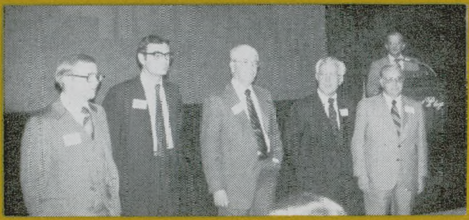
MID-CONTINENT BANKER

JUNE, 1977

The Financial Magazine of the Mississippi Valley & Southwest



Convention Reports

MID-CONTINENT BANKER

The Financial Magazine of the Mississippi Valley & Southwest

Volume 73, No. 7 ***June, 1977***

FEATURES

CONVENTION REPORTS

ON THE COVER: State bankers association officers for 1977-78

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Convention Calendar

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.

June 27-July 1: Bank Administration Institute Bank Auditing, Intro I Short Course, Evanston, Ill., Northwestern University.

July 10-13: ABA I&PD Rise & Insurance Management in Banking Seminar, Arlington, Va., Arlington Hyatt House.

July 10-22: ABA School for International Banking, Boulder, Colo.

July 17-23: ABA Operations/Automation Div. Business of Banking School, Ithaca, N. Y., Cornell University.

July 24-29: ABA National School of Bank Card Management, Evanston, Ill., Northwestern University.

July 28-30: ABA National Governmental Affairs Conference, Washington, D. C., Washington Hilton.

July 31-Aug. 12: Consumer Bankers Association Graduate School of Consumer Banking, Charlottesville, Va.

Aug. 7-12: ABA National School of Real Estate Finance, Columbus, O., Ohio State University.

Aug. 13-19: Bank Marketing Association Bank Management School for Marketing Managers, Madison, Wis., University of Wisconsin.

Aug. 14-27: Central States Conference Graduate School of Banking, Madison, Wis., University of Wisconsin.

Aug. 15-26: ABA National Trust School/National Graduate Trust School, Evanston, Ill., Northwestern University.

Sept. 8-9: Robert Morris Associates Commercial Loan Training Programs: Content and Methods Workshop, Chicago, Continental Plaza.

Sept. 11-13: Bank Marketing Association "Hot Topic" Seminar, Atlanta, OMNI International Hotel.

Sept. 11-14: ABA Bank Card Convention, Atlanta, Peachtree Plaza Hotel.

Sept. 11-16: Robert Morris Associates Loan Management Seminar, Bloomington, Ind., Indiana University.

Sept. 12-15: National Association of Bank Women Convention, Atlanta, Atlanta Hilton.

Sept. 18-21: ABA National Personnel Conference, Atlanta, Hyatt Regency.

Sept. 22-23: Robert Morris Associates Value and Credit Assessment in Real Estate Lending Workshop, San Francisco, St. Francis Hotel.

Sept. 25-27: ABA Secondary Market Workshop, Chicago, Hyatt Regency O'Hare.

Sept. 25-27: Bank Marketing Association Officer Sales Call Training and Train the Trainer Seminar, Columbus, O., Columbus Hilton Inn.

Sept. 28-30: ABA Southern Regional Operations and Automation Workshop, Atlanta, Hyatt Regency.

Oct. 3-4: Robert Morris Associates Loan Quality Control Workshop, San Francisco, Miyako.

Oct. 15-19: ABA Convention, Houston.

Oct. 23-27: Consumer Bankers Association Convention, Phoenix, Arizona-Biltmore.

Oct. 26-28: ABA Midwestern Regional Operations and Automation Workshop, Chicago, Hyatt Regency O'Hare.

Oct. 30-Nov. 1: ABA International Foreign Exchange Conference, New York City, Waldorf Astoria.

Oct. 30-Nov. 2: Robert Morris Associates Annual Fall Conference, New York City, New York Hilton.

Oct. 30-Nov. 2: Bank Marketing Association Convention, Honolulu, Hawaii, Hilton Hawaiian Village.

Nov. 2-4: Association of Bank Holding Companies Fall Meeting, Boca Raton, Fla., Boca Raton Hotel.

Nov. 6-9: Bank Administration Institute Convention, Houston, Hyatt Regency.

Nov. 6-17: ABA National Commercial Lending School, Norman, Okla., University of Oklahoma.

Nov. 13-16: ABA National Agricultural Bankers Conference, Kansas City.

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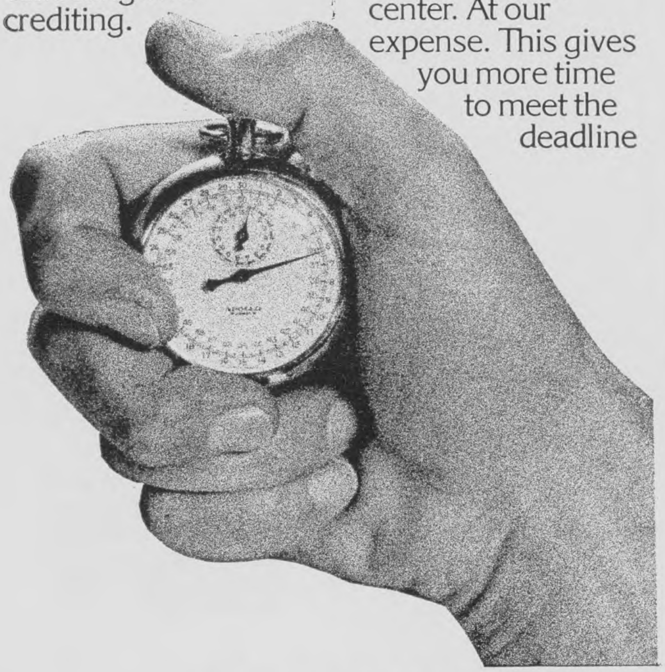

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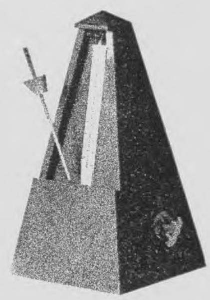

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By Dr. Lewis E. Davids

Hill Professor of Bank Management,
University of Missouri, Columbia

Who Is the Competition?

PAUL NADLER, the well known and respected Rutgers University professor/commentator on banking and economics, once remarked before a convention of bankers, "Only one person who is present really believes in competition: Me!

"But I have been granted tenure at my university. Although you bankers," Dr. Nadler continued, "may openly support the concept of competition for others, you generally can find a good rationalization why competition in your particular province isn't in the public interest." Dr. Nadler was correct.

Most of us would prefer not to have an immediate and close competitor—such as a bank, S&L or mutual savings bank—across the street. Having no significant competition would permit us to take things a little easier. That way, the trauma of learning that the competition is showing a higher profit or is getting a larger market share would not arise.

A few hardy souls in the old Macy's and Gimbel's tradition welcome an honorable competitor. These hardy ones are, in general, high-performing individuals who get a thrill from performing in a manner superior to the competition.

On the other side of the coin, however, is the large number of individuals or institutions that have that high-performing individual or bank as a competitor; they die just a bit each time the data or other intelligence indicates that the competition has outperformed them.

Philosophically, as our society seems to move more and more toward egalitarianism, there is the curious and sad acceptance of mediocrity—while we don't particularly like "underachievers," we really don't value high performers, either. Thus, we accept the concepts of progressive taxation and other leveling techniques to arrive at a distorted sense of social justice and naturally lower productivity.

Why not take a brief moment and list the names and relative rankings of your competitors?

I don't know exactly what you wrote, but there is a good probability that it was: (1) nearby commercial banks; (2) S&Ls in the community; (3) mutual savings banks (for those located in the Northeast); (4) credit unions; and, perhaps, (5) a production credit association.

I'm certain that your list probably is correct as *you* might perceive your own competition *now*, but an extrapolation of these depository-type financial institutions can lead to a different ranking: Credit unions at present are experiencing a much more rapid growth rate than mutual savings banks, for example. However, federal chartering of mutual savings banks could stimulate a dramatic change and spread of those institutions.

Some students of banking and finance might differ in their perceptions when ranking your bank's competition. They would hold that the potential for bank competition—and for other depository institutions—is more likely to come and develop from *non-depository institutions!* These competitors now, or could in the future, compete in major market segments now believed to be in the purview of depository type financial institutions. These non-depository firms include, but are not limited to, such giants as American Telephone & Telegraph (EFT); Sears, Roebuck and its finance and insurance subsidiaries (credit cards/appliance financing, POS, small loans); Exxon Corp. (credit cards/automobile financing, insurance); Household Finance Corp. (installment loans, personal loans/credit cards); American Express (credit cards, money machines, a wide range of loans and leasing); investment funds (EFT and loans); General Motors Acceptance Corp. (installment loans/leasing) or almost any firm whose charter bypasses the ultra-vires restraint by including a phrase such as "and other legal activities decided on by the board of directors."

These non-depository institutions now have a few disadvantages in competing with banks, but the trends in economics and politics are erasing those disadvantages. Banks now realistically view the termination of Regulation Q and the payment of interest on demand and public funds as the light at the end of the tunnel. These competitors can and do borrow at the lower interest rates charged the commercial market, a rate that probably is below 5%.

"A few hardy souls in the old Macy's and Gimbel's tradition welcome an honorable competitor. These hardy ones are, in general, high-performing individuals who get a thrill from performing in a manner superior to the competition."

Non-depository "financial" institutions also have much less governmental regulation than depository financial institutions. They have much greater flexibility and can move in and out of financing opportunities as their interest and opportunities dictate.

The list of the relative advantages and disadvantages of non-depository financial institutions competing with depository financial institutions could be expanded and will be the subject of one of my future columns. For our purposes here, however, it is adequate to state this perception: There are a suf-

(Continued on page 34)

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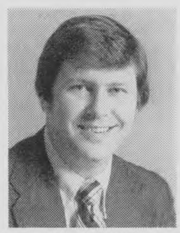

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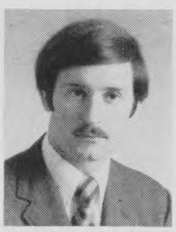

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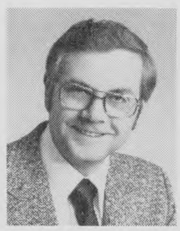

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NEWS OF THE
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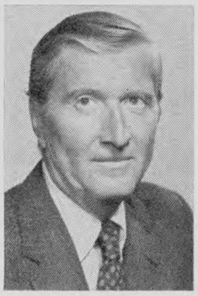
PERKINS


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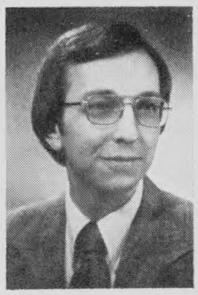
STRICKLAND

• **John H. Perkins**, president, Continental Illinois National, Chicago, has been nominated to be ABA president-elect for 1977-78. Thomas R. Smith, president, Fidelity Brenton Bank, Marshalltown, Ia., was nominated to be ABA treasurer. The nominations, to be presented to the ABA's annual convention in October, were made by the association's Governing Council when it was in session late in April. They were the first under a new procedure in which the council serves as the nominating committee. The Governing Council is made up of representatives of banking units in all 50 states. Mr. Perkins had been opposed for the president-elect's post by William J. Copeland, vice chairman, Pittsburgh National. Mr. Smith's opponent was Hermann Moyse, president, City National, Baton Rouge.

• **Robert Strickland** has been named CEO at Trust Co. of Georgia, Atlanta, and James B. Williams has been elected vice chairman. Mr. Strickland, president of the HC, took over the CEO's duties from A. H. Sterne, who remains HC chairman. Mr. Strickland continues as chairman of the bank, the lead bank in the Trust Co. statewide system of banks. Mr. Williams continues as president and CEO, Trust Co. of Georgia Associates, a subsidiary HC that manages Trust Co.'s controlling interests in six affiliated banks. This transfer of top-executive responsibilities was made in anticipation of Mr. Sterne's retirement as an active officer of the company early next year.

• **Joseph L. McElroy** has joined Manufacturers Hanover Trust, New York City, as head of its trust division and also as executive vice president and a member of the general administrative board, the bank's senior policymaking group. Mr. McElroy had been executive vice president in charge of Bank


HALDEMAN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of New York's trust division. He holds a law degree from the New York Law School, is a graduate of the Stonier Graduate School of Banking, Rutgers University, New Brunswick, N. J., and completed the Harvard Business School's advanced management program. At Manufacturers Hanover, he replaced C. Roderick O'Neil, who resigned to become chairman of the finance committee and a director of the Travelers Insurance Co.

• **J. W. McLean,** chairman, Liberty National, Oklahoma City, has been named a vice chairman of Allied Bank International, New York City. Allied, founded in 1968, is owned by 18 U. S. banks, including Liberty National, and has aggregate assets of more than $30 billion.

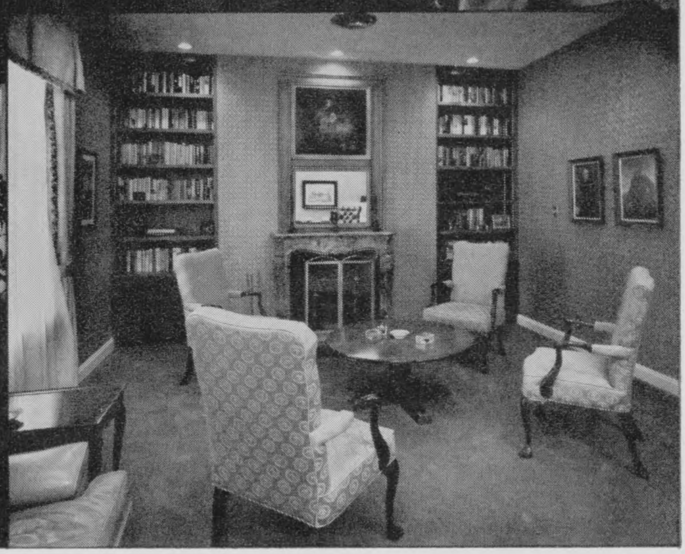
• **Philip L. Fazio** has been elected a commercial banking officer at Harris Trust, Chicago. He is in the bank's Midwest group and travels in Kentucky and Missouri. Mr. Fazio joined Harris Bank in 1973.

• **Earl N. Haldeman III,** assistant vice president in the agri-business department at First National, St. Louis, has been selected as an "Outstanding Young Man of America" for 1977. The award is presented annually to men between the ages of 21 and 36 by Outstanding Young Men of America, a Montgomery, Ala., organization formed in 1965 to recognize individuals for their civic contributions and professional achievements. Mr. Haldeman was cited for his support of the banking industry through serving as a part-time faculty member of Missouri Western State College, St. Joseph, Mo., where he taught in the agribusiness and business departments for two years. He also served as chairman of the education committee of the St. Joseph chapter of AIB, during which time he developed a curriculum leading to a BA in banking and finance at Missouri Western.

• **Eirvin B. Knox** has been named vice president and general manager of Continental Illinois National of Chicago's Los Angeles-based international banking subsidiary, Continental Bank International (Pacific). Mr. Knox joined the bank in 1973. Carroll M. Rickard, former general manager of Continental Bank International (Pacific), has been relocated to the bank's Chicago headquarters, where he heads the Latin America-Asia/Pacific group in the new multinational banking services department.

• **Alexander P. Orr Jr.** retired May 1 from the Federal Reserve, St. Louis, where he had been assistant vice president, bank relations and public information department. He had spent 45 years with the bank and, since 1968, has represented it in southern Illinois and southwestern Indiana. Mr. Orr also had traveled, as a bank representative, in most parts of Missouri.

Lawrence K. Roos (r.), pres., St. Louis Fed, visits with Mr. and Mrs. Alexander P. Orr Jr. at reception at bank on last day of Mr. Orr's career at bank, which he joined in 1931.



Pictured at BANCLUB's fifth annual convention are (l. to r.): Henry C. McCall, pres., Financial Institution Services, Nashville, corporate administrator for BANCLUB; Clinton O. Holdbrooks, e.v.p. & cash., Peoples Bank, Pell City, Ala., and Robert D. Anderson, a.v.p., Anthony Wayne Bank, Fort Wayne, Ind., both of whom were elected to BANCLUB council; E. Reese Davis, pres., County Bank, Santa Cruz, Calif., and Donald F. Howie, v.p., Piedmont Bank, Davidson, N.C., both of whom are ex officio council members.

Retail Banking:

Sales Programs Discussed At BANCLUB Convention

Rap sessions on international operations, nonbank service-package benefits and employee-incentive programs were a highlight of the recent fifth annual convention of the BANCLUB Association in San Antonio, Tex. The latter is a national organization of about 1,100 U. S. banks with a common denominator of a retail banking package.

Conventioneers heard such topics as employee training, sales and advertising and package values designed to attract new accounts, improve bank earnings from the DDA base and assure better account retention.

One general session was led primarily by representatives of Financial Institution Services, Inc. (FISI), Nashville, BANCLUB's corporate administrator. This session included presentations by Lee Ault III and William Brian, members of Telecredit's staff, Los Angeles, who discussed the newest BANCLUB feature, CHECASH, which is a coast-to-coast personal check-cashing service among BANCLUB member banks throughout the country.

During the meeting, the following were elected to the BANCLUB council: Robert D. Anderson, vice president, Anthony Wayne Bank, Fort Wayne, Ind.; Clinton O. Holdbrooks, president, Peoples Bank, Pell City, Ala.; Bill G. Looper, FISI executive vice president, and Travis R. Anderson and A. E. Pleming, FISI vice presidents. E. Reese Davis, president, County Bank, Santa Cruz, Calif., and Donald Howie, vice president, Piedmont Bank, Davidson, N. C., will serve with the elected council as ex officio council members. The council's primary responsibility is to be a liaison between bank members and FISI.

Bunny Day:

Easter Rabbit Gets Help In Bank's Egg Contest

For the fourth year in a row, First Bank of Park Forest South, Ill., has given the Easter Bunny a helping hand in the form of an egg-decorating contest for local children.

Area youngsters were invited to bring decorated eggs to the bank for judging by a panel of area residents. Winners in each age group received savings accounts at the bank, and, of course, the Easter Bunny was on hand to "egg" contestants on!

At rear, Easter Bunny, Vicki Nyman, v.p., and Dennis Nowaczyk, pres., First Bank of Park Forest South, Ill., join winners of bank's fourth annual Easter egg-decorating contest. Area children were invited to bring decorated eggs to bank for judging, with winners receiving free savings accounts.

It's a Record:

Unusual Annual Report Has Stockholders Listening

St. Joseph Valley Bank, Elkhart, Ind., reported a record year for 1976, and to report the news to shareholders, a "record" format was used. The report that had stockholders "listening" was printed as what appears to be a standard long-play record album!

The album's cover features a red and blue neon sign flashing the message, "1976, a Record Year," against a black background, while the bank's identification and the phrase, "1976 Annual Report," is printed in white at the top and bottom of the cover, respectively.

Inside the album cover is a message to shareholders from Jon Armstrong, bank chairman, and Terrence Brennan, president, while financial figures are found in the album's sleeve. Pages of the report bear the image of phonograph records, carrying out the theme.

The report is shrink wrapped to look like the real thing, and, for mailing, address labels simply are attached to the shrink wrap.

Bank officials are pleased with the effect of the report. According to a St. Joseph Valley spokesman, "We feel that, in addition to the report being unique, the 'album' also will be a very useful new business tool."

Oldies:

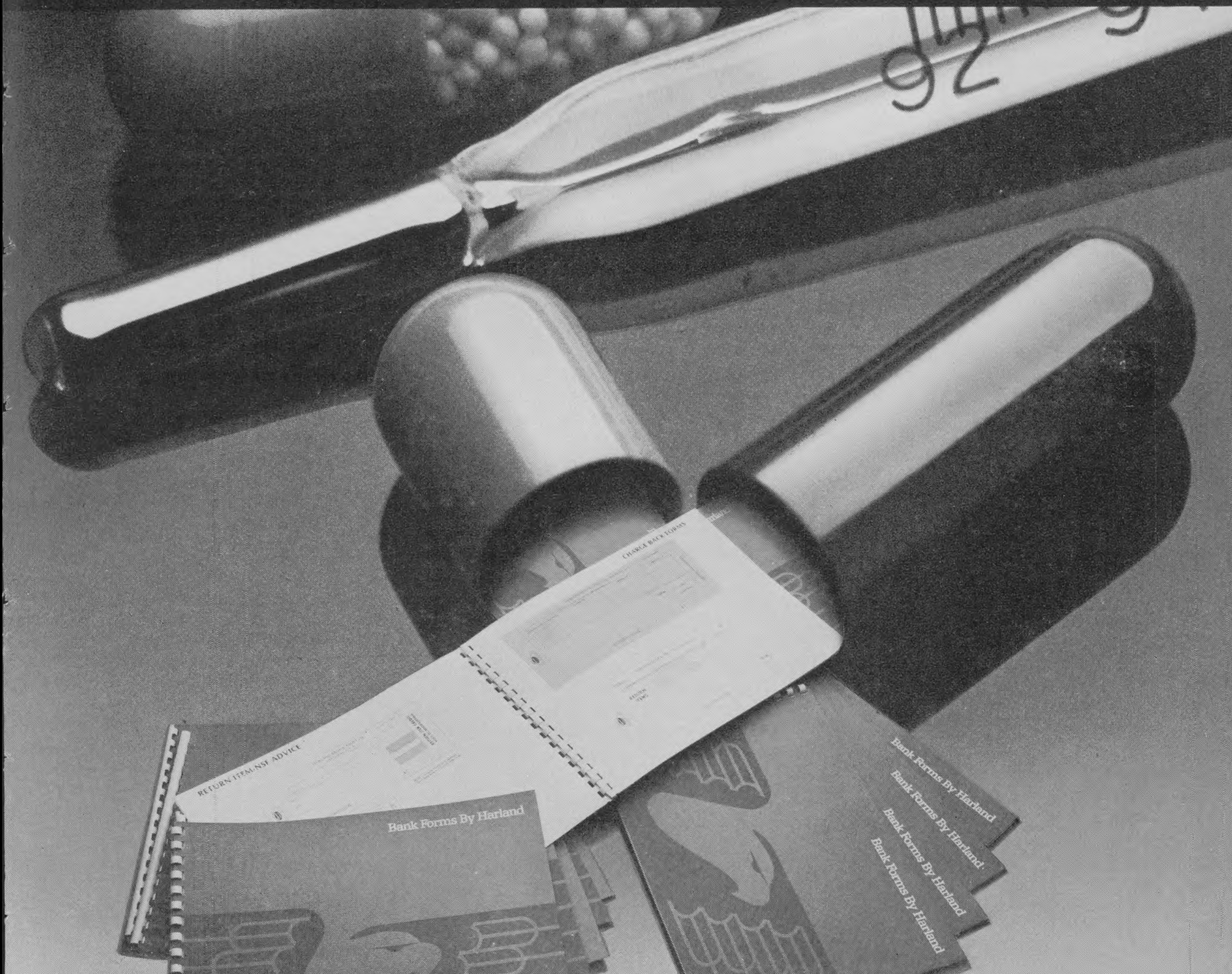
Collection of Memorabilia Is 'Hit' Lobby Attraction

Representatives of four Chicago-area banks—Cary State, Palatine National, Suburban National of Elk Grove Village and Suburban National of Palatine—are in agreement about the popularity of things past. A recent display of antiques in the banks' lobbies "drew a lot of attention" from area residents.

Items featured in the collections included dolls, convention badges, clocks and beer steins. The showings, which were donated by Lyle Curran & Associates, Chicago, were rotated every three weeks, enabling each bank to vary its displays.

"Old campaign buttons and ribbons seemed to be one of the most popular displays," says a bank spokesman. "Viewers would gather around the collection and exchange recollections about numerous political candidates the display represented—such as Herbert Hoover, Franklin D. Roosevelt and Wendell Willkie."

Internal medicine. From Harland.



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Community Involvement

'Paperhangers,' Beware:

Free Check-Cashing Guides Distributed to Merchants To Help Reduce Forgeries

Passing bad checks has become almost an epidemic in this country and is posing a problem to banks and merchants alike. In an effort to help alleviate this situation in its area, Palatine (Ill.) National—in cooperation with the Palatine Chamber of Commerce and the local police department—distributed free check-cashing guides to all merchants.

According to the bank's chairman, Gerald F. Fitzgerald, this guide can help even the newest clerk quickly determine what to look for in bad checks. He emphasizes how important it is to eliminate this problem so both merchants and customers are able to conduct business with less inconvenience and wasted time.

The 11x17-inch guide lists, by number, the 12 key points to examine when cashing checks. Along with these 12 points are illustrated the front and back of a sample check, with each part of them numbered to coincide with the 12 points. Thus, anyone reading the guide can associate each point with its location on the check.

For instance, point No. 1 is: Make certain the check is encoded with routing numbers. Then, the figure No. 1 is shown on the check illustration pointing to the routing number.

In addition, various types of checks frequently presented are pictured with special tips on what to look for in handling them. Four ways to endorse checks and what each endorsement means to the merchant also are explained.

Mr. Fitzgerald knows that it's less costly to spot a bad check before it's passed and hopes these check-cashing guides will cut down on the number of bad checks being passed in Palatine.

Further information on these check-cashing guides may be obtained by writing: Guardian Publications, P. O. Box 611377, Miami, FL 33161.

New Entrant:

Insured Credit Services Boosts Energy Savings

Insured Credit Services, Inc. (ICS), Chicago, has joined the ranks of the nation's financial institutions that are taking steps to boost energy saving by consumers. ICS is encouraging home-improvement loans for energy-saving projects.

An ICS spokesman says that the firm has introduced the following three-part program: (1) It will expand availability of credit insurance to qualified financial institutions currently extending credit for energy-conservation projects; (2) it will make available its expertise and knowledge to financial institutions not presently active in the property-improvement-loan field for the purpose of developing consumer-oriented energy-conservation lending programs; and (3) ICS will implement industry-wide contact with the nation's leading power companies to assist in coordination and development of loan programs between utilities and financial institutions.

ICS is a subsidiary of Old Republic International Corp., a multi-line insurance HC.

Red Cross Cooperates:

Disaster/Youth Safety Is Unique Lobby Display

"Disaster and Youth Safety" was the title of a lobby display held at Chicago City Bank's Englewood Shopping Concourse Office in conjunction with the American Red Cross.

Emergency clothing kits and disaster equipment were displayed, illustrating the Red Cross' commitment to aiding disaster victims. Books and pamphlets on first aid and emergency care were available.

The exhibit was held during regular banking hours.

Cited for Brotherhood

Presenting the 1977 Brotherhood Award of the Tulsa Chapter of the Nat'l Conf. of Christians and Jews to Eugene L. Swearingen (l.), ch., Bank of Oklahoma, Tulsa, is Tulsa Mayor Robert J. LaFortune. In honoring Mr. Swearingen, Mr. LaFortune said that "despite his success as a business leader, educator, author and consultant, Mr. Swearingen has continued to maintain a close association with youth, civic affairs and the community."

In Kentucky:

1976 Tax Reform Act Is Bank Seminar Topic

The "1976 Tax Reform Act and Its Impact" was the title and subject of a half-day seminar sponsored by First Security National, Lexington, Ky., and was presented to members of the Kentucky Bar Association who practice in the Fifth Appellate District.

A number of topics were discussed during the event, including: "Fiduciary Responsibility Under the Tax Reform Act"; "Generation-Skipping Transfers"; "Carry-Over Basis"; "Martial Deduction" and "Will and Trust Drafting After the Tax Reform Act."

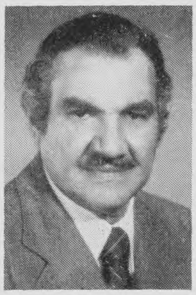
On hand for the seminar as guest speakers were Austin Fleming, counsel, Northern Trust, Chicago, and Jack R. Cunningham, vice president and trust officer, host bank.

Bank Assists Blood Institute

Mike Barnes, financial planning off., Liberty Nat'l, Oklahoma City, registers to give blood to the Oklahoma Blood Institute. In a two-day period, 206 bank employees donated 157 units of whole blood to help the institute reduce its 2,000-unit deficit, helping lessen the amount of blood that must be imported into the Oklahoma City area.

Corporate News Roundup

• **Douglas-Guardian Warehouse Corp.** Douglas Scherer has been elected president and CEO, Douglas-Guardian Warehouse Corp. and Douglas Public Service Corp., both based in New Orleans. John B. Cressend has been named vice president and general manager of the former. Thomas E. Moulin has retired as vice president of both companies, while Neil A. Brynning has retired as vice president and general manager of Douglas-Guardian.



SCHERER

CRESSEND

• **Bank Building Corp.** This St. Louis-based firm and Westmor Corp., Los Angeles, have reached an agreement in principle for the former to acquire Marshall & Stevens, Inc., from the latter. Marshall & Stevens is engaged in professional appraisal and valuation consulting services.

• **Scarborough & Co.** N. Al Macenas has joined Scarborough & Co., Chicago-based insurance counselors to banks, as an account executive. Mr. Macenas previously had served as manager and vice president, I. Arthur Yanoff & Co.

• **MGIC Investment Corp.** This Milwaukee-based HC has announced the opening of its North Central Division Office in Milwaukee. The division, which will serve a territory including Illinois and Indiana, will be headed by Charles W. Morris, vice president and division manager. Mr. Morris will have overall responsibility for sales, underwriting and claims operation of the firm's product lines, including residential insurance (Mortgage Guaranty Insurance Corp.), commercial mortgage insurance (Commercial Loan Insurance) and directors' and officers' liability insurance (MGIC Indemnity Corp.). MGIC also has announced the promotions of Roger F. Martin to senior vice president, with responsibility for administration, claims, underwriting, personnel and mobile-home operations; William G. Gallagher to senior vice president of sales for the subsidiary, Mortgage Guaranty Insurance Corp., and to vice president of sales for MGIC; Robert E. Schwarz to MGIC controller; and Peter H. Miles to vice president-administration.

Wallace S. Coutts Dies

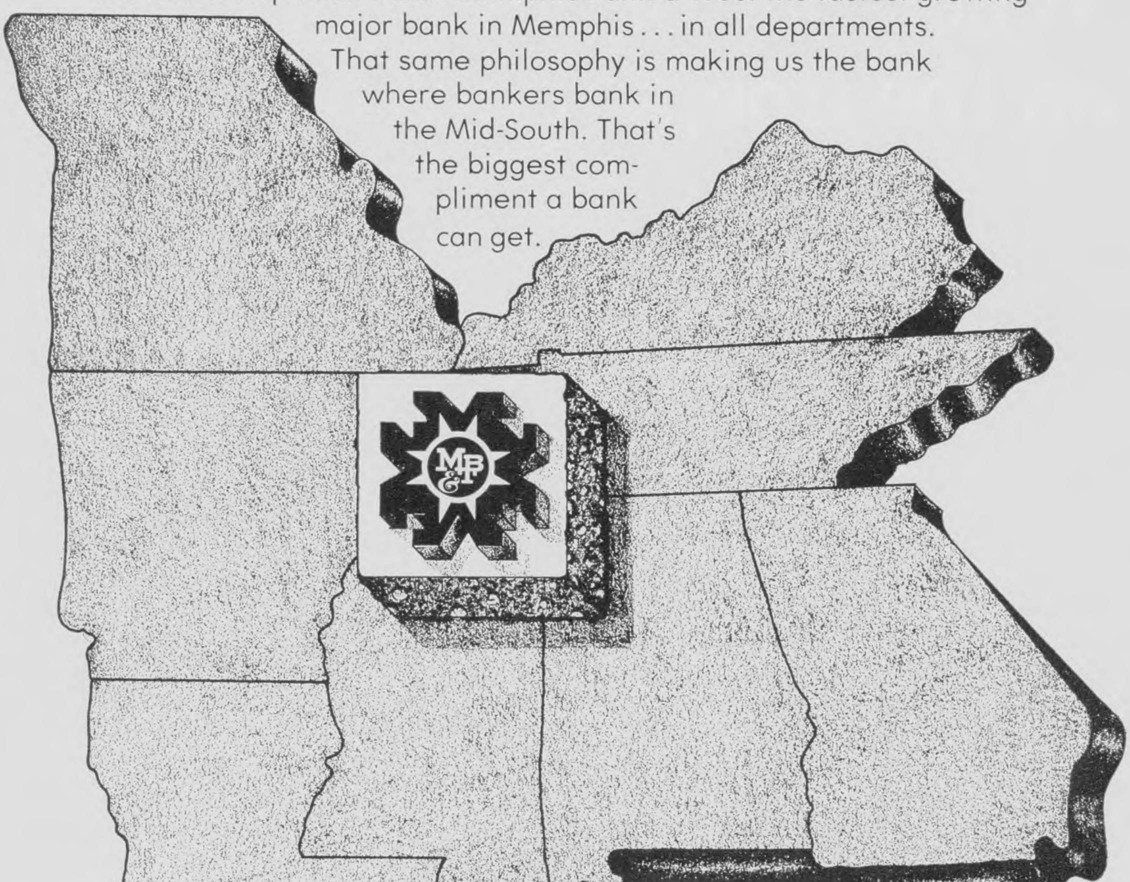
Wallace S. Coutts, 56, vice president and divisional manager, Nytco Services, Inc., St. Paul, died March 15 in Washington, D. C.

