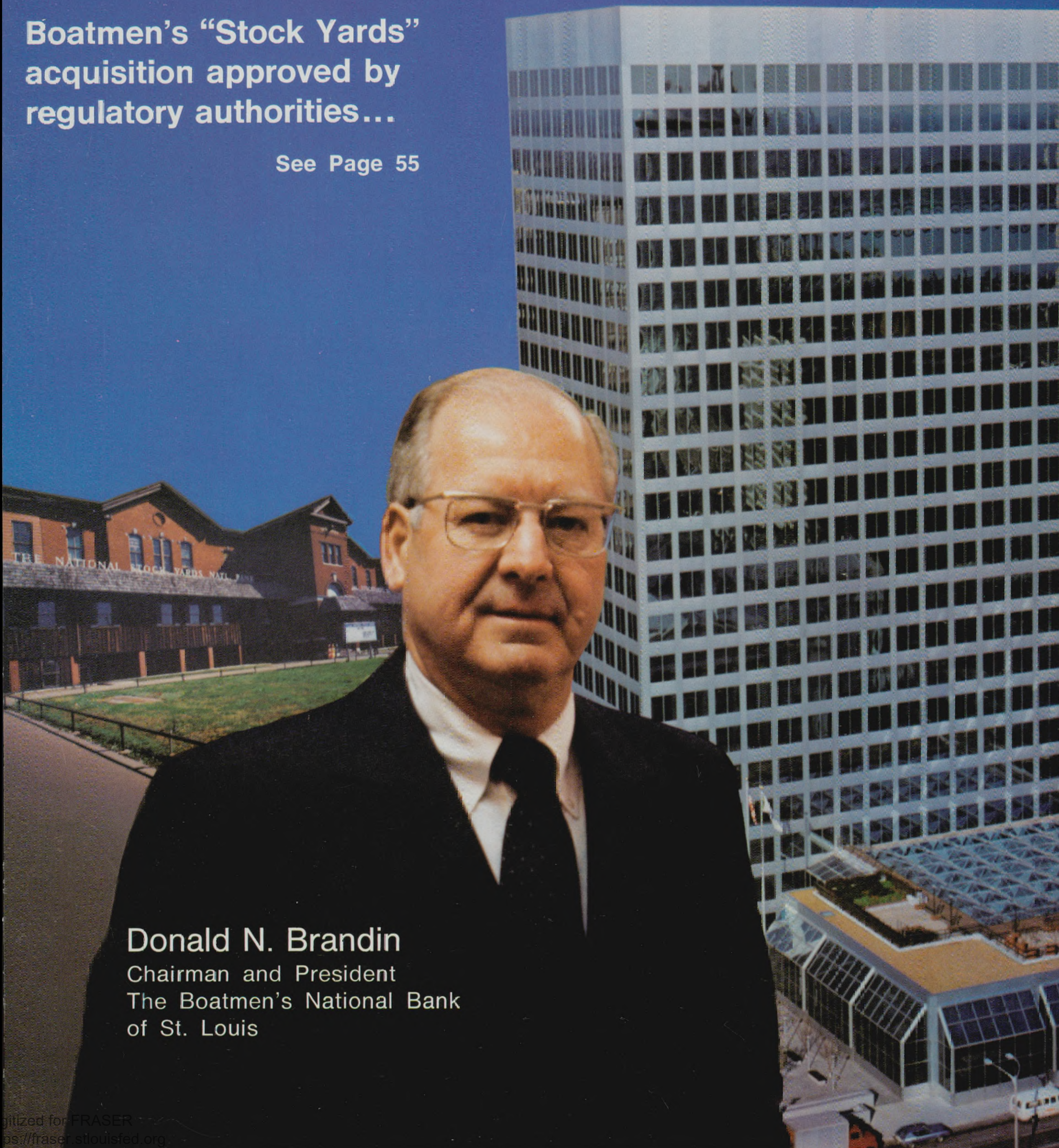
MID-CONTINENT BANKER

NOVEMBER, 1977

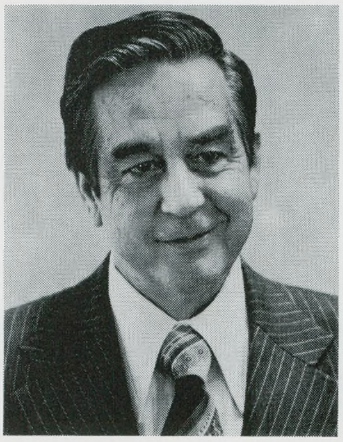
Boatmen's "Stock Yards" acquisition approved by regulatory authorities...

See Page 55



Donald N. Brandin
Chairman and President
The Boatmen's National Bank
of St. Louis

Liberty helps 133 Oklahoma companies do business with the world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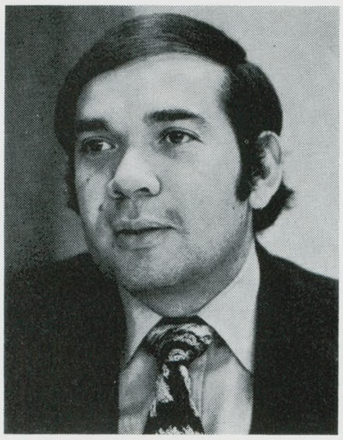
Mike Anderson


Octavio Hermida


La Wanda Chastain

Last year it meant working with 137 banks in 60 different countries. We can help your customers, too!

Last year Liberty's International Division provided 1,040 letters of credit totaling $29.4 million. But there's more.

