machine" ATMs to spend an evening at the movies.

"Movie Money" coupons were offered to any customer using one of 23 Docutel machines that the bank has in 20 area locations. The coupons were good for free admittance to a participating theater when the bearer was accompanied by an adult who paid the full admission price.



A young Clark Gable was one of several movie heroes featured on "Movie Money" coupons of Liberty Nat'l, Louisville. Coupons were part of promotion by bank to increase customer use of "Money Machine" ATMs and to attract new banking customers. "Movie Money," which were free passes to participating theaters, were free to anyone using one of ATMs during promotion.

"Movie Money" was promoted through 30-second TV and radio spots, while newspaper ads in two Louisville dailies were scheduled periodically throughout the campaign. Supplementing those were outdoor billboards and statement stuffers.

The promotion was part of Liberty National's "Liberty helps you do more with money" campaign, a long-term promotion whose purpose is to stimulate use of the ATMs by existing customers and to attract new banking customers.

EFT Public Policy Issues Discussed in CSBS Paper

WASHINGTON, D. C.—A 38-page white paper entitled "EFT and State Regulation: Issues and Alternatives," has been released by the Conference of State Bank Supervisors.

Prepared for CSBS by Golembe Associates, the paper seeks to identify public-policy issues related to EFTs that should be of concern to state regulators. It also suggests regulatory alternatives.

It identifies four EFT public-policy issues in the consumer protection area —convenience, pricing of services, system security and privacy.

While competition is generally the best assurance of fair pricing, the paper notes that EFT may evolve in such a way that monopoly or arbitrary pricing may result; a development that would constitute a major regulatory issue for the states.

Copies are available at $5 each from Glenn L. Allen Jr., director of supervisory procedures, Conference of State Bank Supervisors, 1015 18th Street, N.W., Washington, DC 20036.

'William Teller' Introduces ATM Banking to Birmingham

A comprehensive marketing program was conducted in Birmingham, Ala., recently to acquaint residents with William Teller, a happy, red-haired caricature of a man representing the newly installed ATMs of First National.

The bank installed 12 ATMs at branch locations early in November. The units are activated by plastic debit cards and customers can use them around the clock.

Services that can be performed on the ATMs include cash withdrawals from checking and passbook savings, deposits, funds transfer, account balance verification and installment loan payments, including Christmas club and Master Charge.

Most of the bank's checking account customers received debit cards prior to the opening of the ATMs. Each cardholder was asked to select a four-digit PIN number to be used to activate the units. Soon-to-be issued Master Charge cards will be compatible with the units and will be used for cash advances.

The bank utilized TV, radio, billboards, newspapers and magazines to promote the new service. To stimulate initial use of the machines, the bank issued to customers coupons redeemable for free hamburgers at a fast-food chain. Bank personnel were stationed at each machine during the first month of operation to aid customers unfamiliar with ATM operation.

The ATM units were made by IBM and they permit customers withdrawing cash to designate the denominations of the bills to be dispensed.

Print ad introduced William Teller ATM service of First Nat'l, Birmingham, Ala., to public.

SWACHA Names Director, Consolidates Two Offices As Operations Phase Nears

DALLAS—Bud Bowlin has been appointed executive director of the South-Western Automated Clearing House Association. The Houston and Dallas offices of the association were recently consolidated into one office, located here.

Mr. Bowlin's appointment will free current co-executive directors, Fred Redeker and Charles Metz, from the duties of directing the association. Mr. Redeker will continue as executive director of the Houston CHA and Mr. Metz will pursue his interest in cash management services in the Dallas banking area.

Prior to his appointment, Mr. Bowlin served as director of sales for Datotek, Inc., a Dallas-based manufacturer of communications security equipment.

The consolidation of SWACHA's two offices was in keeping with the association's plans to change from an organizational mode to an operational mode aimed at:

- Increasing the volume of ACH transactions.
- Expanding the membership within the 11th Federal Reserve district.
- Developing an understanding of SWACHA services on the part of member banks, thereby enabling them to market ACH services effectively.
- Furthering public acceptance of ACH activities and promoting ACH services.

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—Charles Senning
Vice President, National Accounts and Secondary Market, MGIC

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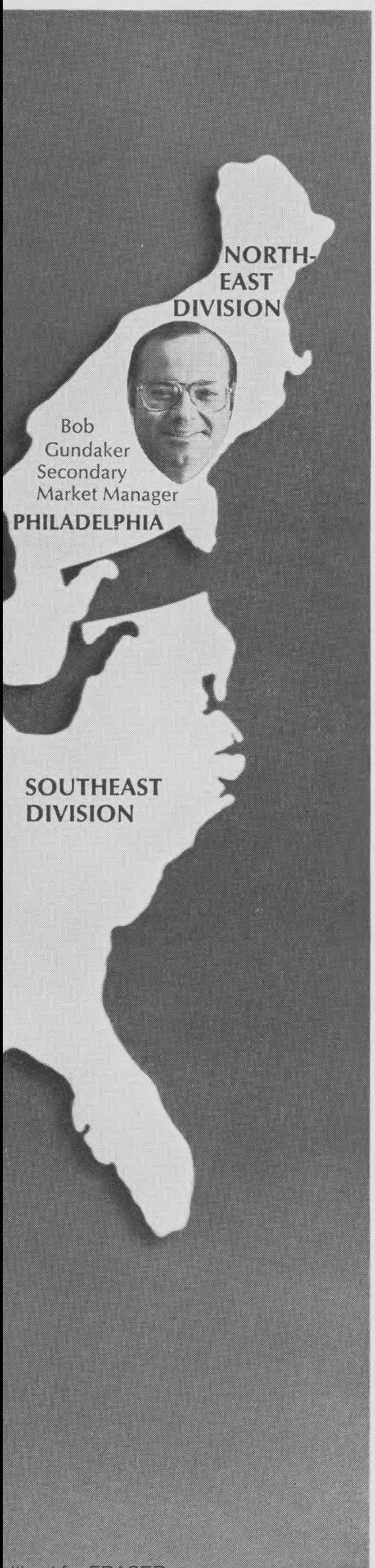

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(L to R) Bill Carpenter, Tom LaMalfa, Bruce Grubba, Bob Tenges. They are in daily touch with your local secondary market staff in each MGIC Division Office.

News From Around the Nation

Keogh Account Terms Improved

The Fed and the FDIC have issued amendments to regulations to improve the terms under which banks may offer Keogh plan retirement accounts.

The amendments extend to Keogh plan accounts the conditions established a year ago for IRAs.

Under the amended regulations, member banks may pay all, or a part, of a Keogh plan time deposit prior to its maturity, without the usual penalty for early withdrawal from a time deposit, when the depositor reaches the age of 59½ or becomes disabled.

Also, in the case of Keogh plan time deposits, it is no longer necessary to have on deposit a minimum of $1,000 in order to earn the 7¼% interest rate available for four-year time deposits, or the 7½% available for six-year deposits.

According to the Fed, the first amendment allows avoidance of the loss of interest usually required when funds are withdrawn before a time deposit matures. As a result of the amendment, banks may distribute the full proceeds of a Keogh account in a single payment or in a series of annuity-like payments, without penalty, when the distribution is made in accordance with the Keogh plan agreement between the bank and the depositor.

The second amendment permits payment of maximum interest on amounts smaller than $1,000 in recognition of the fact that some depositors may not have that much money with which to start an account.

Reg B Revision Proposals Hit

Revised proposals by the Fed for changes in its Regulation B—intended to implement recent amendments to the Equal Credit Opportunity Act—were criticized by the ABA on the basis they may not help achieve the goal of equal credit opportunity.

A key problem, according to the ABA, was congressional vagueness in the language of the amendments. The ABA advised the Fed to ask Congress publicly for clarification of its intent.

Three major questions about the proposals were raised that bankers believe will affect the effectiveness of the regulation:

- Banks should not be required to monitor equal housing credit by making and retaining notations as to applicants' racial and other characteristics. Rather, the Fed should evaluate the experiences of the FDIC and Comptroller in their pilot fair housing program before implementing the proposed information collection system. If such data must be collected, the ABA said, it should be done on a sampling basis by the appropriate enforcement agency.
- Language in the proposed regulation discussing an effects test of alleged discrimination should be eliminated, the ABA said. It added that, "since the courts will ultimately have to decide whether an effects test is appropriate . . . we believe that unless the Board is prepared to adopt very specific language . . . all discussion of effect tests should be deleted." The alternative would be unneeded litigation.
- Business and agricultural credit should be exempted from the procedural and notice requirements of the proposed regulation, though not from the prohibitions in the law, because business and farm credit decisions are more complicated than consumer credit-granting decisions.

In business and farm credit, the ABA said, "the terms and conditions of a loan proposal (may) change many times with the objective of the bank being to make the loan if it is justified."

Contribution Amendment Proposed

The acting Comptroller of the Currency has proposed that the ruling limiting charitable contributions of national banks be revised so that the amount of such contributions will be related to a bank's income before taxes, rather than to taxable income, as under the present ruling.

Specifically, the amount of charitable contributions in any calendar half-year could not exceed 5% of the sum of income before income taxes and securities gains or losses and gross securities gains or losses registered during the preceding half-year.

The amendment was proposed because the acting Comptroller thinks a bank with substantial income but with little or no taxable income should not be barred from making charitable contributions. A change to a different standard based on income before taxes would allow national banks with low taxable incomes to continue making charitable contributions and would simplify the process of computing the amount a bank could give to charity.

SBA Making Ag Industry Loans

The Small Business Administration is making loans to agriculture-oriented concerns because of a recent amendment to the Small Business Act that enables the SBA to assist small businesses engaged in farming and related activities.

The permitting legislation does not create any new SBA loan programs nor does it diminish the responsibility of the FmHA to meet the financial and other needs of farmers.

Loans of up to $350,000 and, in some cases, $500,000, will be available. To be eligible, annual gross sales cannot exceed $275,000. SBA's lending authority will make loans available to sole proprietors, partnerships and corporations.

Farmers who qualify can obtain loans to buy land, buildings, machinery, equipment and, in some cases, provide working capital.

Agricultural News

Agricultural Land Investment Fund Proposed by Continental Bank, Chicago

PLANS for a pooled agricultural land investment fund—said to be the first of its kind in the U. S.—were announced last month by Continental Illinois National and Merrill Lynch, Pierce, Fenner & Smith, Inc., Chicago.

Continental Bank will serve as trustee and investment adviser for the fund and Merrill Lynch will act as distributor, marketing the fund to corporate employee pension and profit-sharing plans.

Establishment of the fund is contingent on obtaining certain requested rulings from the IRS, according to Continental.

The proposed fund is designed to accommodate a maximum total investment of $50 million.

The bank said the fund's investments would be made in geographically diversified working farms that produce a variety of crops. The investments will be monitored by the ag experts in the bank's trust and investment services department.

"Although the concept of a pooled agricultural land investment fund is new, farm management is a field in which Continental Bank has a record of experience and expertise," said Charles R. Hall, executive vice president and head of the bank's trust department.

One of the reasons for the increased interest in U. S. farm land is that it historically has experienced significant appreciation in value, according to Mr. Hall. He noted that a major contributing factor to this has been rising domestic and international food demand and the growing prominence of the U. S. in the world's ag markets.

The two firms said the investment vehicle should be of particular interest to employee benefit plans that are seeking to diversify their investment portfolios. • •

'Dimension 60':

Theft, Fraud Are Topics Examined During Seminar

Three banks in St. Joseph, Mo.—First National, First Trust and First Stockyards—and Home Bank of Savannah, Mo., all members of First Midwest Bancorp., Inc., St. Joseph, have sponsored the second in a series of seminars for members of their Dimension 60 club for customers over 60.

"How to Protect Yourself Against Theft and Fraudulent Schemes" was the topic of the seminar. Guest speakers were members of local police departments. They discussed ways innocent persons can lose their money through confidence schemes, explained personal safety and gave home-security tips. Films on the respective topics were shown, and a question-and-answer session followed the talks.

The seminar's intermission featured a quartet from the Sweet Adelines singing organization, and refreshments and door prizes were given away at the end of the event.

The HC's Dimension 60 program was designed to benefit persons who are 60 or older with seminars and discounts from participating area merchants. Besides the age qualification, a Dimension 60 member must have a savings account or CD at one of the HC-affiliate banks.

Ice Sport:

Bank Sponsors Hockey, 'Scores Goal' in Its Area

Uptown Bank, Chicago, has "scored a goal" with many area residents through its sponsorship of ice-hockey teams comprised of local youngsters.

For the past few years, the institution has sponsored a Rainbo Arena team, whose members range in age from 11 to 14 years, by helping defray the cost of the team members' participation. "Interest in hockey," a bank spokesman says, "has received tremendous impetus in all communities, since a primary goal of the American major leagues is to develop native hockey players."

Besides enjoyment of the sport by participants, the spokesman adds, quite a few spectators generally are on hand for the games and are enthusiastic about the speedy competition.

Bank Sponsors Exchange Center

This is the specially constructed foreign currency exchange center provided by Mercantile Bank, St. Louis, for the International Junior Chamber of Commerce convention, which was held in St. Louis November 6-12. The center, which was located at the convention site, provided foreign currency exchange services to several thousand foreign delegates to the Jaycees Congress. Accepted by the exchange center was currency from many European, Central and South American, Asian and African nations. In addition, the center cashed travelers checks.

450 REASONS WHY INTERNATIONAL BANKING ISN'T FOREIGN TO COMMERCE.

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Forecast for 1977

Five Prominent Bankers Assess Outlook for Year

Oil, Gas Price Increases Benefit Oklahoma Economy; Inflation Remains Problem

By EUGENE SWEARINGEN
Chairman & CEO
Bank of Oklahoma, Tulsa

TULSA and eastern Oklahoma never felt the recession like the remainder of the United States. Energy is relatively abundant and relatively low priced. Navigation of the Arkansas River from Tulsa to New Orleans is having a desirable impact on transportation rates and quality of transportation. Recreational facilities are readily available in eastern Oklahoma, and more people have leisure time. Thus, 1977 will be launched on a modest decline of business activity in 1976.

Bank earnings for our area would have been up some 10%-15% over 1975 if it had not been for loan losses. Actual results that will be reported for 1976 for banks in our area will be widely different depending on their loan-loss experiences. Some banks will report zero earnings or even losses, but most banks will report earnings for 1976 of approximately what they were in 1975. Most of our banks feel that the larger loan losses are behind them, but the earnings picture for 1977 is going to depend on the improvement we experience in such areas as housing and agriculture, particularly cattle feeding. Assuming that the charge to operating expenses for loan losses decreases in 1977, most of our banks will report record earnings.

Retail sales for the first nine months of 1976 were $851,000,000 as compared to $728,000,000 for 1975. Merchants are experiencing a strong Christmas season.

In the Tulsa SMSA, the labor force expanded by 7,000 persons in the past year with only 4,100 of them finding employment. This caused an increase in the unemployment rate from 6.3% to 7.2%. Average weekly hours worked in manufacturing increased slightly in 1976, and average weekly earnings in manufacturing increased 10%.

Building permits were strong in 1976 compared to 1975. Number of commercial permits increased 48%, and number of single family permits increased 29%. Total value of all building permits increased 90%.

Credit is readily available on reasonable terms. Deposits in banks are up 7% over the previous year.

Considerable money has been flowing into savings and loan associations, and commercial banks are more willing to talk about home loans. Mortgage credit is available, and we anticipate that the terms will become more desirable in 1977 from the borrower's point of view.

Automobile dealers in eastern Oklahoma reported a record year for 1976 and believe that 1977 will be even better.

This economy has benefited tremendously by the increase in oil and gas prices. If natural gas prices are deregulated, as is anticipated under President-Elect Jimmy Carter, there will be greater incentive for drilling in Oklahoma. At the present time, we have the largest number of rigs actively drilling in Oklahoma that we have ever seen, and next year could be even brighter.

The average businessman in Oklahoma is optimistic and is willing to spend money to expand plant and capacity to meet future needs.

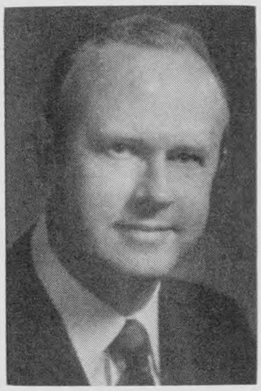
Electronic fund transfers systems are expanding carefully and slowly. Federal Judge Allen E. Barrow rendered what is considered to be the most favorable opinion yet regarding the operation of EFTS systems.

(As a result of the Bank of Oklahoma suit, CBCTs were held not to be branches of state or national banks. The state of Oklahoma had claimed CBCTs were branches. In other states where similar suits have been filed, CBCTs were held to be branches, and, thereby, subject to branching provisions of state and federal statutes. Because the Supreme Court has refused to review any lower court CBCT ruling, the Bank of Oklahoma case is the only one involving a national bank that has been successful in exempting CBCTs from federal branching law. It is significant that this case remains in full force and effect, as the appeal was dismissed by stipulation of all parties. —*Editor.*)

The major problem now is how to expand economically. Tulsa banks are working together to develop a system that meets the needs of the customer, but also is efficient from the standpoint of operating costs. It seems probable at this time that the system will be such that any bank could tie into it rather than having several banks develop proprietary systems.

Our trust department is optimistic regarding the prospect for upward movement in stock prices in 1977. We would not be surprised to see the Dow Jones Average reach 1,150 to 1,200 during 1977. We believe that the price earnings ratio on many stocks is near an historical low, and we anticipate at least a 10% increase in profits in 1977.

The greatest fear of bankers in our section of the country is inflation. The Carter Administration will have to walk a narrow path to stimulate the economy, reduce unemployment *and* hold down inflationary pressures. • •



Loan Demand Up 10-15%, Interest Rates Variable, As Houston Continues Boom

By BEN F. LOVE
Chairman
Texas Commerce Bank, Houston

TEXAS Commerce is indeed fortunate to operate in the nation's premier banking market. Over the last five years, the state of Texas, and in particular, the city of Houston, have experienced extraordinary rates of economic growth. And, economic activity in Texas and Houston during 1977 should continue to outpace that of the United States.

The primary reason for the inherent strength of the Texas economy is the broad-based and buoyant nature of its four major sectors: manufacturing, mineral production, construction and agriculture. The consistency of each sector's growth has made Texas less vulnerable to cyclical swings which have affected bank profitability elsewhere.

The following projections by Texas Commerce's Economics Division illustrate our expectations for a continuing dynamic Texas economy during 1977:

	% Change 1977/1976
Industrial Production	7.6%
Value Added by Manufacture	15.0%
Value of Mineral Production	9.0%
Farm Receipts	10.7%
Construction Contracts	17.3%
Personal Income	12.0%
Bank Deposits	10.5%

Nowhere is economic vitality more evident than in Houston. By attaining the position of the oil and petrochemical capital of the U. S., Houston continues to benefit from an influx of skilled labor and management personnel as well as from additions to its industrial capacity.

The Texas Gulf Coast (from Beaumont to Corpus Christi) already has 46% of our nation's basic petrochemical capacity and announced expansion plans in 1977 should increase that percentage even more.

Industrial production in Houston, which has far outstripped that of the U. S. in recent years, is expected to grow by 8.8% in 1977. While non-durable production led the way in 1976, durable goods—specifically non-electric machinery, lumber products and electrical equipment and supplies—will provide the impetus for growth this year.

Increasing industrial growth, in conjunction with a rapidly growing population, will require an even greater volume of construction in 1977. Houston should once again lead the nation in residential building starts with the 38,900 new units begun in 1976 possibly being surpassed this year. Building permits are expected to rise by a whopping 17% in response to the strong demand for both office space and housing.

Reflecting the area's growth, nonagricultural employment will increase by approximately 6% while the unemployment rate should remain substantially below the national average. Additionally, effective buying income is projected to rise 11%, possibly exceeding $17 billion by year-end. Finally, retail sales are projected to be 14% above the level of 1976, enabling Houston to remain the retail trade center of the South and Southwest.

Given the preceding economic scenarios for 1977, we expect overall loan demand to register a 10% to 15% increase during 1977.

Consumer lending should experience substantial growth despite intense competition from non-banking financial institutions. In the corporate sector, the liquid position of many businesses combined with the currently attractive nonbank sources of funds (i.e. commercial paper, private placements) have dampened loan demand in recent quarters. However, business credit demand in our market should be stimulated by the expected rise in capital expenditures.

Specific industries which should experience stronger demands for credit are real estate and construction, petroleum, chemical and oil field services. Additionally, the growth of Houston as a major international city is providing abundant trade and project financing opportunities in the international arena.

The science (or art) of predicting interest rate trends is at best an extremely difficult task. Nevertheless, we are currently projecting downward interest rate pressures to prevail through the first quarter with a slight upward movement beginning thereafter. Assuming our projected loan growth and interest rate trends are correct, we are cautiously optimistic in regard to our market's earnings outlook in 1977.

Congressional action on pending banking legislation and the development of EFTS are two issues which will continue to affect the banks in the Mississippi Valley and southwestern United States. My only suggestion to our legislators in Washington is to carefully study the impact that any regulatory change would have on the capital adequacy of our industry.

For example, the elimination of the prohibition of paying interest on demand deposits will increase our cost of funds, thereby causing a drain on capital. If that drain cannot be offset by increased service charges or higher interest rates on loans, bank regulatory authorities will demand an infusion of capital which could be difficult to obtain from investors. Equitable regulatory change is needed which increases competition without deteriorating the public's trust of financial institutions.

In regard to EFTS prospects, many barriers continue to exist to widespread usage of EFT-related services. The most important of these are a lack of consumer acceptance, the lack of uniform legislation and the unresolved question of profitability. Thus, the development of the whole gambit of services encompassed in the letters "EFTS" will remain slow in our market during 1977. • •

Loan Demand, Prime to Rise Deposit Rate to Be Lower On Memphis Economic Scene

By EARL H. TRIPLETT
President
Memphis Bank & Trust

BEGINNING with the post-World War II period, business, financial and political leaders wisely began a "Balance Agriculture With Industry" program in the multi-state trade area of which Memphis serves as the geographic and trade center.

This program attracted many new industrial plants in the smaller towns surrounding Memphis and gave Memphis itself a large distribution industry serving its now-balanced agricultural and industrial trade area. The economy of the Memphis trade area, while affected by the 1974-1975 economic slowdown, did perform at a better level than did the United States as a whole.

In 1976, there was improvement in our trade area's economy in spite of a drastic reduction in agricultural production—off approximately 30% due to drouth conditions in the area. As agricultural production decreased, improved prices for cotton and soybeans and increased industrial activity minimized effects of the reduced farm crop on our trade area's economy.

The outlook for the Memphis trade area as a whole for 1977 should continue to reflect good economic growth brought about by diversification of industrial activity in the area, along with improved agricultural markets and prices.

Continued sluggishness in the real estate and construction fields in Memphis and the other larger towns in our trade area will continue to be the most adverse factor in our economic outlook.

While the business and economic climate is affected substantially by the ever-increasing role of government, in the absence of any substantially adverse governmental actions, our trade area should reflect a prosperous 1977.

Foreclosures and non-accruals of real estate loans have reduced Memphis trade area bank earnings for most large-city-based banks in the 1974-1976 period. Problems in the real estate loan area and reduced loan demand from the economic slowdown of business in general will continue to have adverse effects on the earnings of most large city banks in 1977. Increased consumer loan demand and a stable balanced economy in many of the smaller towns and cities in our trade area will give banks in these areas good earnings opportunities during 1977. I expect 1977 bank earnings to improve as a whole in our trade area; however, soft loan demand and conditions of the real estate market will cause many banks' earnings to be substantially below industry average.

Bankers are now faced with some of the most critical problems since the 1929-1932 era. Demands for capital to finance the growth of banks and industry cannot be met in today's economic and political climate. Since our nation's leading economists project continuing inflation in our national economy at a minimum of 6% per year, there's no doubt that the traditional ratios of capital-to-deposits and capital-to-assets, which have been used by bank regulators, cannot be maintained at presently expected levels.

Equity and debt markets cannot presently supply the capital to fund the growth of banks, leaving retention of earnings our only source of capital. As the U. S. Congress continues to enact legislation that requires an increased volume of nonproductive and high cost measures applying to banking and other business, the problem of providing capital to fund growth becomes more acute. Bankers must take the lead in the business community to inform the members of our congressional delegation of the problems that have been and are being created by the multiplicity of costly and nonproductive so-called consumer laws and regulations.

