MID-CONTINENT BANKER

The Financial Magazine of the Mississippi Valley & Southwest

MAY 15, 1977

ABA President Says

Credit Allocation Rules Must Be Influenced By Banking Industry

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Credit Life Income Should Go to Banks, Not to Individuals

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CONVENTION PREVIEWS

- *Mississippi*
- *Tennessee*
- *Illinois*
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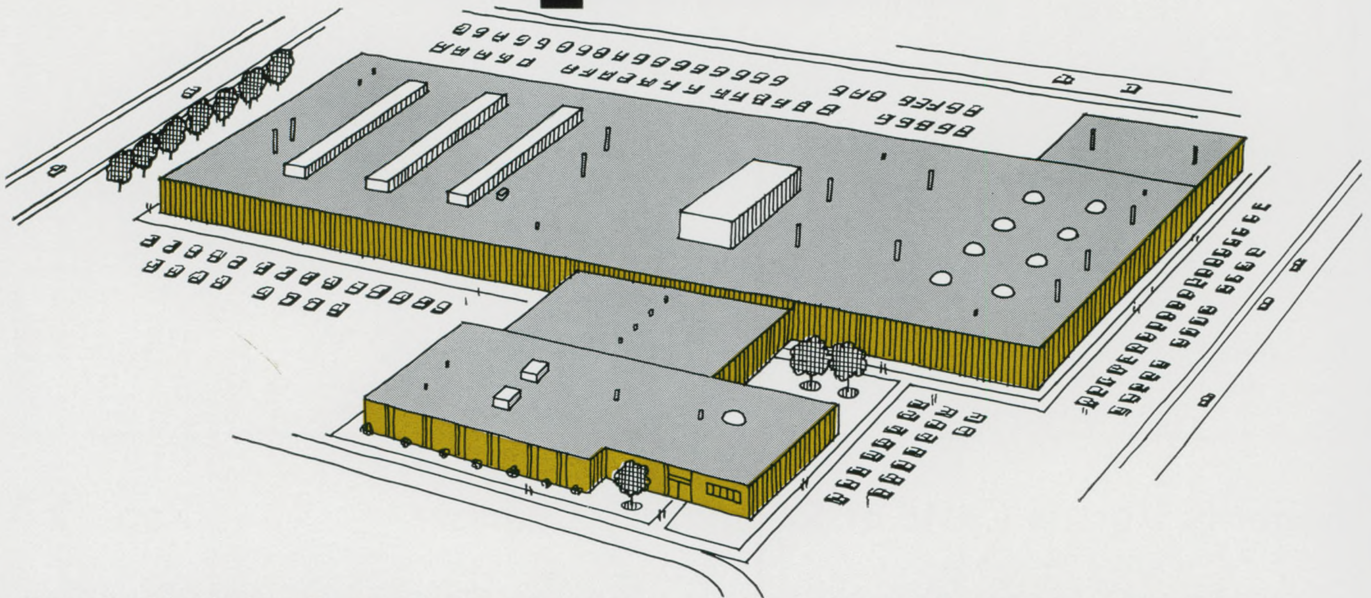

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MID-CONTINENT BANKER

The Financial Magazine of the Mississippi Valley & Southwest

Volume 73, No. 6 *May 15, 1977*

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Convention Calendar

May 12-15: 28th Assembly for Bank Directors, Palm Beach, Fla., the Breakers.
May 14-18: Mississippi Bankers Association Annual Convention, Biloxi, Broadwater Beach/Biloxi Hilton.
May 15-16: ABA/Insurance Industry Conference, Arlington, Va., Crystal City Marriott.
May 15-17: Tennessee Bankers Association Annual Convention, Gatlinburg, Sheraton Hotel.
May 15-18: ABA National Operations/Automation Conference, New Orleans, Hyatt Regency.
May 15-18: Arkansas Bankers Association Annual Convention, Hot Springs, Arlington Hotel.
May 15-18: Bank Marketing Association Staff Sales Training Workshop, Phoenix, Del Webb's Mountain Shadows Resort.
May 15-20: ABA National Commercial Lending Graduate School, Norman, Okla., University of Oklahoma.
May 15-20: ABA National Personnel School, Pittsburgh, Marriott Inn.
May 15-20: Louisiana Banking School for Supervisory Training, Lafayette, University of Southwestern Louisiana.
May 17-20: Bank Administration Institute Computer Performance Measurement Seminar, New York City.
May 22-25: ABA National Conference on Real Estate Finance, San Francisco, St. Francis Hotel.
May 22-25: NABW Southern-Southeastern-South Central & Florida Regional Conference, Nashville, Hyatt Regency Hotel.
May 22-27: Bank Marketing Association Essentials of Bank Marketing Course, Boulder, Colo., University of Colorado.
May 22-27: Bank Marketing Association School of Trust Business Development & Marketing, Boulder, Colo., University of Colorado.
May 22-28: Independent Bankers Association of America Seminar for Senior Bank Officers, Boston, Harvard Business School.
May 22-June 3: Bank Marketing Association School of Bank Marketing, Boulder, Colo., University of Colorado.
May 23-27: Bank Administration Institute EDP Auditing Introduction II Short Course, Norman, Okla., University of Oklahoma.
May 25-27: Bank Administration Institute Estate Tax Planning Seminar, Memphis.
May 30-June 1: American Institute of Banking Annual Convention, Phoenix, Hyatt House.
June 2-3: Robert Morris Associates Commercial Loan Training Program: Content and Methods Workshop, Washington, D. C., Key Bridge Marriott.
June 3-10: ABA National School of Bank Investments, Dallas, Southern Methodist University.
June 5-7: Illinois Bankers Association Annual Convention, Chicago, Palmer House.
June 5-17: ABA National Installment Credit School, Boulder, Colo., University of Colorado.
June 7-10: Bank Administration Institute Operations Management I Short Course, Norman, Okla., University of Oklahoma.
June 8-10: Bank Administration Institute Money Transfer Seminar, Chicago.
June 8-10: Association of Bank Holding Companies, Annual Convention, Colorado Springs, Colo., Broadmoor Hotel.
June 9-10: Robert Morris Associates Loan Quality Control Workshop, Philadelphia, Sheraton-Downtown.
June 9-10: Robert Morris Associates Loan Quality Control Workshop, Philadelphia, Sheraton-Downtown.
June 9-11: New Mexico Bankers Association Annual Convention. Santa Fe, Hilton Inn.
June 9-12: National Association of Bank Women Western/Rocky Mountain Regional Conference, Reno, Nev., Pioneer Inn.
June 12-15: Robert Morris Associates Financial Statement Analysis Workshop, Boston, Colonnade Hotel.
June 15-16: Indiana Bankers Association Annual Convention, French Lick, French Lick-Sheraton.
June 16-17: Robert Morris Associates Foreign Credit Analysis Workshop, Chicago, Hyatt Regency O'Hare.
June 20-22: National Association of Bank Women Lake/Midwest/North Central Regional Conference, Indianapolis, Indianapolis Marriott Inn.
June 22-24: Bank Administration Institute Current Bank Tax Problems Seminar, Denver.

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Special Energy Audits Are Offered Public by Chicago-Area Bank Group

A COMMUNITY-ACTION program —said to be the first of its kind in U. S. banking—gained momentum in March, when seven suburban Chicago banks began providing special energy audits to help the public conserve fuel.

Suburban Bank Group of Palatine is offering the services of Thermography of Illinois, Inc., a Dundee, Ill., firm with advanced-technology, infrared camera and television systems designed to detect heat loss in homes and businesses.

An extensive promotional program undertaken by bank officials, which has attracted national media attention, has caused an initial onrush of requests for energy audits from throughout the Chicago area.

"The present energy crisis is so grave that we believe it particularly timely to offer such an audit to home owners," says Gerald F. Fitzgerald, chairman, Suburban Bank Group. "Since the cost of this service is being kept to an absolute minimum, it is the best return on investment that I can imagine."

For a $50 fee, Thermography of Illinois uses its sophisticated infrared equipment to pinpoint exact areas of heat loss—in walls, ceilings, attics, floors or roofs—after which corrective measures are taken for maximum energy conservation.

Bank officials are urging the public —whether customers or not—to visit one of the seven Suburban banks to sign a special "Energy Audit" form, with arrangements then made by the bank for convenient inspection time.

Karl Reinke Jr., president, Thermography of Illinois, Inc., said at a Palatine briefing session that "a game plan to save both energy and money is what is needed now. With its energy audit program, Suburban Bank Group is taking the lead in its field—not only in offering customers a virtually guaranteed money-saving plan—but in helping alleviate a national crisis."

Mr. Reinke said that his firm is "one of the very few in the U. S. to work on the principle that every object gives off infrared radiation according to its temperature. Those extrasensory levels are captured and translated into live video images that can be measured to 0.2 degrees centigrade."

At the Palatine session, where bank officials greeted the press, a statement applauding the suburban banking program was read by Mr. Fitzgerald, issued that morning by Senator Charles H. Percy (R.,Ill.). In the statement, the Senator said he gave his "wholehearted and enthusiastic support in this important new undertaking." Earlier, Senator Percy had invited Thermography of Illinois to cooperate with his new Alliance to Save Energy organization that had just been launched. Mr. Reinke and his marketing director, Tom Skiles, have been working closely with Senator Percy's energy office in conservation projects, including earlier participation in a national solar energy conference in Chicago.

Developed only recently in the U. S., thermography is beginning to play a vital role in medicine, where it assists in the search for breast cancer. Assistance in early detection of strokes, hardening of the arteries and other circulatory problems are other medical applications.

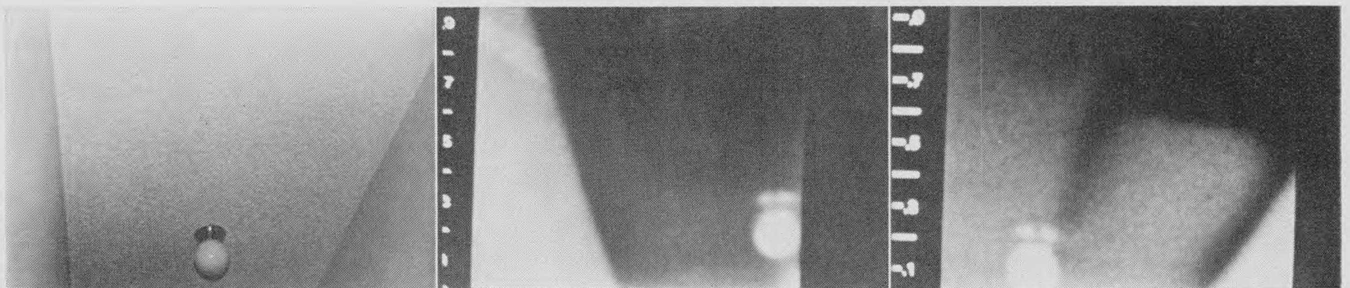
The Pentagon also uses thermography in projects including heat-seeking and air-to-air missiles, among other classified operations. Aircraft detection of potential forest fires, search-and-rescue missions and border inspection are other uses. Preventive maintenance in business is another major—and fast-spreading—function.

In thermography's use by banks for the first time, officials in Palatine emphasize that the program is being offered as a public service and is not tied in any way to any accounts held by customers at participating banks.

Besides Palatine National, other banks in the group are: Bank of Rolling Meadows, Cary State, Suburban National, Palatine, Suburban Bank, Hoffman Estates, Suburban National, Elk Grove Village, and the recently chartered Suburban National, Woodfield.

New Junior Bankers' Leadership

The new officers of the Junior Bankers Section of the Louisiana Bankers Association confer after their election at the Junior Bankers' 20th Annual Study Conference and Convention (from l.): v.p.—Harold E. Edwards, cash., Nat'l Bank, Bossier City; sec.—Rayford J. Simon, Guaranty Bank, Lafayette; pres.—Don L. Bordelon, v.p., Guaranty Bank, Alexandria; and treas.—Errol Delahoussaye, v.p., New Iberia Nat'l.



These three photos illustrate how Thermography of Illinois' advanced-technology, infrared camera and TV systems can detect heat loss in homes and businesses. LEFT: Here are ceiling, walls and light bulb as seen by naked eye. CENTER: Here's same scene on Thermography TV screen before installation of insulation. Dark area indicates cold and, thus, heat-loss area. Light bulb is brightest because that's where most heat is. RIGHT: This is same image on TV screen, but as it appears *after* insulation. Note increased light area, where new insulation preserves greater amount of heat than before insulation.

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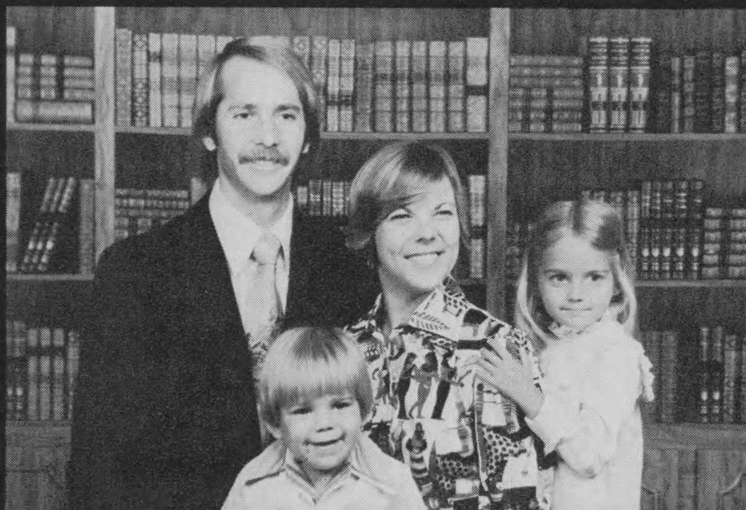
Our portrait program produces new customers



"Any banker in the country loves to see prospects walk in the door — well that's what the Olan Mills portrait program did for us. We are very pleased."

Tom Maxwell
President
Bank of Cannon County
Woodburry, Tenn.

Some marketing experts claim it can't be done — that is, for the prospect to come to you rather than you going after him.

Well we can show you how to get them to come in the door by the droves. Our bank marketing program of giving away Free portraits (in beautiful color) to customers and prospects has proved to be one of the most successful programs yet.

Here's how it works. Olan Mills representatives will work out a schedule for your bank to give away beautiful color portraits to customers and prospects. They will help you plan, organize and advertise the program. They will take the pictures and send a follow-up team to show proofs.

And the beauty of it all — it doesn't cost the customer a dime. Your only obligation is a nominal charge for advertising materials.

Call us today. We'll send a representative to see you.

Additional information on The Olan Mills Family Portrait Plan is available from Olan Mills Bank Marketing Division, c/o Joe Trivett, 1101 Carter Street, Chattanooga, Tennessee 37402. Telephone (615) 622-5141.

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Corporate News Roundup

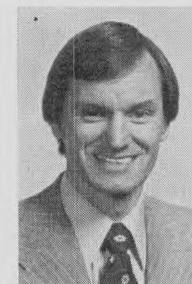
• **Scarborough & Co.** Edward N. Murray has been named president, Scarborough & Co., Chicago, succeeding Norman Clark. Mr. Clark resigned as president and CEO March 25, but plans to remain in the field of insurance for financial institutions. He had been with Scarborough since 1952. Mr. Murray formerly was vice president, Youngberg-Carlson Co., Inc., which, like Scarborough, is a subsidiary of GSI, Inc. Before joining Youngberg-Carlson in 1962, Mr. Murray was executive vice president, J. H. Lea & Co., a subsidiary of Youngberg-Carlson.

MURRAY

CLARK

• **Mosler Safe Co.** Franklin P. Weigold has been appointed vice president and general manager, Teller-Matic Systems Division, Milford, O. This is a division of Mosler Safe Co., Hamilton, O. Mr. Weigold joined Mosler from TRW Financial Systems Division, Orlando, Fla., where he was general manager. Mosler's Teller-Matic Systems Division manufactures and markets automatic teller machines.

• **UMIC, Inc.** This Memphis-based investment banking firm has made three appointments: Thomas E. Hollahan as operations manager, Willard G. (Buddy) Logan Jr. as a registered representative and Joe Neff Basore Jr. as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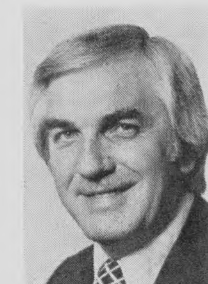
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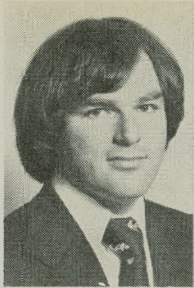

BASORE

LOGAN

an assistant underwriter. Mr. Hollahan formerly was with Mid-South Business Forms, A. S. Hart & Co., Inc., and, for several years, the Memphis Branch of the St. Louis Fed. Mr. Logan had been with Mark & Bensdorf, Inc., and Continental Assurance Co. Mr. Basore comes from Cooper Communities, Inc., a real estate development firm headquartered in Bella Vista, Ark.

• **Christmas Club a Corp.** Gerald Bertello has been appointed account executive for northern Illinois by Christmas Club a Corp., which is headquartered in Easton, Pa. Prior to joining Christmas Club, Mr. Bertello was director of marketing services for Mitchel-Steklof.

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$2 in nickels	$10 in halves
$5 in dimes	$20 in dollars

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'Breakfast at McDonald's' Promotion Boosts Banks' ATM Usage Nearly 200%

HOW do you take a predominantly older age group who is suspicious of newfangled electronic banking systems and get its members to use automatic teller machines?

Florida's Southeast banks think they have found the answer: Appeal to their appetite.

Nine of Southeast's 47 banks, located on Florida's west coast from Bradenton to Fort Myers, serve a market composed largely of people 65 and over. While the market area is one of the wealthiest in the state, its citizens are frugal. They make wide use of coupons offering cents off various products, and the area's coupon-redemption factor runs two to three times the national average. They also share with older people everywhere an aversion to automated equipment, be it an elevator or an ATM.

Faced with these market demographics, and with a monthly activity rate for transactions at its nine "Tomorrow Bank" ATMs far below the break-even mark of 3,000 per unit, Southeast's director of marketing, Alan Stess, called in the Summit Group, a Miami-based marketing and promotion agency, for some creative problem-solving.

Free:
Breakfast at McDonald's®
from Southeast's
Tomorrow Bank:

Scrambled eggs and sausage
Continental breakfast
Egg McMuffin®
Hot cakes and sausage

McDonald's Breakfast Menu
Nov. 8-14 Scrambled eggs and sausage
Nov. 15-21 Continental breakfast
Nov. 22-28 Egg McMuffin
Nov. 29-Dec. 5 Hot cakes and sausage

TOMORROW CARD

Southeast Banks are giving away coupons good for free breakfasts at McDonald's Restaurants.
Here's how it works:

If you're a Southeast customer, use our Tomorrow Bank automated teller to make a cash withdrawal from your checking or savings account—or get a Master Charge cash advance—from any of Southeast's Tomorrow Banks listed below. In each cash envelope you receive you'll find a coupon entitling you to a free breakfast at participating McDonald's Restaurants from Bradenton to Fort Myers.

Free breakfast at McDonald's: another good reason for using your Tomorrow Bank at Southeast. There are many others. Convenient 24-hour a day, 7-day a week banking services—including deposits and withdrawals, cash transfers from one account to another, or making loan payments.

The Tomorrow Card is your key to the Tomorrow Bank and it's absolutely free. If you don't have one, stop in at one of the Southeast Banks listed below and fill out an application. Regardless of where you apply for and receive your Tomorrow Card, you can use it at all Southeast Banks listed below.

Then you can enjoy a free breakfast at McDonald's—and the free automated convenience of Tomorrow Banking at Southeast.

Southeast Banks
You can count on us.

Full-page newspaper ads like this one appeared in local papers throughout area served by nine Southeast banks on Florida's west coast during tie-in promotion with McDonald's restaurants to boost activity at banks' ATMs, called "Tomorrow banks." Four-week promotion boosted ATM activity nearly 200%.

Summit's solution: a tie-in promotion with local McDonald's restaurants, offering a free "Breakfast at McDonald's" coupon in every cash envelope dispensed via a Tomorrow Bank withdrawal from checking, savings or a Master Charge cash advance.

Results of the first phase of the promotion, ending early in December, indicated it was off to a resounding success, with an almost 200% increase in ATM transactions. Says William E. Ellis, vice president, Summit Group:

"We printed 10,000 coupons for the first week and found we didn't have enough to handle the volume, so we reprinted an extra 5,000 for each week of the program. Some McDonald's in the area report they're swamped with people redeeming their Tomorrow Bank coupons for a free breakfast."

All told, Mr. Stess says more than 50,000 coupons were dispensed through Tomorrow Bank ATM transactions by the time the first phase of the promotion ended in early December.

Explaining the strategy of the free breakfast tie-in with McDonald's, Mr. Stess explained: "We know that this particular age group spends a proportionately larger amount of time at meals than do younger people, and to them breakfast is a particularly important meal. So, we approached the McDonald's people with the idea. It's simple. We would supply the newspaper, radio and other advertising and promotional support if they would supply the breakfast. They agreed."

The "Breakfast at McDonald's" promotion represents the initial phase of Southeast's overall marketing plan to stimulate use of its Tomorrow Banks in Manatee, Sarasota and Lee counties.

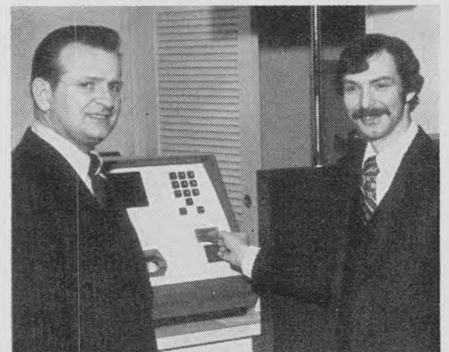
With a Tomorrow Card, the plastic "key" to the Tomorrow Bank, a Southeast customer may deposit or withdraw from checking or savings accounts or cross-transfer funds from one account to another. The card also may be used to make loan or Master Charge payments—all this, 24 hours a day, seven days a week, rain or shine, without ever having to go inside the bank or wait in line. Tomorrow Card transactions are limited to three per day, or a maximum of $150 in withdrawals per day.

But, as Mr. Stess explains, many of Southeast's older customers apparently felt uncomfortable using the machines and not dealing directly with another person at the bank. The problem was, how do you get people to try the ATMs for the first time?

Mr. Stess said the McDonald's coupon is succeeding beyond their best expectations. Supporting the coupons are blanket newspaper advertisements in nine local papers and extensive local radio advertising on six local stations. In addition, during banking hours the first week of the promotion, attractive picnic tables were located adjacent to the Tomorrow Bank machines, where customers were served juice, coffee and Danish while a demonstrator showed them how the equipment works and how to enter various transactions. Similar demonstrations were conducted the last week of November to coincide with the arrival of social security checks. Supporting the marketing effort were press releases, photos and captions sent to local newspapers, radio and TV stations describing the promotion and appearances by the locally popular "Miss Manatee" to banks in Bradenton, where she demonstrated how the ATMs operate.

One key to increasing ATM usage, or course, is to increase the number of new accounts and cards in customers' possession. Since the promotion began, more than 1,800 new Tomorrow cards have been issued. • •

'Cash Man' Introduced



Edward L. Stuart (l.), v.p. in charge of the Michigan-American Road Office, Dearborn, of Manufacturers Bank, Detroit, assists a customer in the use of the bank's "Cash Man" ATM. The machine is designed to help bank customers holding "Cash Man" plastic cards to avoid unnecessary waits in tellers lines. "Cash Man" provides checking account balance information, as well as withdrawals from checking, savings or Master Charge accounts.

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Selling/Marketing

Corporate—Not Retail—Marketing Is Aim of New ABA Subcommittee

A SPECIALIZED subcommittee devoted to corporate marketing has been formed by the American Bankers Association. According to Subcommittee Chairman David E. Gile, senior vice president, Marine Midland Bank, New York City, the subcommittee will concentrate on "the marketing of non-retail services to non-retail customers, including correspondent banks."

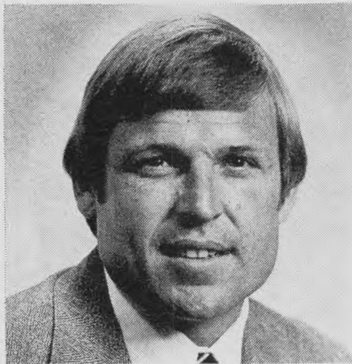
Bank marketing, historically, has been retail oriented, Mr. Gile says. The ABA hopes, he adds, that the subcommittee's work will awaken an interest in and understanding of the potential for increasing business and profits through a concerted "marketing-to-business" effort.

The subcommittee plans to assist marketing professionals in developing skills and knowledge of accepted corporate bank marketing principles. It also hopes to develop aids and techniques to assist bank marketers in setting up corporate marketing functions within their banks and to help marketers keep abreast of new corporate products within the market.

One of the subcommittee's first projects has been to suggest and assist in putting together plans for a three-course "Mini-College of Corporate Marketing," which was held during the ABA's 1977 National Marketing Conference at the New Orleans Hyatt Regency in April. During the course, a panel established the need for "marketing to business" in the economic climate that currently prevails. In addition, three special-interest sessions focused on situation analysis and setting goals and objectives, development of corporate marketing strategies and tactics—including market segmentation and marketing mix, and measurement and evaluation of the program for revision and refinement of the marketing plan.

Also serving on the subcommittee is Craig R. Carpenter, vice president-commercial bank services, Continental Bank, Chicago.

For additional information about the corporate marketing subcommittee, write Bert Auer, assistant director, Marketing Division, American Bankers Association, 1120 Connecticut Avenue, N. W., Washington, DC 20036. • •



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Harbinger of Spring

Community offices of Equibank, Pittsburgh, bloom with the first signs of spring—daffodils—as Joan Neuberger (r.), teller, Midtown Office, gives a token of the new season to customer Dan Fornear. The bank purchased the flowers from the American Cancer Society, which will use the funds for cancer control, research and education.