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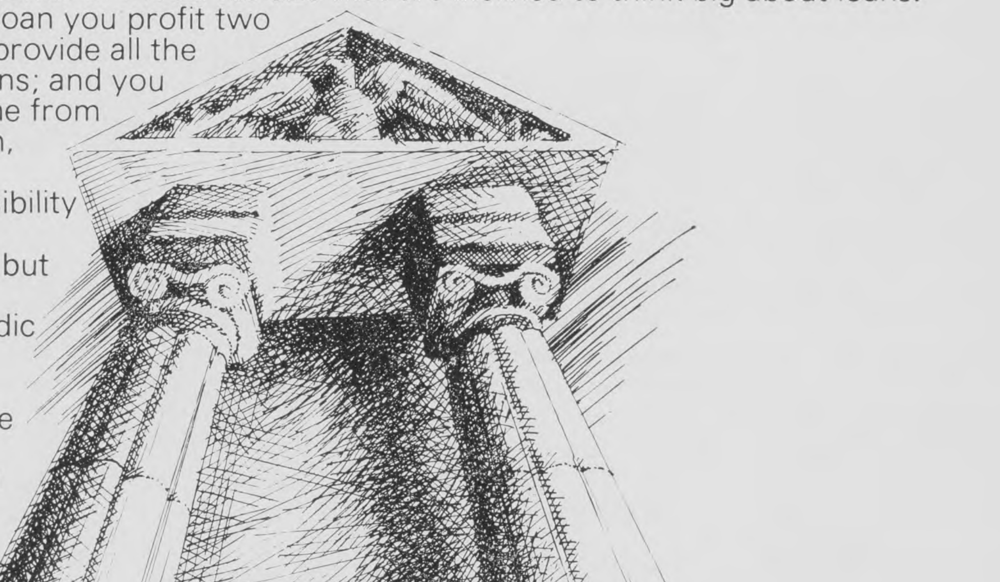

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MID-CONTINENT BANKER

The Financial Magazine of the Mississippi Valley & Southwest

Volume 73, No. 12 *November, 1977*

Insurance/Investments Issue

DEPARTMENTS

STATE NEWS

Editors

Ralph B. Cox
Publisher

Lawrence W. Colbert
Assistant to the Publisher

Rosemary McKelvey
Editor

Jim Fabian
Associate Editor

Advertising Offices

St. Louis, Mo., 408 Olive, 63102, Tel. 314/421-5445; Ralph B. Cox, Publisher; Margaret Holz, Advertising Production Mgr. Milwaukee, Wis., 161 W. Wisconsin Ave., 53203, Tel. 414/276-3432; Torben Sorensen, Advertising Representative.

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Convention Calendar

Nov. 14-16: Bank Administration Institute Corporate Cash Management for Operations Personnel Seminar, Boston.
Nov. 15-16: Robert Morris Associates International Lending: Techniques & Standards Workshop, Memphis, Hyatt Regency.
Nov. 15-18: Bank Administration Institute Trust Operations Short Course, Dallas.
Nov. 16-18: Bank Administration Institute Financial Accounting and Reporting Seminar, Park Ridge, Ill.
Nov. 17-18: Robert Morris Associates Value and Credit Assessment in Real Estate Lending Workshop, New Orleans, Royal Orleans Hotel.
Nov. 17-18: Bank Administration Institute Tax Return Preparation Short Course, Dallas.
Nov. 21-22: ABA Tax Workshop, New York City, Biltmore Hotel.
Nov. 21-22: Bank Administration Institute Money Transfer Seminar, San Francisco.
Nov. 21-23: Bank Administration Institute Accrual Accounting Short Course, Pittsburgh.
Nov. 27-Dec. 2: ABA National Commercial Lending Graduate School, Norman, Okla., University of Oklahoma.
Nov. 28-29: Bank Administration Institute EEO Compliance Short Course, Park Ridge, Ill.
Nov. 28-30: ABA National Correspondent Banking Conference, New Orleans, Fairmont Hotel.
Nov. 29-30: ABA Tax Workshop, Chicago, Hyatt Regency O'Hare.
Nov. 30-Dec. 2: Bank Administration Institute Affirmative Action Program Short Course, Park Ridge, Ill.
Nov. 30-Dec. 3: Bank Marketing Association Trust Marketing Workshop, Miami Beach, Fla., Americana of Bal Harbour.
Dec. 7-9: Bank Administration Institute Money Transfer Developments Seminar, New York City.
Dec. 13-14: Bank Administration Institute Trust Operations-Large Banks Seminar, Washington, D. C.
Jan. 17-19: Bank Administration Institute Bank Planning Conference, University of Southern California.
Jan. 26-29: 30th Assembly for Bank Directors, Palm Springs, Calif., the Riviera.
Feb. 5-8: ABA National Trust Conference, New York City, Waldorf Astoria.
Feb. 5-17: ABA National Installment Credit School, Norman, Okla., University of Oklahoma.
Feb. 8-10: ABA Bank Investments Conference, Dallas, Fairmont Hotel.
Feb. 12-15: ABA Conference for Branch Administrators, New Orleans, Royal Sonesta Hotel.
Feb. 12-15: ABA Bank Telecommunications Workshop, Houston, Hyatt Regency.
Feb. 12-18: ABA Operations/Automation Division Business of Banking School, Fort Worth, American Airlines Learning Center.
Feb. 19-22: Bank Marketing Association Community Bank CEO Conference, Tarpon Springs, Fla., Innisbrook.
Feb. 22-24: ABA Advanced Construction Lending Workshop, Columbus, O., Ohio State University.
Feb. 26-March 1: Bank Marketing Association EFT Conference, New Orleans, New Orleans Marriott.
Feb. 26-March 2: Bank Administration Institute EDP Audit Conference, San Francisco.
Feb. 26-March 3: ABA National Personnel School, Denver, Denver Marriott.
Feb. 26-March 3: ABA Community Bank CEO Program, Port St. Lucie, Fla., Sandpiper Bay.
March 5-7: ABA National Credit Conference, New Orleans, Hyatt Regency.
March 5-9: Independent Bankers Association of America Annual Convention, Hollywood, Fla., Diplomat Hotel.
March 12-15: Bank Marketing Association Public Relations Conference, Atlanta, Atlanta Hilton.
March 14-18: Bank Marketing Association Essentials of Bank Marketing Course—Midwest Extension, Chicago, University of Chicago.
March 19-22: Bank Administration Institute, Bank Security Conference, Hollywood, Fla., Diplomat Hotel.
March 19-23: ABA Trust Operations and Automation Workshop, San Francisco, St. Francis Hotel.
March 19-24: Graduate School of Bank Marketing, New Orleans.
April 1-4: Association of Reserve City Bankers Annual Meeting, Boca Raton, Fla.