As 1976 neared an end, interest rates returned to more traditional levels than forecast previously. Many banks and S&Ls were examining the rates paid on four- and six-year maturity CDs for possible downward adjustments. Since loan demand has slackened and the prime rate on loans has fallen to the 6% to 6½% level, the rates being paid on the long-term consumer CDs have been under pressure, and several banks and S&Ls have reduced rates on these longer-term CDs.

The first half of 1977 will find financial institutions in our trade area more liquid than they have been in many years, and interest rates on loans will be more competitive, while rates being paid for savings and time deposits will experience some minor reduction.

The second half of 1977 should reflect increased loan demand in agricultural areas and for consumer products as well as increased usage of lines of credit to businesses to fund inventory and receivables. We should see an increase in the prime lending rate from 1% to 2% above present levels during 1977.

As most banks try to relate the future of the electronic funds transfer system to their bank's operation, one question continues to be foremost and unanswered—*how will the tremendous cost of implementing the EFT system be absorbed by banks?* Proponents of electronic teller machines and other electronic equipment now being installed by primarily large banks in the metropolitan areas are utilizing statistics relative to number of transactions processed to justify utilization of the equipment, rather than cost/benefit comparisons. As the earnings for many banks continue to be under pressure, the cost/benefit question will become a larger and larger factor in EFTS development.

When the cost of educating bank customers to utilize the various EFTS devices is added to equipment and operating costs, most banks will be forced to adopt a step-by-step approach in their entry into the EFT system because of these tremendous costs. I expect a considerable period of time to pass before the EFT system is operational to any degree within the banking system as a whole. The necessary change of laws and regulations and the tremendous costs involved will necessitate a greater time interval for nationwide networks to be funded and made functional when compared to developments of other banking system innovations, such as the credit card.

The decade of the 1970s will be known as the period in which bankers became more involved in public affairs than ever before. As we bankers deal with the multitude of laws and government regulations and witness the power struggle among regulatory agencies vying for entry in the bank regulatory field, previously reserved for three federal bank regulatory agencies and state banking departments, it is clear that the only road to survival of the free-enterprise banking system is to become involved in public affairs and to support and take an active role in the bank trade associations that represent your views.

It also is very evident that bankers working together can be effective in the state legislatures and the U. S. Congress. Some of the proposals that we will have to support or oppose in 1977 are:

- Replacing state bank branching laws with more liberal federal law.
- More disclosure of previously confidential bank information.
- Allocation of bank loan funds for "equal-credit" purposes.
- Further consolidation of banks into a few statewide or nationwide systems.
- Additional regulation of banks by nonbank federal regulatory agencies such as Federal Trade Commission, Securities & Exchange Commission, Labor Department and Equal Employment Opportunity Commission.
- Entry of savings banks, S&Ls and credit unions into traditional commercial banking services fields.
- Federal Reserve Board proposal to require *all banks* to keep uniform reserves on deposit with Federal Reserve banks. • •

No Economic Turndown, No Tight Money Problem Seen in Chicago Picture

By ALLEN P. STULTS
Chairman
American National Bank, Chicago

ORTHODOX business-cycle theory suggests a causal relationship between the extent and duration of the recessionary phase of a business cycle and the shape and vigor of the subsequent recovery. If this theory is valid, the recovery from this point forward will be stronger and less sporadic than we have experienced thus far. Once past the initial resurgence of consumer-durable expenditures, no economic sector has contributed materially to recovery momentum.

The absence of consistent improvement in either the capital or consumer sector has led to an extended and somewhat disturbing hesitation in the recovery. Diffusion indices and other leading indicators of cyclical change have turned weak and appear to resemble patterns of behavior usually observed much later in a recovery.

While these trends bear close watching, we at American National do not expect an economic turndown in 1977. Instead, we believe the pace of expansion will accelerate moderately as the year progresses, with both the consumption and investment sectors participating more vigorously than has been the case over recent months. Real disposable income, the touchstone of economic momentum, should increase steadily throughout the year, influenced by moderately higher wage settlements, a slight decline in unemployment and a reasonably stable inflation rate. Similarly, all primary elements of the capital sector (housing, inventories and plant outlays) should contribute to an accelerated rate of capital investment as 1977 progresses. While we do not expect capacity to become a serious problem during the year, utilization ratios will be moving higher and will stimulate the capital-expansion movement.

If monetary policy is adequately accommodative of private-sector demands, 1977 should be a year of good (but not spectacular) growth in both corporate output and profit, and it's likely that these descriptions will be true for the banking industry as well. Corporate capacity utilization continues to be adequate, while corporate liquidity remains at unusually high levels. Nonetheless, the low point in loan demand should have been reached for this business cycle, and we expect that 1977 will witness a gradual improvement in bank borrowings.

The liquidity of the midwestern businessmen-owners of privately held corporations appears moderately below their larger national counterparts, and we expect a somewhat more rapid growth in loan demand from this source as 1977 progresses. Based on our own moderately favorable economic forecast, we do not anticipate any inadequacy of funds available for loan activity. Unless monetary and fiscal policy becomes hyper-stimulative, however, we would not expect more than a modest increase in either short- or long-term interest rates.

Within our industry, EFTS has become the conceptual forum for discussions of changes in bank service. Currently, the term EFTS has become synonymous with the delivery of retail-oriented (as contrasted to wholesale) banking services. Projecting the future for retail EFTS can best be done in the perspective of near-term and long-term prospects. For the near term, I do not believe the level of activity and energy currently being expended is justified. Emotion—reminiscent of the early days of credit cards, with the fear of being left at the starting post—has largely distorted management judgment of this area. If anyone believed all that was immediately attributable to EFTS, one would be led to the conclusion that EFTS is the answer to every ill (real and imagined) befalling the retail segments of the banking industry. Unfortunately, the fundamentals of customer acceptance and profitability have been lost sight of as a prudent base for making the level of investment associated with large-scale EFT service.

In the long term, however, I believe that EFTS will grow and extend the time-and-place convenience for delivering retail banking services. But I believe that this growth will come only at a pace that makes sense both to the ultimate user—the consumer—and to the financial institutions that must make significant capital investments to provide these services.

Our bank, which is a major provider

of electronic data processing services to other financial institutions, is following the strategy of maintaining a close surveillance on technical developments and of ensuring that our staff and equipment possess the most up-to-date capability. When we judge the timing to be correct, we will be in a position to provide the appropriate EFTS services at a reasonable, yet economically justified, cost.

Finally, one economic afterthought. My comments above were concerned principally with the near-term outlook and were quite optimistic. Unfortunately, I am less sanguine about our longer-term potential unless we learn from recent world economic experience. Our rate of productivity growth has declined in recent years, and no nation's standard of living can expand more rapidly than permitted by this improvement in aggregate productivity.

We have pursued wealth redistribution more than we have pursued incentives to produce more. We have over-regulated, over-stimulated and over-relied on the concept that somehow, someway, wealth redistribution will result in wealth creation. Hopefully, we will learn in time from the mistakes of other nations and take the difficult actions necessary so that these trends will change. • •

Interest Rate Increase, Attractive Labor Pool Enhance Dallas Economy

By JAMES W. KEAY
Chairman & CEO
Republic National Bank, Dallas

THE SOUTHWEST continues to be one of the bright spots in the nation's economy. With a well-diversified economic base, the region has been able to accommodate dislocations caused by inflation and the energy problem more readily than most other areas of the country.

The impact of the 1974-75 recession, which followed the oil embargo and double-digit inflation, was less severe in the principal business centers of the region. Rate of unemployment in the major labor markets remained below the national average. This performance attracted widespread attention in 1976 as the nation's economy recovered from the low point of the year before.

Indeed, the relative strength of the economies of the southern states generally impelled politicians and planners from the older sections in the northern tier of midwestern and eastern states to begin to band together with a view to narrowing the gap in regional growth rates.

Although the economy in 1977 will be exposed to a considerable range of uncertainties, it's reasonable to anticipate that the consensus forecast for moderate growth will be realized. Much will depend on the health of the economies of other nations, especially those substantially affected by the energy-cost situation, since our own economy is linked closely to world trade and financial markets.

A new administration in Washington will come into power. While it's not likely that major new programs and policy shifts will be implemented quickly, an expressed concern that the business recovery thus far has been too sluggish may indeed trigger legislation to stimulate employment and production. Public-service job creation and tax reduction currently appear to be leading candidates for possible legislation. Also, it is to be expected that pressure from the older cities, where unemployment remains especially troublesome, will be exerted on Congress and the new administration.

While the Southwest will be affected by the unfolding of events on the national scene, it can be expected to continue in its relatively favorable posture. Energy-related industries are an important part of its economic base. The worldwide search for new sources of energy will continue to call on the technological and other capabilities located in the Houston area, as well as other subregions of the Gulf states. The labor situation remains attractive for the location of new and enlarged industrial installations, and domestic and international trade continues to expand with overall growth of the region. An increase in population resulting from net migration and natural demographics provides a relatively good climate for home and other construction.

Nevertheless, we are cognizant of possible factors that could affect the outlook. Some of the cities of the Southwest are important participants in defense production, so that the policy of the new administration on the defense budget will be significant. The shape of energy policy also will have an impact on the economy of the Southwest in various ways. Texas is one of the most important agricultural states. Crop conditions, world commodity markets and agricultural policy all will affect the degree of prosperity in Texas and other states in the region.

We view the outlook for banking in our trade area as both encouraging and challenging. Dallas is one of the country's most important financial centers and thereby participates not only in local and regional finance, but also in national and international markets. In 1976, the regional sector showed relative strength while the national market experienced weak demand for bank loans. We see this regional strength continuing in 1977 and are hopeful that the portion of our business generated outside the area will respond favorably to a further advance in the nation's economy. Accordingly, prospects for bank earnings are good. Of course, the trend of interest rates will be a significant factor in the earnings outlook. With continued economic recovery and persistence of inflationary pressures, money rates would be expected to rise during the course of the year, with a consequent favorable impact on interest spreads and earnings.

The year will be a challenging one, not only from the viewpoint of the economic outlook, but also the broad competitive environment confronting banks. A long list of issues relating to the financial system—ranging from electronic fund transfers to functions and powers of financial institutions to the role of the central banking system—will be aired in Congress. The tides of change are flowing rapidly. It is not easy to predict what portion of the proposals now pending will find their way into the legislative books in the coming year, but we can be sure that 1977 will be a busy year—one that will test the alertness of banks and bankers to the competitive nature of the environment in which they will be living for years to come. • •

Economy Will Rise at Steady But Moderate Rate in 1977

By DONALD C. MILLER
Vice Chairman
And Treasurer
Continental Illinois Corp.
Chicago

THERE currently is much disappointment in many quarters because of the recent slowdown in economic activity. This weakness, however, is a reflection of the extraordinary events that businesses and households have experienced in the past several years of rapid inflation and the deepest recession since the 1930s.

MILLER

First, let me review the causes of the recent slowing in business activity. I think it can be shown best by what has happened in industrial production. Total industrial production slowed in the

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summer months, actually declined in September and continued that decline in October. As you know, much of the decline could be attributed to the auto strike, although even in the absence of a strike the gain would have been modest at best. A fundamental factor in the slowing over the past six months has been the leveling in nondurable-goods production, which had risen to new peaks in the year following the recession. Durable goods helped offset this slowing until the auto strike hit in both September and October. This impact will be reversed rather quickly now that the strike is ended and production is back on track. However, we don't foresee a vigorous upturn occurring for several months.

One of the main reasons for a slowing in production has been the correction of a largely undesired rise in inventories in relation to sales. This has been true particularly at the manufacturing level in recent months, although it also occurred at the retail level. As a result, orders have fallen off and production has slowed.

The main area where sales have slowed has been the retail sector. Retail

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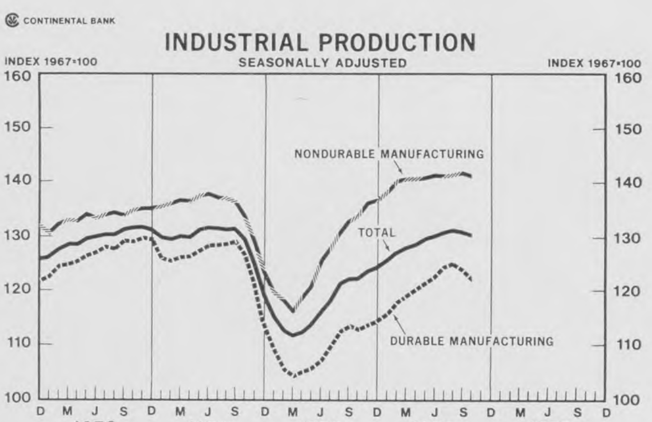
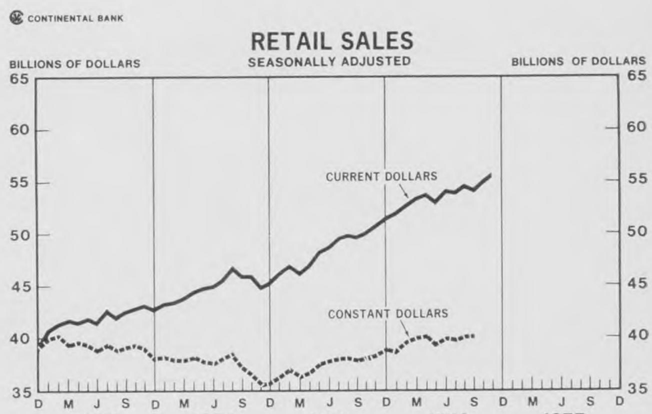
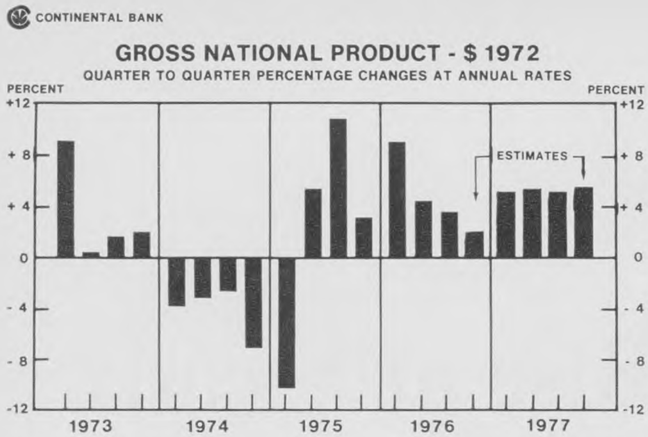
sales even in current dollar terms have not shown much strength since early summer and, when deflated to constant dollars by the consumer price index (CPI), have been on a slightly declining trend. This recent trend was a disappointment to businesses.

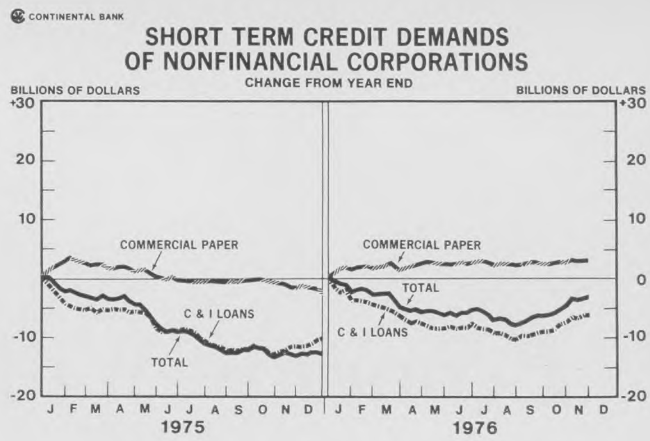
There are a number of reasons why this slowdown in consumer spending has occurred. It can be summed up as

Mr. Miller gave the talk on which this article is based at a meeting his firm sponsored for bank security analysts November 30. All charts used with this article were supplied by Continental Bank, Chicago, which is a subsidiary of Continental Illinois Corp.









a weakness in confidence, but also income growth has shown smaller gains caused partly by numerous strikes as well as by a shorter workweek, which reduced real weekly spendable earnings. It will be difficult for consumer spending to pick up without a stronger growth in employment and incomes.

There are three factors that we feel will help build the general strength of the economy. These condition our outlook:

First, housing activity already has shown very solid gains, even though there was a slight drop-off in October from the extraordinarily high September rate. More important, we are seeing developing strength in apartment construction for the first time in more than three years.

Second, we expect business spending to become a source of important strength. Capital spending already has begun to rise. So have appropriations and new orders for equipment, confirming further gains. There even is some sign of life in contract awards for nonresidential building, although it's far from a significant recovery. As sales rise, there also should be some modest increase in inventory accumulation.

Third, there has been a noticeable lag in federal spending, particularly in procurement of defense weapons. A reversal has begun and should have an important influence on the economy. Moreover, there are major gains in federal grants-in-aid to state and local governments for a variety of programs, and this will help stimulate spending.

We feel that these factors will help re-exert a pickup in the economy. *Our view is that real GNP will begin to rise at a more rapid rate in the first quarter of 1977.* While there will be a gradual

See Chart on This Page

reduction in rate of growth in the second half of 1977, the rise will be above a 4% annual rate. For 1977 as a whole, the growth rate would be about 5%, which we feel would be a reasonably strong gain for the third year of a recovery.

As you know, we have had a marked decline in the rate of inflation, particularly if we get rid of the monthly erratic fluctuations. Over a six-month period, the CPI is rising at about a 6% rate. We feel that this will continue well into next year, given the outlook for food prices, and the large amounts of excess capacity in many manufacturing industries provides encouraging prospects for prices on nonfood commodities at the retail level.

In short, we have an economy that we feel will be growing at a reasonably good rate in a relatively noninflationary environment, at least for the next year. Whether this rate of growth will be sufficient to reduce unemployment to the satisfaction of the Carter Administration is questionable, without some stimulus such as a tax cut or increased federal spending. In this respect, our forecast for real growth may be somewhat low, although I don't believe, based on what we now know, that fiscal actions will alter the picture significantly before the end of 1977. Let me turn to a brief examination of what we think this means for the financial markets.

Probably the biggest surprise we have had in our forecast this year has been the sustained declining trend in interest rates, especially short-term interest rates. In fact, short rates today are lower than they were at the depth of the recession in early 1975, a highly unusual historical pattern. One still has difficulty learning why rates have

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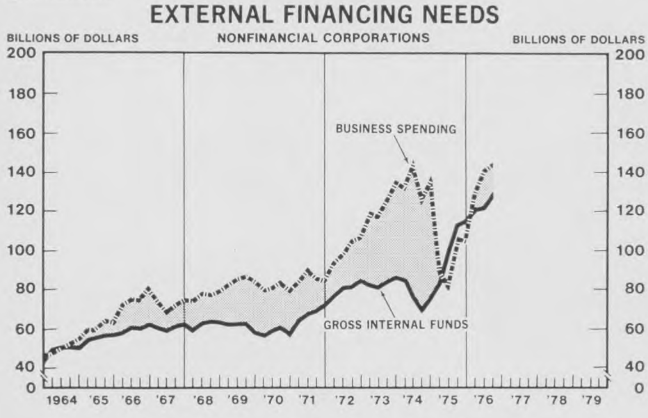
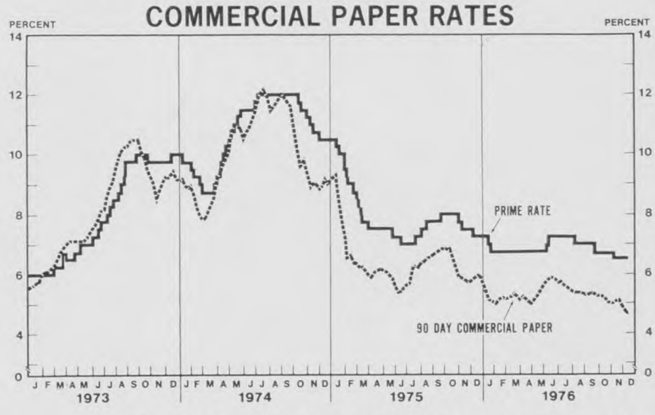
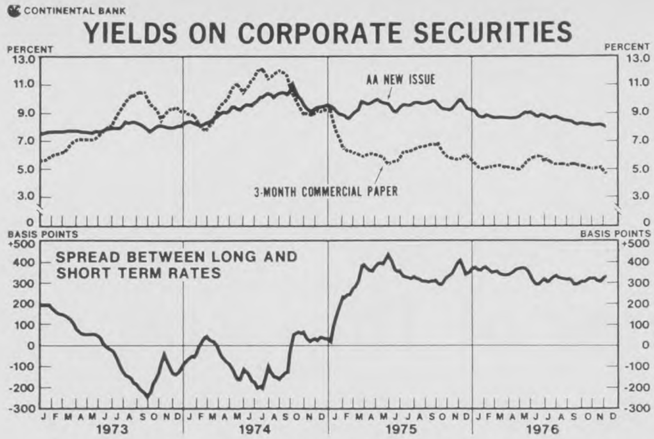






stayed down. One answer may be simply that they were too high as the recovery started, and that we have reacted to that as well as getting an adjustment to lower rates of inflation. The recent slowing in economic activity and the monetary authorities' lack of need to be concerned about monetary aggregates are other considerations. However, I believe the key answer to this historical aberration lies in short-term business credit demands.

Short-term business credit demands, including both commercial bank loans and commercial paper outstanding, have remained weak this year after the

See Chart on Page 38

sharp falloff last year. In part, this has reflected the record amounts of long-term bonds issued by corporations to lengthen their maturity structures for the past year and a half.

See Chart on Page 38

This chart compares business spending (defined to include both fixed investment and inventory accumulation) with internal cash flows of nonfinancial corporations. The shaded area represents the borrowing that business needs to finance spending. As you can see, a trend toward external financing that began in the mid-1960s ballooned to enormous proportions in 1973 and 1974 and was a prime cause of the extremely high loan demand at that time. In the first part of 1975, this switched around due to the combination of a sharp cut in spending and a strong recovery in profits; consequently, external needs for financing fell sharply. Now we see another reversal in 1976, and we feel this new trend is likely to continue. As mentioned earlier, spending is expected to rise more rapidly, and internal cash flows are expected to slow their growth. While the financing needs so far have been met largely by long-term borrowing as well as by the selling of financial assets, we feel it will show up in a faster rate of short-term borrowing, from commercial banks in particular.

However, we do not, in our forecast, see anywhere near the type of loan demand and growth that was seen in 1973 and 1974.

Later on, however, as loan demand picks up, we see some upward pressure on money market rates which the Fed will allow to develop. While short-term rates currently are soft and will remain so for the next few months, we believe increased loan demand, accompanied

See Chart on Page 38

by stronger economic growth, will eventually cause short-term rates to move up.

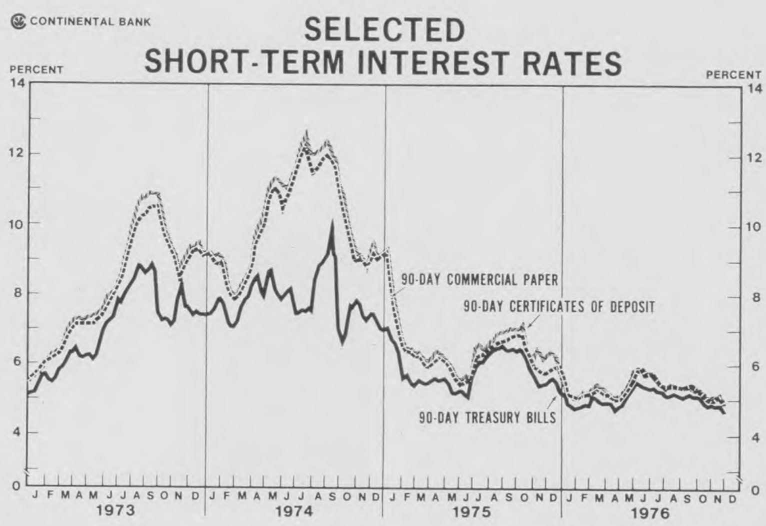
In the long-term area, we do not see such a rise because the spread between short and long rates currently is so wide. We do, however, see long rates rising somewhat from current levels.