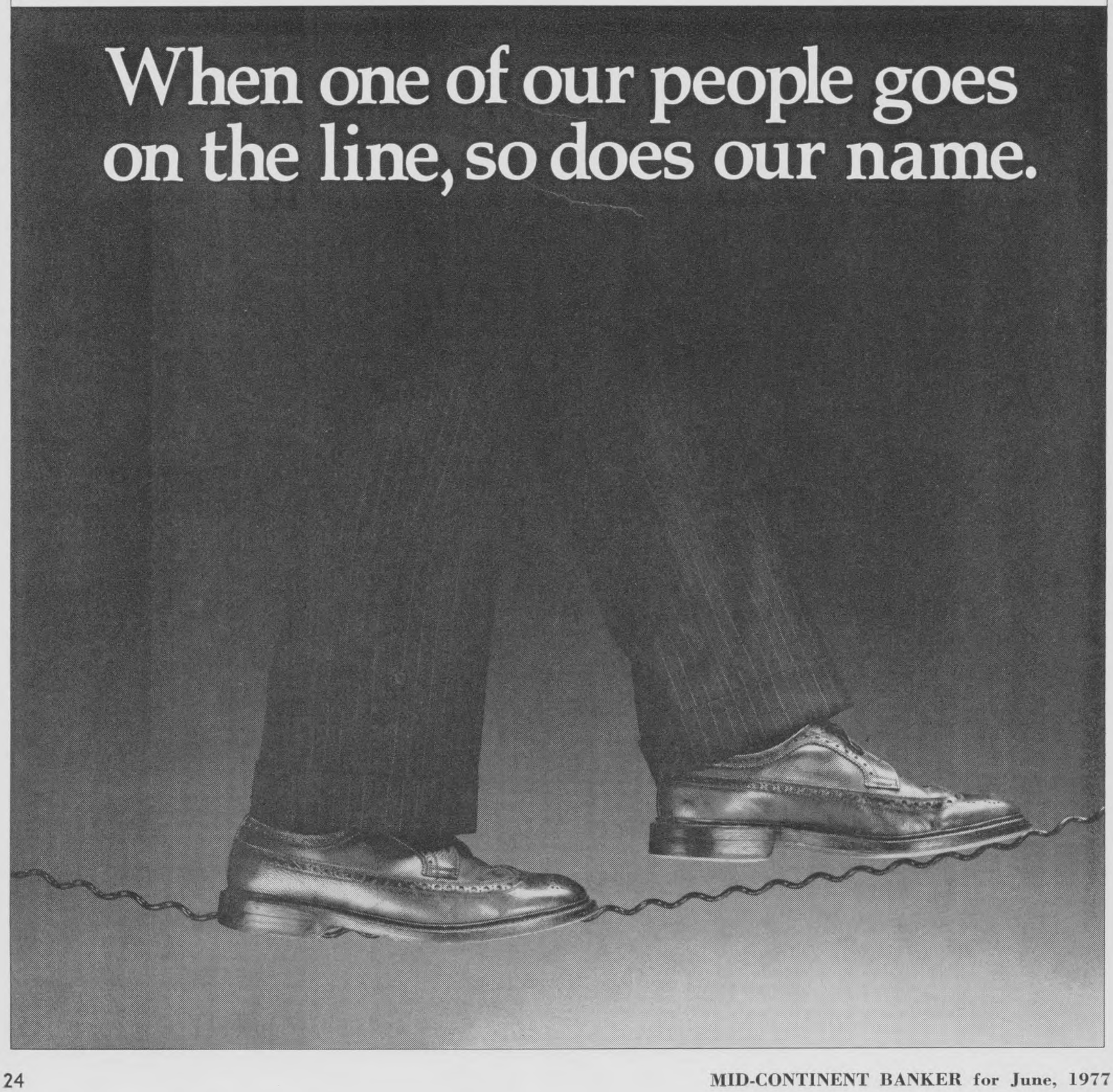
Mr. Coutts joined St. Paul Terminal Warehouse Co., the forerunner of Nytco Services, in 1952 as auditor and later served as its sales representative for Wisconsin. When Nytco Services succeeded St. Paul Terminal Warehouse in 1969, Mr. Coutts relocated to Chicago as vice president and central division sales manager. In 1975, he advanced to divisional manager, central division, and also was named a director and executive committee member.

• **Brandt, Inc.** David W. Daffron and Clifford D. Malone have been named district managers by Brandt, Inc., headquartered in Watertown, Wis. Mr. Daffron will oversee Brandt's area including Kansas and western Missouri. He succeeds Ben Faust, who has retired. Mr. Malone will have responsibility for New Mexico and western Texas.

• **Bank Marketing Association.** John D. Stephens has been named to the newly created post of director, advertising and public relations, at Bank Marketing Association, Chicago. In that position, Mr. Stephens will have responsibility for liaison with BMA members and for advertising and public relations. He also will determine membership needs in those areas, will provide various services to members and will aid the BMA in publicizing those services. Mr. Stephens formerly was with a Detroit advertising agency.

• **MGIC Indemnity Corp.** Richard B. Davis has been elected a vice president, MGIC Indemnity Corp., Milwaukee. He also has been appointed director of claims for the firm's directors and officers (D&O) liability insurance program. Mr. Davis joined MGIC Indemnity in 1972.

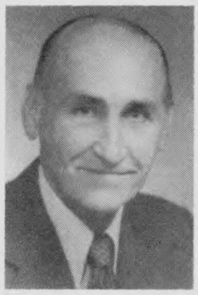



When one of our people goes on the line, so does our name.

ABA Stands Up to Competition at Conventions; Attempts to Rally Bankers to its Cause

BY THE EDITORS

McPETERS



DUWE

THERE'S a striking similarity to the various state banker association conventions this year, occasioned by the strong stance being taken by ABA to achieve competitive parity with other financial institutions.

An ABA representative has appeared at each state convention held in the Mid-Continent area this spring to explain the consensus bankers arrived at recently at the ABA's spring meeting in White Sulphur Springs, W. Va. That consensus has been building throughout 1977, as the topic of competitive equality has been aired at numerous high-level ABA meetings.

But the discussions of the ABA's somewhat revolutionary plan to stand up to thrifts and credit union competition haven't been limited to the convention floor. It's being discussed at social events and in hospitality rooms, on the golf links and in the locker rooms after tennis matches. In short, the ABA is doing a good job in getting the word out to the nation's bankers via the vehicle of state association conventions.

According to ABA President W. Liddon McPeters, president, Security Bank, Corinth, Miss., the movement to achieve competitive equality came into focus in February when the ABA's first banking leadership meeting decided to preserve its options to work toward development of a legislative proposal that would remove a number of inequities, including those that deprive bank customers of a competitive interest rate on savings, allow banks the option of making consumer savings accounts more useful and make Fed membership less burdensome.

A second meeting was held in April, at which bankers representing all 50 state banker associations and most other national banking trade associations decided that the questions of greatest concern to them all boil down to fair treatment for bank customers and banks.

Bankers want their customers to be able to receive the same interest rates available at other institutions, Mr. McPeters said. They also want to avoid imposing on their customers the added costs of unequal reserve requirements, service restrictions, regulation and taxation.

"While we have been encouraged by the recent action of the Fed and the FDIC allowing banks parity with other financial institutions in the rate ceilings on individual retirement accounts and Keogh accounts, gross inequities in the treatment of bank customers and banks remain," he said.

The participants in the banking leadership meeting directed the ABA to make an all-out effort, on behalf of bank customers, to obtain full competitive equity with thrifts. They further directed that, as a part of this effort, ABA should support legislation that would give banks and other depository institutions the option of offering consumers the opportunity to write checks on a new type of savings account, similar to NOW accounts.

"While recognizing that a clear link exists between this proposal and the proposal to allow the Fed to pay interest on required reserves it holds," Mr. McPeters said, "we believe that neither part of the package should be acted upon before more detailed expression and discussion of the second proposal has taken place and a resolution has been reached. Our concern is to preserve the dynamic balance between the Fed's ability to implement monetary policy and the dual banking system's innovative strength."

He said that the ABA's primary goal is to achieve parity for bank customers and banks and the ABA's willingness to support legislation allowing this new type of account and to participate in the search for a way to make Fed membership less onerous for banks is dependent on the achievement of that objective.

The basic elements of an acceptable legislative and regulatory plan that would first achieve parity and then allow financial institutions to offer the new type of account as an optional service are spelled out in the following eight planks:

- Parity of interest rate ceilings, reserve requirements and treatment of reserves on interest-bearing checking accounts must be established for the benefit of customers of all institutions that offer such accounts.
- The statutory interest rate differential must be removed from the Interest Rate Control Act. The advantage of the rate differential must be removed by regulatory action from all classes of savings accounts for any institution that elects to offer check-like accounts. The National Credit Union Administrator must become a member of the Interagency Coordinating Committee; thus, the same rate ceilings that exist for other types of financial institutions would apply to credit unions.
- The new type of account must be the only interest-bearing transaction account permitted for all banks, thrifts and credit unions—or for any other institutions that now or in the future offer such accounts. The new account would be an alternative to, and not a replacement for, conventional checking and savings accounts. This would apply also to any interest-bearing accounts

on which demand-type withdrawals via electronic terminals are permitted.

• Reserves on this type of account at banks that are not Fed members could be held at any correspondent bank. Uniform reserves on those accounts offered by depository institutions other than banks would be held by the Fed or by other depositories by agreement with the Fed. No class of Fed membership or affiliation would be compulsory for any financial institution.

• The new type of account must be limited to customers who meet the strict definition of a household account. (The Connecticut NOW account law stipulates that only a "natural person" may hold such an account. This, for example, excludes professional and farm business accounts. This law is a potential model for the language to be used.)

• A one-year preparation or transition period must be allowed between enactment and implementation of the law. In the six New England states, however, the law would take effect immediately, giving banks in those states the parity provided in the legislation.

• Full, effective regulation and examination must be applied to all financial institutions offering this new type of account. The public interest demands this.

• The Fed and the FDIC should provide banks the additional option of offering pre-authorized transfers from savings to checking accounts.

According to Mr. McPeters, this proposal meets all of ABA's criteria for policy-setting. It ensures that all well-managed banks, regardless of size, would be able to continue to serve their customers profitably and effectively.

Among the ABA representatives speaking on behalf of the platform at state banker association conventions is J. Rex Duwe, chairman of ABA's governing council, and chairman and president, Farmers State, Lucas, Kan.

He said the reality of competition brought ABA to its decision to go all out to achieve parity. "It doesn't make much sense for us to sit around debating whether our competitors should be allowed third-party payment authority," he said. "They already have it."

He listed the following points to support his statement:

• S&Ls nationwide can offer pre-authorized bill paying.

• All S&Ls and mutuals can offer telephone transfers from savings to checking accounts.

• All federally chartered S&Ls, state-chartered S&Ls in 15 states, mutuals in 10 states, all federally chartered credit unions and state-chartered credit unions in six states can establish manned remote service units.

• S&Ls in eight states, mutuals in 11 states and credit unions in six states have the authority to offer checking accounts under various names.

• S&Ls and mutuals in the six New England states are allowed to offer NOW accounts—checking accounts that pay interest.

• 19 states permit share draft accounts—interest-bearing checking accounts—for state-chartered credit unions and the National Credit Union Administration has proposed a permanent regulation authorizing all federal credit unions to offer share drafts.

Banks' competitors have gained these powers largely through regulatory and legislative action at the state level, followed later by catch-up action at the federal level, Mr. Duwe said. "With the exception of NOW account authority in New England, Congress is conspicuous by its absence in leading this parade of new powers for our competitors," he said.

But all that could change if Fed Chairman Arthur F. Burns has his way, he continued. "Dr. Burns has publicly declared his preference for nationwide NOW accounts, combined with the payment of interest by the Fed on required reserves."

He said that bankers at the ABA leadership meeting concluded that the issue of interest on required reserves needs more detailed expression and discussion and should be resolved before either part of the package is acted upon.

"The message that came through loud and clear was this," he said. "We bankers want to achieve parity for our customers and our institutions, and our willingness to support legislation allowing this new type of savings account and our willingness to help find a way to make Fed membership less onerous for banks depend on the achievement of that parity."

Bankers seem to be supportive of the ABA position and ABA reps at the state conventions have said they have not encountered any opposition to the plan from conventioneers.

A mixed reaction was presented by Senator Thomas J. McIntyre (D., N.H.), chairman of the Senate subcommittee on financial institutions. The senator has commended ABA for supporting interest-paying checking accounts but has questioned some of the conditions ABA has attached to its support. He has singled out as questionable ABA's request that the new account be approved only after abolishing the statutory guaranteed savings rate differential for thrifts and that the new account be the only one permitted now or in the future.

"One has to wonder, therefore, whether the ABA is more interested in the conditions" which it attaches to the new account, than the account itself, he said.

He suggested that the package approach ABA is taking might be intended to slow down the competition.

(Continued on page 62)

Bank in Town With 15 Population Defies Odds, Celebrates 75th Year

A WAG once said, "My home town is so small that if you sneeze while you're driving through it, you'll miss it." All kidding aside, Freeport, Kan., *is* a small town, boasting a population of 15. What is remarkable about Freeport is that it lays claim to being "the smallest incorporated city in the U. S. having a bank," and that bank, Freeport State, is celebrating its 75th year of operation!

Freeport, which is located about 50 miles southwest of Wichita, has a fourth-class post office, two grain elevators and a Presbyterian church. And, according to Ben Brooks, bank cashier and mayor of Freeport, "Our city affairs are in excellent shape. We have no bonded indebtedness, and a two-mill tax levy covers our city budget of $613.26."

"What's more," says Leo F. Drouhard, bank president, "Freeport State not only is able to provide any services found in big-city banks, but it can offer more personalized service."

The bank was chartered in 1902 and presently is located on the corner of Freeport's only business block. When Mr. Brooks joined the bank staff in 1928, the city had a population of 100, three grocery stores, a library, two garages, a lumber yard and two filling stations. "But when World War II began," he says, "a lot of people left Freeport to work in defense plants. And the kids leave town as soon as they're able since it's too expensive to start farming these days."

What does the future hold for Freeport State? Mr. Drouhard says, "I have the utmost faith in rural America and in the independent banking system that has helped make this country what it is today. And our bank statements show that the community has faith in us to serve it." • •

The Fed Membership Problem:

Why Is It Important to All Banks?

By LAWRENCE K. ROOS
President
Federal Reserve Bank
St. Louis

A CURRENT TOPIC that should interest all bankers is the subject of Fed membership, sometimes referred to as the Federal Reserve membership problem.

From the perspective of those associated with member banks, the importance of finding an early solution to the membership problem is obvious. Membership is an issue that affects member banks' earnings and, after all, for most bankers, bottom line is of more than passing importance. I'm sure that more than a few Fed members and their boards of directors currently are struggling with the question of whether their banks' best interests are served by continuing their Fed membership.

Indeed, this is not a decision to be taken lightly. For most member banks, to leave the system would mean departing from a relationship of long standing, a tradition that, perhaps, dates from the bank's founding. More important, leaving the system would mean giving up access to the discount window, losing the benefits of seasonal borrowings and giving up many other valuable services provided by the Fed.

For nonmember banks, the membership question should be of importance also because the ultimate resolution of the problem, whatever it may be, is certain to have a major impact on the future of our overall financial system, and the prosperity of all banks is dependent on the perpetuation of a strong national economy.

Members and nonmembers alike share an interest in the continued ability of the Fed to conduct monetary policy in an independent manner geared to the best interests of a free economy. Should membership in the system continue to erode, the capacity of the Federal Reserve to retain the independence necessary to perform its functions almost certainly would be lessened.

Just how severe has the decline in Federal Reserve membership been? In 1945, almost half the banks in the country were Fed members. At the end of last year, only 39% of the country's banks were members. In 1945, member banks held 86% of all domestic deposits. At the end of last year, they held only 74%.

Furthermore, the rate of decline has accelerated in the past few years. Since 1973, banks have been withdrawing from the system at a rate of almost one a week. All this underscores the severity of the problem and the urgency of finding an early solution.

What has caused member banks to withdraw from the system? It's obvious that the principal factor is the relative cost of membership as compared with nonmembership. Simply stated, that cost is the cost of maintaining nonearning assets as required by the Fed. Although nonmembers must maintain some manner of reserves for purposes of liquidity, they frequently can do so at a lesser cost than incurred with Fed membership. The problem is very much a pocketbook issue. As such, any solution, to be meaningful, must be designed to reduce the cost differential that has caused the problem.

A number of solutions have been suggested.

Lawrence K. Roos gave the talk on which this article is based at the annual convention of the Arkansas Bankers Assn. in Hot Springs last month.

One approach would be to eliminate the differential between the costs of membership and nonmembership by requiring *all* financial institutions that directly or indirectly use Fed services to hold reserves with the Fed.

Another suggested solution would be for the Fed to expand services to give member banks more for their money.

A third possibility would be to lower member bank reserve requirements.

Still another solution would be to lower the cost of membership by allowing members to earn a return on their required reserves.

The first of these approaches, that is, to require all banks to maintain reserves with the Fed, has been suggested in the past. In fact, in 1974, the Board of Governors of the Federal Reserve System sent to Congress draft legislation to apply reserve requirements set by the Federal Reserve to demand deposits and negotiable orders of withdrawal at all financial institutions. That bill never got out of committee.

Extension of reserve requirements to all financial institutions almost certainly would face widespread opposition. Financial institutions not presently subject to Fed reserve requirements almost certainly would oppose the proposal. Such opposition has been successful in blocking legislative authorization for universal reserve requirements in the past; there's little reason to believe that such proposals would fare better today.

The second possible approach I mentioned is for the Fed to offer member banks more in terms of expanded services.

A study by our research staff at the Federal Reserve Bank of St. Louis indicates that smaller member banks that maintain reserves at the Fed use the services of correspondent banks almost as extensively as smaller nonmember banks. This means that many Fed members don't take advantage of the full scope of services offered by the Fed. And, of course, certain services available at larger correspondent banks are not offered by the Fed. It's conceivable that something could be done to encourage smaller member banks to use Fed services more extensively in order to receive more for the cost of membership. However, our research staff has concluded that without completely changing the nature of the central bank and without seriously altering the established pattern of correspondent bank relationships, the Fed cannot expand its services enough nor attract enough additional use of its services to make any significant change in the current balance between membership costs and benefits.

The alternative of lowering reserve requirements is an interesting one. It would enable member banks to gain maximum flexibility in converting reserves into earning assets. It would be among the least expensive options available to the Federal Reserve in that Fed earnings would drop only to the extent that the Open Market sold securities to offset reductions in reserve requirements.

However, this proposed solution has several significant disadvantages. It could create serious problems for monetary policy and could not be fully implemented without enabling legislation from Congress. More importantly, it would provide little relief for smaller banks for which reserve requirements are presently at or near the statutory minimums. Moreover, if the Fed were to rely on this avenue for solving the membership problem, it could be difficult to raise reserve requirements should future economic and financial conditions warrant. For these reasons, this alternative probably should not be given serious consideration.

Thus, we're left with the fourth possible approach to the problem: authorizing earnings on required reserves.

Several methods have been suggested for accomplishing this. Some students of the membership problem have proposed authorizing the Fed to pay direct interest on required reserves. Others have proposed granting members permission to hold their reserves, or some part of their reserves, in interest-bearing government securities. Still others have suggested various schemes for granting members borrowing privileges at artificially low interest rates, thus providing them with an opportunity for earnings through reinvestment of such borrowings.

All these proposals have one thing in common: They would have the effect of increasing income to member banks. Unfortunately, this raises serious political as well as economic problems.

Payment of interest on member bank reserves would require legislation by Congress in the form of an amendment to the Federal Reserve Act. Political opposition to any such proposal could be expected from a variety of sources for a variety of reasons.

Correspondent banks, for instance, might view payment of interest on reserves as an inducement for small banks to seek Fed membership, thereby reducing their demand for correspondent services. Actually, there are few grounds for such concern on the part of large correspondent banks for, as I mentioned a moment ago, studies show that *smaller* member banks presently use the services of commercial correspondents to almost the same extent as small nonmember banks. So, even if payment of interest on required reserves were to attract more small nonmember banks into the Federal Reserve System, correspondent banks probably would not find the market for their services much reduced.

Further opposition to interest on reserves could be expected from nonmember banks, which probably would view such action as a loss of the competitive advantage they now enjoy.

But the primary cause for opposition undoubtedly would arise from the fact that payment of interest on reserves would have the effect of reducing the amount of funds presently being returned each year by the Federal Reserve System to the U. S. Treasury.

Remembering 'Lucky Lindy'

Clarence C. Barksdale (r.), ch. & CEO, First Nat'l, St. Louis, is shown being interviewed by Geraldo Rivera, reporter for ABC-TV's "Good Morning, America" program. Mr. Barksdale and Mr. Rivera stand in front of a replica of the Spirit of St. Louis plane, which the late Charles A. Lindbergh flew alone from New York City to Paris in 1927. Mr. Barksdale is pres. and gen'l ch., Spirit of St. Louis 1927-77 Committee, which spearheaded a giant celebration in St. Louis the weekend of May 20-22 in honor of the 50th anniversary of the Lindbergh flight. The interview was shown on national television May 20, which was the date on which Mr. Lindbergh took off on his historic flight. St. Louis had a special part in the Lindbergh flight because some businessmen in that city gave him the financial backing to have a plane made for the trip.

In 1976, member bank reserves averaged about \$34 billion. At an interest rate of 4.5%, interest on those reserves, if it had been paid, would have amounted to approximately \$1.5 billion a year. Thus, Federal Reserve earnings, which presently amount to upward of \$6-6½ billion annually, would have been reduced by \$1.5 billion. And, since the Federal Reserve transfers all its "profits" to the Treasury, Treasury revenues from the Fed could be expected to decrease with payment of interest on reserves.

Of course, Treasury revenues wouldn't decrease by the full \$1.5 billion because member banks would return a portion of that sum to the Treasury in the form of taxes. Still, they would be reduced substantially.

The fact that funds currently going to the Treasury would increase earnings of commercial banks almost certainly would spark opposition from some members of Congress and certain segments of the general public who frequently are suspicious of anything that increases bank profits. And the effect of opposition from these sources cannot be minimized.

Thus, any solution to the membership problem involves immense inherent complications. Unless you readers have not already become totally discouraged, let me point out still more factors complicating the solution of the membership problem.

As you know, thrift institutions in several northeastern states have been authorized to offer their customers interest-bearing accounts that do not differ substantially from checking accounts. Negotiable orders of withdrawal, or NOW accounts as they are commonly called, seem destined to spread nationwide.

Extension of NOW accounts could further exacerbate the membership question, for member banks, when subjected to the increased cost of paying interest on NOW accounts, would be even more resistant to bearing the cost of Fed membership. It can be safely assumed that, unless a way is found to reduce the cost of Fed membership prior to, or simultaneous with, the extension of NOW account authority, erosion of Fed membership will continue at an accelerated pace.

This brings us to still another complication: the issue of access to Fed services by nonmember financial institutions.

While thrift institutions are threatening to compete nationwide with commercial banks for checking-account business, thrifts and other nonmembers also are pushing for access to Federal Reserve services without having to bear membership costs. Concurrently,

(Continued on page 40)

Systematic, Reasoned Approach Needed To Reduce Regulatory Overlap

By GEORGE A. LeMAISTRE
Chairman
FDIC
Washington, D. C.

WHEN I talk with businessmen, bankers and consumer advocates around the country, I hear one persistent complaint: profound dissatisfaction with the pervasiveness of governmental intervention in our day-to-day affairs and with the reams of paper required to effect even the simplest and least controversial transaction.

Although I'm not optimistic about the prospect of reversing this trend, there's reason for hope. Increasingly, liberals and conservatives alike recognize that we have a real problem on our hands and that failure to deal with it threatens to disrupt our economy and stifle our society.

The issues involved aren't simple. Most informed people share the recognition that our economy is too large and complex to function properly without some governmental supervision or regulation. For example, while some might disagree with the direction of monetary policy at a particular time, few would deny the need for a mechanism to control the quantity of money in the system. Similarly, although one may disagree with the specific policies of many environmentalists, the absence of some controls over disposal of commercial waste and other pollutants would lead to disastrous consequences in a highly industrialized society such as ours. Finally, I believe there's general agreement that some surveillance and supervision of individual banks' operations are required to avoid an excessive number of failures and the resulting economic instability.

Accordingly, the problem is not that regulation and supervision of economical and commercial affairs are inappropriate, but rather that regulation often outlives the problem it was intended to address; that we don't always take sufficient care to choose the least costly and drastic means to achieve the desired end and that often, regulation results in unanticipated consequences that can be more severe than the problem the regulation sought to remedy.

However, it's not surprising that these problems are so rarely dealt with effectively. All too often, those who are regulated, while screaming loudest about the sanctity of an unfettered free-enterprise system, grow comfortable in their regulated environment and resist mightily when any serious effort is made to deregulate. Similarly, regulatory bodies acquire a vested interest in their own existence and the "turf" they regulate, and this prevents their objective assessment of the regulatory policies they pursue. As a result, government agencies often are loath to engage in critical self examination. Finally, it must be acknowledged that while it's possible to deal with these issues with some ease in the abstract, real-world solutions aren't easy to produce. In part, this is a consequence of practical politics and the fact that any change in the framework of an industry's regulation may lead to significant short-run dislocations or adjustment costs. At least as important, however, is the simple fact that answers to many of these problems are extremely difficult to discover.

These factors provide a partial explanation of why bank regulatory reform efforts have failed to date and why the growth of government and regulatory agencies seemingly is inexorable. Notwithstanding the difficulties, I believe it's important—and perhaps crucial—that bankers and bank regulators develop a systematic and reasoned approach to regulatory reform. In my judgment, the failure to develop such a positive approach will have several adverse consequences. A golden opportunity will be lost to deal in a meaningful way with problems of excessive and inefficient regulation at both state and federal levels and to highlight the unintended ill effects and hidden costs of regulation. Similarly, an opportunity will be lost to remedy certain demonstrable inadequacies in the present supervisory framework.

I don't intend to focus on the subject of bank regulatory reform generally, but rather on a facet of that subject—that is, the overlapping and, at times, conflicting relationships between state and federal bank regulation and supervision. It's conceded by all that extensive overlap of law and functions exists. What's not well known is the extent of the costs and problems that may flow from this duplication or the gaps that may exist in regulation by virtue of tasks simply "falling between the cracks." And, conversely, we don't have a grasp of the benefits that may flow as well from this redundancy.

As I have suggested in the past, the relationship between state and federal

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The talk on which this article is based was given by Mr. LeMaistre at the annual convention of the Conference of State Bank Supervisors last month.

Barnett Leaves FDIC

WASHINGTON, D. C.—Just as MID-CONTINENT BANKER was going to press, announcement was made of the election of George A. LeMaistre as the new FDIC Chairman. Robert E. Barnett, who had been chairman since March 18, 1976, resigned as of June 1 to join a law firm here.

Mr. LeMaistre was ch., City Nat'l, Tuscaloosa, Ala., when he received the FDIC appointment in 1973. He is a past president of the Alabama Bankers Association.

Mr. Barnett holds a law degree from Harvard Law School.

bank regulation cries out for rationalization to a far greater extent than does the framework at the federal level. Because I cannot now prove this case to my own satisfaction and because I am not certain as to the appropriate solution to the problem, I intend to propose to the FDIC board that we sponsor a comprehensive and detailed examination of this subject.

At this juncture, I should digress to make clear that I don't mean to attack, explicitly or implicitly, the dual system of bank regulation and supervision and to explain why I think it's important to develop new strategies aimed at assuming the continued vitality of that system. Indeed, I'm opposed to consolidation of bank supervision and regulation at the federal level because I believe the existence of regulatory choice implicit in our dual system is one of the primary reasons we have a diverse, competitive and innovative banking system.

This is not to say there's any magic in the notion of a dual-banking system per se. Many countries get along well with a unitary system of banking. Indeed, many arguments on behalf of dual banking tend to get lost in rhetoric and, as a result, fail to make most effectively the case in its favor. Similarly, by our attachment to the rhetoric of dual banking, we may ignore the need to take the steps necessary to ensure its continued stability. Nor do I reject out of hand arguments advanced by proponents of consolidation. Indeed, consolidation at the federal level would result in certain economies, and, if nothing else, would make the system tidy and more comprehensible to those unfamiliar with its intricacies.

Nevertheless, I strongly favor and will argue vigorously for a bank regulatory system that maintains the concept of regulatory choice at state and federal levels for two reasons. *First*, the system is in place and, unlike many other regulatory structures in government, it's functioning effectively and has demonstrated the capacity to change; in effect, to reform itself. Given this fact, it seems to me that those who argue against the efficacy of regulatory choice bear a strong burden of persuasion. *Second*, and perhaps more importantly, banking history demonstrates that the existence of regulatory alternatives provides, in part at least, one of the mechanisms the regulatory reform movement seeks—a means of self adjustment and self reform. In effect, something like a market mechanism may be seen at work with good regulation driving out bad over the long haul.

Recent banking history is replete with examples of this phenomenon. Although many disagreed with the specifics of his decisions, it's clear, in retrospect, that Jim Saxon (former Comptroller) served the banking industry and the public well by allowing national banks to do things repugnant to his colleagues at the FDIC and the Fed. In effect, he helped take banking out of the conservatism that was a holdover from the depression. Similarly, in recent months, while Congress has found itself unable to act, state legislatures and state regulators have taken the lead in pursuing alternative strategies of dealing with financial reform and electronic funds transfer systems. As a result, we have numerous laboratories whose experiments will provide insights as to the most nearly optimal approach. Also, I find it highly doubtful that a single banking agency would have felt the need to implement significant reform in its examination and supervisory procedures as did the Comptroller of the Currency's Office. At least at this juncture, I think it's beneficial, not harmful, that the FDIC and the Comptroller's Office have different strategies for dealing with the insider-abuse problem.

Because of my views that regulatory choice is, on balance, beneficial, my purpose in focusing on the overlap between state and federal supervision and regulation is not to suggest that either the state or the federal government should retire from the field, but rather that we should begin a systematic examination of this relationship aimed at ensuring its continued vitality. This is especially important, from the point of view of state banking, given some of the forces at work in banking today. We're all aware, for example, of the Fed's concern with continued attrition from the system. Because of this concern, the Fed is certain to come forward with a proposal aimed at minimizing attrition through payment of interest on reserves, probably coupled with a proposal for nationwide NOW accounts. At least one observer—Carter Golembe—has pointed out that if the Fed is successful in minimizing membership costs, a powerful incentive will be created for banks to seek a national charter to avoid dealing with two regulators.

In my judgment, the best insurance we can have for the health of state banking is not a defensive or negative posture, but rather an objective and creative, if at times painful, effort to revitalize the system. Although overlap between state and federal supervision hasn't been a focus of attention during the past three years, the problem has long been recognized.

A concrete effort to eliminate or minimize the overlap recently was completed at the FDIC. On February 1, 1974, the FDIC, in cooperation with the Conference of State Bank Supervisors and the states of Iowa, Washington and Georgia, embarked on a 13-month program whereby the FDIC would withdraw from examining a certain percentage of state nonmember banks in each of those states. The experiment was designed to study the implications of relying solely on state banking department examinations. At the beginning of 1975, the corporation determined that a fair and more comprehensive evaluation of the experiment could be made if two consecutive examinations were undertaken by each state banking department. Accordingly, the experiment was extended. In 1976, the FDIC conducted an examination of each of the banks that had been examined by the states during the preceding two years, with the states examining those banks they had not examined in 1974 and 1975. The objectives of the 1976 FDIC examinations were to provide a basis for evaluating the experiment as well as assessing the condition of the examined banks. Early this year, an analysis was made of each examination by the FDIC's Division of Bank Supervision and an appraisal made of the experiment as a whole. Based on the recommendations of this division, the FDIC determined not to expand the withdrawal program on the basis pursued in the experiment. Rather, an attempt will be made to implement

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Adams of Arkansas Elected CSBS President/Chairman

Harvel C. Adams, Arkansas banking commissioner, was elected president and chairman, Conference of State Bank Supervisors, at its 76th annual convention last month. Another Mid-Continent-area banking commissioner, H. E. Leonard of Oklahoma, was elected CSBS second vice president and chairman, district meeting planning committee.

Elected first vice president-president elect was E. D. "Jack" Dunn, Georgia commissioner of banking and finance, while Harry Bloom, Colorado banking commissioner, was elected secretary-treasurer.

Other Mid-Continent-area men named to CSBS posts are: chairman, District Three, Joseph H. Hemphill, Tennessee banking commissioner; chairman, advisory council, Van Smith, president, Bank of Tuckerman, Ark.; vice chairman for membership promotion, Earl Triplett, president, Memphis Bank; advisory council member, District Two, C. Wayne Highsmith, president, Edgemont Bank, East St. Louis, Ill.; and advisory council member, District Four, Charles L. Childers, president, Tyler (Tex.) Bank.