By Dr. Lewis E. Davids

Hill Professor of Bank Management,
University of Missouri, Columbia

The Bankers Blanket Bond Problem

MORE AND MORE banks in this country are encountering difficulties in obtaining bankers blanket bond (BBB) insurance coverage. Bank regulators and bank trade associations, at federal and state levels, have expressed concern.

Bankers, having had their policies canceled, have become desperate. The number of active BBB underwriters now stands at about a half dozen.

There have been serious proposals by the ABA and a number of state bankers associations that the feasibility of a captive insurance company be studied. The captive BBB insurance company would write BBB and related risk coverage for the association members.

The exposure of such a new and inexperienced captive insurance underwriter in advising selection of coverage has been recognized, but it appears as one of a few possible institutional solutions to the problem. Most trade associations would prefer to continue in their traditional banking roles and not broaden their activities into newer and uncertain risk-management fields, in which they lack expertise, and invite opposition from other trade associations in the risk field. This is especially true in the area of BBB coverage, because bankers recognize that existing underwriters would not withdraw from a profitable field; they only withdraw from a coverage when, in their judgment, the costs are likely to exceed the benefits—today and in the future

Bank regulators, such as the Comptroller of the Currency and the FDIC, for several years have been concerned about the availability of BBB coverage to banks for a number of disparate reasons. They know that the lack of "fidelity" coverage in a bank indicates a perception by experts in an insurance company's underwriting department of poor or sloppy banking practices in the canceled institution or that the rate charged for coverage is not commensurate with the risks the company must assume.

". . . deficiencies vary from bank to bank. It may be that the institution needs improved auditing, that it may have higher-than-prudent exposure to crime or it even may be tainted by Mafia association. A bank's poor earnings may suggest a need for new management, affiliation or, perhaps, an infusion of capital."

In recent months, an increasing number of banks have found that they could not obtain BBB coverage as required. At times this was the result of the existing coverage being canceled entirely; at other times the new policy terms were more restrictive than in the past and/or additional deductibles were combined with substantial jumps in premiums, which made the banks in question consider a more attractive alternative form of insurance. In the past, one of the most onerous of underwriter-imposed restrictions for modest-sized banks was that the institutions be examined by CPAs, whose findings would be included with the policy documentation (and, presumably, would be reviewed by bank examiners as well as the bank's board of directors). While a CPA's examination would be helpful to outside directors, providing useful data to help in judging how the bank is performing, such a move constitutes a not inconsiderable expense, which banks with lower earnings rates often have felt they could not afford.

"There have been serious proposals . . . that the feasibility of a captive insurance company be studied. The captive bankers blanket bond . . . company would write BBB and related risk coverage for (an) association's members."

Incidentally, poorer-than-average earnings is one of the "red flags" that insurers and bank regulators look for. A vicious cycle develops: Institutions with lower earnings do not feel that they can "afford" the additional expense of implementing a stepped-up internal audit, let alone engage the much more expensive external CPA auditors. But such institutions, quite properly, would have much higher insurance premiums—if they don't lose their insurance coverage altogether. Either of these situations is distasteful to a bank.

In recent years some banks have experienced new premium charges almost double the previous rates. A BBB policy in most cases probably is renewed for only a one-year term rather than for a longer period. The message to such a bank should be clear: *If* the insurance coverage is renewed at the end of the policy year, the new rates probably will be higher.

In the frenzied search for the required fidelity coverage, canceled and other concerned banks have found that, though the price is steep, Lloyd's of London will consider providing the necessary coverage. Why is Lloyd's selectively taking on new BBB business

We can solve your problem! Here's how...

We can help you find the solution to that problem lying on your desk right now. Over the long haul, we can help you grow, a little at a time, or a lot. Let's get together!
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Vice President
Correspondent Bank Division

Investment: U.S. Gov't's. Federal agencies. Municipals. Federal funds. Commercial paper. Computerized bond portfolio accounting. Pricing and counseling. Securities safekeeping.
Trust: Public fund custodial accounts. Personal and corporate trusts.
Bank Cards: Master Charge. Visa.
Leasing: Direct. Or, participating.
International Banking: Worldwide correspondent network. Letters of credit. Foreign collections. Currency exchange.


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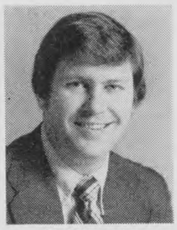
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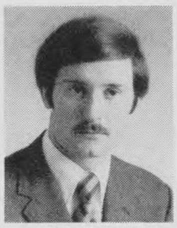
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"Bank regulators have been wrong about as many times as they have been right regarding the 'classifying' of banks. I wonder if bank insurers have a record that's as poor as the regulators'; thus, important 'deficiencies' cited by insurers as grounds for cancellation (of banks' coverage), I think, should be weighed as to their validity."

when American carriers are pulling out of the market entirely in some cases, or reducing their BBB exposure substantially in other cases? Are American insurers less efficient or more cautious than London underwriters?

There is probably some truth—and untruth—to any answer to these questions. One partial answer is that American insurance carriers use standard bureau rates, which permit only a modest degree of variation in premium for risk exposure. On the other hand, the unique structure of the Lloyd's of London insurance market permits much more flexibility. Thus, the London market is not as constrained or inflexible as its American counterpart. By reviewing each risk individually, rather than as part of a class, the London insurers can pick and choose their clients. They can set a premium rate that is higher—or, less often, lower—than is the experience or tradition of American insurers. Thus, some, but not all, of the American banks needing BBB coverage have obtained it abroad.