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NEWS ROUNDUP

News From Around the Nation

Bill to Expand CU Services Passed

Legislation has passed Congress that would permit federally chartered credit unions to offer the following services:

Residential first mortgages for up to 30 years on a CU member's principal dwelling place; loans on mobile homes or home improvements for up to 15 years; longer terms for secured and unsecured loans; no limit on the amount that can be borrowed on an unsecured basis; revolving lines of credit and issuance of credit cards.

Sixteen states now permit state-chartered CUs to exercise the same powers won by federal CUs.

Higher Interest for IRAs

The Fed and FDIC have taken action to eliminate the one-quarter percent interest rate differential between banks and thrifts for individuals participating in individual retirement accounts and Keogh plans.

Effective July 6 (unless Congress moves to delay the date), commercial banks will be able to offer a rate of 7.75% on such plans by means of a new category of time deposit account that requires no minimum denomination with a maturity of three years or more. Withdrawals can be made before maturity if the depositor is 59½ years of age or is disabled. Banks can modify existing IRA or Keogh plans to permit savers to take advantage of the new category.

The agencies expect the new category to encourage additional eligible people to open such accounts. The equalization of the interest rate is expected to encourage banks to promote the accounts more vigorously.

Truth-in-Lending Overhaul Planned

The Senate Committee on Banking, Housing and Urban Affairs is planning to amend the Truth-in-Lending Act to solve unforeseen problems that have arisen since its implementation in 1968.

Purpose of the act was to require lenders to state in writing the interest rate borrowers would be required to pay. Instead, the complicated wording of the act has set the stage for numerous lawsuits in areas not directly related to the intent of the law. One such area is what happens when the debtor defaults. Attorneys have been accused of taking advantage of the complexities of the law to flood the courts with fee-generating cases.

Foreign Loans No Problem, Says Treasury

U. S. banks are not becoming overexposed in their foreign loans, said a Treasury official recently. Fears about the quality of such loans have been expressed by Fed Chairman Arthur Burns, who told a Senate committee recently that U. S. bank loans to poorer lands can't continue at the rapid pace of recent years.

The Treasury spokesman said losses on foreign loans have been small but prudence dictates that increases in International Monetary Fund resources be considered so that more of the international lending risk can be assumed by the IMF.

Redlining Curbs Instituted

Regulatory agencies have adopted redlining disclosure regulations that force banks to provide census tract information so locations where lenders are placing mortgage loans can be identified.

Although banks have begun identifying the census locations of mortgage loans publicly, data for streets and neighborhoods within the greater tract remain confidential.

The Federal Home Loan Bank Board is working on redlining regulations for thrifts.

CofC OKs BofA Mortgage Plan

A proposal to bring additional funds into the home mortgage market has been approved by the Comptroller of the Currency. The plan, proposed by Bank of America, San Francisco, is to sell participations in a pool of the bank's mortgages.

The pool will consist of conventional real estate loans on single-family homes. The participations, which will be sold in large denominations to institutional investors, are of the "pass-through" type, entitling each holder to receive the appropriate share of principal and interest payments received by the pool.

The Comptroller has noted that the bank's plan should impact favorably the nation's housing market in general. He said he hoped that it would be particularly favorable to the availability of mortgage funds in some urban areas.

S&L-Bank Interlocks Held Illegal

A Federal Trade Commission administrative law judge has ruled that interlocks between banks and S&Ls are illegal.

The decision was handed down in a test case against Perpetual Federal Savings, Washington, D. C., filed by the FTC. The S&L was sued because it shared seven directors with three local commercial banks.

"Interlocking directors among these competing firms inherently create risks of anticompetitive effects; this unfair practice must cease in the public interest," the judge said.

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NATIONAL DETROIT CORPORATION

Parent Company of
NATIONAL BANK OF DETROIT
March 31, 1977

CONSOLIDATED BALANCE SHEET (dollars in thousands)

ASSETS

Cash and Due from Banks (including Foreign Office Time Deposits of $682,478)		$1,744,993
Money Market Investments:		
Federal Funds Sold		382,775
Other Investments		291,638
		674,413
Trading Account Securities—At Lower of Cost or Market		1,818
Investment Securities—At Amortized Cost:		
U.S. Treasury		817,239
States and Political Subdivisions		813,216
Federal Agencies and Other		38,533
		1,668,988
Loans:		
Commercial		1,890,695
Real Estate Mortgage		765,071
Consumer		268,969
Foreign Office		432,342
		3,357,077
Less Reserve for Possible Loan Losses		50,621
		3,306,456
Bank Premises and Equipment (at cost less accumulated depreciation of $43,530)		65,877
Other Assets		134,234
Total Assets		$7,596,779

LIABILITIES AND SHAREHOLDERS' EQUITY

Deposits:		
Demand		$1,739,616
Certified and Other Official Checks		370,656
Individual Savings		1,463,881
Individual Time		829,139
Certificates of Deposits		382,487
Other Savings and Time		205,715
Foreign Office		1,052,691
		6,044,185
Other Liabilities:		
Short-Term Funds Borrowed	$828,943	
Capital Notes	95,322	
Sundry Liabilities	150,184	1,074,449
Total Liabilities		7,118,634
Shareholders' Equity:		
Preferred Stock—No Par Value	$ —	
No. of Shares		
Authorized 1,000,000		
Issued —		
Common Stock—Par Value $6.25	75,949	
No. of Shares		
Authorized 20,000,000		
Issued 12,151,882		
Capital Surplus	178,729	
Retained Earnings	225,784	
Less: Treasury Stock—102,808 Common Shares, at cost	(2,317)	478,145
Total Liabilities and Shareholders' Equity		$7,596,779

Assets carried at approximately $371,000,000 (including U.S. Treasury Securities carried at $54,000,000) were pledged at March 31, 1977, to secure public deposits (including deposits of $61,789,167 of the Treasurer, State of Michigan) and for other purposes required by law.

Outstanding standby letters of credit at March 31, 1977 totaled approximately $15,500,000.

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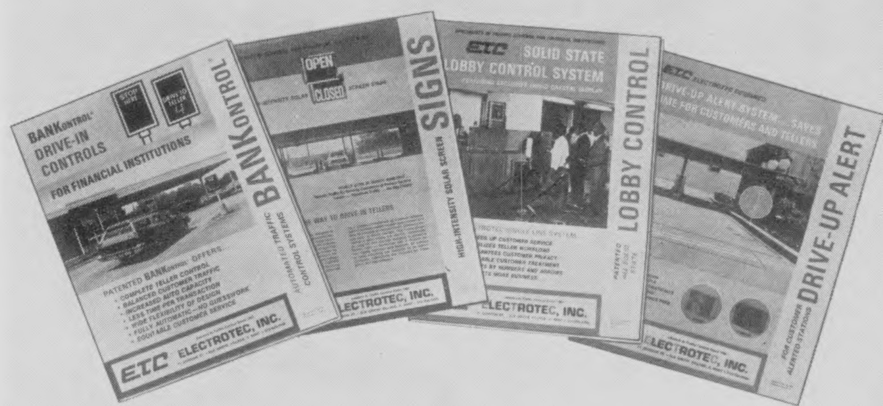
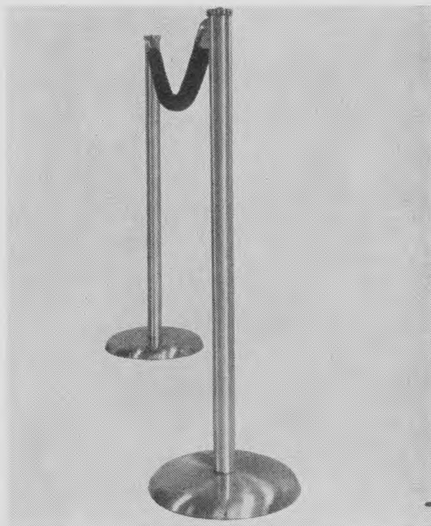
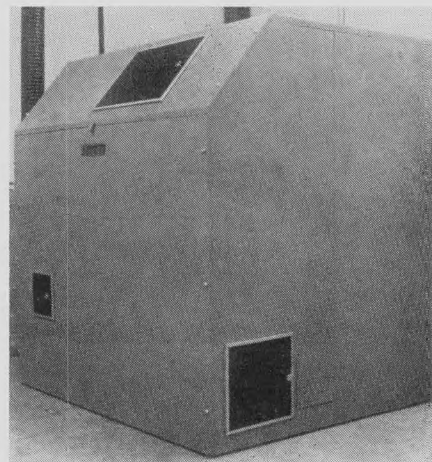


ElecTroteC, Inc., Elk Grove Village, Ill., has published this four-volume series of illustrated brochures detailing its compete line of inside and outside traffic-control systems for use in financial institutions. Included are a line of solar screen signs, the firm's BANKontrol system for drive-up installations, solid-state lobby control with liquid-crystal display and the ETC Drive-Up Alert System. Write: ElecTroteC, Inc., 71 Gordon Street, Elk Grove Village, IL 60007.

• **Actron, Inc.** A new queue system from Actron, Inc., Arlington Heights, Ill., is said to assure "first-come-first-served" service at tellers windows. The system's components consist of stanchions, which are available in satin-chrome, brass or statuary bronze, and roping in leather-like vinyl or nylon velour in a number of colors. The system, according to the manufacturer, will eliminate the frustration customers experience when selecting a teller line with the extended transaction. Actron offers a brochure illustrating steps for laying out such a system and offers its engineers' assistance in designing unusual layouts. Write: Actron, Inc., 810 East Crabtree, Arlington Heights, IL 60004.



• **Banker's Systems, Inc.** A booklet entitled "What Does This Emblem Mean to You, Our Depositor?" now is available from Banker's Systems, Inc., St. Cloud, Minn. Its purpose is to help acquaint bank customers with the FDIC, and it contains illustrations and examples of different account combinations that would provide maximum deposit insurance through the FDIC. A bank's name may be imprinted on the booklet's cover, or it can be ordered unimprinted. Its publisher points out that its size—2¾x5⅝ inches—makes it an ideal statement stuffer or over-the-counter handout. Write: Banker's Systems, Inc., P. O. Box 1457, St. Cloud, MN 56301.



• **Security Engineered Machinery Co.** A line of disintegrators has been announced by Security Engineered Machinery Co., Westboro, Mass. The devices are able to turn microfilm, microfiche, unburst computer printout, bound manuals and offset plates into miniature confetti. The smallest unit in the line is the Model 700, which is file-cabinet size, while the firm's largest unit, the Model 1424 (pictured), will destroy up to 2,000 pounds of material per hour. Other models are available. A vacuum system, built into each unit, automatically compacts and bags waste material, eliminating fire hazards and disposal problems, according to the manufacturer. Write: Security Engineered Machinery Co., Inc., 5 Walkup Drive, Westboro, MA 01581.

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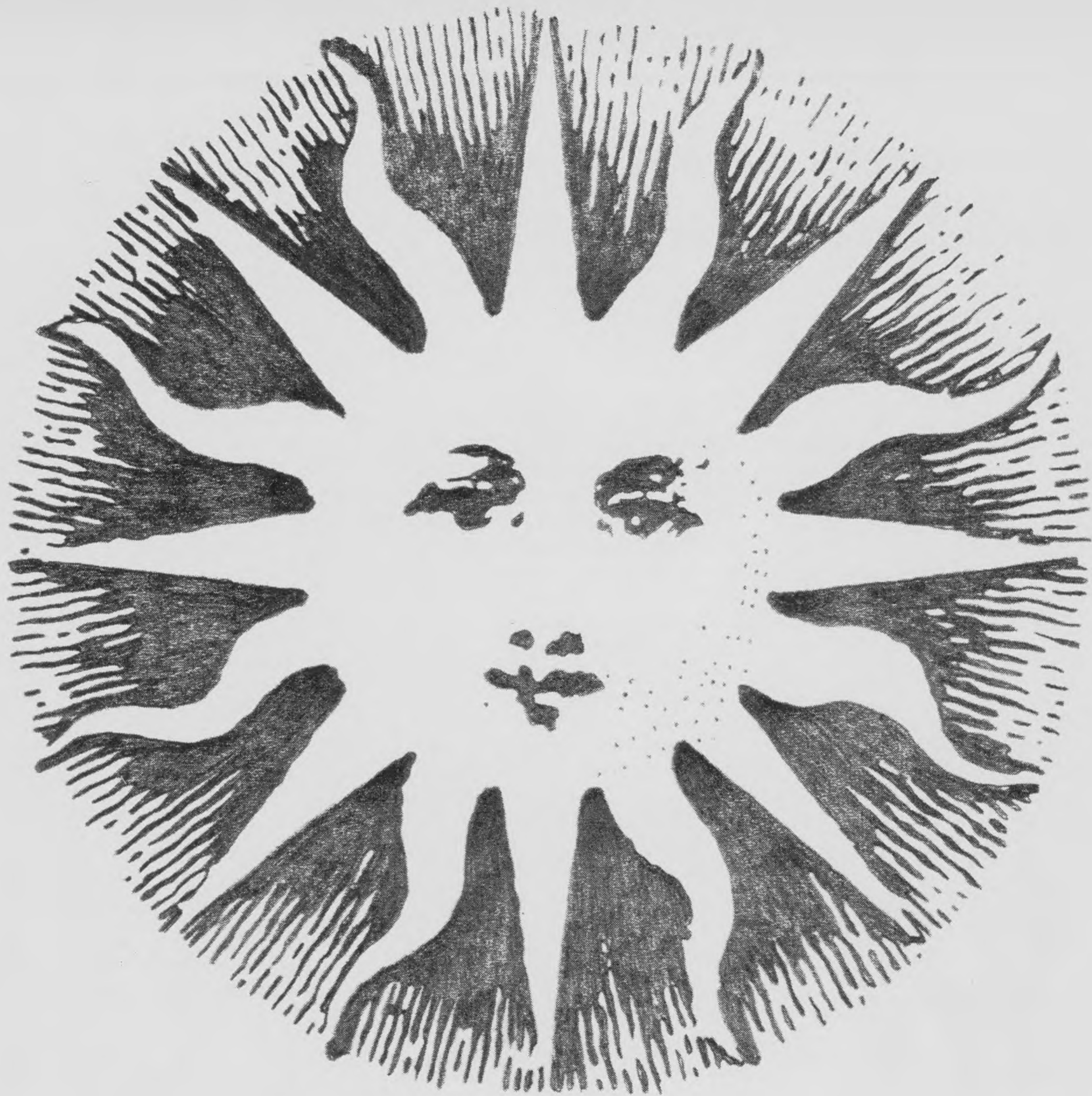

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Consumer-Compliance Program Begun By Federal Reserve for Member Banks

A PROGRAM designed to improve compliance by Fed-member banks with consumer-credit-protection laws and regulations has been established by the Fed. The system-wide program is called "Consumer Compliance and Education Program of the Board of Governors of the Federal Reserve System" and has two main parts:

- A program designed to educate all member banks, both state and national, in requirements of consumer-credit-protection laws.
- A companion program to conduct special examinations of state-member banks to assess compliance with consumer laws by examiners especially trained for that purpose.

The following procedures will be followed at state-member banks: Examiners who find what they regard as evidence of discrimination in credit transactions will report all findings to the appropriate Federal Reserve bank. The Reserve bank, in consultation with the board's Division of Consumer Affairs, will determine whether additional investigation is needed and what, if any, corrective measures are appropriate.

In the event of overcharges, the bank generally will be required to reimburse customers for the amount of the overcharge. Consumers will be given an explanation of the overcharge for which restitution is required.

In other cases of violations, state-member banks will be instructed to make prompt correction of their policies, practices, procedures or forms so as to avoid similar future violations.

In all violation cases, the examiners' findings will be made known to the boards of the banks involved.

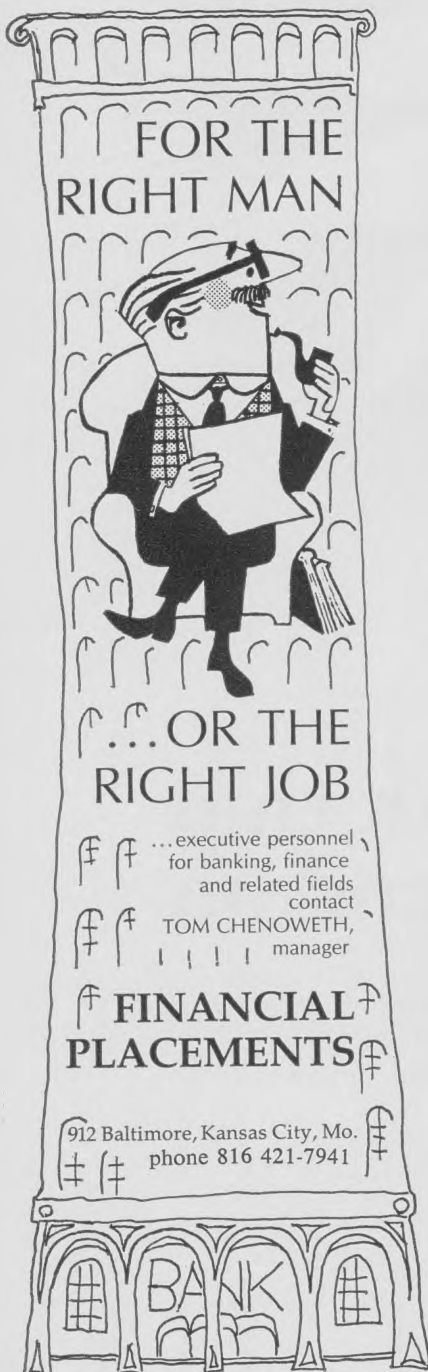
Special examinations will assess compliance with the following laws and regulations for which the FRB has enforcement responsibilities with respect to state-member banks: Fair Credit Reporting Act, Fair Housing Act, Real Estate Settlement Procedures Act, Regulation B (Equal Credit Opportunity Act), Regulation C (Home Mortgage Disclosure Act), Regulation Z (Truth-in-Lending, Fair Credit Billing and Consumer Leasing acts), Regulation A (Unfair and Deceptive acts and Practices by Banks and Handling of Consumer Complaints), Regulation H (National Flood Insurance) and Regulation Q (interest on deposits).

Any new consumer laws or regulations affecting state-member banks for which the board is given enforcement authority will be incorporated into the special consumer-affairs-compliance examinations.

The special examinations are to be uniform among all Federal Reserve banks.

Education Program. The board has directed each Reserve bank to establish an educational and advisory service for all member banks (including national banks). To carry out this program, each Reserve bank will be prepared to send a specialist to any member bank that requests such a service. Purpose of the visits is to help member bankers develop appropriate policies, procedures and forms in the consumer-credit-protection area and to answer questions bank personnel may have regarding the consumer-credit-protection laws and regulations and compliance with them.

In most cases, these specialists will receive special training through attendance at Consumer Affairs schools at the Federal Reserve Board. • •



Car Loans for 42-60 Months Reported in ABA Survey

WASHINGTON, D. C.—A national banking survey made by the ABA shows that 77.4% of the responding banks are making auto loans for 42, 48 and even 60 months, instead of 36 months.

Fifty percent of the banks reported they are making four-year loans; some 27% are making 42-month loans, and .4% are offering five-year loans.

Only 22.6% are still limiting new-car loans to 36 months. Two years ago, 91% of all direct new-car loans were for 36 months or less.

The ABA survey also reports that 96% of the nation's 14,700 banks are expanding their new-car-loan volume. Banks currently provide more than half —$35.1 billion—of the total outstanding consumer credit in new-car loans.

The annual interest rate on 36-month auto loans averages 11.04% at banks and 13.21% through finance companies. The ABA says national averages aren't available for credit unions, but their interest rates usually are competitive with those of banks. Interest rates on car loans of more than 36 months normally are slightly higher for all lending institutions, says the ABA.

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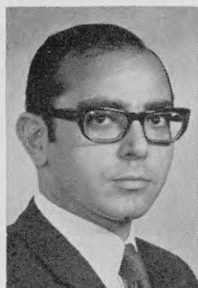
Greater Disclosures on Municipals Being Demanded by Underwriters

By HERBERT P. DOOSKIN, CPA
Alexander Grant & Co., Inc.*
Chicago

ONE NEED only mention disclosure in connection with municipal bond issues to some bankers, and they'll remind you that banks have been investing in municipals for a long, long time, using their first-hand knowledge of the government unit in question to judge the merits of each issue.


DOOSKIN

Of course, the rating services help, too. Indeed, some of us find truly awesome the amount and subtlety of information that can be imparted in the one, two or three letters of a bond rating.

Because these have worked so well, it has been possible for leading financial institutions to place both faith and funds in billions of dollars worth of municipals, evidently having little need for any more information than the routine, four-page statement that has been traditional for an issue of general obligation securities.

In the aftermath of New York City's near default on its general obligation bonds, however, underwriters have begun demanding more disclosure in municipal bond issues. To get their bonds to market, municipalities have complied with the pressures of practicality and accompany their four-page statements with a good deal of off-balance-sheet data like population figures, growth indicators and other statistics to bolster the promise of future prosperity for an area in which general obligation or revenue bonds are offered.

Well and good. If the market demands more information than an A or B or AAA can provide, municipalities undoubtedly will have to provide it. Meanwhile, municipal finance officers must pursue their efforts to clarify the information they present. So long as the balance-sheet orientation of municipal government requires detailing the operations of hundreds of separate funds, there can be no consolidation of financial information. Moreover, the detailed financial statements provided by a major city—often running to hundreds of pages—are more bewildering than informative and far less satisfactory than the typical 10-page annual report of a commercial firm.

Even correcting this won't be enough. There's another problem:

If a financial institution has purchased the general obligation bonds of New Harmony, Neb., maturing 30 years hence, how long should the bank hold them? What's going on in New Harmony during the 18th year? Or the 22nd? Unless a new bond issue has intervened, the only piece of information available to the bank is likely to be that original, four-page statement or, perhaps, an updated rating.

Some larger institutions have begun seeking more; they have set up their own systems of portfolio management so as to evaluate more critically than before the issues they hold. (Long before New York City's financial difficulties became public knowledge, a leading Chicago bank is said to have sharply reduced its holdings of New York City bonds, basing the move on its own study of financial problems looming in the larger city.)

Increasing numbers of financial institutions will have to undertake such studies. Not only the underwriting banks will be affected, but all those that buy and hold municipal issues. They must begin to study their municipal holdings continuously, just as they do with assets of their loan customers, in order to know whether and which to hold or to sell.

Other investors and institutions, of course, will follow suit. The secondary market in municipals exists, even now, and seemingly investors get along on little more knowledge than the rating, minimal as that seems.

Yet, considering that many municipal issues are long-term bonds, additional disclosure in the initial sales document is far from being the only information needed; the investor should have a source of current information about these bonds. This is not to suggest that municipalities must put out anything comparable to a corporate annual report in connection with each bond issue, for, as a matter of practice, a preponderance actually are held to term.

Still, investors must face the fact that defaults do occur. Rare as they have been in the case of general obligation securities, municipal enterprise bond defaults are more numerous on the record, no harder to find than Chicago's Calumet Skyway bonds or those issues to finance the Chesapeake Bay Bridge tunnel.

While acute observers of municipal finance have their own rules of thumb for determining a city's fiscal well-being, and surely many large financial institutions have similar criteria in use in their municipal bond departments, it seems inevitable that the next major step for issuers of municipals will be a means of providing clearly understandable information about each issue —and then continuous information about itself, as well.

Major impetus toward greater disclosures by municipalities has been the effort by the Municipal Finance Officers Association (MFOA) to develop guidelines for disclosures. In late 1975, the MFOA issued a draft of its "Disclosure Guidelines for Offerings of Securities by State and Local Governments." Although the guidelines were voluntary and remained in draft status throughout 1976, a vast number of governmental units chose to comply and make the recommended disclosures. The guidelines were put in final form in early 1977.

"If a financial institution has purchased the general obligation bonds of New Harmony, Neb., maturing 30 years hence, how long should the bank hold them? What's going on in New Harmony during the 18th year? Or the 22nd?"

These voluntary guidelines could become mandatory if the bill introduced by Senator Harrison Williams (D., N.J.), and Representative John Murphy (D.,N.Y.) passes. The bill would require disclosures similar to those adopted by the MFOA for all offerings above a certain amount. Additionally, the proposed law would require annual reports of governmental issuers.

* *Alexander Grant & Co. is the ninth largest CPA firm in the United States.*

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We do our corresponding in person.

Murphy Brock (at left), Vice President and Jim McKenzie (at right), Asst. Cashier of Liberty Bank, correspond personally with Bobby M. Jenkins (center), Vice President and Cashier of the National Bank of Middlesboro, at the bank's main office.

Liberty National Bank

and Trust Company of Louisville

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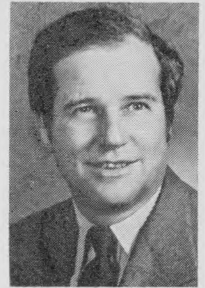
JAMES E. SMITH joined First Chicago Corp. last November 1 as e.v.p. His 21-year business career has included three years as Comptroller of the Currency, ending with his resignation from that post in July, 1976. He also has been under secretary of the Treasury and special assistant to the secretary for congressional relations. In addition, Mr. Smith has been ABA deputy manager and associate federal legislative counsel.



What Supervisory Changes Lie Ahead And How Soon Will They Occur?

By JAMES E. SMITH
Executive Vice President
First Chicago Corp.
Chicago

ANY DEFINITIVE treatment of the future trends for banking regulation and supervision would require a book-length presentation. It would demand an exhaustive review of the considerable volume of technical and scholarly literature that's been written on the many elements of this broad subject matter over the last 10 years.

This author has neither the talent nor the time for such an effort, and, more importantly, the invitation to write was for a magazine article. Accordingly, what follows hits the high spots and presents more opinion than analysis. The article admittedly is speculative. The conclusions presented represent an effort at distilling the studies and opinions of experts, to whom the author regularly looks for guidance, coupled with some viewpoints developed through nearly 15 years of working contact with the banking industry.