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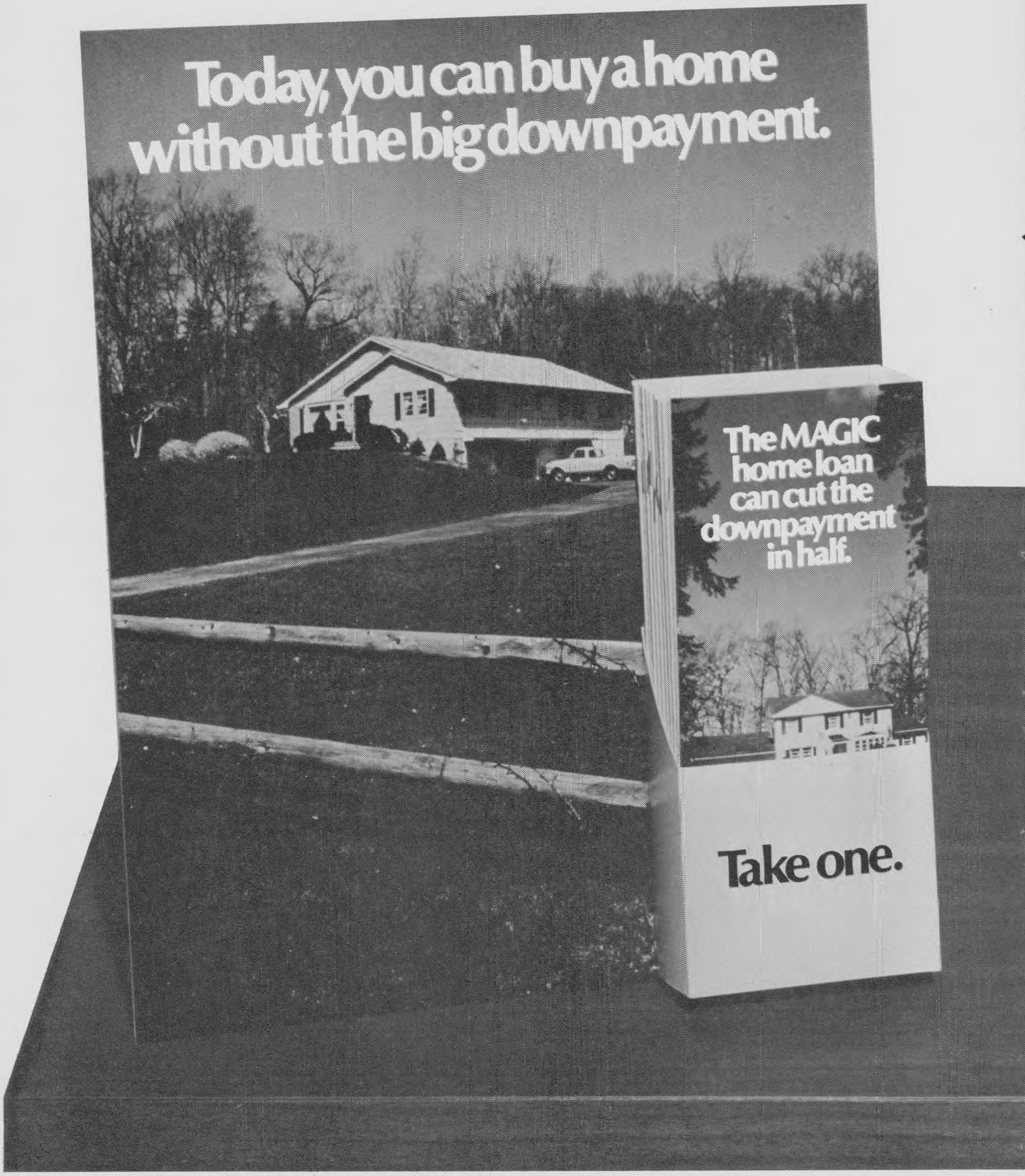
How to win customers



a "divided examination program," whereby examination and supervisory responsibilities continue to be shared, but manpower is used more efficiently. An agreement to proceed in this fashion has been concluded in Georgia, and it's anticipated that such agreements will be reached in other states.

Such efforts as this don't begin to address, in a comprehensive manner, the possible problems posed by the relationship between state and federal bank regulation. Moreover, while, throughout this discussion, I have referred to the problems resulting from duplication and conflict inherent in this relationship, I have not yet made a systematic case for the proposition that the overlap involved creates serious problems.

However, it's possible to identify some of the sources of serious concern. First of all, it's clear to me that there's no need for two complete agencies to examine and supervise the safety and soundness of a single financial institution. Accordingly, either the state or federal government, in this case, is bearing unnecessary cost and wasting scarce resources that might be used more efficiently elsewhere. For example, both consumers and the financial community might profit if these scarce resources were concentrated on problems that are not addressed effectively at the federal level. Conversely, by deferring to the states in areas where they have a comparative advantage, federal regulators can bring their resources to bear more effectively on serious problems. Second, it also seems clear to me that, as Carter Golembe suggested, it's usually more costly and burdensome for a bank to deal with two regulators than one. Third, in cases where problems arise, the need for two regulators to coordinate their actions sometimes means that a problem or violation is dealt with less vigorously and expeditiously than it otherwise might have been handled. We've found that the problem of coordination is especially severe in bank-failure cases.

Although it's possible to outline these problems and possible sources of unnecessary cost, I must admit that I don't have a precise handle on the extent and costs involved. Nor am I certain that I have identified all the problems or given them proper weight. Moreover, if there are solutions to the problem, these strategies must be spelled out in greater detail than they have been to date.

For these reasons, I intend to propose to the FDIC board a comprehensive study, which will attempt to address, in an objective and systematic fashion, the questions I have raised. Such a study would, first of all, try to describe in detail the relationship between state and federal bank supervision and regulation so as to pinpoint precisely the nature and extent of duplication and conflict that actually do exist in the system. Such a study would focus on the costs and burdens that flow from such redundancy as well as benefits that flow from the present system. Additionally, the study would seek to identify special problems that arise as a result of this unique partnership between state and federal regulators. The goal of such a study wouldn't be a development of one master plan as to how to rationalize this system, but rather a series of options that might be pursued administratively, at the state or federel level, in Congress or in state legislatures.

It's my view that we should go forward with such a project because I believe that these issues are serious and because I believe, quite sincerely, that it's important to understand and to attempt to ensure the vitality of our dual system of bank regulation and supervision. • •

The Competition

(Continued from page 14)

ficient number of common grounds among depository types of institutions (which, incidentally, are growing less distinguishable from one another) to suggest that they may in the years ahead view themselves as "kissing cousins," with their real competition being perceived as the non-depository financial institutions that I alluded to before.

The potential flexibility of a bank HC is indicated by the following list of nonbanking activities that are permitted, pending or have been denied generally to national banks (from the Chicago Fed's *Economic Perspectives*, March/April, 1977):

Activities approved by the board—Dealer in bankers' acceptances; mortgage banking; finance companies (consumer, sales and commercial); credit card issuance; factoring company; industrial banking; servicing loans; trust company; investment advising; general economic information; portfolio investment advice; full payout leasing (personal property, real property); community welfare investments; bookkeeping & data processing services; insurance agent or broker/credit extensions; underwriting credit life and credit accident and health insurance; courier service; management consulting to nonaffiliate banks; issuance of travelers checks; bullion broker; land escrow services; issuing money orders and variable denominated payment instruments.

Activities denied by the board—Equity funding (combined sale of mutual funds and insurance); underwriting general life insurance; real estate brokerage; land development; real estate syndication; general management consulting; property management; non-full-payout leasing; commodity trading; issuance and sale of short-term debt obligations ("thrift notes"); travel agency; savings and loan associations.

Activities pending before the board—Armored car services; underwriting mortgage guarantee insurance; underwriting and dealing in U. S. government and certain municipal securities; underwriting the deductible part of bankers' blanket bond insurance (withdrawn); and management consulting to nonaffiliated, depository type financial institutions.

Isn't it a paradox that, as banks and other depository financial institutions take on one another's attributes, there is an opportunity for bank HCs to move into an ever-increasing number of activities? At the same time, the non-depository institutions are moving into varied financial and non-financial areas.

The type and kind of financial competitors, both depository types and non-depository types, are becoming hydra-headed. Hercules was successful in destroying Hydra, but I doubt that bank regulators and regulators of other deposit-type institutions—who have tasks similar to Hercules'—will be as successful! • •

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Customers of Missouri's Commerce banks who wish to make their homes more energy efficient not only will save on heating and air-conditioning bills, but receive help in making their homes energy efficient by way of special loans and advice from the banks.

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Among the home improvements that qualify as energy savers under the HC's loan program are increased insulation, new roofing, new siding, storm windows, a new heating or air-conditioning system, a new water-heating system and installation of a solar heating system.

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Healthy Trends in Banking Developing From Debate Over Capital Adequacy

By GABRIEL HAUGE
Chairman
Manufacturers Hanover Corp.
New York City

SUFFICIENCY of capital has both a colorful past and an assured future, though the pitch of concern has been a bit lower of late.

What is of growing importance with regard to this matter in our country is the way the supervisory authorities use the capital account, its size and composition, as a key control mechanism. This is not surprising when liability management has made reserve requirements less effective for such a purpose and when congressional expectations of regulators have heightened greatly.

The heart of the matter is how to provide for steady and suitable accumulation of capital so that banks may help satisfy growing credit demands at home (though this aspect currently is still in its celebrated lull) as well as provide their prudent share of the burgeoning requirements overseas. Let me make three brief comments on capital sufficiency:

First, we need to continue our highly successful efforts in helping define governing criteria. The rigid and rather arid formulas of the past have yielded to modern banks' pioneering research and publications. While the trend toward greater capital efficiency has been criticized by some as leading to hazardous leverage, by and large it has been accepted gradually by regulators, rating agencies and capital markets.

Second, internal accretions to the capital account must remain significant contributors. In this regard, apart from earnings, of course, dividend and tax policy are highly relevant.

Over the last two years, the marketplace has renewed its interest in corporate dividend policies. While the age-old trade-off between what should be consumed today and husbanded for future growth remains stubborn, many in the banking industry find a sensible solution in regular dividend boosts, rising but below the improvement in earnings.

Nor should the potential gain to capital accounts be overlooked from issuing Treasury shares to satisfy the needs of dividend reinvestment and profit-sharing plans as more than 30 companies in other industries are doing.

In the area of federal tax policy, the objective we seek obviously would benefit from the elimination of double taxation of dividends, a matter that appears to engage the interest of the present Administration. And let me urge bankers, out of recent experience gained in my own state and city, to be alert that their institutions are not used as lightning rods for anti-business political action, resulting in discriminatory state and local income taxation.

Third, resort to capital markets will come to be placed increasingly on a systematic basis within planning and fund-raising units, giving less emphasis to ad hoc visits to the markets at the "perfect" time. Innovations will continue to seek new ways of reaching the market on satisfactory terms. Progress so far has been spotty, but the effort must continue, sparked by our underwriters and our own staffs.

Finally, and basic to everything else, is the growing realization that earning power is capital. The recent reemphasis on boosting the rate of return on assets reflects rediscovery in the early '70s of this basic truth. It means getting more out of the resources available to us, i.e., increasing productivity. This return-on-assets strategy has taken the form of cost-control systems that really control, of "unbundling" product offerings in response to realistic pricing, of biting the economy bullet with respect to premises and products and people. It's one of the healthiest trends in banking.

Telling the Story. Just as the issue of capital sufficiency will be our regular companion in the years ahead, the same is true of its shadow—disclosure of operating and financial information.

In 1969, when the Fed made substantial amendments to Regulation F governing the what and where of bank reporting, it was believed by many that this matter had been definitively dealt with.

Such optimism was shortsighted and short-lived. The ensuing years have witnessed a steady demand for and offering of information. Annual reports have moved from a few comforting sentences on the orderly nature of the world and a few austere pages of financial statements to extensive, highly analytical documents that take hours to read and days of study to digest.

At one institution I know fairly well, the annual report of 10 years ago included three pages of financial statements and notes and one page of historical statistics. By 1976, these had increased to 19 pages of financial statements and notes and nearly 15 pages of supplementary disclosure. Full-scale quarterly reports also abound, to say nothing of the 10K, the 10Q, the F-1, the F-2, large bank supplements and prospectuses.

There is little doubt that this traditional disclosure is to the good in the broad scheme of things. Beyond what is required of us, industry leaders are engaged in what would seem to be a new challenge to the competitive spirit in banking: Take it off!

Two points here bear comment: First, have we developed a level and kind of disclosure substantially beyond the interpretative inclination of a majority of readers? Signs of what we might call "statistical fatigue" are apparent even in the professional investment community, where the number and quality of analysts following our industry, contrary to most, has increased over the last decade. The complexity and volume of disclosure have made it harder for any one expert to cover the spectrum of bank services. Security analysts, reviewing the banking industry some years ago, often specialized along geographical lines: West Coast banks, southeastern banks, money center banks, etc. More recently, they have begun to specialize along functional lines: international banking, retail banking, operations, real estate, to mention a few.

Beyond meeting the demands of some of our supervisors who seem to revel in esoterica, it's incumbent on us to bridge the gap in understanding with the sectors of society important to us. We must do more than we are doing to translate this extensive disclosure into an idiom understandable to the small shareholder, the press, the rating agencies, our customers. For example, at our place in March, the controller held a seminar on financial disclosure for members of the New York business and financial press. It was revealing to learn how welcome among them was a good deal of ABC discussion of notes to financial statements, for example, in our annual report.

It has been a source of great personal satisfaction to observe the impressive rise in amount and quality of public commentary by banks and bankers on subjects ranging from technical professional matters to broad political, social and philosophical themes.

The challenges, beyond our principal social obligation of rendering quality banking services, are many: the urban crisis, minority opportunity, community support, economic adult education, among them. I don't want to force the proverbial open door with regard to telling our story, but with our magnificent record, I say to bankers: Redouble the effort without forgetting the aim.

Shifting Area/Product Markets. For several years, it's been apparent that the lines of demarcation between one kind of financial institution and another were being eroded, perforated and bridged. Scarcely by a grand design, partly even by accident, we are in the midst of creating nationwide banking-service systems.

Individual banks, of course, have had powers for certain geographical and functional latitude, through authorized facilities such as loan production offices, Edge Act offices, factoring, merchant banking and other financial affiliates. And, of course, the calling officer himself is a highly efficient portable branch.

The amended Holding Company Act, however, was a deliberate effort to evolve an institution through which financially related services could be offered. While some banks have found the latitude afforded by the amended act rather limiting and others rather formidable, it's proving to be a step forward.

As we well know, regulatory authorities have become increasingly cautious about holding company possibilities. The degree of flexibility allowed in the future depends largely on how successfully our industry utilizes existing options within the risk scale as the regulators perceive it and with due regard for congressional concern about "financial power."

In this context, there arises the question of how foreign banks should operate within our continental limits. Their offices in this country presently report assets equal to about one-eighth of domestic banking assets, and growing rapidly. As international bankers, following the best example in the world, we believe in a forthcoming welcome to competitors from beyond our borders. The extent to which American banks can be permitted the range of freedom that foreign banks enjoy in this country—as against the extent to which foreign banks will be geared down to our permissible scope of operations—lies at the heart of the matter under resolution. We hope the inevitable compromise will lean toward the greatest possible freedom for all.

Electronic Funds Transfers. Most bankers are well aware of the voluminous information accumulating on the systems and services lumped together under the acronym, EFT. Our task is to sort reality from myth and to analyze how we can best put EFT to work for the customers we serve. The problem is scarcely new. A great many major developments in banking history relate to changes in the payment mechanism: from barter to coin, to paper money, to check and now to electronic pulses. Each generation of bankers has added some refinements to the internal efficiency and market utility of the mechanism. It's the state of technology and needs of the marketplace that determine the rate of progress.

As an industry, we are now in a position to effect critical changes that will impact the payment mechanism and how we conduct business well into the future. It's a formidable task as the first report of the National Commission on Electronic Funds Transfer makes clear. The core problem, of course, is the old one—fear of the unknown. To deal with it requires addressing the issues of privacy, fraud, liability, cost/benefit, cooperation versus competition, governmental control and/or regulation and market needs. And I emphasize market needs, only to point out that building an EFT system does not equate to providing an EFT service. While our market is both corporate and retail, the current focus is on retail EFT. Corporate EFT has evolved more quietly through the years with the Fed Wire, Bank Wire, Chips and, soon, SWIFT.

These EFT issues really are not new to our industry or unique to EFT. The jargon, the technology or the decibel level of the debate must not sway us

from our best instincts as bankers and businessmen. We shall innovate, but not let technological novelty for its own sake obscure our obligations to customers and shareholders. Nor can we fail to exercise the initiative in timely fashion, for if we lag, others are prepared to move out ahead.

Conclusion. Whatever prospects and problems the winds of change bring in the long, unwinding future, it's well to fix in our minds this root fact: We conduct our affairs under a franchise of the people, acting through their duly constituted authorities. Ours is not an ordinary business, but one charged with operating the economy's money machine. That we find ourselves under rather continuous drumfire is, therefore, neither surprising nor new, for there are those who see human relationships solely in terms of victims and victimizers.

But, on the other hand, we retain a great degree of freedom in our economic system. This can only reflect the fact that we have attended with skill and understanding to the needs of the people we serve and the society of which we are a part.

It is my judgment, supported by that of professional opinion readers, that we enjoy a position of respect and goodwill in the broad community. That means our franchise is secure. To keep it so remains in our hands and those who come after us. In the doing, let it be said of us that we held to first principles: responsiveness in service, prudence in judgment, integrity in dealings. • •

Fed Membership

(Continued from page 28)

the Justice Department is pressing the Fed to provide its clearing and transfer services without discrimination on the basis of membership, and to price these services in such a way as to permit competition from private nonfinancial firms that may want to offer similar services. Obviously, if present membership requirements remain unchanged, and if all financial institutions, member or nonmember alike, have access to Fed facilities and services without being subjected to reserve requirements, the incentive for maintaining membership would be all but eliminated.

All these issues have a bearing on proposals for solutions. All are obstacles to an easy solution. The membership problem, which in itself is complicated, becomes part of an extremely complex set of related issues, each of which affects many groups in many ways.

The Board of Governors and the Reserve banks have been working diligently to devise legislation to ease the membership problem. Hopefully, draft legislation will be forthcoming for consideration by Congress before too long. But any draft legislation is only a first step toward solving the membership problem. Any such proposals will be subjected to the legislative process, and along the way the many diverse interests involved—large banks, small banks, correspondent banks, member banks, nonmember banks, thrift institutions and public-interest groups—almost certainly will want to be heard from.

Each of these groups has special interests. Each can be counted on to express its own point of view vociferously. A consensus may not come easily.

Yet, a solution must be found. The Federal Reserve System must maintain the strength necessary to defend its ability to perform its functions effectively. If the Federal Reserve, through erosion of its membership base, were to be weakened so as to lose its ever-present traditional independence, we, as a nation, will be unable to maintain the economic strength that has provided the bulwark for our growth and prosperity. If that were to happen,

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every financial institution and, in fact, every individual citizen of the United States would suffer the terrible consequences, just as the people of Great Britain today endure the harsh economic conditions that have stemmed to a large extent from the loss of independence of the Bank of England.

So, I say, we must solve the Fed membership problem, and I have absolutely no doubt that we will. But to do so will require a spirit of "give and take" and a willingness of all parties concerned to compromise a portion of their own interests for the good of all.

American free enterprise has elevated us from a weak nation at the time of the Revolution into the greatest agricultural and industrial power on earth. So successful is our system that we define poverty at an income level higher than the average income level of the world's second most powerful nation, the Soviet Union.

I believe that we can maintain the economic progress we have made and build on it. A strong Federal Reserve System is an essential element in accomplishing that objective. For the Fed to function with optimum effectiveness, it must have a constituency of member banks that support the objective of the system and that are not penalized by reason of their membership in the system.

This is a critical time for commercial bankers and for representatives of our central banking system. Important decisions will be made that are certain to have an impact on our nation's economy long into the future. Whether we are able to reconcile our differences and work together to resolve them in the interest of a stronger and a greater America will determine the course and quality not only of our lives, but of the lives of future generations for years to come. • •

New Cash-Management Service Offered Firms, Correspondents By First Nat'l, St. Louis

ST. LOUIS—First National has begun offering its corporate customers and correspondent banks a new cash-management service. It's designed to provide a variety of daily bank-balance and account-activity reports.

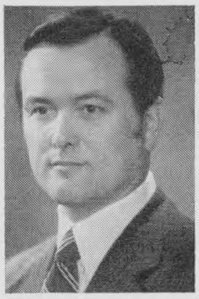
Information provided by the system includes ledger and collected balances, funds available and various debits and credits. The service also gives corporations and correspondent banks detailed reports on checks and draft payments, lock-box deposits, wire transfers sent and received and cash letters deposited.

The service is a cooperative effort between First National and National Data Corp., Atlanta-based data-entry, collection and information-dissemination firm. As the system has been designed, First National reports a customer's actual account and activity balance daily by magnetic tape to National Data's processing center. This data is stored in National Data's computer memory bank. When a report is required, the information then is assimilated by National Data and changed to a reporting form. These status reports can be transmitted via TWX, Telex, Mailgram, magnetic tape and telephone.

"Our new system enables First National corporate and correspondent cutomers to locate and identify their cash resources immediately, minimizing unplanned borrowings while maximizing their investments," says Clarence C. Barksdale, the bank's chairman and CEO. "The system also provides our customers timely account details and summary banking information allowing them to manage more effectively their cash positions on a daily basis. And it reduces the cost of collecting and reporting information."

Major Issues Involving Directors Discussed by Ex-FDIC Chairman

FORMER FDIC Chairman Robert E. Barnett discussed four major issues affecting directors at the 27th Assembly for Bank Directors in Mexico City recently. The issues are (1) the question of regulatory approval of changes of control in operating insured banks; (2) informed directors; (3) director compensation; and (4) possible federal legislative activity affecting directors.



BARNETT

When a newly chartered state nonmember bank seeks deposit insurance, he said, the FDIC has something to say about the control of the bank and about selection of the bank's directors. However, he added, the agency doesn't have any control over a change in ownership or control of the bank after it has been approved for deposit insurance.

Therefore, a bank may be chartered and receive FDIC insurance after a careful review by the agency and the state chartered authority concerning the financing of ownership interests in the bank. Shortly afterward, the bank may be sold to individuals or groups who would not have passed the initial review because they had borrowed too heavily to finance the purchase of the bank.

Such occurrences have happened in the past, he said, and might well happen in the future. They are not limited to instances in which the problem seen in the takeover group is simply one of financing.

FDIC regulations require that notice be given to the appropriate federal banking agency of changes of control or changes of ownership in all insured banks, he said, but no authority exists in any of the federal regulatory agencies to disapprove that change of ownership.

"The corporation has traditionally been reluctant to seek that authority and responsibility," he said, "but it may well be that the time has come for the corporation to change its position and urge Congress to give it the authority to prevent a change of control in a nonmember insured bank."

Many of the problems relating to abuse of insider positions have occurred shortly after a takeover by a new control group, he said. "We have recently been concentrating our examination and supervision efforts on banks in which there is a change of control, but that may not be sufficient in itself to solve the problem. It may be easier, more efficient and better for the banking industry as a whole if individuals or groups who have a history of abusing their insider positions are prevented from acquiring ownership in a bank, rather than trying to control them once they have achieved control."

Although the FDIC has something to say about the selection of directors of a newly chartered bank, it has no legal authority to determine who is or is not a bank director, Mr. Barnett said as he initiated his second topic.

"We do not expect or want all directors to be bankers by profession, but bank directors must make some effort to learn about banking and to take their jobs seriously," he said. "We are troubled by situations where directors serve solely because of the honor or prestige attached to being a bank director, and where the person so honored does not intend to be an independent force in forming the policies of the bank. We want informed and interested directors."

He said it is easy for directors to be informed when management makes an effort to supply information. "I wish that were the universal situation but, unfortunately, it is not. But even when management is not doing what it should to see that directors are kept informed, it is possible, even for a nonbanker director, to be knowledgeable if he asks the right questions and knows where to look for information. In banking, to a greater extent than in other businesses, I believe, there are sources of information that ease the job of knowing how your bank is doing and what condition it is in," he said.

The FDIC regards bank examinations as playing a key role in the process of keeping directors informed, he said. No matter which agency performs the examination, it provides a wealth of information and an excellent, even if somewhat critical, picture of the condition and financial situation of the bank. "These examinations are intended to be useful to the bank, and we think they are," he said. "Most managements feel the same way. Obviously then, directors should review the report of examination carefully."

He said the FDIC's policy is to meet with directors, at least in cases of problem situations. In keeping with this policy, he continued, it is the practice in most regions for the examiner to hold a meeting with bank directors if problems of consequence are found at the examination or if significant adverse trends are noted since the last examination. In virtually all instances involving problem banks, a representative from the FDIC's regional office will meet with involved directors, and, in most cases, an invitation is extended to the state authority to participate in the meeting.

"The FDIC is cognizant of the benefits flowing from more frequent meetings with the boards of banks under our direct supervision and anticipates holding such meetings with increased frequency in the future," Mr. Barnett said.

"We are also actively reviewing the posture of the FDIC in this regard with a view of improving on the timeliness and conduct of such meetings. Whether or not our examiners meet with the bank's board, it remains the responsibility of the director to familiarize himself with the substance of the examiner's

Mr. Barnett was FDIC chairman at the time he appeared before the Assembly for Bank Directors. He resigned his post June 1 to run the Washington, D. C., office of Kutak, Rock, Huie, Brown & Ide, a law firm with principal offices in Omaha and Atlanta. FDIC Director George A. LeMaistre moved up to fill the chairmanship vacancy.

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4 DUZITALL COIN WRAPPER
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comments and not simply assume that because nothing has been brought to his attention there is no need for him to investigate the report," he said.

Until recently, Mr. Barnett said, the FDIC has not officially notified a bank when it is placed on the problem list. More and more disclosure, both voluntary and involuntary, has been made by banks in the past few years of information that would have been judged to be highly sensitive—perhaps fatally sensitive—only a few years ago, he said. In most cases, he added, the disclosure has not proved disastrous or even particularly difficult for the affected bank.

"Whatever we may have felt about the possible side effects," he continued, "I have heard from many bankers and directors that they would like to be formally notified when the bank they're managing or directing has been placed on our problem list. To meet that request and because we feel that we will be able to make supervisory changes more easily if directors are aware of the problem status, we have begun an experimental program of formally notifying bank directors in two of our regions when the regional director makes a recommendation that their bank be designated a problem bank."

Whether or not the board of a bank on the FDIC's problem list is told that it is on such a list, he said, every director of every nonmember bank on the list should know that the FDIC is unhappy with the condition and management practices of the bank. The entire tone of the FDIC's supervisory efforts should leave no doubt in the mind of the director of a problem bank that his bank is a matter of serious concern to the FDIC.

"When we turn down an application for a branch on the basis of the financial condition or management weakness of the bank," he said, "or even when the most extreme possibility occurs and the bank is closed, there is no basis for a diligent director to be surprised. He has had ample opportunity to find out that the FDIC and others, such as independent auditors, think his bank is in difficulty and has had equally ample opportunity to acquaint himself with its condition."

When FDIC officials speak about the responsibility of directors, he continued, they usually talk about responsibility for the safety and soundness of the bank. But that's not the only area to which they are referring. Another area is that concerning the profitability of the bank.

He said that a good deal of research in recent years has led to the conclusion that sound, prudently generated bank profitability is crucial to the future soundness of the bank.

"We feel this strongly at the FDIC," Mr. Barnett said. "In our economic system, 'profitability' is not a dirty word and is, in fact, to be encouraged. We have been doing some work on the development of statistical early warning systems and we have come to the conclusion—one that has been defended by leading bank stock analysts for some time—that the most important key to the future of a bank is to be found in its income statement and its bottom line. Sound, prudently generated profits are crucial. This represents something of a change from the traditional view of the bank regulator that the balance sheet and bank capital ratios are the sole reliable indicators of bank soundness."

"Even though many directors are happy to serve because of the prestige involved, adequate compensation is an important factor in getting capable directors."

He said this stance creates some difficulties for the directors because, to a considerable extent, the earnings of a bank are not an accurate reflection of the skill and quality of management.

"The earnings performance of a bank depends largely on external factors," he said, "such as the general economy, the competitiveness of the relevant marketplace, Fed monetary policy, etc. But it is possible to compare the performance of your bank with that of other banks subject to these same external forces. There is a great deal of information available to facilitate such comparisons. This information is made available on a routine basis by the federal agencies, several investment firms and some firms whose major business is providing comparative banking data."

He said that the problem for the director may be that there is too much financial data available, making it difficult to see the forest for the trees.

"We can count on management to point out those areas in which the bank's performance looks good," he said, "but the director must take a broader picture than that. The FDIC, on a semiannual basis, sends a good deal of comparative financial information to each insured bank. We have found that many banks use this information as a basis of a directors' meeting and we have received many complimentary letters from bankers and directors about the value and usefulness of this information.

"When we looked into it a little deeper, however, we found that the banks that were pleased with this service were all banks whose performance looked good in comparison to banks in their area or other banks of their size. I am afraid that data for the bank whose performance looks bad may simply be thrown in the wastebasket and the board may see none of it."

Mr. Barnett advised directors whose banks look poor in comparison with others in the area to ask why. There may be a reasonable answer, but that answer should be brought out into the open. Management should be required to furnish an explanation.

The FDIC would like to see the most able people possible selected as bank directors, Mr. Barnett said, shifting to his third topic. However, he continued, in view of the responsibilities and risks involved, the best people are not going to be willing to serve unless they are adequately compensated.

"Our regulation on insider transactions implies that we do not believe that directors should receive their compensation in the form of favorable treatment in their dealings with the bank. Our view is that directors should be paid openly and directly for their contributions and for their assumption of responsibilities and that compensation should be in keeping with the contribution.

"We do not have a great deal of hard information about compensation of directors, but we do have some general impressions formed from conversations with bankers, with our bank examiners and with other experts in the field. Let me summarize these conclusions:

"First, banks pay directors substantially less than nonbank firms of comparable size. In many cases, the disparity is huge.

"Second, many banks have no guarantee of director compensation that reflects their ongoing responsibility. Instead, compensation is based on attendance at meetings. There may be some logic to that as a means of encouraging directors to attend meetings directly, but all the discussion we have heard of directors' responsibilities has stressed the fact that directors have an ongoing responsibility whether or not they attend meetings or vote on par-

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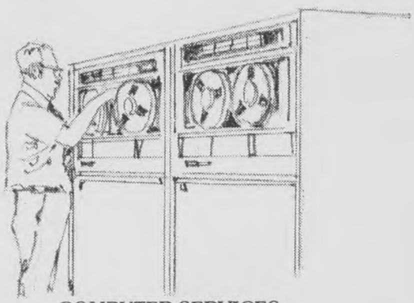

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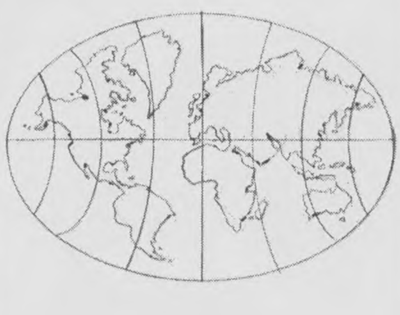

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ticular issues. Since there is a continuing responsibility, it may well be that there should be a continuing compensation.

"Third, supplementary services provided by directors (such as service on special committees) is generally not compensated for at a reasonable level. In some cases, there is no payment. In other cases, there may be a nominal payment of, say, $20 per meeting, even though preparation for the meeting may involve many hours of homework.

"Fourth, there is an extremely wide disparity in compensation of directors even among banks of the same size.

"What I want to stress is my strong view that directors should be adequately compensated."

He said that the FDIC's regulation on insider transactions is aimed at preventing directors or insiders from receiving benefits from the bank in a way that is not considered appropriate. The regulation is not aimed at holding down deserved and earned remuneration. Even though many directors are happy to serve because of the prestige involved, adequate compensation is important in getting capable directors.

Mr. Barnett said that directors should be paying attention to the general area of congressional activity, the final topic of his talk. Currently, Congress is considering expansion of NOW accounts and the payment of interest on demand deposits. The question of mandatory Fed membership or reserves for all depository institutions offering third-party payment accounts and the rapid development of EFTS will certainly get legislative attention.

Other important issues are agency restructuring or consolidation and simplification of Truth-in-Lending requirements, not to mention a number of bills in the general area of urban disinvestment and housing that are expected to be introduced, he continued.

Congressional banking committees have acted with a great deal of initiative and independence over the past few years, he said, not only in legislative tactics and strategy, but also in the more philosophical field of generating ideas.

Not only are the members of these committees cognizant of the complex issues facing banking, he said, but their staff members are well versed and philosophically determined.