But the problem still is not solved for the several hundred banks that have difficulty in obtaining and maintaining BBB fidelity coverage. The answer is harsh and bound to be unpopular with affected bankers; it consists of correcting the real, not fancied, deficiencies that have led to a bank's lapse of coverage. The deficiencies will vary from bank to bank. It may be that the institution needs improved auditing, that it may have higher-than-prudent exposure to crime or it even may be tainted by Mafia association. A bank's poor earnings may suggest a need for new management, affiliation or, perhaps, an infusion of additional capital.

Bank regulators have been wrong about as many times as they have been right regarding the "classifying" of banks. I wonder if bank insurers have a record that's as poor as the regulators'; thus, important "deficiencies" cited by insurers as grounds for cancellation, I think, should be weighed as to their validity.

Here, the free market comes into operation. American-based BBB insurance carriers have been criticized by bankers as "following the leader," that is, if one American insurance carrier drops BBB coverage on a bank, the remaining half-dozen insurers normally will not solicit or write a policy on that institution. Looking at insurance companies' loss experience in this area over the last few years, I can understand this rationalization. However, the London insurers, at least to date, have continued in the market.

American insurers who were correct in their risk judgments will cut their losses and improve their profits. If the London market, however, is correct and experiences losses that are lower than its costs, it will be difficult for the American underwriters to regain this lost business.

For the unfortunate banks having difficulty with BBB coverage, a frank recognition and correction of the real reasons for cancellation of coverage are called for. If the cited reasons are *not* valid, this information should be conveyed to both the appropriate bank regulatory agencies *and* the commissioner or superintendent of insurance of the bank's state and those of the insurance company's domicile state.

Superintendents of insurance, as a class, probably are no better or no worse than superintendents of banking: They are increasingly sensitive to valid and objective complaints about the performance or lack of performance of the companies they supervise. A valid, objective letter from a concerned bank will set in motion a series of steps that should help legitimate bankers know that they have acted with prudence and determination. • •

■ FIRST NATIONAL, Chicago, has promoted 17 assistant vice presidents to vice presidents. They are: Frank C. Cannon, Robert Cecchi, Edward S. Gould, W. Jackson Winter, Michael Holden, Wolfgang E. Jaschob, Thomas H. Moffet, Lawrence K. Rocca, Alexander R. Bohm, Chase S. Curtis, David L. Heald, Wayne C. Stevens, Seymour R. Zilberstein, Richard C. Gallagher, Maurice P. Huffman, Donald C. Buick and Thomas H. Adams. Robert H. Burke has joined the bank as a vice president in the personal banking department.

Our idea of correspondent banking:

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Our people are real, live, experienced correspondent professionals, with years of correspondent banking behind them. They aren't management trainees or just goodwill ambassadors, so they can okay loans or services—like our new EFTS services—on the spot. Without going through unwieldy, time-wasting committees.

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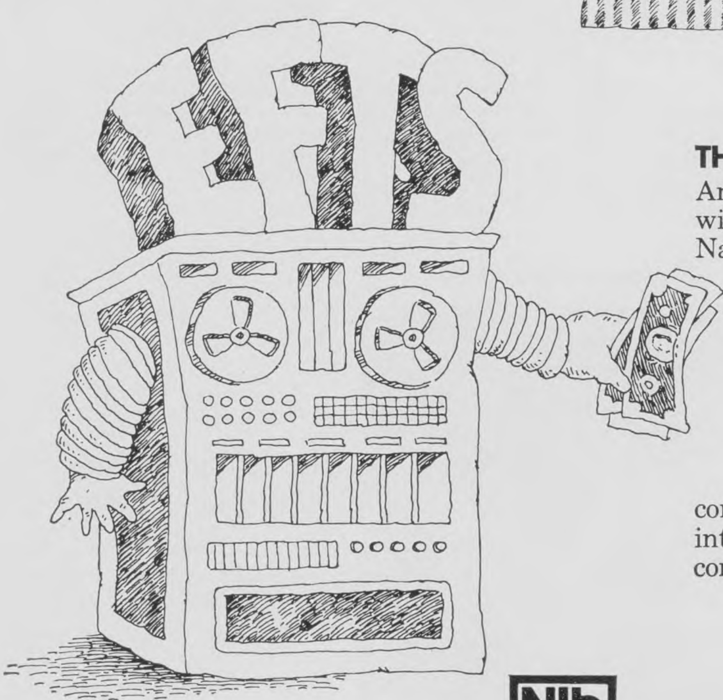
You see, National Boulevard believes in person-to-person, eye-to-eye contact with the management of every correspondent bank. Right there at the correspondent bank. So things get done faster, friendlier.



THE FUTURE STARTS TODAY.

And now our individualized services will be better than ever, because National Boulevard is ready for EFTS. Electronic Funds Transfer Systems. For instance, our Central Information File is capable of transmitting information to correspondent banks. Soon, checking and savings accounts will be on line. Then, step-by-step, every correspondent service will be fully integrated into the system for more convenient, better banking.

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The bank for the New Downtown

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Community Involvement

A Rescue Operation:

Bank, Local Businesses Underwrite Art Exhibit

First American National, Nashville, joined forces with a number of area businesses to rescue the Cheekwood Fine Arts Center when it incurred a sizable deficit during the exhibition of the Chrysler Collection, a show that includes more than 60 masterworks.

The cost of bringing the collection to Nashville came to nearly $80,000, because of special security arrangements and other equipment needed to display the showing. The center at one time faced a possible loss of $30,000-$35,000.

Barbara Brake, a.v.p. and PR dir., First American Nat'l, Nashville, is joined by William F. Greenwood, bank v. ch., in holding sign inviting John Nozynski, dir. of city's Cheekwood Fine Arts Center, as guest on Labor Day to view Chrysler Collection. Bank contributed $1,000 to help defray art center's cost of bringing collection to Nashville.

First American National donated $1,000, which paid gallery admissions for all visitors on Labor Day, the exhibit's final day.