In hitting the high spots, this article will confine itself to three key aspects of our unique system of regulation and supervision of banking; namely, traditional constraints on competition, structure of the regulatory and supervisory agencies and methodology of bank supervision and examination. In each of these three areas, an effort will be made to assess the probabilities of important change over the next five to 10 years.

Constraints on Competition. Historically, the statutes, both federal and state, mandating and authorizing various forms of regulation of the business of banking have had the common objective of maintaining a safe and sound banking system. This is so because of the unique role banks play in our economy as a repository of other people's money, as a major source of business and individual credit and, collectively, as the principal service mechanism for a national payments system.

It's likely that a healthy concern for safety and soundness will continue to influence importantly the public-policy decisions as to the substance and form of governmental regulation of banking. Statutory constraints on free competition in banking (restrictions on entry, limitations on territorial expansion, prohibitions and limitations on payment of deposit interest) were enacted because such constraints were deemed essential to sustain a sound banking system. Much of this law came on the statute books in the aftermath of the economic cataclysm of the early 1930s.

There's growing evidence that the underlying rationale for many of these statutory constraints on competition has diminishing validity in the modern environment of financial-institution regulation and supervision. In terms of governmental intervention on the process of banking, it would appear that the most consequential activities producing a sound and stable banking system are Federal Deposit insurance, effective supervision, Federal Reserve liquidity support and diligent antitrust enforcement.

We have just come through the most trouble-ridden period in American banking since the '30s. All things considered, those problems were treated with remarkable success. That success in no way is attributable to the statutory constraints on free competition in banking. Indeed, within the experience of the author, the statutory restrictions on branching and multi-office banking were directly responsible for preventing optimal protection of depositors in one failing bank situation and might have produced the same unhappy result in some other cases.

If these statutory constraints on competition no longer are usefully fulfilling the public-policy objectives that caused their enactment, logic would suggest that they are vulnerable to change or repeal in the foreseeable future. There are other straws in the wind to support the conclusion that change is in the offing.

Consumers of banking services are awakening to the fact that the limitations and prohibitions on the payment of interest on deposits are costing them dearly in terms of a fair return when compared with prevailing market rates. A recent study by an economist in the Office of the Comptroller of the Currency has pegged that cost for the past eight years in excess of $20 billion. Consumers not only are becoming more aware of such practices and their effects, they are organizing to become increasingly effective in legislative action.

Similarly, neighborhood-improvement organizations in the larger metropolitan areas are taking a hard look at our financial system and are raising questions as to how effectively the system serves their needs for banking and credit services. It's inevitable that such interest and inquiry will bring these proponents for change face to face with the consummate illogic of retaining public laws that diminish the quality and quantity of banking services to achieve a public benefit, which, in fact, is fully achievable by other more ac-

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"Unquestionably, the events of 1973-75 revealed some weaknesses in supervisory performance just as they reflected some mistakes of judgment in bank management. However, solutions are not to be found in restructuring, but rather in modernizing reforms of agency supervisory practice."

ceptable means. Here, again, are organizations that are gaining impressive skill in the exercise of political power.

Certainly, these constraints on competition will not come tumbling down all at once. Nor should they, for the banking system will require some reasonable period to adjust to new statutory ground rules. But a momentum for change is underway, without question, and that momentum will produce a systematic reduction in the constraints on competition over the next five years.

Regulatory-Agency Structure. The difficulties faced in the banking industry throughout 1973, 1974 and 1975 brought with them criticism of the performance of the federal bank regulatory agencies. Predictably, there came, too, renewed proposals for restructuring the regulatory agencies, including recommendations that all agency functions be consolidated into a single agency.

Serious efforts were undertaken in Congress throughout 1976 to obtain legislative directives for restructuring, including total consolidation. Those efforts occurred in a climate of great public speculation about the soundness of the banking system engendered by front-page stories and lead articles in major metropolitan newspapers and prominent business and financial journals. It was suggested, none too subtly, that we were on the brink of a major banking crisis.

Even with this background chorus of ill-founded crisis speculation, Congress wisely (in the author's view) rejected any radical restructuring of the regulatory agencies. Those efforts, doubtless, will be made again in this Congress, but success is unlikely.

Unquestionably, the events of 1973-75 revealed some weaknesses in supervisory performance just as they reflected some mistakes of judgment in bank management. However, solutions are not to be found in restructuring, but rather in modernizing reforms of agency supervisory practice.

In an altogether proper exercise of its legislative oversight responsibilities, Congress directed the General Accounting Office, the congressional watchdog agency, to undertake a thorough review of the regulatory and supervisory performance of the banking agencies. That study has been completed, and its recommendations have been presented to Congress. That report gets at the heart of the matter. It recommends modifications concerning procedures employed by the banking agencies to monitor and evaluate the continuing condition of banks. Its proposals go to the substance of bank supervisory practice rather than to the agency configuration from which that supervision and examination are conducted. The GAO report acknowledges that, in the main, results achieved by the bank agencies have been quite satisfactory. It also takes note specifically of the many modernizing reforms that already are being undertaken. The GAO has urged greater coordination and cooperation among the three agencies, but the closest the GAO comes to recommending structural realignment is to support a proposal of the Fed for a statutorily constituted Federal Bank Examination Council to serve as a coordinating mechanism in developing uniform examination practices.

If one looks at the record of banking in the post-World War II era compared with the performance of other highly regulated industries, banking must receive very high marks in terms of innovation and responsiveness to change. It's doubtful that such innovation could have taken place in the close-order drill that seems to be associated with the monolithic regulatory structures imposed on other industries.

Additionally, because of the taproot nature of the banking and credit function in our private economy, there's sound basis for concern should governmental regulatory authority over that essential function be centered in a single agency. None of the proponents of agency consolidation have yet been able to document any tangible benefits that might flow from consolidation. It's even doubtful that consolidation would produce anything in the way of real budgetary savings. There still would remain 15,000 banks to be examined; insurance and liquidation functions of the FDIC still would have to be performed; and the discount function and administration of reserve requirements would necessitate the continuing involvement of the Fed and the system's district banks.

If, as is true, the present agency structure of bank regulation and supervision has produced good results, what common-sense reason can there be to adopt changes, which will further centralize governmental power? Thus far, proponents have produced no persuasive arguments for consolidation; they have developed no grass-roots support, and, therefore, it is difficult to conclude that their proposals have any strong chance for success.

Methodology of Supervision and Examination. The preceding section notes that the banking problems of the '70s did reveal the need to modernize and reform the substance and emphasis of bank examination and supervision. That is now happening in all three federal banking agencies and in some state banking departments.

No place is this change occurring more broadly or swiftly than in the Office of the Comptroller of the Currency. Those interested in comprehending these changes in detail should obtain copies of the study conducted for the Comptroller by the accounting and consulting firm, Haskins & Sells, as well as the report released early this year by the General Accounting Office.

Conceptually, the new approaches to examination are moving to an analysis and evaluation of individual banks in terms of the dynamic, ongoing process of producing loans and investments rather than the static snapshot of balance-sheet configuration and quality on some arbitrary "as-of" date. This new approach to examination demands an understanding of a bank's complete operating system from the point at the top where policy is developed all the way through to the execution (or non-execution) of that policy in the form of loans and investments.

This modern approach to examination will give major emphasis to development, communication and execution of fundamental policy. It will be as concerned, as is good management, with both the procedures and policies that offer realistic expectation for good and sustainable profitability. Greater attention than ever before will be given to the adequacy of internal and external audit practices, to the effectiveness of periodic asset quality review (both loans and investments), to systematic attention to control of overhead expense, and to all other risk-control systems and programs.

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Government Credit Allocation: How Can Banks Head It Off?

By W. LIDDON McPETERS • President • American Bankers Association

A LITTLE MORE than two years ago, when inflation was at its peak, there was a good deal of talk about government credit allocation. Although most of this talk was about how credit allocation was *not* a good idea, bankers knew the situation was much more serious than when there was no discussion at all.

Fortunately, we were able to marshall our forces and defeat legislation in Congress that might well have led to direct allocation of credit by government fiat. Most of us heaved a great sigh of relief.

So why bring the subject up at all? Because our experience over the past several years has shown that talk of government credit allocation usually begins during periods of inflation.

Any heating up of the economy has serious implications for all bankers, particularly commercial lenders. If history is any guide, renewed inflation inevitably will bring a renewed interest in government allocation of credit. That also has serious implications for commercial lenders.

Thus, it makes sense to take time now—before talk about government credit allocation begins—to look at some issues surrounding this question.

First of all, we must recognize that we already are living with credit allocation in a wide variety of forms. The question about credit allocation is not *whether*, but *by whom* and *for what*. Every time a banker makes a decision to lend money to a factory and not a construction company, he's allocating credit, because that money no longer is available for all other borrowers. And the sum total of all our individual decisions determines which class of borrowers receives how much credit.

In the theoretical world of the economists, operations of this free market are unencumbered by any government involvement. But in the real world of 1977, government already is involved to a great degree in credit allocation.

Most of us are familiar with the more direct forms of government intervention in credit allocation. For example, the federal government regulates S&Ls differently from banks to encourage flow of funds into housing.

However, too many of us fail to recognize that we already are living with more subtle government credit allocation in the form of tax preferences and incentives. These tax incentives are supposed to do two things: affect the willingness of lenders to make money available for certain high-priority purposes, such as housing; and affect the desire of borrowers to borrow funds to meet that purpose. That, in turn, influences availability of credit for other purposes not considered to have such a high priority by government policy-makers.

As lenders, we are aware of the impact of government credit allocation on our own activities, but sometimes we forget the other half of the equation—the effect on borrowers and their ability to choose freely for themselves those purposes for which they want to borrow money. That's the real threat of direct government credit allocation—the threat to individual freedoms.

For the benefit of those bankers who become irate at the very mention of any form of credit allocation, I should point out that our position on this issue hasn't always been entirely consistent. Consider, for example, some bankers' attitudes toward loan guarantees designed specifically to channel funds into certain high-priority areas. Or consider the tax exemption on municipal bonds —again designed to make it easier for state and city governments to obtain credit. I don't hear many bankers arguing against these examples of government intervention in the workings of the free market.

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The fact that we have learned to live with some instances of indirect credit allocation should not blind us to the problems inherent in any government intervention in credit markets. To my mind, these problems fall into three categories:

First and most important: Does credit allocation work? Is it really possible for government to influence by fiat the flow of funds into a specific high-priority area? In some cases, the answer seems to be "no."

Consider the example of housing. First of all, government sets up a special class of financial institutions whose primary function is to lend money for housing. Then, to make sure home buyers don't pay interest rates that are too high, government establishes usury ceilings. When interest rates begin to rise, the special financial institutions are locked into long-term mortgages with relatively low interest rates. That means these institutions cannot afford to compete for funds on the free market. Not only that, the usury ceilings prevent the institutions from charging market rates on new mortgages. The effect is to deny housing credit to the very home buyers that government intended to help. In this situation, government's instinct is to move to direct credit allocation. However, I doubt that the solution is more government intervention. Instead, it would make more sense to eliminate the original government involvement—usury ceilings—thereby making credit available to home buyers at market rates. How strange that these ceilings often wind up hurting the people they were intended to help by drying up the supply of credit.

Even if government efforts to allocate credit were successful, there's still another question to consider: Who decides what areas deserve credit allocation? Again, consider the example of housing, perhaps the most universally agreed-on social goal. Or is it?

Let's assume that government can establish a program that will encourage all financial institutions to lend money for housing. What happens in com-

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munities where there already is an adequate supply of housing—but not enough money available for agricultural loans? How does a government program of credit allocation take into account the regional differences in credit needs?

Equally important, how do we achieve a consensus on which areas of the economy are most deserving of special credit allocation? Is housing more deserving than urban redevelopment? Is growth of small business more important than environmental protection? And where does capital formation —the key to all economic growth—fit into this scheme of social priorities?

Finally, there's the question of how credit allocation affects the borrower. As I said earlier, bankers are most conscious of the effect of government intervention on their own decisions to extent credit, but government intervention also is intended to affect the way customers use funds they borrow.

Tax incentives are a good example. The investment tax credit is designed to encourage business to channel funds into plant and equipment. So all other factors being equal, commercial borrowers may be more inclined to seek credit to invest in capital goods than for other purposes.

In the same way, the accelerated depreciation allowance encourages investment in capital goods. If I can charge off my depreciation in five years, rather than 10, I may be more inclined to borrow money to invest in capital goods.

Tax deduction for mortgage interest is designed to encourage consumers to buy their own homes, because the housing industry and individual home ownership occupy positions of high priority in our society. So, since I can write off my mortgage interest on my tax return, I am more inclined to buy a house than to rent an apartment—even when an apartment would make more sense for my individual circumstances.

All these tax incentives have the effect of channeling more funds into specific areas that government considers to have a high priority. They are supposed to work not by making it more attractive for lenders to lend for these purposes, but by making it more attractive for borrowers to borrow. They do not limit the borrower's freedom to decide how to invest his funds —they simply set up artificial incentives to make some choices more attractive than others.

However, the market has a way of getting around these artificial incentives to meet the real needs of the customer. These incentives simply will not work for long if they run counter to the real demands of the marketplace.

Tax deduction for mortgage interest is a good example. The fact that I can deduct mortgage interest on my tax return may make it advantageous for me to have a mortgage. But there's nothing that says I have to use that money to finance a house. That fact has not escaped the notice of many home owners—or bankers. Many home owners are refinancing their homes and using the extra money for other purposes—buying a boat or sending their children to college. The result is that the total volume of mortgages increases, but the funds themselves may not be going into housing. In the end, credit goes where the demand is greatest—despite the artificial incentive established by government intervention.

In fact, that's the problem with government intervention. It introduces artificial rigidities into the workings of the market, and these rigidities make no allowances for changes in demand or need.

Now, advocates of credit allocation are not stupid. They recognize that these incentives have failed to channel what they consider to be adequate funds into particular areas. So their natural inclination is to intervene in the market in still another way, perhaps more directly. The logical outcome of this progression is flat-out controls on how lenders allocate credit: So much for housing, so much for environmental protection, so much for urban renewal. That's bad for lenders, but it's even worse for borowers.

That's the real argument against credit controls—They put serious restrictions on the individual borrower's freedom of choice. Under direct government credit allocation, the government —not the borrower—determines which areas deserve credit and which do not. Under legislation proposed in 1975, for example, credit would have been directed to so-called "national priority uses," such as housing and loans to state and local governments; whereas, loans for "excessive inventory accumulation" and those to "foreigners" would have been discouraged as inflationary. The legislation represented a serious infringement on the economic freedom of borrowers.

The problem is compounded by the fact that while it may be theoretically possible to put controls on the way *financial institutions* allocate credit, it's next to impossible to control credit allocation in *money markets*. Accordingly, when large businesses cannot get the credit they seek from commercial banks, they simply move into the money market. But small businesses and consumers don't have that option. The result is that credit controls tend to penalize consumers and small businesses—often the very people the controls were meant to help.

Add to this the question of how much credit allocation the market can tolerate before it begins to break down. Each instance of government regulation introduces a distortion into the market—a distortion that makes the market less efficient. How much of our total pool of credit can we afford to set aside for allocation to specific high-priority areas before the system breaks down entirely? Is 10% enough? 20%? 30%?

I believe bankers are realistic enough to recognize that government is not going to get out of the business of trying to influence the flow of credit in our economy. But I'm enough of an optimist to hope that government lenders will begin to recognize the complexity of what they are attempting to do. Certainly, commercial lenders can appreciate the enormity of this task.

Bankers make decisions every day that determine credit allocation in their communities. The validity of those decisions affects not only the future of the bankers' individual institutions, but the future of their corporate customers and indeed, the nation they serve. They know the difficulty of sorting out all the information about a potential borrower—statistics on the condition of the corporation, facts about the purpose of the loan, projections on future markets for products and services. In fact, sometimes they wind up knowing more about their corporate customer than the corporation knew when it began seeking a loan.

Perhaps better than anyone else, bankers can appreciate the difficult task government sets for itself in seek-

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"As lenders, we are aware of the impact of government credit allocation on our own activities, but sometimes we forget the other half of the equation—the effect on borrowers and their ability to choose freely for themselves those purposes for which they want to borrow money."

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Regulatory and Competitive Pressures: BENEFITS VERSUS COSTS

By PHILIP E. COLDWELL
Member, Board of Governors
Federal Reserve System

A NUMBER of bank regulatory changes in recent years have been aimed at increasing the banking system's ability to adapt to changing financial market conditions. In addition, the rapid growth and spread of bank holding companies have altered substantially the banking structure in the U. S. These changes have brought both benefits and some less-desirable consequences to the banking industry.

It's useful, from time to time, to step back and weigh the benefits against the costs of these regulatory and competitive changes and to consider what further steps might be appropriate to consolidate the gains or to alleviate some of the adverse effects of what already has been done.

Regulatory Changes. Among recent regulatory changes that are particularly relevant in this context are (1) elimination of all rate ceilings on large denomination CDs in 1970 (on maturities under 180 days) and in 1973 (on maturities over 180 days), (2) the substantial increase in 1973 in rate ceilings on small consumer CDs with maturities in excess of 2½ years, (3) regulatory and operational changes, such as NOW-account and telephone-transfer powers, that are permitting use of time and savings deposits for transactions balances, (4) reduction in reserve requirements on Eurodollar borrowings from foreign banks from 20% in 1971 to 8% in 1973 and to 4% in 1975 and (5) reduction to 1% in 1975 in reserve requirements on time deposits with maturities of at least four years.

In addition, the Fed and other regulators have taken a tolerant hands-off attitude toward the fed funds market, in effect permitting unlimited purchases and sales of fed funds without collateral (except as limited by Section 23A), without rate ceilings and without reserve requirements.

In the competitive area, the dramatic extension of holding companies to the point where over 65% of all banking assets are now in banks affiliated with HCs has served to increase competitive pressures in a number of banking markets. In addition, the success of nonbank institutions to enter certain traditional banking markets has increased competitive pressures on some banks. For example, money-market mutual funds now compete for short-term savings and NOW accounts for what essentially are demand deposits.

Public Benefits. Significant public benefits have resulted from these regulatory and competitive changes. The complete rate freedom on large CDs has made it possible for banks to retain deposits that otherwise could have been drawn out of the banking system by high interest rates.

Because of the importance of bank loans as financing for small and medium-size businesses, which do not have access to commercial paper and private-placement markets, such continued funding has been of some importance in avoiding a disproportionate impact of tight money on such bank loan customers.

The significance of large CDs as a source of bank loan funds can be seen from figures showing the contribution made by large CDs to the increase in bank loans in 1974, when interest rates hit their peak. The total increase in bank loans during 1974 was $52 billion, and the $27-billion increase in large CDs outstanding equaled over 50% of these funds. In 1973, a $21-billion increase in large CDs reached 29% of the increase in outstanding loans in that year. However, 1974 bank loans provided 38% of the net increase in private domestic credit, down substantially from the average of 45% in the preceding two years.

If banks had not been free to raise open market funds through large CDs, the role of banks as lenders would have been reduced further, perhaps disadvantaging bank customers who have no realistic alternative for credit.

This article is based on remarks given by Mr. Coldwell at the annual meeting of the Seventh District of the Texas Bankers Association, held in Fort Worth recently.

Freedom to engage in federal funds transactions also has been important as the funds market gives banks an extra flexibility to raise liabilities so that they can fund loans when demand is high. Furthermore, enabling banks to derive earnings from overnight placement of funds makes possible higher bank earnings, lower interest rates on loans or a combination of the two.

There also are potentially important public benefits in subjecting banks to the discipline of the competitive marketplace. Interest-rate competition among banks as well as competition from new institutions or those with new and vigorous management help to achieve a better combination of earnings and service to depositors and competitive interest rates for loan customers. Thus, recent regulatory and competitive changes have helped increase efficiency in financial markets.

Disturbing Trends. However, a number of disturbing trends also have been observed during recent years, and one might wonder if the impacts of some of the recent regulatory actions may have permitted bank actions that created these problems.

Among these disturbing trends are the dramatic increase in bank reliance on potentially unstable purchased-money liabilities, increased number of banks experiencing some degree of financial distress and erosion of capital ratios, thus reducing the banking system's ability to weather serious adverse shocks.

Heavy reliance on purchased money has been most striking among the largest banks. At the end of 1974, the average borrowing ratio of large New York banks, the ratio-to-assets of their large negotiable CDs, fed funds purchased and obligations to foreign branches averaged 36%, contrasted with 26% for the large weekly reporting banks outside New York and a much lower ratio for smaller banks.

This borrowing ratio of the large New York banks had declined modestly

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to 34% at the end of 1976, but even this level was much higher than the 22% average borrowing ratio that prevailed among these banks at the end of 1971. As these figures are averages, some individual banks clearly have had even higher borrowing ratios.

The financial distress of portions of the banking industry has been evident to everyone. While average bank profit figures generally rose through 1974, held steady in 1975 and rose again in 1976, net loan losses were well above normal in these years. Despite the generally good earnings, the percentage of banks reporting no net income before taxes grew from less than 3% in 1970 to 7.9% in 1975 and over 8% (1,200 banks) in the first six months of 1976. This trend has existed among large as well as small banks. Bank failures, the extreme form of financial distress, increased in 1975 and 1976, but were still insignificant in relation to the entire banking system.

Potential exposure of the banking industry to adverse shocks shows up in two ways. First, increased dependence on purchased-money liabilities clearly holds the potential for severe cash-flow problems for a bank that for some reason becomes a concern to the money market. Also, the capital base of the banking system, its equity capital, reserves and subordinated notes and debentures, has declined steadily for a number of years as a ratio to total assets, falling below 7% in 1974 on the average for all banks having over $100 million in deposits and close to 6% for the largest banks. Although capital ratios of large banks have improved somewhat since then, the gain has been modest.

To some degree, the banking industry is exposed to the financing of one bank by others. Thus, a bank with a large purchased-money position often relies on the continued availability of fed funds from other banks. Such an exposure may suffer both from the funding needs of other banks and from their perception of the soundness of the heavily committed bank.

The competitive force for expansion into nonbank fields probably led some HC managements into unwise acquisitions. Increased competition resulting from this expansion may have been a factor in the current problems of some bank HCs and may have contributed to a few failures. Regulators' insistence on increased competition may have exposed some banking units to excessive pressure and thus encouraged competitive forces to dominate banker responses.

Was Regulatory Change Responsible? The crucial questions raised by these problems are what role regulatory liberalization may have played in generating these problems and where we should go from here.

There's little doubt that removal of rate ceilings on large CDs and the liberal attitude toward regulation of fed funds have been of central importance in enabling banks that are so inclined to incur substantial purchased-money obligations. They could not have done so under more restrictive regulatory conditions. It is not possible, however, to connect this increase in purchased-money obligations in any simple way with financial distress in the banking system. While it may have played a role in isolated cases, heavy use of purchased money has not been associated in general with falling or low profits. As a group, large banks have had the highest borrowing ratios over the past three years.

Nevertheless, the averages hide substantial diversity among banks. As noted earlier, the number of banks reporting no income has been rising in all size classes, and the predominant cause of losses for banks has been poor loans. Did the high cost of purchased money force some banks into making unwise loans in an attempt to maintain a good spread of revenues over costs? Did the freedom to buy purchased money and a competitive desire to maintain or expand market share tempt them to make unwise loans they would otherwise have turned down? If banks had been restricted by regulation from dealing so heavily in purchased funds, would fewer bad loans have been made?

Fewer loans of all kinds, bad or good, would have been made under more strict regulatory control, because bank-asset growth would have been more strictly limited. And it may well be that poor risks would have been more effectively screened out, with the earnings of the weaker banks holding up better than they did. But would that have been a desirable outcome, to restrict more tightly the growth of bank lending during years of recession?

Capital Adequacy. Again, it comes down to a matter of weighing benefits and costs. Risk taking is essential if the banking system is to fulfill its role. Consequently, some banks inevitably will suffer losses. The ability of banks to absorb heavier than normal losses one year and move on depends ultimately on earnings and their capital positions. And here lies one of my concerns—do present laws and regulations deal adequately with the issue of bank capital?

As I mentioned before, bank capital as a percent of assets has been declining steadily for years, except for a modest increase in 1976. Furthermore, I would not want to argue that the period of pressure on bank profit margins and losses for individual banks has ended. As the economy heads up onto higher ground, competitive pressures in banking will intensify. Deregulation is in the air, and for banks that might mean full-scale competition from thrift institutions, interest on demand deposits or at least on NOW accounts and possibly even a federal branching amendment to the McFadden Act.

If you add to that the EFT revolution—which under certain configurations and in certain impacts may work to the advantage of thrift institutions and against their commercial bank competitors—you have the ingredients of heavy pressure on bank profits in the next decade.

Nobody knows how much capital is "adequate," in an absolute sense. But I do know that more capital is more adequate than less capital, and I also know that it is not just the stockholders and investors of a bank who suffer if that bank gets into severe difficulties because of inadequate capital. One of the obvious consequences of a regulatory framework that places no limits on purchased-money liabilities is that banks can leverage capital, subject only to market restraints. It enables them to pile large quantities of potentially volatile liabilities and loan assets on top of a fixed-capital base. The possible consequences trouble me.

What can be done to encourage banks to build up their capital base, especially their equity base? Part of the problem lies in the structure of the corporation income tax, which has favored debt capital at the expense of equity for nonfinancial as well as financial corporations. This distortion usually is mild when there is no inflation, but it becomes far more severe when inflation drives up interest rates on debt and the tax system makes all that interest deductible. Whatever may be the difficulties with making dividends at least partially deductible, or

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Credit Life Income Should Go to Banks, Not to Individual Employees, Directors

EDITOR'S NOTE: The opinions expressed in this article are those of the author and do not necessarily represent the views of the Comptroller of the Currency.