It will be interesting to see whether the committees give the Carter Administration time to get up the speed in the areas of interest to banking and whether they will be willing to change their positions if they should differ from those of the Administration, he said. • •

National BankAmericard Sued By Ad Agency Over Use, Marketing Concept of 'Visa'

SAN FRANCISCO—National BankAmericard, Inc., has changed its corporate name to Visa U.S.A., Inc., in keeping with the change in name of its bank card from BankAmericard to Visa. Other former names for the Visa card are Carte Bleue, Chargex, Barclaycard and Sumitomocard. Over the next 30 months, 46 million cards and decals at 2,000,000 merchant locations in more than 110 countries will add Visa "as the final step toward assuring recognition and acceptance between all cardholders and merchants." Ibanco, Ltd., multinational membership organization for the worldwide Visa bank card program, has changed its name to Visa International Service Association, creating the acronym VISA.

As these moves are underway, an ad agency based here—Hoefer, Dieterich & Brown, Inc.—filed suit in superior court here against National BankAmericard for the latter's use of the Visa name and marketing concept in its international marketing and advertising operations. Ibanco, Ltd., also is named in the action.

The ad agency's suit maintains that the Visa name and marketing and advertising concept were created by the ad agency in 1973 and introduced to National BankAmericard at that time as part of a competitive presentation for its advertising account. Hoefer, Dieterich & Brown subsequently was awarded the account, but was told that its presentation was merely an exercise and that its ideas and materials regarding Visa would not be used. Within weeks after being selected, the ad agency resigned the NBI account because of professional conflicts, an agency spokesman says.

The suit claims that the Visa name and marketing concept are advertising property belonging exclusively to Hoefer, Dieterich & Brown.

In response to the suit, National BankAmericard—in the person of D. W. Hock, its president—has this to say: "The word 'Visa' has been used in connection with travel and commerce from time immemorial; in fact, it has been used in connection with banking services since 1972. The notion that it is the property of an advertising agency is ridiculous. We consider the claim to be totally without merit, both in fact and in law, and intend to vigorously defend this lawsuit." Mr. Hock also is president of Ibanco.

• **Robert F. Miailovich** has been appointed assistant director (supervisory surveillance and enforcement) in the FDIC's Division of Bank Supervision in the Washington, D. C., headquarters office. He had been special assistant to the chairman since 1975. In his new post, Mr. Miailovich will initiate and administer programs that monitor banks, identify potential problem characteristics and enforce corrective action. He has been with the FDIC since 1963.

How Automated Financial Analysis Works as Tool for Commercial Lending

By DAVID M. COIT
Commercial Lending Officer
First National Bank
Boston

THE TRADITIONAL role of the computer in banking has been primarily to reduce the dependence on clerical manpower through the use of automated procedures. The application of the computer to provide accurate, timely and detailed management information, however, has been slower to develop.

Recent changes in the banking and accounting environment have enabled commercial banks to make better use of management information systems (MIS) to improve the efficiency of the commercial lending function. Automated financial analysis (AFA), a system developed jointly by the credit department and the EDP services division of my bank, represents one of these recent programming developments.

The objective behind the AFA system was to develop a more dynamic tool for corporate financial analysis which would assist the lending officer in making credit decisions. More specifically, our objective was to accomplish the following:

- Reduce the cost while improving the speed, uniformity and quality of credit analysis.
- Place more emphasis on a borrowing customer's past and projected funds flows for a clearer understanding of a potential credit.
- Create a data base from which additional information could be generated for industry comparisons, marketing information, internal operating reports and a host of other applications.
- Ultimately improve the quality and management of the loan portfolio, and reduce loan losses through more timely recognition of deteriorating credits.

The Base Report. Three sets of management tools can be generated by the computer as part of the AFA system. The first tool is a fairly traditional *base report*. This report includes a simple restatement of a customer's financials in the bank's format. In a number of cases, balance sheet and income statement entries are re-categorized to reflect the bank management's desired treatment of certain items. The rest of the base report is generated by the program from the basic balance sheet and income statement input plus some additional information extracted from the footnotes. These sub-reports include a synopsis of important footnotes, a reconciliation of net worth, a sources and uses statement for working capital, ratio analysis, common statements (the expression of all balance sheet and income statement items as a percentage of total assets and gross income, respectively) and a trend analysis.

The Funds Flow Report. The second report is the *funds flow report*, which provides an in-depth analysis of a company's cash cycle. The report emphasizes four major categories as net generators or users of cash. The first area sums all operating revenues and expenditures during the year and calculates a net funds flow from operations. The second part determines the net funds flow resulting from changes in trade and operational balance sheet accounts, while the third part calculates the net funds flow from external sources. A fourth category, for discretionary and other miscellaneous funds flows, includes capital expenditures, additions to intangibles and extraordinary gains and losses. These four groups of funds flows are netted to the change in cash and equivalents over the period in question.

The purpose of this report is to give the loan officer a readily available tool for checking where funds are being used or made available. It is hoped that the report will also provide a clearer understanding of where repayment for a loan is likely to come from.

The Forecast. This funds flow analysis is an integral and important part of the third tool in the AFA system, the *forecast*. This potentially effective tool will allow the credit analyst or loan officer to run some relatively sophisticated projections of capital requirements, as well as a full set of base report analyses showing the effects of projected business activity on ratios and performance indicators. The further dynamics of sensitivity analysis are available by manipulating the input assumptions based upon historical trends, industry standards or the estimates of management and the loan officer.

The key element in this whole analytical process continues to be the lending officer. These reports do little more than massage the available figures from a variety of angles and thereby provide the officer with a more complete picture of the story they tell.

A number of major changes in the financial environment have made automated financial analysis possible. These changes have occurred both in the accounting profession and within the operations areas of banks themselves.

Changes in banks. In banking, the computer has been used primarily to reduce the awesome overhead costs of "back-shop" operations. The shift of the clerical burden onto the computer represents a logical and necessary evolution for banks, where the labor savings alone in areas like check processing have made such shifts easy to cost-justify. The computer also takes up less space and, in most cases, can be run 24 hours a day.

A secondary function has been to develop new customer services that would strengthen corporate relationships while also helping to pay for the computer. In addition, the quality and cost of a number of existing corporate and bank services have been improved by computer application. Services such as payroll, automated financial accounting and freight payment have been run with significant labor cost savings, reductions in paper work, greater speed and improved accuracy, while maintaining the flexibility to handle special situations.

Additional incentives for AFA's development. It is hard to argue with

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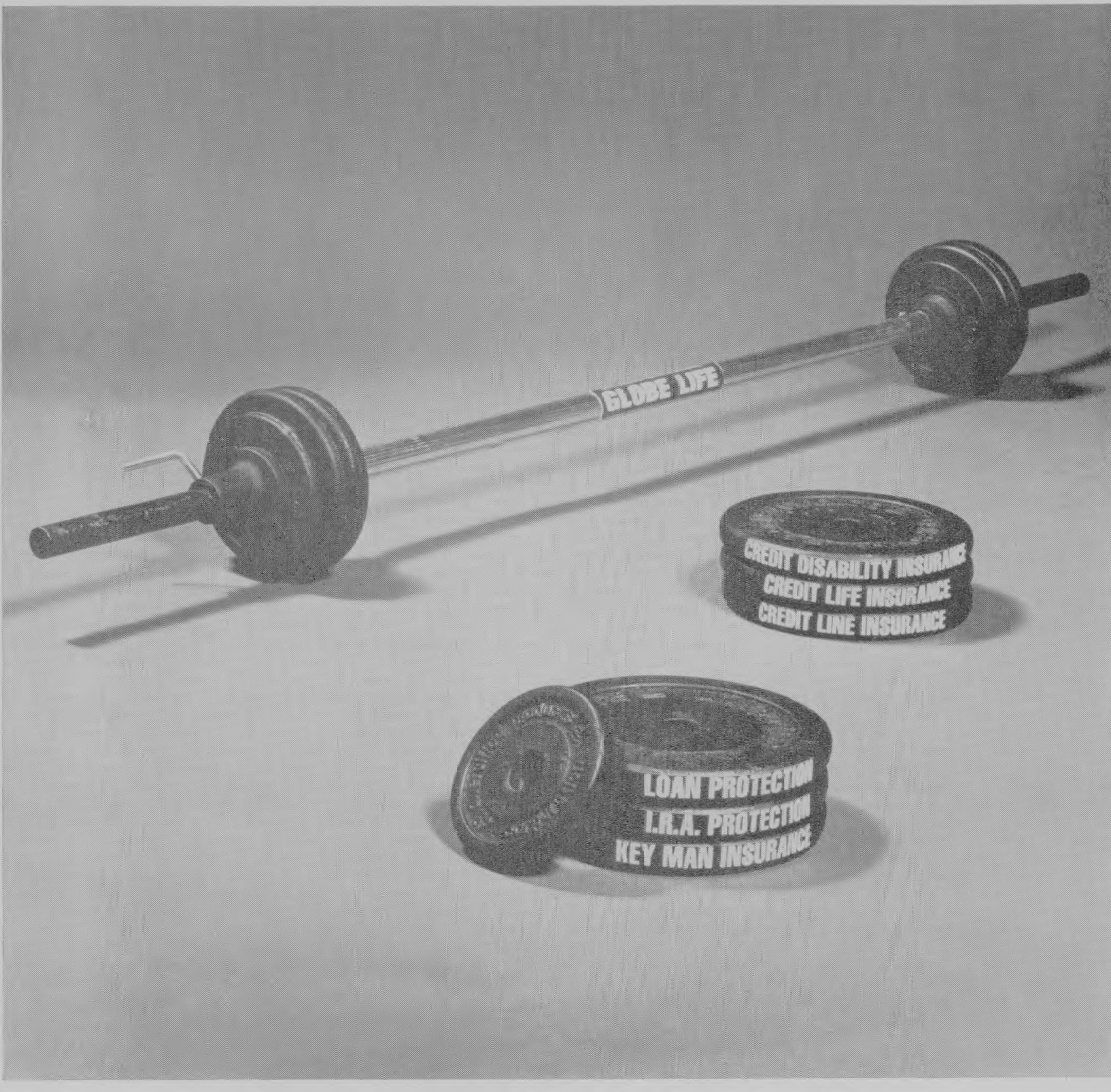

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banks' initial emphasis on clerical computer applications, where the dollars saved are so apparent. On the other hand, it is difficult to say specifically that a new automated financial analysis system would "red flag" a bad loan early enough to warrant the cost of the program. Thus additional incentives have had to play a significant part in the development of AFA.

The fact is that many banks have exhausted most of the major labor-saving computer applications and are looking for new ways to employ available resources. Many banks have additional main-frame capacity or can add capacity at limited expense, and some have talented computer analysts and programmer staffs anxious to develop challenging new and productive systems. The availability of these resources has made it possible to consider shifting the emphasis from transaction systems and record keeping to information, control and decision support systems.

Among the banking industry's leaders in the application of computer technology for financial analysis has been Robert Morris Associates. RMA's *Annual Statement Studies* provides a dynamic breakdown of industries by SIC classification and size for comparative analysis. Banks' use of a computerized data base could vastly simplify the input process to RMA for this accumulation of data. And an eventual link-up between a bank's computer and RMA could generate a quick comparative and variance analysis on any company within the scope of the RMA report.

Changes in accounting practices. Changes in accounting principles have had no less effect in making automated financial analysis possible.

The accounting profession, the SEC, and other federal government agencies are all pressuring corporations for greater disclosure and more uniformity in published financial reports. From this type of data it is much easier to develop a more accurate, detailed and standardized financial analysis for any credit or investment decision. Before these changes, the variety of financial presentations required that the figures be analyzed individually. Often presentations varied so much that comparisons to other companies or the development of industry standards was either impossible or misleading.

Organization. The most important factor in the successful development of any new automated system is proper initial organization, involving heavy user participation. Specific delineation of the requirements, objectives and capabilities of all parties involved will help assure a smooth development and a substantive system once it is in operation.

One key element in the project's organization is the staffing of the development team. It should be made up of credit personnel on one side and computer systems personnel on the other. Since the system is user-oriented, many of the output requirements must be determined by credit people, and the credit side of the team should stay in daily contact with the programmers to assure that the output criteria are being understood and met.

Working relationship of users and programmers. The users probably will not be aware of all the system's capabilities or limitations for meeting their criteria. Therefore, a serious education process is necessary not only to inform the programmers of the requirements of the system, but also to inform the users of the computer's capabilities. This educational process should delve into what is required in the data base as well as the logic of the output and of the system, so that both sides of the team can maintain an open and effec-

Great craftsmen are infinitely patient and skillful with the tools of their trade and their lives are animated by a spirit that dares to be different. Good banking is a craft that must be practiced and developed by men and women who, like artisans of great skill, care about the the lasting quality of their work.

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"The AFA could be offered as a service to other banks which either do not have the resources to develop their own system or are unable to justify the expense."

tive dialogue throughout the system's development.

The intensity of the project development also requires a high degree of compatibility among team members. The ability of all team members to communicate with each other in the language of credit analysis and of computer technology is an important element in this mutual undertaking.

Once the team is established and the initial education process is completed, the members should discuss and think through *all* aspects of the program from the needs and objectives, to the staffing and paper flow, to transition and acceptance. Each aspect should be considered in the present environment, while allowing flexibility to adjust to accounting changes or to add on other services or reports at a later date. The ultimate responsibility for "finalizing" the initial systems design should rest with the eventual user group or the credit members of the development team. Conceptual changes will undoubtedly occur throughout the development of the functional specifications, but once these are "finalized," all specifications must be frozen during the programming phase; otherwise, cost overruns and missed target dates will occur due to continually changing programming requirements.

Scope—non-technical. The scope of the AFA system will be determined largely by the portfolio of loans to be analyzed. If many of a bank's borrowers are private companies that publish their own financials, the possibility exists for some inconsistent applications of their numbers. This could cause distortions in the analysis, negating much of the benefits of a standardized system. The obvious strength of a particular company or the overbearing qualitative (vs. quantitative) aspects of a credit may also eliminate the need for the in-depth analysis by an AFA system. But most commercial banks lend to a large number of companies who have their figures audited. And those financials lend themselves readily to a standardized, in-depth analysis.

Another major determining factor for the scope of an AFA system is its acceptance by the loan officers who will use it. Naturally enough, many loan officers have their own analytical systems and prefer to do their own spreading to get a better "feel" for a borrowing customer. Widespread use of this approach could result in a general rejection of any standardized/automated system.

The depth of the analysis can range from a simple reproduction of financials plus a few key ratios to a detailed ratio analysis, trend analysis, common statement, funds flow analysis, forecast and industry comparison. And the system can cover the full gambit of credits. Separate programs provide a more accurate analysis for those industries—most notably the utilities, motor carriers and finance companies—that publish financials in a different format than do most manufacturing and service companies.

Alternative uses for the program could also expand the scope of the system. The AFA could be offered as a service to other banks which either do not have the resources to develop their own system or are unable to justify the expense. By the same token, AFA could become an effective bank service to corporate customers, especially in the area of forecasting funds flows. We have been experiencing a relaxation of resistance to such close scrutiny by a number of borrowing customers, especially with the increase in secured loans. A number of customers have been very enthusiastic about the opportunity to make use of the forecasting analysis. Such an attitude is beneficial to both sides of a credit and usually results in a stronger relationship with the customer.

Other potential outside users of the system might include investment brokers, life insurance companies, rating services and a number of other financial institutions.

An important area within the bank that actively makes use of the funds flow forecasting tool is the workout section. Here the application helps answer some of the questions of when and how large a paydown of a loan can be expected. Such analysis can influence the decision about pumping new funds into a situation in anticipation of a more successful return of principal.

The data base created also provides the opportunity to generate additional internal management and operations reports. A few examples of these would include an internal loan rating system, an internal loan auditing system, a scan for RMA input filings, a non-borrowing customer list for marketing purposes, a term loan compliance report, a statement overdue report for loan administration and any number of additional applications. Once the initial base report and the data base are established, many of these additional reports can be relatively easy and inexpensive to generate.

Scope—technical. Once management has established a level of commitment, there is a seemingly limitless variety of technical alternatives available involving trade-offs among speed, compatibility and flexibility. It might prove helpful to highlight a few major areas for consideration.

The *design of the data base* is the first area. A larger data base retains greater detail and is more expensive to maintain. But it allows greater flexibility to create additional management

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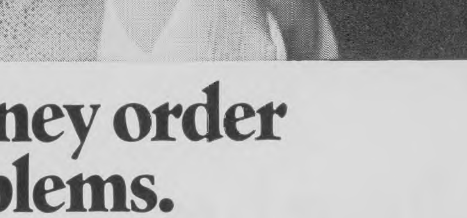

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or operational reports and corporate services and to tie in with other existing bank programs. Additional flexibility is made possible through the use of flexible input categories to customize reports for peculiar corporate structures within industry groupings.

Data storage can be handled by tape, disc or drum. The trade-offs here are fairly straightforward among speed, capacity and expense. But the storage mode is often determined by the on-line or off-line capacity of the system.

On-line vs. off-line systems—The more expensive on-line system ties up computer capacity and is usually only economically feasible if the system is shared by a number of users. Such operations are usually not compatible with the other operations on a bank's main-frame computer. An off-line system is more likely to be compatible because it allows the processing of AFA work to be scheduled around the more time-critical functions of the main processing unit.

A *key-to-disc data entry system* can be a helpful instrument during the input stage. Because it is minicomputer-based, balancing and editing routines can be programmed to carry out some basic checks on the input and ensure that only "clean" data are entered into the AFA system. The cost of this additional step is likely to be offset entirely by the savings in processing costs of incorrect reports, which must be rerun after correction.

The *programming* itself and how much flexibility can be written into the system is a final major technical consideration. The ability to modify a program in a changing environment and to generate additional reports from an existing data base is largely a function of the design principles and techniques employed by the programmers. Their clear understanding of the functional logic of the whole system makes this possible. It is well worthwhile to assign this project to top computer analysts and invest the time to educate them in financial analysis to assure the system will be flexible.

It follows that management must have an appreciation of the technical as well as the nontechnical trade-offs in order to get the most out of their investment in such a project. The degree of their commitment to the program should depend upon both the frequency and importance of the program's use. The cost and adaptability of its implementation are also considerations. If user needs are not great, then perhaps these capabilities should be purchased outside the bank, thereby avoiding the substantial fixed development and operating costs.

The introduction of the new automated system actually begins with strong user involvement in the organization of the project. During the ensuing system development, continued interaction between the programmers and the users will foster greater mutual acceptance of the AFA.

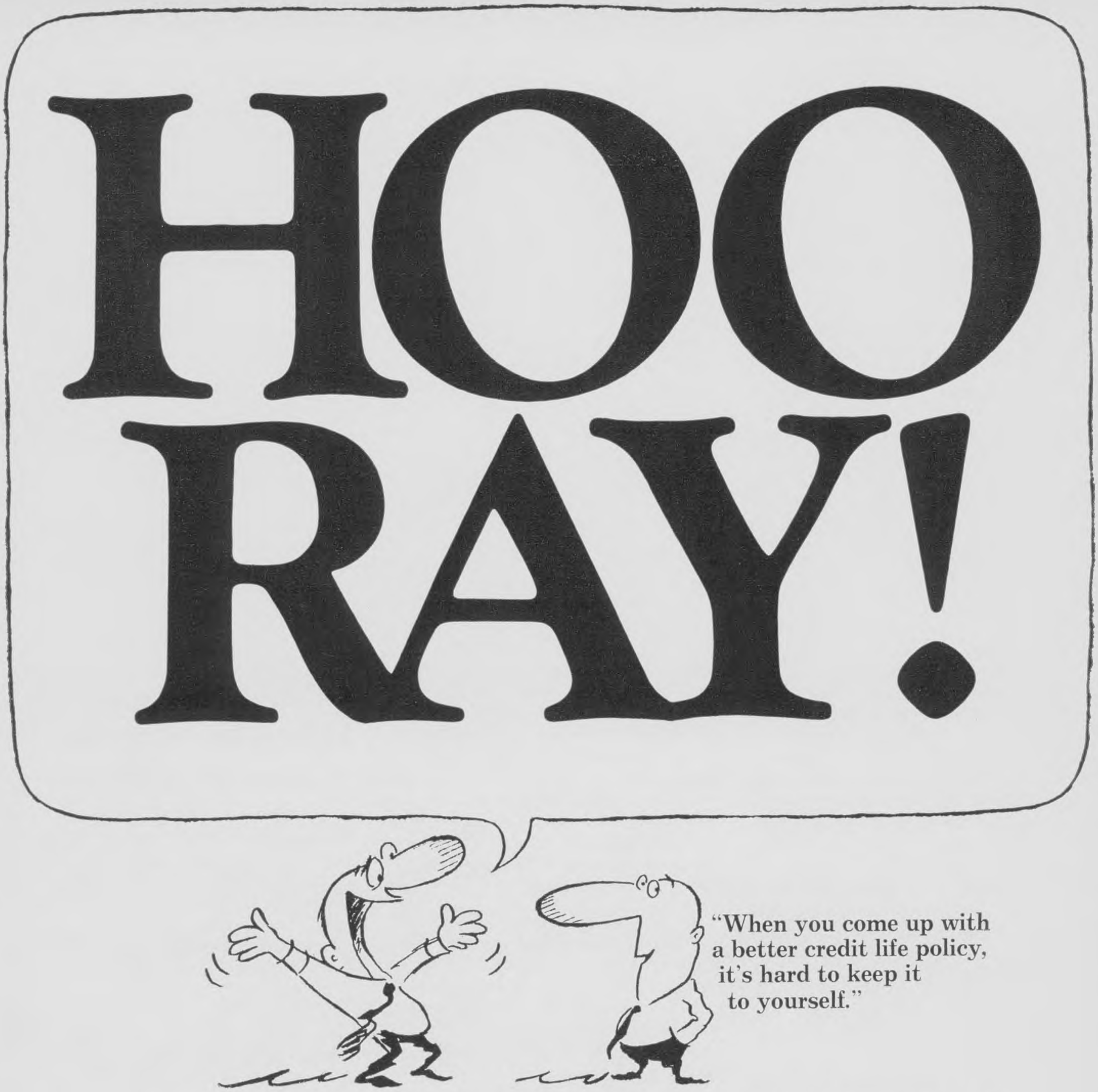
Of equal importance is the planning of the actual physical transition, for a sloppy transition can inhibit the ultimate acceptance of the system. Planning must be thought through for responsibility, staffing, work-flow, manuals and internal promotion.

The organizational responsibility will undoubtedly vary from bank to bank, but should rest within the realm of the users. It will be the users who will initiate any improvements or modifications when required. And if the users are paying for the system, they will take more interest in its being accurate and current.

Credit staffing changes. The changes in clerical staffing will depend upon the existing talent available in-house. The more sophisticated output will require more thoughtful input, thereby giving rise to an upgrading of some of the existing staff. The computer processing of the analysis should require no new expertise or additional personnel than is employed for the generation of any existing computerized bank reports. There are only two groups, both on the credit end of the system, where staffing changes may be required. These credit staffing decisions would necessarily be handled on a case-by-case basis.

The first group affected is the credit analysts. Although the substance of their task may not change significantly, the discipline of spreading is substantially greater. The report requires that certain entries be registered on certain lines of the input form for the correct generation of ratios and especially for an accurate funds flow analysis. The credit analyst is responsible for assuring *consistent* treatment of all accounting principles. Footnotes must also be read with greater care to determine the appropriate classification of a given numerical item, and the important footnotes must be understood and summarized on the input form. These new demands on the credit analyst may require more in-depth accounting training, but the key factor is the increased emphasis on a more disciplined approach to the application of the numbers.

The second group requiring credit staffing changes is the operators for data input terminals. Normally these operators will exist within any bank using computer systems, but even if they are a part of the staff they will have to be fully indoctrinated in the



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new system. These terminal operators are critical to the smooth operation of the system since they are the interface between the computer and the credit people. They are responsible for catching any errors of their own or of the credit analyst to whom the input form would then be returned for correction. The terminal operator will receive a maintenance report, where many automatic balancing and checking routines will identify errors, as well as any number of other reports for distribution once they have been cleared for accuracy. In short, the key job of the terminal operator is one of quality control.

One important element in deciding the level of expertise required both for the credit analysts and the terminal operators is whether the system is on-line or not. An on-line time-sharing system is considerably more expensive to operate and its effective use requires consistently accurate input that will not consume extended periods of time for corrections. This high quality input to the system requires more talented, more highly trained and therefore more expensive personnel.

Other requirements for acceptance. Clear and accurate manuals should be available well before the system is brought on-stream. These manuals should be written for users and for the operating staff and should be thoroughly understood by each group as implementation begins.

Forms will have to be made up, and they should not differ significantly from forms used for credit analysis before the advent of AFA. The benefits of similarity are as important for the input forms, where the training requirements can be reduced, as for the printout where familiarity with the format will strongly influence the level of initial acceptance by the users.

The work and paper flow is merely a mechanical exercise, whose results will depend upon physical layouts and the vehicles available for transmission of information and materials. Any decision here would obviously affect the speed of delivery of analyses and reports and would be influenced by the user's requirements.

The actual implementation of the system should be immediately preceded by seminars and demonstrations to explain the output and how it might be applied to credit analysis. A little bank-wide publicity might also be effective.

It is imperative at this stage that the program be *completely* debugged and ready for daily use. Any inconsistencies or outright errors at this stage would drastically affect the system's credibility. There will be skeptics among the users, to be sure, who would jump at the opportunity to criticize this innovation. And once lost, credibility could be very hard to reestablish.

Buying outside or developing a system in-house. All of the advantages of an AFA system can be available to *any* bank by purchasing the service from a vendor. A few banks will have the resources to develop their own system in-house. For the vast majority of commercial banks, there are economic reasons for purchasing the service. And for these same banks there exists the advantage of being able to shop for the best service on the market at the time.

For those banks willing to commit the resources to tailoring their own system, the considerations and requirements are many. The need for the system depends upon the number, size and type of credits and the frequency with which they are analyzed. The scope of the system is a function of the mix of credits, additional proposed uses of the data base and the resources available to build the system. And the resources required include the personnel, hardware, capital and most important, management's commitment to an automated financial analyses system. If the final analysis of these various elements indicates that a bank could and should develop its own system, then the time is right for such a move. The availability of computer and personnel resources in many banks and the new standardization and disclosure requirements for public companies have made AFA feasible.

Proper planning and project staffing a must. Proper in-depth planning and project staffing (including capable and fully committed user participation) of the original development team will directly affect the project throughout the development and into the actual acceptance of the system. Without a good conceptual grasp of the project, there can be cost overruns, numerous programming changes, inadequate personnel training, poorly coordinated user involvement, inaccuracies in the final program and an ineffective promotional effort. The importance of the end product to the basic function of the bank requires a total commitment to the project's success. And this commitment can result only from a well-conceived system and development plan, implemented by a highly skilled and motivated development team.

Ultimate benefits to the user. The advantages of a flexible, well-written program and a competent and organized staff to run it can be many. There are clerical efficiencies, saving cost and time while improving the accuracy and uniformity of credit analysis. There are the dynamics of a good system, involving new means of looking at credit through an emphasis on cash flow and forecasting analyses. And a sophisticated data base can provide the foundation for other MIS reports, as well as valuable new customer services.

Although this management information system, like most others, is not easy to cost-justify over and above some clerical savings, the ultimate benefits to the user can be significant to the bank's bottom line. The end result of this system, properly used, is to give the commercial lending officer a dynamic and more accurate tool with which to analyze a credit. Such analysis should result in a more appropriate structuring and pricing of a loan, a more efficient monitoring of a company's performance and ability to repay borrowed funds, an earlier recognition of bad credits, and, ultimately, a reduction in that all-important loan-loss account. • •

Nat'l Stock Yards to Liquidate; Boatmen's Nat'l of St. Louis To Acquire Correspondent Div.

Boatmen's National, St. Louis, and National Stock Yards National, National City, Ill., have reached an agreement whereby Boatmen's will acquire the correspondent division of National Stock Yards, which intends to liquidate, through assumption of deposit liabilities of that division and purchase of related assets.

National Stock Yards' correspondent division consists of more than 600 correspondent bank relationships, which will continue to be serviced as in the past until approval for the move is received. The correspondent bank deposits exceed $150 million.

According to a National Stock Yards spokesman, the decision to liquidate the bank as a whole was made by its directors in carrying out the wishes of the institution's principal stockholders. It was emphasized that the bank's financial condition is "extremely strong" and that the remaining bank deposits—exceeding $13 million—will be assumed by First National, East St. Louis, Ill., after it receives permission to locate a facility in National Stock Yards.

Spokesmen of Boatmen's and First of East St. Louis say that present personnel of National Stock Yards will be retained to staff the resultant division/facility.

Responsibilities, Liabilities of Directors Discussed at NABD National Conference

RESPONSIBILITIES and liabilities of bank directors was the general theme of the first annual Bank Directors' National Conference, held in New Orleans last month under the sponsorship of the National Association of Bank Directors (NABD), headquartered in Washington, D. C.

In discussing why a national meeting of bank directors was needed, NABD President James Webb Jr. pointed to the changing times that have brought new responsibilities and liabilities to bank directors. Mr. Webb, who is chairman, Nashville (Tenn.) City Bank, cited—as an example of the changes buffeting banking—the states that are considering organizing bureaus to monitor consumer complaints of all types.

"I'm a consumer, too," he said, "and interested in the rights of consumers, but none of us needs another layer of bureaucracy to beseige us with paperwork and forms to complete, to bombard us with reports going and coming and generally justify their existence by living off the public."

He said banks and bankers make good targets today because they have high profiles in their communities, because money is their stock in trade, and they make good subjects for generalizations such as: banks make too much money, banks charge too much interest, banks are not equitable to the small customer, etc.

"We are either inspected or regulated or both by national and state banking laws," he said, "by the Comptroller of the Currency, by the FDIC, by the Fed, the SEC, OSHA, ORISA, EEOC and the IRS. Now the FTC is trying to get into the act, too. We are targets of frivolous lawsuits of all kinds and are good 'class action' material for bounty-hunting attorneys. We are good editorial copy and front page material when we make mistakes or have problems, and recently we have even become good copy for movies and books.

"In short, we are in the spotlight and will probably remain there the rest of our business lifetimes. With so much regulation and red tape, honest mistakes will occur, and this meeting will be dedicated to assisting all bank directors, both inside and outside, in recognizing what the problems are and how to steer a proper course through the rocks and shoals of today's and tomorrow's regulations."

Speaking on the topic of the expanded responsibility of the board audit committee, Martin F. Mertz, partner, Peat, Marwick, Mitchell & Co., New York City, stated that efforts of "professional" stockholders and the pressures of class-action suits have made the function of the audit committee wide-ranging, with no limit to the amount of probing it can carry out.

NABD officers at conference included Jerome Twomey (l.), NABD ch., and pres., Sterling Nat'l, New York City; and James Webb Jr., NABD pres., and ch., Nashville (Tenn.) City Bank.

He also said that the role of the director has been influenced by certain court cases brought under Rule 10(b)5 of the Securities Exchange Act of 1934. These cases have resulted in rulings making it illegal to mislead by either omission or commission and holding directors to be negligent if they know or should have known of any actions or possible actions detrimental to the interest of shareholders.

He said bank directors bear a heavier responsibility than many of their peers in other industries, especially in the areas of self-dealing, interlocks and conflicts of interest.

The past few years, he said, have seen a profuse number of new accounting rules and financial disclosure requirements. Directors must keep pace with these rapid developments to discharge properly their responsibilities in assessing the adequacy and fairness of financial information reported to shareholders and supervisory authorities.

"Everyone benefits from a properly organized and effectively functioning audit committee," Mr. Mertz said. "The board receives assistance in fulfilling its financial reporting responsibilities, management has access to additional knowledge and experience in the areas of finance and accounting, auditors have an important communication link with the board and the investor and other outside users of the financial information are assured that annual reports, interim statements and other financial data have received the careful consideration

Program participants at first annual Bank Directors' National Conference, sponsored by National Association of Bank Directors last month, included (from l.) Dr. Lewis E. Davids, editor, Bank Board Letter, St. Louis-based newsletter for directors; Dr. Paul Nadler, professor of banking and finance, Rutgers University, New Brunswick, N. J.; Dr. Maurice Mann, pres., Federal Home Loan Bank of San Francisco; and Martin F. Mertz, partner, Peat, Marwick, Mitchell & Co., New York City. Dr. Davids is Hill Professor of Bank Management, University of Missouri-Columbia.

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and approval of members of the board."

Dr. Lewis E. Davids, editor, The Bank Board Letter, St. Louis, and Hill Professor of Bank Management, University of Missouri-Columbia, told the audience that a truly effective board, as distinguished from a "rubber stamp" board, is the catalyst for not only the growth of the bank, but the dynamism of its community.

He said that a well constituted and selected board will not have the problems or tribulations that a poorly structured board inevitably will face.

"Directors know that claims against them in the last few years have been doubling every 18 months and this trend is not likely to diminish but rather accelerate as more disclosure and 'sunshine' is built into our entire society," Dr. Davids said.