The Chrysler Collection, which was on loan to the center from Walter P. Chrysler Jr. and the Chrysler Museum, Norfolk, Va., contains works by Renoir, Manet, Picasso, Matisse, DeLacroix, Reubens, Cezanne and Gaugin.

A Rehearsal:

Bankers Take Part In Retirement Seminar

Four officers of Liberty National, Oklahoma City, were featured speakers at a two-part seminar titled "Rehearse for Retirement." The free event was sponsored by the Bethany Kiwanis Club for persons preparing for retirement.

Barbara Farley, customer services officer at the bank, opened part one of the seminar with a talk on "Leisure Hours." She was followed by Dorothy Riffel, assistant vice president, trust, who discussed "Financial Planning."

Part two of the seminar featured Rodney F. Saunders, vice president, commercial and construction lending, who spoke on "Housing and Living Arrangements," and Donald E. Balaban, vice president and senior trust officer, whose subject was "Legal Aspects of Retirement." Miss Farley concluded part two with "When Will You Rehearse for Retirement?"

$$$ Security:

Bank's Anti-Crime Rally Benefits Senior Citizens

St. Louis' Mercantile Trust was a participant in an anti-crime rally held in St. Louis for senior citizens. The rally was held in cooperation with the Women's Crusade against Crime and the Mayor's Office for Senior Citizens. Mercantile Trust staffers were on hand to pass out brochures titled "Save Your Dollars With Senior Security." Brochures also were available at the bank.

According to Mercantile's president, Lynn Miller, the rally was a united community effort to minimize citizens' concerns about their personal safety and their money. Bank representatives joined forces with a number of agencies to point out to senior citizens their vulnerability to certain types of crime and the steps they can take to reduce it.

The brochure offers tips on protecting one's self and money and discusses topics such as con games, fraudulent schemes, direct deposit of social security checks and use of bank by mail.

It points out that citizens shouldn't set up regular schedules for making trips to the bank or supermarket to cash a check, nor should financial affairs be discussed with strangers. In warning against con games, the brochure warns, "Don't be greedy; something for nothing is a tempting thought and that's why con men find so many victims."

Playground Olympics

Brendan Wallace (l.), Johnstown, Pa., receives the grand champion award for the "All-American Playground Olympics" from Tony Paone, supervisor of playgrounds for Westmont Borough in suburban Johnstown. The program is sponsored by United States Nat'l, Johnstown, in cooperation with parks and recreational departments in the areas, and awards children for athletic achievement.

Gotcha Covered:

Bank's Fall Offering Protects Students' Books

Heritage Standard Bank, Evergreen Park, Ill., had the school-opening situation covered: It distributed book covers as back-to-school gifts to all children and/or parents who visited the bank.

Barbara Sherman, personnel mgr. & exec. sec., and Tony O'Grady, aud., Heritage Standard Bank, Evergreen Park, Ill., demonstrate art of attaching book covers to several of bank's younger customers. Bank offered covers free as back-to-school gifts to customers.

Besides distributing the attractive covers, which were decorated with Indian symbols, the bank had staffers on hand to demonstrate the art of attaching the covers.

Whistle for Help:

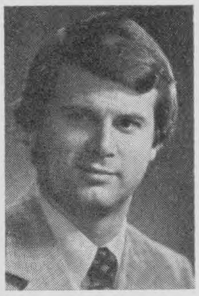
1st of Fort Worth Offer Lets Citizens Fight Crime

First National, Fort Worth, in cooperation with the Fort Worth Police Department, has reactivated its "Help-ALERT" whistle program to help fight crime.

The program is based on a whistle citizens can use to halt crime in progress or summon aid. The bank is selling whistles in its lobby at cost for 75 cents each plus tax.

First National introduced the program in 1975 and has sold more than 20,000 whistles since that time, including a sale of 1,000 whistles to a man who gave them away.

NEWS OF THE
BANKING WORLD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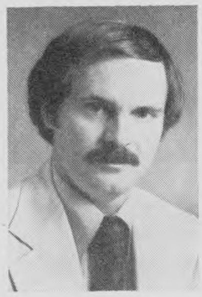
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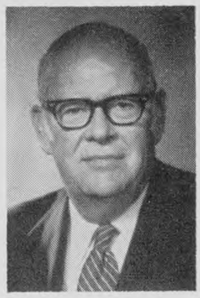

CRAIGHEAD


MANDICH


NEFF

• **George W. Porter,** correspondent banking officer, Commerce Bank, Kansas City, has been appointed to serve correspondent banks in Arkansas, in addition to northern Missouri. Michael D. Steinmetz has joined the bank's correspondent division as a correspondent banking representative and will call on banks in an area including Oklahoma, Texas and New Mexico. Mr. Porter joined the bank in 1973, while Mr. Steinmetz joined the bank's parent HC, Commerce Bancshares, Inc., Kansas City, in 1975.

• **Rodkey Craighead** has been elected chairman and CEO, Detroitbank Corp. and Detroit Bank, succeeding C. Boyd Stockmeyer, who has retired. Replacing Mr. Craighead as president and chief administrative officer of the two institutions is Donald R. Mandich, formerly executive vice president and officer-in-charge of loans and investments at the bank. Mr. Stockmeyer's retirement marks the end of a 36-year management career at Detroit Bank. However, he continues as an HC director. He had served as bank and HC chairman since 1974. Mr. Craighead, who had served as bank president since 1973, joined the bank in 1946. Mr. Mandich joined Detroit Bank in 1950, advancing to executive vice president in 1974.

• **Francine I. Neff,** former Treasurer of the U. S., has been appointed vice president in the specialized business development area of Rio Grande Valley Bank, Albuquerque. During her service as Treasurer, Mrs. Neff also served as the first woman national director of the U. S. Savings Bonds Division.