We recognize the risk in making forecasts such as this, and we will remain flexible in our planning in case the economic facts change. Nevertheless, we must assume what we consider to be the most likely case, and this is

See Chart on This Page

now our best judgment as to what eventually will develop.

In summarizing our view, a vital element in our forecast is an economy that will be rising at a steady but relatively moderate rate, one in which strong inflationary pressures will not reassert themselves. If this forecast is wrong, interest rates could rise substantially more. This would be of concern to us, not so much because of the possible impact it would have on our net interest margin, but because of the impact it would have on our customers. Another round of boom-and-bust caused by inflation would cause a whole new set of problems. For this reason, we will be watching the economy carefully as it continues what we feel is a well-established and very satisfactory recovery. • •



What Issues of Importance to Banks Will Come Before 95th Congress?

By W. LIDDON McPETERS
President
American Bankers Association

ECONOMICS and politics often progress hand in hand, each affecting the other as the public interest is perceived by our citizenry. Certainly in 1977 legislative processes will be initiated which affect the economics of the business of banking. At the same time, major economic trends—whether they are good news or bad—may impact on the legislative process and the politics behind it.

With the uncertainties of our national elections behind us and the committee selection process underway for the new Congress, we can begin to look ahead and prepare for several issues we can be certain will be brought up during the 95th Congress.

The first of these is so-called financial reform. This issue has been with us since the Hunt Commission issued its famous report, and Senator McIntyre, Representative Reuss and others have promised to resurrect it in the next session of Congress. The question of what form these proposals will take —piecemeal or comprehensive legislation, for example—remains unresolved.

In a speech at a recent annual meeting of one of the savings and loan associations, Senator McIntyre, chairman of the Senate's Financial Institutions Subcommittee, told S&L officials to "decide for yourselves what will best serve the needs of your industry and the public as well. And if you can agree on a package, have it ready before Regulation Q extension time rolls around again." Clearly, he is anticipating that the first congressional efforts to change our financial structure will come when legislation is introduced to extend the Interest Rate Control Act beyond March 1.

The impending expiration of the Interest Rate Control Act undoubtedly will force Congress to address the problem of competitive inequalities among financial institutions. But it is important for us to remember that if the act does expire March 1, only thrift institutions would come out from under interest-rate controls on savings deposits. Banks still would be subject to Regulation Q ceilings.

Several avenues of action to address this problem will be open to Congress. It could simply extend the act in its present form, which would mean that the quarter-point-interest-rate differential would continue to be part of the statute, instead of being left to the discretion of the regulatory agencies. Or Congress could extend the act, but return discretion over size of the differential to the regulators.

Very likely, thrift institutions will be pressing for a larger differential as part of the extension of the Interest Rate Control Act. And the ABA will continue to work for removal of the differential on individual retirement accounts. We also will be working to eliminate the differential on savings deposits in states—like those in New England—where thrift institutions have third-party-payment powers, such as NOW accounts.

The whole question of NOW accounts also will certainly be a major issue in the next session of Congress. At the close of the last Congress, for example, Senator McIntyre worked to defeat several bills in the Senate because they would have authorized NOW accounts in New York and New Jersey. Senator McIntyre is a strong advocate of NOW accounts, but he opposed these particular bills because he believed that the piecemeal spread of NOWs would erode support for broad legislation, allowing them everywhere. He left no doubt that he intends to push for legislation authorizing nationwide NOW accounts early in the 95th Congress.

Mr. McPeters, the ABA's 91st pres., is pres., Security Bank, Corinth, Miss. From 1973-75, he was ch., ABA Centennial Commission.

Electronic fund transfers are certain to be a major issue in 1977. On October 4, the Supreme Court declined to review lower court rulings on customer-bank communication terminals (CBCTs). That means banks have exhausted every possibility in the courts to correct the inequitable treatment between banks and other financial institutions in the area of EFTS.

These lower court rulings define CBCTs as branches and state that they are, therefore, subject to federal and state laws governing branches. The ABA does not agree. We are convinced that CBCTs are merely a more convenient way of offering conventional bank services and that they do nothing that cannot now be done, albeit more slowly, by the U. S. Postal Service and the telephone.

To give you an idea of how inequitable the situation is, these lower court rulings put national banks at a significant disadvantage in competing with others who are free to offer electronic banking services. Although the lower court rulings apply only to national banks, *all* commercial banks would be disadvantaged in states that do not elect to authorize CBCTs for banks. This is because banking's competitors —including thrift institutions, credit unions and even nonregulated competitors such as American Express—will continue to operate CBCT-like facilities without being subject to bank-branching laws.

Moreover, at least 15 states have enacted laws that specifically say CBCTs are not to be considered branches. That means that in those jurisdictions state banks—but not national banks—will be allowed to install CBCTs without regard to branching requirements. National branching requirements still will apply to national banks.

In the past several months, the ABA has testified before the National Commission on Electronic Fund Transfers on this very question. Our position remains unchanged: CBCTs are not branches, and therefore, the question of states' rights simply does not enter into it. The issue is the definition of a branch, not whether states should have the right to determine whether or where banks can have branches. ABA policy on this question is unequivocal: Each state should continue to have the prerogative to determine whether and to what extent branches are permitted.

As bankers, our only choice now is to seek a legislative remedy to the competitive disadvantages we find ourselves facing in the EFTS area. One opportunity to get such a remedy will come in 1977, when the National EFT Commission will issue its preliminary findings and final recommendations. These very well may serve as the basis for some kind of EFT legislation.

We also can expect legislation to grow out of recommendations made by the National Commission on the Rights of Privacy. And very shortly, the General Accounting Office is expected to complete its "study" of the effectiveness of bank examination and regulatory procedures. It has become clear that the results of this study will stimulate more legislative proposals for "reform" of bank regulation in 1977.

Finally, during the 95th Congress, we can expect Senator McIntyre to introduce legislation that would change or supplant the McFadden Act. He already has issued a 520-odd-page "Compendium of Issues Relating to Branching by Financial Institutions," and on December 6-8 he held hearings on the McFadden Act in Chicago, Dallas and San Francisco. In the preface to his compendium, Senator McIntyre gave a clear indication of the direction his study of these issues is taking: "All in all, it is ludicrous that in 1976, the authority of banks to branch in many jurisdictions is still based on laws and practices, not designed to promote competition, but based on the fact that existing institutions, however noncompetitive they may be, will not be adversely affected."

"One of the many questions facing the banking industry as the 95th Congress begins its work is: how will it choose to proceed, with a delicate search for compromise or with an all-or-nothing attitude?"

These are only some of the legislative issues certain to make their appearance in the next session of Congress. And they clearly will affect the banking environment, not only in 1977 but for the rest of this century.

It's important, however, for us to realize that legislative actions are not the only determinant of our banking environment. Our competitors' actions are an equally important factor, and our competitors are not just sitting back and waiting for Congress to grant them new authority. To the contrary, they are actively expanding their powers to meet consumers' financial needs.

The most obvious example is in New England, where thrift institutions can offer interest-bearing check-like devices called negotiable orders of withdrawal (NOW). Of course, banks there also are allowed to offer NOWs. But the important fact is that, in gaining this additional power, the thrifts did not have to accept the same reserve requirements and tax responsibilities as banks. Nor has the interest-rate differential on savings deposits been removed. If the introduction of NOWs by thrifts has not severely hurt banks by draining deposits, this unfair competition certainly has not helped.

Again, in New York, mutual savings banks and S&Ls can offer true checking-account services. Under New York law, thrifts may not charge for this service. That has increased the price competition for those offering checking accounts in the Empire State. In the first three months that thrifts were allowed to offer no-charge checking, over a quarter million checking accounts were opened in savings banks, with just under $90 million received in deposits.

In Illinois, S&Ls can offer non-interest-bearing negotiable orders of withdrawal. Similarly, in Wisconsin, one S&L applied for and received regulatory approval to offer non-interest-bearing NOWs. The Wisconsin Bankers Association is fighting this in court.

Moreover, federal S&Ls throughout the nation have been granted increased consumer lending authority, and the Federal Home Loan Bank Board has allowed thrifts to install remote service units, or CBCTs.

This listing of ways that thrifts have made inroads into traditional bank services is far from complete. Other examples abound. For instance, some mutual savings banks have been offering bank cards for several years. Perhaps the prime example is the Consumer Savings Bank of Worcester, Mass., which has been offering BankAmericard since June, 1974. Consumer Savings Bank gives the bank card customer some added incentives to do business with it. Whenever a customer opens a BankAmericard account, the savings bank also opens a quarterly statement account for the customer, if he or she doesn't already have one. That account earns 5¼% computed daily. When the customer charges an item on the bank card, Consumer Savings Bank automatically adds 1% of the purchase price to the customer's savings account. In other words, the savings bank pays a 1% rebate on purchases with the card directly into the customer's savings account.

At present, the number of thrifts involved in bank cards is small. But we can expect more and more competition on this front. Last May, National BankAmericard, Inc., opened its membership to all financial institutions eligible for federal deposit or share insurance and that have legal powers to perform functions of membership.

Meanwhile the board of Interbank Card Association, the Master Charge company, has proposed to expand its membership to S&Ls, credit unions, cooperative banks and all other financial institutions meeting certain criteria. This proposal must be approved by two-thirds of Interbank's members to become effective. Thus, the potential exists for increased competition in that area also.

As if these encroachments by thrifts were not enough, the share draft has become a real competitive threat to banks. To the average customer, share drafts (issued by credit unions) look suspiciously like checks. In fact, to the customer a share draft is even better than a check because it pays interest. The ABA believes there is no provision or authority for the National Credit Union Administration (NCUA) to allow the issuance of these third-party-payment devices. For this reason, the ABA has taken the NCUA to court, seeking to put an end to the share-draft program. But unless and until we do, credit unions will continue to offer these devices. In fact, about 300 federal credit unions have been authorized by NCUA to offer share draft accounts.

There can be no question that thrift institutions—S&Ls, mutual savings banks and credit unions—are gaining many new powers. Their efforts to gain these powers already have radically altered the environment in which we bankers operate. And we can certainly expect those changes to continue. The question we now face is how we respond to these inroads.

The third factor influencing the banking environment in 1977 is the actions of bankers themselves. The decisions we make in the coming year will be at least as important as new legislation and new inroads by our competitors in shaping the banking environment throughout the rest of this century.

Some of these decisions will be responses to actions taken by others. For example, on the legislative front, bankers will continue to oppose poorly conceived legislation that hinders our ability to offer competitive financial services to the consuming public. And if our competitors gain the ability to offer new bank-like services, bankers will continue to compete aggressively for the consumer's dollar with every means at our disposal—more convenience, better service and fair pricing.

Unfortunately, in the 94th Congress some basically positive legislative proposals failed to achieve passage primarily because they subsequently were altered to bring about major, unneeded changes in the financial industry. Where a legislative scalpel could have been used to achieve equitable reforms, blunt instruments were used instead—producing legislative disasters.

One of the many questions facing the banking industry as the 95th Congress begins its work is: how will it choose to proceed, with a delicate search for compromise or with an all-or-nothing attitude? Either approach works sometimes, but it would seem that the more productive path is often that of compromise.

In any event, the likelihood is that the banking industry will be working with familiar names and faces in both the House and the Senate for the next two years. And it is certain that many of the issues and proposals will be familiar as well, though they may be presented in new combinations and packages. What is unknown is whether during the 95th Congress a way can be found to make the efforts of all parties to the legislative process productive and equitable through compromise.

In addition, we as bankers must recognize that it is not enough simply to react to actions taken by others. We ourselves must seize the initiative and put forth our own proposals for a better banking environment. A level playing field on which all financial institutions compete under equal ground rules will be of limited value if we cannot develop a good offense to go with our excellent defense.

For example, in government relations, we must put forth our own proposals for change in our financial structure—proposals designed to give bank customers the best possible financial service. And we must be ready to document the reasoning behind our proposals with facts about such things as costs of services to customers. The ABA has been at work for some time, at the staff level and with member committees, in preparation for issues we feel are certain to be raised during the 95th Congress.

In competing with thrift institutions that can offer bank-like services, we must find new ways to attract customers—ways that are based not just on price but on innovative service and genuine concern for our customers' financial needs. We cannot afford to be sucked into a quicksand, where we compete solely on the basis of price and price our services only on the basis of what our competitors are doing. That is the direction of ruin both for ourselves and our competitors, not to mention the customer who would surely suffer the most in the long run.

In short, to be effective, our actions must be based on what is best for the customers and communities we serve. After all, that is the primary reason for our existence—to serve the financial needs and wants of the public. If we as an industry direct all our activities toward meeting those needs at a fair profit, we cannot fail to create a better banking environment in 1977. • •

State Legislative Scene to Be Quiet?

IT WOULD appear that this will be a relatively quiet year for state banking legislation in the Mid-Continent area.

The primary legislative goal of the Missouri Bankers Association is passage of a pre-filed bill that would authorize banks to establish EFT systems. Mandatory sharing is a requirement of the proposed legislation. A detailed summary of the MBA-sponsored bill appeared in the November, 1976, issue.

The Mississippi Bankers Association plans to ask the state legislature to adopt a revised Article 9 of the Uniform Commercial Code that contains several amendments recommended by the commissioners on uniform state law. The MBA will ask for an amendment to the present statute that requires the submission of call statements to the state comptroller within 10 days of the call. Bankers want 30 days in which to comply.

The association will ask for a clarifying statute on joint accounts that allows minors and adults to have such accounts. The request would ask for specific authorization for the hypothecation of an account by any one of the members of the joint account.

The Indiana Bankers Association expects to support new tax legislation that would tax banks and other financial institutions on the basis of adjusted gross income based on federal taxable income. Banks would also become subject to the general business personal property tax for the first time.

In the area of reserve requirements for state-chartered banks, the IBA expects to work with the Department of Financial Institutions to develop legislation to permit reserves to be invested in obligations of the federal government.

The IBA also will sponsor a bill to increase loan limits to officers and employees of banks from the present $5,000 to $10,000. The association will back a bill to enable banks to deposit securities into security depositories outside the state.

Other legislative goals of the IBA include permitting the reciprocal foreign administration of trusts via an amendment to the probate code, more flexibility in setting cut-off hours for making book entries and authority for banks to make variable rate mortgages.

The following issues may be presented during the 1977 Kansas legislative session, according to Harold A. Stones of the Kansas Bankers Association:

- Authority for the state bank commissioner to charter a new state bank to replace one that has failed.
- Inclusion of capital notes and debentures in the formula for ownership of real estate, furniture and fixtures.
- Services that can be offered in detached bank facilities.
- Reexamination of the investment latitude for local public officials.
- EFT legislation dealing with privacy, loss of float and compensation.
- Additional powers for S&Ls and credit unions.
- Access to customer bank records.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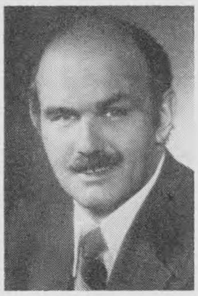
Where Should Bank Investments Be Concentrated in 1977?

By GEORGE L. HACKER
Senior Vice President
Blyth Eastman Dillon & Co., Inc.
New York City

BANK STOCK FUNDAMENTALS continue neutral to slightly negative. Assets have grown, but at a less than exuberant rate; margins have improved from the cyclical low point reached in 1975's second half, but they are far from robust and continue particularly poor for those banks holding more than a small share of real estate-oriented assets. There now is some further question of additional margin erosion as bank pricing policies appear to be more competitive both in wholesale domestic and international operations.



HACKER

Although commercial and industrial loan demand has been rising since September, we do not expect forceful business loan demand before the second half of 1977. The argument that heavier corporate tax payments due early in the year will cause bank borrowings to accelerate at that time is blunted by increasing evidence of a continued buildup in corporate liquidity. Furthermore, although we expect some benefits to the economy from fiscal stimulus in 1977, those benefits are likely to be of very short duration and will come at the expense of stronger capital spending in the private sector. The U. S. government will find the funds to finance its growing deficit this year, but only because the businessman is likely to remain tuned out for much of that time.

We believe that the key to business borrowing rests with capital spending plans, an area where cutbacks rather than expansion have been the recent rule. The present BEDCO forecast for capital spending in 1977 calls for an approximate 6% increase over 1976 levels. Thus, while domestic business-loan volume will show some improvement in 1977, say 7%-8% point to point, we expect that any substantial benefit to bank earnings will be delayed into 1978. Consequently, short-term rates are likely to decline through early 1977 and only begin a slow climb in the second half of the new year, reducing the possibility of significant earnings improvement resulting from widening margins. In fact, we continue to believe that the spread between the cost of money market funds and the prime rate will decline from the 150-175-basis-point level, which has been seen almost continuously since the fourth quarter of 1974, to perhaps a 100-basis point spread as business-loan volume begins a slow ascent from current levels.

Foreign economic developments do not augur well for banks engaged heavily in foreign lending. Here's a quick summary of the BEDCO viewpoint:

1. Problems for Britain, France and Italy imply problems for their trading partners, including the EEC in general and West Germany and Japan in particular.

2. Recession abroad creates a less stable political and economic environment, and instability often leads to surprise.

3. Present events in the world economy give the lie to claims that the international system has responded very well to the aftermath of higher oil prices. On the contrary, higher oil prices have contributed to and perpetuated new forms of disequilibrium.

Loans to many countries—whether LDCs (less-developed countries) or "better credits"—are suspect at this time, although the magnitude of potential problems stemming from overseas activities by commercial banks is not clear at present. Citicorp has pointed out that, "Total LDC indebtedness to U. S. commercial banks is estimated at $50 billion, of which perhaps half is guaranteed by federal agencies and U. S. corporations. About 60% of the nonguaranteed bank debt is self-liquidating trade financing with a maturity under one year. This leaves no more than $10 billion of non-guaranteed, long-term claims on LDCs by the entire banking system. At year-end 1975, total exposure of non-guaranteed loans by the six largest U. S. banks to non-oil LDCs represented about 5% of their combined assets. No single country had over 1.5%." (As quoted in Citicorp *News Items*, November 23, 1976.)

While these numbers tend to soothe, "fighting the tape" can be a fool's game, especially if there are more attractive, non-multinational alternative equity investments either within or outside the banking industry.

Workout of Problem Assets. The undergirdings of bank earnings expansion are business loan growth and margin improvement. We have suggested that both factors will produce only moderate gains in the new year. What then of income improvement projected to result from the wearing-off of the unique and deep recession difficulties of 1974-75?

On the basis of economic developments in the past two months, the comfort index of bankers has been improving more slowly than originally expected. Moreover, while we suspect that reductions in the provision, and in the reserve itself in some cases, will occur in 1977, we must conclude that the sharp decreases envisioned by some analysts will, in fact, turn out to be quite moderate. Ironically, a number of those banks that avoided severe loan problems will have little room to maneuver loan-loss provisions because their reserves never reached the extreme levels of more troubled companies.

We continue to believe that nonperforming loans will not be a major earnings negative in 1977, but neither

will substantial positives result from a *sharp* reduction in the size of these problem loans. This is because most of the troubled credits center in the interim financing of real estate projects, which area has tended to recover much more slowly than the general economy. We continue to note unhappy surprises from a few banks in the area of real estate write-downs, indicating, we suspect, the discomfort of individual bank managements with real estate values. We would suggest that more write-down surprises may be coming, particularly given our economic scenario.

Investment Conclusion. The year 1976 began with high expectations for earnings gains and upward multiple movements for bank stocks. By the middle of June, the BEDCO bank stock index was up 24.5%, and all seemed to be tracking well. However, as negative economic developments became evident, as business loan volume continued to move downward and as short rates went lower, investor expectations dampened.

The BEDCO Bank Index reached a 1976 high June 17. Since then, the group has declined 1.4% compared with a drop in the S&P 500 of 0.3%. In the same period, the Dow Jones Industrial Average was down 4%. Most interestingly, in the past month the bank index was up 8.1%, more than double the gain in the broader-based averages. We assume this strength is geared to the upward movement of commercial and industrial loan demand. However, as discussed earlier, it may be preferable to await further domestic and foreign economic developments in the private and governmental sectors before making a strong case for a cyclical improvement in the bank group.

Consequently, within this context, we would concentrate bank investments on those companies with 1) a heavy domestic earnings base, particularly of a consumer orientation, 2) a higher-than-average return on assets, and 3) good cost controls. • •

Bank of New Orleans Assumes Deposits Of Closed International City Bank

ALL DEPOSITS of International City Bank, New Orleans, which was closed December 3, were taken over by Bank of New Orleans so that no ICB depositors were denied access to their funds. ICB was closed by Kenneth E. Pickering, Louisiana commissioner of financial institutions, and the FDIC was named receiver.

The FDIC announced that it would advance approximately $113.5 million to facilitate the assumption of ICB's deposit liabilities by the $334-million-deposit BNO. The head office and eight branches of the failed bank opened December 6 as BNO offices, and all ICB depositors automatically became BNO depositors.

BNO acquired the closed bank through a special agreement approved by the FDIC, Mr. Pickering and the Fed. BNO President Lawrence A. Merrigan says that his bank is acquiring only ICB's deposits and a relatively small volume of its installment loans. The agreement with the FDIC specifically excludes BNO's assuming any of ICB's commercial loan portfolio, according to Mr. Merrigan. BNO is continuing to service ICB installment loan customers. ICB BankAmericard and Master Charge customers may continue using their present cards, and merchants may continue depositing bank charge-card-sales drafts as in the past.

After ICB was closed December 3, the FDIC followed its normal practice of asking several groups to submit bids for an FDIC-assisted transaction. When no bids were submitted, the FDIC began day-long negotiations with two parties that expressed some interest, and a mutually acceptable contract between the FDIC and BNO finally was arranged. Approval of the transaction was received early Sunday morning, December 5.

In addition to assuming approximately $160 million in deposits and other liabilities, BNO agreed to pay a purchase premium of $800,000. BNO will buy at market value ICB's holdings of U. S. government and other investment grade securities of approximately $34 million, its cash and due from banks and other assets, including the bulk of the consumer loan portfolio of $4.5 million.

The FDIC will purchase from New Orleans Bancshares, Inc., one-bank HC that owns BNO, a $7.5-million, 10-year capital note, payable in equal annual installments commencing at the end of the second year. Proceeds of the loan will be invested in equity capital of BNO to assist it in meeting immediately the substantial additional capital requirements imposed on it because of its new deposit liabilities.