By FORD BARRETT
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LAST SUMMER, the Comptroller published a proposed regulation governing disposition of income derived from the sale of credit life, health and accident insurance. The proposal was the culmination of a number of events.

The bank regulatory agencies have been aware for some time that officers, directors and controlling stockholders of some banks divert to their own pockets income generated by credit life insurance sales. We have tried to discourage this practice because it's alien to the orderly and systematic accounting of funds for which banks are well known and which they require of others. Furthermore, the practice is utterly inconsistent with the generally held notion that profits earned from activities carried on in a bank should redound to the benefit of the bank and all its stockholders, not to insiders' demand-deposit accounts.

To determine the breadth of the practice, national bank examiners inquired into the manner in which credit life insurance income is handled during all bank examinations between November, 1975, and May, 1976. A survey of 2,900 national banks showed that the practice of paying insurance income directly to insiders is rare in the East, with the exception of Tennessee, and on the West Coast. In the Midwest, however, the practice is not uncommon, particularly among smaller banks.

In the meantime, we had written letters to a number of banks throughout the country requesting that income from credit life insurance sales be placed in the banks' income accounts. Where state insurance laws presented obstacles to a licensed agent's turning over or assigning his commissions to the bank, or where local counsel disputed the Comptroller's interpretation of federal law, the burden was placed on the bank to find a method of making credit life coverage available that would not require bank personnel to retain the income for themselves. Several methods were suggested, including the outstanding-loan-balance method, which provides credit life coverage to borrowers without charge. In effect, we were telling these banks that we didn't care how they sold credit life insurance, but they couldn't select a method that would confer personal benefits on insiders.

These letters achieved the desired result in a number of instances. However, in April, 1976, when we asked four banks in Texas controlled by a single family to stop paying the credit life income to insiders, we were promptly met with a lawsuit alleging that a national bank doing business in a town of more than 5,000 persons cannot—under 12 U.S.C. 92—legally receive insurance commissions. Subsequently, the Texas State Board of Insurance was made a party, thereby raising as an issue the applicability of Texas insurance laws to this question.

While the battle was heating up in Texas, a similar controversy was underway in a state court in Alabama, where a minority shareholder had sued directors of a national bank for diverting to themselves all the income derived from the sale of credit life insurance to bank customers. At one point, counsel for the bank asked the Comptroller's Office for assistance. Appalled by the factual setting of the case, we declined to intervene on the bank's behalf, but did accept an invitation from the court to file an *amicus curiae* brief. In the brief, we took the position that 12 U.S.C. 92 *does not* prevent a national bank in a town of more than 5,000 persons from acting as agent for the sale of credit life insurance or receiving commissions therefrom. Even if the bank were so precluded, the directors had violated their fiduciary obligations under the common law and under 12 U.S.C. 73 by failing to seek out alternative arrangements through which credit life insurance could be sold without the directors' incurring a personal benefit. After all briefs had been submitted, the court indicated informally that it intended to hold the directors liable, but the case was ultimately settled. Under the court-approved settlement, income from credit life insurance sales to bank customers would be accumulated in a separate fund and distributed to stockholders on a pro rata basis at least annually. A separate provision allows the directors to pay the income to the bank if such a course of action is deemed desirable.

In recent years, the Comptroller's Office has not asked a court in an *amicus curiae* brief to hold directors personally liable for misuse of income generated on bank premises. The decision to do so in this instance was based partially on the belief that the best way to eliminate this form of self-dealing is to obtain a court decision holding directors personally liable. Such a decision would help change industry practice faster than regulations proposed and promulgated in Washington. Accordingly, we were disappointed to see the case settled before a final determination of the merits in an appellate court.

However, we will continue to participate in suits brought by minority shareholders on this issue in the hope that directors will come to understand that their duty is to promote and advance the interests of their bank, not to profit personally at the expense of other shareholders from its activities.

The Alabama and Texas cases, combined with an increasing number of lawsuits involving misuse of insurance income by S&L directors, convinced us that a formal regulation was required

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to end this practice. The old policy of jawboning bankers into putting the credit life income in the bank's income accounts had not met with great success, nor had it been evenly applied throughout the country.

An alternative policy of requiring insiders to compensate the bank for use of its premises also was unsatisfactory because the administrative expense of selling credit life insurance is miniscule in relation to the huge amounts of income generated. While this policy resulted in some measure of reimbursement to the bank for its overhead expenses, it allowed the balance of the income to bypass the bank's books in favor of insiders. Such a practice is not conducive to continued public faith in a bank or to a harmonious relationship among stockholders.

In light of these considerations, the Comptroller proposed a new regulation on July 20, 1976, to halt the practice. Slightly over 200 comments were received, and a considerable amount of time has been spent in analyzing them.

One issue raised by the comments relates to state insurance laws that purportedly prohibit an unlicensed entity like a bank from receiving credit life insurance commissions. While it's rarely stated explicitly, many comments appear to suggest that if the bank cannot legally receive the income under state law, the insiders can take it for themselves. Whether this result automatically follows is a serious question.

The question of applicability of state insurance laws raises a host of difficult issues. Indeed, their complexity is far out of proportion to the small number of states where local insurance laws can be interpreted as prohibiting a bank from receiving credit life insurance income. But since those issues may have to be faced in several states, notably Texas and Oklahoma, they will be mentioned briefly.

The first issue is whether state statutes cited by bankers to support their argument that the bank cannot receive the income are properly interpreted as prohibiting a bank employee holding an agent's license from assigning his credit life commissions to his employer (the bank). Research indicates that statutes prohibiting an agent from splitting his income with a non-licensed person or entity were designed to accomplish other objectives, not to prevent a bank employee from turning over his commissions to his employer. Secondly, it would appear that by licensing a bank employee, the state has, in reality, licensed the employee's principal, the bank, and there is no issue of income being passed between licensed and unlicensed persons. Presumably, if state insurance laws really intended to preclude banks from earning credit life insurance income, the state would refuse to license not only banks, but also their employees. That states continue to license bank employees is an acknowledgement that banks can receive income generated by their employees. If the practice were the opposite and the state refused to license both the bank and anyone working for it, the Comptroller might have to concede that state insurance laws in that state were truly designed to prohibit banks from receiving insurance income.

In short, it's utterly illogical to suggest that the state may validly license a bank employee, but prohibit that employee from turning over the income to his employer, the bank. Employees generally bear a principal-agent relationship to their employer, and if the employee can receive income from an activity conducted on the employer's premises, the employer also can receive it. This is the general practice in American business, where income earned by an employee is regarded as the employer's income. So it is in national banks. Employees of a national bank are part of the bank, and income earned by them on bank premises, using bank customers and bank good will, is the bank's property. Employees of a national bank are not in business for themselves.

Assuming, however, that state insurance laws are properly interpreted as prohibiting a bank employee from turning over his credit life insurance commissions to the bank, the next difficult question is whether such laws are applicable to federal instrumentalities like national banks. Historically, the range of state laws binding on national banks has been narrow. An important tenet underlying the National Bank Act, as explained in a number of decisions by the U. S. Supreme Court, is that the states cannot be permitted to control too closely the affairs of an entity chartered, regulated and responsible solely to the federal government. Obviously, this proposition cannot be carried too far, for no one could argue seriously that national banks are not subject to the Uniform Commercial Code as embodied in the codes of 49 states. But the fact that the national banking system is now a permanent fixture in our economic life does not alter the continued vitality of the proposition that state control over a national bank's operations cannot be assumed lightly.

In the last case to come before it involving applicability of state laws (other than tax laws) to national banks, the Supreme Court struck down a New York statute limiting a national bank's power to advertise for savings accounts. These considerations lead me to believe that even if state laws are correctly interpreted as barring a bank employee from turning over credit life insurance commissions to his bank, a court may find this to be an intolerable interference in the affairs of a federal instrumentality.

Finally, let us assume (1) that state insurance laws are correctly interpreted as barring bank employees from turning over their credit life insurance commissions to their employers and (2) that such laws are applicable to national banks. The question then becomes whether bankers are justified in retaining the income for themselves.

It's difficult to rationalize a banker's receiving this income under any circumstances and especially where there are alternative methods allowing the bank to provide credit life coverage without the necessity of paying commission income to individual officers

Independents Protest Comptroller's Proposal

The Independent Bankers Association of America, at its 1977 convention, adopted a resolution to resist any attempt to prevent employees, officers and directors or principal stockholders of national banks from personally receiving income from credit life and disability insurance sales.

In its protest against the Comptroller's proposed ban on such income, the IBAA asserts that this arbitrary proposal would take away property rights of individuals in violation of constitutional due process, would preempt the exclusive rights of the states to regulate insurance and would create liability of individuals for income taxes on commissions paid to them, but forced by regulation to be transferred to their banks.

According to the Independents, private agencies on bank premises have existed for decades, and commission income is critical in negotiating the sale of a bank from one independent owner to another. The IBAA also says that there already are adequate remedial laws to correct abuses, if any occur, and that no regulation is necessary. In addition, according to the IBAA, no law prohibits a private agency on bank premises so long as there is disclosure of its operations to directors and shareholders, and the bank is reimbursed for allocable overhead expenses of the agency using bank facilities and personnel.

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and directors. Some banks and many credit unions now use these methods, thereby avoiding awkward questions of licensing and commission splitting. If these methods are available, common law principles and 12 U.S.C. 73 would require directors to use them in lieu of other approaches that benefit themselves personally. Such a philosophy seems almost mandatory for directors of financial institutions, whose existence depends almost solely on public trust.

The ability of bankers to devise alternative arrangements has been illustrated in several instances following publication of the Comptroller's proposed regulation. An Oklahoma bank has organized a business trust, which, in turn, operates a licensed insurance agency. The agency remits its income to the trust, which remits to its beneficiary, the bank. Since the Oklahoma attorney general previously had approved ownership of an insurance agency by a business trust, there seems to be no problem with this mode of operation. In Montana, a group of 11 banks under common control have devised a plan, approved by the Comptroller's Office, under which the credit life insurance income generated at each bank will continue to be paid to a separate insurance agency with the share allocable to each bank's minority shareholders retained in trust and distributed by means of periodic payments.

These imaginative proposals show the extraordinary ability of American private enterprise to find a way out of a difficult situation created by antiquated, and perhaps misunderstood, state insurance laws, while at the same time preserving the interests of all stockholders.

It may be desirable to obtain a judicial solution to some of the issues raised above. On the other hand, litigation is time consuming and expensive, and some thought is being given to changing the regulation so as to avoid prolonged debate in the courts and yet achieve the regulation's overall purpose, which is to prevent insiders from profiting personally on activities carried out on bank premises. One such change would be to drop our insistence that credit life income go to the bank in favor of a general prohibition against its retention by insiders. While some have argued that the bank can't legally receive this income, no one has suggested that the Comptroller cannot legally prohibit insiders from keeping it for themselves. This would seem to be a clearly valid exercise of the Comptroller's authority under the Financial Institutions Supervisory Act to halt "unsafe and unsound banking practices."

The proposed credit life insurance regulation has spawned a number of related questions. In a recent case, the issue was whether a national bank can designate its controlling stockholder as exclusive agent for the purchase of various kinds of insurance coverage, such as fire insurance, directors' and officers' liability insurance, blanket bond coverage, etc. In addition, the controlling stockholder wanted to be designated as exclusive agent for the sale of all credit life insurance to bank loan customers. To add icing to the cake, the controlling stockholder apparently intended to have the bank's credit life insurance underwritten by an insurance company in which he and his family had a dominant interest. In this way, the controlling stockholder would be able to profit personally from all the bank's insurance dealings and, as far as the credit life insurance is concerned, would be able to benefit both on the retailing and underwriting ends.

The abusive self-dealing inherent in this proposal was so obvious that no one could have been surprised when the Comptroller's Office threw cold water on the idea. Moreover, the proposal raised other problems. It evidently was predicated on the controlling stockholder's desire to use the insurance income to repay his bank stock loan. Whether individuals or small groups should be allowed to purchase control of a financial institution or a series of financial institutions and rely on income other than dividends to service their acquisition debt is a serious question going to the safety and soundness of a bank's operation. The Comptroller's Office cannot condone acquisition of a bank or a chain of banks where the purchasers must rely on diverting to themselves credit life insurance income for the purpose of retiring their personal debts. If acquisition debt must be serviced with bank income at all, it is serviced properly only with dividends duly declared by the directors and payable to all stockholders. • •

"The question of applicability of state insurance laws raises a host of difficult issues. Indeed, their complexity is far out of proportion to the small number of states where local insurance laws can be interpreted as prohibiting a bank from receiving credit life insurance income."

The speech on which this article is based was given by Mr. Barrett at a banking law seminar sponsored by the Alabama Bar Institute for Continuing Legal Education.

S&L/Supermarket Transactions Are Initiated in Dayton Area

DAYTON, O.—S&Ls in this area have begun offering a new "Cash Plus" service to 185,000 customers, enabling them to perform financial transactions at local supermarkets.

Nine S&Ls have formed an organization called Savings & Loan Automated Teller Exchange, Inc., or SLATE, to handle the new service. The latter uses NCR 279 financial terminals, which are installed at supermarket service counters and linked to computers at NCR's Dayton Data Center.

When S&L customers want to cash a check or make a savings deposit or withdrawal, they present their "Cash Plus/Prestige" card at the service counter. Details of the financial transaction are communicated to the Data Center computer, which selects the designated S&L and forwards pertinent data to the association's computer to complete the negotiation.

Plans also have been made to extend the service to two other Ohio areas—Columbus and Cincinnati—this year.

Supermarket customer transacts business with S&L by using "Cash Plus/Prestige" card, which gains access to system. Sales person then enters transaction into NCR 279 financial terminal. Transaction's details are transmitted over telephone lines to computer at NCR Data Center, which, in turn, transmits data to proper S&L.

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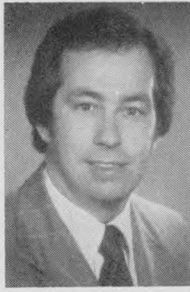
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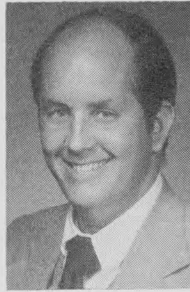
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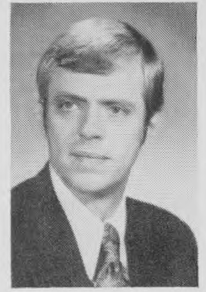

BANICK

Convention 'First-Timers'

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

Mississippi Convention

• **David A. Dierks** is a vice president at First National, St. Louis, which he joined in 1969 as a trainee. He joined the regional banking division in 1971 and was elected vice president last year.

• **Joseph Quinlan** is an assistant vice president in the correspondent bank department at Bank of New Orleans.

• **R. L. Holley** is a correspondent bank officer at Memphis Bank. He has been at the bank for three and a half years and previously worked in the branch bank system.

• **Walter T. (Tom) Smalley Jr.** joined Memphis Bank four years ago in the dealer finance department. He was named correspondent bank officer last year.

• **Adona Yelton** is an account officer at Citibank, New York City. She is responsible for banks and HCs in the states of Mississippi, Alabama, Louisiana and has back-up responsibilities in Texas.

Tennessee Convention

• **Dean V. Banick** is a vice president in the banking department at Northern Trust, Chicago. He joined the bank in 1962 and was named vice president in 1973.

• **John Dargan** is a member of the national correspondent division at American National, Chattanooga. He joined the bank in 1973.

• **Frederick M. O'Brien** is a loan officer at First National, Chicago. He joined the bank in 1973 and handles credit and correspondent services in several eastern and southeastern states.

• **Reggie Holley** joined Memphis Bank in 1973 and was elected a correspondent bank officer last year. He has worked in the branch bank system.

• **Walter T. (Tom) Smalley Jr.** joined Memphis Bank in 1973 and was made a correspondent bank officer last year.

• **David A. Dierks** is a vice president at First National, St. Louis. He joined the bank in 1969 following service with Ralston Purina Co., Pittsburgh. He joined the regional banking division in 1971.

• **Charles G. Hohman** is a commercial banking officer at Harris Bank, Chicago. He joined the bank in 1973 and is assigned to states in the Southeast.

Arkansas Convention

• **Randall D. Harper** joined Union National, Little Rock, in April. He works with correspondent banks throughout Arkansas.

• **Reggie Holley** was elected a correspondent bank officer at Memphis Bank in 1976. During his 42 months with the bank he has worked in the branch bank system.

• **Walter T. (Tom) Smalley Jr.** has been with Memphis Bank for four years and was assigned to the dealer finance department before moving into the branch banking area, from which he went to the correspondent department.

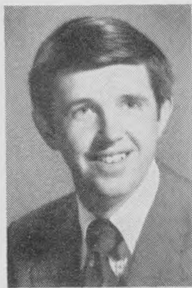
• **Donald E. Lewis** is an account officer at Citibank, New York City, and is responsible for correspondent work in Oklahoma, Arkansas and east Texas. He joined the bank three years ago.

Illinois Convention

• **Daniel W. Jasper** is an assistant vice president at Mercantile Trust, St. Louis. He heads Division A of the Central Group, which covers Illinois, Indiana and Kentucky.

• **Kay E. Schlueter** is a correspondent banking officer at National Boule-

O'BRIEN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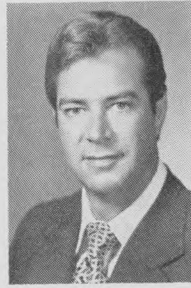
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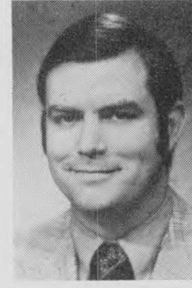
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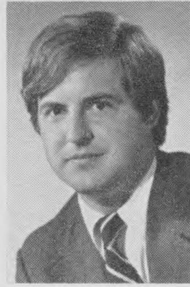
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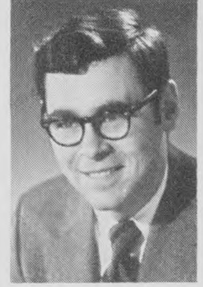

TRUKENBROD

vard Bank, Chicago. She joined the bank in 1969 and received RMA's achievement award certificate for obtaining the highest grade in analyzing financial statements in 1975.

• **Ted Beck** joined Central National, Chicago, recently as credit analyst trainee. He was formerly with United Bank of Westgate, Madison, Wis.

• **Charles R. Kruger** joined Central National, Chicago, as a commercial loan officer trainee last November. He was formerly with the Kansas City Fed as a senior analyst.

• **Michael A. LaMantia** is an assistant cashier in the correspondent banking division at Central National, Chicago. He joined the bank in 1974 and was formerly with Harris Trust, Chicago.

New Mexico Convention

• **John V. N. McClure** is a commercial banking officer at Northern Trust, Chicago. He joined the bank in 1973 and is assigned to the banking department.

• **Emily A. Schroeder** is an official assistant at Citibank, New York City. She handles correspondent relationships in New Mexico, Dallas and east/west Texas, with backup responsibility in Oklahoma.

Indiana Convention

• **William S. Trukenbrod** is a vice president in the banking department at Northern Trust, Chicago. He joined the bank in 1962 and was named a vice president in 1972. He took his graduate work at the University of Oslo in Norway.

• **Daniel W. Jasper** heads Division A of the Central Group at Mercantile Trust, St. Louis. He joined the bank in 1969, was named a correspondent banking officer in 1971 and assistant vice president in 1974.

• **Robert J. Mathias** joined Mercantile Trust, St. Louis, in June, 1974. He joined the Central Group, Division A, in 1975, and was named a banking officer last December.

• **Stephen R. Green** joined Mercantile Trust, St. Louis, in 1975 and was named a banking officer in Division A of the Central Group a year ago.

• **David D. York** is a calling officer for First National, Louisville. He joined the bank in 1969 and is a senior banking officer. He is a former branch manager.

• **Jerry L. Skidmore** is an assistant vice president at Citizens Fidelity, Louisville. He joined the bank in 1967 and the correspondent department in October, 1976.

• **Richard O. Ristine Jr.** is a municipal bond sales rep at Harris Bank, Chicago. He joined the bank last year and is a former examiner with the Chicago Fed.

• **Edmond Kennedy** joined the investment department at Harris Bank, Chicago, last June. He is a registered rep of the New York Stock Exchange and the National Association of Security Dealers.

Futuristic Look at Banking Highlights BMA Meeting

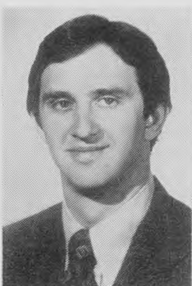
A "futuristic" look at banking will be the focus of a panel of bank marketing authorities during the Bank Marketing Association's 62nd annual convention October 30-November 2 at the Hilton Hawaiian Village, Honolulu.

According to the BMA, more than 2,000 bank marketing professionals from around the world are expected to be on hand for the event, which has the theme, "Managing Marketing for Profits."

Spotlighted speakers at the convention will be Carter H. Golembe, chairman and CEO, Golembe Associates, Inc., Washington, D. C., and John E. O'Toole, president, Foote Cone & Belding, New York City.

Sessions during the event will cover topics such as "Our Changing Competitive Environment—Who Will Survive?"; "What to Know Before You Advertise"; and "EFTS—Where Are We Going From Here?" Ten workshops will examine "Plastic Cards: "A Short-Term View, a Long-Range Perspective," "Customer Needs and Wants—Your Key to Effective Marketing," and more, while 11 rap sessions will cover a number of "hot" topics.

For more information, write Convention Registrar, Bank Marketing Association, 309 West Washington Street, Chicago, IL 60606.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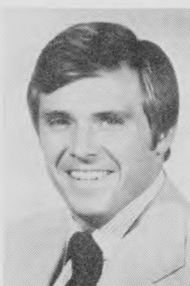
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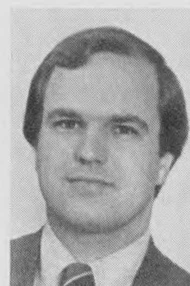
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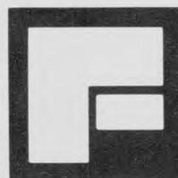
Here's a nice, new addition to your bank operation.

The new First National Bank building

When a new building gives correspondent bankers like Bob Rook and Larry Reed the additional space and equipment to work more effectively for you, it can be a plus to your bank operation. And the new First National Bank building does.

Drop by and see our new building on your next visit to Amarillo. We'll be moving in May 16th, and hold our dedication and open house on Sunday, May 22nd. If you can't make it our way, give Bob or Larry a call at their new number. They'll be glad to tell you how an 88-year-old bank, in a brand new building, could make a nice, new addition to your bank operation.



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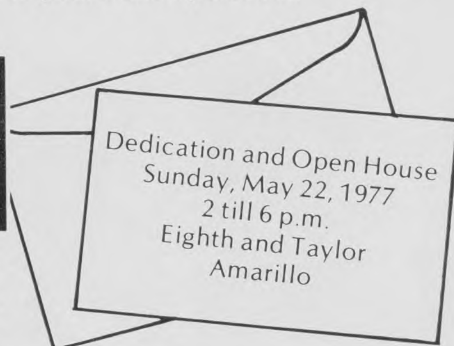

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New Mexico Convention

President

NICKS

W. R. "Bob" Nicks, NMBA pres., entered banking in 1941 at Fort Worth Nat'l, then went to Citizens Nat'l, Lubbock, Tex., in 1949 after attending Texas Tech University. In 1962, he joined Citizens State, Springer, where he now is pres. Mr. Nicks is a registered lobbyist for the NMBA.

President-Elect

JOPLIN

Charles A. Joplin, NMBA pres.-elect, joined First Nat'l, Lubbock, Tex., in 1955. In 1957, he joined Republic Nat'l, Dallas, and attended law school at night. A year after graduating, he returned to Lubbock in 1963 as v.p., Citizens Nat'l. He then worked for two other banks before joining Security Nat'l, Roswell, in April, 1973. He moved up to pres. there the following August.

Treasurer

PETTY

Ralph F. Petty Jr., NMBA treas., went into banking in 1970 at Security Bank, Ruidoso. He joined Bank of Santa Fe in 1972 as v.p. and moved up to e.v.p. before being named to his present post of pres. Mr. Petty served two terms (1969 and 1971) in the New Mexico House of Representatives and managed the Gamble Store in Ruidoso from 1959 to 1969.

Santa Fe, June 9-11

St. Francis Auditorium

PROGRAM

FIRST SESSION, 10 a.m., June 10

Call to Order—W. R. NICKS, president, New Mexico Bankers Association, and president, Citizens State, Springer.

National Anthem—MRS. BETSY ALFORD, Santa Fe.

Invocation—PASTOR PAUL R. STONE, director, Rocky Mountain Counseling and Development, Santa Fe.

Address of Welcome—SAM PICK, mayor of Santa Fe.

Response—CHARLES A. JOPLIN, president-elect, New Mexico Bankers Association, and president, Security National, Roswell.

Address—JERRY APODACA, governor of New Mexico, Santa Fe.

Address—ROBERT E. BARNETT, chairman, FDIC, Washington, D. C.

SECOND SESSION, 9 a.m., June 11

Call to Order—W. R. NICKS.

American Bankers Association Meeting—CHARLES K. JOHNSON, ABA state vice president, New Mexico member, ABA Governing Council, and president, First National, Artesia. Election of New Mexico delegates to ABA convention and member of Governing Council.

Report of the Executive Vice President—DENTON R. HUDGEONS.

Recognition of 25- and 50-Year Club Members—W. R. NICKS.

Address—J. REX DUWE, chairman, ABA Governing Council, and president and chairman, Farmers State, Lucas, Kan.

Report of the Audit Committee—ROY E. HUDDLE JR., committee chairman and vice president and cashier, First National of Rio Arriba, Espanola.

Report of the Resolutions Committee—G. WILBUR JONES, committee chairman and president, First National, Tucumcari.

President's Annual Report—W. R. NICKS.

Report of the Nominating Committee—WAYNE STEWART, committee chairman and president, First National, Alamogordo.