• **William S. Townsend** has been named director, Southwestern Graduate School of Banking, Southern Methodist University, Dallas. He succeeds Richard B. Johnson, one of the school's


TOWNSEND


SHERLING


PRESTON


PAGE

founders and director since its 1957 inception. Mr. Johnson will continue as president, Foundation of the Southwestern Graduate School of Banking, as one of its directors and as executive committee chairman. Mr. Townsend joined the school in 1973 as associate director, later advancing to administrative director. He served as SMU finance subject area chairman and will continue on the finance faculty. He received bachelor's, master's and PhD degrees from the University of Texas, Austin, and has authored a number of articles on banking and monetary policy. Mr. Townsend also will direct the new Intermediate School of Bank Management and Credit Administration, which is sponsored by the Foundation.

• **George L. Sherling** has been promoted to senior vice president, Citizens & Southern National, Atlanta. Since joining the bank in 1967, he has worked in the charge account service, corporate accounts, correspondent banking and international departments. Mr. Sherling now is manager of the Atlanta international division.

• **Walter H. Page** will succeed Ellmore C. Patterson January 1 as chairman and CEO, J. P. Morgan & Co., Inc., and its subsidiary, Morgan Guaranty Trust, both of New York City. Mr. Page will be succeeded as president of the HC and bank by Lewis T. Preston, now a vice chairman. Until his normal retirement date of December 1, 1978, Mr. Patterson will be chairman of the executive committee, a post that will become vacant this year-end, when Ralph F. Leach will retire as an officer and director.

• **Leonall C. Andersen,** economic adviser, Federal Reserve, St. Louis, has been named recipient of the Abramson Award of the National Association of Business Economists. He was honored for his article, "The Outlook for Long-Run Economic Growth," judged the best article published in the association's official publication, *Business Economics,* during 1976. Mr. Andersen's article appeared in the September issue.

• **Lewis G. Odom Jr.** became deputy to FDIC Chairman George A. LeMaistre November 4. He succeeds John C. H. Miller Jr., who resigned to establish a law practice in his home town, Mobile, Ala., and in Washington, D. C. He had been Mr. LeMaistre's principal assistant for four years. Mr. Odom, an attorney, has been chief counsel and staff director, Senate Select Committee on Small Business, and chief counsel and staff director, Senate Committee on Banking, Housing and Urban Affairs. Most recently, he practiced law in Montgomery, Ala.

Successful Introduction of Bank Card Attributed to Staff Involvement in Game

EMPLOYEES of First Bank, South Bend, Ind., were playing a game. But it was that game that is credited by bank officials as being the cause for the successful introduction of the institution's "First Card," a convenience bank card.

"We knew that in order to successfully launch our most massive and important promotional effort," said Christopher J. Murphy III, First Bank president, "we would have to generate enthusiasm and team spirit among all the employees, so we created an employee incentive program that we feel to be as unique as the services provided by the First Card."

The First Card may be used at any of First Bank's 15 locations. Around-the-clock service is provided at Anytime Banking Center ATMs at three locations, where customers may obtain cash from checking or savings accounts, make deposits to those accounts, make funds transfers between those accounts and make loan payments.

Each First Bank office also has a Convenient Banking Center telephone, with which cardholders may privately check balances in checking and savings or transfer money between those accounts.

The card also serves as personal identification at tellers windows for purposes of cashing checks and making savings withdrawals.

Four days before the public launch of the campaign, all 450 bank employees gathered in the Morris Civic Auditorium for a "world premier." As staffers entered the auditorium, they were greeted by spotlights sweeping the audience and by rousing music. A multimedia program ensued, telling the employees of the history of banking and concluding with the most recent developments in electronic banking.

Christopher J. Murphy III (l.), pres., First Bank, South Bend, Ind., presents $100 checks to Eleanor McLean, Maple Lane Office teller, and Chuck Sausman, purchasing officer. Money was awarded as prizes for referring most prospective "First Card" bank card customers during employee contest in first four weeks of public demonstrations of First Card at bank.

Following that was a performance by a group of First Bank employees, the "Mighty First Card Art Players," whose humorous skits demonstrated how customers could use and benefit from First Card.

"Our 'world premier' created a great level of excitement and enthusiasm among the employees," said Deane E. Planeaux, senior vice president and director of the bank's marketing division. "Following the Mighty First Card Art Players was a preview of the advertising and sales promotion materials to be used in the campaign."

Then the staffers learned what was "in it for them"—the "First Card Game." The First Card Game was played during the first four weeks of the media campaign and gave every employee the opportunity to win a cash prize.

Each employee was given a supply of First Card referral slips, and teams were drawn up from responsibility centers in the institution, with each responsibility manager acting as a team captain. Each team had a score sheet that spelled out the words "First Card."

Employees invited customers for a demonstration of an Anytime Banking Center or Convenient Banking Center. Customers then were given a referral card with the employee's and customer's name filled in; the prospective First Card customer was asked to give the slip to the demonstrator at the time of the demonstration. The slips then were forwarded to the marketing division for validation and scoring, and the results were turned in to the player's team captain for posting on the team's score sheet.

The object was to earn the letters, one by one, in the words "First Card." Each validated referral slip earned the player one letter, and nine referrals spelled "First Card."

Players were categorized into two groups—contact employees, who received 15 cents for each letter earned, and non-contact employees, who were awarded a quarter for each letter. When a player spelled "First Card" by earning nine letters, the money was doubled, with contact employees receiving $2.70 and non-contact employees getting $4.50 each time they spelled the phrase.

Furthermore, each time an employee spelled the phrase, his name was entered in a hopper for cash drawings. When all members of a team had spelled "First Card" for the first time, all that team's names were placed in the hopper again, and 20 drawings were made from the hopper, each worth $20.

At the game's conclusion, $100 grand prizes were awarded to both the contact employee and non-contact employee who had earned the highest number of "First Card" spellings. Twenty-five-dollar honorary bonuses were given to first and second runners-up in both areas.