"Certainly, such controversial concepts and terms as 'redlining,' 'fair-credit,' 'truth-in-lending,' 'boycott,' 'non-discrimination,' 'fiduciary,' 'materiality'—even 'generally accepted accounting principles,' call for knowledgable and conscientious directors who are prudent but not necessarily supermen."

He listed a number of basic characteristics that a director should have:

- The capacity to work harmoniously with other directors without giving up strongly held convictions.
- Broad experience in business that is oriented toward the interests of the bank, yet possessing expertise in some specific area of business, such as insurance, real estate, accounting, so better decisions can be reached.
- A wide circle of friends and associates who think favorably toward the bank because of their association with the director.
- Good judgment that enables the director to contribute effectively to the decision-making process.
- Loyalty to the bank.
- A sense of salesmanship that is bank-oriented.
- Conscientiousness about attending board meetings regularly and about doing homework about major bank problems.
- Forward-thinking capability so that long-range goals can be established.
- Fairness to everyone connected with the bank.
- Imagination to keep innovation in the forefront.
- A sensitivity to conflicts of interest so that sticky situations can be avoided.

Banquet speaker Allan P. Stults, chairman, American National, Chicago, admonished directors to establish as their goals the "four C's of Responsibility"—to capital, to co-workers, to customers and to communities.

In order to carry out one's responsibility to capital, he said, directors should be made aware of the planning necessary in four specific areas: regular updating of the inventory of the bank's strengths and weaknesses, defining objectives and setting target dates for accomplishments, evaluating results versus plans at specific regular intervals and developing management information systems to obtain data necessary for planning and evaluation.

Directors' responsibility to workers is to make a profit so the workers can keep their jobs and profit therefrom, he said. The policies and practices of management should enable each employee to reach his maximum potential.

Their responsibility to customers is to find better ways of serving those who need bank services, he said.

A directors' responsibility to the bank's community is to work toward equality among individuals and to help improve the environment. This is the area in which bankers have accomplished the least, he said, although some progress has been made.

Among the bankers from the Mid-Continent area participating at the meeting were Pat Moore, president, American State, Thomas, Okla.; Charles L. Daily, chairman, Edgemont Bank, East St. Louis, Ill.; and Robert Porter, president, Planters Bank, Forrest City, Ark. • •

ABA Stands Up

(Continued from page 26)

"For example," he said, "what rationale is there in suggesting that NOW accounts be the only form of interest-bearing transaction accounts, other than to put the kibosh on such innovations as credit union share drafts and telephone billpayer accounts?

"I could never agree to this . . . ," he said.

He also said the ABA deserved credit for supporting NOW legislation. He pointed out that the trade association "had a difficult job indeed" in attempting to represent the views of its entire membership.

The ABA has gone on record that it will not alter its package of requirements without first consulting the banking leaders who drafted the original plan. • •

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Make Branching Consumer Issue, AMBI Members Are Advised; Loren Smith Named President

By ROSEMARY McKELVEY
Managing Editor

LEGISLATION, both state and national, was spotlighted during the fourth annual convention of the Association for Modern Banking in Illinois (AMBI) at Chicago's Continental Plaza Hotel last month. The association was founded to bring about structural changes in the state's banking laws, and members were encouraged by two actions taken in the Illinois General Assembly just prior to the convention. The House Financial Institutions Committee endorsed establishment of regional multibank HCs (HB 492), and the Senate Finance and Credit Regulations Committee approved a bill to allow limited branching (SB 1015).

According to an AMBI spokesman, HB 492 would permit small banks to group together while retaining local officers and directors to provide greater services based on their combined assets. No bank in any of the five geographic regions would be allowed to acquire more than 15% of the assets of its region.

At press time, MCB editors learned that both the multibank HC and branching bills presumably are dead in this session of the Illinois General Assembly. However, they may be brought back in 1978.

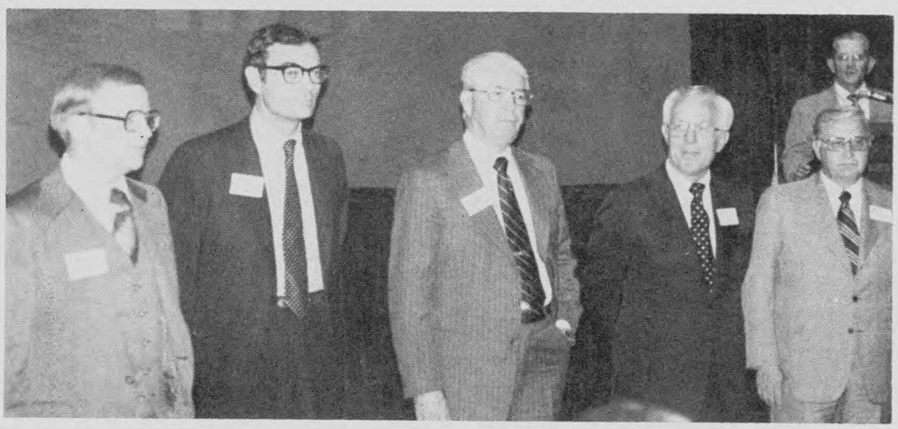
However, no AMBI member believes the struggle to get new banking laws is over. In conversations between business sessions and in talks by convention speakers, the theme was one of continuing the fight, of getting the public to want the new legislation, too. In fact, according to Representative Michael Brady, sponsor of the branching bill in the House, the proposed legislation "is not a banking issue; it's a consumer issue. Until we get that message across, we can't get branching in Illinois. So, make it a consumer issue."

On the federal legislative level, the speaker was Gerald Lowrie, executive director of the ABA's Government Relations Council. He reported on two banking leadership meetings held by his association—one in February and one late in April. The questions of greatest concern to those at both meetings, according to Mr. Lowrie, boil down to fair treatment for bank customers and banks. Participants in the meetings directed the ABA to make an all-out effort, on behalf of bank customers, to obtain full competitive equity with thrift institutions. They further directed that, as a part of this effort, the ABA should support legislation that would give banks and other depository institutions the option of offering consumers the opportunity to write checks on a new type of savings account. Although this type of account is called a NOW (negotiable order of withdrawal) account, the ABA would like to apply a new name to this consumer service, one the public can understand better. So far, no such name has been agreed on.

This effort to achieve parity for bank customers and banks is a new thrust

Plaque commemorating Gerald Sinclair's year as AMBI pres. is presented to him by Walter J. "Jack" Charlton (r.), pres., First Trust, Kankakee. Mr. Charlton helped found AMBI about four years ago and was its first pres.

Among those at head table during AMBI convention luncheon are (l. to r.): John H. Perkins, newly designated candidate for ABA pres.-elect for 1977-78, and pres., Continental Bank, Chicago; Gerald Lowrie, exec. dir., ABA Government Relations Council, Washington, D. C.; and Gerald Sinclair, AMBI pres., 1976-77.



New AMBI officers are presented at convention's last business session. L. to r., they are: ch., Gerald Sinclair, e.v.p., Salem Nat'l; pres., Loren Smith, ch., United Bank of Illinois, Rockford; v.p., H. L. Edwards, pres., First Nat'l, Evanston; sec., Richard M. Bishop, pres., First Galesburg Nat'l; and v.p., William E. Weigel, e.v.p., First Nat'l, Centralia. At lectern in background is Walter R. Lohman, ch., AMBI nominating committee, and pres., First Nat'l, Springfield.

Gerald Sinclair (2nd from l.), outgoing AMBI pres., presents gavel of office to new pres., Loren M. Smith. Between two men is Lester A. Kassing, outgoing AMBI ch. At l. is James B. Watt, e.v.p., AMBI, Springfield.

for the ABA, said Mr. Lowrie, who added that the association is challenging the game plan of banking's competitors. He pointed out how these competitors—S&Ls, thrifts and credit unions—have been gaining all kinds of new transaction powers through federal and state regulations, state legislatures and the marketplace, while Congress has remained out of it. Yet, he added, the only place bankers can turn to is Congress.

However, he warned, no one is sure how banking will fare with the 95th Congress, 60% of whose members have never served in Congress when the President has been a member of their party and whose leaders in both houses have never served when the President has been a member of their party.

Although legislation was an important part of AMBI's convention program, it was not the only subject discussed. For instance, David E. Maguire, vice president for corporate personnel services at Chicago's Continental Bank, talked on "Striving for Management Excellence—Performance Appraisal for Your Management Team."

Mr. Maguire described formal and informal appraisal systems. He also said that a performance appraisal exists to improve performance and that performance is improved by improving the "fit" between a person and an organization. To improve this "fit," he continued, one must know the organization and its people.

Mr. Maguire advised his listeners to write a formal appraisal and to include in it an evaluation of an employee's performance, his area of responsibility, results he obtains, his strengths and his weaknesses. Then, the appraisal should be discussed with the employee, but he should not read it unless the supervisor's relationship with the employee is poor. In that case, said Mr. Maguire, the employee should read and sign the appraisal.

In Mr. Maguire's opinion, an informal performance appraisal is the "guts" of a working relationship with a supervisor's people. He posed three questions for supervisors:

1. How do you allocate your time? That is, whom do you spend your time with on the job? Whom do you have coffee with, talk to or visit with after hours. Who initiates actions in your department? Can your people do some of the initiating, or do you do it all? What issues open the door to your office? That is, do you have pet projects that get your attention more than others do?

2. How do you talk to people? Do you always tell your people what to do, or do you sometimes ask them to do things? What kinds of questions do you ask of your employees? How do you react to the answers?

3. How do you listen to people? What kind of attention do you pay to what your employees say? Do you accept their ideas? Are you able to turn an employee off without offending him when he takes too much of your time?

EFTS. No convention would be complete these days without a discussion of EFTS. The subject was handled at the AMBI meeting by former Comptroller James E. Smith, now executive vice president, First Chicago Corp. He said there's a good prospect for a consensus position on EFTS legislation among financial trade groups, including those representing commercial banks, S&Ls and credit unions. He advised commercial banks to work more effectively and arduously with their colleagues to bridge gaps of misunderstanding.

Mr. Smith pointed out that the stewardship and management of the payments system has been exclusively that of commercial banking. He then warned his listeners that if "we don't bring our management know-how to the leading edge of this system, we stand a grave risk of having marketing practices put into operation by amateurs. Some of these practices may prove to be unsustainable, and then we (bankers) will have to undo them."

The former Comptroller also noted that the banking industry has as great a herd instinct as any group in this country and backed this statement up by pointing out how many bank officials believe they have to jump into something, including EFTS, all at once.

Other convention subjects included bank profitability, trust department profitability, trends in officer compensation and how to become a high-performance bank.

New Officers. Gerald Sinclair, executive vice president, Salem National, moved up from AMBI president to chairman, succeeding Lester A. Kassing, president and CEO, Jefferson Trust, Peoria. Newly elected officers are: president, Loren M. Smith, chairman, United Bank of Illinois, Rockford; vice presidents, William E. Weigel, executive vice president, First National, Centralia, and Harland L. Edwards, president, First National, Evanston; treasurer, A. D. Van Meter Jr., president, Illinois National, Springfield; and secretary, Richard M. Bishop, president, First Galesburg National. • •

Walter J. Charlton (l.), pres., First Trust, Kankakee, and Donald V. McCann, pres., First Bank of Meadowview, Kankakee, do some "homework" between AMBI convention sessions.

William C. Harris (l.), new Illinois banking commissioner, visits with Glen W. Ramshaw, v.p., correspondent banking dept., Continental Bank, Chicago, during AMBI convention break.

Gerald Lowrie (c.), exec. dir., ABA Government Relations Council, Washington, D. C., engages in convention recess conversation with Ralph W. Babb (l.), supervisor, Peat, Marwick, Mitchell & Co., St. Louis, and James B. Watt, e.v.p., AMBI, Springfield.

Two officers of First Nat'l, Morris, enjoy coffee break during AMBI convention. Betty Buzzard, bank cash., is at l.; Beverly Greenwood, exec. asst. & a.c., is at r.

Representatives of two Centralia banks are pictured at AMBI convention. At l. is Ben Ober, ch. & pres., First Nat'l. At r. is Paul T. Maulding, e.v.p., First State.

Interest-Bearing Checking-Account Proposal Holds Spotlight at Missouri Meeting

By JIM FABIAN
Associate Editor

THE ISSUE of interest-bearing checking accounts held the spotlight at the 87th annual convention of the Missouri Bankers Association, held at the Crown Center Hotel in Kansas City last month.

The issue was thoroughly aired by convention speakers, including Willis W. Alexander, ABA executive vice president; Alfred R. Naunheim, ABA state vice president, and president, Charter Bank of Overland; and outgoing MBA President Charles K. Richmond, vice chairman, American National, St. Joseph.

President Richmond made the point during his president's address that the once inalienable right of banks to exclusively provide third-party payments through checking accounts is rapidly eroding.

"To add to our problem," he said, "the willingness of the thrifts to allow third-party payments from interest-bearing accounts puts additional pressure on banks with their interest-free demand deposits. The concept of paying interest on so-called transactional balance (demand deposits) has been taken up with alacrity by many academic economists and economists serving on congressional staffs, committees and governmental agencies. All of their learned writings promoting paying interest on transactional balance has spurred on the movement.

Outgoing MBA Pres. Charles K. Richmond (l.) and Conv. Ch. Don V. Thomason, e.v.p., United Missouri Bank, Kansas City.

"It appears then that we will be faced with a federal legislative issue to which we must address ourselves and we should try to be unemotional and practical in our deliberation. Although I have been strongly opposed to the concept of the payment of interest on demand deposits, I am now willing to take a hard look at the pending proposal for several reasons.

"I still do not like the idea, but I do think this concept may be the least of the possible evils which could be imposed on us by a Congress that seems to be determined to make changes in our financial system. As I understand it, the NOW account proposition being considered would apply only to household accounts, the interest rate would likely be significantly less than the 5% maximum rate on passbook savings and it would require customer initiative to establish such an account."

Mr. Richmond said that the impact of the profit loss occasioned by payment of interest on checking accounts might be softened by a more realistic pricing of bank services.

He stressed that no bank would be forced to offer NOW accounts should enabling legislation be passed and he said he expects that many banks will choose not to offer such accounts. He said he is also convinced that a great many thrifts and credit unions would not be interested in offering such accounts.

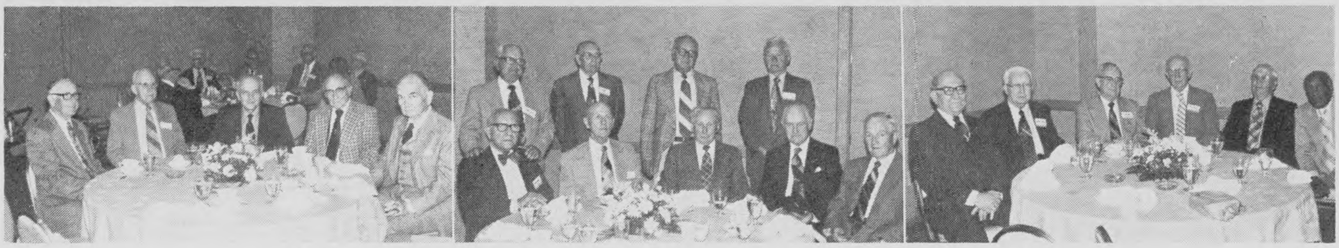
Willis W. Alexander, ABA e.v.p., spoke to convention about ABA's plan to support interest-bearing checking accounts that would be similar to NOW accounts.

"My second and stronger reason for considering any proposed NOW account legislation is that this may be banking's best opportunity to obtain . . . equity with other financial institutions in such areas as allowable interest rates, reserves and regulations," Mr. Richmond said. "The ABA has suggested some stringent conditions which should be met if banking is to support this legislation."

He said there always seems to be issues that tend to pull bankers apart, but everyone should be able to agree that all financial institutions should play the game by the same rules.

"If we are going to have any say in what changes are made and how, we must have a reasonable and justifiable position," he said. He urged that bank-

Newly elected MBA officers are (from l.) S. K. Turner, pres., First Nat'l, Kirksville—treas.; Pat Lea, pres., First Nat'l, Sikeston—v.p.; and Mills H. Anderson, pres., Bank of Carthage—pres.



Members of MBA 50-Year Club attended annual luncheon meeting during convention.

ers try to reach a consensus on the issues, work toward obtaining candidates of the highest caliber to run for office and maintain individual contact with legislators.

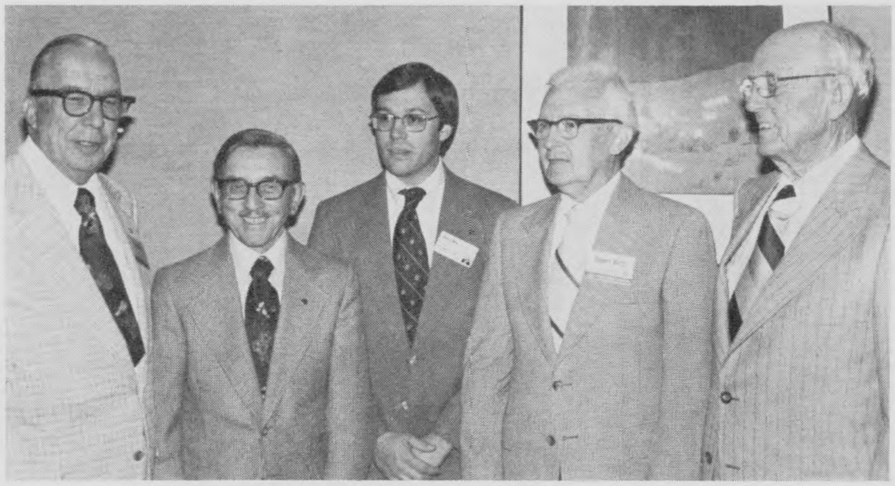
Mr. Naunheim discussed the ABA's position on NOW-account-type accounts, quoting from a talk given by ABA President Liddon McPeters at the recent ABA spring meeting at the Greenbrier Hotel in White Sulphur Springs, W. Va. Mr. McPeters is president, Security Bank, Corinth, Miss.

He stressed the fact that the ABA's position was arrived at without pressure from the national office. The meeting at which a consensus was achieved was attended by a broad selection of bankers from throughout the nation.

The willingness of ABA to give consideration to favoring legislation authorizing a NOW-type account represents a compromise, since banking does not have a perfect situation, he said. Mr. McPeters was quoted as saying, "Don't seek perfection; seek something that works!"

The consensus achieved by ABA at the Greenbrier spring meeting covers the following areas:

- Parity in interest rate ceilings for all financial institutions.
- The statutory interest rate differential must be removed from the Interest Rate-Control Act.
- The NOW-type account must be the only interest-bearing transaction account offered by any financial institution. The account will take the place of existing accounts and no alternative accounts will qualify.



Three men were initiated into MBA 50-Year Club during convention. They are Syl Witte (l.), St. John's Bank, St. Louis; Nate Bassin (2nd from l.), Peoples Bank, Kansas City; and Robert Wirth (2nd from r.), Bank of Perryville. In center is Stephen J. Roy, commercial banking officer, First Nat'l, St. Louis, club sec. At r. is Jesse F. McCreery, Higginsville, club pres.

Robert W. Crawford, MBA e.v.p., proposed government activity program during his report. He called for legislative vigilance on the part of MBA members.

- Reserves for the new type of account can be held in any correspondent bank by non-Fed member banks. Fed membership is not compulsory.
- The new type account must be available to households only.
- There will be a one-year transition period in all areas of the nation except the six New England states where NOW accounts are presently authorized.
- All financial institutions offering the new accounts will be subject to similar regulations and examinations.
- The Fed and the FDIC should authorize pre-authorized transfers between checking and savings accounts.

(See page 25 for additional information.)

The new type of checking account is envisioned as a means of achieving parity with competitors of banking, Mr. Naunheim said. Educational seminars are being scheduled in various cities to enable bankers to discuss the ABA's position and to permit them to sound off on the aspects they don't agree with. Two meetings are scheduled for the Mid-Continent area—Dallas on June 28 and Chicago on July 6.

Mr. Alexander spoke of the new spirit in Washington, which includes the fact that stifling NOW-type accounts is no longer one of the options available to banking.

He admitted that the ABA's discussion on NOW-type accounts involved a distasteful issue and he reinforced the statement made by Mr. Naunheim that the ABA staff and leadership didn't force the consensus decision.

Mr. Alexander said the best course for banking to take is to go on the offensive to get competitive parity for

Earl York, state director, U. S. Savings Bond Program, St. Louis, presents outgoing MBA Pres. Charles Richmond with replica of Liberty Bell, honoring Missouri bankers for their efforts to promote U. S. Savings Bonds. Mr. York represented Harrison Coerver, exec. com. ch., Mercantile Trust, St. Louis, state savings bond ch.

Jack W. Carlson (l.) gave an "Outside View of Washington" at MBA convention following ABA members' meeting, conducted by Alfred R. "Bo" Naunheim (r.), pres., Charter Bank, Overland. Mr. Carlson is with U. S. Chamber of Commerce.

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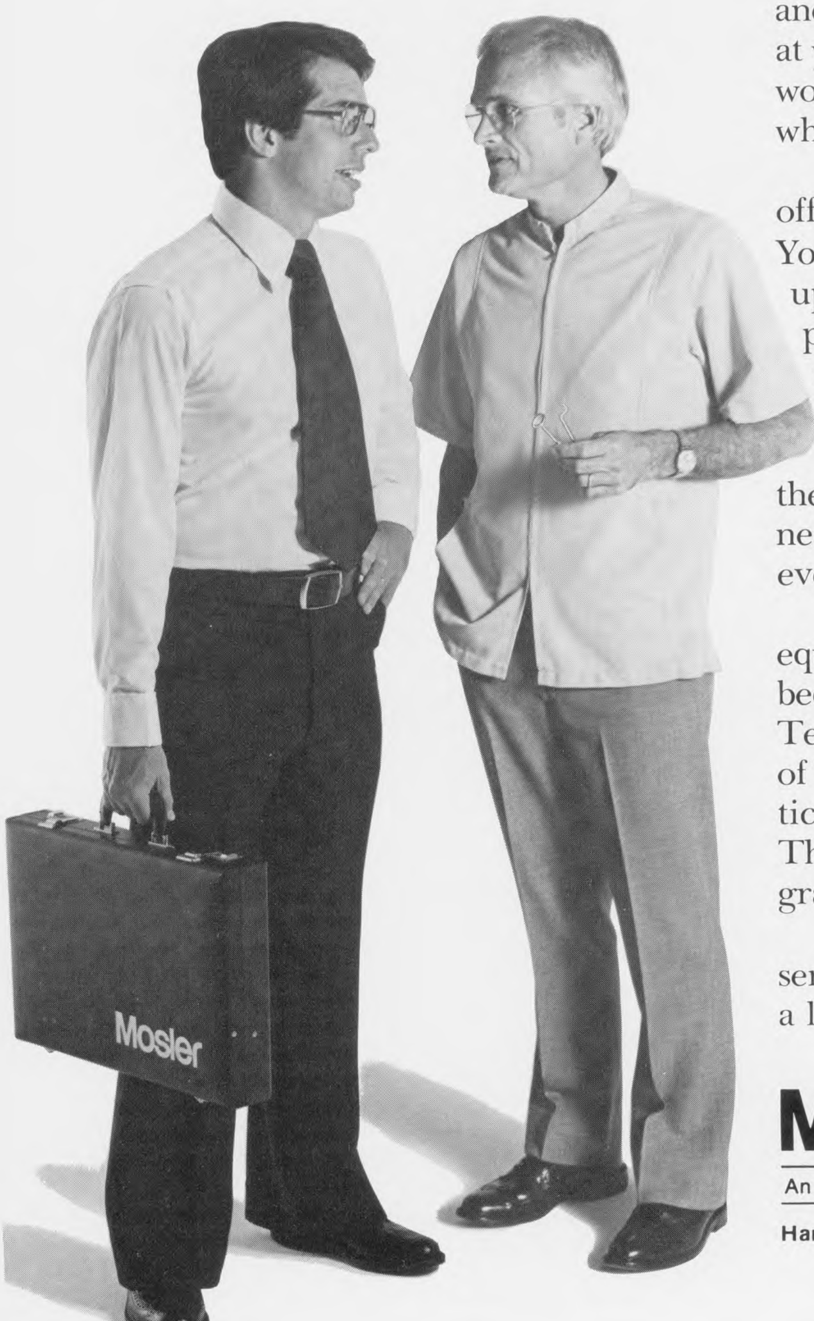

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banks. If NOW-type accounts are necessary to achieve this aim, he said, so be it, so long as the resulting interest-bearing checking account is the only type of account authorized for all financial institutions.

He reiterated the fact that the group meeting at the Greenbrier was broadly representative of ABA membership and included members of the government relations council, state vice presidents, leaders of state banking associations and leaders of other national bank organizations.

ABA's question to these representatives was, "What's best, given the situation?" Mr. Alexander said that studies show that the competition has been chipping away at banking's customer base for 15 years. It's now obvious that the competition has checking account powers. Many of the competition's new powers have evolved through the channel of state regulation, he said.

Mr. Alexander said the ABA had three options:

- Do nothing for now, maybe take up the issue later, if the problem didn't go away.
- Stonewall the issue and put pressure on Congress again as was done last year, even though banking would not have the support from other sectors that it had last year.
- Work with all interested parties, including the Treasury, Congress and the Fed, seeking parity for all financial institutions.

"No one knows if we'll succeed," Mr. Alexander said. "It's up to you and other bankers. But various recent happenings point to a favorable climate for success.

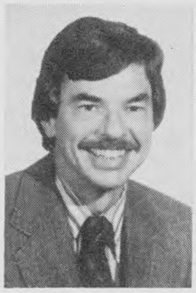
"We don't like the competitive environment we seek," he continued. "We often would rather fight among ourselves and win rather than take on the competition. It's all up to us whether we're successful or not."

Mills H. Anderson, president, Bank of Carthage, was elected president of the MBA during the convention, succeeding Mr. Richmond, who, in turn, was elected to the ABA governing council for a two-year term, effective next October. Pat Lea, president, First National, Sikeston, moved up from treasurer to vice president, and S. K. Turner, president, First National, Kirksville, was named association treasurer.

Approximately 1,000 people attended the convention. • •

■ COMMERCE BANK, Kansas City, has promoted Thomas L. Steffens from assistant vice president to vice president/assistant sales manager, bond department; John G. Henderson from bond officer to assistant vice president, bond department; and Terence A. Mercurio to assistant vice president, bond department.

■ EUGENE A. LEONARD has joined Mercantile Bancorp., St. Louis-based bank HC, as senior vice president with responsibilities dealing with the HC's affiliates. He had been first vice president of the St. Louis Fed since 1971. At Mercantile, Mr. Leonard reports to the HC's president, James E. Brown. Mr. Leonard joined the St. Louis Fed in 1961 as an economist, was named vice president and manager, Memphis Branch, in 1967 and senior vice president in 1970. He spent a year as assistant secretary to the Fed's Board of Governors in Washington, D. C.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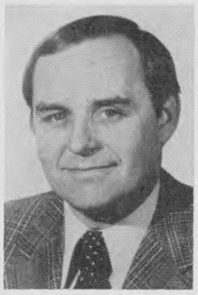

ROGERS

■ JOHN P. ROGERS has been promoted from assistant vice president to vice president, Mercantile Trust, St. Louis. He is in the personal banking department.

■ JOHN H. FISCHER has advanced from commercial banking officer to assistant vice president, First National, St. Louis.

Howard Cook Dies

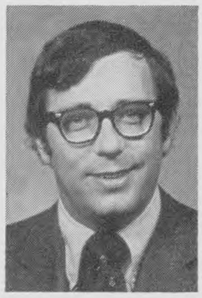
Howard Cook, 87, chairman emeritus, Central Trust Bank, Jefferson City, died May 9. He entered banking in 1905 at the then new Central Missouri Trust Co., predecessor of Central Trust Bank. His father, Sam B. Cook, was the bank's president and had been Missouri secretary of state, 1900-1904. Howard Cook started as a part-time employee working after school, with his duties including sweeping out the bank. He became a full-time employee in 1907, served in the infantry during World War I and returned to the bank to take over more and more of his father's responsibilities. He became president in 1931 following Sam B. Cook's death. In addition to banking, Howard Cook had a keen interest in governmental affairs, and he was active in the Democratic party. It was said that he probably knew more Missouri governors than any other person in the state. The Cook banking tradition is being carried on by a son of Howard Cook, Sam B. Cook, pres. of the bank.

New Finance Commissioner

JEFFERSON CITY—Edgar H. Crist has succeeded William R. Kostman as Missouri finance commissioner. Mr. Kostman resigned to rejoin Commerce Bancshares, Kansas City-based multibank HC.

Mr. Crist is a retired vice president of the Federal Reserve Bank of St. Louis.

■ WILLIAM R. KOSTMAN has been elected a vice president, Commerce Bancshares, Kansas City. He has offices in St. Louis and is responsible for directing the proposed merger between Manchester Financial Corp., located in that city, and Commerce Bancshares. Mr. Kostman had been a vice president of the Kansas City-based HC before becoming Missouri's finance commissioner in 1973. He resigned that post May 17. Mr. Kostman holds a law degree from St. Louis University.


KOSTMAN

■ COMMERCE BANCSHARES, Kansas City-based bank HC, and Manchester Financial Corp., St. Louis multibank HC, have reached an agreement in principle on merging Manchester Financial into Commerce Bancshares. Under the agreement, Manchester Financial would be merged into a newly created subsidiary of the Kansas City HC. Manchester Financial's banking subsidiaries are Manchester Bank, St. Louis, and National Bank of Affton, a St. Louis suburb.

■ WILLIAM J. HUHMANN has been advanced to executive vice president, First National Charter Corp., Kansas City-based bank HC. He continues as HC controller and assistant secretary. Dale H. Hudson was promoted from HC assistant controller to assistant vice president; James H. Slocomb was made assistant vice president, and Basil C. Benyo Jr. was elected assistant controller. Mr. Huhmann is the company's chief financial officer. Mr. Slocomb is a vice president in the investment division of First National Bank, Kansas City, the HC's lead bank.

'New Dimensions' Studied at KBA Convention; Varied Program Attracts 1,600 Bankers

By JIM FABIAN, Associate Editor, and LAWRENCE W. COLBERT, Assistant to the Publisher

THE THEME of the 90th annual Kansas Bankers Association convention was "New Dimensions" and a varied program was offered to the 1,600 people who attended part or all of the three-day program.

It was the first time KBA had held its convention in Johnson County, the site being the Glenwood Manor Hotel in Overland Park. The convention saw the first awarding of the Arthur W. Kincade award, a visit to the Sacred Circles Indian exhibit at the Nelson Gallery-Atkins Museum, a carnival complete with dozens of game booths, a visit from the governor and a thorough examination of the ABA's proposal to put banks in the NOW account business.

Notables on the program included J. Rex Duwe, chairman, ABA governing council, and chairman and president, Farmers State, Lucas; George F. Will, syndicated columnist; Governor Robert F. Bennett and four bank regulators: Emery Fager, state banking commissioner; Roger Guffey, president, Kansas City Fed; Robert V. Shumway, FDIC regional director from St. Louis; and John R. Burt, regional administrator of national banks, Kansas City.

Presiding at the convention was Floyd V. Pinnick, KBA president, and president, Grant County State, Ulysses. He reviewed his term of office during his president's report and managed to give the audience numerous chuckles throughout the convention.

Mr. Pinnick reported that EFTS "took its first walking steps in serving the Kansas public with Golden Touch cards, Via cards, the Moneymatic program and various ATM programs." He said MACHA (Mid-America Clearing House Association) has made important breakthroughs and is greatly improving its settlement schedule.

"We must remember," he said, "that the automated clearing house is not a mature mechanism. Much has been done by devoted volunteers and by our Kansas City Fed in this ACH effort. However, it is important that senior bank management participate in important policy decisions during the next few years. . . . It is important that we support MACHA intellectually, spiritually and financially. Remember, it is the broad highway that will carry EFTS."

He reported that Venture Capital, Inc., a statewide small business investment company, has been launched by the Kansas Development Credit Corp. (KDCC) with the help of KBA's commerce and industry committee. He said that more than $1 million in capital has been provided, making the new lending program fully authorized and launched.

Kansas Governor Robert Bennett was final speaker at KBA convention. He spoke of projects being carried out under his administration.

He said that most Kansas banks are participating members of the KDCC, which is the parent of Venture Capital.

"I am convinced," he said, "that with the advent of Venture Capital, Inc., a new and valuable tool is available to Kansas bankers and to the state's business and industrial community. Each of you should make yourselves thoroughly aware of its potential and should take advantage of the new resource. Many of us have asked for it, and now it's here."

Mr. Duwe reported on the ABA's effort on behalf of bank customers to obtain full equity with thrifts. Key factors in the effort are the ABA's proposal to give banks the option of offering a new type of account that would provide for writing checks on savings accounts and interest parity for all financial institutions.

Mr. Duwe said that nonbank competition has been chipping away at banking's powers over the years. Among the gains the competition has realized are pre-authorized bill paying, phone transfers from checking to savings, manned remote service units, full checking accounts, NOW accounts and credit union share drafts.