Election of Officers.

Presentation of Past President's Pin and Certificate.

Remarks by New President.

Selection of 1979 Convention City.

Announcements.

Adjournment.

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New Mexico Bankers Convention Speakers

DUWE KINARD BARNETT APODACA ODEN

J. Rex Duwe, immediate past ABA pres. and current ch., ABA Governing Council, will speak at the final general convention session June 11. Mr. Duwe is pres. and ch., Farmers State, Lucas, Kan. J. Spencer Kinard, Salt Lake City, Utah, radio and TV commentator, will speak at the prayer breakfast June 10. Robert E. Barnett, FDIC chairman, Washington, D. C., and New Mexico Governor Jerry Apodaca will appear at the first general convention session June 10. Jeannette Oden, assistant vice president, Mellon Bank, Pittsburgh, will speak at the women's luncheon June 10. At press time, Mr. Barnett was to be replaced as a speaker by FDIC Director George A. LeMaistre.

Convention Entertainment To Feature Luncheons, Sports Events and Luau

SANTA FE—About 1,000 bankers from New Mexico and throughout the Southwest are expected to attend the New Mexico Bankers Association's 66th annual convention here June 9-11. Although the Hilton Inn has been designated the headquarters hotel, five other hostelries are participating—Desert Inn, Inn at Loretto, La Fonda, Sheraton Inn and the Bishop's Lodge.

Registration will begin at 8 a.m. June 9 in the Hilton lobby. At noon the same day, there will be a past presidents' luncheon at La Fonda's Santa Fe Room. The Lili del Castillo Flamenco Group will entertain. From 6 to 7:30 that evening, conventioneers will be treated to a reception at the Bishop's Lodge. Music will be provided by Mariachi de Santa Fe.

Also on June 9, the men's golf tournament will be held at the Santa Fe Country Club. Players may tee off anytime between 8 a.m. and 1 p.m. Lunch will be available at the club.

The annual prayer breakfast is scheduled for 8 o'clock June 10 in the International Ballroom of the Hilton. J. Spencer Kinard, Salt Lake City, Utah, radio and TV commentator, will speak, and music will be provided by the Gridiron Singers.

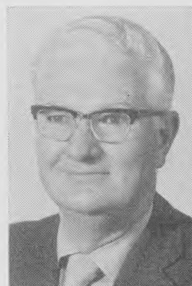
Three women's events are planned for June 10: The tennis tournament will be held from 8:30-10:30 a.m. at the Sangre de Cristo Racquet Club. A continental breakfast at 8 o'clock will precede the tournament. At 11:30 a.m., there will be a women's luncheon in the Hilton's International Ballroom, with Mrs. W. R. Nicks, wife of the NMBA president, presiding. Jeanette Oden, assistant vice president, Mellon Bank, Pittsburgh, will speak, and entertainment will be by Derrik Lewis and members of the Musical Theater Association of New Mexico. A women's bridge tournament will be held from 2:15-4:30 p.m. in the Don Nicolas Room of the Hilton.

At noon the same day, Mr. Nicks will preside at the president's luncheon in Room A at the Inn at Loretto. Guests will include members of the executive council, committee and group chairmen, trust division and ABA New Mexico officers and convention speakers. The Mexican Trio will perform.

At 1 o'clock June 10, a men's tennis tournament will be held at the Sangre de Cristo Racquet Club.

The day will end with a 6 o'clock cocktail party on the Hilton patio, courtesy of State National, El Paso, Tex., and a 6:30 luau in the Hilton's International Ballroom. "Shalako-Up-

Denton R. Hudgeons, NMBA e.v.p., will give his annual report during the convention's final general session June 11.



HUDGEONS

STATEMENT OF CONDITION

of

THE FIRST NATIONAL BANK

OF ARTESIA, NEW MEXICO

At close of Business March 31, 1977

RESOURCES

Loans and Discounts		$22,405,447.59
Overdrafts		60,140.61
Stock in Federal Reserve Bank		60,000.00
Banking House Furniture & Fixtures		542,580.18
U. S. Bonds	$3,249,140.90	
Other U. S. Obligations	996,214.34	
Other Bonds	8,824,651.16	27,233,263.50
Federal Funds Sold	5,000,000.00	
Cash and Due From Banks	9,163,257.10	
Income Earned, Not Collected		651,545.40
Other Assets		4,793.33
TOTAL		$50,957,770.61

LIABILITIES

Capital	$ 1,000,000.00
Surplus	1,000,000.00
Undivided Profits and Reserves	2,904,933.01
Special Reserves	170,115.46
Income Collected, Not Earned	505,650.84
Deposits	45,377,071.30
TOTAL	$50,957,770.61

OFFICERS

CHAS. K. JOHNSON, President
C. NEAL JOHNSON, Presidential Asst.
C. F. HAMMETT, Sr. Vice-President
VERNON WATSON, Vice-President
DAVID T. SIMONS, Vice-President
GEORGE H. FERRIMAN, Cashier-Trust Officer
FLOYD E. HALL, Asst. Vice-President
ROBERT ASLINGER, Asst. Vice-President
BRENT HAMMETT, Asst. Cashier
BILL R. CARPENTER, Asst. Cashier
KIMERICK F. HAYNER, Asst. Trust Officer

The officers, directors and employees of

CITIZENS STATE BANK, SPRINGER

are proud that our president, W. R. Nicks, has served the New Mexico Bankers Association as president during the year, 1976-77.

We appreciate the assistance and cooperation given to Mr. Nicks by New Mexico bankers during his term of office in his efforts and program on behalf of the New Mexico Bankers Association.

W. R. Nicks

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country" entertainment is planned.

The first event for June 11 will be a buffet breakfast from 7 to 8:30 o'clock in the Hilton's International Ballroom, with the following Santa Fe banks as hosts—Bank of Santa Fe, Capital National, First National, Santa Fe National and United Southwest National.

That night, a cocktail party from 5-6:30—courtesy of El Paso (Tex.) National—will be held on the Hilton patio. The 6:45 banquet will be held in the Hilton's International Ballroom, with Mr. Nicks presiding. The dinner show will be provided by the Booker Bank Notes of First Bank, Booker, Tex., and there will be dancing from 9 p.m.-midnight to the music of Danny Ortiz and the Senators.

■ ERNEST ROMERO has been appointed CEO, Centinel Bank of Taos, succeeding Arthur L. Ortiz, who has resigned to become state banking commissioner. In other news at the bank, Beatriz Gonzales has been named to succeed Don Ambrose as a director. Mr. Romero joined Centinel Bank in January as senior vice president. He formerly was administrator for Taos. Mrs. Gonzales, owner of Taos Gravel Products and a cattle rancher, is the first woman to serve on the bank's board.

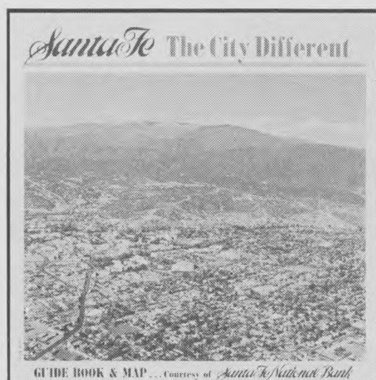
'Bank Week' in New Mexico

Joining New Mexico Governor Jerry Apodaca (c.) for official recognition of Bank Week in the state are Thomas D. Taylor (l.), ch., NMBA bank week committee, and Bob Nicks, NMBA pres. Mr. Nicks is pres., Citizens State, Springer. Mr. Taylor is pres., Citizens Bank, Albuquerque.

■ SAM E. MASSEY has joined Farmers & Stockmens Bank, Clayton, as assistant cashier. He goes there from First Wichita National, Wichita Falls, Tex., where he had served for 13 years.

■ ROBLEY HEDRICK has resigned as vice president and cashier, First State, Truth or Consequences, to become co-owner of the Hot Springs Insurance Agency.

We'll send "The City Different" to bankers who ask for it!



We think it's the most useful introduction to Santa Fe any visitor can receive. It contains 40 color photographs and lots of information you need to get acquainted. Enjoy convention more. WRITE: SFNB, P.O. Box 969, Santa Fe, N.M. 87501.

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The book also provides a means for state bank directors to modify procedures to bring their banks into compliance with current state banking statutes and regulations. Its use can result in economies and efficiencies for banks.

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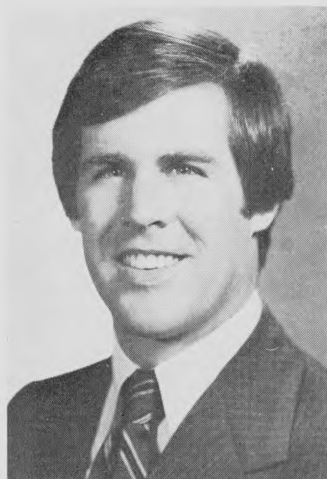

Bob Thompson

Martha Mason

Hubert Barksdale

Our banking experts are ready to work for you, bringing to your door an extensive portfolio of correspondent banking services that will give your bank the professional banker's edge you've been searching for.

Hubert Barksdale's responsibility will be Northern Arkansas, Missouri and Oklahoma, while Bob Thompson will have jurisdiction over Southern Arkansas, Louisiana and Mississippi.

Norman Farris

Martha Mason, Correspondent Bank Officer with 13 years of banking experience joins our professionals and will be available at all times to respond to your inquiries.

Norman Farris, Executive Vice President and head of our correspondent banking program, works with our professionals—and with you—to make certain you receive the best services we can deliver.

Let CNB give you the professional banker's edge. Call us toll-free: 1-800-482-8430.

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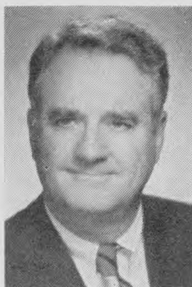
Arkansas Convention

President



KENNEDY

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

President-Elect

CUPP

Cecil W. Cupp Jr. is Ark.BA pres.-elect, and pres. & CEO, Arkansas Bank, Hot Springs, as well as ch., Citizens First Nat'l, Arkadelphia. He is a past dir., St. Louis Fed, and is a dir., First Arkansas Development Finance Corp.

Vice President

BROWN

Doyl E. Brown is Ark.BA v.p., and pres., t.o. and dir., First Nat'l, Wynne, which he joined in 1938. He is a past pres., Jr. Bankers Section, and past ch., Ark.BA Group One. He is a past ch. of the Agriculture & Rural Affairs Committee.

Hot Springs, May 14-17

Headquarters—ARLINGTON HOTEL

PROGRAM

FIRST SESSION, 9 a.m., May 16

Call to Order—WILLIAM H. KENNEDY JR., president, Arkansas Bankers Association, and president, National Bank of Commerce, Pine Bluff.

Invocation.

President's Address—WILLIAM H. KENNEDY JR.

Address—A. A. MILLIGAN, president-elect, American Bankers Association, and president and chairman, Bank of A. Levy, Oxnard, Calif.

Address—LAWRENCE K. ROOS, president, Federal Reserve Bank of St. Louis.

Address—JIM GUY TUCKER, U. S. congressman for Arkansas, Second District.

Announcements and Awarding of Door Prize.

Adjournment.

SECOND SESSION, 9 a.m., May 17

Call to Order—WILLIAM H. KENNEDY JR.

Report of the Treasurer—JOHN M. LEWIS, treasurer, Arkansas Bankers Association, and president and CEO, First National Bank, Fayetteville.

Meeting of Arkansas Members of the American Bankers Association—CECIL W. CUPP JR., ABA vice president for Arkansas, and president, Arkansas Bank, Hot Springs.

Resolutions Committee Report.

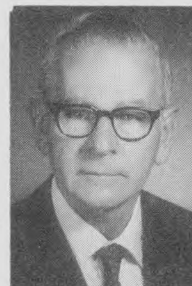
Election of Officers.

Announcements and Awarding of Door Prize.

Adjournment.

Convention Speakers

ROOS



MILLIGAN

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Speakers From ABA, Fed, U.S. Congress To Appear at 87th Arkansas Convention

DELEGATES to the 87th annual convention of the Arkansas Bankers Association will be thoroughly informed on major issues affecting banking at the upcoming meeting set for May 14-17 in Hot Springs.

Speakers for the convention include A. A. "Bud" Milligan, ABA president-elect, and president and chairman, Bank of A. Levy, Oxnard, Calif.; Lawrence K. Roos, president, St. Louis Fed; and Jim Guy Tucker, member of the U. S. House of Representatives from Arkansas' second district.

Mr. Milligan began his banking career in 1940 at Bank of A. Levy, which was started by his grandfather some 90 years ago. Following military service in World War II, he was named assistant secretary of the bank and a director and executive officer in 1950. He assumed his present posts in 1955. He is a past president of the California Bankers Association and has been active in ABA since 1964, serving on the governing council, the executive council, the task force on policy and planning of banking education and training, the advisory committee on state legislation and the nominating committee.

Mr. Roos is a former president of Mound City Trust, St. Louis; former chairman of First Security Bank, Kirkwood, Mo.; and former executive vice president and director of First National in St. Louis. He served two terms in the Missouri House of Representatives and spent more than a decade as supervisor of St. Louis County, one of the largest county governments in the U. S. He assumed his present post in March, 1976.

Congressman Tucker was elected in 1976 to succeed retiring Wilbur Mills. He serves on the Ways and Means Committee and the Social Security and Public Assistance and Unemployment Compensation subcommittees in Congress. He served two terms as Arkansas attorney general.

The convention calendar begins with registration from 2 to 6 p.m. on Saturday, May 14. Sunday's activities include registration from 1 to 6 p.m., exhibits from 1 to 5 p.m., meetings of the nominating and resolutions committees and the executive council. Also on tap is the traditional reception for all delegates starting at 6 p.m.

Registration begins at 8 a.m. and continues to 5 p.m. on Monday, May 16, and exhibits will be open from 1 to 5 p.m. The first business session convenes at 9 a.m. and a tennis tournament will get underway at 1:30 p.m at the Hot Springs Country Club.

Registration will continue throughout Tuesday, as will the exhibits. The second business session will start at 9 a.m. and a women's luncheon will begin at 12:30. A golf tournament is set for 1 p.m. and a tennis tournament at 1:30, both at the Hot Springs Country Club.

The convention will conclude with the traditional banquet beginning at 7 p.m. Banquet speaker will be George Will, columnist for the Washington (D. C.) *Post*.

■ GEORGE W. PENICK, vice president and board secretary, First National, Mena, has been elected president, Mena Area Chamber of Commerce.

■ A MOVE by Bankstock One, Inc., Ozark, to become an HC through acquisition of Bank of Ozark has been denied by the Fed.

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Ark.BA Treasurer

John M. Lewis is treas., Ark.BA and pres. & CEO, First Nat'l, Fayetteville. He joined the bank as president in 1974 and was named chairman and CEO this year. He was formerly with an investment banking firm and with Republic Nat'l, both in Dallas, for a total of 13 years. His father, Herbert Lewis, retired, is former pres. & ch., First Nat'l, Fayetteville.

■ JOHN T. JONES has been named assistant vice president and installment loan department manager, Union National, Little Rock. He joined the bank in 1976 as a branch office manager.

Credit Allocation

(Continued from page 26)

ing to effectively influence the way credit is allocated in this country. And they also can appreciate the threat that such action represents to our customers' individual economic freedom.

I recently heard Gilbert Grosvenor, editor of *National Geographic*, comment on the guiding philosophy of his magazine. As you may know, *National Geographic* has been around for 90 years—yet it is reportedly No. 2 in magazine circulation in the country. That's a pretty good record, and it may be due to what Mr. Grosvenor said: "For a magazine, revolutionary change is fatal—evolutionary change is mandatory." I think there's a message for our credit markets there.

We cannot hope to forestall every change in government policy on the flow of credit in this nation—nor should we attempt to do so. But we must make sure that these changes take place in a natural evolutionary way—taking full advantage of market forces and avoiding the rigid, revolutionary shifts in policy that could wreak havoc in our economy. In seeking to influence these changes, we must make sure that all participants in the credit markets—especially government—understand the full effect of both subtle and overt attempts to allocate credit through government intervention. And we owe it to our customers—consumers and businesses alike—to make sure that Congress and the regulators understand these effects, too. Only then can we help design effective government policies that really do what they are designed to do—provide adequate credit to all sectors of the economy. Only then can we achieve the economic growth that is our national goal. • •

More Consumer Credit Forecast For Home-Improvement Loans

WASHINGTON, D. C.—Increased availability of consumer credit is forecast by the nation's banks, which supply more than half of all home-improvement loans.

A national banking survey—the results of which were released by the ABA last month—shows that 95% of the responding banks plan to expand consumer loans for home improvements. In a survey last year, the same question found that 85% were expanding this type of credit.

Currently, there is more than $8.8 billion outstanding in consumer installment home-improvement loans, and $5.4 billion of that amount has been supplied by banks. According to the ABA's Installment Lending Division, the typical home-improvement loan is for about $3,000, requires no collateral, carries a 10% to 14% annual interest rate and has a pay-back period of from five to seven years.

The 150 banks surveyed belong to the division's advisory board and represent a demographic sampling of the nation's 14,700 banks.

Welcome, Arkansas Bankers, to Hot Springs

May 15-18

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Our annual report for 1976

highlights the progressive strides being taken in the many levels of schools in South Mississippi. They are producing knowledgeable, highly skilled, educated citizens — certainly among our most valuable assets. We would be pleased to send you a copy. Just write our president, Leo W. Seal, Jr., P.O. Box 4019, Gulfport, Mississippi 39501.

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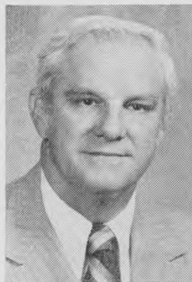
Mississippi Convention

President

MITCHELL

John H. Mitchell Jr., MBA pres., is v. ch. & CEO, Nat'l Bank of Commerce, Starkville. He entered banking at Grenada Bank in 1950, going to his present bank 10 years later as e.v.p. He advanced to pres. in 1964. He is a former Young Bankers pres.

Vice President



SMITH

Serving as v.p. of the MBA is Ray K. Smith, pres. & CEO, First Nat'l, Greenville. He joined the bank in 1957 and has been pres. & CEO since 1972. He has served on many MBA committees and was assn. treas. in 1975.

Treasurer

GAGE

MBA treas. is R. D. Gage III, pres. & CEO, Port Gibson Bank, which he joined as cash. & v.p. in 1952 after practicing law for five years. He was named pres. & CEO in 1967.

Biloxi, May 14-18

Headquarters—Biloxi Hilton & Broadwater Beach Hotels

PROGRAM

FIRST SESSION, 9:15 a.m., May 16

Call to Order and Invocation.

Executive Committee Report—JOHN H. MITCHELL JR., president, Mississippi Bankers Association, and vice chairman and CEO, National Bank of Commerce, Starkville.

Resolutions—M. F. KAHLMUS, committee chairman, and president, Merchants & Farmers Bank, Meridian.

Financial Report—R. D. GAGE III, Mississippi Bankers Association treasurer, and president and CEO, Port Gibson Bank.

Young Bankers Section Report—GLYNN HUGHES, president, Young Bankers Section, and president, South Central Bank, Silver Creek.

Standing Committee Reports.

Address—ROBERT W. WARREN, conservator for savings and loan associations, Jackson.

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

President's Address—JOHN H. MITCHELL JR.

Report on School of Banking of the South—DR. BEN McNEW, assistant director, School of Banking of the South.

Meeting of Mississippi Members of American Bankers Association—CRAWFORD McGIVAREN, ABA vice president for Mississippi, and vice chairman and acting CEO, Bank of Clarksdale.

Presentation of 50-Year Club Certificates.

Address—A. A. MILLIGAN, president-elect, American Bankers Association, and president, Bank of A. Levy, Oxnard, Calif.

Necrology Committee Report—ORRICK METCALFE, committee chairman, and chairman, Britton & Koontz First National, Natchez.

Resolutions Committee Report—M. F. KAHLMUS, committee chairman.

Report of Nominating Committee.

Election of Officers.

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ABA President-Elect Set for Miss. Convention In Biloxi May 14-17

BILOXI—ABA President-Elect A. A. "Bud" Milligan will head the list of speakers scheduled for the 89th annual convention of the Mississippi Bankers Association, which will convene here May 14. Headquarters hotels will again be the Biloxi Hilton and the Broadwater Beach.

Theme of the convention is "The Great Getaway," which is also the title of the Monday evening dinner and entertainment set for the Hilton's Grand Ballroom.

The first day of the convention is for those who enjoy golf and tennis. The golfers will start out at noon on Saturday, May 14, at the Broadwater Sun Course. Tennis buffs will hit the courts at 8:30 a.m. at both hotel's courts. Registration will open at 2 p.m. in the Hilton lobby and the first party will be hosted by First Mississippi National, Hattiesburg, in the Hilton Ballroom that evening.

Registration will begin at 9 a.m. on Sunday, May 15. The tennis tournament finals will be held at noon at the Broadwater courts. The partying begins at 3, when Central Bank, Birmingham, holds forth in the Hilton Ballroom, followed shortly thereafter (5:30 p.m.) by the Deposit Guaranty National of Jackson poolside bash at the Broadwater. The MBA executive committee and past presidents' dinner will begin at 8 p.m. at the Broadwater. At 10 p.m., National Bank of Commerce, Memphis, will host delegates at a party at the Hilton Ballroom.

On Monday, May 16, registration will begin at 9 a.m., to be followed by the first general business session at 9:15 at the Hilton Grand Casino. The business will be over by 11 a.m. so everyone can attend the party in the Hilton Ballroom hosted by First National, Jackson. Things will quiet down until 4 p.m., when the oyster bar sponsored by Hancock Bank, Gulfport, begins at the Hilton. The MBA cocktail party will begin at 6:30 p.m. in the Hilton Grand Casino, to be followed at 7:30 p.m. by the Great Getaway Party in the Hilton Grand Ballroom. Featured entertainment: Danny Davis and the Nashville Brass.

Tuesday's events get underway with a breakfast at 8 a.m. for those associated with the School of Banking of the South at the Broadwater. Registration will commence at 9 a.m., followed by the second business session, beginning at 9:30 a.m. at the Broadwater. The Union Planters of Memphis stag luncheon will begin at 11:30 a.m. at the Broadwater, while a women's luncheon will be held at the same hour at the Hilton. The oyster bar will be repeated at 4 p.m. at the Broadwater, again sponsored by Hancock Bank, Gulfport, and the MBA annual banquet will begin at 7:30 p.m. at the Broadwater.

That's all until next year!

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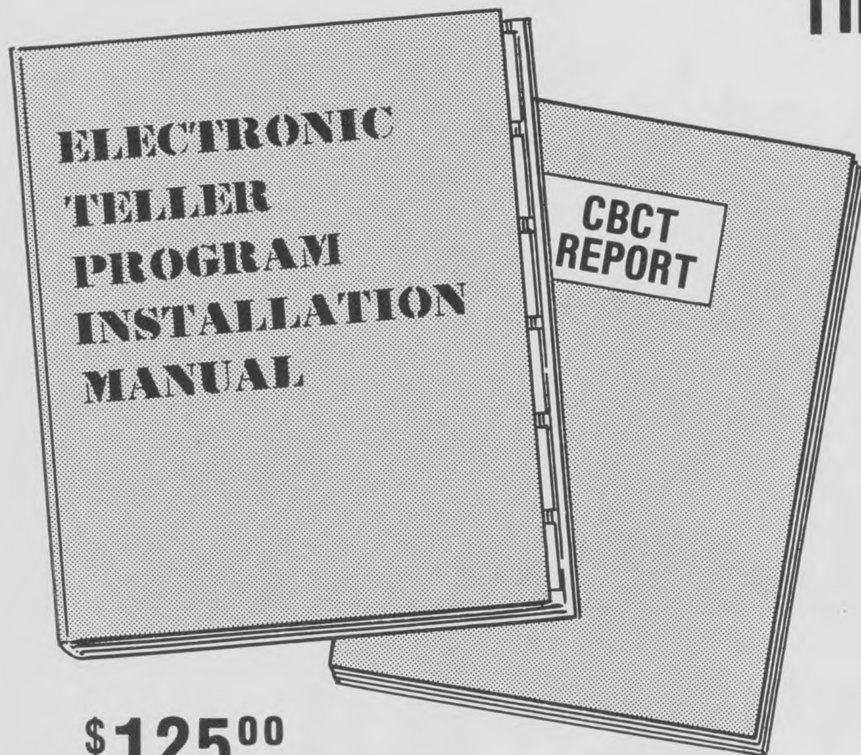

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Why re-invent the wheel? If you're considering the feasibility of ATMs for your bank, you'll save hundreds of man-hours on research by utilizing these studies created by the First National Bank of Galesburg, Ill. And you may find that ATMs are not for you, thus saving your bank thousands of dollars of capital investment!

The Galesburg bank, incidentally, has a successful track record with its ATM. It has, with its ATM, increased its market penetration of NEW ACCOUNTS from 37% to 56% in a four-bank community! And 16% of new checking accounts and 20% of new savings accounts came from competing banks.

HERE'S WHAT IS PROVIDED IN THESE TWO MANUALS

ELECTRONIC TELLER PROGRAM INSTALLATION MANUAL

In 275 pages, this manual tracks the Galesburg bank's ATM operation through market analysis, cost justification, installation procedures and results.

One chapter shows actual samples of supplies used in the program, plastic cards, machine receipts. Another chapter discusses customer identification programs, with advertising used to announce ATM services.

Manual recommends HOW to issue user cards. . . personnel and department to be assigned responsibility. . . also some do's and don'ts affecting any ATM program.

CBCT REPORT TO MANAGEMENT

This smaller report summarizes estimated vs. actual results of ATM operations. . . activity reports. . . income and expense items. . . also a seven-year projection of growth of checking and savings accounts originating from ATMs.

Also: newspaper reports of CBCT regulatory rulings . . . a 35-page "interpretive ruling" by the Comptroller. All valuable information to help your bank reach a proper decision on ATMs.