The FDIC expects to recover a substantial portion of its outlay as payments are realized on assets not transferred to the assuming bank. In this respect, the FDIC notes that its claim would have priority on repayment over claims of any ICB subordinated noteholders or shareholders. • •

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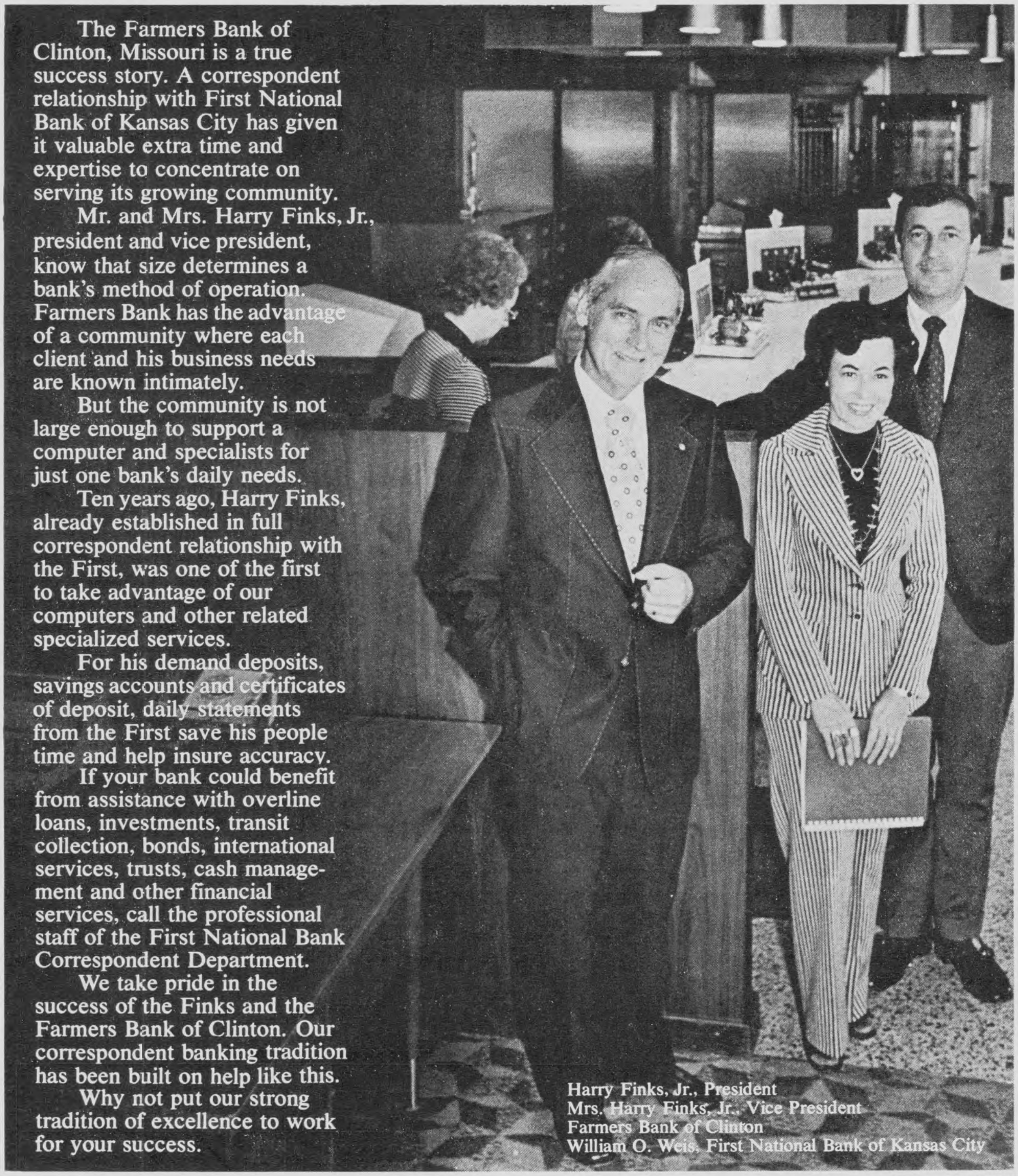

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Expected Gross Farm Income Boost To Be Absorbed by Higher Costs

By DEBBY SPRUK SMALL
Doane Agricultural Service, Inc.
St. Louis

Debby Small, a Kansan, is an associate editor on the staff of *Doane's Agricultural Report,* a weekly publication emphasizing commodity outlook and farm-management advice. She also is editor of the South Central Edition of Doane's *Farming for Profit,* a monthly newsletter distributed by banks to their farm customers.

BANKERS working with agricultural clients in 1976 saw a year characterized by a strong export market, high cash receipts from farm marketings and stable net farm income. The USDA's first projections indicate that conditions this year will be very similar to last year. However, a switch of economic strength from crops to livestock is expected in 1977.

Actual production will depend on weather variability, but the USDA assumed generally favorable conditions when it predicted another year of large crops, large livestock production and modest gains in total farm receipts. Most of this increase in gross income will be absorbed by rising production costs, leaving net income projected by the USDA in the $23- to $25-billion range—near last year's level. (See Chart No. 1 on this page.) Doane economists' estimates are at the bottom of that range or even slightly lower.

Crops. All available land is expected to be planted again this year. Prices at planting time should encourage some switching from corn to soybeans and cotton. Doane estimates soybean acreage to be up five million acres from the 50 million planted acres in 1976, with a subsequent decline in corn acreage from last year's 84 million acres. A slight decrease in wheat acreage is expected, with most of the decline in the eastern Corn Belt. Chart No. 2 (page 52) gives Doane's acreage estimates for major crops.

The USDA expects another near record export year and increased domestic demand to offset most of the adverse effects three large harvests in a row could have on prices. Slightly higher prices are projected for soybeans, cotton, tobacco and some fruits and vegetables, but easing is expected in grain prices in 1977. Chart No. 3 (page 52) shows USDA estimates for 1977 yearly average prices.

Farm legislation this year could change the outlook for crop prices. At this time, only minimal price support is given by the government. Higher support prices, acreage restrictions or creation of a grain reserve could affect prices. There's a possibility that farm sales of grain could be a little slow early this year until farmers find out what the government policy is toward loan levels.

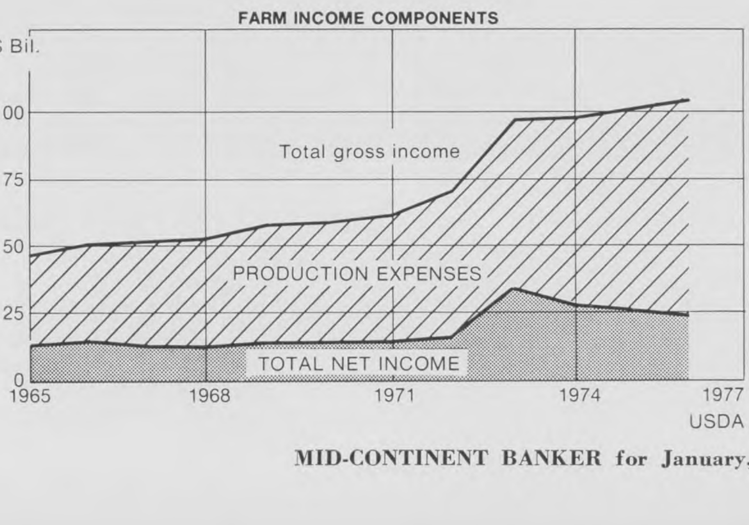
Livestock. Outlook for the total livestock industry has the appearance of a balancing act. Increased supplies of pork and poultry will offset declining beef supplies from now until mid-year. Toward the end of the year, there should be a tapering off of total meat and poultry supplies, and livestock producers on the whole will see improving prices.

This year, you should begin to see a few more smiles on the faces of cattlemen. Cattle numbers continue to decline. The January 1st cattle inventory showed 121 million head—down from 128 million on January 1, 1976, and from 132 million head on January 1, 1975. This decline in the cattle population is expected to cause an 8% fall-off in total cattle slaughter in 1977 from year-earlier.

The USDA expects Choice steers to average $41 to $43 in the winter quarter with a moderate gain in the spring. Reduced supplies of beef should support a yearly average price of $43 to $45 per hundredweight. Doane economists feel that average is readily attainable.

The expanding side of the livestock picture is not so rosy. Hog producers are still increasing production. December-February farrowings are expected

Chart No. 1



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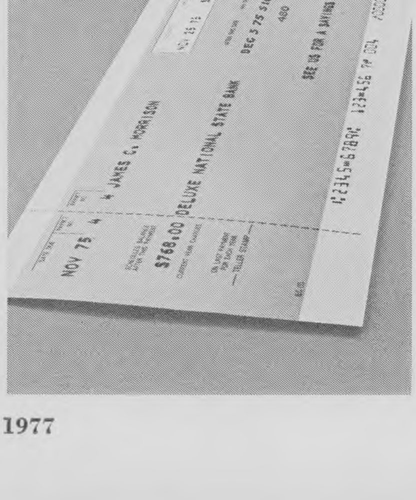

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by the USDA to be a tenth larger than a year earlier. By the middle of the year, expansion should have slowed due to poor price-feed ratios, and March-May farrowings are not expected to be above the same period in 1976. By fall, the first cutback in farrowings is possible. The USDA estimates a $35- to $37-per-hundredweight yearly average for hogs.

Broiler outlook for 1977 is similar to the hog forecast. Record production in 1976—9.1 billion pounds dressed weight—has depressed prices. Reduced profits should cause a cutback in production in the first half of 1977. By mid-year, output should not be above 1976 levels. Prices from January to June will average 2¢ to 4¢ below the 42¢ average for the first half of 1976.

Last year, the dairy industry had the sharpest year-to-year gain in milk production since 1953, leading to a total near 120 billion pounds. Production in 1977 is expected to increase another 1% to 2% and, even with heavy sales, the chance of surpluses is very good. Large supplies could cause prices received by farmers for milk to average below last year's $9.70 per hundredweight. This would be the first annual decline in milk prices since the 1950s.

Chart No. 2

ACREAGE OF PRINCIPAL CROPS

			Doane Projections		
Crop	1975	1976	1977	Change from 1976	% change
		1,000 acres			
Corn	77,902	84,092	79,230	−4,862	−5.8
Milo	18,275	18,398	18,321	−77	−0.4
Soybeans	54,577	50,225	55,500	+5,275	+10.5
Cotton	9,493	11,800	14,000	+2,200	+18.6
Wheat	75,095	80,239	77,500	−2,739	−3.4
Oats	17,386	17,559	17,769	+210	+1.2

Chart No. 3

USDA PROJECTIONS FOR SUPPLIES, USE AND PRICES

Crop	Production	Domestic Use	Exports	Ending Stocks	Season Av. Price
		Million Bushels			$/bu.
Corn					
1974/75	4,664	3,641	1,149	359	3.03
1975/76 Estimated	5,767	4,029	1,700	399	2.55
1976/77 Projected	6,063	4,100-	1,500-	475-	2.20-
		4,400	1,700	675	2.60
Wheat					
1974/75	1,796	690	1,018	430	4.09
1975/76 Estimated	2,134	729	1,175	664	3.52
1976/77 Projected	2,127	760-	950-	860-	2.60-
		830	1,150	1,040	2.90
Soybeans					
1974/75	1,215	701	421	185	6.64
1975/76 Estimated	1,521	866	560	244	5.00
1976/77 Projected	1,252	760-	510-	60-	6.50-
		820	570	110	7.50

Legislation could change this situation, although last year Congress rejected the idea of increasing the milk-support level beyond 80% parity.

Inputs. Key phrases to the input situation this year are increased production capacity, moderate price increases and a projected net farm income for 1977 no larger than last year's.

Increased supplies could cause fertilizer and feed costs to fall slightly, but this will be offset by increases in the cost of machinery, fuel, labor, interest and taxes. The USDA projects that total production costs should increase at about the same rate in 1977 as they did in 1976—about 5%.

Shortages, which in the past have caused severe price increases, will not be a problem this year. Pesticide production in 1976 went up 10% to 15% above a year earlier. Increased production of farm machinery led to higher inventories of tractors, combines and hay balers. Fertilizer production was up last year, resulting in rather large inventory buildup at primary and intermediary production levels.

The supply seems to be there; the tough forecast is for demand. A stable farm income no larger than last year's and softening grain prices could cause some slowdown in demand, especially for farm machinery. Shifting acreage from corn to soybeans and cotton will reduce slightly the demand for nitrogen fertilizer. • •

Division Heads Make Predictions At First Nat'l, Chicago, Conference

By JIM FABIAN, Associate Editor

DIVISION heads at First National, Chicago, presented outlooks at the bank's 30th Conference of Bank Correspondents last November. Among the forecasts were the following:

GRAIN—Corn production will be up about 4% this year, to a level of 6.25 billion bushels. Returns of up to 90 bushels per acre are predicted, even though there will be a reduction in acreage planted. Prices are expected to average $2.50-$2.60 per bushel. Wheat farmers should receive $2.70-$2.75 per bushel this year, down 20% from 1975. A 15%-20% increase in the production of soybeans is expected this year. Prices probably will go over the $7-per-bushel level by early spring, averaging out to about $6.20 over the year. Renewed international interest in the establishment of government grain reserves is seen for 1977.

RETAILING—The immediate future will be difficult. But with attentive management, adequate controls and sound financing support, most retailers have an opportunity to improve the quality of their profits and build a stronger balance sheet so they can seize on future growth opportunities.

CAPITAL GOODS—A moderately bullish outlook was predicted in this area. Accelerating growth and reasonable price stability are expected to characterize the 1977 economy. Domestic auto sales are expected to increase 8%, to 9.4 million cars. Steel shipments should increase 10%, to 100 million tons. Farm equipment is in a down cycle, with lackluster demand expected until mid-1977, resulting in decreased sales of 5%-10%.

FINANCE COMPANIES—A growing number of finance companies and their bank lenders are looking closely at the question of bank line reliability. Companies will make greater demands on prospective bank lenders to demonstrate an understanding and appreciation of the dynamics of the finance business.

REAL ESTATE—Primary housing (single and multi-family), retail commercial ventures and industrial properties show encouragement this year. Apartment construction is up, commercial office space construction is down, as is recreational land development.

■ THIRTEEN PERSONS have been named to vice president-level positions at First National, Chicago. Named vice presidents were: Paul L. Bolton, Joseph P. Clancy, James M. Hackett, Ward A. Highstone, Alvin A. Stortz, Gerald T. Cremers and William B. Colwell. Elected counsels in the executive department were: John A. Canning Jr., Frederick W. Damour, Sherman I. Goldberg, James B. Jurgens, Perry Moore and Stanley S. Stroup.

Presidents of Four Banking Associations Speak Out on Issues Facing Banking

There's no shortage of problems for the new year!

Inflation, Loan Demand, Speculation Concerns of Robert Morris Associates

By DAN W. MITCHELL*
President
Robert Morris Associates

I'LL BEGIN by saying that 1977 is going to be a better commercial loan year than 1976. That's a good, clearcut, positive statement. And I honestly believe it. I intend to make it a reality in my bank, and I believe that all of you, with prudence and patience, can do the same.

Right now you may be ho-humming me, but this is not *my* viewpoint alone. I have many opportunities to speak candidly with a number of bankers from around the country. Bankers who, just like you and me, are painfully aware of the difficulties we had to contend with last year, but who, at this very moment, are gathering around conference tables to chart a better and more profitable 1977.

It's a good thing that we learn by our mistakes.

I'm not saying that everything looks rosy. There are plenty of problems ahead that we're going to have to meet—and beat. Some are holdovers from last year, and some will be brand new. I'm concerned over a number of things as we go into 1977.

I'm concerned about inflation. The new administration has spoken of the possibility of injecting fiscal stimuli to aid in the overall economic recovery. If this is done prematurely and frightens rather than instills confidence among consumers and business, we're going to have problems.

I'm concerned about loan demand. Where will it come from? I think it will come from investment in new plant and equipment, from increases in wholesale and retail activity, from energy-related industries, housing and public utilities. To what degree it will be there, of course, depends on a great many factors, but I see no sharp declines from present levels in the near future.

I'm concerned about speculation. We must not relax our credit standards to rebuild loan portfolios. "Reaching" for poor credits surely will bring us grief. While we certainly want to participate vigorously in the economic recovery of the country, we'll contribute little unless we adopt a moderate stance based on sound credit principles—and stay out of marginal deals.

Patience probably is the single most important trait to exercise in the banking business today. Frankly, many of my associates are worried that impatience with the rate of increase in loan demand and with the rate of economic recovery is going to produce actions by some bankers that could compound the problems they have faced over the last two years. I am not naive enough to deny the existence of fierce competition for business these days, but we must harness our impatience.

It's also a time to reflect on those potential problem areas which include: loans based on price increases; concentration of dollars in single industries; "permanent revolvers"; improper pricing; caps, bullets and other dangerous fireworks; and lending outside our normal trading areas.

Lending to less-developed countries is seen by some as an area of increasing concern. The faltering strength of the world economy, accompanied by higher levels of inflation, changes in the relative purchasing power of currencies as well as an enormous buildup of international debt—much of it owed to private commercial banks—presents a somewhat dangerous combination of risk elements for foreign lenders.

Despite the slowdown in demand from industrial-country borrowers, however, it would appear that banks will continue to exercise cautious selectivity in choice of borrowers drawn from the ranks of the more mature developing countries as well as those regarded as higher-risk countries.

In summary, I wish that I could be *totally* optimistic. But I'm not and you shouldn't be either. Most of us have made significant progress in strengthening our loan portfolios. Nevertheless, economic forecasts outline a slowly recovering economy, with the prime rate reaching 7% to 7½% by early summer. There should be a pickup in loan demand during the year—quite likely starting fairly slowly, then accelerating

* *Mr. Mitchell is president, Old National Bank, Evansville, Ind.*

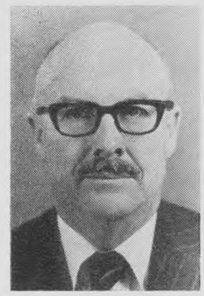
as the year progresses.

Finally, to capitalize fully on whatever opportunities do develop, we must be ready. We must make every effort to ensure that our staffs are well prepared to analyze the present and long-term financial strength of our customers and that our loan committee decisions are sound, justifiable and constructive—both to the bank and the borrower.

I'm making a commitment right now to make sure that we are ready, able and willing to take advantage of whatever opportunities arise in 1977. If you'll join me, I have no doubt that we'll have a pretty good year. • •

Those Who Would Change Bank System Do Not Appreciate Its Past Performance

MITCHELL



MADDOX

CAREY

ALEXANDER

By CHARLES O. MADDOX JR.*
President
Independent Bankers Association of America

IT'S NOT EASY to foresee the future of banking in the crystal ball, and it's risky to forecast what will happen in 1977 under President Jimmy Carter, a basically unchanged Congress and the banking committees of the Senate and House.

During 1976, we encountered—in both the Senate and House—concentrated efforts to change the basic structure of our financial institutions and their capabilities; a structure that appears to have served well for many years.

Structure-change legislation seems to assume that all financial institutions would be more effective and competitive if they were similar. I find this difficult to reconcile with history. We recall that specialized financial institutions—such as S&Ls and credit unions—were specifically authorized because demands inherent on the commercial banking system didn't allow it to provide housing loans and still maintain the liquidity necessary to cope with economic cycles that have evolved over the past 50 years.

I believe we have learned during this half century that financial institutions—legally structured by the Congress and by experience—have functioned well, both in serving the public with credit and services and in supplying the housing our expanding population has needed.

Rather than attempt a complete restructuring, such as was proposed in the Financial Reform Act of 1976, some fine tuning might be called for, especially in the area of regulation. Our past history, with its notable bank failures, reveals that the Comptroller of the Currency and the FDIC delayed action and failed to cooperate in coping with problem banks to the extent that preventive action couldn't be taken when necessary.

These agencies now appear to be acting early to force management to take corrective action before problems reach the crisis stage.

In general, I believe commercial banks have performed well in meeting credit needs in recent years and regulatory bodies have been skillful in arranging transfers of deposits without losses to depositors.

Although the NOW account experiment continues in the northeastern states, bankers involved confide that the competitive demand to pay 4½% to 5% on demand funds is resulting in a deterioration of capital structures.

Either the deterioration will continue or the cost to the consumer will go up. How can we rationalize going down the same fateful road our fathers traveled in the 1920s, when the same procedures led to higher and higher rates paid on demand funds to maintain deposit bases, with banks being forced to make increasingly marginal loans to pay the interest?

Those who would move toward payment of interest on demand funds and claim this was not a major cause for bank failures in the 1930s disregard a lesson of history. Bankers testify that capital structure deterioration did occur then.

In recent weeks, I was privileged to speak before bankers in Canada and England. In both countries, bankers expressed concern about growth of bureaucratic government control and ownership of financial institutions.

In Canada, the inability of rural and farming communities to control deposits and allocations of credit in their areas provoked debate about 10 or 12 banks controlling 95% of all deposits and whether it would be better for farm lands to be controlled and owned by state agencies.

I was deeply disturbed to find that labor unions in England were discussing the advisability of nationalizing all banks and declaring that national planning and control would serve better than private ownership and direction.

A look at Canada and England foretells that politicians and bureaucrats would give far less consideration to 75 or 100 giant banks than they would the 14,000 banks we currently have in the U. S.

We should ponder the plight of England, where an inept and inflexible government, dictated to by communist-led labor unions, has brought the country to its knees.

Our failure to recognize and profit by the experience of our neighbors is a strange thing to me. Why do we adopt policies that have proved to be bankrupt? Why do away with principles that have served this country well for 200 years?

Another assault on the McFadden Act is due in the 95th Congress by those who believe the federal government is more capable than the governments of the states to decide what is best at the state level. Passage of the McFadden Act demonstrated the fallacy of this argument.

Legislation enabling giant banks and HCs to dominate the financial sector of our country would send us down the same road England, Canada and France have traveled—the way of more government intervention and greater cost to all consumers and business firms.

Check the rate structure for evidence: The interest rate on savings in Canada varies from 10½% to 12%, while rates charged borrowers range from 15%

* *Mr. Maddox is president, Peoples Bank, Winder, Ga.*

to 18%. In Great Britain, interest on savings is between 12% and 15%. I asked an English bank officer about the rate to finance a new car. It was between 18% and 22%!

Laws can be passed here to force payment of interest on demand deposits. This would run up the rate structure across the board. The borrower least able to pay would bear the brunt.

If we yield to pressure to remove Regulation Q, we'll be bidding up funds, a game that got us into trouble long ago. We tried this with the "wild card" legislation that allowed unrestricted bidding of funds over $100,000; and deposits flowed from banks like a river to the highest bidder. Banks are inherently franchised institutions with controlled rates. You can't pay unlimited interest and control rate charges at the same time.

Let's take a look at our new President, Jimmy Carter. I don't agree with some of my colleagues who expect he'll be primarily concerned with boosting the economy, even at the risk of further inflation. Mr. Carter is basically a businessman. His performance as governor of Georgia indicates he will tackle budget problems responsibly.

As a man of business, President Carter knows business must profit to survive. It's not valid to believe he would lead Congress into spending programs without offsetting tax plans or cuts in other areas. I think his experience in small business enterprise will impel him to be sympathetic with the problems of independent banks and other businesses.

Our economy—with its thousands of small firms and small banks—is better able to maintain a large, healthy, middle-class society than one dominated by a few giant industries and huge banks.

However, I disagree strongly with Mr. Carter that the Federal Reserve Board chairman should have a term coterminus with the president. This would be another step in politicizing the Fed, making it merely a tool of the political party that happens to be in power, an agency to carry out the party's monetary program.

Our government includes a system of checks and balances. I believe the independent position of the Fed is absolutely essential to maintain the integrity of this system. • •

Progress Has Always Been Expensive, But Bankers Must Be Willing to Innovate

By GERARD V. CAREY*
Chairman
Bank Administration Institute

WHEN SOCIETY adapts new and better ways of doing things, someone has to pay the bill. David Warsh and Lawrence Minard pointed out in a recent article on inflation in the November 15, 1976, issue of *Forbes* that each time throughout history that a new sector of the economy has been developed, prices (inflation) have increased.

This is documented by historians who have identified three distinctive social revolutions—the commercial revolution of the Middle Ages, the capitalist revolution of the 16th century and the industrial revolution of the 18th century. During each of these revolutions, service to the general public increased through new and more efficient ways of doing things and this higher *standard* of living resulted in a higher *cost* of living.

The banking industry can parallel its own history and development to that of society. We have advanced from barter to coin and currency, to checks, to plastic and, now, to electronic fund transfers systems. With each advance has come an increase in the cost of banking operations, but also a more convenient and efficient way of banking for our customers.

The barter system worked well in the small, rural society of the Middle Ages, just as checks have worked well up to now in an increasingly complex 20th century society. We are faced, however, with an ever-increasing paperwork load resulting from our present paper-based banking system. We must develop and implement a more efficient way of handling financial transactions to keep pace with the rapid change and the needs of the world's changing social system.

It is estimated that 37 billion checks will be processed annually by the banking industry by 1980. In addition to the fact that the shear volume of paperwork is bound to tax the system's capacity, the cost of clearing checks (between 16¢ and 21¢ each), coupled with the cost of processing cash in the U. S., consumes almost 1% of America's gross national product—more than $10 billion. While electronic fund transfers systems don't promise to cut this cost, they do offer a means of slowing down the rate of cost increase.

Bank Wire, SWIFT, giro and our nationwide ACH network are all part of this EFTS development. Since the ACH movement began in California in 1968, other similar groups have been formed across the country. The National Automated Clearing House Association now has 28 regional ACH members, 26 of which are operational. These ACHs currently are processing over three million transactions monthly and the advent of inter-regional transfers should increase the volume further.

Bank Wire is a telegraphic network connecting more than 230 banks through which funds are transferred using correspondent bank accounts.

Bank Wire II is being upgraded for expected operation this year. It will offer computer-to-computer transactions nationally and will have the capability to handle batched transactions.