He said it doesn't make sense for bankers to debate the question of whether nonbank competition should have third-party power authority, since it already has it. He added that the competition has gained its new powers largely through decisions made by state-level regulators, with federal-level regulators following with similar regulations.

New KBA officers pose with outgoing Pres. Floyd Pinnick (l.), pres., Grant County State, Ulysses. They are: Elwood Marshall (2nd from l.), pres., Home Bank, Eureka—KBA pres.; Francis E. Carr (c.), pres., First Nat'l, Wellington—KBA treas.; and W. C. Hartley (2nd from r.), pres., Miami County Nat'l, Paola—KBA pres.-elect. At far r. is Carl A. Bowman, KBA e.v.p., Topeka.

Syndicated columnist George Will (l.) chats with outgoing KBA Pres. Floyd Pinnick during lull in convention program. Mr. Will's topic was "Government: the Disease for Which It Pretends to Be the Cure."

Bankers can respond, Mr. Duwe said, by doing nothing and permitting the states to continue granting new powers to nonbank competitors; by taking a position of total opposition, which would be an unlikely way to achieve success; or they can keep their options open and work for competitive equality.

ABA's message to the financial industry is, "We want parity for customers and institutions. Our willingness to play the game depends on the achievement of parity," he said.

Mr. Duwe listed the various components for competitive equality agreed upon at the recent ABA spring meeting at the Greenbrier in White Sulphur Springs, W. Va. They include:

- Parity of interest rate ceilings for all institutions.
- Removal of the statutory interest rate differential from the Interest Rate Control Act and inclusion of credit unions in the act.
- Checkable Savings—the name proposed for the new interest-bearing transactions account favored by ABA—must be the only such account offered by all financial institutions.
- Reserves for Checkable Savings can be held by non-Fed members in any correspondent bank. Fed membership will not be compulsory.
- Checkable Savings must be a household-type account, not available to corporations.
- There must be a one-year transition period for the adoption of Checkable Savings in all areas except the six New England states where NOW accounts are presently authorized.
- All financial institutions offering Checkable Savings will be subject to the same regulatory controls and examinations.
- The Fed and the FDIC must permit pre-authorized transfers between checking and savings accounts.

(See page 25 for additional information.)

Mr. Duwe said the ABA's plan offers the best hope for banks. He said the plan would enable all well-managed banks to serve their customers well.

In answer to the question of whether ABA can pull its position off, Mr. Duwe said the association has a good track record in skirmishes with Congress. He admitted that the consensus plan is not the perfect solution as far as bankers are concerned and that the ABA is sounding out bankers now to determine their "bottom line reaction" to ABA's position.

He stressed that no bank would be forced to offer Checkable Savings accounts. Once these accounts were authorized, it would be up to each bank to determine whether it wanted to offer them to customers.

Mr. Duwe, representatives of the four bank regulatory agencies and KBA officers met with the press on the second day of the convention to discuss current banking issues.

In response to a question about the state of EFT in Kansas, outgoing KBA President Floyd Pinnick said no one expected an overnight EFT revolution in Kansas. He said the development of EFT services in the state is an evolutionary process. ACHs are making good, sound progress, he said, and only as the ACH service is practical will it be successful. EFT is proceeding as fast as expected and as fast as it should, he said.

Mr. Duwe was asked about the cost to consumers of Checkable Savings accounts. He replied that the cost will be borne by customers and that they won't mind the additional cost if they are assured that they will not be discriminated against by dealing with commercial banks. They are discriminated against now, he said, because banks do not enjoy parity with their competitors.

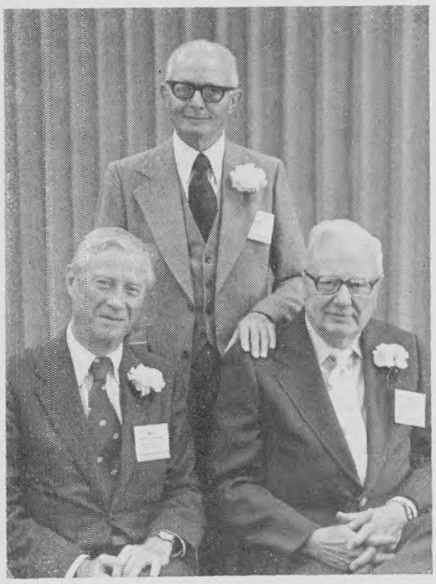
In response to a question about overregulation, Mr. Duwe replied emphatically that banks are overregulated. He said Congress is to blame for the situation, not the people working as regulators. Every time Congress meets, he said, more regulations are put on the books. There is a danger that banks will become sterilized, he continued, if all the risks associated with banking are eliminated. "If a bank can make only blue-chip loans," he said, "that's sterilization."

Mr. Guffey was queried about the Fed's ag policy. He said that banks have a role to play to press farmers to sell their crops at depressed prices if necessary in order to get a cash-flow situation. Holding back crops puts too much pressure on ag-oriented banks, he said.

The final session of the convention in-

Principals at KBA press conference, held during convention, were (top photo) Roger Guffey (l.), pres., Kansas City Fed, and J. Rex Duwe (r.), ch., ABA governing council, and ch. & pres., Farmers State, Lucas. Bottom photo, from l.: John R. Burt, regional administrator of national banks, Kansas City; Robert V. Shumway, regional director, FDIC, St. Louis; and Emery Fager, Kansas state bank commissioner, Topeka.

Members of KBA 50-Year Club assembled for luncheon during convention.



Inductees into KBA 50-Year Club at convention included (standing) Ed Hess, First Nat'l, Dodge City, and (seated) Milton F. Barlow (l.), Johnson County Nat'l, Prairie Village, and Ward Hormel (r.), Cloud County Bank, Concordia. Six other inductees were not present at convention. They are Gaylord McDonald, Central Nat'l, Junction City; Anita Souders, State Bank, Leon; Ferris Lohoefner, First Nat'l of Shawnee Mission, Fairway; Esther L. Hancuff, Kansas State, Holton; Roy Blythe, Peoples Bank, Pratt; and W. W. Chandler, Chandler Bank, Lyons.

cluded a discussion of where banks are going and how fast, moderated by Mr. Duwe with the four representatives of the regulatory agencies participating as panelists.

One question discussed during the session was whether or not bank officers are entitled to pocket the commissions from the sale of credit life insurance.

Mr. Burt said credit life is a bank-related function and all shareholders have the right to share in the income generated by credit life. He said the proposed regulation requiring commissions to be paid to the bank was prompted by minority shareholder suits being filed against personnel of national banks. He added that it's permissible for an officer to pocket credit life commissions if the board approves and if there is full disclosure of the arrangement to shareholders, although the proposed regulation does not so state. He said he did not know when the regulation will become final.

Mr. Fager added that it's up to the directors to set policy, but the shareholders should approve the policy annually. If shareholders do approve credit life commission payments to bank officers, they have no grounds to sue later. He added that no favoritism should be afforded to a customer who buys insurance from a bank agency.

New KBA officers were installed at the convention. They had been elected previous to the meeting. New KBA president is Elwood Marshall, president, Home Bank, Eureka. Installed as president-elect was W. C. Hartley, president, Miami County National, Paola. Francis E. Carr, president, First National, Wellington, is the new KBA treasurer.

John O'Leary Jr., president, Peoples State, Luray, was elected to the ABA governing council for a two-year term during the meeting of ABA members. Mr. O'Leary succeeds William L. Webber, chairman, Security National, Kansas City. • •

Kincade Award Given

The first presentation of the Arthur W. Kincade Award to a Kansas banker exemplifying certain lending practices was presented during the KBA convention to Mrs. Myrtle Clinesmith, chairman and cashier, Peoples State, Coldwater.

The $10,000 award was established and announced a year ago at the KBA convention in Wichita. It was presented by Mrs. R. H. Garvey of Wichita, representing the family of the late R. H. Garvey, sponsor of the award.

Conditions of the award stipulated that it would be given "to the Kansas banker who has best exemplified extension of credit on personal character and performance rather than material collateral."

Mrs. R. H. Garvey (l.) presents Arthur W. Kincade Award to Mrs. Myrtle Clinesmith, ch. & cash., Peoples State, Coldwater.

The award honors Arthur W. Kincade, chairman emeritus, Fourth Financial Corp., Wichita, who helped Mr. Garvey obtain eastern bank financing for terminal grain elevators.

According to Garth W. McMillen, president, Peoples State, Coldwater, who nominated Mrs. Clinesmith for the award, "Virtually every type of enterprise in our area has benefitted from Myrtle's confidence in the individual. Farmers, ranchers, businessmen, consumers; all have sought Myrtle's common-sense advice and support for their venture 'with a loan from Aunt Mert.' "

Mrs. Clinesmith joined her bank in 1944 and served as teller, bookkeeper, vice president and executive vice president prior to becoming chairman and cashier.

Oklahoma BA Leadership Chastised By Independents at Convention

Resolution passed to curb structure change initiatives

By **LAWRENCE W. COLBERT**
Assistant to the Publisher

THE SIMMERING POT boiled over at this year's Oklahoma Bankers Association convention, held in Tulsa last month.

In a successful attempt to eliminate the likelihood of the OBA leadership from endorsing legislation calling for bank structure changes in the future, the leadership of the Independent Bankers Association of Oklahoma passed a resolution that precludes OBA directors from acting on branching and HC bills without first submitting proposed legislation to a mail vote of the membership.

The resolution was voted upon by secret ballot and was adopted by a vote of 140-97.

Opposing the resolution were the state's larger banks. Opponents argued that the resolution would severely handicap directors in seeking needed changes in Oklahoma law to provide "relief" for banks in communities that seek to expand in outlying shopping center areas.

In an attempt to seek such "relief," OBA directors introduced a "bank modernization act" last March that would permit banks to establish a single branch within city limits with an unlimited number of branches in bankless towns within 25 miles of the main office.

JACKSON MILLIGAN SHARBAUGH

The bill would also authorize multibank firms in the state, with no one firm controlling more than 12% of the total bank deposits in the state.

Independent bankers contend that the OBA should hold to strict majority rule principles in deciding policy. One large bank supporting the independents is Fidelity Bank, Oklahoma City, whose chairman, Jack T. Conn, said that when and if the time comes to change state banking structure, member banks in the OBA will have the wisdom to make the right choice.

But for now, he said, "let the membership decide" before branching or HC bills are submitted to the state legislature.

The OBA bill is considered to be dead for this year. It was bottled up in committee because of the strong opposition presented by the independent bankers.

Representing the ABA on the convention program was A. A. "Bud" Milligan, ABA president-elect, and president, Bank of A. Levy, Oxnard, Calif. Mr. Milligan presented the ABA's consensus plan designed to enable banks to achieve competitive parity with other financial institutions. See page 25 for details of the plan.

Outgoing OBA Chairman Tracy Kelly, chairman and president, American National, Bristow, presided at the convention. In his speech, he called attention to the "glaring hiatus in as many as 50% of Oklahoma banks" regarding the lack of planning for continuity of management. "I submit that we owe it to our stockholders and, indeed, our customers, to provide an orderly transition and continuity to our bank leadership," he said.

He criticized portions of President Jimmy Carter's energy program as being heavy on conservation, but with no emphasis on production. "We desperately need a balance," he said, and called on bankers to start preaching, practicing and communicating to all the world the economic rudiments of productivity.

He said there is precious little incentive to explore or produce oil and gas "while we develop other sources of energy." He decried the double taxation on crude oil and finished petroleum products and said, "We raise the price of oil to conserve, then levy an excise tax or users' tax. That in anybody's books makes the consumer pay twice."

Speaking on redistribution of wealth, Mr. Kelly said, "We are approaching in

New OBA officers include (from l.) William W. Rodgers Jr., pres., Security Bank, Blackwell—pres.-elect; Walter V. Allison, ch., First Nat'l, Bartlesville—pres.; and Larry E. Stephenson, pres., Security Bank, Ponca City—treas.

LEFT: Robert L. McCormick, pres., Stillwater Nat'l, introduces controversial resolution precluding OBA directors from acting on branching and HC bills without first submitting proposed legislation to mail vote of membership. CENTER: Eugene Swearingen, ch., Bank of Oklahoma, Tulsa, leads opposition to resolution. RIGHT: Speaking for controversial resolution was Jack T. Conn, ch., Fidelity Bank, Oklahoma City. He is a former OBA and ABA pres.

this country the coming breakpoint in this scheme of redistribution of wealth, where the producers are going to be outnumbered by the consumers—the free lunch crowd. We are past due in our commitment to reverse this kind of social and economic nonsense."

Walter V. Allison, chairman, First National, Bartlesville, and OBA president-elect, called attention to the fact that the banking industry is in turmoil, one that is created and kept alive by politicians in Washington.

"Changes are coming so rapidly that bankers have difficulty in keeping up with rules and regulations," he said. "Most of these changes bring additional burden and expense on the industry and are promoted by overzealous leaders in Washington who are dedicated to correcting the wrongs of a handful of people who call themselves bankers.

"We should take every opportunity to speak out against those who betray their banking trust and we should promote and participate in those programs that increase the professionalism of our staffs," he said.

He warned that the thrifts are making great strides in their goal to become like commercial banks and said the goals of legislators in Washington, although defeated by bankers last year, are still on the front burner. However, legislation will be enacted on a piecemeal basis instead of in one big package, as was tried last year

He also warned against incursions into banking areas being made by credit unions and said that the expanded lending powers of credit unions have been hailed by CU leaders as the most significant reform since the Credit Union Act of 1934.

"We see the introduction of nationwide share drafts without statutory approval and the S&Ls are showing us an improved hybrid of NOW accounts. The insurance companies are taking a hard look at fidelity bonds and the consumer is demanding credit on his terms, not yours. The staff of the Federal Reserve Board has recommended interest on demand deposits and the mood of Congress may be right for passage of such legislation. It is indeed a bad time for bickering and dissension within our profession," Mr. Allison said.

"It is time that we all remember that we are bankers; brothers in banking," he continued. "It is time that we unify and work together. As I have said several times, it is time to help out our banking brothers when such assistance will not hurt us. It is time that we fight for a strong profession in the belief that a strong profession will help us individually."

During the convention, Mr. Allison was installed as OBA president, filling the office that has been vacant since the resignation of Pat Moore last fall. Elected president-elect was William W. Rogers Jr., president, Security Bank, Blackwell. New treasurer is Larry E. Stephenson, president, Security Bank, Ponca City. No decision had been made at press time if Mr. Kelly would serve a second term as chairman.

George Nowotny (l.), v.p., Bank of Oklahoma, Tulsa, and Walter V. Allison, incoming OBA pres., share podium during discussion of controversial resolution.

Morrison Tucker, chairman, First State Bank, Oklahoma City, was elected to the ABA governing council for a two-year term during the meeting of Oklahoma members of ABA. • •

Giannini Professorship:

BankAmerica Foundation Awards Grant to Stanford

BankAmerica Foundation, San Francisco, has awarded a $1-million grant to the Stanford University Graduate School of Business to establish the A. P. Giannini Professorship in Banking and Finance. The endowment honors the late Mr. Giannini, founder of Bank of America.

The grant will establish a new finance program at the school. The program will sponsor research and development of course materials related to financial institutions, international finance and monetary policy and will be directed by the endowment's first recipient, Alexander A. Robichek, a Stanford faculty member since 1960.

Gathered beneath portrait of late A. P. Giannini, founder of Bank of America, San Francisco, are (from l.) Alexander A. Robichek, Stanford University professor; Claire Giannini Hoffman, A. P. Giannini's daughter; A. W. Clausen, bank pres.; and Richard W. Lyman, Stanford University pres. Group gathered to announce BankAmerica Foundation's $1-million grant to university's Graduate School of Business, establishing A. P. Giannini Professorship in Banking and Finance. Mr. Robichek is first recipient of chair.

NOW Accounts, Economics, Energy Plan Hold Center Stage at Texas Meeting

By LAWRENCE W. COLBERT
Assistant to the Publisher

NATIONAL NOW account legislation, reports by state and national regulators, an economic analysis and a blistering attack on President Carter's proposed energy program filled the time allotted for the business sessions of the 93rd annual convention of the Texas Bankers Association last month in Dallas. More than 1,600 were in attendance.

ABA President W. Liddon McPeters, president, Security Bank, Corinth, Miss., presented the ABA's proposed legislative package that would result in authority for banks to offer interest-bearing checking accounts similar to the NOW accounts currently being offered by financial institutions in six New England states. Details of the plan appear on page 25.

Mr. McPeters titled his remarks "The Opportunity for Equality." The title referred to the ABA's plan to attain the goal of equality for banking's customers and its institutions.

"The means to reach this goal," he said, "is the proposed legislation being written by the Fed—and publicly championed by Fed Chairman Arthur Burns—to permit, nationwide, a new type of savings account on which consumers can write checks."

He said enabling legislation is expected to be introduced in Congress soon and he challenged his listeners to use this legislation to gain the parity bankers have so long sought.

Once parity is obtained, Mr. McPeters said, ABA would support legislation that would give banks and other depository institutions the option of offering customers a way to write checks on a new type of savings account. In return for that support, the ABA wants the statutory interest rate differential removed from the Interest Rate Control Act.

"This means that all S&Ls here in Texas that choose to offer this new type of account would no longer enjoy the quarter-point interest rate advantage of their other savings accounts," he said. "The same uniform interest rate would also apply to credit unions, should they be authorized to provide these check-like powers.

"Our competitors already have accumulated many third-party payment powers," he said. "This competitive drive has paid off for them, too. In 1975 the growth rate in share of deposits for mutual savings banks was 11.3%, for S&Ls it was 17.7%, for credit unions it was 21.9% and for banks it was 4.6%. In percentages of total deposits, banking has slipped from a high of 67.4% in 1970 to 64.5% in 1975."

Many of these new powers, he continued, have come from action at the state level. In Texas, he said, S&Ls are authorized to offer such consumer services as pre-authorized bill paying, manned remote service units and off-premise automated teller machines, bill-paying by telephone and telephone transfers from savings to checking.

Credit unions in Texas are permitted to offer share drafts and to operate manned remote service units and off-premise ATMs.

This shows, he said, that it's too late to debate whether or not banking's competitors should have third-party payment authority—they already have it.

C. Jackson Grayson Jr., chairman, American Productivity Center, Dallas, and a former professor at the School of Business Administration at Southern Methodist University, Dallas, spoke on the economic situation.

He went on record as not supporting wage and price controls because, in his words, "the economic news is excellent." He said the competitive system is still the best system, but he cautioned that the competitive market system is losing ground.

He said that, in the short run, the U. S. will experience a good year in terms of economic growth. However, he added, there will be continuing inflation.

He predicted a good recovery in the basic industries and no recession either this or next year.

The consumer price index for 1977 will be 6.5 or 6.75, he said, and the inflation rate will stand at 7% this year and rise to 7½% during the next two years. Unless the inflation psychology is dampened, he added, the country might experience double-digit inflation once again.

New TBA officers include (from l.) E. W. Williams Jr., e.v.p., Amarillo Nat'l.—treas.; Charles L. Childers, pres., Tyler Bank—pres.; and Charles E. Cheever Jr., pres., Broadway Nat'l, San Antonio—v.p.

L. Frank Pitts, Pitts Oil Co., Dallas, addresses TBA convention on energy and politics.

Dr. Grayson said the unemployment rate will ease down from the current 7% to 6.7% or 6.5% by the end of 1977. Real GNP, he added, will be 4.5% for 1977 and 5.3% for 1978. Real growth stands at between 4% and 5% and the prime rate is slowly rising.

He said the "inflation rate scares me the most." He called attention to the Keynesian notion that an increase in demand by itself will increase supply and therefore accelerate economic growth. But, he added, the "new" economics asserts that an increase in demand, where the natural incentives to economic growth are stifled, will result simply in inflation. It is only an increase in productivity, he said, that converts latent into actual demand by bringing commodities (old and new) to market at prices people can afford, that generates economic growth.

He said there has been a decline in governmental and industrial productivity. The rate from 1948 to 1966 stood at 3.3%, he said. Now it's 2.1%. Japan enjoys a 9% rate. Despite the decline in U. S. productivity, the nation still holds first place in that category.

Dr. Grayson noted that three banks have pledged support to his American Productivity Center, which is being formed. The banks are First National and Continental Illinois National, both in Chicago, and Wells Fargo in San Francisco. He said he would like to see more bankers take an interest in improving productivity by pledging support to his center.

H. Joe Selby, first deputy Comptroller of the Currency for operations, spoke before the National Bank Division.

"The future of banking implies many technological changes," he said. "These changes are now being discussed and implemented and include CBCTs, debit cards, electronic funds transfers, etc. But all of this is merely technology; we Americans have always been in love with gadgets and machinery."

This is the stuff that the American dream is made of, he said, but the technology of the gadgets will never be accepted unless American banking enterprise perceives these changes as being worthwhile and practical. The one fact of life of modern banking is that banking is being slowly buried under an avalanche of paper. One of banking's miracles has been the ability of the banking system to cope with this avalanche.

He cited statistics to give some dimension of banking's ability to cope. In California in 1966, about $50 of checks were written annually against an average $1 of demand deposits. By the end of 1976, that volume had risen to $126 of checks written against an average dollar balance maintained in western metropolitan centers—equivalent to an 11% compounded increase per year.

"Eventually," he said, "we will have to move toward electronic banking, not because the Comptroller or IBM says so, but because the banking system and its customers have totally accepted it as being the only possible course to take."

"The entire nation now can see how our energy crisis has degenerated into a political struggle, with taxpayers and consumers the ultimate victims as usual with a dagger pointed at the heart of the Texas economy." These are the words of L. Frank Pitts, president, Pitts Oil Co., Dallas, final business session speaker.

Mr. Pitts said President Carter has gone back on his word to work for deregulation of the oil industry, made prior to the election.

"The president is trying to sell the American people on his idea that the nation's energy problems can be largely resolved through conservation, completely ignoring the wide gap that exists between consumption and production," Mr. Pitts said.

"President Carter's new energy plan is only another gigantic tax plan to finance bigger government," Mr. Pitts said. "Fuel taxes alone could cost consumers $5 billion a year within two years. And if all his tax proposals are adopted, it is possible for taxpayers to be saddled with as much as $75 billion a year by 1980.

Charlie Childers, new assn. pres., receives his badge of office from retiring Pres. Ross Greenwood.

Retiring Pres. S. R. Greenwood, pres., Temple Nat'l, addresses TBA convention.

"If Congress will allow the price of new natural gas to seek its own level in the marketplace in competition with other fuels, this will cause more deep wells to be drilled," he said. "Then a drilling boom will take place and we can and will find adequate reserves of natural gas to last a long time—and we'll find lots of new oil, too."

He said Texas has provided a model to the nation on how to solve the energy shortage by deregulating natural gas consumed within the state. He called on bankers to help tell the true story of the situation to the voting public so individual Americans can use their common "horse sense" to make the right decisions.

New TBA president is Charles L. Childers, president, Tyler Bank. Other new officers are Charles E. Cheever Jr., president, Broadway National, San Antonio—vice president; and E. W. Williams, Jr., executive vice president, Amarillo National—treasurer.

Newly elected National Bank Division officers are C. W. Jones, president and chairman, Mercantile National, Corpus Christi—chairman; Gene H. Bishop, chairman, Mercantile National, Dallas—vice chairman; and Thomas G. Parker, chairman, First-Taylor National—secretary.

State Bank Division officers are Warren B. Duren, president, Mills County State, Goldthwaite—chairman; M. L. Everett, president, Washington County State, Brenham—vice chairman; and Stephen T. Jordan, president, Central Bank, Farmers Branch—secretary.

Outgoing TBA President S. R. Greenwood, president, Temple National, was elected to a two-year term on the ABA governing council. • •

Interest on Demand Deposits Takes Spotlight in Arkansas; Cecil Cupp Jr. Named Pres.

By ROSEMARY McKELVEY
Managing Editor

PAYMENT of interest on demand deposits—one of the hottest topics in banking today—was given the most emphasis during the annual convention of the Arkansas Bankers Association in Hot Springs last month. In fact, so many Mid-Continent-area convention programs this year were focused on this subject that a complete discussion of it appears as a feature on page 25.

In Arkansas, the topic was discussed May 16 by ABA President-Elect A. A. "Bud" Milligan, president and chairman, Bank of A. Levy, Oxnard, Calif. The following day, the American Bankers Association portion of the business session was devoted mainly to this subject. The discussion was led by Thomas Wilson, chairman, First State, Conway, who had been designated to conduct the ABA section of the convention program by W. M. Campbell, ABA vice president for Arkansas, who is in ill health. Mr. Campbell is chairman, First National of Eastern Arkansas, Forrest City. Mr. Conway also represented Mr. Campbell at two ABA Governing Council meetings, one held in February and the other in April. These two meetings produced the ABA's proposed eight-point legislative and regulatory package on interest on demand-deposit accounts. As noted above, this package and other background on this topic appear elsewhere in this issue.

Mr. Wilson called the outgoing Arkansas Bankers Association president, William H. Kennedy Jr., to the dais to assist him in conducting this portion of the program. Mr. Kennedy is president, National Bank of Commerce, Pine Bluff.

Father-son combination is shown at past presidents' get-together May 16 during Ark.BA convention. Incoming association pres., Cecil Cupp Jr. (l.), visits with his father, Cecil Cupp Sr., ch., Arkansas Bank, Hot Springs, where younger Mr. Cupp is pres.

Mr. Wilson read a speech that ABA President W. Liddon McPeters gave at the Governing Council's April meeting. Mr. McPeters, president, Security Bank, Corinth, Miss., traced the seven-year growth of third-party-payment powers of S&Ls, mutuals and credit unions and then described the ABA's proposal on payment of interest on demand deposits.

Both Mr. Wilson and Mr. Kennedy commented on the proposal and then opened a question-and-answer period on it.

The ABA section of the May 17 business session ended with the unanimous election of Mr. Kennedy as the Arkansas Bankers Association's representative on the ABA Governing Council.

The May 16 business session featured talks by Lawrence K. Roos, president of the St. Louis Fed, and Senator Edwin Jacob "Jake" Garn (R.,Utah). Mr. Roos, whose remarks appear on page 27, spotlighted the problem of dwindling Fed membership.

Senator Garn, a member of the Senate Banking, Housing and Urban Affairs Committee, made a hard-hitting—and well-received—attack on the national debt and budget, the 95th Congress and consumer groups.

The senator pointed out that the U. S. budget deficit this year will be $55 billion to $56 billion, "if we're lucky." He compared this with 1932, when the entire budget was only $4 billion. Senator Garn said that the 1977 budget has been set at $450 billion, but the country has revenue of only $395 billion. Turning to the national debt, he said it will rise to about $800 billion this year, and interest on this debt will be $40 billion. He brought these figures home to his audience when he said that $1 out of every $10 paid as income taxes goes to pay the interest on the national debt. He said that this country didn't spend $100 billion in one year until 1962; this figure rose to $200 billion in another seven years, and Senator Garn now foresees a *half-trillion-dollar budget* in the not-too-distant future.

According to the man from Utah, this Congress is "fiscally irresponsible, if not fiscally insane." Whereas the public is fiscally conservative, he continued, Congress goes merrily on its way passing more rules and regulations and creating more deficit.

Senator Garn advised the public to wake up its legislators to the fact that lawmakers—entrenched in Washington for years—are not what our founding fathers wanted; that they envisioned "citizen legislators, to serve a term or two, then go home.

"This country," said the senator, "is being run by special-interest groups, such as the Ralph Nader group. They're well run and well financed. They're a majority in the minority groups (I don't mean racial) who vote. We've surrendered to these special-interest groups."

When consumer groups want a law or regulation passed, advised the senator, the public should ask three ques-

Outgoing Ark.BA Pres. William H. Kennedy Jr. (2nd from r.) is pictured with association's officers for 1977-78: 2nd v.p., James C. Hobgood (l.); treas., Artie Seidenschwarz (2nd from l.); pres., Cecil Cupp Jr. (c.), and 1st v.p., Doyl E. Brown (r.).

Ark.BA past presidents and friends are pictured during convention May 16 at traditional, although unofficial, noontime get-together. Former association heads have been gathering like this since late 1920s.

LEFT: Outgoing Ark.BA Pres. William H. Kennedy Jr. (r.) talks with a predecessor, W. M. Campbell, First Nat'l of Eastern Arkansas, Forrest City. Mr. Campbell headed association in 1967-68.

RIGHT: Three past presidents of association enjoy reunion during convention. L. to r., they are: Dorman Bushong, pres., Farmers & Merchants, Rogers; George R. Shankle, pres. & CEO, First Nat'l, Hot Springs, and Max A. Mitcham, ch., Smackover State.

tions: What will it cost? Who will pay for it? Who will benefit from it? He believes that if a price tag is put on proposed legislation, the public will realize it doesn't want or need it.

"We must get politically involved and play 'hardball' the way special-interest groups do," he added and cited the average citizen's apathy as the source of the problem of having legislation passed that's detrimental to the country. He suggested that businessmen treat anti-business legislators the same way "Nader treats me."

"We need to protect our environment," said the senator, "but we've gone too far. We now need moderation and old-fashioned horse sense. We should not let the pendulum swing from one side to another without having it stop in the middle."

Junior Bankers Report. Bart Lindsey, president of the Junior Bankers Section of the association, reported on his group's educational efforts. Mr. Lindsey, marketing officer, First National of Phillips County, Helena, said his group helps sponsor the School of Basic Banking, the Trust, Marketing and Lending schools, all of which he described as highly successful. Two scholarships are given to banking students at the University of Arkansas and Arkansas State, and the Junior Bankers contribute to the Chair of Banking at the University of Arkansas.

However, Mr. Lindsey said these efforts still are not enough because only 1,000 bankers out of 13,000 bank employees in the state have attended any of the banking schools. The Junior Bankers are doing better in the AIB, with more than 2,000 persons having taken one or more courses there this past year. He advised bank managements to go to their employees and ask them whether they want to take any banking courses. He added that banks need well-educated staffs and closed his report by pointing out that Arkansas offers young bankers excellent opportunities, but they must capitalize on them. Hopefully, he added, the Junior Bankers will help the state's bankers do that.

Legislative Report. Louis Ramsey, chairman of the association's state government relations committee and president, Simmons First National, Pine Bluff, discussed some recent legislation. He talked about Act 106, an enabling act resulting from adoption of Amendment 57, which exempts all intangible personal property from taxation. Act 949, according to Mr. Ramsey, allows banks' trust departments to invest short-term funds in their own banks if those banks have FDIC insurance. In addition, Mr. Ramsey said that the Arkansas General Assembly passed enabling electronic funds transfer legislation. Under it, banks can install ATM and POS terminals in banks and stores within the city limits of a bank's domicile community. He emphasized that the new law does not allow across-the-state and across-county-line hookups.

U. S. Senator Edwin Jacob "Jake" Garn of Utah (r.), convention speaker, visits with H. C. "Bo" Carvill (l.), Ark.BA exec. dir., and William H. Kennedy Jr., who served association as pres. this past year. Mr. Kennedy is pres., Nat'l Bank of Commerce, Pine Bluff.

Resolutions. Beverly Lambert Jr., resolutions committee chairman and vice chairman, First State, Crossett, reported on resolutions approved by his committee. They included advocating that the State Banking Department be made an independent agency; lauding the Texas Bankers Association for having brought together state bankers associations to discuss grass-roots sentiment on various issues and for providing the leadership needed to tell banking's story to the country; and expressing congratulations to Harvel C. Adams for being elected 1977-78 president, Conference of State Bank Supervisors. Mr. Adams once headed the Arkansas Bankers Association.

Constitutional Revisions. New revisions for the association's constitution were described by B. Finley Vinson, chairman, First National, Little Rock. They included changing the title of the executive council to board of directors and the titles of executive manager and assistant manager to executive director and assistant director, respectively.

New Officers. Cecil Cupp Jr., president, Arkansas Bank, Hot Springs, was elected to succeed Mr. Kennedy as association president. He moved up from president-elect. Other new officers are: first vice president, Doyl E. Brown, president, First National, Wynne; second vice president, James C. Hobgood, chairman, Merchants & Planters Bank, Arkadelphia; and treasurer, Artie Seidenschwarz, president Farmers & Merchants Bank, Stuttgart.

Winners of the portable TV sets given away during the convention were Thomas E. Hays Jr., president, First National, Hope, and John F. Phillips Jr., president, Bank of Holly Grove. • •

Parity Legislation, Management Challenges Focal Points of Mississippi Convention

By DANIEL H. CLARK
Assistant Editor

BANKING'S FUTURE in light of proposed legislation and challenges to management were focal points of the 89th annual convention of the Mississippi Bankers Association held in Biloxi last month.

On hand to present the ABA's proposed legislation that is designed to create parity for bank customers and banks with thrift institutions was A. A. "Bud" Milligan, ABA president-elect, and chairman and president, Bank of A. Levy, Oxnard, Calif. He referred to the ABA's proposal that would give banks and other depository institutions the option of offering consumers the opportunity to write checks on a new type of savings account (variously known as "NOW"—Negotiable Order of Withdrawal—accounts or share drafts), saying, "Today, the thrifts have access to many options that they may want to use some day. Banking's problem is that it needs to have options to use in the future."