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Tennessee Convention

President

WILLSON

Chairman

WEATHERFORD

Hugh M. Willson, TBA pres., is pres., Citizens Nat'l, Athens, and a dir., Monroe County Bank, Sweetwater. He is a former dir., Nashville Branch, Atlanta Fed.

TBA Ch. Jack O. Weatherford is ch., Murfreesboro Bank, which he joined in 1949. He advanced to his present post in 1970. He is former ch., TBA State Div.

Exec. Vice Pres.

GILLIAM

President-Elect

BULLINER

Robert M. Gilliam is TBA e.v.p. and treas. He is a past pres., Southern Conference of Banking Association Executives.

TBA Pres.-Elect Jack R. Bulliner is pres., First State, Henderson, which he joined in 1948. He was pres., Young Bankers Div., in 1963.

1st Vice Pres.

FILLEBROWN

2nd Vice Pres.

TAYLOR

Serving as TBA 1st v.p. is T. Scott Fillebrown Jr., v. ch., First Amtenn Corp., Nashville. He has served on numerous TBA committees.

George R. Taylor, TBA 2nd v.p., is pres. & ch., Merchants Bank, Cleveland, which he joined in 1945. He was elected pres. in 1970 and ch. in 1975.

Gatlinburg, May 15-17

Headquarters—Sheraton Hotel

PROGRAM

MONDAY, MAY 16

9:30 a.m.—Joint Meetings, State and National Bank divisions.
Noon—Men's Luncheon.
2 p.m.—Board of Directors meetings.

TUESDAY, MAY 17

7:45 a.m.—Independent Bankers Division Breakfast.

BUSINESS SESSION, 9:15 a.m.

Call to Order—HUGH M. WILLSON, president, Tennessee Bankers Association, and president and CEO, Citizens National Bank, Athens.

Welcome.

Report of the ABA Vice President for Tennessee—WALTER BARNES, ABA vice president for Tennessee, and president, First National Bank, Jackson.

President's Address—HUGH M. WILLSON.

Address—GERALD M. LOWRIE, executive director, government relations, American Bankers Association.

Address—BERT LANCE, director, Office of Management and Budget, Washington, D. C.

Election of Officers.

Adjournment.

12:30 p.m.—Board of Directors Luncheon.
6 p.m.—Reception.
7 p.m.—Banquet.

Convention Speakers

LANCE

LOWRIE

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Bankers, Government Officials on Tap For Annual Tennessee Bankers Meeting

A HOST of bankers and government officials will mount the podium during the Tennessee Bankers Association convention May 15-17 at the Smoky Mountain resort of Gatlinburg.

The first talks will be given at the combined state and national division meeting, which will get underway at 9:30 a.m. on Monday, May 16, at the headquarters hotel, the Sheraton.

Addressing the joint meeting will be Thomas A. Wiseman, general counsel, Interest Rate Information, Inc., and Harlan Matthews, Tennessee state treasurer. At 10:30 a.m., the meeting will adjourn and the state division will convene to hear addresses by Joe Hemphill, Tennessee banking commissioner, and Lawrence E. Kreider, executive vice president-economist, Conference of State Bank Supervisors.

The national division will also hold its own session at 10:30 and will hear Robert Forrestal, senior vice president and general counsel, Atlanta Fed, and Bruce Heitz, regional administrator of national banks, Memphis office.

Chairman of the state division is R. Arch Fitzgerald, executive vice president, Cleveland Bank. Chairman of the national division is James F. Smith Jr., president, Park National, Knoxville.

The independent bankers division will meet for breakfast at 7:45 a.m. on Tuesday, May 17, to hear Howard Bell, executive director, Independent Bankers Association of America. Chairman of the division is James R. Fitzhugh, president, Bank of Ripley.

Two speakers will address the business session of the convention on Tuesday. They are Gerald M. Lowrie, executive director, ABA government relations division, whose topic will be "Legislation and Regulation—Some Realities," and Bert Lance, director, Office of Management and Budget, Washington, D. C., and former president and CEO, National Bank of Georgia, Atlanta.

Recreation will not be overlooked during the convention. Golf and tennis tournaments will be held on Monday, May 16, at the Gatlinburg Golf & Country Club and at the Mynatt Park tennis courts.

Entertainment will be offered on Monday and Tuesday evenings. Monday's banquet and program will feature Woody Herman and his Thundering Herd. After a reception, dinner and performance by the band, there will be dancing.

On Tuesday evening new officers will be installed during the annual banquet. Entertainment will be provided by stars of the Lawrence Welk TV show.

A program for the women will include breakfast at Glenstone Lodge on Monday, followed by a shopping tour. On Tuesday, a tour to Cades Cove is scheduled, which will include box lunches at the Cove's picnic area. A hospitality room will be open at the Sheraton on Tuesday morning with a hostess on duty.

A shuttle bus will be operating between the Glenstone and Sheraton hotels on Monday and Tuesday. Shuttle service to the downtown area will also be available during the convention.

Registration for the convention will be held all three days, beginning at 2 p.m. on Sunday and at 8:30 a.m. on Monday and Tuesday. Registration will take place in the lower foyer of the Sheraton Hotel. • •

Young Bankers Elect Officers

The Young Bankers Division of the Tennessee Bankers Association held its annual convention last month in Gatlinburg. Top photo shows new officers being congratulated by division Chairman Lee Beeman (r.), president, Liberty Bank of Tennessee, Athens. From left, new officers are Jim Henry, president, Oakland Deposit Bank—president-elect; Tom Holland, vice president & cashier, Union National, Fayetteville—president; and J. N. McGuire Jr., assistant vice president, Park National, Knoxville—vice president. Bottom photo shows new directors of division: (from left) Eden Smith, assistant vice president, Second National, Jackson—Group 6; Ken Southern, executive vice president, City & County Bank, Knoxville—Group 2; and Mike Miller, assistant vice president, First American National, Nashville—Group 4.

Bank Hosts Consumer-Law Seminar

Gathered for a photo session are featured participants in First Tennessee Bank of Memphis' "Your Bank's Compliance With New Consumer Laws" seminar (foreground, from l.): James A. Kinney, e.v.p., host bank; Anne Geary, Fed attorney; Susan A. Meyer, editor, *Washington Credit Letter;* and Milton W. Schober, Washington credit counsel for the American Retail Federation. To the rear are Charles C. Caudle (l.), v.p., consumer banking div., First Union Nat'l, Charlotte, N. C.; and Richard Slater, e.v.p., Consumer Bankers Assn.

■ JACK BRAY, comptroller, C & I Bank, Memphis, has been named senior vice president. He joined the bank in 1956. In addition, Bob Huffman, senior vice president and director of administration and operations, has been appointed cashier. He has been with C & I since 1973.

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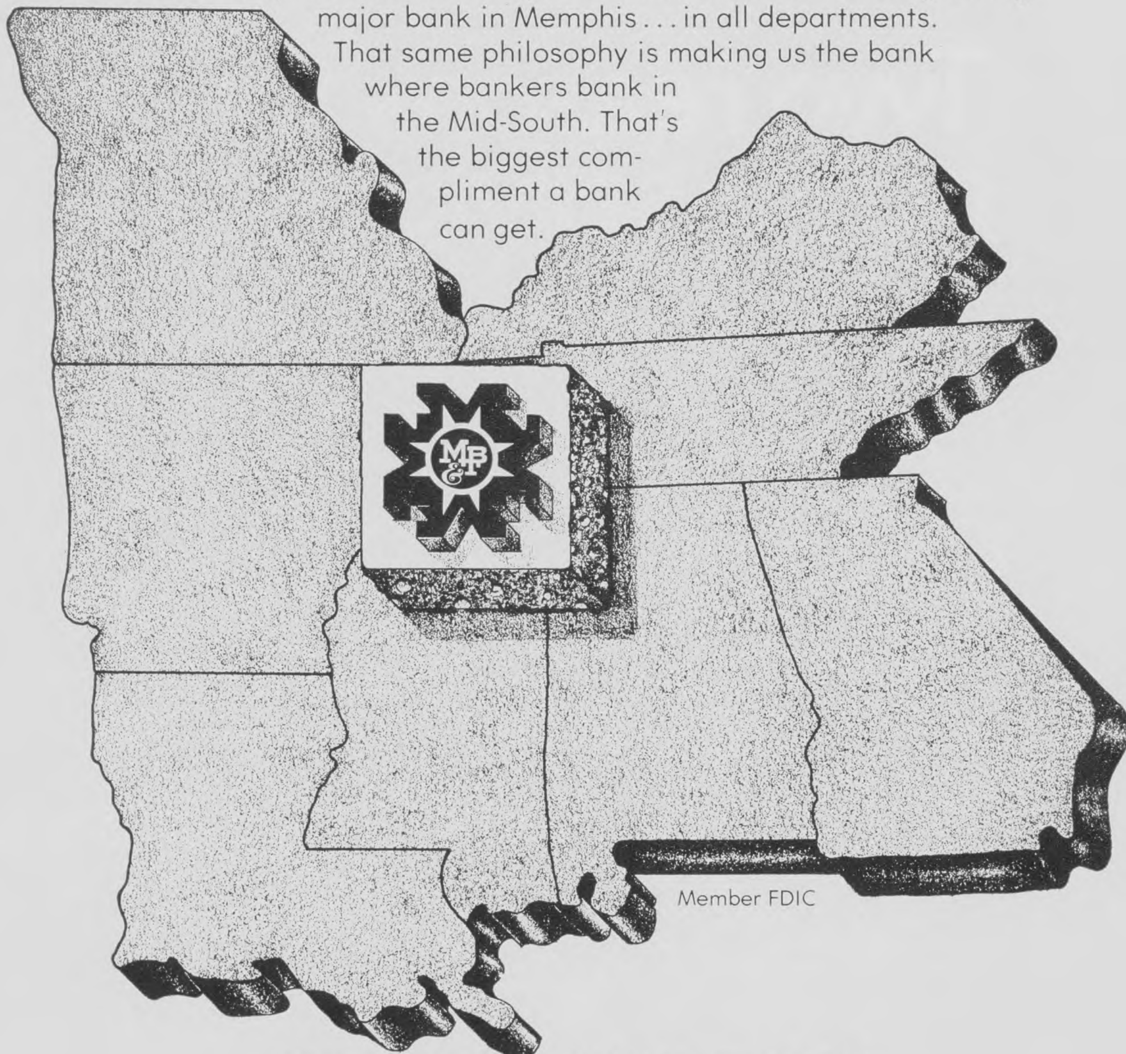

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Indiana Convention

President

FARRELL

IBA pres. is William C. Farrell Jr., pres. & CEO, Elston Bank, Crawfordsville. A banker since 1947, he headed corporate banking div. (including corres. banks div.) at American Fletcher Nat'l, Indianapolis, when he joined Elston Bank in 1969.

Vice President

VOSS

Tom G. Voss is IBA v.p., and pres. & CEO, Seymour Nat'l, which he joined in 1967. He is a dir., Louisville Branch, St. Louis Fed, and is a past ch. of the IBA legislative com.

Treasurer

KING

IBA treas. is William H. King, pres., Second Nat'l, Richmond, which he joined in 1965 after service with Terre Haute First Nat'l. He is a former ch., IBA trust com.

French Lick, June 15-16

Headquarters—FRENCH LICK-SHERATON HOTEL

PROGRAM

FIRST SESSION, 9:30 a.m., June 15

Call to Order and President's Message—WILLIAM C. FARRELL JR., president, Indiana Bankers Association, and president and CEO, Elston Bank, Crawfordsville.

Report of Nominating Committee.

Election of Officers.

Treasurer's Report—WILLIAM H. KING, treasurer, Indiana Bankers Association, and president and CEO, Second National Bank, Richmond.

Address—W. LIDDON McPETERS, president, American Bankers Association, and president, Security Bank, Corinth, Miss.

Address—DALLAS WOLF, treasurer, Shell Oil Co., Houston. Topic: "The Impact of Energy on the Financial Community."

Address—DR. LEONARD L. BERRY, chairman, department of marketing, Georgia State University, Atlanta.

Adjournment.

SECOND SESSION, 9:30 a.m., June 16

Call to Order—WILLIAM C. FARRELL JR.

Meeting of Members of the American Bankers Association.

Address—DUANE J. McCULLOUGH, senior vice president, Fannin Bank, Houston.

Address—KERMIT O. BURROWS, speaker, Indiana House of Representatives.

Address—To Be Announced.

Adjournment.

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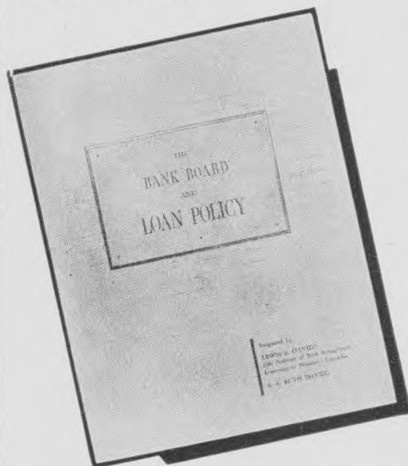

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The BANK BOARD Letter

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'Reach for Bonanza' Western Theme Set For Indiana Convention

This year's Indiana Bankers Association convention is being touted as the "IBA Roundup at the FLS Ranch" in observance of the western theme selected by the convention committee. The two-day annual meeting will be held at the French Lick-Sheraton (FLS) Hotel on June 15-16.

The theme will come to full flower on Thursday evening when the "reach for the bonanza" entertainment event is held as the last official function of the convention.

Things will be a little more sedate on Wednesday evening, when the annual banquet is held. Banquet speaker is J. N. Christianson of Christianson Communications, Scottsdale, Ariz.

A host of other speakers will mount the podium during the convention, beginning with W. Liddon McPeters, ABA president, and president, Security Bank, Corinth, Miss. Mr. McPeters is expected to report on the state of banking in 1977.

Other speakers include Dallas Wolf, treasurer, Shell Oil Co., Houston, whose topic is "The Impact of Energy on the Financial Community." A bank marketing talk will be given by Dr. Leonard L. Berry, chairman, department of marketing, Georgia State University, Atlanta. A Houston banker, Duane J. McCullough, senior vice president, Fannin Bank, will also appear, as will Kermit O. Burrows, speaker of the Indiana House of Representatives.

Of course, there will be fun times during the convention, too. The men's golf tournament will take place Wednesday at the Hill Country Club and the Valley Country Club. The women's tourney is slated for the following day at the Valley course. A putting contest will be held Thursday for non-golfers, and tennis tournaments are set for both days.

IBA Nominating Committee Picks Shaffer, McWhorter

The IBA nominating committee has made the following selections for IBA officer positions for 1977-78:

Tom G. Voss, president and CEO, Seymour National—IBA president; Paul E. Shaffer, chairman and president, Fort Wayne National—IBA vice president; Russell R. McWhorter, president, Citizens Bank, Michigan City—IBA treasurer.

Nominated for directors-at-large are Thomas N. Miller, president, Indiana National, Indianapolis; William H. Olds, president, Marion National; and Robert C. Rose, president, American National, Vincennes.

■ WILLIAM M. BACON has been named chairman, Calumet National, Hammond. He retains his titles of president and CEO. He joined the bank in 1958.

■ RONALD D. EDWARDS has been named Indiana division officer at American Fletcher National, Indianapolis. He joined the bank in 1976.

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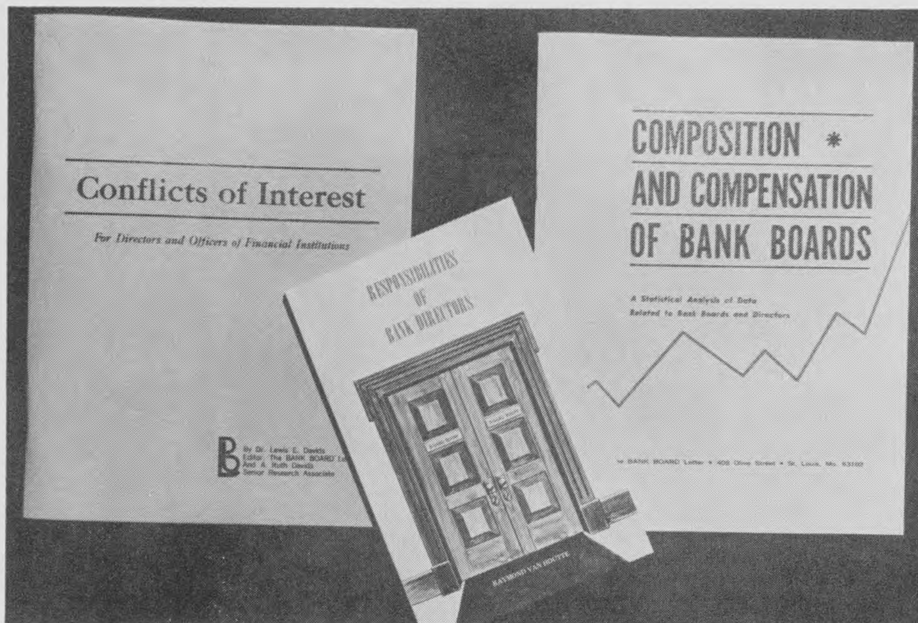

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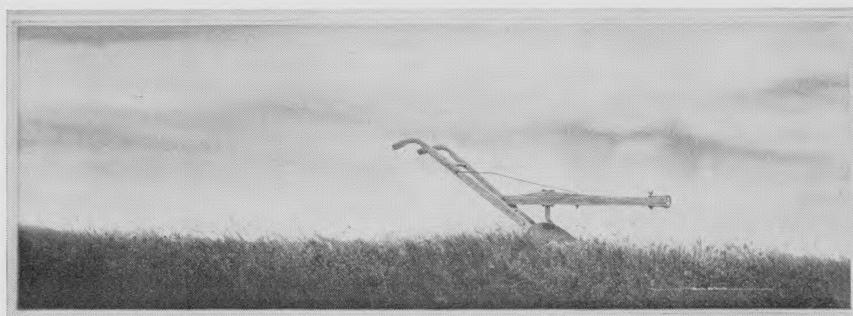

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Illinois Convention

President

LIVASY

Ray G. Livasy, IBA pres., is pres., Millikin Nat'l, Decatur, which he joined in 1965 as e.v.p. He advanced to pres. in 1966. Previously he had been with Illinois Bell Telephone, Peoria, and Bank of Illinois, Decatur. He also is ch., Millikin Mortgage Co., Decatur.

1st Vice Pres.

MONTGOMERY

Serving as IBA 1st v.p. is John R. Montgomery III, pres., Lakeside Bank, Chicago, which he joined in 1966. Prior to that, he had served Northern Trust, Chicago, from 1952-65. He has attended the IBA Trust Development School and has served on the IBA federal legislative com.

2nd Vice Pres.

BACKLUND

IBA 2nd v.p. is B. F. Backlund, pres., Bartonville Bank, which he joined in 1970. He entered banking with the Nebraska Banking Dept. in 1955, has served with Dunlap State and Glasford State. He is also associated with State Street Bank, Quincy, and Wyoming Bank.

Chicago, June 5-7

Headquarters—PALMER HOUSE

TENTATIVE PROGRAM

FIRST SESSION, 9:30 a.m., June 6

Presiding—RAY G. LIVASY, president, Illinois Bankers Association, and president, Millikin National, Decatur.

Presentation of Colors.

Invocation.

Welcome.

Address—DR. WALTER HELLER, regents' professor-economics, University of Minnesota, and former chairman, President's Council of Economic Advisers.

American Bankers Association Annual Meeting and Election—JOHN R. MONTGOMERY III, ABA vice president for Illinois, and president, Lakeside Bank, Chicago.

Report of Nominating Committee—DONALD R. LOVETT, chairman, president and CEO, Dixon National.

Door Prize Drawing.

Adjournment.

SECOND SESSION, 9:30 a.m., June 7

Presiding—RAY G. LIVASY.

Panel Discussion on EFT featuring JOHN FISHER, vice president, City National Bank, Columbus, O.

Address—To Be Announced.

Door Prize Drawing.

Adjournment.

THIRD SESSION, 2 p.m., June 7

Presiding—RAY G. LIVASY.

IBA Annual Meeting and Business Session.

Election of Officers.

Adoption of Proposed Resolutions.

Annual Reports—RAY G. LIVASY and ROBERT C. SCHRIMPLE, executive vice president, Illinois Bankers Association, Chicago.

Adjournment.

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Governor, Economist Head Speaker List At IBA Convention

CHICAGO—As this issue went to press, Governor James Thompson, Illinois' new governor, was slated to speak at the 86th annual convention of the Illinois Bankers Association, scheduled for June 5-7 at the Palmer House here. He will be the luncheon speaker, May 7.

Also on the list of speakers is Dr. Walter Heller, economist at the University of Minnesota and former chairman of the President's Council of Economic Advisers. John Fisher, vice president, City National, Columbus, O., and an acknowledged expert on electronic funds transfers, will appear on a panel devoted to EFT, and a speaker from the Shell Oil Co. is expected to be on the program, discussing the energy situation.

On the entertainment side, the IBA banquet will feature the Glenn Miller Orchestra and show.

Convention registration will begin at noon on June 5 and exhibits will open at the same hour. The IBA executive committee is scheduled to meet during the afternoon, to be followed by a meeting of the council of administration. The past presidents' and past treasurers' dinner will begin at 6 p.m.

The Graduate School of Banking breakfast is the first item on the agenda for Monday, June 6. It will begin at 8 a.m. The registration desk and exhibit area will open at 8:30 a.m.

The first general business session will start at 9:30 a.m. and will feature presentation of the colors, an invocation and welcome.

The 50-Year Club luncheon is scheduled for noon, while a women's luncheon will be held from 11 a.m. to 4 p.m.

The final day of the convention will see registration and exhibits open at 8:30 a.m., with the second general session opening an hour later. That session will feature a panel discussion and report on EFT and one or more speakers to be announced.

The convention luncheon will be held at noon, with Governor Thompson scheduled to address the delegates. The third general business session will then be held, which will include an election of officers.

At 6 p.m., a speakers' table reception will be held, while the general IBA reception is held in an adjoining area. The convention banquet will begin at 7 p.m., with the Glenn Miller Orchestra providing the entertainment.

IBA Treasurer Candidate

Edmond J. Arseneault, president, Soy Capital Bank, Decatur, is a candidate for IBA treasurer. He has been nominated by the IBA nominating committee. Mr. Arseneault joined Soy Capital Bank in 1959 as a vice president and was elected president in 1966.

IBA Candidate

WEIR

Gavin Weir is the nominee for IBA 2nd v.p. for 1977-78. He has been pres., CEO and a dir., Chicago City Bank, since 1970, and last January, assumed the additional post of ch. He formerly was pres., County Bank, Blue Island. His career also has included all phases of banking with the Heritage Banking Group. Mr. Weir is pres. and dir., Chicago City Bancorp., and pres. and dir., Chicago City Investment Co. He also is a member of the ABA's Governing Council.

Lemmerman Completes Year As Treasurer of IBA

Jack D. Lemmerman is completing his year-long term as IBA treasurer. He was elected to the post during the 1976 convention.

LEMMERMAN

Mr. Lemmerman has been with National Bank of Monmouth for 30 years and has been president since 1966. He is a past president of the Warren-Henderson County Bankers Federation and of IBA Group Six.

He has chaired the IBA committee on bank management and is on the association's council of administration and its executive committee. He is a director of the Bank Administration Institute's Western Illinois Chapter.

Photographic Techniques Subject of Field Trips

Residents in the area of Chicago City Bank were able to sharpen their photographic skills, thanks to free one-hour walking field trips sponsored by the institution.

Each of two field-trip sessions featured an experienced photographer from the Washington Park Camera Club. The photographer acted as a guide, and provided instructions and answered questions on proper camera technique. In addition, Chicago City Bank provided a free roll of film to each participant.

The tours were held in conjunction with a lobby display, entitled "The Camera and the City," which was held at the bank. The display consisted of color and black-and-white photos taken by Chicago-area photographers and represented a diversified view of the city and its people.

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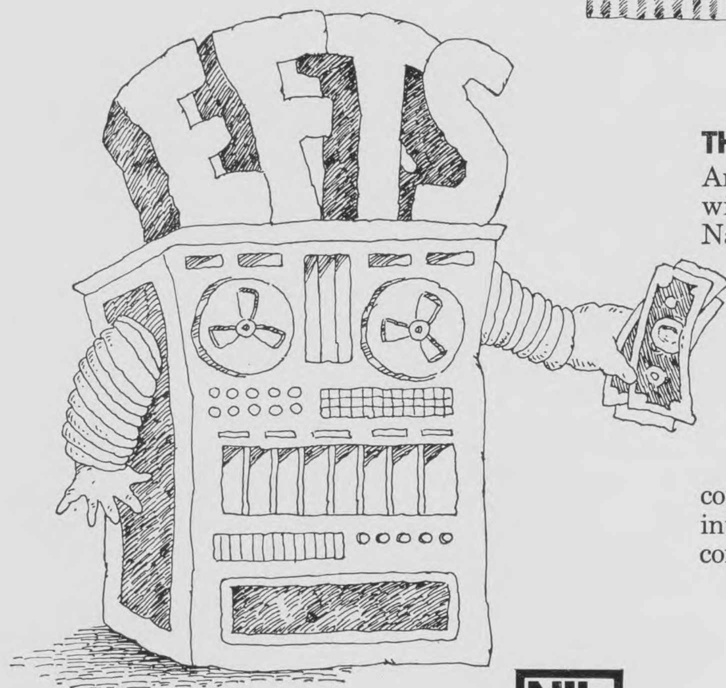

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Issues in the Pricing of Bank Services

Bankers must seek fair and equitable solutions to the perplexing pricing questions they face

By ROBERT E. KNIGHT
Research Officer and Economist
Federal Reserve Bank
Kansas City

IN RECENT years, appropriate pricing of services has become a major concern of most large banks. I plan to analyze some of the problems that can arise in the costing and pricing of bank services. In addition, I plan to discuss the dilemma the Fed is facing with regard to expanding access to its services.