On the international level, the Society for Worldwide Financial Telecommunications (SWIFT), which was formed in 1973, now has over 260 member-banks participating in 15 countries throughout Europe, Canada and the U. S. SWIFT will connect the automated systems of these banks and is a vital step in the progress of international electronic fund transfers.

Also on the international level, giro systems have been in operation in Europe for a number of years. A giro user uses the giro bill stub—which includes the corporation's giro account to which funds are to be transferred—to authorize the transfer of funds from the user's account to the corporation's account. In the most advanced giro systems, transactions are processed electronically.

New costs are associated with the implementation of these systems—equipment, personnel, procedures development, etc. However, these costs are mandated by the level of service required of us by the changing needs of society. Change comes slowly but irrevocably and our industry must make its investment or society will be served by others. Properly designed, these systems will allow us to eliminate much paperwork and offer our customers a new and more convenient way of handling their personal financial transactions at a minimum incremental cost.

The response to direct deposit of social security checks has shown that, given the opportunity and sufficient information, consumers will change long-established banking habits. The rapid acceptance and growing use of automated teller machines and point-of-sale systems also has demonstrated the

* *Mr. Carey is chairman and president, First Pennsylvania Bank, Philadelphia.*

We made our mark in leasing

Since 1974, Citizens Fidelity Leasing Corporation has negotiated over $10 million worth of equipment financing either directly to or in participation with more than 100 banks. Part of the reason for this success is the commitment of Citizens Fidelity towards serving the capital needs of its correspondents and their customers. Just as important, Mike Maxwell, president, and his staff are leasing professionals, experts at showing the banks they work with how they and their customers can benefit from the financial and other advantages leasing provides. Call them at (502) 581-2686. They can help you make your mark, too.

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willingness of bank customers to change their banking habits.

The fast growth of the ACH movement, along with the corresponding development of SWIFT and electronic giro systems, indicates that many banks and their customers have realized that electronic fund transfers are an efficient, cost-effective way to handle daily operations—whether in the financial industry, the corporate world or the consumer area.

These systems, however, will never reach their peak operating potential until more bankers commit themselves and their banks to participate in them. We must make the commitment and plan our systems and strategies now rather than waiting until we are forced into action by competing financial institutions.

It has become increasingly evident in the last 10 years that the next revolution in the financial industry has arrived. Let's all make sure banking assumes its proper leadership role! • •

Consumer Bankers Will Be Challenged By Consumerist Legislation, Regulations

By MASON G. ALEXANDER*
President
Consumer Bankers Association

THIS YEAR promises to be challenging for everyone involved in consumer banking. Challenges to be faced basically are three-fold: We must comply with additional government regulation and control; we must aggressively seek desirable loans to maintain our banks' investment objectives; and internally, we must develop more efficient methods to reduce—or at least hold steady—our operating costs.

Regardless of whether your man won or lost last November 2, I think we can all agree that we face four years of government that will be militantly pro consumer. Place yourself in the shoes of a legislator. Corporations do not vote and consumers do.

There is nothing that can attract as much media coverage as a good dog-and-pony show put on by a congressional committee investigating the evils being perpetrated on the American public. When we oppose such investigations, we are being negative; yet, as an industry or as individuals, we rarely move forward to advocate changes for the consumer's benefit.

I am not implying that the banking industry alone is negligent in this area, but our stance tends to make us convenient whipping boys for some of our legislators—those who do not understand the way the American free-enterprise system functions.

It is high time we fully face up to the role of the Federal Trade Commission (FTC) in the retail sector of the bank. We no longer can ignore the FTC because it continues to write the rules under which we must do business, and the Fed has almost no alternative but to issue regulations similar to those issued by the FTC. It is high time that all banking associations begin to follow the FTC's actions and recognize the agency's power for what it is. It is time local associations and individual bankers begin to testify before this body and attempt to influence its regulations.

The major items we can expect to come to grips with this year in terms of new legislation and/or regulation include serious restrictions on debt collection, which theoretically would affect only the professional debt collector and not us. However, it would be simple to slip banking under this act at a later date.

We can expect the appearance of a major federal consumer credit act from Senator William Proxmire (D.,Wis.) that would supercede state laws.

We can expect major action in the area of Truth in Lending, which, hopefully, will represent some simplification and a major inquiry into the rule of 78s. This may be bad news for many banks that have not yet converted to simple interest.

In addition to these pieces of good news, the likelihood of a new consumer agency and a new consumer czar coming into being is strong. It is still too early to tell what impact such a bureaucracy would have, but I suspect it will be far-reaching.

The fact that consumer bankers have been able to bring their banks into compliance with new state and federal legislation testifies to their resourcefulness and adaptability. I remember only too vividly when South Carolina came under the Uniform Commercial Credit Code and the Truth-in-Lending regulation. Almost Herculean effort in study and training was required to bring our bank into compliance.

Unfortunately, the rate of change today has accelerated to such a point that the flow of new regulations and legislation is so rapid that we no longer can afford to devote the time and study to a single item that we once could. If we can't pick up these things in midstride with the same facility as a major leaguer handling a hot grounder, we're going to be hopelessly overwhelmed.

We all need to be concerned about the new examination procedures. The Comptroller of the Currency, the Fed and the FDIC will be going into our compliance efforts in great detail. We need to give this area serious study, for many items may well have been missed in our initial rush to comply.

Regulation B in its amended form will provide the greatest challenge in the area of compliance—even more than did Regulation Z. I really am not certain how any bank will comply without credit scoring. The requirement to disclose the specific reason or reasons for declining a credit may well compromise a bank's scoring system—which means the sacrificing of a significant investment.

As long as the market for good commercial loans remains weak, it's going to be important for the consumer sector to bring in as much new loan volume as possible. Those who will be most successful in developing lending opportunities will be those who are able to market unique services aimed at small, select segments of the population.

If we are going to be successful in meeting the challenges of the future, we must be able to attract some of the best personnel in the bank into the consumer-lending area. To do this and pay a fair salary in recognition of the greater degree of professionalism needed, we must find ways to increase efficiency.

It's important that we examine internal operations, not with the attitude of fine tuning them, but with one of performing radical surgery, if such is called for. Today, the willingness to accept things as they have always been is a sign that management is shirking its responsibility to find newer and more efficient procedures.

Greater utilization of open-end credit and lines of credit will become increasingly important to us. We need to find more effective ways to collect our accounts, and I am confident more will be heard of behavioral scoring, which detects borrowers who need collection action, and at what point and with what intensity the collection process begins.

The merger of installment loan departments and charge card operations should be considered. It may not be the solution in all banks, but it's per-

* *Mr. Alexander is a senior vice president at Citizens & Southern National, Columbia, S. C.*

forming satisfactorily in an increasing number of banks.

I think of this as a time of challenge, a time when we must cooperate with one another, sharing our experiences, willing to exchange ideas, being sufficiently open-minded to take an interest in what our colleagues are doing. Others possibly have found better methods than we have, and it's in our best interest to try to benefit from the experiences of others.

In the past, the consumer banker has been measured by his income and his losses. Today, this is changing—as it should. There will be greater emphasis on income, losses and operating expenses, with the new examination procedures bringing "compliance with regulation" vividly to the attention of management. • •

The Arts Benefit:

Albuquerque Bank Cited For Cultural Contributions

First National, Albuquerque, has received the Albuquerque Chamber of Commerce cultural committee's Business Award for Outstanding Service to the Arts Community.

The award was given to the bank on the basis of its donation of building space in First Plaza's Galeria shopping center for various cultural organizations and events; First National's direct contribution of money and services to the arts; and the "inspirational value" of First Plaza's architectural design.

First National was chosen from a list of several nominees submitted by individuals and groups in the Albuquerque arts community.

William L. Butcher Dies

William L. Butcher, 69, who retired in 1972 as president, Bank of New York Co., a statewide bank HC, died November 28. At the time of his death, he was a director of the HC and of Bank of New York, with which County Trust, White Plains, N. Y., was merged earlier last year. He was a former chairman of County Trust, which he joined in 1946 and served as president, 1957-60. Previously, he had been vice president, Central Trust, Cincinnati. Mr. Butcher was on the faculty of the Stonier Graduate School of Banking, Rutgers University, New Brunswick, N. J., from 1949-58.

Commercial Loan Workshops Scheduled for '77 by RMA

Two loan workshops will be held in the Mid-Continent area by Robert Morris Associates in 1977.

A loan quality control workshop, dealing with all phases of loan administration, will be held March 14-15 at the Breckenridge Pavilion Hotel, St. Louis. Moderator of the workshop will be Jack R. Crigger, executive vice president, American National, Chattanooga.

A commercial loan training program workshop, designed to provide participants with information to prepare a loan officer training program for their banks, will be held September 8-9 at the Continental Plaza Hotel, Chicago. Moderator will be W. Thomas Maloan, senior vice president, Commerce Union Bank, Nashville.

Further information about the workshops is available from Registrar Cecelia Small, Robert Morris Associates, 1432 Philadelphia National Bank Building, Philadelphia, PA 19107.

Nat'l Association of Bank Directors

What is it?
What does it do?
What are its future plans?

By **JAMES A. WEBB JR.**
President
National Association
Of Bank Directors

AS AN "inside" bank director and more particularly as chairman of a bank board, I have been increasingly concerned, among other things, about the proper method of keeping our directors abreast in these days of rapid change in responsibilities, accountability and reporting procedures (both to our board and to the regulators). I also have an uneasy feeling that our board and too many other bank boards currently are operating behind the times. The more progressive our bank board has sought to be, the more we've found to be done just to keep up. In this frame of mind, I leaped at the opportunity to serve as a founding director of the National Association of Bank Directors when the idea was discussed among several old friends who have worked together in close harmony within the ABA for the past several years.


WEBB

For example, I asked several banks in various asset sizes to describe to me the reporting done at monthly board meetings and what documents are placed in directors' hands for direct, personal, eyeball review. In virtually every case, we decided together that the report fell into the category of *inadequate*. If trouble comes, Heaven forbid, being personally liable for bank mismanagement would be bad enough for a director, but not to have taken reasonable and appropriate means to keep informed would be worse. I'm not looking for trouble, but if trouble comes, it seems incumbent on bank management to have made a great effort to keep its directorate properly informed from the trouble-free times through the early warning stages right down to the bitter end.

Although we are still in the early days of organization and are just beginning to be prepared to make our presence known and solicit memberships, the easiest method of explaining our purpose is, perhaps, a brief statement of goals:

What it is. The NABD is a nonprofit professional association of both "inside" and "outside" bank directors.

What it does. The NABD will seek to inform, educate and represent bank directors so that they're well informed and current in their duties, responsibilities, liabilities and rights. Consumer groups and regulators appear to be subjecting banks—particularly, the actions and relationships of bank boards —to ever-increasing scrutiny and criticism. This necessitates a new awareness on the part of bank management and bank directors.

How this will be done. The NABD contemplates regional and national workshops to increase the understanding of bank management and bank directors, provide a more complete understanding of the director function and facilitate an interchange of information on issues that directly concern every bank director. The possibility is being researched of establishing a school for bank directors at one of the leading centers of continuing adult education for brief in-residence study on in-depth training in director responsibilities. Finally, an Annual Bank Director Conference is planned to give bank directors the advantage of hearing directly from the country's leading spokesmen in banking, government and education on issues directly affecting banking.

How to join. When an individual bank becomes a member of the NABD, its statutory and advisory board members become entitled to all benefits and activities. Membership dues are nominal and, of course, tax deductible according to the following scale:

Banks with total footings of:

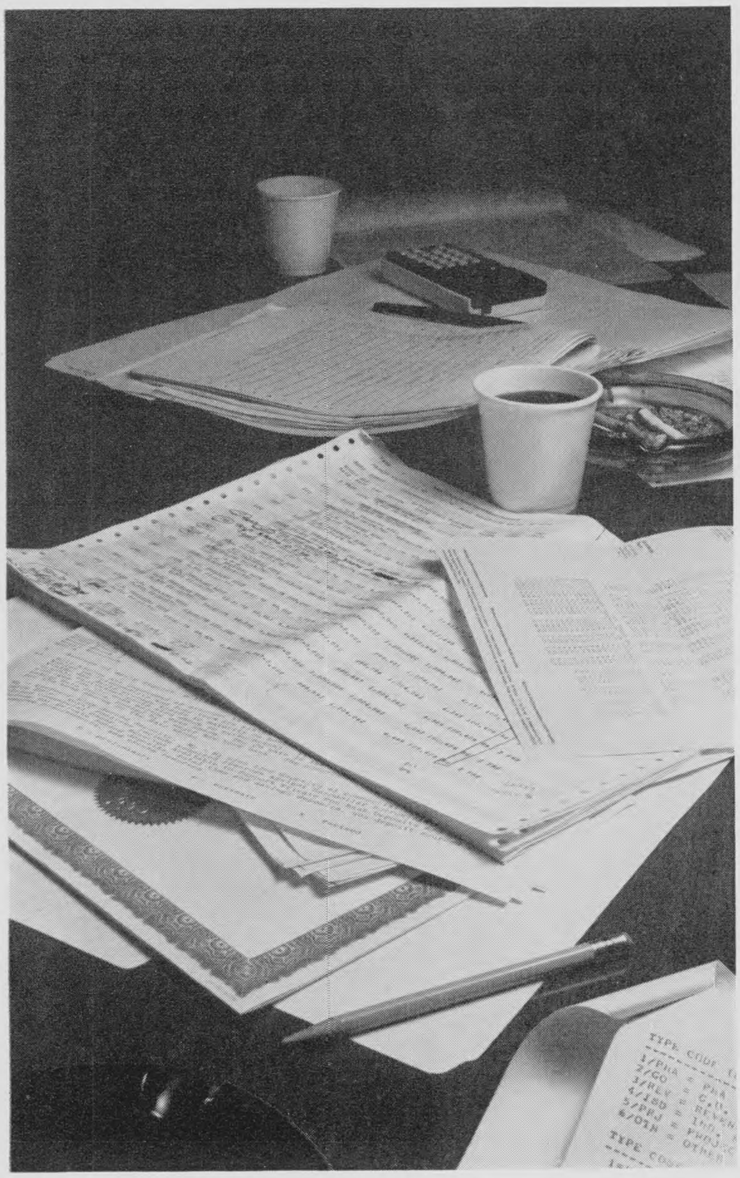
	Annual Dues
Under $10 million	$100
$10 through $49.99 million	$150
$50 through $99.99 million	$200
$100 through $499.99 million	$250
Over $500 million	$500

In summary, an investment now of a few dollars and some time spent improving board members' understanding of *all* their functions, responsibilities and liabilities may well avoid later embarrassment for both inside and outside directors and make management look like the champion it ought to be. And, on the drawing board now, to kick off the real honest-to-goodness nuts and bolts of our coming to grips with our objectives, we have planned a one-day regional workshop for Friday, February 11, 1977, at Stouffer's Riverfront Inn in St. Louis. This workshop will be directed primarily to the region composed of Missouri, Kansas, Nebraska,

EDITOR'S NOTE: There are many bankers associations, but they were formed primarily for active career bankers. However, late last year, a new association was created for inside and outside bank directors. It's headquartered in Washington, D. C., and its spokesman and president is James A. Webb Jr., chairman, Nashville City Bank. Because the National Association of Bank Directors (NABD) is new, and its targeted membership is different from most bankers associations, MID-CONTINENT BANKER asked Mr. Webb to write an article telling why it's believed such a group is needed and how the NABD plans to achieve its objectives.

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.

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Reilly Joins NABD

WASHINGTON, D. C.—Peter A. Reilly will become executive vice president, Nat'l Association of Bank Directors, headquartered here, effective February 1. For the past two years, he has been executive vice president, Association for Modern Banking in Illinois (AMBI), headquartered in Springfield.

Before going to AMBI, Mr. Reilly was director of the ABA's commercial lending division for eight years. During that time, he organized the ABA Commercial Lending School and ABA Graduate Commercial Lending School, both at the University of Oklahoma. Mr. Reilly also organized the ABA's certified commercial lender program.

Illinois, Oklahoma, Iowa and Arkansas. More regional workshops are in the works, but the only other firm date at this point is our Annual Director Conference to be held in New Orleans, April 13-14-15, 1977.

At this point in our development, however, we can't guarantee anything except our interest in the banking profession and our desire to perform a genuine service to interested bank directors and interested bank management. We are confident that our concern is proper; our cause is just, and our constituency is eager to join in an idea whose time has arrived. • •

One-Day Directors Workshop Planned for February 11 By New Directors Association

ST. LOUIS—The newly organized National Association of Bank Directors will hold the first of a series of regional bank director-management workshops here February 11 at Stouffer's Riverfront Inn.

Purpose of the workshop is to upgrade director understanding in the areas of functions, responsibilities and liabilities.

Topics to be taken up on the one-day program include: the director in this period of critical change and crisis, how to best serve a bank and represent it to the community, what a director requires to make decisions, the new Consumer Protection Act and compliance examination, what a director should know before he accepts a directorship and potential liabilities of directors.

Bankers from the Mid-Continent area appearing on the program include James V. Baker, executive vice president, Fidelity Bank, Oklahoma City; B. M. Lamberson, vice chairman, Commerce Bancshares, Kansas City; Paul J. Pfeilsticker, vice president, Continental Bank, Chicago; Ray Sonnenberg, vice president, Edgemont Bank, East St. Louis, Ill.; Ben A. Parnell Jr., chairman, Bank of Springfield, Mo.; and James Webb, chairman, Nashville City Bank.

■ FIRST NATIONAL CHARTER CORP., Kansas City, and Farmers Trust, Lee's Summit, have announced an agreement by which the latter will become the 19th member of the HC.

Iowa Congressman Disagrees With Views of Rep. Reuss On Savings, Proposed Tax Cut

WASHINGTON, D. C.—A remark by Representative Henry Reuss (D., Wis.) on the CBS radio program, Capitol Cloakroom, that citizens saving money wouldn't help the economy led to a rebuttal from Iowa's Third District Congressman Charles Grassley and, in turn, an answer to Mr. Grassley from Representative Reuss. The latter is chairman, House Banking and Currency Committee.

The round-robin discussion began November 10, when—on the program—Representative Reuss responded as follows to a question concerning President-Elect Jimmy Carter's proposed tax cut:

"If it is determined that greater stimulus is needed, then I very deeply feel that the way to go is not via a general tax cut, but via a specific job creating legislation—public-services jobs, in short.

"I say that because if you do it, try to stimulate via a tax cut, a great deal of the money which you leave in the taxpayer's pockets by the tax cut stays there. They save it rather than spend it, so it does no earthly good.

"Secondly, what they do spend, they spend not on labor-intensive activities, which is the kind of job that you really want to make so you can hire lots of people, but they tend to spend it on capital-intensive activities and increasingly today it might well be spent on some compact car or color television or a motorcycle made not in the United States but in Japan, so I am very dubious about the economic effect of a tax cut. If stimulus is indicated, I think we can do much better, cheaper, via direct job creation."

In response, Congressman Grassley said, "As chairman of the Banking Committee, Mr. Reuss surely should know that if people save their money in banks and savings and loan institutions, that provides capital for housing construction and automobile loans, two areas hit hard by unemployment. It also frees more funds for investments by industry to expand and create new jobs. How can he say that it is not a stimulus to the economy?"

The Iowan charged that Representative Reuss would prefer to have the federal government add to its deficit by creating a bigger bureaucracy and employing everyone. He pointed out that tax cuts during the Kennedy Administration resulted in increased financial activity and spurred the economy.

"In fact," added Mr. Grassley, "the Treasury gained $54 billion in revenue. Maybe Mr. Reuss should take another look at history."

When Mid-Continent Banker asked Representative Reuss to elaborate on his radio comment, he said, "Saving is great for the economy, but unbalancing the budget by more billions via a tax rebate, as Mr. Grassley apparently advocates, and then rejoicing that the money will not be spent simply is getting things mixed up. Now is no time for fiscal irresponsibility."

In Louisville:

Unveiling of Art Gallery Features 51-Piece Show

"Childhood Images," a 51-piece show, was the premiere exhibition of the new art gallery of Liberty National, Louisville, at its Main Office.

The showing was an interpretation of childhood in water color, oil, pastels, sculpture, textiles and leather, and 23 area artists were represented.

The Liberty National Bank Gallery, as it is called, is open to the public on weekdays during banking hours.

Economic Outlook Held

Paul J. Markowski (l.), chief economist, Argus Research Corp., and consulting economist for First American National, Nashville, recently presented an economic outlook for 1977 to about 100 correspondents of First American. Others in photo are Kenneth L. Roberts (2nd from l.), president, First American; Beverly Douglas (2nd from r.), president, Middle Tennessee Bank, Columbia; and Howell Smith (r.), president, Northern Bank, Clarksville.

Mixed Outlook for Union Efforts Seen

THE OUTLOOK for possible spread in unionization of banks is mixed for 1977. There is considerable unionization activity involving banks, but much of it doesn't amount to victory on the part of unions, according to John A. Sheridan, president, John Sheridan Associates. Mr. Sheridan gave his views at the recent 30th Conference of Bank Correspondents, sponsored by First National, Chicago.

Only two large U. S. banks are unionized, Mr. Sheridan said. The question for 1977 and beyond is: Will unions concentrate on small banks rather than large?

Bankers facing the prospect of unionization of their employees are taking heart in the fact that disputes can be kept from reaching the stage where an election to determine union affiliation will take place.

Recent unionization activity has concentrated on small- to medium-sized banks, Mr. Sheridan said. Various dispositions of such activity have occurred, most of it being discouraging for organizers. Some campaigns go on and on and get nowhere. Some campaigns fade away after a bank makes concessions. Some union election victories turn sour when managements resist implementation efforts.

Union organizers promise employees job security, economic gains, spokesmen to air grievances with management and strength in numbers.

Requests on the part of groups of employees to discuss wages and working conditions are an early warning sign that union activity is afoot, Mr. Sheridan said. When this happens, banks should act, not react.

They should make sure wages and policies are fair, that jobs are periodically reviewed for upgrading, that adequate employment records are kept, that discipline is firm, but fair, that unstructured job interviews are part of bank policy, that there are adequate grievance procedures. Lastly, Mr. Sheridan said, management should know who the bank's supervisors are, so these people can be instructed on employment policies.

Gov't-Guaranteed Loan Programs And the Secondary Market

How the Combination Benefits Banks

By ALTON M. BATHRICK

THE SECONDARY MARKET in government-guaranteed-loan programs is making strides toward becoming an increasingly important factor in bank lending practices. Utilization of the U. S. government's full faith and credit guarantee helps banks provide an answer to questions raised by the specter of tight money and high interest rates which struck a blow at the nation's economy in 1974.

The Small Business Administration and Farmers Home Administration (the latter through its new building and industrial loan program) have cultivated similar systems that allow banks and other participating lenders to sell the guaranteed portion of a loan to a secondary market investor. Investors are identified as pension funds, profit-sharing funds, credit unions, insurance companies, bank trust departments, mutual funds and individuals.

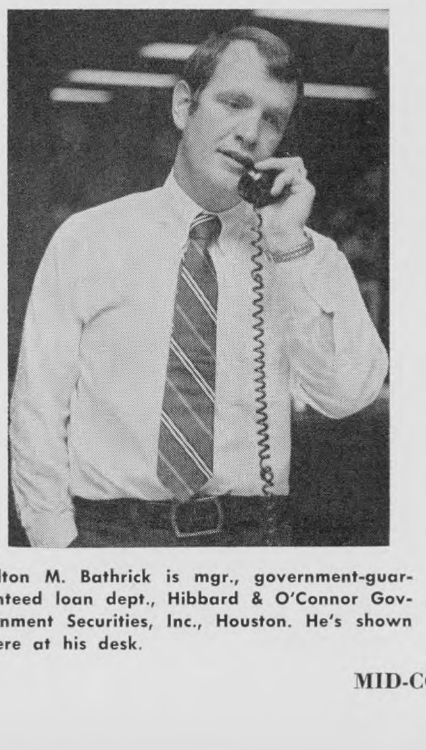
The lender thus will sell the guaranteed portion of the loan (normally 90%) into the secondary market, retain the non-guaranteed portion and derive additional income through servicing the guaranteed portion.

In essence, then, on a $500,000 SBA or FmHA government-guaranteed loan, 90%, or $450,000, would be sold in the secondary market, the lender would pass through to the new owner proportionate principal and interest payments on a monthly basis, for a service fee, and would have only $50,000 on loan balance against his loan portfolio (in most states), with that 10% portion to be carried in normal fashion.