He then outlined the proposal's eight points:

• Parity of interest rate ceilings, reserve requirements and treatment of reserves on such new accounts must be established for the benefit of customers of all institutions that offer such accounts.

• The statutory interest-rate differential must be removed from the Interest Rate Control Act. The advantage of the rate differential must be removed by regulatory action from all classes of savings accounts for any institution electing to offer check-like accounts. The National Credit Union Administrator must become a member of the Interagency Coordinating Committee; thus, the same rate ceilings that exist for other types of financial institutions would apply to credit unions.

• The new type of account must be the *only* interest-bearing transaction account permitted for all banks, thrifts and credit unions or for any other institutions offering such accounts now or in the future. The new account would be an alternative to, and not a replacement for, conventional checking and savings accounts. This also would apply to interest-bearing accounts on which demand-type withdrawals via electronic terminals are permitted.

• Reserves on this type of account at non-Fed member banks could be held at any correspondent bank. Uniform reserves on those accounts offered by depository institutions other than banks would be held by the Fed or by other depositories by agreement with the Fed. No class of Fed membership or affiliation would be compulsory for any financial institution.

"The new type of account must be the only interest-bearing transaction account permitted for all banks, thrifts and credit unions . . . now or in the future."

From l., outgoing MBA pres. John H. Mitchell Jr., v. ch. and CEO, Nat'l Bank of Commerce of Mississippi, Starkville, hands gavel of office to new MBA pres. Ray K. Smith, pres. and CEO, First Nat'l, Greenville, while R. D. "Bobby" Gage III, new MBA v.p., and Paul W. McMullen, new assn. treas., look on. Mr. Gage is pres. and CEO, Port Gibson Bank, and Mr. McMullen is ch. and CEO, First Mississippi Nat'l, Hattiesburg.

• The new type of account must be limited to customers who meet the strict definition of a household account. This would exclude businesses, etc.

• A one-year preparation or transition period must be allowed between enactment and implementation of the law. Such a law would take effect immediately in the six New England states, however, giving banks in those states the parity provided in the legislation.

• Full, effective regulation and examination must be applied to all financial institutions offering this new type of account.

• The Fed and the FDIC should provide banks the additional option of offering pre-authorized transfers from savings to checking accounts.

The outgoing Mississippi Bankers Association president, John H. Mitchell Jr., vice chairman and CEO, National Bank of Commerce of Mississippi, Starkville, addressed the conventioners on "The Challenge for Management." He said, "It is possible that our industry now is facing the most severe challenges that it has faced since the Great Depression. Regulatory authorities are altering many rules, elected representatives seem determined to restructure the entire financial system and complex economic conditions and rising costs make internal decisions more and more difficult."

He cited several points that he felt bank management must take into consideration in the future:

• Bankers must assure themselves of their ability to continue to formulate and attract capital into their institutions.

• The vast majority of deposit increases in banks is showing up in time and savings deposits, a trend that creates a need for additional emphasis on proper liquidity by bank management. Mr. Mitchell said, "A bank that leaves itself no flexibility in determining rates to pay for funds—because of lack of liquidity—certainly leaves itself wide open for abnormally high fund costs; and this will affect profits adversely."

• Employees are the most valuable asset a bank has. Considerable attention and skill are required to develop maximum output and efficiency from employees. He noted, "A rapid glance at rising social security costs, employee benefit costs and reasonable wage increases quickly substantiates the necessity for skilled management of the personnel function of our banks."

• The rapidly changing, complex economic conditions in which banks must compete require a basic understanding and the ability to relate decisions to an appraisal of these conditions. As an example of this, he asked, "For instance, is today's market a good one in which to buy intermediate or longer-term maturities for an investment account? Is this the proper time to consider taking profits that may exist in the investment account? How much liquidity is needed for the level of economic activity you anticipate during the next 12-24 months?"

Outgoing MBA pres. John H. Mitchell Jr. (l.) presents 50 Year Club certificate to Russ M. Johnson, advisory dir., Deposit Guaranty Nat'l, Jackson.

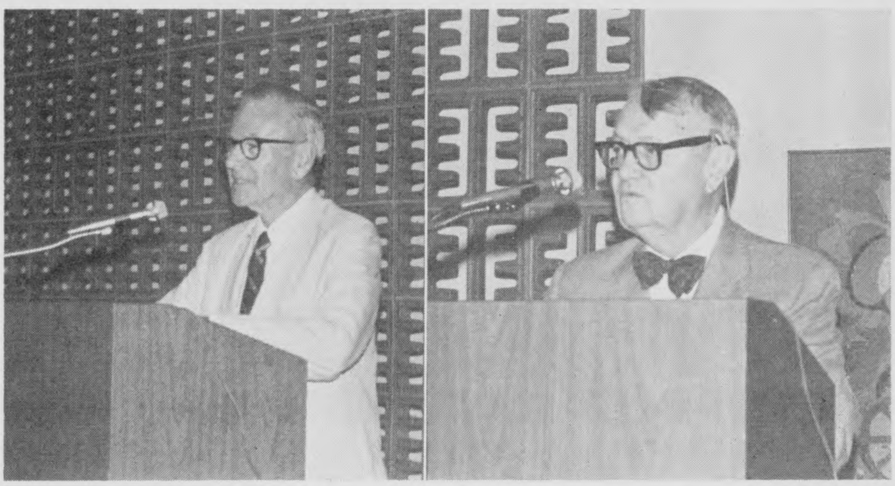
The Starkville banker also noted that bankers must concern themselves with the effect that inflation and government policies have on the customer's needs, adding that this requires increased skill and knowledge on the part of lending officers to make credit decisions and to advise customers properly on credit and other needs.

Mr. Mitchell said, "Studies exist that indicate that, within the next 10-12 years, individuals, not business and government, will become the greatest suppliers and users of funds. They will be particular about which bank and which bank services they select. They will be a part of an overall consumerist movement . . . (Bankers) must attempt to understand their needs and requirements, and in so doing, develop services that will be meaningful to this great mass of potential customers."

In conclusion, Mr. Mitchell discussed the increasing amount of interest on the part of some Mississippi legislators in increasing taxes paid by the state's banks, noting an effort during the last legislative session to subject banks to an ad valorem tax on personal property. "We believe it a necessity," he said, "that the association make a responsible study of bank taxation prior to the 1978 session of the Mississippi legislature so that responsible bank tax legislation can be recommended for consideration."

Ray K. Smith, president and CEO, First National, Greenville, was elected MBA president, succeeding Mr. Mitchell. R. D. "Bobby" Gage III, president and CEO, Port Gibson Bank, was elevated from association treasurer to vice president, while Paul W. McMullen, chairman and CEO, First Mississippi National, Hattiesburg, was elected MBA treasurer. • •

". . . Is today's market a good one in which to buy intermediate or longer-term maturities for an investment account? Is this the proper time to consider taking profits that may exist in the investment account? How much liquidity is needed for the level of economic activity you anticipate during the next 12-24 months?"



At l., MBA guest speaker A. A. "Bud" Milligan, ABA pres.-elect and ch. and pres., Bank of A. Levy, Oxnard, Calif., addresses convention on ABA's proposed parity legislation. At r., Orrick Metcalf, Natchez, delivers necrology report.

Involvement Is Theme of Ala.BA Meeting; Huntsville Is Host for First Time

By LAWRENCE W. COLBERT
Assistant to the Publisher

ALABAMA bankers traveled to the north Alabama city of Huntsville for their 84th annual convention last month—the first time the association held its annual meeting in that city.

The city gave the bankers a warm reception. Ala.BA President Robert H. Woodrow Jr., vice chairman, Alabama Bancorp., Birmingham, commented that "we should have come (to Huntsville) before now and we will want to come back in the future."

Huntsville, long associated with the nation's space program, is the home of the Marshall Space Flight Center and the Alabama Space and Rocket Center, the latter of which figured prominently in the social activities of the convention. The city's population has expanded tenfold in the past two decades.

Involvement, both in banking and political matters, was the thread that tied the convention speakers' presentations together.

Association President Woodrow led off the roster of speakers with his president's address. In it he gave recognition to the expanded educational program of the association, stating, ". . . we expanded the program, not only in quantity, but also in quality and this we will continue to do. We expanded use of our own membership and entered into several new programs. This expansion will continue for the benefit of and use by our members."

Mr. Woodrow devoted much of his address to the topic of change.

"We are, without question, in a period of rapidly changing times and the challenge is offered to each of us to adapt to, plan for, and be involved in the changing process," he said.

He specified three types of reaction to change—griping, attempting to postpone and finally going along reluctantly; estimating a change in advance and getting into trouble as a result; and attempting to shape the change, which means playing a larger and more important role in the public area.

An example of Huntsville's hospitality was this sign that greeted bankers as they entered the Von Braun Civic Center.

"I think that those of you who were on our recent Washington trip will agree with me on this," he continued. "We can be only in the third category where there is no place for emotion, but only a place for action."

He said that this is a day of consumerism and if bankers don't acknowledge that fact, they are in trouble as an industry.

"We have only services to sell and if we don't market the services wanted by consumers, they can and will go elsewhere and we have no one but ourselves to blame," he said.

He asked his audience to think back

New Ala.BA officers for 1977-78 include (from l.) C. E. Avinger—s.v.p.; George J. Shirley, pres., First Nat'l, Tuscaloosa—2nd v.p.; Charles S. Snell, pres., Citizens Nat'l, Shawmut—pres.; W. H. Mitchell, pres., First Nat'l, Florence—1st v.p.; Sue K. Morris—sec.-treas.; and Howard J. Morris—e.v.p.

for an example of this type of situation. Banks didn't want to make so-called installment loans and the result was the emergence of the GMACs and the CITs—creating a loss from which banks have never truly recovered.

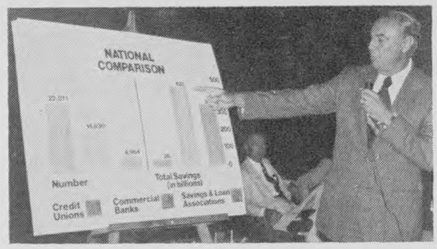
One major exception to resistance to change was A. P. Gianini, who adapted to change, met the challenge and gave customers what they wanted, he said. The result was the growth and development of Bank of America.

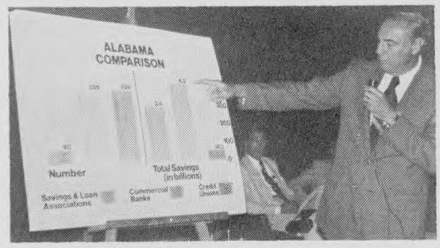
Mr. Woodrow called attention to some of the changes facing Alabama bankers.

"First, there is the strong possibility that the NOW accounts, with which all of you are familiar, will be nationwide before year-end. Obviously, these would be interest-bearing accounts. They have been endorsed by the Fed and other regulators and should be viewed as a transition to the ultimate of interest on all demand accounts."

Use of the 1933 argument that demand account interest undermines bank safety apparently doesn't carry much weight today, he said, since banks are giving away other services, such as free checking.

He said that a reasonable interest ceiling on NOW account balances and





Arthur Tonsmeire Jr., pres. & ch., First Southern Federal Savings, Mobile, points out share of savings money held by S&Ls, commercial banks and credit unions, both nationally (top photo) and for Alabama (bottom photo). Mr. Tonsmeire was part of panel on credit unions.

payment of interest on balances at the Fed or on similar type balances could help cushion the impact of the cost of paying interest on NOW-type accounts.

"We of the banking industry can hurt ourselves immeasurably by strongly opposing this innovation," he said. "It is a consumerist measure, but it carries the endorsement of the regulatory agencies and of many of our

"Credit unions in some states are moving to assure that their third-party payments—share drafts—will be acceptable. In these states, credit unions actually are buying or establishing banks."

friends in the Congress. Instead of looking at this issue as the coming of doomsday, let's look at it constructively and positively as a blessing in disguise.

"We have an actual example by which to convince our customers that there is no free lunch," he said. "We can find out what our real costs are and we can sell our services for their true value."

However, he cautioned, this is not going to just happen. Planning will be necessary, and the planning should begin now.

"All of the changes to which I refer will not come overnight," he said, "so we can and must use the time wisely to plan and be ready for changes or we can sit still, squabble amongst ourselves and be completely out of step when change comes."

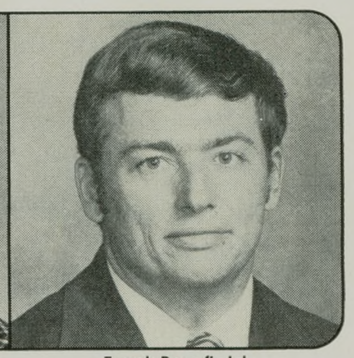
He said EFT is still in the planning

Already, over 100 independent banks have chosen Southern National Bank as their correspondent bank.

Joe Hughes
President & Chief Executive Officer

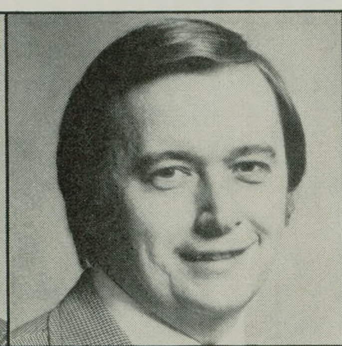
Jim Lovell
Senior Vice President Growth & Development

Bill Weatherly
Senior Vice President Loans



Frank Barefield
Vice President Investments

Mike Tingle
Assistant Vice President Loans



George Wilson
Assistant Vice President and Cashier

Joe Brown
Assistant Vice President Growth & Development

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LEFT: Mr. & Mrs. J. Donald Lamon (l.), Union Bank, Montgomery, visit with Mr. & Mrs. Sonny Johnson, Third Nat'l, Nashville, at social hour. MIDDLE: Walter Wiesman (l.), consultant & writer, Huntsville, who addressed convention on "The Making of a City," visits with Ernest Ladd (c.), Merchants Nat'l, Mobile, and state ABA v.p., and incoming assn. Pres. Charles S. Snell, following Mr. Wiesman's remarks. RIGHT: Mr. & Mrs. Jim Lovell, Southern Nat'l, Birmingham, flank Mario R. Bottesini (2nd from r.), Bank of Huntsville, and Mr. & Mrs. Wayne Scott (2nd and 3rd from l.), Bank of Arab, at social hour.

stage and the Ala.BA is continuing an EFT in-depth study started three years ago. The association plans to advise its members of the soundest and least expensive course to follow in this area.

"Many of you will say we are community banks and will ask how we can participate to prevent large, money-center banks from usurping our markets," he said. "The answer is, you exist on personalized services to your customers and you can give EFT as an additional personalized service. Personal contacts and basic good service will retain any customer."

Mr. Woodrow said the real concern should be competition from outside the banking industry, not from within. "If you can meet outside competition, you have no fears from within," he said. "Our customers can and are being sold on 24-hour service and if we give them what they want, we'll restore the characteristic of loyalty which is missing so often."

He said the area of credit unions has gone unnoticed, but there has been much planning, organizing and lobbying on their behalf. Instead of being little self-serving groups, credit unions are well organized associations serving the general public. Many are big business.

"One point not to be ignored, no matter how you feel about credit unions, is that by their innovations and marketing they have been smart enough to provide their memberships and the public with services desired and which are not offered by other financial entities," he said.

As a result of offering these desired services, he continued, credit unions have grown both in numbers and in membership size. Money that formerly went into bank accounts now goes into credit union accounts. Through the process of steady change, they have come to offer many of the usual banking services, including loans, and without the many rules, regulations and restrictions that are heaped upon banks and thrifts.

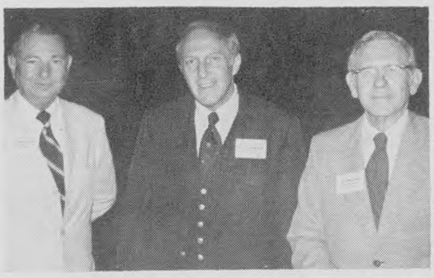
"We have no one to blame but ourselves and it is no consolation that it's not the first time we have, speaking in the vernacular, 'blown it,' " he said. "Here again, consumerism is raising its head and we see credit union assets growing at the rate of 14% a year. Resentment is not the answer."

He said the approach is to place controls on credit unions to protect the member and consumer. The approach should not come from the direction of equalizing with other segments of the financial world, because that would give a "sour grapes" approach that would not be accepted.

Credit unions in some states are moving to assure that their third-party payments—share drafts—will be acceptable, he said. In these states, credit unions actually are buying or establishing banks. At the federal level, the Federal Credit Union Act of 1934 has been amended by astute parliamentary maneuvering that virtually eliminated opposition. The new law has greatly expanded the areas in which the credit unions can operate and the services they can offer.

Mr. Woodrow called on the membership to get involved in engineering change. He said that legislators "beg for our input, and to date, such has been sparse."

He said that major trade associations and private businesses are beginning to work together with the thought that a problem for one is a problem for all.



Assn. Pres. Bob Woodrow (l.) visits with guest speaker, U. S. Rep. Richard Kelly (c.), member of House Banking & Currency Committee, and W. H. Mitchell, Ala.BA 2nd v.p.

"Here is your challenge," he said. "Think, plan and get involved so that in the end you do not find yourself on the outside looking in, with other segments of our industry on top of the heap. Our position is not a God-given right to automatically be the 'top dog,' no matter what."

Continuing the dialogue on credit unions was John D. Chisholm, president, Marquette Bank, Rochester, Minn., whose topic was "The Size and Growth of Credit Unions."

"There is occurring in this country a proliferation and redistribution of the powers of commercial banks that is weakening the fabric of the whole U. S. financial system," Mr. Chisholm said. "Those in the Congress most critical of commercial banks are responsible for this tinkering. They confuse an oversight responsibility with the actual regulation of the financial agencies and are creating general chaos in the process."

He cited the recent treatment of credit union legislation as evidence of the fact that financial agencies can't be regulated by a congressional committee.

"Much of the competitive advantage enjoyed by credit unions (CUs) stems from the special privileges under which they operate and the extraordinary subsidies they receive," he said. CUs receive subsidies in the form of tax exemption and the absence of deposit reserve requirements and they often receive additional subsidies in the form of contributions, such as rent-free space, from sponsoring organizations.

"These subsidies," he said, "coupled with the lack of corporate shareholders expecting earnings, enable most CUs to pay a higher interest rate on deposits and make loans at lower rates than banks and thrifts."

There are about 22,800 CUs in the U. S. today, serving more than 32 million members and holding over $38 billion in assets, Mr. Chisholm said.

"During the last 10 years, credit union membership has nearly doubled," he said. "In January, 1975, about 18% of U. S. families had at least one member of a credit union. It was estimated that in 1974 about 55% of those eligible to belong to a federal CU did so."

He said it is most significant that, although CUs still have a sizable number of lower-income members, the majority of their membership is from the middle and upper income brackets. In January, 1975, more than half of the families with a CU member earned over $15,000 and nearly a quarter of these families earned more than $25,000. Less than a third of the families earned less than $10,000.

The average size of a share account in a federal CU in 1974 was about $900, he said. About 40% of the shares of CUs are in accounts with balances over $5,000. Ten years ago, the average size of a share account was $525 and only 20.9% of the shares were in accounts with balances over $5,000.


LEFT: John D. Chisholm, pres., Marquette Bank, Rochester, Minn., moderates panel on credit unions. RIGHT: Mary George Jordan Waite, ch. & pres., Farmers & Merchants Bank, Centre, delivers a report on the Alabama Bankers Educational Foundation.

Mr. Chisholm called attention to the fact that, just recently, Congress passed legislation that will provide CUs with new powers, including the offering of home mortgage loans for up to 30 years, providing that the home is the principal residence; home improvement and mobile home loans of up to 15 years, five years longer than formerly; unsecured loans of up to 12 years and of any amount, expanding the former $2,500 limit and adding seven years to the term; revolving lines of credit; and participation in loans secured by government insurance or guaranties.

CUs can also use secondary markets to enhance liquidity by buying, selling or discounting eligible obligations to their members, such as real estate loans, he said.

"And CUs tell us they will be back for more next year," Mr. Chisholm said. "Among the items they want are a central liquidity fund to serve as a secondary source of funds when money is tight. Such a fund would be established in the National Credit Union Association (NCUA) to make discount loans to credit unions to satisfy seasonal, temporary or emergency liquidity needs. This fund would be outside the control of monetary policy exercised by the Fed and would probably impact counter-cyclically on monetary policy through the issuance of NCUA public bonds and notes at those times of monetary tightening when the liquidity structure of CUs would be most pressed. They also want the ability to perform trust services for their members."

There are two major arguments against granting these additional pow-

"There is occurring in this country a proliferation and redistribution of the powers of commercial banks that is weakening the fabric of the whole U. S. financial system."

"... There is the strong possibility that the NOW accounts, with which all of you are familiar, will be nationwide before year-end. Obviously, these would be interest-bearing accounts. They have been endorsed by the Fed and other regulators and should be viewed as a transition to the ultimate of interest on all demand accounts."

ers, he said. The first centers around the unfair competitive advantage credit unions would enjoy if granted these powers. The second is that some CUs may attempt to offer such services without the resources to do so, which could lead to increased risk for shareholders.

"Competitive equality relative to CUs and thrifts is especially important to the future viability of thousands of small and medium sized banks throughout our nation," Mr. Chisholm said. "Of the approximately 14,500 commercial banks, roughly 13,000 are small to medium in size and serve local communities and suburban areas. . . . Such banks are particularly susceptible to adverse effects from changes and competition with CUs and thrifts. The competitive imbalances must be addressed if our small banks and thrifts are to survive," he said.

The topic of equality between banks and other financial institutions was taken up by Ernest F. Ladd Jr., ABA vice president for Alabama, and chairman, Merchants National, Mobile. Mr. Ladd discussed the eight-point legislative package ABA is sponsoring that will result in parity among financial institutions, the emergence of a new type of interest-bearing checking account and several other changes in modes of operation of financial institutions. Details of the plan are presented on page 25 of this issue.

During committee reports, conventiongoers learned that the EFT committee has launched the Alabama Clearing House Association (AlaCHA) into operation at the Birmingham Branch of the Fed. AlaCHA has 193 members, including 180 banks, nine thrifts and four CUs. The committee raised $65,000 for initial funding, writing operating procedures, rules and regulations, marketing membership to the banking industry and selecting officers and directors to manage the ACH,

Two members of the EFT committee worked with LAMACHA (Louisiana-Mississippi-Alabama Clearing House Association), which became operational early this year.

The Ala.BA's coin collection has been reappraised and the insurance on it has been increased to reflect the almost tripling in value of the collection. An appraisal study has shown the value of the collection to have increased from $56,000 to $140,500. Rental fees for the collection have been increased to defray the higher insurance premium.

A report on the first year of the Alabama Banking School revealed that the enrollment goal of 60 students was achieved and all passed their exams.

The convention location committee has selected Mobile for the 1978 meeting. Tentative dates are May 10-12.

Charles S. Snell, president, Citizens National, Shawmut, assumed the Ala.-BA presidency during the convention and W. H. Mitchell, president, First National, Florence, took over the first vice president's duties. Elected second vice president was George J. Shirley, president, First National, Tuscaloosa. Mr. Shirley was also elected to the ABA's governing council for a two-year term.

Mr. Snell has served three terms in the Alabama legislature and three years as head of the Ala.BA state legislative committee. He is a native of Langdale and holds BS and MS degrees from Auburn University. • •

Problems of Banking, Nation Discussed At Tennessee Convention in Gatlinburg

By RALPH B. COX
Editor and Publisher

PROBLEMS facing the banking industry and the nation as a whole were thoroughly discussed at the 87th annual convention of the Tennessee Bankers Association in Gatlinburg last month.

Outgoing TBA President Hugh M. Willson, president, Citizens National, Athens, called attention to the importance of people and management development during his president's address.

"While there is a great common denominator in our product and service," he said, "the only essential difference is that little difference that you and I and the individuals within our bank are able to give which we call service. It may be just a smile, but it needs to be more than that. It needs to be a level and image of competence that pulls us out of the crowd of our competitors."

Mr. Willson also reviewed the state legislative picture during his address. He reminded his audience that sometime this month the Tennessee Supreme Court will hear a case in which finance companies challenge the validity of the law that provides for a 7½% interest rate ceiling on installment loans. He said the attack against this low maximum rate will be made on constitutional grounds.

"Your association is intervening amicus curae in this case because of the tremendous impact it will have on the economy of Tennessee if the constitution should be construed by this court in such a narrow way as to negate the practices of the finance companies, banks, savings and loans and all other leaders in the installment area that have been in effect for over 50 years," he said.

He congratulated Tennessee bankers for their assistance in passing last year's referendum authorizing the constitutional convention that convenes this summer to modernize the constitution in regard to interest rates.

"I know of no more important issue that has faced this state in perhaps the last 100 years," Mr. Willson said, referring to the constitutional convention's goal.

Convention speaker Bert Lance presented his view of the national priority to the conventiongoers. Mr. Lance is director of the Office of Management and Budget for the Carter Administration.

"Inflation undoubtedly is the nation's number one problem," he said. He indicated that inflation may very well have replaced unemployment as the most pressing problem. "We'll have to deal with both problems at the same time," he said.

He added that, for the first time, the public is really concerned about government fiscal responsibility. The way to exercise this responsibility wisely, he said, is through increased capital and productivity.

He predicted that President Carter will balance the budget in 1981 and that a zero-based budgeting process will help bring this about. It will help the Congress set priorities, he said.

He added that Congress is in a favorable mood to take a look at spending. He said the Carter Administration hopes to work closely and carefully with the Congress in shaping future spending programs so the budget can be balanced.

The other major speaker at the general business session was Gerald M. Lowrie, executive director, ABA government relations. Mr. Lowrie espoused the ABA line of accepting NOW accounts as a trade-off for the payment of interest on reserves. (Turn to page 25 for complete details of the ABA's position.)

Pres. Jimmy Carter's budget dir., Bert Lance, former banker from Georgia, spoke during general business session.

The independence of the Federal Reserve System is one of the greatest strengths of the U. S. economy, said Robert Forrestal, senior vice president and general counsel of the Atlanta Fed, at the National Bank Division meeting.

"If the Fed loses its independence," he said, "the printing press and money will be turned over to the politicians, which will not be in the public interest."

He predicted that enabling legislation for nationwide NOW accounts would be enacted by 1978 at the latest and that payment of interest on reserves held at the Fed would come about. It is his opinion that every type of savings institution should be required to hold equal reserves.

Tennessee bankers were quite interested in remarks made by George Doak, president, Kansas Development Credit Corp. (KDCC), Topeka, who spoke at the joint session of the State and National Bank divisions.

TBA officers for 1977-78 include (from l.) Ch. Hugh M. Willson, Pres. Jack R. Bulliner, Pres.-Elect Andrew Benedict, 1st V.P. G. Robert Taylor, 2nd V.P. James R. Fitzhugh.

LEFT: Walter Barnes (l.), ABA v.p. for Tenn., and pres., First Nat'l, Jackson, and Gerald M. Lowrie, exec. dir., ABA Gov't Relations, participated at general business session. CENTER: Jere Williamson (l.), new ch., State Bank Div., and pres., First State, Brownsville, and George Morgan, new TBA dir. for East Tenn., and ch., Valley Fidelity Bank, Knoxville, following election of officers. RIGHT: F. G. Cavin (l.), e.v.p., First American Nat'l, Nashville, and George Doak, e.v.p., Kansas Development Credit Corp., Topeka, at joint session of State and Nat'l Bank divisions.

His topic was industries financed and jobs created through the KDCC. Tennessee has enabling legislation on its books to accomplish the same thing as Kansas, but apparently the same kind of progress has not been made in Tennessee.

Mr. Doak pointed out that 430 of the 615 Kansas banks are participating in KDCC. Banks loan up to 3% of their capital in surplus at the prime rate to help create a special loan pool to help "struggling industries" that can't be financed directly by banks or through the SBA.

During its 10-year existence, KDCC has made loans totalling $65 million to 134 firms, creating more than 15,000 jobs and an annual payroll of $63 million. Half of those loans were made in communities of less than 5,000 population, Mr. Doak said.

He reported that losses were .6% throughout the corporation's existence.

He said that one of the interesting facets of the Kansas law that authorized the KDCC is that when a loan is made to a struggling company, it is required, wherever possible, that the firm make purchases of materials and supplies from other Kansas firms. Mr. Doak said this provision is partly responsible for Kansas' 4% unemployment rate.

Joe Hemphill, Tennessee banking commissioner, stressed "upgrading" of both salaries and education of state bank examiners during his talk to the State Bank Division.

During the 1975-76 fiscal year, he said, his department experienced a 12% turnover in staff, due, in large part, to the low $947,000 budget. During the 1976-77 fiscal year, on the other hand, turnover dropped to 5%, due, in part, to increased salaries made possible by a $1.1 million budget.

He stressed the importance of this program in retaining qualified examiners. Currently, he said, the department has retained more examiners with five or more years' experience than ever before in the department's history.

He also pointed out that examiners are encouraged to continue their banking education by attending various types of banking and specialized schools. About 55% of the examining staff is now enrolled in some sort of school, Mr. Hemphill said.

His department, he said, is charged with the responsibility of examining each state bank at least once a year. During the past year, he said, the department accomplished this task for the first time.

The independent banker's viewpoint was presented by Thomas C. Brickle, legislative counsel, Independent Bankers Association of America, during the meeting of the Independent Bankers Division.

Mr. Brickle's theme was that change is inevitable, but there's no need to rush into it without weighing the consequences.

One of the areas of forthcoming change is EFTS, he said. The National Commission on EFT is scheduled to file its report to Congress in October.

"With the fanfare of hearings, press releases and off-the-cuff remarks," he said, "the industry has been advised that EFT is the banking of the future. State legislatures are wrestling with the enactment of laws on a subject for which few appreciate the impact. In Nebraska, the banking community labored to establish its NETS system only to have the Department of Justice raise questions well after the fact. As of today, the two largest banks in the state have elected to withdraw from the statewide program.

"Some states have enacted sharing concepts," he continued. "Others consider moratoria. Still others linger in the limbo of indecision. Meanwhile, a quick review of the trade press reports on stories from the manufacturers, the larger banks and the regulators suggesting that EFT will be with us in the morning.

"Mind you," he said, "I don't believe an ostrichlike attitude is the answer. On the other hand, banking would be wise to 'go slow' in its efforts to shift into EFT systems."

Also speaking at the State Bank Division meeting was Thomas A. Wiseman, general counsel, Interest Rate Information, Inc. (IRI), Nashville. IRI was created last year as a lobbying group favoring calling the constitutional convention referred to by President Willson. The group now is reaching out to every sector of the state's population with brochures, films and speeches in schools, civic groups and on TV to attract support of the convention's call to consider changes on interest rates

LEFT: Harlan Matthews (l.), Tenn. treas.; R. Arch Fitzgerald, State Bank Div. ch., and e.v.p., Cleveland Bank; Thomas A. Wiseman, general counsel, Interest Rate Information, Inc., at joint session of State and Nat'l Bank divisions. CENTER: Laurence E. Kreider (l.), e.v.p., Conference of State Bank Supervisors; and Joe Hemphill, Tenn. commissioner of banking, at State Div. meeting. RIGHT: Tom Brickle, legislative counsel, Independent Bankers Assn. of America; Charles P. Wilson, ch., Independent Bankers Div., and pres., Commercial Bank, Paris, and James R. Fitzhugh, outgoing Independent Bankers Div. ch., and pres., Bank of Ripley.

and other issues.

Mr. Wiseman said the eliciting of support on the part of the public is extremely difficult. "We have got to convince consumers we don't want a higher interest rate either," Mr. Wiseman said. "What's important to us is the spread" between cost of money and the return on lending it.

He urged bankers to make efforts to impress, not only bank employees, but people in their communities that there's nothing wrong with the state legislature having the power to set interest rate maximums. If it was wrong, 47 other states would not permit the practice, he said.

He said about 95% of the state's banks are IRI members.

"We are capital importers" in Tennessee, Mr. Wiseman said. "We don't generate enough capital to fuel our economy and when capital leaves the state, we lose jobs. When we lose jobs we lose savings. And there is enough competition with other financial institutions now without another 1974 period of tight money. Imagine how competition would be affected if your money rates rose again like that?"

Jack R. Bulliner, president, First State, Henderson, was elected TBA president, succeeding Mr. Willson, who assumed the chairmanship of the association. Elected president-elect was Andrew Benedict, chairman, First American National, Nashville. New first vice president is G. Robert Taylor, president, Merchants Bank, Cleveland, and James R. Fitzhugh, president, Bank of Ripley, was elected second vice president.

Newly elected directors include George Morgan, chairman, Valley Fidelity, Knoxville—for east Tennessee; Robert E. Curry, president, First National, Pulaski—for middle Tennessee; and Quincy McPherson, executive vice president, Union Planters National, Memphis—for west Tennessee.