Interest in pricing bank services is, of course, derived from a variety of factors. As interest rates have risen and sophisticated cash management techniques have matured, corporate treasurers have trimmed noninterest-bearing balances to the minimum believed necessary to compensate banks for services.

To a lesser extent, the same pattern has occurred in correspondent banking as smaller banks have sought to maximize earnings by selling large sums in the fed funds market and as multibank HCs have consolidated balances. In addition, rising levels of loan defaults, questions concerning adequacy of bank capital and profits and the likely development of expensive new services, such as electronic funds transfers, have all created a renewed interest by banks in profitability of individual services and accounts.

Standard approaches for measuring bank customer profitability also have been criticized. Bankers frequently maintain that customers are able to use the same balances to compensate for both loans and activity services. On the other hand, corporate treasurers have argued that bank profitability measures are not sufficiently accurate. Traditionally, banks have tended to cost and price only a small group of standard activity services. Other services have been offered without charge.

By setting prices on costed services sufficiently high to cover expenses of all services, banks have been able to obtain a rough indication of the costs of servicing individual customers. This approach, however, results in overstating costs of customers using few of the noncosted services and underestimating costs of those making extensive use of these services. As a result, corporate treasurers have objected. To avoid paying for services not actually utilized, they have requested banks to "unbundle" services and develop separate prices for each.

Although use of "customer profitability analysis" has been growing, at most banks with formal pricing arrangements, the primary measure of individual customer profitability is account analysis. In performing an analysis, a bank determines the revenue represented by an account by multiplying the average collected demand-deposit balance, generally adjusted for reserve requirements, by an earnings credit or allowance. Expenses of servicing the account are computed by multiplying the number of times a given service is utilized by the cost (frequently including an allowance for profit) of providing the service. The difference between income and expenses represents the estimated profit the bank derives on the customer relationship.

Although the general methods of performing an account analysis tend to be similar at different banks, annual account-analysis surveys conducted by the Kansas City Fed have found that prices of services often vary significantly. In part, these differences reflect alternative ways of calculating costs of services, variations in number of services costed, competitive factors and differences in methods of treating indirect costs, overhead and desired profit. Implications of some of these alternatives can best be explained by an example.

Assume that a bank's officers are considering the price that should be charged a corporation for servicing a direct-deposit payroll plan electronically. Under the arrangement, the company's 1,000 employees no longer will be issued checks. Instead, the firm will create a computer tape containing amounts due all employees, numbers of their respective banks and their account numbers at the banks. The tape then will be sent to the company's bank, which will sort through it and remove any entries for employees who have their accounts at the bank. These accounts will be credited automatically and remaining entries on the tape forwarded to an automated clearinghouse for processing and distribution to other banks.

The first individual to speak might be the bank's marketing officer: "It's taken me a long time to convince this company that their employees will like this plan, and I'm anxious to see it succeed. We should experience substantial cost savings because we no longer will have to process each employee's check as it is cashed or cleared. Our computer has plenty of excess capacity. Since the tape will arrive several days before payday, we can process it during a slack period. In view of our cost savings and the fact that this type of arrangement is likely to be of growing importance in the future, I don't think we should charge the company anything."

The senior vice president in charge of operations might then rise: "I agree that we may experience some cost savings, but these will be small. Displacing 1,000 checks per month will not presently allow us to let any employees go or retire any equipment. However, there will be direct costs associated with this program which the company should pay. Overtime may be required if our computer operators have to stay late to handle the tape. A charge, therefore, should be made for processing the tape. Also, our fee should include computer processing time, extra bookkeeping that will be necessary and our transportation costs for delivering the tape to the automated clearinghouse. In my opinion, a flat fee of $8 for each tape received and a charge of 1¢ per entry on the tapes would just about cover these costs."

"Gentlemen," interrupts the cost accountant, "you are forgetting about our indirect costs! To handle this operation,

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The views expressed are the author's and do not necessarily reflect those of the Federal Reserve Bank of Kansas City or the Federal Reserve System.

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we will need to develop new computer programs. We also should include allowances for overhead, profit and costs associated with rent on the building, insurance, taxes, security guards and possibly the expenses of marketing the program to the company and its employees. Our cost studies have shown that a substantial savings from direct-deposit programs will be realized only if a significant volume develops, but the number of transactions now is small. To cover the costs this program will entail during the first year, we will need to charge the company a fee of about 35¢ per entry on the tape. In the future, if other companies adopt direct-deposit plans, we may be able to adjust the price downward."

The marketing officer shook his head sadly. "Most of these indirect expenses will be incurred whether or not we perform this program. In my opinion, if we charge those kinds of prices, no company will ever want to adopt a direct-deposit plan."

Which officer is correct? What should the company be charged? Nothing? $18? $350? Might the situation be approached differently? Allocating costs in a multi-product firm such as a bank is always highly arbitrary. The difficulty is compounded further by the fact that banks generally must maintain staff and equipment to handle peak loads, but most of the time do not operate at capacity. The marketing officer who argued that no fee should be charged was trying to apply the marginal-cost principles he had learned in his sophomore economics course. However, he was forgetting that any program always entails some marginal costs. The operations head remembered, however, that—to avoid losses—average variable costs must be covered in the short run. In effect, he was stating that only costs directly attributable to the program should be considered. General costs of being in business and top-management salaries should be absorbed elsewhere in the bank. The cost accountant was looking at the long-run situation in which total revenue must exceed total costs. Clearly, alternative methods of analyzing a situation can give rise to large differences in estimated costs.

Difficulties in costing bank services are manifold. At any time, most bank costs appear to be fixed. Plant and equipment expenses are sunk; most employees are salaried, and overhead normally shows little variance with output. By comparison, the increase in total costs a bank incurs from providing a standard service to one additional customer is normally small—supplies, postage, computer time, perhaps occasional overtime, etc. In the short run, any revenue gain in excess of these marginal costs adds to total profits. If the bank were to charge these costs, however, the charges would not make any contribution toward meeting the heavy fixed costs and could lock the bank into an unrealistic price structure.

On the other hand, if the bank were to charge average total costs, the situation might be reversed. Most banks maintain substantial excess capacity. If the price were set equal to average total cost, the customer would be asked to pay not only for the cost of providing the service, but also for the cost of maintaining the excess capacity and any inefficiencies that may be present. Studies that show the average cost of performing services in an efficient manner—standard cost studies—can be used to eliminate charges for unused capacity and waste, but, even so, an arbitrary element remains. Alternative methods of allocating expenses of general bank overhead and support departments (such as the mail room, personnel department and employees' cafeteria) can result in widely different cost estimates. For some bank services, these may constitute as much as 40-60% of total costs. Varying assumptions concerning the likely impact of inflation on costs of performing services also can have a significant impact on prices.

Differences in number of discrete activities being costed can create variations in costs of specific services. In a complete study, all costs must be allocated. Consequently, banks pricing fewer services would tend to have a higher price for those services. In the past, most banks have recognized that allocating costs in a multi-product firm such as a bank is always somewhat arbitrary, and they generally have practiced a policy of pricing bundled services. Under this approach, costs of all services are spread among a relatively small number of activities. Customers are implicitly charged for non-costed services whenever they use one for which charges have been established. Customers using uncosted services with above-average frequency would tend to benefit from this approach, while those with below-average frequencies would lose.

The base on which charges are computed can influence the cost. Credit and loan handling expenses provide an example. Once the total or direct costs of the loan section have been obtained, a variety of methods can be used to allocate these costs to borrowers. One possibility would be to determine the average cost per note or per renewal. This approach, however, could place an unduly heavy charge against the small borrower whose loan application is relatively straightforward and simple to process. Alternatively, costs could be allocated in proportion to number of dollars borrowed. This method, though, could result in overstating costs associated with large loans, since processing time normally does not increase proportionately with the size of loans.

Another approach would be to express all costs as a function of available man-hours. If a loan officer were to maintain accurate records of the time spent on each note, the hourly charge then could be allocated to the customer. This approach, unfortunately, could result in higher charges for customers assigned to less-efficient loan officers. While the latter method probably is subject to the least distortion, each of the alternatives can be biased. As a result, some banks use combinations of the possibilities to charge for loan handling and processing expenses.

Alternative policies as to who should be charged for a service also can lead to price differentials. For instance, virtually all banks make a charge in the account analysis to depositors for items deposited. However, in some sections of the country, utilities, such as the telephone company, have begun to encode and fine-sort items to banks. Only "on us" items are presented to each bank. Under these circumstances, the utilities have approached the banks with the argument that the processing charge for these items should be allocated to check writers, rather than to depositors. In effect, they argue that a bank is simply carrying out the wishes of its customers when it pays the checks.

Some banks, moreover, have agreed with this approach and waive any

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Governor Cliff Finch of Mississippi (l.) received the first VISA card issued in the state. Making the presentation is J. H. Hines, ch., Deposit Guaranty Nat'l, Jackson. The bank has offered BankAmericard since 1968, and the VISA card is BankAmericard's successor. The governor is the first of more than 110,000 Mississippians who will receive VISA cards as their BankAmericards expire.

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compensating-balance requirements for such items deposited. While this may be an exceptional example, the argument can be readily extended to other bank services. In a program involving the direct deposit of wages, for example, should the charge be levied on the recipient of the funds or the institution making payment? Might both be charged?

On balance, therefore, estimated costs and prices of a service will tend to vary with types of costs computed, methods of handling indirect costs, overhead and desired profit, number of activities costed, the base on which charges are computed and distribution of charges among payors.

For the last six years, the Kansas City Fed has conducted a survey of major banks throughout the country to obtain representative charges and collected compensating-balance requirements for standard activity services. Not unexpectedly, one of the most outstanding features of these surveys has been the wide differences that exist among banks in charges for standard services. In 1976, for example, among survey banks the maximum collected balance requirement exceeded the minimum by a margin of five times for non-encoded items deposited, 10 times for encoded items deposited, 109 times for handling payable through drafts and 149 times for returned items.

It would be a mistake to anticipate that all banks ever would have identical charges since the costs and actual services rendered often differ significantly among banks. Nevertheless, differences of such magnitudes tend to suggest that the methods of establishing charges often are somewhat arbitrary. Moreover, as long as such differences exist, customers are likely to be somewhat skeptical about the figures.

Aside from the obvious problem of arbitrariness, a number of refinements in pricing activity services should be considered. These can take the form of attempting to differentiate to a greater extent for the costs of servicing different types of customers, to expand the number of services in analysis statements and to give greater consideration to types of costs used in the analysis.

Costs of all transactions for a given service are not identical, but few banks have attempted to base prices on circumstances. While most banks, for example, differentiate between clearing encoded and non-encoded checks, the method by which a check is cleared also can be important. Items that arrive pre-sorted are cheaper to process. Virtually no additional cost is incurred if checks are sent to local Fed banks for collection. However, if checks are cleared through correspondents, both the transportation charges to the correspondents and the required compensating balances should be added to the clearing costs.

Most banks use the same set of charges to analyze accounts of corporate customers and respondent banks, but a moment's reflection will indicate that the cost of providing services to each is not necessarily identical. Few correspondent customers, for example, make regular use of the teller lobby. Similarly, branch banks have occasionally found that costs of transactions are different at alternative locations. The degree to which banks should differentiate prices of services must be tempered with practicality, but failure to recognize such differences destroys some of the usefulness of the figures.

From an economist's viewpoint, one of the more perplexing problems in cost accounting is the type of costs that should be used in analyzing for profitability. Virtually all banks have developed prices based on average total historical or standard costs of services. Should correspondent customers, however, be expected to pay for such items as floor space occupied by the correspondent department in a high-rent district of an inner city, a community room, cost of maintaining an expensive officer's dining room, the president's salary, advertising and matchbook expenses, guards to police the lobby, etc.? If the bank were to go out of the correspondent business altogether, most of these costs would continue. On the other hand, in pricing a direct-payroll-deposit service, should the price be based on the relatively low marginal cost or the relatively high average cost per transaction? Should the prices established include an allowance for profit? When "on us" checks are deposited, should the price be paid by the depositor or by the check writer?

No simple answers to these questions exist, but alternative approaches can lead to widely different judgments concerning profitability. In any event, banks deciding to offer a new service or discontinue an existing one should base the decision on their ability to cover variable costs rather than an arbitrary estimate of total costs. In the long run, all charges must be sufficient to cover total costs of operations, but in the short run, profits will rise as long as revenue exceeds average variable or direct costs.

A frequent complaint one hears is that competing banks often don't know their costs and tend to establish unrealistically low charges. To cast some light on the validity of these accusations, the 1976 survey obtained the es-

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timated costs of performing certain services from a group of banks that recently had re-costed services. Using a cost-price comparison, the survey found that 52% of the banks had losses on ledger entry credits, 16% on ledger entry debits, 44% on encoded items deposited, 51% on non-encoded items deposited, etc.

While these percentages must be viewed circumspectly since the sample of banks providing cost figures was small, they do suggest that a significant proportion of major banks are providing at least some services at prices below estimated costs. Banks experiencing losses on services often had lower prices than those that found the services profitable; but more interestingly, loss banks almost always had higher estimates of costs than other banks. Whether these cost differences are attributable to alternative methods of computing costs or reflect actual differences in efficiencies or variations in the nature of services performed cannot be readily ascertained.

costs of the service. On the demand side, consideration must be given to what a price will buy. If the price of a service also entitles the user to a bundle of other services, then comparisons among banks based only on prices may be misleading. It actually may be cheaper to acquire services from a bank that has higher prices if that bank has priced fewer services.

In conclusion, I would like to comment briefly on problems the Fed has been having with the pricing of services. As bankers may be aware, for some time thrift institutions actively have sought to offer customers a full range of third-party-payment services. In addition, they have asked for direct access to some Fed services. Particular emphasis has been placed on the Fed's ACH services, although check-collection operations also have received attention. The thrift institutions appear to fear that without direct access they will be unable to be fully competitive with banks in offering payments services.

". . . Whether banks are on the demand or supply side, prices and costs are not always what they may seem. Methods of computing and allocating costs can differ widely among institutions, even for relatively comparable services."

In any event, for a variety of reasons the figures do not necessarily imply that banks appearing to experience losses on some services would find the provision of those services to be unprofitable. Some may have deliberately established loss leaders. Others could recover potential losses by granting low earnings allowances, by establishing deductions for reserves that exceed average requirements, by making funds available for items deposited sometime after they have actually been collected or by establishing high prices for other services.

In any event, one point needs to be stressed. Whether banks are on the demand or supply side, prices and costs are not always what they may seem. Methods of computing and allocating costs can differ widely among institutions, even for relatively comparable services. While greater uniformity in banks' pricing practices would facilitate comparisons, survey results from the last few years have not suggested that this is occurring. If institutions supplying services are to make intelligent decisions about the profitability of the services and customer relationships, it's necessary not only for them to know the price and estimated total cost of a service, but also the direct

Moreover, they have argued that requiring transactions for their customers to "pass through" commercial banks will raise their costs needlessly and could cause delays in receipt of payments information.

On several occasions during the last year and a half, the Justice Department has issued statements strongly supporting the thrift industry's petitions. In effect, Justice has stated that the Fed must offer thrifts nondiscriminatory access to its ACHs. Justice has further argued that the Fed should price its payment services, thus preserving an opportunity for the private sector to compete with and improve on any services offered by the Fed.

In January, 1976, the Fed's Board of Governors issued an interim-access proposal that generally broadened the eligibility of thrift institutions to make use of the Fed's automated clearinghouses. At the same time, the board announced that prices should be instituted for check-collection and ACH services, with the pricing schedule making allowance for the burden of member bank reserves. Since that time, a number of committees throughout the Federal Reserve System have actively been considering optimal access and pricing policies. Despite these efforts, to date agreement has not been reached because of the difficulty and costs involved in reconciling a number of seemingly inconsistent objectives. In large measure, the disagreements center around issues of Fed membership, the impact of pricing and open access on the correspondent banking system, methods of deriving prices and the political consequences that could arise both for banks and the Fed from any policy change. Numerous questions are unanswered.

For a moment, put yourself in the position of the Fed and consider how the Fed could grant open access to payments services without seriously reducing the incentive for membership. It takes only a few simple calculations to show that many member banks would, under any reasonable pricing schedule, find the outright purchase of services considerably cheaper than the opportunity cost incurred in losing interest on reserves at Fed banks. If pricing is to be implemented, what should be done to improve the attractiveness of membership? Lower reserve requirements substantially? Allow member banks to hold a certain portion of required reserves in interest-bearing securities?

If either of these options were to be adopted, what would prevent states from reciprocating for nonmembers, thus leaving the relative position of both groups unchanged?

Could the level of services be expanded sufficiently to make membership attractive? One possibility might be implementation of a basic borrowing right at the discount window. On the other hand, if the Fed were to pay interest on reserves, what would be the reaction of Congress when Fed payments to the Treasury were reduced? Would such actions accelerate the payment of interest on demand deposits?

Similarly, if expanded access were granted nonmember institutions to the Fed's check-clearing and ACH operations, what should be done so that the impact would not be seriously disruptive to correspondent banks and to the Fed's operations? With the prices of standard services varying so markedly among correspondents, how can the Fed be sure of the effect its actions will have?

If prices are to be established, how should they be derived? Should prices of ACH transactions be based on current costs, which are relatively high, or should they be based on estimated long-run average costs, which are relatively low? Should the system attempt to subsidize ACH costs in an effort to encourage the movement toward a more efficient payments mechanism? If so, what should be done to ensure that

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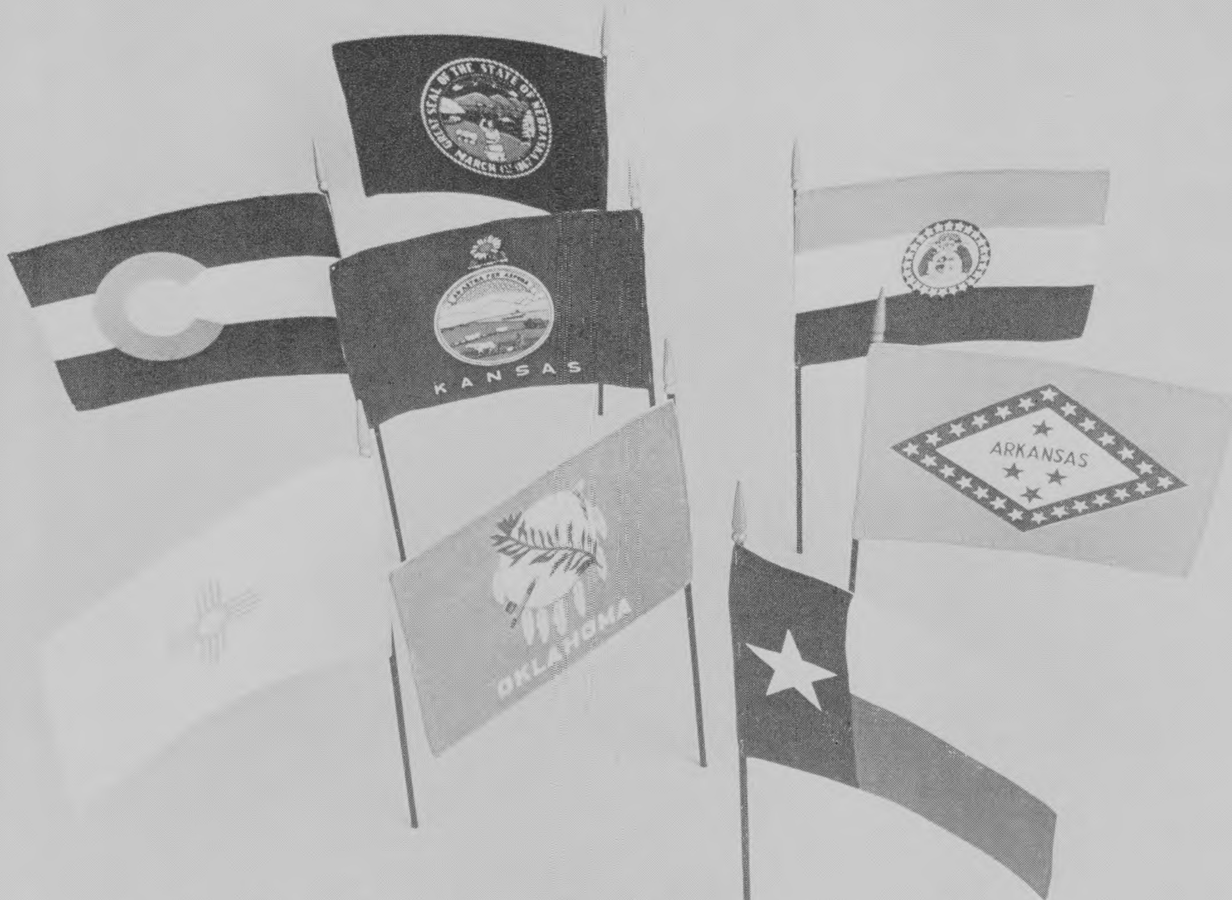

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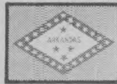

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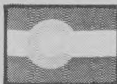

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private automated clearinghouses are able to survive and compete? Should the prices include an allowance for profits and indirect costs? If such allowances were not included, it could be difficult for correspondent banks to offer effective competition.

On the other hand, there are strong feelings in the system that it would be inappropriate for the Fed to seek to make a profit on its services. Moreover, because volume has been slow to rise, at least one automated clearinghouse is contemplating making payments to originators of transactions. Should the Fed's prices be uniform nationally or should they vary by Fed district?

These questions only begin to scratch the surface, but they demonstrate that there are no simple answers. The questions, however, demand solutions. I hope that bankers will play an active and leading role in seeking a solution that's fair and equitable for all concerned. • •

Regulating Pressures

(Continued from page 28)

with changing the corporation income tax in other ways to improve the attractiveness of equity finance, it would make equity expansion more feasible for banks.

Other proposals that have been suggested for years—and that might deserve a new look—are deposit-insurance premiums that are higher for banks with low capital ratios and supplementary reserve requirements on purchased-money liabilities—or all liabilities—that exceed some multiple of the bank's capital base. Indeed, graduated reserves beyond a specific level of purchased-money ratios to gross loans or short maturity assets might be a way of achieving some control over flagrant abuses. While I'm not convinced that any of these steps would, on balance, be the best action, they probably would work in the right direction.

Inhibiting Regulators' Corrective Moves. Another aspect of the purchased-money expansion that troubles me is its potential for inhibiting necessary moves by regulators in the case of individual problem situations. In such cases, regulators considering a cease-and-desist order, a denial of a holding company acquisition on financial or managerial grounds or some other regulatory move that will become public must always weigh the benefit of the move against the possibility that public knowledge of the move will compromise public confidence and may generate a run on the bank's liabilities. The more volatile a bank's liabilities and the greater the proportion that are not covered by deposit insurance, the greater the danger of a run causing rapid deterioration of a bank's liability base. Obviously, purchased-money obligations are substantially more vulnerable to this problem than regular deposits. It troubles me that the heavy reliance on purchased money in a number of banks not only may create severe financial stresses for some of them, but also may make it difficult for regulators to step in when necessary.

So once more I am in the dilemma of weighing benefits and costs, for this is certainly a cost of some magnitude. Should more restrictions be put on use of purchased money for this reason?

There are other ways of attacking this dilemma, each with its own problems. For example, extend deposit insurance to all large CDs or to all deposits. Then, even a troubled bank should be able to turn over its CDs when they mature.

But this surely would require some restructuring of the schedule of insurance premiums, which currently are based on total deposits rather than insured deposits. Extending insurance to all deposits, including large CDs, without a change in the premium structure would convey a benefit to large banks at the expense of their smaller competitors, since large banks are proportionately more active issuers of large CDs. To preserve the present balance among banks, it would be necessary to charge a higher or supplemental insurance premium on large deposits.

Full deposit insurance also would have the disadvantage of removing an important source of market discipline on banks since large depositors no longer would have to scrutinize their banks' soundness when deciding where to place their funds.

More broadly speaking, the problem posed by the threat of rapid withdrawal of purchased-money obligations arises only because a bank's assets are not equally liquid. Thus, the seriousness of this problem can vary widely from bank to bank depending on the turnover rate of each bank's loans and quantity of marketable investments it holds. If each bank employing large quantities of purchased-money obligations used these funds to acquire very liquid investments, then the purchased money would not pose any liquidity threat.

This is unrealistic, of course. But it brings out the point that part of the difficulty with purchased money is not its high cost but its short maturity and the fact that its use tends to aggravate the maturity imbalance between a bank's assets and its liabilities. To a considerable degree, banks are engaged in borrowing short and lending long, especially in terms of the turnover and liquidity of their funds, just as are nonbank thrift institutions. Maturities on both sides of the balance sheet are shorter for banks, but the imbalance is similar, and purchased money can make the imbalance worse.

Where am I leading with this? I am looking for some way to portray in broad terms the web of difficulties that the purchased-money explosion creates for regulators, and the question in my mind is whether there may be some possibility of dealing with these difficulties as an issue of portfolio balance, considering assets and liabilities together.

If one takes this approach, a couple of crude possibilities suggest themselves. One possibility would be deposit insurance premiums that vary with the degree of maturity imbalance between a bank's assets and liabilities. Another would be to limit purchased-money obligations to some multiple of a bank's cash and marketable securities, call loans and other liquid assets. Also of some relevance in this context are moves to encourage the lengthening of other liabilities. The 1973 increase in rate ceilings on small consumer CDs with maturities in excess of 2½ years has had just this effect. Such small-denomination consumer CDs increased from 3% of total commercial bank deposits in mid-1973 to 9% in mid-1976. Also, access to the Federal Reserve discount window may moderate the impact of a withdrawal of such money.

Where does all this leave us? With a series of tough questions to ponder about what have been the benefits and costs of recent banking regulatory and competitive changes; with a sense that the regulatory structure is constantly evolving and constantly in need of reevaluation. Each new change in regulations creates another round of difficult issues.