"The First Card campaign has been a tremendous success in the marketplace," said Mr. Murphy, "and we feel that a great deal of the credit for it should go to our employees. Through their enthusiasm and spirit, more than 10,000 referrals had been scored at the end of the four-week game. In fact, our grand-prize winner in the contact area spelled 'First Card' more than 60 times!" • •

Half-Million Items Moved:

Continental of Chicago Puts Crystal on Table

More than half a million pieces of French lead crystal were distributed to customers of Chicago's Continental Illinois National from March through August, according to a bank spokeswoman.

The crystal offer was Continental's first experience with a continuity premium promotion and the incentive has proved to be an effective means of attracting new customers and new dollars to the bank.

Wine, water, parfait and cordial stemware were offered during the promotion. Anyone opening or adding to a savings account with $25 or more could take home any matched pair. In order to complete their sets, customers could purchase additional pairs at prices ranging from $4.95 to $5.95 after

Attractive display cases in lobby of Continental Bank, Chicago, exhibited French lead crystal premium to public. Crystal was supplied by W. M. Dalton Co.

depositing an additional $25 for each pair.

Some 70,000 pairs of crystal were given free, the balance of the more than 250,000 pairs were purchased.

In terms of number of items moved, the crystal incentive far surpassed previous premium offers by Continental. Popular premiums in the past have included Christmas plates, with 27,000 moved; and calculators and stuffed kangaroos, with 25,000 of each moved. These were not continuity promotions.

The crystal promotion proved popular with bank employees. The incentive program began at about the time the bank distributed profit-sharing checks and the entire initial stock of crystal was purchased by employees!

Provides Materials:

Firm Appointed by ABA For 'Full-Service' Promo

The American Bankers Association has announced the appointment of Full Service Bank Productions, Inc., a division of Christmas Club a Corp., Bethlehem, Pa., as its agent in production and sale of full-service merchandising materials.

Full Service Bank Productions will develop lobby displays, statement stuffers, ad mats and educational brochures carrying the full-service bank identification emblem. Other items to be provided include passbooks and jackets, cashier's checks, money orders and other bank documents. All will be custom imprinted with individual bank names.

The firm also can provide engraved stationery, matches, vinyl shopping bags, calendars and other items for use as premiums. Full Service Bank Productions will receive final approval for all materials from the ABA.

ABA member banks will receive catalogs of the materials from Full Service Bank Productions. The catalogs will include item descriptions and pricing.

Banks will have the option of using material the company develops or producing their own material in conjunction with the promotion. An ABA spokesman points out that many banks, however, will find it desirable to take advantage of the lower cost and design unity of the ABA package.

The ABA adopted the full-service theme as a method of creating better public understanding of the differences between banks and nonbank competitors, since research has shown that consumers frequently confuse banks with S&Ls and CUs. The ABA's concept in the promotion is "No financial institution can help you, or your community, more than a full-service bank."

John H. Guinan (r.), pres., Full Service Bank Productions, Inc., signs contract to support ABA's new program for full-service banks. Looking on is Cliff Sessions, ABA exec. dir.-communications.

Once a Month:

Cents-Off Coupons Offered To Lower Grocery Bills

Where's the best place for a bank to win friends and influence people? At the grocery checkout counter!

That's what the people at Parkdale Bank, Corpus Christi, Tex., have in mind. They're offering monthly "Banker's Bonus" discount coupons to customers through checking account and Visa statements. The coupons are worth as much as $5 toward the purchase of major name-brand food, drug and other household and consumer items.

The bank launched the program with a major advertising campaign that made a pun about the grocery counter savings available with the coupons by terming the promotion a "counter" revolutionary idea.

According to President T. D. Sells Jr., coupons mailed during the first month of the program have a discount value of $4.17 per customer, which "works out to a potential savings of more than $60,000 for the bank's checking account and Visa customers, if all the coupons are redeemed."

In addition to the coupons, the bank offers consumer savings tips each month, such as how to test the seals in a refrigerator to save electricity.

The bank recently completed a two-year construction program that tripled the size of its facilities, added a 14-lane motor bank and a commercial lobby. The bank recently observed its 20th anniversary.

10¢ Beer:

Diamond Jubilee Event Features Rides, Prizes

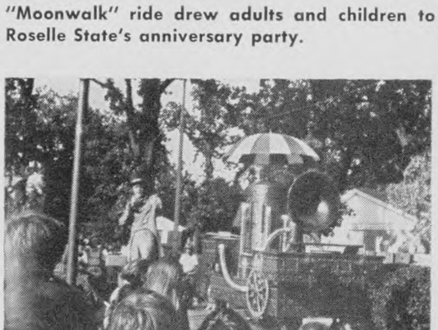
An outdoor carnival-type program featuring rides on a "moonwalk" and sleight-of-hand feats by Willy Wonka was the way Roselle (Ill.) State celebrated its 75th anniversary recently.

The event was one of three planned for the diamond-jubilee year of the bank, and it was successful beyond expectations, according to Eugene C. Ernsting, president and chairman. He said attendance was much greater than anticipated and he had received an "overwhelming number of oral and written expressions of appreciation from bank customers."

The two-day event included games of skill, refreshments (including 10¢ beer for adults), an exhibit of the bank's history, a German band, barbershop quartet and high school cheerleader performances.

Prizes were awarded, including 10-speed bikes and TV sets.

"Moonwalk" ride drew adults and children to Roselle State's anniversary party.



Willy Wonka and his Candymobile were featured at 75th-anniversary event for Roselle (Ill.) State. After demonstrations of candy-making machine, free candy bars were distributed to crowd.

'Total Banking':

Control of All Accounts Offered by Computer

First Guaranty Bank, Hammond, La., has introduced "Total Banking," a service wherein customers have immediate control of funds in multiple bank accounts through a computer.

A customer is greeted by name on a television-like screen and initiates a transaction, through which he is guided by the Total Bank machine. The machine is manufactured by Diebold, Inc., Canton, O., and offers 23 different transactions 24 hours a day.

A message service also is provided by the machine. Customers can order checks, request a bank staff member to call or have information sent concerning various banking services. Installations initially will be operated at the bank's Hammond Square Mall and West Thomas Street offices.