Subsequent to 1974, bankers discovered they could no longer reside comfortably in the status quo of traditional lending philosophies, since the cost of funds often outran loan yields. The need was strong for a positive margin from such sources as variable-rate lending to sensitize loan portfolios against interest-rate fluctuations.

Great ideas often are generated in periods of travail, and it's no coincidence that the government-guaranteed loan program developed its impetus in 1974, the year of the crunch. Small Business Administration loans, best known of the federally backed loan programs, were established in 1953. It took 21 years to hatch the idea of combining the program with the secondary market. And the market today is in its fledgling stage. Only about 5% of government-guaranteed loans underwritten by the SBA in 1976 found their way into the secondary market.

Obviously, the good word hasn't fully spread throughout the banking industry, but when it does we can expect it to develop as have GNMA modified pass-through securities during the 1970s. We view the government-guaranteed loan market today as being similar to the position Ginnie Maes were in during the late 1960s.



Alton M. Bathrick is mgr., government-guaranteed loan dept., Hibbard & O'Connor Government Securities, Inc., Houston. He's shown here at his desk.

Both the SBA and FmHA, the two principal guaranteeing agencies, are cooperating eagerly to assist lenders in taking advantage of the unique and prudent leveraging position offered through government-guaranteed loans. The agencies have, importantly, reduced much of the red tape that formerly went into securing secondary market approval.

Numerous lenders have indicated interest in several other agencies, such as the Economic Development Administration and the Energy Research and Development Administration. These agencies may join the more than 100 government-guaranteed loan programs in existence, and many will qualify in time for resale to the secondary market.

There are numerous advantages for bank participation in the secondary market with government-guaranteed loans. We've mentioned some of them in general. Here are details:

1. Effective yield on actual funds invested is very attractive. The lender earns original interest on the retained portion of the loan, plus the servicing fee from the guaranteed portion sold into the secondary market.

EXAMPLE

$100,000	10% FmHA 90% Guaranteed Loan with 1.50% servicing retained	
10,000	at 10%	$1,000
90,000	sold (w/1.50% servicing)	1,350
	Total Income:	2,350
	Total Yield:	23.50%

(Yield could be lower if lender pays

guarantee fee. This yield is calculated on actual dollars invested after sale of the guaranteed portion, in this case, $10,000.)

2. Use of the secondary market allows the lender to recover 90% of his funds which, in turn, provides for greatly increased lending opportunities. In particular, smaller institutions can make more loans and service significantly more customers.

3. Increased use of government guarantees combined with the secondary market is one of the most workable programs to make possible solid benefits, not only to business and industry, but to communities the lender helps support. The lender acts as a conduit for new capital.

4. Many times, demand deposits maintained by the borrower of government-guaranteed loans provides for a self-funding transaction. Yield calculations mentioned previously do not include investment of demand balances. Obviously, yields would be greater by calculating the monetary value of these balances.

5. The most important time to develop a relationship between borrower and lender is when a business is small or new. As the business prospers, additional bank services will be needed, and balances are likely to increase.

6. Capital is a major concern of today's banker. It has become customary to levy capital charges in the pricing of a new loan. Retention of a smaller portion of a loan reduces capital pressures while increasing yields.

7. Liquidity is another attractive advantage when lenders utilize government guarantees. The secondary market remains active even in times of the most restrictive credit practices.

8. The secondary market provides for improved management of interest differentials since loans sold in the market should produce yields on the remaining portion that will reflect positive margins in all interest-rate environments. Proper use of variable-rate privileges should create loans that normally can be sold without a loss in any interest rate environment.

9. Market independence probably is the most important advantage of this program. Reliance on marketing full-faith and credit loans has resulted in more consistent loan placement than dependence on overline assistance for larger loans.

Development of the secondary market has been given high priority by both the SBA and FmHA. The program has moved ahead, but not nearly as fast as it might if loan demand had stayed at 1974 levels. To maximize the advantages from this market, banks may find it advantageous to consider committing to a new outlook toward government guarantees. Traditional misconceptions—such as excessive paperwork, red tape, "minorities only" or the notion that guarantees are for marginal credits only—are being overcome.

"Development of the secondary market has been given high priority by both the SBA and FmHA. The program has moved ahead, but not nearly as fast as it might if loan demand had stayed at 1974 levels."

Government guarantees may be studied to determine which ones fit particular needs of the banker. Through an innovative process, the SBA has increased guarantees from $350,000 to $500,000, increased maturities to 20 years, treats the farmer as a small businessman, provides construction guarantees for builders and seasonal guarantees for the small businessman.

The FmHA (B&I) loan program guarantees loans up to 30 years on land, building and permanent fixtures; up to 15 years on machinery and equipment and up to seven years for working capital.

To make government guarantees work as a part of the lending policy of banks, a more aggressive attitude toward becoming a term lender to small businessmen would be in order. Loan demand is down for major corporations, but many small businessmen are still locked out of the equity and debt markets. A major business weekly observed recently that for companies below the majors, finding or obtaining long-term funds is almost as difficult as it was in the worst days of 1973-74.

The small businessman, the farmer and the entrepreneur are looking for stable, reasonably priced term credit. In fact, if bankers review their loans for the past 10 years, they may be surprised how many renewable notes were in reality term loans made at short-term rates. The small businessman feels more comfortable with term credit than with the instability of short-term credit or renewable one-year notes. If a bank actively solicits term loans, it's likely to find the borrower to be much less rate sensitive and probably less inclined to "shop" for a lower rate.

Bankers may consider using the government guarantees to provide asset liquidity for bankable term credits where working balances are available. The Lubbock, Tex., SBA office, an excellent and innovative office, recently completed a five-year review of eight participating banks. These banks used the SBA as a tool to support bankable term credits. They also were able to develop average working balances of 18% on the original amount of each loan.

Hibbard & O'Connor Government Securities, Inc., is an active participant in this market. Its service includes assistance in preparation of documentation required to sell a loan, development of strategies to use government guarantees, proper pricing of term loans and market techniques to identify bankable small businessmen. Commitments can be arranged well into the future to protect the lender.

Finally, success of secondary market participation in the government-guaranteed loan program depends on its acceptance by banks across the nation. We believe this is simply a matter of time. When it occurs, we think it will cause a re-evaluation of existing lending policies.

Bankers will develop more emphasis in long-range thinking than in the past. It will give partial relief to balance sheets and capital constraints. It will produce more demand deposits and increase fee income, develop greater future liquidity and improvement of margins.

It is not a pipe dream. It's here today. • •

Bankers Assess Outlook

A survey of bankers attending the 30th Conference of Bank Correspondents sponsored by First National, Chicago, in November, revealed that bankers expect inflation to increase under the Carter Administration.

Nine out of 10 bankers responding said current monetary and fiscal policy should combat inflation rather than unemployment.

The poll also indicated that most bankers expect the prime rate to be at 7%-7½% by mid-1977. A majority said real growth would not exceed 5%.

Two out of three expect business conditions by year-end 1977 to be about the same as at the time of the conference. In respect to their own banks, 90% said earnings will be about the same or higher during 1977.

In the area of interest rates, the majority of bankers think long-term rates will be between 9%-10% by the end of 1977. The Dow-Jones Industrial Index will be at or about the 1,000 mark and the unemployment rate will be about 7%.

About 700 bankers participated in the poll.

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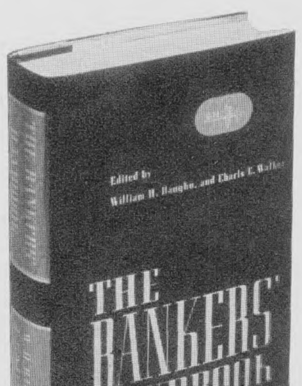

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Municipal Credit Analysis And Portfolio Management

By THOMAS S. HARDIN

AS NEW YORK CITY has been receiving rave reviews for its locally staged, produced and directed drama "From the Precipice and Back," most of us involved in municipal finance have used the occasion to draw several object lessions.

First of all, there is no free lunch regardless of how socially appealing the largesse may be, whether it's labeled transfer payments, benevolent retirement benefits, tuitionless higher education, ad naseum. While creative accounting temporarily may obfuscate who owes whom how much, money borrowed from the investing public and used for whatever purpose is nevertheless money to be repaid by those who borrowed it.

A second, and less equivocal object lesson, impinges on this exact point. There is a disconcerting lack of uniformity and standardization regarding a municipality's financial reporting procedures. It's often equally difficult for local taxpayers and bondholders alike to know the true state of financial affairs vis-a-vis literally thousands of local governmental units. This situation presents a unique challenge to the portfolio manager, who normally has little or no direct contact with the majority of those issues held in portfolio.

Following the first act of New York City's drama over two years ago, more attention has been devoted to municipal credit analysis than during the preceding 10 years. Since the Big Apple's well-publicized problems have been properly accepted by most tax-exempt portfolio managers as a mandate to become more credit conscious, it's essential to establish a credit-oriented frame of reference. Relatively few portfolios are large enough to justify a full-time portfolio manager, let alone a full-time analyst to review those issues presently held as well as new issues. While there is a mushrooming body of information available, both on a fee basis and as a service, the portfolio manager cannot discharge fully his credit responsibility without developing a suitable frame of reference.

Such a frame of reference will provide the necessary tools to read and comprehend a variety of available credit reports and statistical data. In addition, these tools can be improved to provide a broader range of options on which to build a more sophisticated portfolio strategy, i.e., identifying improving credits as candidates for possible upgrading, or deteriorating credits as candidates for possible downgrading. While the latter utilization of credit analysis in portfolio management isn't for everyone, the former utilization—to develop a basic understanding of municipal credit analysis—is essential for the portfolio manager to discharge his responsibilities to the investment committee and the board of directors.

The following paragraphs are intended to enable the portfolio manager to establish such a frame of reference so that intelligent, independent judgments may be made regarding the risk-reward ratio of tax-supported bonds; the risk being the event of default and the reward being the yield.

The first step in developing this frame of reference is to view bond purchases as an extension of bank credit, but to a more impersonal borrower, a municipality. Just as a commercial lending officer must follow well-defined analytic guidelines, the portfolio manager should develop similar guidelines which extend well beyond the bond's rating. In developing such guidelines, the ultimate question to be answered deals with the borrower's, or municipality's, repayment ability.

In addressing this issue properly, the following traditional evaluation categories should provide a broad outline for a credit-oriented frame of reference:

1. Economic factors.
2. Debt composition and magnitude.
3. Administrative and governmental factors.
4. Financial and cash flow analysis.
5. A general assessment of the municipality's present and future economic prospects and fiscal stability.

THOMAS S. HARDIN is nat'l sales mgr., municipal bond div., Harris Bank, Chicago. He is an a.v.p., joined Harris in 1975 and, before receiving his present post, was in the underwriting and municipal credit section of the bank's bond division. He formerly was v.p., Loewi & Co., Milwaukee. Harris' municipal bond div. has representative offices in New York, San Francisco and St. Louis.

While these five considerations will broadly define a suitable frame of reference, a more precise definition of each one will enable the portfolio manager to make better informed, more autonomous credit judgments. As this analytic process sharpens the portfolio manager's focus, an overall profile based on historical trends and patterns should be built. Many issues will be held in portfolio for five, even 20 years or longer. A municipality's prospects can be evaluated most accurately by reviewing historical trends and extrapolating a judgment regarding future viability.

As every portfolio manager realizes, the security for all general-obligation bonds is a tax levy on all taxable property, which provides the fundamental source of revenue. Consequently, the first element, economic factors, involves an analysis of: (a) total tax base; (b) population; (c) distribution of the tax base between residential and commercial; (d) employment diversification and stability; (e) general signs of economic strength as evidenced by new building permits, etc.; (f) demographic factors, such as educational attainment of the population, age and value of the housing stock, etc. When reviewing these economic factors, it's essential to maintain a balanced perspective so that no single element becomes too significant, or too insignificant.

The essential consideration in evaluating economic factors is the diversification and stability of the tax base and its ability to accommodate unexpected changes such as the loss of a large employer or a substantial taxpayer. Ideally, the overall tax base should include both residential and commercial or industrial taxpayers. A concentration of residential may make an issuer vulnerable to a decline in population, while an undue concentration of commercial or several dominant employers may expose an issuer to financial uncertainties caused by a general or industry-wide economic downturn. A general conservative approach is that no single taxpayer should represent more than 10% of the total tax base. Population should neither increase nor decrease too rapidly. Rapid growth demands obvious capital projects such as schools, sewers, etc., which can force undesirable debt accumulation. Conversely, a declining population, normally a telltale sign of a deteriorating credit, usually creates a proportionately greater economic burden on the remaining population base. Occasionally, a population decline may be offset by an increase in the industrial or commercial segment of the tax base.

"Admittedly, a discussion of types of municipal debt can be nearly as exciting as watching paint dry, but it will provide the portfolio manager a valuable perspective from which to understand debt ratios."

Other considerations such as issuance of new building permits, zoning, transportation facilities, age and value of housing stock and an economic profile of the population such as wealth levels and educational attainment will sharpen your overall understanding of a municipality as a viable, revenue-generating enterprise. In evaluating various economic factors, you should apply a similar perspective, relating an increase or decrease in each component to its impact on the overall trend or profile.

To assess the second category, debt factors, the following items must be evaluated: (a) overall tax-supported debt and related repayment schedules; (b) significant debt ratios; (c) relationship between short- and long-term debt; and (d) interrelationships between debt and wealth levels. A very important consideration in assessing a municipal credit is the demonstrated pattern of debt management and capital expenditure programs relative to the income-producing ability of the tax base. Trends indicating any growth or shrinkage in the tax base should be considered in relation to the corollary movement of total bonded indebtedness. Since the tax base provides the revenue stream to pay debt service, a potential danger signal may occur when total tax-supported bonded indebtedness continues to increase at a more rapid rate than the tax base.

Sound debt-management practices are an excellent means of controlling debt-service expenses to achieve a smooth expense factor in future budgets. Ideally, the maturity schedule should be related to the useful life of the facility being built; a rule of thumb is that 5% of an issue should be amortized per year, although this generalization may have numerous valid exceptions. It's important to determine if a too-rapid amortization schedule will impose an unnecessary burden on present taxpayers or whether a too-slow amortization schedule will unnecessarily restrict future capital projects as old or obsolete facilities are still being funded. In either event, the capital-financing flexibility of an issuer may be unduly restricted, thus limiting its future fiscal prospects. Awareness of statutory debt limits is a vital element of debt management to confirm that sufficient future financing capacity exists relative to those needs implied by the growth characteristics of the area.

Since the ability to understand a municipality's debt statement is fundamental to credit evaluation, a brief review of the types of municipal debt may be useful. There are four such categories:

The first is total gross or total direct debt, which represents that debt incurred by the issuer either in its own name, or through annexation of territory or consolidation with another governmental unit, and all debt payable from ad valorem taxes, including indirect debt that's directly tax supported, such as lease-rental payments.

The second category is net direct debt, which is simply total direct debt less any cash and debt-service funds, or reserve funds, and less that debt which is serviced in the first instance, from earnings generated by a specific facility, but which is payable in the second instance from ad valorem taxes should revenues be inadequate to meet debt service. Beware of those debt statements that reveal excessive direct debt which purports to be self-supporting. Should the revenue-producing source prove to be inadequate, the municipality would be compelled to use its taxing power to provide unplanned debt service, thereby possibly restricting future fiscal prospects.

The third category is total direct and overlapping debt. Overlapping debt is the proportionate share of the debts of local governmental units located wholly or in part within the limits of the issuer and which is tax supported.

The fourth category is net direct and overlapping debt, or that total tax-supported debt for which an issuer is responsible after deduction of cash, cash equivalents, debt-service funds and indirect debt which is tax supported and that historically has been self-supporting.

Admittedly, a discussion of types of municipal debt can be nearly as exciting as watching paint dry, but it will provide the portfolio manager a valuable perspective from which to understand debt ratios. Debt ratios are an indispensable quick check to arrive at a common denominator among municipalities in order to make valid and meaningful comparisons. The four most commonly used debt ratios are total direct and overlapping debt per capita, debt to assessed value, debt to full market value and debt per acre. Per-capita debt measures only the magnitude of debt, not its economic burden, since one unit of population anywhere does not represent a correspondingly equal unit of wealth, skill and tax-paying capacity. Normally, per-capita debt of less than $250 is considered excellent; from $250-$500 is very modest; from $500-$750 is easily supported; from $750-$1,000 is approaching the high side; and anything over $1,000 demands considerably more analysis. A very high or very low per-capita debt isn't necessarily bad or good; it depends on what portion of the total tax base is dependent on individual real estate property taxes versus commercial or industrial taxpayers, particularly since a number of additional revenue sources may be available to a municipality such as a sales tax, income tax, franchise tax, etc.

The second measure, debt to assessed value, is of limited value because of the wide disparity among assessing ratios throughout the country. A much more significant and useful ratio is overall net debt to true or full-market value. This measure reflects most accurately the ability of a tax base to produce an income stream, from which debt service flows. Generally, net overall debt to full value of less than 1% is excellent; from 1% to 2½% is very good; from 2½% to 5% is easily supported; from 5% to 10% may restrict fiscal flexibility; and a ratio in excess of 10% is alarming, since historically one of every three cities whose net overall debt to full-value ratio exceeded 10% defaulted. The fourth ratio is debt per acre for so-called farm bonds, or "black dirt" bonds. A ratio of less than $20 debt per acre is considered excellent, while $21 to $40 debt per acre is quite good; however, since the value of the farm land is included in the full value of all taxable property, along with all other assessed property, debt to full value is still the most meaningful ratio.

Thorough evaluation of an issuer's income statement also should include an examination of the relationship between long- and short-term debt. While there is no ideal long- to short-term debt ratio, it's important that an issuer's historical ratio has remained about constant. An increasing reliance on short-term debt may indicate a growing use of notes to cover budgetary or operating deficits. The relationship between total debt and personal or family income levels is referred to as debt burden and is a relatively new statistical measure of the population's ability to support public debt. For example, per-capita debt expressed as a per cent of mean or median family income should be about 3% to 5%; per-capita debt expressed as a per cent of personal or individual income should be approximately 15%. Bear in mind that these ratios, like all ratios, are intended to provide a guide and are not absolute measures of an issuer's fiscal integrity. Many unique situations can occur affecting the total mix of population, tax-base diversity, wealth levels, et al, which may distort individual ratios without necessarily adversely affecting overall creditworthiness.

The third guideline, administrative and governmental factors, is somewhat more esoteric than the previous two guidelines. While it is virtually impossible to quantify the quality of administrative and governmental factors, several aspects should be reviewed to develop an interface between governmental effectiveness and the municipality's anticipated financial prospects. The quality, professionalism and political philosophies are an important indicator of the types of service which may be provided vis-a-vis the implied expenditure controls and cost burdens. Accounting and reporting procedures should be current; they should reflect accurately and adequately the sources and use of income received; it's often interesting to notice any dependence on earnings from "enterprise funds," such as a municipality-owned utility system. Another indicator of governmental effectiveness is the thoroughness and accuracy of budgeting and capital planning, which should be realistically related to projected income flow.

Financial and cash flow analysis, the fourth evaluation category, should disclose overall operating data and financial management efficiency. Operating funds should be examined closely to detect broad trends leading to large accumulated surpluses or possible deficits; the quickest check is to examine the year-end cash position relative to its magnitude in previous years. Sources of revenue are important to assess, particularly any trends that imply a growing dependence on federal or state aid. Growth in state and local spending has far outdistanced corresponding growth in federal domestic expenditures. But while local governments are spending more, they are spending less of their own money. Between 1959 and 1972, city governments' revenue quadrupled from $29.5 billion to more than $118 billion; but during this time, fiscal aid from other government units rose from 30% of total revenues to more than 40%. To offset the increase in state and federal aid, property taxes are less important as a source of revenue, dropping from nearly 49% of total revenue in 1959, to 37% in 1972, while the sale's tax component has remained relatively small and static. In fact, it has been estimated that more than 60% of the growth in local government spending during the past five years has been financed by state and federal aid. Perhaps the portfolio manager needs to become more cognizant of the admonition, "The Lord giveth, and the Lord taketh away."

An area of growing concern regarding cash-flow analysis is that of unfunded liabilities. As a result of sharply higher public employee wage settlements, it's increasingly important to explore the condition of an issuer's pension fund, a prime culprit in unfunded liabilities. To make up past underfunding of pension obligations, it's estimated to cost Los Angeles $1 billion, New York State $3 billion and Massachusetts, which has no funding at all, perhaps $8 billion. Unfunded liabilities can impose as real a demand on current and future revenues as debt-service requirements.

In general, these cash-flow factors can jeopardize debt repayment: (a) chronically unbalanced budgets; (b) operating deficits; (c) an inflexible revenue system; (d) pledges of revenues normally available for governmental purposes to the support of limited liability bonds; (e) poorly conceived and unmanageable repayment schedules. Conversely, these factors will strengthen debt repayment: (a) historically balanced budgets; (b) maintenance of comfortably large cash surpluses of working cash, in the general fund; (c) diversified and stable revenue sources; (d) a well-conceived and manageable repayment schedule.

Financial analysis also should examine revenue and expense source alternatives to property taxes to determine overall fiscal flexibility. A negative variance of more than 10% between projected and actual expenses and revenues may indicate either poor management or a deteriorating credit. Because of the large per cent of total revenue originating from property taxes, income-tax collections and delinquent tax-collection procedures ideally should result in a 98% or greater collection factor.

At this point, the portfolio manager now is equipped to evaluate the fifth guideline by making a general assessment of the municipality's present and future economic prospects and fiscal viability. This obviously is the bottom-line judgment based on an independent evaluation of the many individual components within each evaluation category. Each portfolio manager must relate his own value frame of reference to credit factors to arrive at a risk/reward ratio judgment. The risk is the event or likelihood of default, while the reward is the yield, or rate of return on the investment. The more sophisticated portfolio manager may employ advanced credit-analysis techniques to identify so-called undervalued situations, deteriorating credits, improving credits, etc. But for most retail portfolio managers, the five-step valuation process just presented should provide a sound frame of reference within which prudent investment decisions can be made. • •

Automated Teller System Standard Published by Underwriters Lab

CHICAGO—Underwriters Laboratories, Inc., has released the first edition of its standard for automated teller systems, UL 291. The requirements apply to the construction and security of equipment intended to automatically dispense currency when properly operated by an authorized customer, and to provide some protection against unauthorized removal of currency.

The requirements cover products intended for permanent connection to 600-volt or lower potential branch circuits and products intended for cord connection to 300-volt or lower potential branch circuits.

Copies are available at $3.50 or for $9. The latter price includes a subscription service to any revisions that may be issued. Order from Underwriters Laboratories, Inc., Publication Stock Department, 333 Pfingsten Road, Northbrook, IL 60062.