This analysis obviously argues for great caution in making important regulatory changes or in imposing further competitive pressures. While some advantages and disadvantages of each move are readily apparent, others, particularly at the individual bank or depositor level, are not clearly discernible. Over the next months and perhaps years, we will be trying to determine the balance of costs and benefits of a number of potential new changes. Among those proposed are payment of interest on demand deposits or nationwide NOW accounts, extension of reserve requirements on all transaction balances and payment of interest on reserve balances, renewal or abolition of ceilings on interest rates on time and savings accounts, removal of the differential on rates authorized for thrifts against banks and extending

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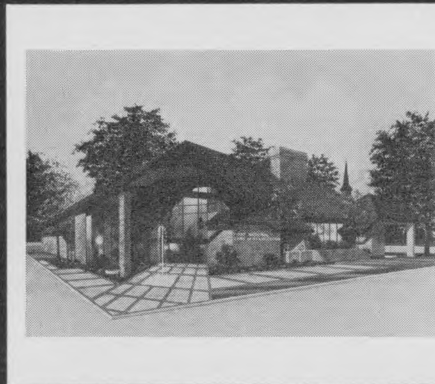

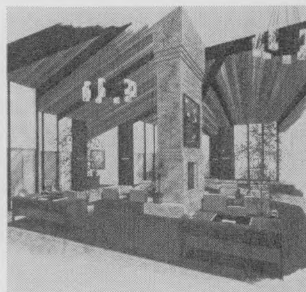

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checking-account powers and new lending authority to thrifts and credit unions.

Extraordinary care will be required to measure the impact of a package of changes and the timing of such moves. Also important will be the need for measurement of public and institutional reactions. Our complex financial structure, with its interrelationships, checks and balances of power and special management expertise, could be upset by hasty or sweeping reforms. Just one example might demonstrate the complexities. Were there nationwide NOW accounts on which financial organizations held required reserves that earned interest, there could develop new instabilities in competitive positions or cost and price uncertainties in relationships between thrifts and banks, between correspondent banks and the Federal Reserve and between customers of one institution against those of another. On the other hand, there are potential benefits to this formulation of change including the competitive thrust in financial organizations, increased equity of interest payments among differing groups of depositors and to the equity between member and nonmember banks. The balance between potential costs and benefits will require careful analysis and appraisal.

Finally, this review highlights the fact that there are both conflict and complementarity in the relationship between regulation and forces of market discipline. In spite of its importance in achieving improved efficiency, releasing the full forces of market discipline on a regulated industry can cause serious difficulties and can be overdone. There always is a need to measure and balance the benefits of increased competition against the enlarged costs and exposure to the banking system and individual banks.

On the other hand, if a fundamental decision is made to bring greater competition into a regulated industry, it is often possible to shape new regulations so as to channel and direct the competitive forces in ways that will best serve the public without entailing costs greater than the expected benefits. • •

Proposed Legislation Would Result In Weakened Local Economies—ABA

A LEGISLATIVE proposal that has the intent of strengthening local economies would have the opposite effect, an ABA spokesman has told the Senate Banking Committee.

In his testimony to the committee, ABA President-Elect A. A. Milligan, president, Bank of A. Levy, Oxnard, Calif., said that the Community Reinvestment Act is a "major step toward political allocation of credit. It is a step toward specifying the kind and amount of loans to be made by financial institutions. It would substitute the judgment of a federal agency as to what constitutes a legitimate credit need in place of the judgment of borrowers and financial institutions."

The act would require an applicant for a financial institution charter, insurance, branch (including an electronic terminal), HC acquisition, merger or home or branch office relocation to supply federal regulators with information concerning the institution's past record and future intent regarding meeting its community's credit needs. The bill also would require regulators to use that information in considering such applications and to permit community, consumer and other groups to testify at public hearings as to the financial institution's record on meeting local credit needs.

In speaking for the ABA before the Senate committee, Mr. Milligan said that bankers could not support the proposal because it implies that a bank should lend to borrowers in its deposit-gathering area in some direct proportion to the amount of funds it gathers in that area.

"Any attempt to require banks to meet that criterion would seriously undermine the banking system's ability to meet this nation's financial needs," the ABA president-elect said. "It would guarantee that communities now suffering from economic deterioration would be unable to generate sufficient funds to finance their own economic redevelopment."

As an example of the bill's potential effect, Mr. Milligan pointed to the credit needs of farmers in California's San Joaquin Valley. "At times (these farmers') credit needs may be several times the total value of banks located in Valley communities. The only way those banks can meet those credit needs is to draw on deposits at bank offices located outside the Valley. Yet, under this bill, bank offices outside the Valley would not be considered to be meeting the credit needs of their own communities."

Mr. Milligan also described to the Senate committee similar situations in the Wisconsin area, concluding, "The Community Reinvestment Act would not reverse the economic and resultant physical deterioration of the communities it is intended to help. In instances where the credit needs of a deposit service area exceeded its total deposits, as is the case in many urban communities, the bill would make it more difficult to finance urban redevelopment."

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Commercial of Little Rock's National Advisory Board Tells Arkansas How to Profit From Shift to Sun Belt

HOW ARKANSAS can take advantage of the current emphasis on the so-called Sun Belt section of the U. S. is pinpointed in the sixth annual report of Commercial National of Little Rock's national advisory board. The report discusses the state's outstanding advantages and its position in the Sun Belt of the southern rim of states that is gaining dramatically in population, industry and economic growth.

The latest report is the result of studies made by the 17-member board at its annual meeting last October 29 at Commercial National. The final draft of the report, "The Power Shift, Arkansas' Opportunity," was completed at that time and, after minor revisions, now is in printed form.

The report outlines and suggests ways to attract Arkansas' share of the southward movement and offers the expertise of the board's membership to the task of taking the state's advantage into the marketplace, where it can become better known.

The report takes its title from a book by Kirkpatrick Sale called "Power Shift." Published in 1975, the book describes the South's emerging economic power as a great flow of wealth moves from the Northeast and Midwest to the fast-growing southern and western regions of the country. The report traces the shift of corporate headquarters of major corporations from northern cities to large metropolitan areas of the South and West which, in essence, becomes Arkansas' opportunity.

The report opens with a quotation from a speech by former Commerce Secretary Elliot Richardson to the Southern Growth Policies Board in 1976: "Today, we see one-third of a nation transmuted from the country's No. 1 economic problem into the nation's No. 1 economic leader."

The report also outlines transportation available to corporate headquarters relocating in Arkansas as well as the tremendous advantages of the Ozarks, the Ouchitas and the state's abundance of lakes and streams that impress newcomers as attractions for business firms, the added population they bring with them and the economic growth that can follow.

The bank's national advisory board is comprised of 17 native Arkansans who have become nationally and internationally known in business, industry, education and religion through their executive responsibilities and their leadership.

The report has been made into a brochure, which has been published by Commercial National and is being distributed to members of the legislature, state and federal officials and government agencies. The Arkansas Industrial Development Commission will include the report in its industry-procurement program. Copies also are being distributed to libraries, institutions of higher education and other agencies to place among their permanent records. The brochure is available to all interested persons. Letters requesting free copies should be sent to William Bowen, bank president.

It was Mr. Bowen who organized the national advisory board in 1971, and it's believed to be the only one of its kind in the country. Members are: James S. McDonnell, chairman, McDonnell-Douglas Corp., St. Louis; Sidney A. McKnight, president, Montgomery Ward & Co., Chicago; Kemmons Wilson, chairman, Holiday Inns, Inc., Memphis; W. Carroll Bumpers, president, Greyhound Leasing & Financial Corp., Phoenix; James E. Davis, chairman, Winn-Dixie Stores, Inc., Jacksonville, Fla.; H. L. Hembree, chairman, Arkansas Best Corp., Fort Smith; C. M. Kittrell, executive vice president, Phillips Petroleum Co., Bartlesville, Okla.; William Seawell, chairman, Pan American World Airways, Inc., New York City; George Stinson, chairman and president, National Steel Corp., Pittsburgh; Robert E. L. Wilson III, Lee Wilson & Co., Wilson, Ark.; Fred M. Pickens, attorney and chairman emeritus, board of trustees, University of Arkansas, Newport; John G. Phillips, chairman and CEO, Louisiana Land & Exploration Co., New Orleans; Frank Pace Jr., president, International Executive Service Corps., New York City; Henry H. Henley Jr., president, Cluett, Peabody & Co., Inc., New York City; Neil E. Harlan, senior vice president, Foremost-McKesson, Inc., San Francisco; Charles H. Murphy Jr., chairman, Murphy Oil Corp., El Dorado, Ark.; and the Right Reverend John Maury Allin, presiding bishop, Episcopal Church, New York City. • •

Travelers Cheques Issued By Automated Tellers In Less Than One Minute

NEW YORK CITY—IBM's self-service banking machines have added a new service: issuance of American Express Travelers cheques.

According to an American Express spokesman, the procedure will be completed in less than one minute, 24 hours a day, seven days a week.

To purchase travelers cheques through the ATM, a customer inserts a bank identification card into the machine and enters the same account information needed to initiate any other ATM transaction. The customer then presses a button labeled "American Express—Travelers Cheque" and keys in the value of travelers cheques desired. Cheques then are dispensed by the machine.

ATMs by IBM now are able to dispense American Express Travelers cheques. Procedure for obtaining cheques is similar to normal ATM transaction.

As in other ATM transactions, the machine directs the bank's computer to deduct the purchase and fee from the customer's checking, savings or loan account.

Travelers cheques sold through ATMs will be accompanied by a small pamphlet reminding the purchaser to sign the cheques immediately. The pamphlet also gives information on replacing lost or stolen cheques and provides space for recording serial numbers and where and when the travelers cheques were spent.

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Supervisory Changes

(Continued from page 24)

All banking agencies are giving far greater attention to off-site analysis and monitoring to complement and support the on-site examination evaluation. These systems, often referred to as "early-warning systems," employ the tools of the financial analyst, utilizing trend analysis and peer-group comparisons. With the growth, both in terms of size and speed, of financial transactions, it seems inevitable that this computer-based off-site monitoring and evaluation of individual bank performance will take on an increasingly greater role in bank supervisory agencies.

Revised reports of examination, designed to concisely and precisely communicate the agency's evaluation of a bank's performance, condition and future outlook, are an important element of the change that is ongoing. Not only will this new report presentation give management a clearer and more forthright understanding of the examination team's conclusions, it also will be a report of far greater value to the outside directors, who, typically, are not professional bankers. Recent experience has demonstrated the importance of assuring that directors are adequately informed.

It's the hope of the supervisory agencies that the more modern and professional approach to examination and evaluation—an approach more in harmony with the good manager's "bottom-line" view—will produce the basis for more constructive discussions with bank managements. There will, of course, be those cases where professional discourse does not produce the desired results. In these cases, there is every reason to expect that the federal banking agencies will have no hesitancy in resorting to the authorized formal procedures of enforcement, including cease-and-desist orders. In recent years, there's been increased utilization of formal enforcement procedures, where management was found insensitive to the need for corrective action or incompetent to chart and administer a program for improvement.

As all in the business of banking know, the nature of the business continues to undergo change. Partly, this is attributable to new financing needs in our economy; partly, it's due to the application of new technology to the delivery of traditional banking services. Most of this change occurs gradually, granting sufficient time for adjustment.

Similarly, we can expect important changes to take place in regulation and supervision. Change in regulation will produce a more competitive climate for banking and other financial-service institutions. Changes in supervisory practice will produce a better analytical product. Supervisory agencies will be more attentive to assuring effective management performance. But as with the industry's changes, changes in regulation and supervision also will occur with a certain gradualness, and those inclined to adapt will have the time to adapt. • •

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■ RICHARD I. WITHEROW has joined Commerce Bank, Kansas City, as an assistant vice president in the national division. He was formerly with Union Commerce, Cleveland. John W. Tucker, president and CEO, R. B. Jones Corp., has been elected to the bank's board. John F. Guettler Jr. has been appointed an assistant vice president at Commerce Bancshares. He joined the HC in 1973 and is assistant director of personnel.

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Since introduction of the Keogh Act (H.R.10), many small firms and self-employed individuals have established pension trusts, so the number of banks adding trust functions has increased substantially. Directors of banks with new trust departments or newly elected directors of banks with established trust functions often aren't fully conversant with direction of trust activities. They will find this book, by Dr. Lewis E. Davids, Editor, The BANK BOARD Letter, to be a valuable aid. It delineates trust department examinations, policies. Includes Comptroller's Regulation 9, covering fiduciary powers of national banks, collective investment funds and disclosure of trust department assets.

Behind Board Room Doors.
$6.00

Dr. Lewis E. Davids, Editor, The BANK BOARD Letter, provides insights to fine points of bank board membership. Sample chapter topics: CEO selection, reimbursement; management audits; finding customers; board minutes; director fees, retainers. Typical paragraph: "The chairman . . . receiving an examination report, verbally briefs the board on its contents, not permitting each to . . . review it in its entirety. A top bank supervisor told me of an instance (where) a bank director demanded to see the report. He saw it, but only after the CEO had removed pages containing the examiner's comments and conclusions and violations of law and regulations. Fortunately, the director had the foresight to note the missing page numbers."

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NEWS From the Mid-Continent Area

Alabama

Employee of the Year

Mary Lee Tucker (l.), loan teller, Farmers & Merchants Bank, Centre, receives the plaque naming her the bank's "Employee of the Year" from the institution's pres., Mary George Jordan Waite.

■ FIRST ALABAMA BANK, Montgomery, has promoted Thomas J. Leach to senior vice president and Talmadge B. Cox to vice president and elected Marie P. Malinowski to assistant women's division officer. Mr. Leach, who heads the BankAmericard division, has been with the bank for 16 years. Mr. Cox joined First Alabama in 1968. Miss Malinowski has been with the bank 10 years.

■ JOE R. SIMS has been named vice president and auditor, First National, Russellville. He has 19 years' banking experience.

Illinois

■ DONALD L. HUNT has been advanced from vice president to president and CEO, First National, Marissa, succeeding Lyle W. Church. Mr. Church retired after spending more than 50 years at the bank. In other action, Daryl Heil, who was vice president and cashier, was named chairman; and Hazel Lathum advanced from assistant cashier to cashier and secretary to the board.

■ HARRIS BANK, Chicago, has elected Timothy K. Healy, Robert J. Barton and Emmon S. Rogers vice presidents. Genevieve M. Galla and Helmer J. Nelson were named assistant vice presidents, Joan L. McIlroy and William A. McNickle were named trust officers and Kenneth J. Palm and Suzanne J. Pecora were named systems officers—all in the trust department. In the banking department, Dennis A. Cullen, Thomas A. Meador, Paul J. Much, Frank G. Slocumb, Timothy S. Vincent and Philip A. Washburn were named assistant vice presidents. In the operations department, James A. Grabsky, Gerald L. Nieukirk and William O. Schinagl were elected assistant vice presidents. Desmond A. MacRae was appointed assistant vice president in the New York office and Robert C. Beach was elected assistant vice president in the building services department.

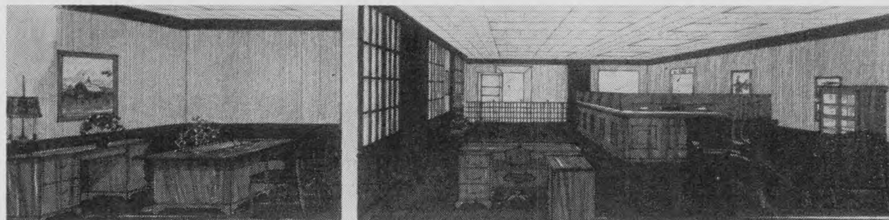
■ RICHARD D. YANNEY has been named vice president, Bank of Yorktown, Lombard, and will have responsibility for the bank's commercial, industrial and real estate lending. He goes there from Sears Bank, Chicago, where he served as assistant vice president, commercial banking division.

■ CONTINENTAL BANK, Chicago, has promoted Tom A. Rothschild to second vice president and named Thomas M. Klein residential loan counsel in the personal banking department. In the trust and investment services department, new second vice presidents are Albert E. Day, N. Bruce Callow, Richard A. Powers, Albert V. Bear, John D. Brendel and Dennis M. Toolan. New trust department officers are John H. Hileman, operations officer; Craig A. Madsen, financial counseling officer; Larry R. Denham and Thomas F. McGrath, investment officers; and Terry L. McRoberts, Robert C. Peiler and Evelyn B. Snyder, trust officers. Named second vice presidents in the operations and management services department were Katherine D. Miller, Paul J. Belsky, Kenneth A. Koppit and Joseph M. Monticello. Named second vice presidents in the bond and money market services department were Theodore E. Bulow, John C. Gaylord and Rene D. Hawkins. Dale J. Cherry and Richard A. Daukus were named bond officers. In the commercial banking services department, George E. McDaniel Jr., John R. Grandstaff, Paul R. Jaudes, John E. Phillips, Albert L. Weiss and Bettina M. Whyte were named second vice presidents and Thomas H. Ambrose was named commercial banking officer. New second vice president in the financial services department is Robert W. Pelka, and Paula J. Doldt and James L. Underwood were named financial services officers. In the international services department, Gail J. Loveman, Michael L. Morris and Joseph A. Yuska Jr. were named second vice presidents.

TREVIRANUS

■ C. LEONARD TREVIRANUS has been elected a security officer at National Boulevard Bank, Chicago. He is expected to assume the post of director of security upon the retirement June 30th of the present director, John Kelly. Mr. Treviranus is a former FBI special agent.

Leland National Adopts Traditional Design



Leland Nat'l has switched from a contemporary to a traditional architectural style in its building and will show its remodeled interior and exterior at a grand-opening celebration next month. Three new offices and a boardroom were incorporated in the design. The ceiling and interior lighting were replaced, and new carpeting, draperies and furniture (such as wing chairs) were installed. Extensive use was made of walnut moldings and brass hardware. Bank Consultants of America, Rolling Meadows, Ill., designed and coordinated the project.

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■ SMITH TRUST, Morrison, is preparing for its second century of service by moving into a new building, located across the street from the brick building in which it began as Smith & McKay Banking House in 1878. The new structure (pictured here) features dark, earth-tone brick with anodized bronze and redwood trim and a copper roof that will turn a soft green in a few years. The brick extends to the interior, blending with a quarry-tile lobby floor and rich earth tones of carpet and decor. Oak used in the woodwork and

open beams of the vaulted ceiling is complemented by natural light from an 88-foot-long skylight. Plants and trees are interspersed in groups in the lobby. Four historic Morrison landmarks are pictured on "Heritage Wallpaper" on the 40-foot-long tellers wall. A feature of the building is a commodity room with daily, up-to-date market and other pertinent information for agricultural customers. A ribbon-cutting ceremony was held April 19, followed by a public grand opening April 20-30, with gifts, tours, special prizes, displays and refreshments.

Kansas

■ OVERLAND PARK STATE plans to remodel its premises and incorporate much of an adjoining building, resulting in some 6,000 additional square feet of space. Both interior and exterior of the premises will be upgraded. The nearly eight-month project will affect the lobby, loan departments, customer service, bookkeeping and check processing areas. The work is being done by the Bunce Corp., St. Louis.

■ ROGER N. JONES has joined Union National, Wichita, as assistant manager in the adjustments department. He was formerly with Woolco Department Stores. Richard A. Curry has joined the bank's board. He is senior vice president-finance, Coleman Co. B. A. (Bill) Staats, vice president, has been recognized by the ABA as a certified commercial lender.

■ JIM SCHOEN has joined Twin Lakes State, Wichita, as vice president. He was formerly with First National, Wichita, and served 10 years as branch manager, Auco Financial Services.

■ ROBERT M. HYRE and Gregory K. Wilson have been named assistant cashiers at Kansas State, Wichita. They are in the installment loan and commercial loan divisions, respectively.

■ STEPHEN R. PAGE has been named trust administrator at Merchants National, Topeka. He is a recent graduate of Washburn Law School and is a former Army officer.

Kentucky

■ ANNA S. WHITE, assistant vice president, Citizens National, Bowling Green, retired recently, completing 21 years with the bank. She joined the bank in 1956.

■ DAVID E. BAKER has been promoted to assistant cashier at First Security National, Lexington. He joined the bank in 1974.

■ RICHARD REAMES has been named manager of Citizens Fidelity's University Banking Center, Louisville. He joined the bank in 1973 and was formerly assistant manager, Medical Center Office.

Louisiana

■ FIRST GUARANTY BANK, Hammond, has elected Duane Shafer secretary, appointed Mrs. Lovinia Robertson recording secretary, named Parker Gabriel head of the banking group and Anil Patel head of the administration group. Lee Spence, vice president, was named executive trust officer; David M. Campbell, vice president, was named senior trust officer; and George Simonton, vice president, was named cashier. Ray McElveen, vice president, was appointed manager, Amite Office.

■ AUGUST PEREZ III has been elected to the boards of New Orleans Bancshares, Inc., and its principal subsidiary, Bank of New Orleans. Mr. Perez is an architect.

Mississippi

Young Bankers Officers

These are the new officers of the Young Bankers Section of the Mississippi Bankers Association. L. to r., they are: pres., Glynn Hughes, pres., South Central Bank, Monticello and Silver Creek; v.p., Charles A. Jordan, v.p., Delta Nat'l, Yazoo City; treas., Wallace McMillan, v.p., Peoples Bank, Tupelo; and sec., James W. Crawford, a.v.p., Deposit Guaranty Nat'l, Jackson.

■ DONALD E. SUTTER and T. W. Milner Jr. have been named chairman and vice chairman, respectively, at Hancock Bank, Gulfport. Their former titles were executive vice president and senior vice president, respectively. Three were elevated from vice presidents to executive vice presidents: Walter C. Hinkle Jr., George A. Schloegel and Charles A. Webb Jr. C. E. Hutchins Jr. was promoted to senior vice president from vice president. Joseph M. Gannon Jr. and Jerry Hartfield were promoted to assistant vice presidents and Thomas F. Bourdin was named advertising officer. New officers include Gordon E. Long, assistant auditor; Richard P. Moran, assistant branch officer; Gerald Gasper, assistant cashier, Bank of Picayune; Mrs. Martha B. Peterman and Mrs. Sue V. Robinson,

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assistant cashiers; Mrs. Sherry H. Fortenberry, John S. Hall, Sidney E. Rice Jr. and Sidney L. Rushing, assistant loan officers; and Grady L. Cobb and Mrs. Sadie N. Rodrick, assistant operations officers.

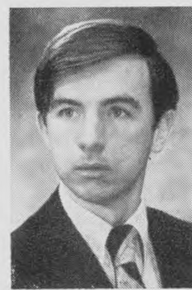
Missouri

■ FIRST NATIONAL, St. Louis, has promoted Donald C. Hartig, David L. Kirkland and Glennon J. Schultheis from assistant vice presidents to vice presidents. Earl N. Haldeman III, commercial banking officer-agricultural finance, was made an assistant vice president. Mr. Hartig, with the bank since 1968, is in the bond department, as is Mr. Schultheis, who joined First National in 1960. Mr. Kirkland went to the bank in 1973 and is in the real estate and mortgage loan department. Mr. Haldeman joined the bank in 1976, going from First National, St. Joseph, where he was on the agricultural lending staff.

HARTIG

SCHULTHEIS

HALDEMAN



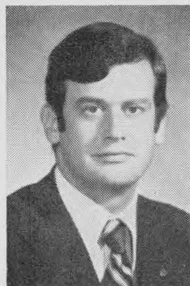
KIRKLAND

■ FRANCIS H. PHELAN has joined United Missouri Bank, St. Louis, as vice president, with duties in corporate and correspondent development for the bank and its HC, United Missouri Bancshares, Kansas City. Mr. Phelan formerly was with Landmark Bancshares Corp., St. Louis, and Bank of St. Louis.

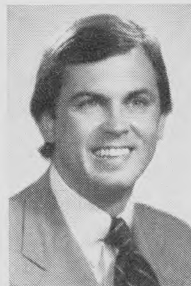
PHELAN

Oklahoma

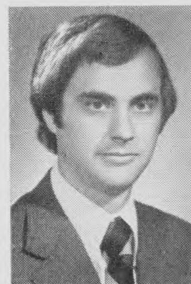
■ BANK OF OKLAHOMA, Tulsa, has elected four vice presidents—Jim Young, Bill Suliburk, Phillip Hoot and Richard Erbert. Mr. Young has been with the bank nearly four years and is in the metropolitan department; Mr. Suliburk, who is in the investment division, has been there five years. Mr. Hoot went there from Capital National, Houston, where he was in the correspondent bank department, and also is in the correspondent bank department at Bank of Oklahoma. Mr. Erbert, in the bank's energy department, formerly was with Getty Oil. In other action, Bank of Oklahoma named these assistant vice presidents: Denny C. Wright and Len Fears, data processing; Jim McKinney and Douglas L. Goss, trust division. Four new trust officers were elected: Sue Jane Price, Mike George, Robert Fugate and Everett Steffen.



YOUNG



HOOT



SULIBURK

■ DENZIL E. OSWALT and Jerry W. Hopkins have joined the regional banking section of First National, Tulsa. Both are assistant vice presidents. Mr. Oswalt joined the bank in 1971 and Mr. Hopkins is a recent addition to the bank's staff.

Texas

■ ROYCE M. HAMMONS has been named manager of the correspondent banking department at First National, Fort Worth. He was formerly a vice president at Republic National, Dallas, where he served in the correspondent department.

JUSTICE

HAMMONS

■ L. JOE JUSTICE has been elected vice president in the commercial loan division at First City National, El Paso. He joined the bank nine years ago, leaving in 1975 to join Texas Bank, Dallas, where he served in the correspondent department. He heads the correspondent department at First City National.

■ BRYAN BURK has been elected a vice president and trust officer at First City National, Houston. He joined the bank recently following service with another Houston bank.

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