New State Bank Division officers are Jere Williamson, president, First State, Brownsville—chairman; J. W. Hudson, president, Bank of Madisonville—vice chairman; and James W. Holmes, senior vice president, Carter County Bank, Elizabethton—secretary.

Bruce E. Campbell Jr., chairman and president, National Bank of Commerce, Memphis, was named chairman of the National Bank Division.

The Independent Bankers Division elected Charles P. Wilson, president, Commercial Bank, Paris, as chairman; James R. Austin, chairman, Peoples National, Shelbyville, as vice chairman; and J. D. Clinton, vice president, Brownsville Bank, as secretary.

D. R. Nunn, president, Bank of Halls, was elected to the ABA's governing council for a two-year term. • •

BMA Publishes Proceedings Of 1976 EFT Conference: 'Taking Mystique Out of EFT'

CHICAGO—*Taking the Mystique Out of EFT* is a new 134-page reference work from the Bank Marketing Association. The book is based largely on proceedings from the BMA's 1976 EFT Conference.

The book explores and evaluates EFT, with chapters covering topics including: "Related EFT Developments," by Lester Goldberg, vice president of banking, Booz, Allen & Hamilton, Inc., San Francisco; "ATMs," by William M. Randle, vice president-marketing, Atlantic Bancorp., Jacksonville, Fla.; and "Putting EFT in Proper Perspective," prepared by Paul Armer, chairman, Special Committee on EFT, Center for Advanced Study in Behavioral Sciences, Stamford, Conn., and presented by Robert T. Berdue, vice president-marketing research department, South Carolina National, Columbia.

Also, part of the book is a three-part course on fundamental EFT concepts, which is geared to reflect marketing and operational aspects of the subject. In addition, two presentations delivered at the EFT Conference are included in *Taking the Mystique Out of EFT:* "EFT and the Implications to the Bank Marketer," by Joyce A. Healy, vice president, Manufacturers Hanover Trust, New York City, and "How to Advertise EFT," by Allan D. Nichols, senior vice president, and marketing director, First National, Atlanta.

Taking the Mystique out of EFT is available at $15 per copy to BMA members only. Requests for the publication should be directed to Order Department, Bank Marketing Association, 309 West Washington Street, Chicago, IL 60606.

Renewable Scholarships Encourage Banking Studies

European American Bank, New York City, has been giving future bankers a "shot in the arm," thanks to the $3,000 scholarships it awards each year to high school seniors who will attend Hofstra University's School of Business.

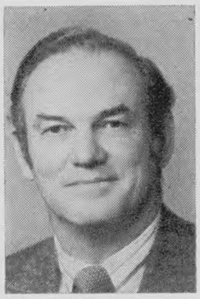
This is the second year that the bank has awarded the three scholarships to winners from among applicants attending high schools in European American's area. Recipients of the scholarships must have an interest in business studies—banking in particular—must have leadership ability, outstanding scholastic achievement and must have been accepted as freshmen at Hofstra, located in Hempstead, N. Y. Furthermore, as long as scholarship students maintain a high grade average in college, the scholarships will be renewed, resulting in a value of $12,000 to the recipient.

Scholarship students also are eligible for internships and part-time and summer employment at European American Bank.

NEWS
From the Mid-Continent Area

Alabama

■ JAMES S. GASKELL JR., president and CEO, First Alabama Bank, Montgomery, has been elected a director of First Alabama Bancshares, multibank HC to which the bank belongs.


GASKELL

■ BANK OF FLORENCE broke ground last month for its new headquarters building. It will be located at Pine and Alabama streets, adjacent to the present temporary office, and will be completed in the spring of 1978. The three-story structure has been designed in Williamsburg style.

■ JAMES E. BRANUM has been named president, Wilcox County Bank, Camden, while Mark Lyons III has been appointed chairman and executive vice president. In addition, R. Allen Couch Jr. has been elected assistant vice president.

Arkansas

■ JAMES JETT has been elected to the board of First National, Hot Springs. He joined the bank in 1971, following service with Worthen Bank, Little Rock. He is presently senior vice president and director of marketing.

■ FIRST NATIONAL, Newport, has elected Tony D. Herring a vice president and promoted Mrs. Maudie Michaels to assistant cashier. Mr. Herring was formerly executive vice president, Jackson County National, Tuckerman. Mrs. Michaels joined the bank in 1969 as a secretary.

■ FIRST NATIONAL, El Dorado, has promoted Johnny A. Benson from auditor to assistant vice president and operations manager, named Lawrence L. Powell auditor and placed Vice President Joe W. Miller in charge of money management.

■ FIRST NATIONAL, Osceola, has promoted Mrs. Lois L. Watts to vice president and Don H. Hook to assistant vice president.

■ PEOPLES BANK, Russellville, has promoted Harold E. Hayes and Mrs. Mary Louise Hoffman to vice presidents and Mrs. Glenna C. Long to trust officer. Elected assistant cashiers were Mrs. Luvene Carter, Mrs. Mary Lee Boling, Mrs. Mary Moran and Mrs. Virginia Russell.

Illinois

■ HARRIS BANK, CHICAGO, has announced a series of staff changes. Senior Vice President Rolland S. Carlson has been named department executive, operations; Senior Vice President Thomas G. Lynch, deputy operations executive; Vice President Ben T. Nelson, replacing Mr. Carlson as group executive, metropolitan group; Vice President Edward W. Lyman Jr., from division 6 administrator to division A administrator; Vice President Kenneth R. Keck from division administrator, business banking, to division 6 administrator; and Vice President Charles H. Davis, who was in division 1, to division administrator, business banking. In addition, the trust department now reports to the Harris Bank executive office through Vice Chairman Stanley G. Harris Jr., following the June retirement of Vice Chairman Chalkley J. Hambleton, to whom the department had been reporting. The operations department reports to President Charles M. Bliss. Executive Vice President Theodore H. Roberts has assumed new duties involving the overall asset/liability management of the corporation, including responsibility for the bank's investment securities portfolio in the money market division.

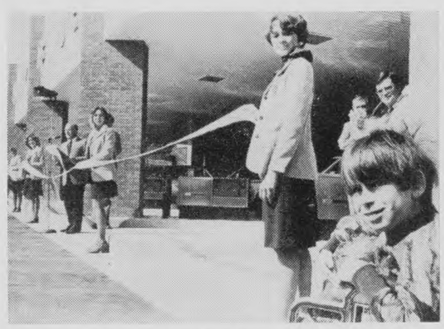
■ THOMAS L. DOCKWEILER and Marven Tillin have been promoted to assistant vice presidents at Chicago's National Boulevard Bank.

■ MERCHANDISE NATIONAL, Chicago, has announced the opening of its Apparel Center Facility and that it has applied for permission to open another facility at the Germania Club Building.

■ AMERICAN HERITAGE BANK of Granite City is the new name of American National, following its conversion to a state bank.

■ JAMES M. SHIPTON joined First Chicago Corp. and its principal subsidiary, First National, Chicago, May 1, as a senior vice president. He heads the bank's personnel department and is responsible for personnel and human-resources functions for the bank and corporation. Mr. Shipton formerly was with the Dayton-Hudson Corp., Minneapolis-based retailer, as vice president, personnel and communications.

■ BANK OF BELLEVILLE has opened its Swansea Motor Bank at Belt Line and Route 161. The facility features early hours—opening at 7 a.m.—and six drive-up stations. During opening ceremonies for the facility, a ribbon of two-dollar bills was cut and then donated to the Easter Seal Drive.


Easter Seal Child Stephen Bardmass (foreground) watches ribbon-cutting ceremonies for new Swansea Motor Bank of Bank of Belleville. At microphone can be seen Harry E. Cruncleton, pres., while applauding behind Stephen are Robert Wiltshire, bank treas. (l.) and Richard Lignoul, then Illinois commissioner of banks and trust companies. After ribbon of two-dollar bills was cut, it was presented to Easter Seal Drive.

The Illinois Team of the Harris Bank.

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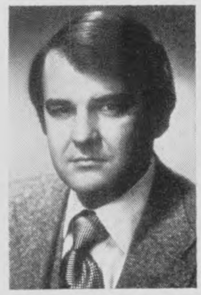
Illinois *(Continued)*

These are two views of new home of First State, Pekin. Two-level structure, located next to Pekin Mall, features drive-up lanes and parking area on top level and another parking area on lower level.

Wide expanse of temperate insulated solar bronze glass windows on lower level contrasts with exposed aggregate precast panels on building's top level.

■ FIRST STATE, Pekin, has moved into its new building next to the Pekin Mall. The exterior features exposed aggregate precast panels rounded at the building corners. Windows are of temperate insulated solar bronze glass for maximum light control and energy savings. The lower level houses the bookkeeping and safe deposit departments, vault area, coupon booths, conference rooms, employees' lounge and rest rooms. On the first floor is a public lobby, which has four tellers windows with provisions for future expansion, three private offices, the new accounts and installment loan departments and an open officers' area. The building has four drive-up lanes, an after-hour depository and one manned window. The building was designed and constructed by Commercial Design, Inc., St. Louis.

Lobby of new home of First State, Pekin, is open and has earth-tone colors enhanced with vinyl wall covering and walnut tellers fixtures. Carpeting also has earth-tone shade highlighted by orange and gold.



CALHOUN

■ RICHARD O. CALHOUN has joined the Central Division of Bank Building Corp., St. Louis, as a consultant services manager. He represents the firm in west central Illinois. Mr. Calhoun had been regional sales manager for Technicolor, Hollywood, Calif. Before that, he had been with IBM in St. Louis.

Indiana

■ JOHN R. WALSH, vice president, Indiana National, has been named to the board of trustees of Butler University. He joined the bank in 1965 and is director of public relations.

■ INDIANA NATIONAL, Indianapolis, has elected four vice presidents: Robert B. Peck, Bruce E. Whitham, Michael R. Shutters and Robert E. Schneider.

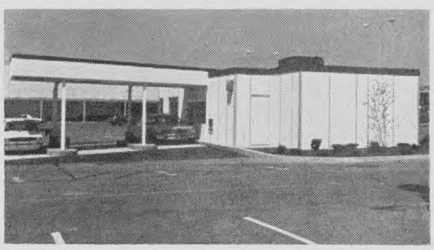
■ MERCHANTS NATIONAL, Aurora, has promoted Dale Jourdan, Roger Hart and Peter A. Dickes from assistant cashiers to assistant vice presidents; Joel A. Binder from assistant trust officer to assistant vice president; Steve Schultz to assistant cashier; William F. Adkins to controller; and Scott Everhart to data processing officer. William C. Glenn was elected a director. He is president of a roofing firm.

Died: William D. Backman Sr., 75, chairman, First National, Aurora, on April 24 in a Colorado Springs, Colo., hospital. He was chairman, Aurora Casket Co.

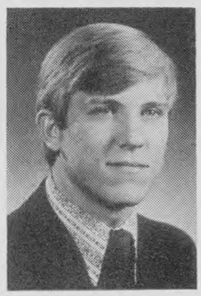
■ ERNEST BORGMAN has been elected chairman, First National, Aurora, to succeed William D. Backman Sr., 75, who died April 24. William D. Backman Jr. was elected to fill the board vacancy created by his father's death.

Kansas

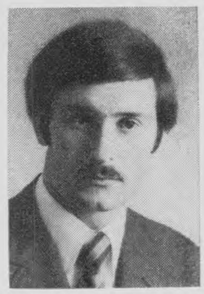
Facility Goes Modular



Central Bank has opened its Northwest Facility in Wichita in a modular building constructed in Las Cruces, N. M., by Diebold, Inc., which also manufactured the facility's vault. The three drive-up lanes are covered by a canopy, and there are inside teller windows. The safe deposit vault has 513 boxes ranging in size from 3x5x22 inches to 10x10x22 inches. The 18x10-foot vault has a capacity for 900 safe deposit boxes.



THIBAULT



PARKER

■ DEAN R. THIBAULT has joined Hutchinson National as agricultural loan and correspondent bank officer. He goes there from First National, Wichita, where he had served as assistant vice president, correspondent banking.

■ DALE PARKER has joined division II, business development department, United Missouri Bank, Kansas City, Mo., as assistant cashier. He has responsibilities for an area including Kansas.

Security Nat'l, KCK, Holds Grand Opening

A three-day grand opening was held in April to introduce the public and correspondent bankers to the new eight-story headquarters building of Security National, Kansas City, Kan. In left photo, bank Chairman W. L. "Bill" Webber, delivers humorous remarks to group of correspondent bankers attending the opening, while Vice President Bob Fitzpatrick chuckles in background. In right photo, bank President Gray Breidenthal (l.) and Kansas City Mayor Jack Reardon jointly flip switch that activated glass-shelled elevator in bank lobby to rise and slice through grand opening ribbon.

WHEELER

■ A. DALE WHEELER has been promoted from executive vice president to president, East Side Bank, Wichita. He entered banking in 1964 and served in a number of institutions prior to joining East Side Bank in 1973.

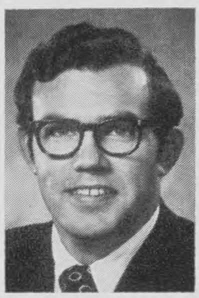
Kentucky

■ JAMES H. GOODNIGHT has been promoted from assistant vice president to vice president, commercial loan, American National, Bowling Green, while Arvil G. Rainey Jr. has been named assistant cashier, installment loan.

■ GEORGE R. WOMBWELL has been promoted from vice president and treasurer, First Kentucky National Corp., Louisville, to senior vice president and treasurer. He joined First National, Louisville, in 1972 as a corporate services officer. First Kentucky National is the parent company of First National and First Kentucky Trust, also of Louisville.

■ SOUTHERN DEPOSIT BANK, Russellville, has promoted Kenneth Coleman and John Sheffield to assistant vice presidents.

■ J. DAVID GRISSOM has been elected chairman and CEO, Citizens Fidelity Corp., Louisville, succeeding Maurice D. S. Johnson, who retired. Mr. Grissom continues as chairman and CEO of Citizens Fidelity Bank, posts



GRISSOM

he has held since April, 1976. Daniel C. Ulmer Jr. is president of the bank, and Joe M. Rodes is president of the HC and executive vice president/financial services of the bank. Both are HC directors.

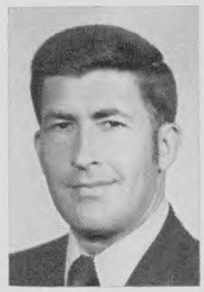
Louisiana

■ DAVID M. CAMPBELL, vice president and senior trust officer, First Guaranty Bank, Hammond, has been named corporate development manager. He joined the bank in 1975, going from Union Planters National, Memphis, where he was trust development officer.

■ RICHARD P. GUIDRY, Galliano businessman and former state legislator, has purchased the majority of the outstanding stock of Community Bank of LaFourche, Raceland. A new bank president will be named shortly.

■ WHITNEY NATIONAL, New Orleans, has promoted William T. Catchings from comptroller to vice president, Philip E. Doolen from vice president to vice president and auditor and Gerald J. Catoire from auditor to comptroller. Named assistant vice presidents were

CATCHINGS



DOOLEN

CATOIRE

Louis Burke Jr., Joseph X. Hymel, Fred L. Rittler, Charles L. Schomaker Jr., Herbert F. Steckler and James M. Whalen. James H. Deterly, Gerard F. Lowe and John W. Muery have been made assistant cashiers. Mr. Catoire is president of the local BAI chapter.

Mississippi

■ THREE PROMOTIONS have been announced by Deposit Guaranty National, Jackson. Charles H. "Dick" King II and James M. Outlaw Jr. were made branch officers, and John B. Madden III was named credit card officer. Mr. King, with the bank since 1972, is assistant manager, Five Points

Office in Jackson. Mr. Outlaw, also with the bank since 1972, is assistant manager, Maywood Office in Jackson. Mr. Madden went to Deposit Guaranty in 1970 and is on the Visa department's marketing staff.

■ BILLIE SHAW of First National, Jackson, was a featured speaker on the faculty program at a recent Newcomer Workshop in Atlanta. The workshop, second of its kind, was presented by Hubbard & Associates, Wheaton, Ill., a management consulting firm. Mrs.


SHAW

Shaw's First Friend newcomer program places emphasis on personal service with a personal touch in getting newcomers settled. She spoke on how to convert leads into new customers. The two-day Atlanta seminar dealt with such subjects as researching leads, how to fulfill newcomers' expectations, value of a newcomer program and newcomer marketing techniques.

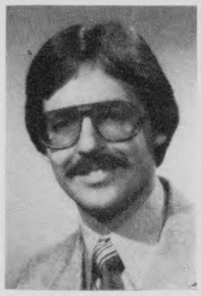
Missouri

■ RON RIGDON, assistant vice president and manager, Ward Parkway Office, Traders National, Kansas City, has been elected president, Kansas City AIB Chapter. Other chapter officers elected were: first vice president—Sarah Weaver, assistant vice president, Westgate State, Kansas City, Kan.; second vice president—Betty K. Waite,

James P. Hickok Dies

James P. Hickok, 74, died April 30 in St. Louis, apparently of a heart attack. Mr. Hickok entered banking in 1926 at Arkansas Nat'l, Hot Springs, and, in 1930, went to Clayton Nat'l (now St. Louis County Bank). He later served as pres. of Manchester Bank and of Manufacturers Bank, both of St. Louis. Mr. Hickok joined First Nat'l, St. Louis, in 1950 as e.v.p., advancing to pres. in 1957 and ch. and CEO in 1962. He was instrumental in forming that bank's parent HC, First Union Bancorp., St. Louis, in 1969, and served as its first pres. until his 1971 retirement. Mr. Hickok was a past pres., Missouri Bankers Assn. and St. Louis Clearing House Assn.


GEGEN


RIGDON

assistant cashier, Laurel Bank of Kansas City; secretary—Nannetta Hughes, assistant cashier and safe deposit manager, United Missouri Bank of Kansas City; and treasurer—Dale G. Rapp, assistant vice president and cashier, First National, Liberty.

■ MICHAEL WILLIAM GEGEN has been named president and CEO, First National, Liberty, succeeding William B. Pence, who has been elected chairman. Mr. Gegen goes there from First National, Kansas City, where he had served as vice president, commercial division. He joined First of Kansas City in 1968. Mr. Pence joined First of Liberty in 1946 as a teller, advanced through the ranks and was named president in 1959.

■ KENNETH HAEUBER, vice president, has been appointed to the additional position of chief operating officer at Normandy Bank, St. Louis County. In addition, Lee R. Parks has been named vice president; Randolph L. Meyer has been elected cashier, and Eugene F. Weber has been appointed auditor. Gilbert Alsmeyer, executive vice president and cashier, has retired after 30 years with the bank, but continues there part time.

■ W. J. LUMPE has been elected chairman, Community Bank of Warsaw. Succeeding him as president is Kenneth F. Kammeyer, while John E. Wiest, formerly vice president, has been promoted to executive vice president.

New Mexico

■ DARRELL DWAIN BERRYHILL has joined Liberty National, Lovington, as vice president and Avenue D Branch manager. His banking experience includes service with institutions in Texas and Florida.

■ HERBERT K. "KIT" JOHNSON has joined New Mexico Bank, Hobbs, as loan officer. He formerly was assistant manager, Pacific Finance Co., Hobbs.

■ DON VAN SOELEN has been appointed senior vice president and Los Alamos Office manager, First National, Santa Fe. A past treasurer of the New Mexico Bankers Association, Mr. Van Soelen joined First of Santa Fe in 1952. Prior to his most recent appointment, he had served as vice president, commercial lending.

VAN SOELEN


■ DAVID A. ATER has been appointed executive vice president, director and board secretary, First National, Santa Fe. He joined the bank in 1970 and has overall responsibility for First National's Santa Fe offices.

■ CARLSBAD NATIONAL has promoted Mrs. Ruth H. Loy to vice president and assistant trust officer, Richard W. Doss to assistant vice president and branch manager and Mrs. Maxine Garringer to assistant cashier.

■ WESTERN BANK, Albuquerque, has promoted Michael T. Briggs to vice president and branch administrator. Linda Jenkins has been elected public relations director, D. M. (Chuck) Greengrass has been elected assistant vice president and Bill Piskorski and Mike Pettenuzzo were named assistant cashiers.

■ ROBERT J. RIGONI has resigned as executive vice president, Citizens State, Raton.

Oklahoma

■ MORRISON G. TUCKER, chairman, United Oklahoma Bank (formerly Stock Yards Bank), Oklahoma City, has announced Fed approval of formation of a one-bank HC for the bank. In the near future, a plan for formation of such a firm will be presented to United Oklahoma stockholders. Before the plan is submitted to shareholders, the new HC's securities will be registered with the SEC. The HC's name will be United Oklahoma Bankshares, Inc. Mr. Tucker, former Oklahoma Bankers Association president, also said that, subsequent to the HC's formation, he and John E. Kirkpatrick, who together own a substantial majority of United Oklahoma

Bank's outstanding stock, will sell more than a 50% interest in the HC to 16 other banking organizations in Oklahoma. Aggregate resources of these banks and their HCs exceed $1¼ billion. Messrs. Tucker and Kirkpatrick will retain important financial interests in the company.

■ H. DALE SCHROEDER has been named senior vice president/operations, Liberty National, Oklahoma City. During the past year, he headed the new Pioneer Savings & Trust Co., Muskogee, after having been with Liberty National from 1956-76. He rejoined the latter bank in April as head of the operations department. In other action, Liberty National named John P. Roberts assistant vice president, legal division. An attorney, he previously was with a Tulsa law firm.

SCHROEDER

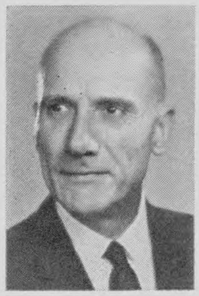
■ FRED A. SETSER, senior vice president and marketing director, Fourth National, Tulsa, has formed a new corporation with V. Lamar Miller, investor and principal owner of several Tulsa-based businesses. The new firm will be called Sunbelt Holding Corp. Entities involved at the initial stage are: Fortunon Investments, Ltd., a Tulsa area land holding and development company; International Synergistics Co., Inc., a computer-oriented full-service accounting firm; and Best Means Corp., which has the rights to and will manufacture and market an end-roll irrigation system in the southwestern U. S. and Middle East countries. Mr. Setser will be president and chief operating officer, and Mr. Miller will be the other principal officer. Mr. Setser joined Fourth National in 1968.

■ FIRST NATIONAL, Oklahoma City, has named Ed Porter senior vice president and head of the real estate loan division. He formerly was vice president, real estate and mortgage loan division, Republic National, Dallas. First of Oklahoma City has promoted Raymond F. Kolker from trust officer to assistant vice president and trust officer and John H. Brown from assistant cashier to trust officer. Named assistant vice presidents were Ronald W. Cockings and Jerry P. Enloe.

MILLER

WALDERICH

CLAY



GRAY

■ UNITED OKLAHOMA BANK, Oklahoma City, has elected Richard J. Miller and Jay C. Walderich vice presidents. Mr. Miller is in the commercial loan department and Mr. Walderich is in the business development department. The bank is the former Stock Yards Bank. Permission to change the name was granted by the Oklahoma Banking Commission.

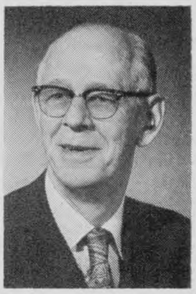
■ TERRY L. WEST has been named a vice president, Security Bank, Ponca City. He had been an FDIC examiner the past seven years, stationed in Denver. Another new Security Bank officer is Cary R. Meister, who was named an assistant cashier. He had been in the Ponca City office of the Prudential Life Insurance Co. John R. Stanley and L. J. Chaufty were promoted to second vice presidents, and Larry Buck and Ray Hargis were advanced to assistant vice presidents.

■ FIRST BANK, Catoosa, has named Gene Dillard and J. L. Fielder vice presidents. Mr. Dillard is also cashier. He was formerly cashier at Southwest Tulsa Bank. Mr. Fielder was formerly with Guaranty National, Tulsa, where he was an installment loan officer.

■ BILL MATHEWS has joined City National of Sayre as president. He formerly held a similar position at Liberty National, Lovington, N. M.

Tennessee

■ JOHN W. CLAY, senior chairman, Third National, Nashville, has been elected president of the bank's HC, Third National Corp., succeeding Warren P. Gray. Mr. Gray retired, ending a 43-year banking career. He retired last October 31 as vice chairman of the bank, but had agreed to remain in the HC post until the annual shareholder's meeting this spring. In other action, the bank promoted Donald F. Phillips from vice president and senior real estate officer to senior vice president and Hill Ferguson III from assistant vice president to vice president. Mr. Ferguson is in the correspondent bank department.



PHILLIPS

FERGUSON

ROBERTS

■ KENNETH L. ROBERTS, president, First American National, Nashville, last month was elected president and CEO, First Amtenn Corp., Nashville-based bank HC to which the bank belongs. He succeeds T. Scott Fille-

John E. Brown Dies

John Edwards Brown, 75, retired ch., Union Planters Nat'l, Memphis, died May 15 after a long illness. He entered banking in 1922 as cash., First State, Henderson. He became pres. 17 years later and was its ch. at the time of his death. Mr. Brown joined Union Planters' correspondent dept. in 1944, left two years later to become e.v.p., Nat'l Bank of Commerce, Jackson, returned to Union Planters in 1948, became e.v.p. in 1952, pres. in 1955 and ch. & CEO in 1963. He retired in 1967 and moved from Memphis to Henderson. Mr. Brown was pres., Tennessee Bankers Assn., in 1948.

brown Jr., who resigned to enter private business. Andrew Benedict, bank chairman, was reelected HC chairman.

New Bank Bldg. Opened

This is an artist's sketch of the new Main Office of First Tennessee Bank, Cookeville. The bank's name was changed from First National (which appears in this sketch) during the building's construction. The contemporary-styled structure has white cast stone, dark solar glass and a colonnade concourse. There are four drive-up lanes and a 24-hour ATM. Interior materials include Italian Perlato marble, oriental grass cloth, pecan and oak woods. The boardroom table is unusual in that it is boat shaped—32 feet long, eight feet in the center and four feet on each end. The building, land and furnishings cost $2½ million. The building was designed by James M. Wilson, Nashville architect and engineer, who worked with his subsidiary firm, Interior World, Nashville, headed by Beverly Anderson, interior decorator.

Texas

■ LARRY D. GIBB has been named vice president and general manager, Continental Bank International (Texas), international banking subsidiary of Chicago's Continental Bank and located in Houston. James C. Cordell, a vice president in Continental's commercial banking services department, has been named head of the bank's commercial representative office in Houston.

■ LYNNDA LOKEY, banking officer, Lubbock National, has been assigned to its expanded correspondent banking division. She joins Vice President Brian Williams III, and her primary duties are to provide in-bank assistance to correspondent-bank customers.

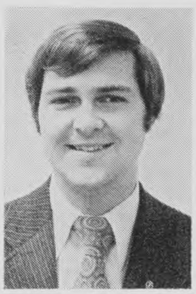
■ JAMES D. BERRY, president, Republic of Texas Corp., Dallas-based bank HC, last month was named chairman and CEO, succeeding James W. Aston. Mr. Aston remains on the HC's board and is chairman, directors executive committee. W. C. Hatfield, former-

BERRY

HATFIELD

ly HC executive vice president, has advanced to its presidency. Mr. Aston, who served in the Republic organization more than 31 years, is a former president, Texas Bankers Association.

■ BERRY L. ALLEN and Jerry Greenhill have been named vice presidents, Bank of the Southwest, Houston, and Michael E. Simpson was elected assistant vice president. Mr. Allen was an assistant vice president; Mr. Greenhill retains the post of trust officer, and Mr. Simpson was a loan officer.



ALLEN

GREENHILL

■ FROST NATIONAL, San Antonio, has elected Robert D. Furner vice president and promoted George A. Barrentine to vice president. Mr. Furner joined the bank in March and is in the data processing department. Mr. Barrentine, with the bank since 1974, manages the personal banking center. The bank's HC, FrostBank Corp., exceeded $1 billion in total assets for the first reporting date in its history last March 31. In addition, the HC recorded earnings for the first quarter of 1977 totaling 68¢ a share, or $1.4 million. This is the highest level of profits achieved in the last seven quarters.

FURNER

BARRENTINE

■ R. BEVERLY RUST, chairman of the trust committee, Frost National, San Antonio, has been named outstanding trust banker by the Texas Bankers Association's Trust Division.

■ HOWARD H. TURNER has been named vice president, Continental Illinois National, Chicago. Mr. Turner serves the bank's Houston regional representative office.

Tommie E. Stuart Dies

Tommie E. Stuart, 56, s.v.p. and ag. loan dept. mgr., First Nat'l, Fort Worth, died May 5 in an auto accident in Fort Worth. Mr. Stuart had been in agriculture and ranching 33 years and joined First of Fort Worth in 1968 as v.p. and ag. dept. mgr. He was promoted to s.v.p. in 1972. He previously had served First Nat'l, San Angelo. Prior to entering banking, Mr. Stuart had worked as a county ag agent, farm and ranch mgr. and as exec. sec., Texas Angus Cattle Breeders Assn.

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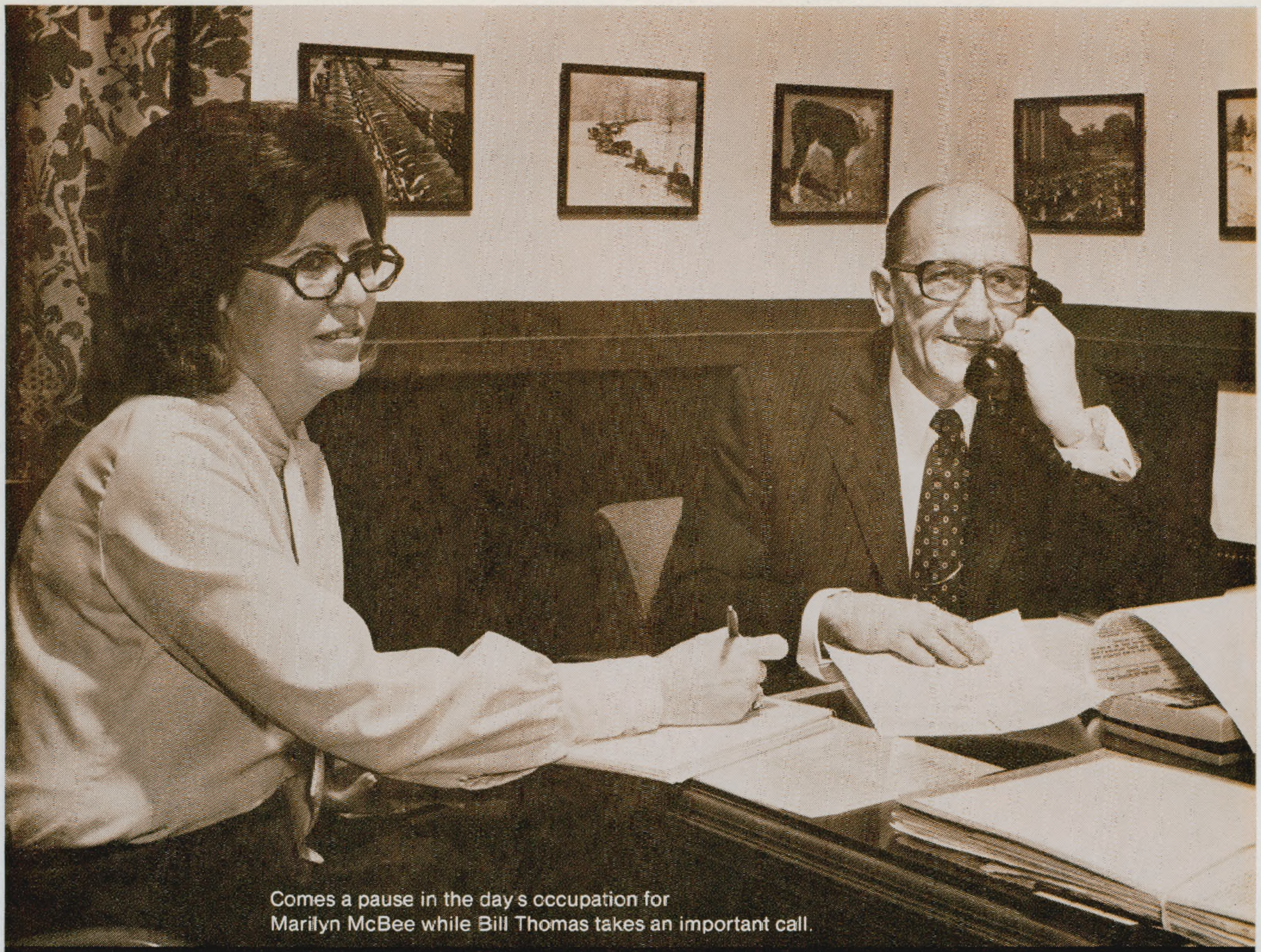

Comes a pause in the day's occupation for
Marilyn McBee while Bill Thomas takes an important call.