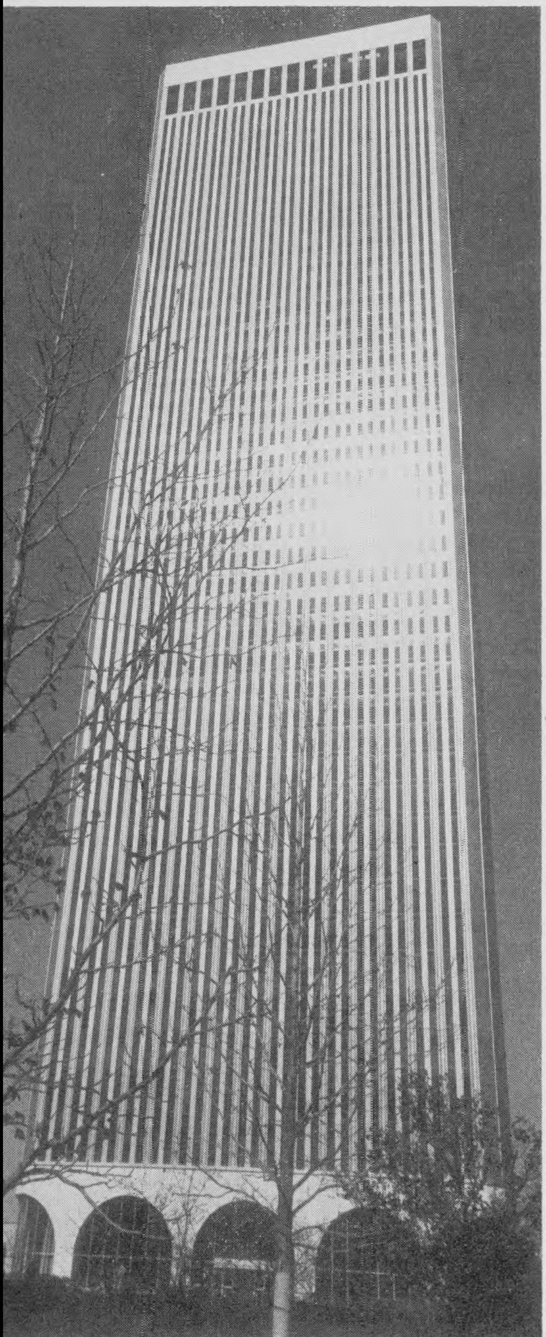
Arts Council Receives Merc Film

Presenting the historical film, "Missouri: Portrait of a People," to Stanley J. Goodman (r.), dir., May Co., and ch., Missouri Arts Council, is James L. Rieger, pres., Mercantile Bank, Kansas City. The film, which traces the state's history through works of Missouri artists, sculptors, musicians and writers, was sponsored by Mercantile Bancorp., St. Louis, parent HC for the bank, and was produced under auspices of the Arts Council.

TV Celebrity McMahon Stars in Bank Ads

"Tonight" TV show announcer Ed McMahon is serving as spokesman for First National, Mobile, Ala., for a 12-month period. The tall TV celebrity is appearing in a series of TV and radio commercials spotlighting auto loans, First Bank Club, midnight teller service, home improvement loans, day-in/day-out savings and the bank's image.

According to a bank spokesman, Mr. McMahon was contracted to enable the bank to make its commercials stand out over those of competing institutions, both locally and nationally. Mr. McMahon is also being used to familiarize the viewing public with the bank's recently adopted corporate logo as a member of First Bancgroup—Alabama, Inc.



Bank of Oklahoma, Tulsa, Opens Tower Facility

On the Cover: Fish-eye lens view of Bank of Oklahoma's 52-story tower, tallest building in state and new landmark in Tulsa. Photo on this page shows tower from 2½-acre green which covers parking garage.

PUBLIC TOURS and a series of grand opening parties have kept the calendar full for officers and personnel at Bank of Oklahoma for the past few weeks. The social functions have been held to acquaint Tulsans with the newly opened headquarters of the bank, located in what is said to be the state's tallest building, the 667-foot Bank of Oklahoma Tower, which is located in the nine-square-block Williams Center complex.

The official opening of the new facility occurred last November 1, following a massive move made in late October. No formal dedication or elaborate opening festivities were held. Funds that would have paid for such an activity are being held in reserve to be used for a community service project which is yet to be announced.

The bank is the first occupant of the Williams Center, a downtown revitalization project that will include a performing arts center, hotel, restaurants, shops and a park.

Construction of the Williams Plaza Hotel has begun. The $20-million building will be connected to the Tower and the bank through the retail mall area. Completion is expected in the summer of 1978.

The bank occupies the lower 10 floors of the tower, which was designed by Minoru Yamasaki, who also designed the World Trade Center in New York City. Main banking services are located on the third-floor plaza level, which is connected with a parklike green by a pedestrian bridge. A parking garage is located beneath the green.

Teller modules, instead of the old-style cages, look out onto an elevated garden. Open spaces throughout the bank are done in warm earth tones and accented by 1,300 potted plants. A garden outside the north lobby contains a dozen trees and blooming shrubs some 40 feet above street level.

The seven bank floors above the three-floor podium level contain offices without doors and walls to enable the bank to achieve flexibility. "We wanted to be able to change our minds," said President Leonard J. Eaton Jr. "Movable partitions separating work stations can be rearranged overnight. This gives us the flexibility we need as we expand as a regional financial institution."

Office partitions have fiberglass cores beneath thick fabric covers and contain sound within each work area.

Three-dimension interpretation of Bank of Oklahoma's logo stands at entrance to bank quarters. The stainless steel statue is made up of 50 pieces welded together after a series of molds were made using the "lost wax" method. The work weighs half a ton.

More than 1,200 people attended the opening celebration of Bank of Oklahoma in its new quarters last month. Among the guests were bankers, state legislators, attorneys and physicians. About 450 banks were represented at the dinner-dance. In left photo, bank officials greet guests. From left, they are Vice Chairman Marcus R. Tower, Mrs. Swearingen, Chairman Eugene Swearingen. Photo at right gives bandstand view of party, held in bank's lobby.

Since most lighting is built into the partitions, the ceiling is entirely acoustic. Noise is halted by carpet squares, drapes and abundant greenery. Office sounds are muffled by an unnoticeable whisper-tone called "white sound."

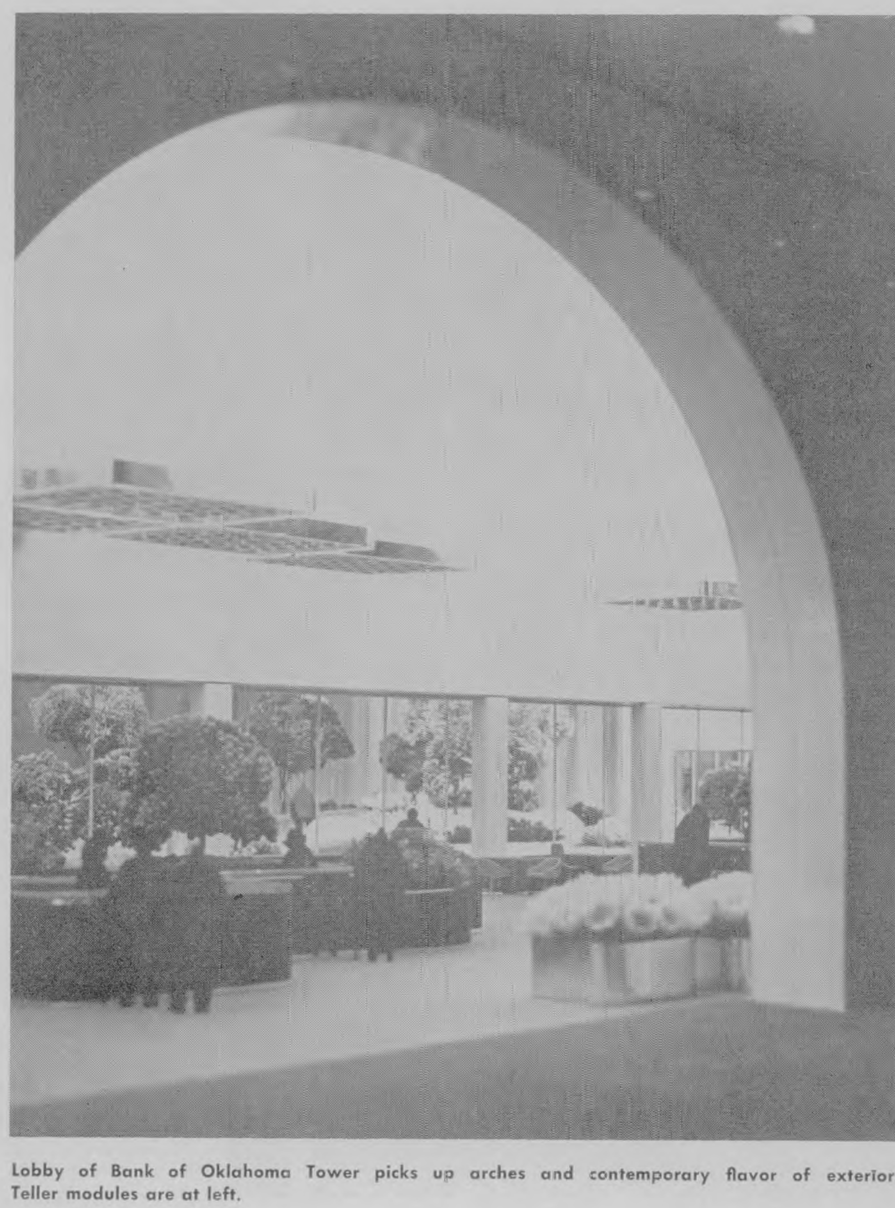
One of the bank's most dramatic features is a spiral staircase connecting the eighth-floor corporate division with ninth floor executive offices. Receptionists are stationed on each floor.

The tower is scheduled for completion in March. Upper floors are occupied by the Williams Companies, owner of the building.

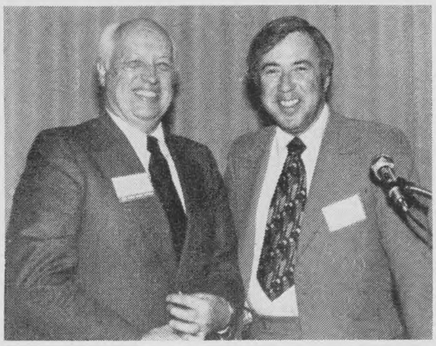
Some services were retained in the lobby at Bank of Oklahoma's former location, which is two blocks from the Tower at 320 South Boston. There is a motor bank at the old location, too. Another motor bank will be constructed three blocks west of the tower later this year.

Bank of Oklahoma was founded in 1910 as Exchange National. It occupied its own building in 1917. This 12-story building was expanded in the 1920s to 22 stories and the bank's name was changed to National Bank of Tulsa. In 1975, the present name was coined and work was begun on the present building. The 52-story tower was topped out a year ago.

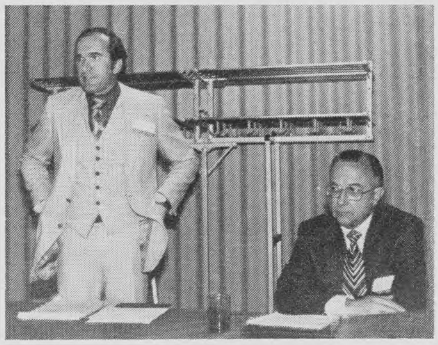
Exterior finish is of satin aluminum with bronze-colored, heat absorbing glass. White marble arches grace the podium level. Each tower floor measures two-thirds of an acre and the entire tower contains 34 acres of floor space with more than 5,000 windows. The building is bordered by First, Second and Main streets and Cincinnati Avenue. It occupies an area that was formerly populated by rundown buildings. • •



Lobby of Bank of Oklahoma Tower picks up arches and contemporary flavor of exterior. Teller modules are at left.



Keynote speaker Kermit Hansen (l.), ch., U. S. Nat'l, Omaha, spoke on burden of consumer regulations affecting banks at recent Consumer Finance Conference of Missouri Bankers Association. At r. is Conf. Ch. Norman T. Williams, v.p., Commerce Bancshares, Kansas City.



C. Wayne Cape (standing), v.p., American Nat'l, St. Joseph, took part in dealer financing profitability session at MBA conference. Seated at r. is William H. Vaughn, v.p., Mercantile Trust, St. Louis, who also spoke. Session had standing-room-only crowd.

Bankers Must Serve as Own Saviors, Says Speaker at Finance Conference

By JIM FABIAN
Associate Editor

WHO IS going to save the banker from over-regulation? Nobody but the bankers themselves! This was the main point of the keynote speech made at the recent Missouri Bankers Association 17th annual Consumer Finance Conference. The speaker was Kermit Hansen, chairman, U. S. National, Omaha. More than 300 bankers attended the day-and-a-half conference in Columbia, Mo.

Mr. Hansen called attention to the new federal bank examination procedure, which is designed to determine compliance with various consumer-oriented regulations that have been passed or decreed by Congress and regulators.

He said bankers can expect the examiners to investigate bank compliance with Truth in Lending, Equal Credit Opportunity, the Fair Credit Reporting Act, the Fair Housing Act, Home Mortgage Loan disclosure regulations, the Real Estate Reporting Act, advertising regulations contained in regulations Q and Z, payment of interest on deposits as outlined in Regulation Q, plus relevant state banking laws (especially usury statutes).

In addition, he said, examiners will be asking about compliance with the Federal Trade Commission's regulation overturning holder-in-due-course practices.

He advised bankers to review their policies and procedures, whether they are written or not, to determine technical and monetary compliance with all regulations and laws.

Banks must prove that they act in good faith and attempt to conform to the numerous regulations, he said.

Examiners will ask about internal controls, about board policy on credit, about the status of internal training, about the extent of the transmittal of information within the bank. They will want to know who, besides the CEO, is responsible for the bank's policies and actions and what procedures the bank has set up to resolve consumer complaints. They will want to know the reasons loan applications have been rejected and they will want to talk to the bank's internal auditor and head teller—and their stories had better agree with those told by the CEO!

Panelists at conference included (from l.) William A. Glassen, a.v.p., Commerce Bank, Moberly; Wade L. Nash, MBA staff attorney; Norman T. Williams, conf. ch. (standing); Robert F. Walster, pres., Thornton Nat'l, Nevada; and Charles F. Leutkemeyer, v.p., Big Bend Bank, Webster Groves.

Mr. Hansen spoke of the mounting costs compliance is generating, giving an illustration of one bank that spent more than 200 costly man hours gathering information for examiners.

He discussed his concerns about how best to protect citizens against excessive powers of the state and how best to protect the rights of any minorities (including business firms). These concerns, he said, are balanced with two trends of society—the ever-increasing rate of government expenditures and the lowering level of economic literacy that is perpetuating a lack of understanding of democracy because of the host of regulations that, although clothed with respectability, are a drag on the economy.

He said bankers should develop positive plans of constructive resistance to overactive consumerists by getting to know members of the consumer groups in their areas. They should listen to consumerists and develop dialogues with them and offer to teach them the facts about banking.

He also advised bankers to work within the MBA to organize a group or committee to probe the plans of state legislators and committees, convince them to treat all financial institutions equally and to avoid passage of bad bills.

He recommended increased legislative liaison at the state level and offers to help eliminate costly and confusing legislation on the books. An offer to examine and recommend changes covering the entire bundle of state statutes affecting financial institutions could be extended to the legislature by bankers so that banking statutes could be modernized and made more efficient.

He said bankers should let governing bodies know what regulations are costing bank customers in the form of higher interest rates. Better yet, he said, let bank customers know, so they will go to their legislators and tell them that they can't afford the legislative protection they are getting.

In conclusion, Mr. Hansen said bankers should speak up for banking and realize that all bankers are in the same boat. They should establish a means of exchanging information regarding the problems and complexities of the industry.

Ronald R. Tullos of the ABA's governmental relations division, shed light on the reasons behind the movement to over-legislate and regulate banks.

He said the catalyst behind consumer legislation is liberal Democratic congressmen and their staffs. Congressmen, in order to get reelected every two years, must make it look as though they're helping the little guy—the consumer, he said. To court constituent approval, they are willing to use a sledgehammer to kill flies!

In analyzing the national election, Mr. Tullos said the fact that one party is in control does not mean clear sailing for President-Elect Jimmy Carter. Southern congressmen consider Mr. Carter as being too liberal. They might take advantage of Mr. Carter's break-in period and pass new legislation unfavorable to the new President, he said.

He added that membership on congressional banking committees will be pretty stable, as only a few congressmen on those committees were defeated in the recent election. However, he said, if the seniority system is further eroded, confusion could develop. Also, he said, if Senator John Tower (R., Tex.) moves to another committee, his replacement will be Senator Edward W. Brooke (R.,Mass.), who is not as favorably inclined to banking as is Senator Tower.

Mr. Tullos said that possible legislation affecting banking that could be taken up in the new Congress could include the creation of a consumer credit agency, outlawing of the Rule of 78s, an investigation into credit card practices, a probe of credit life practices and the granting of services typical of banks to other financial institutions. • •

Economy, Regulations, Planning Strategies Discussed at First Alabama Bank Forum

BANKERS from throughout Alabama gathered in Montgomery last month to hear what to expect from the economy, banking regulations and planning strategies for 1977. The occasion was the 30th Annual Bank Forum sponsored by First Alabama Bancshares, the $1.2 billion holding company.

An economic outlook for 1977 was presented by Edward H. Boss Jr., vice president for economic research, Continental Illinois National, Chicago. Mr. Boss predicted a 5% increase in economic activity in the coming year. He said the major growth will come from new housing construction, expenditures for new plant and equipment and increased government spending. "While it is still too early to know the plans of the new administration," he said, "it is felt that the inflation rate is likely to hold in the 5% to 6% range which we have seen over the past several months."

Mr. Boss does not believe that farm products and processed food and feed prices will decline much further since they are now at extremely low levels relative to the cost of production. He forecast that retail food prices are likely to rise 2% to 3% in 1977. Prices of consumer services are likely to continue to be the most rapidly rising major sector of the consumer price index.

Frank A. Plummer, chairman, First Alabama Bancshares, complimented state bankers on producing the soundest banking system in the Southeast. He further stated that Alabama bankers should use this strong base to seize the initiative to develop local markets. He expressed concern that failure to meet the needs of local communities might accelerate the liberal movement to allocate credit on a federal level. Federal allocation of credit would produce dire results for both the national economy and local enterprise, according to Mr. Plummer.

Skillful management and planning by bankers was discussed by James S. Gaskell Jr., president, First Alabama Bank, Montgomery. "Because so many of a bank's expenses are the results of banking laws and regulations, bankers have actual control over only a small area of their income and expenses," Mr. Gaskell said.

He predicted that the cost of money will continue to rise in 1977. "While the prime rate has dropped from 12% to its current level of about 7½%, I do not know of a single bank that has lowered interest rates on savings deposits below ceilings permitted by banking regulations.

"Cost of people has risen for banks as well as other businesses," Mr. Gaskell said. "In fact, a recent national survey shows the cost of employee benefits has increased 23% in two years. With this background of sharply increased costs, bankers are going to have to review the prices of their services and continue to seek ways to increase the efficiency of their staff and operations."

Paul E. Norris, senior vice president, First Alabama Bank, reminded the bankers of the new laws passed by Congress and new regulations issued by the Federal Reserve and Federal Trade Commission in 1976. "Bankers have little or no time to waste in studying, understanding and meeting the requirements of these new laws and regulations," he said. "Already the enforcement agencies, reacting to the pressures and criticisms of the consumerist, have expanded their forces and have conducted thorough compliance examinations." Mr. Norris said the understanding banker will welcome such examinations as an aid in avoiding or minimizing future litigation. • •

LEFT: Pictured at First Alabama Bancshares Bank Forum are (from l.) Frank A. Plummer, chairman, host organization; A. G. Westbrook, pres., Commercial Bank, Demopolis; Harry I. Brown, ch. & pres., First Nat'l, Sylacauga. RIGHT: Forum speakers included Edward H. Boss Jr. (l.), v.p., Continental Illinois Nat'l, Chicago, and James S. Gaskell Jr. (c.), pres., First Alabama Bank, Montgomery. At r. is Lynn H. Mosley, pres., First Alabama Bancshares.

NEWS
From the Mid-Continent Area

Alabama

■ FIRST NATIONAL, Decatur, has promoted Ronnie D. Dukes, manager, Austin Branch, to assistant vice president. The following were made assistant cashiers: Shirley Jones Brothers, Ruth S. Bass, Douglas B. Fisher and Steven G. Percer. Donald P. Kyle was made assistant trust officer, and Maxine K. Ingram was named branch manager.

■ WILLIAM DAN PITTS has been named vice president, Bank of Anniston, which he joined last August. He previously spent 6½ years in the Georgia department of banking and finance.

■ FIRST NATIONAL, Mobile, has purchased property facing Water, Dauphin and St. Francis streets and plans to use it to expand the downtown office's drive-up and night-depository services. The new facilities will be located in a building that will be erected of white marble stucco.

■ ROBERT S. GADDIS has been named vice president, national accounts, Central Bancshares of the South, Montgomery. He was chairman and president, Central Bank of Montgomery, and continues as chairman. A new president will be named in the near future.

■ WILLIAM H. ROSS, corporate personnel officer, First Alabama Bancshares, Montgomery, has been appointed regional vice president and a member of the national board of directors of the American Society for Personnel Administration.

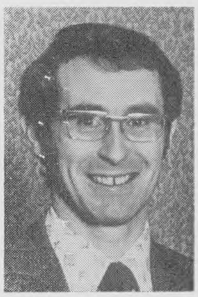
Arkansas

■ NATIONAL BANK OF COMMERCE, Pine Bluff, has elected two new directors: Roger Boe, a Pine Bluff industrial contractor; and Robert D. Pugh, president of a diversified family farming operation in Portland, Ark.

■ FIRST NATIONAL, Little Rock, has named Charles O. Stewart vice president and urban affairs officer and Bruce Thalheimer Jr. vice president and auditor. Allan Kimball and Steve Tullgren, loan officers, were made assistant vice presidents. Mr. Stewart joined the bank in 1971 and formerly was assistant vice president. Mr. Thalheimer has been auditor since 1974.

Illinois

■ TWO CORRESPONDENT PROMOTIONS were announced last month by Chicago's American National. Michael J. Byrne was advanced to second vice president, and Benson R. Culver was named corresponding banking officer. Mr. Byrne was a correspondent banking officer. The bank also promoted Donald C. Fogel from second vice president to vice president, bank operations.

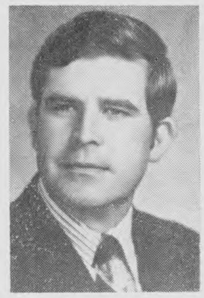


BYRNE

CULVER

■ FIRST NATIONAL, Chicago, has elected four senior vice presidents: Homer J. Holland, head of the administrative department; Richard L. Wood, in charge of that department's operations division; James S. Brannen, corporate banking/commercial department; and Alex W. Hart, head of the BankAmericard division. Mr. Brannen heads the division responsible for customers in the retail, consumer nondurables and commercial finance business.

RADEMACHER



WATT

■ HOLLIS W. RADEMACHER, a senior vice president, Continental Bank, Chicago, has been named officer-in-charge of the national divisions in the commercial banking services department. These divisions include Continental's correspondent banking unit. Mr. Rademacher joined the bank in 1957 and became senior vice president last July.

■ JAMES B. WATT has been named executive vice president, Association for Modern Banking in Illinois (AMBI), headquartered in Springfield. He comes from Essex County Bank, Lynn, Mass., where he was senior vice president in charge of the consumer banking division. Previously, Mr. Watt was senior vice president and secretary, Bank Marketing Association, Chicago, and also held posts at Beverly Bancorp., Chicago, and Marine Midland Corp., Buffalo, N. Y.

■ LYNDON D. COMSTOCK has joined O'Hare International, Chicago, as president and CEO. He succeeds S. P. Tomaso, who continues as a director. Mr. Comstock was president and CEO, Lake Shore Financial Corp., and its subsidiary, Hackley Union National, Muskegon, Mich., the past 10 years.

■ UNITED OF AMERICA BANK, Chicago, has promoted four staff members: Annegret Tietz, from assistant cashier to assistant vice president, and JoAnn Mickina, Mary Wiedrich and Victor Zezelic Jr., to assistant cashiers.

■ FIRST NATIONAL, Winnetka, has named Ruth Affeldt vice president and Steven J. Neudecker cashier and controller.

■ HARRIS BANK, Chicago, has received approval to open a facility in the Board of Trade Building. It will open in the second quarter of 1977.

■ FIRST NATIONAL, Chicago, has announced creation of a new institutions and professional division as part of the metropolitan group in its corporate banking/commercial department. Vice President Robert G. Donnelley heads the division. Vice President Robert H. Blanchard has been assigned to head the metropolitan group's manufacturing division, and Vice President Raymond L. Rusnak Jr. is responsible for the metropolitan group's retail and consumer division. Vice President James J. Carmody has been transferred from the metropolitan group's retail and consumer division to group D, brokers division, in the corporate banking/commercial department. Vice President Walter E. Jenkins Jr. is being transferred from the metro group's manufacturing division to the worldwide loan administration and review division. Vice President Norman J. Kost now heads the latter division, succeeding Senior Vice President Milton C. Haase, who will retire February 1. Vice President Thomas R. Rock has been made head of the control division's corporate accounting group, formerly headed by Mr. Kost. William E. Harris, staff officer, has taken over Mr. Rock's duties in the control division's profit planning group.

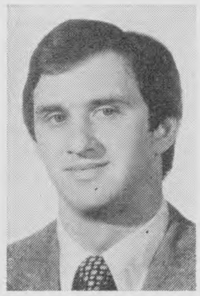
■ DAVID M. RANSFORD has been named an assistant vice president, commercial loan department, division C, National Boulevard Bank, Chicago. He joined the bank in October, coming from another Chicago bank.

Indiana

■ ST. JOSEPH VALLEY BANK has promoted Dean F. Davis, Thomas N. Ertel and Irvin L. Kloska to senior vice presidents from vice presidents. Mr. Davis is also president, St. Joseph Valley Finance Corp. He joined the bank in 1972. Mr. Ertel has been with the bank since 1969 and Mr. Kloska since 1974.

■ LAFAYETTE NATIONAL has promoted William B. Andrews from assistant vice president to vice president and Harry A. Dunwoody and Terrill H. Timmons from operations officers to assistant vice presidents.

■ ROBERT J. MATHIAS has been promoted to banking officer in Mercantile Trust of St. Louis' central group, with responsibilities in Indiana and Illinois. He joined the bank in 1974 as a member of the operations improvement program and was assigned to the central group in 1975.



MATHIAS

■ MARK E. BAILEY has been named manager, Park Fletcher Banking Center, American Fletcher National, Indianapolis. He joined the bank in 1974 and was an assistant manager.

Died. Herbert Morrison, 76, honorary chairman, Elston Bank, Crawfordsville. He was a past president of the Indiana Bankers Association and the ABA executive council. He retired from the bank in 1975 after serving it for 55 years.

Kansas

■ MERCHANTS NATIONAL, Topeka, has appointed Edward B. Hart senior vice president and trust officer and elected Gary M. Thomas vice president. Mr. Hart went to the bank from Commerce Union, Nashville, Tenn., where he was a senior vice president and trust officer. Mr. Thomas joined Merchants in 1975 and was an assistant cashier at the time of his election.

■ RONALD L. BALDWIN has been elected accounting officer at Fourth National, Wichita. He went to the bank from an accounting firm in Dallas.

■ LARRY VAN TUYL, president, Dennis Chevrolet Co., has been elected a director of First National, Olathe. He purchased the auto dealership in 1975.

Treasury Plaque Presented

Bernard J. Ruysser (r.), president, Commercial National, Kansas City, presents special Department of Treasury plaque to Harlan L. Potter, chairman, 1976 Johnson and Wyandotte County Savings Bond Campaign, in recognition of the accomplishments of the 1976 campaign. Mr. Ruysser is Wyandotte County Savings Bond chairman.

■ PHILIP HAMM, president of First National, El Dorado, and Benton State, has been elected a director of the Kansas City Fed. He began a three-year term January 1.

Kentucky

■ FORT KNOX NATIONAL has promoted Mrs. Jane Smith to loan officer, Gale R. Johnson to credit card officer and Randel Ballard to data center officer. Mrs. Smith joined the bank in 1974, Mr. Johnson in 1975 and Mr. Ballard in 1970.

■ WILLIAM E. WILSON III has been appointed vice president and trust officer at First Security National, Lexington. Previous service has been with First Kentucky Trust Co., Louisville, and First Wisconsin Trust Co., Milwaukee. He is a member of the faculty of the National Trust School at Northwestern University, Evanston, Ill.

■ GEORGE A COLLIN JR., vice president, Liberty National, Louisville, has been appointed chairman of the public relations committee of the Kentucky Industrial Development Council.

■ MT. STERLING NATIONAL has promoted Bobby Ballard and Whitt

Criswell to vice presidents. Betty Hatfield has been named assistant cashier, Evelyn Ensor is a trust operations officer and Terry Ensor has been named assistant trust officer.

■ AMERICAN NATIONAL, Newport, has elected Robert J. Borchers and William J. Williams, both vice presidents, to its board. They joined the bank in 1955.

Louisiana

BNO Opens Branch

Lawrence A. Merrigan (r.), president, Bank of New Orleans, looks on as BNO Branch Manager Michael LeBeau demonstrates 24-hour ATM —one of three such units—at opening of new Tulane-LaSalle Banking Center, located in the Charity Hospital Medical Complex.

■ CONTINENTAL BANK, Metairie, held groundbreaking ceremonies recently for its Metairie Office. A temporary office is presently on the site on Severn Ave. The new office will include four drive-up lanes and automated 24-hour teller service. Total cost of the project is $800,000 and completion is expected by July.

William A. Carpenter Dies

William A. Carpenter, 51, pres., Whitney Nat'l, New Orleans, died at his home December 12. A 1947 graduate of the U. S. Military Academy at West Point, he joined the bank in 1955 after serving in the Army from 1947-53. He moved up through various departments and posts to v.p. in 1959. Mr. Carpenter was named pres. and a director in 1969. He came from a Kentucky family of bankers and merchants.

Mississippi

■ E. B. ROBINSON JR. has been promoted from senior vice president to executive vice president, Deposit Guaranty National, Jackson. He joined the bank in 1967 and now heads the investment division. In other action, Deposit Guaranty named the following assistant vice presidents: Paul A. Carrubba, Phillip O. McDade, Charles E. McLeod and E. Anthony Thomas.

ROBINSON

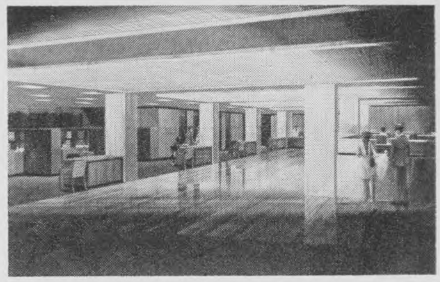
■ HANCOCK BANK, Gulfport, has promoted the following: from assistant vice presidents to vice presidents, Salvador S. Domino, James R. Ginn and Rodney J. Sandoz; from assistant vice president and trust officer to vice president and trust officer, Margie Johnson; from assistant vice president to vice president and savings manager, Imogene Stiedle; from trust officer to assistant vice president and trust officer, Charles L. Eastland; from loan officer to assistant vice president, David L. Mills; from assistant cashier to assistant vice president, Connie L. Spiers; from training officer to assistant vice president and training officer, E. Bonnie West; from assistant loan officer to loan officer, L. Clinton Necaise; and from correspondent banking representative to correspondent banking officer, Charles B. Blount.

First of Jackson's Main Office To Be Extensively Remodeled; Project to Cost $1.5 Million

JACKSON—First National has announced plans to renovate the public areas of its Main Office, with completion set for next fall. The project, including furnishings, will cost about $1½ million, will include changes on the first floor and a complete renovation of the second floor and basement.

Plans call for the first floor to house all major high-volume customer services and installation of additional teller windows and an escalator to run between the first and second floors.

The commercial loan, mortgage loan and correspondent bank departments



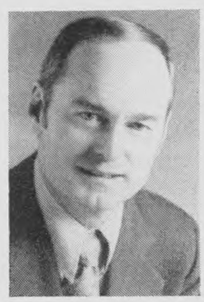
This is artist's sketch of what Main Office of First of Jackson will look like following completion next fall of remodeling project.

will be located on the second floor, as will conference rooms and public areas. The second-floor renovations will be the most extensive and will include the addition of marble floors and columns, unique grooved oak paneling, carpeted floors and wall areas. Private offices will be provided for commercial loan officers.

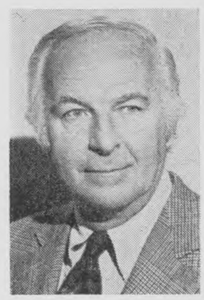
The basement will be remodeled to house the credit department, with vault and safekeeping services to remain there. Expanded facilities for handling armored-car shipments also are included in the plans.

Missouri

■ JOHN K. TRAVERS will join First National, St. Louis, January 12, as a vice president in the regional banking division. He previously was collector of revenue for the city of St. Louis. In other action, First National named James L. Nitsch manager, Chippewa Banking Center, and Steven L. Tyler manager, Stadium Drive-In Facility.



THOMPSON



TRAVERS

■ BRYON G. THOMPSON has been promoted to vice chairman, United Missouri Bank of Kansas City. He is chairman, First National, Bethany, and a director of United Missouri banks of Kansas City and St. Joseph. He joined the United Missouri staff in 1956.

■ FIRST NATIONAL, St. Peters, formally opened its new headquarters building with a public open house December 17. As a tie-in with the Christmas season, the bank had Santa Claus come to the bank, where he gave out candy canes, balloons and coupons

Focal point of lobby of new home of First Nat'l, St. Peters, is large square check desk with sloping base. Oak is dominant wood, accented with colors of paprika and deep blue.

good for a regular order of french fries at McDonald's. The bank also displayed a $100,000 gold certificate from the U. S. Treasury Department. Those visiting the display received a "penny in a bottle" as a free gift. The new building, constructed of maroon-colored brick and trimmed with man-made stone fascia, has large solar bronze glass panels to provide an open, airy interior. Focal point of the lobby is a large square check desk with a sloping base, built around a planter holding a seven-foot ficus benjaminus tree. The structure contains 7,800 square feet of floor space, nearly triple the operating area of the old quarters. A special oversized drive-up lane has been designed to accommodate campers and vans. There's also an automated teller machine, called BANK24. The remodeling program, which cost $1 million, was completed three weeks ahead of schedule. Planning, design and construction management was handled by the Bunce Corp., St. Louis. First National belongs to First Union Bancorp., St. Louis-based bank HC.

■ MERCANTILE TRUST, St. Louis, has promoted Leon G. Fox from vice president to senior vice president and has given new responsibilities to four executives—William A. Brady, Robert L. Bergmann, Charles H. Buxton II and John H. Lee. Mr. Fox continues to head the personnel department, a post he has held since 1965. He joined Mercantile in 1935. Mr. Brady, who was vice president and head of the operating department at the bank, has joined the parent company, Mercantile Bancorp., as vice president and operations consultant for all 28 affiliate banks. Mr. Bergmann, senior vice president, has assumed responsibility for both the operating and data processing departments of the bank and reports directly to the executive vice president. Mr. Buxton, vice president, operating department, has succeeded Mr. Brady as department head. Mr. Lee, vice president, data processing department, has succeeded Mr. Bergmann as head of that department.

FOX

BUXTON

BRADY

BERGMANN

LEE

■ FARMERS BANK, Antonia, has named Sandra E. Wallace cashier and assistant secretary. She has been with the bank 12 years.

■ JAMES N. GEMIGNANI has been promoted to assistant vice president, marketing, at Missouri State, St. Louis. He joined the bank in 1972 and has been in the business development area and assistant operations officer.

BDC Interest Rate Drops

The interest rate charged for business loans provided by First Missouri Development Finance Corp. (FMDFC) was lowered from 7¼% to 6½% December 1. The rate is adjusted every six months and is based on the St. Louis prime rate.

The corporation also bases its rate of interest paid to members on the St. Louis prime. Some 204 Missouri banks are members of FMDFC. These banks provide a funding pool on a line-of-credit basis to be used by the corporation in assisting business firms throughout the state.

During 1976, First Missouri received requests from Missouri business firms for $25 million worth of financial assistance.

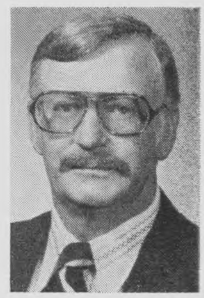
Jerry Stegall, First Missouri executive vice president, says the corporation is looking for good participation loans.

Walter Moser Dies

Walter Moser, 61, a.v.p., regional banking div., First Nat'l, St. Louis, died suddenly December 8. He called on municipalities and credit unions in Missouri, Kansas and Nebraska. Mr. Moser joined the bank in 1930, saw service in World War II and returned to the bank as a.c. He became a.v.p. in 1956.

■ ROBERT E. JOHNSON has joined Ameribanc, Inc., and its principal subsidiary, American National, both of St. Joseph, in management capacities. Mr. Johnson has been named executive vice president of the HC and senior vice president of the bank. He had been executive vice president, Boatmen's Union National, Springfield.

BROWN



JOHNSON

■ JAMES E. BROWN, president, Mercantile Bancorp., Inc., St. Louis, has been named chairman of the University of Missouri-St. Louis Downtown Advisory Board. The newly formed board, a group of 21 business, industry, government and labor leaders, will advise the UMSL administration on types of courses and other educational activities to be offered in the downtown St. Louis area. According to UMSL Chancellor Arnold B. Grobman, Mr. Brown had been "extremely helpful in the planning that led to our decision to bring university-level opportunities downtown for the first time." Mercantile Trust, St. Louis, the HC's lead bank, is serving as a temporary location for course offerings while UMSL officials look for a permanent site for second-semester classes.

■ COMMERCE BANK, Kansas City, has named Thomas G. Papa Jr. assistant vice president, metropolitan division. He was vice president, Commerce Bank, St. Louis. The two banks' HC, Commerce Bancshares, headquartered in Kansas City, has elected Joseph J. McGee Jr. to its board. He is president, Old American Insurance Co.

New Mexico

■ CAPITAL BANK, Sante Fe, has promoted Steve Lamoreux to vice president and David D. Gurule to assistant vice president. They joined the bank in 1973 and 1975, respectively.

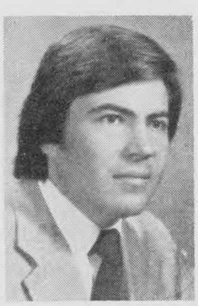
■ BOB WOOD has been named chairman of First National, Portales, succeeding R. L. Borden, who has resigned. Mr. Wood retains his title as president. Dick Hood was promoted from cashier to senior vice president; Bill Brown was elevated from assistant cashier to cashier; Joan Nuckols was raised from assistant vice president to vice president; Joyce Crowe went from assistant cashier to assistant vice president; and Nancy Cares and Bettye Heckathorn were promoted from bank officers to assistant cashiers.

■ RICHARD EVANS has moved from executive vice president, Centinel Bank, Taos, to senior vice president, First National of Lea County, Hobbs. He has been in banking for 17 years and was employed at First National, Albuquerque, at one time.

■ DONALD E. WHITE has been promoted to vice president at First National, Grants. He joined the bank in 1971 and his new duties include managing the installment loan department.

Oklahoma

■ FIRST NATIONAL, Oklahoma City, has named Gary M. Gray executive vice president and head of real estate-related activities for the bank, its affiliate, American Mortgage & Investment Co., and two wholly owned subsidiaries of First Oklahoma Bancorp.—First Oklahoma Realty Investment Corp. and American-First Title & Trust Co. Coming from Gulf South Corp., Mr. Gray has had previous experience with Liberty National. Lynn R. McClenny was elected vice president of the bank. He is a member of the real estate division and joined the bank in 1975. First of Oklahoma's total assets reached $1 billion on November 17, 1976.



GRAY

■ J. M. NEWGENT, executive vice president, TG&Y Stores, has been elected a director of Stock Yards Bank, Oklahoma City.

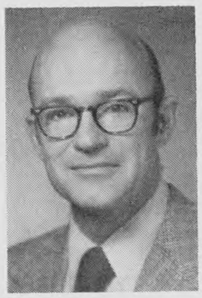
■ TEMPLE T. MOORE has joined Guaranty National, Tulsa, as chief financial officer, vice president and cashier, and Warren L. Bane has joined the bank as assistant vice president in the commercial loan department.

■ THOMAS F. DUNLAP, who is in the oil business, has been named a director of First National, Ardmore.

Tennessee

■ STEVEN J. STAUFFACHER has been named manager of the restructured operating group at First Tennessee National Corp., Memphis. As now comprised, the group includes the information systems, operations and properties management divisions and First Tennessee Data Services Corp. and First Tennessee's five correspondent data service centers.

STAUFFACHER



■ ANCORP BANCSHARES, Chattanooga, has received Fed approval of its application to acquire Hamilton Bank of Johnson City for a reported $7 million. Ancorp is the parent company of American National, Chattanooga.

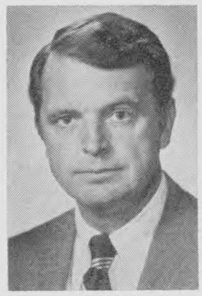
■ ED WARD has been promoted to assistant cashier at Hamilton Bank Johnson City. He joined the bank in 1973.

■ FIRST AMERICAN NATIONAL, Nashville, has promoted George G. Payne III to assistant vice president and elected John W. Buchanan and Charles E. Holt data processing officers; Robert B. Cullen loan review officer; and Landon O. Hagy Jr., correspondent banking officer.

■ COMMERCIAL & INDUSTRIAL BANK, Memphis, has named Jim Hainan assistant vice president; John Shute and Larry L. Rice, real estate loan officers; and Gay Veazey, administrative officer.

Texas

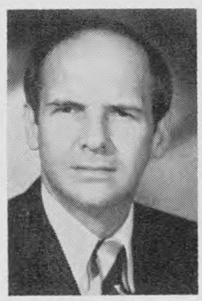
■ JOHN R. BUNTEN, executive vice president, Republic National, Dallas, has been selected as the successor to retiring Executive Vice President Ray J. Pulley as senior credit officer. Mr. Bunten joined the bank in 1959 and has been manager of the United States department. Mr. Pulley has been with the bank since 1946 and has been on the executive committee since 1962. A new Republic AutoBank was opened recently on the periphery of the Dallas business district. The facility is designed to enable people to do their banking on their way to and from work.



BUNTEN

PULLEY

■ CHARLES E. McMAHEN has joined Southwest Bancshares, Houston, as executive vice president and chief operating officer, a director and member of the executive committee. He was formerly executive vice president, Texas Commerce Bank and Texas Commerce Bancshares.



TURNER

McMAHEN

■ TOM TURNER, vice president, First National, Fort Worth, has been elected the 1977-78 chairman-elect and 1978-79 chairman of the Installment Credit Section of the Texas Bankers Association. He will also serve on the advisory board of the ABA Installment Lending Division during 1976-77. In other news, David T. (Buster) Averitt and Leon C. Maxwell have retired. They joined the bank in 1929 and 1930, respectively, and served as vice presidents.

50-Year Friendship Observed

Athan G. Mertis (l.), vice president, Mercantile Trust, St. Louis, presents Charles Pistor (c.), president, and Mason Mitchell, executive vice president, both of Republic National, Dallas, with plaque commemorating the 50-year correspondent banking relationship between the two banks.

■ FROST NATIONAL, San Antonio, has promoted S. Bradford Sledge to vice president and Steven L. Aycock, Howard E. (Gene) Walton and Tex Corrigan to assistant vice presidents. Gary J. Harris and Genevieve Wise were elected credit administrative officers. Messrs. Sledge and Aycock are in the correspondent banking department. A merger agreement has been executed between FrostBank Corp. and Cullen Bankers, Inc., Houston. The merger is expected to be consummated early in 1977.

SLEDGE

AYCOCK

■ DAVID M. VANCE, vice president, First National, Dallas, has been advanced to head the Americas group of the multinational banking division. He succeeds Oakley W. Cheney Jr., who has moved to First International Bank, Houston, as executive vice president. Mr. Vance, who joined the bank in 1974, continues as head of the Latin American department. The bank has opened a minibank at the Akard Street entrance to the First National Bank Building. It is the second satellite facility opened by the bank during 1976.

■ THE FED has approved a merger of Federated Capital Corp., Houston, into Mercantile Texas Corp., Dallas. Combination of the two HCs has resulted in formation of the state's fifth largest HC, according to a spokesman. Total assets now top $2.7 billion.

• Index to Advertisers •

Businessmen Give Outlooks for Economy At Boatmen's 1977 Forecast Luncheon

By JIM FABIAN
Associate Editor

THERE isn't any clear highway to the future of the U. S. economy, said Donald N. Brandin, chairman and president, Boatmen's National, St. Louis, at the bank's annual business forecast conference, held last November 30.

"The economic recovery that we labeled a tentative thing a year ago," he added, "continues to be tentative and businessmen who were uncommitted and watching developments with caution a year ago continue to be cautious.

"Most businessmen and economists anticipated increased economic activity in the second half of 1976. Instead, we have a pause. Some have blamed the Federal Reserve for failing to provide sufficient stimulus to the economy. Personally, I believe that the psychological reaction to the uncertainties of 1976 may have been a major factor."

Mr. Brandin said that President-Elect Jimmy Carter holds the key to change. He said there are encouraging signs that Mr. Carter recognizes the importance of business-government cooperation and that the result could be a period of sustained growth.

He added that he thought some stimulus is necessary to create a more positive psychological atmosphere, even at the price of increased inflationary pressure down the road.

"As far as the outlook for banking is concerned," Mr. Brandin said, "as the nation goes, so will the banking industry."

An expanding economy will bring increased loan demand and higher interest rates, both of which should increase income, he said. Many of the larger banks that were seriously over-extended two years ago are in better shape now. A relatively high level of earnings has permitted further substantial charge-offs of problem loans, yet has afforded a reasonably satisfactory net income that has bolstered retained earnings.

Equity and debt offerings have also helped to improve capital and liquidity positions, he said. Management has been strengthened in many cases, and there is an encouraging return to fundamentals.

On the negative side, he said several sizable banks are still in trouble, largely because the recovery has not been strong enough to pull their commercial real estate and REIT loans out of the hole. While the number of troubled banks is small, he said, a couple are bound to fail in 1977 and "their failure will sound like the whole industry is in trouble."

Donald N. Brandin (r.), ch. & pres., Boatmen's Nat'l, St. Louis, greets O. O. McCracken, pres., Civic Center Redevelopment Corp., St. Louis, at Boatmen's annual business forecast luncheon, held recently.

He said a big question mark is the status of international loans, particularly if there is a substantial increase in oil prices.

"One thing we share in common," he continued, "we seem to be sinking slowly in an alphabet soup. In addition to the bank regulators, the Federal Reserve, the Comptroller of the Currency, the FDIC and state banking departments, we are being lusted after by the Securities & Exchange Commission, the Federal Trade Commission and, more recently, an outfit called the Financial Accounting Standards Board.

For the short term, Mr. Brandin said, the outlook is good, assuming continuation of the business recovery. But the longer term, he said depends on the Congress, which has already shown signs of dusting off some of the banking bills that were defeated in the last session. Among these are proposals to bring the Fed under closer congressional control, to permit payment of interest on demand deposits and to override state branching laws.

"Couple this with certain technological developments, such as in the payments mechanism, and the larger term outlook for the banking industry is a challenging one, to say the least."

Among other speakers at the luncheon meeting for 500 St. Louis-area business representatives, was R. Hal Dean, chairman, Ralston Purina Co. His outlook for agriculture was predicated on continued sales of ag products on the world market.

He said that, from a supply standpoint, the world food situation would appear to be in slightly better shape. Although there still are shortages, there are surpluses, too. And, in the short term, these are discouraging to producers.

The ag outlook for 1977 varies, he said, depending on one's point of view.

From the consumer's viewpoint, 1977 should be a relatively good year. Food costs may increase from 3% to 4%, which will be at a lesser rate than inflation. From the crop farmer's viewpoint, there is concern about demand. The farmer is geared to produce for both the domestic and foreign markets, yet in some commodities he sees current surplus as a price depressant. Mr. Dean predicted that the crop farmer's net income in 1977 will at least be equal to, and probably show a slight improvement over, that for 1976.

Livestock farmers sense a bottoming out of their red-ink situation and see improvement for the second half of 1977. Although producers of pork and poultry have fared better, he said, 1977 will not be a banner profit year for them. However, if next summer's feed grains crops come along well, the lot of the pork and poultry producer should improve in late 1977.

He said the dairy and egg people will have a fairly profitable economy in 1977 with the usual seasonal ups and downs.

Suppliers of farm equipment, feedstuffs and animal health products will see 1977 as a year where the best value for the money determines who does well.

Mr. Dean predicted a strong long-term future for the food and agricultural complex in both world and domestic markets, provided it keeps its competitive edge. "1977 is going to hone that edge," he said.

David C. Farrell, president, May Department Stores Co., predicted that the retail industry sees some encouraging economic signs. Inflation has moderated and savings are being accumulated at a higher rate. He said if the Carter Administration presents the public with a sense of optimism and stimulates the economy with a tax cut, the consuming public will begin to believe that things are getting better, which could be translated into a 10% growth figure for retailers. • •

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