Warren H. Wild, pres., First Guaranty Bank, Hammond, La., joins bank staffers at institution's "Total Banking" machine, which offers customers choice of 23 transactions 24 hours a day. They are wearing "Go Total" T-shirts.

Special NACHA Commission Will Make Charter Study

WASHINGTON—A special commission of six bankers has been formed by the National Automated Clearing House Association (NACHA) to study the association's charter.

The commission will evaluate the association's future role in the ACH movement by assessing the adequacy of the original charter and making appropriate recommendations to the board, according to NACHA President Virgil M. Dissmeyer, executive vice president, Northwestern National, Minneapolis.

Chairman of the commission is NACHA Vice President George W. McAulay, senior vice president, First National, Dallas. Members of the commission include H. L. Baynes, immediate past president of NACHA, and senior vice president, United Virginia Bankshares, Richmond; Joseph P. Coriaci, member of the Midwest ACH board of directors, and senior vice president, Continental Illinois National, Chicago; Russell L. Fenwick, NACHA's first president, and senior vice president, Bank of America, San Francisco; Eugene M. Tangney, president, New England ACH, and senior vice president, First National, Boston; and J. C. Welman Jr., former chairman of the ABA task force on ACHs, and executive vice president, First National, Minneapolis.

Issues that prompted the commission's formation are the expanding nature of NACHA's activities and the source of funding for those activities; the evolution of the relative roles in the ACH process of NACHA, local ACHs and governmental entities; and the need for methods to foster expansion of private sector volume and nationwide interregional exchange.

A report is expected by February.

Financial Institutions Form EFT Research Group

CHICAGO—An organization of 24 financial institutions from 15 states has been formed to conduct research into public attitudes toward improved EFT services.

Called the Committee for Consumer Financial Convenience (CCFC), the group consists of banks, credit unions and an S&L. The organization is trying to determine how the convenience, efficiency, lower costs and safety provided by EFT systems can best be communicated to consumers.

A spokesman for the group said that a nationwide survey has been commissioned to elicit an in-depth understanding of consumer attitudes toward electronic banking—what those attitudes are, why various segments of the public feel as they do, how they came to have those views and what they think would change their minds. A separate survey will focus on attitudes of opinion leaders in finance, business, labor and politics.

Members of CCFC from the Mid-Continent area are First Arkansas Bankstock Corp., Little Rock; Continental Illinois National, First National and Harris Trust, all of Chicago; First National, Springfield, Ill.; First National, Louisville; First National and Mercantile Trust, both of St. Louis; and Government Employes Credit Union, San Antonio.

Membership in CCFC was closed temporarily September 15 so that the group could go ahead with research projects, but will be reopened when that research is analyzed.

Ballplayer Promotes Owl Network With Sweatshirt Savings Offer

CINCINNATI—Former Cincinnati Reds baseball team superstar Tony Perez returns to the Cincinnati scene this month as spokesman for a savings promotion of the Owl Network—regional automated teller and check guarantee interchange spearheaded by Central Trust.

The star appears in newspaper ads, radio and TV commercials sporting the special-design Owl sweatshirt offered this month as a savings premium by participating financial institutions—all members of the Owl Network.

Baseball player Tony Perez is watched by fans as he makes TV commercial for Owl Network sweatshirt savings promotion. He's standing beside ATM at facility of Central Trust, Cincinnati, spearheading organization of Owl Network.

With Mr. Perez heading the line-up, participating Owl Network member institutions are offering their savings customers the special design blue sweatshirt, silk screened in five colors with the caricature owl that symbolizes the Network's Day and Night automated tellers. The shirts are available for $3 each with a regular savings deposit of $100 or more. In addition, both customers and non-customers can purchase the shirts for $5 without a deposit.

Mr. Perez is now with the Montreal Expos ball club.

Fingertip Control for Decision Makers

Central National Bank in Chicago offers thirteen automated financial systems designed to simplify your life by providing you with the bottom line benefits of total operational efficiency. These benefits include:

- Reduction of clerical workload
- Timely reporting
- Simplified auditing procedures
- Management control
- Performance and profitability evaluation
- Increased accuracy and efficiency

Central Automated Financial Systems give you the ability to identify problems and trends, and the time to react quickly to profit effective opportunities. We give you batch and on-line capabilities and thirteen systems representing the most advanced state of the data processing art. All are supported by a major national data processing organization with 3,800 computer people of whom over 900 are specifically dedicated to financial systems.

Our systems are:

- Savings
- Demand Deposit
- Certificates of Deposit
- Reserve Credit
- Installment Loan
- Bond Portfolio Analysis
- General Ledger
- Mortgage Loan
- Commercial Loan
- Payroll Processing
- Accounts Reconciliation
- Central Information File
- Proof of Deposit

As part of our total capability, our systems have numerous options to fit your specific needs and as more automated systems are developed for your use, they will be adaptable without any internal conversion of your present Central Automated Financial System.

In less than one year, we have introduced four additional new systems to meet the ever expanding needs of the market we serve. They are:

- Bond Portfolio Analysis
- Accounts Reconciliation
- Central Information File
- Proof of Deposit

All reports are available in micro-fiche and microfilm.

Take advantage of the opportunity to improve bottom line benefits by calling us. We will be happy to discuss these systems and how they can be custom-tailored to satisfy your needs. Call your Central Automated Financial Systems representative at (312) 443-7200.

We're committed to progress. Yours.

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A Division of Central National Bank in Chicago
120 South LaSalle Street • Chicago, Illinois 60603
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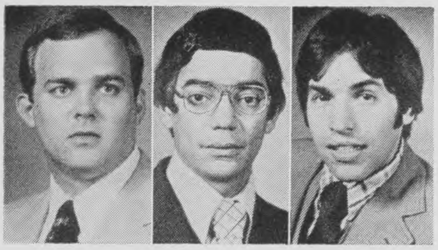


LANE RIVERA FORCINA

Corporate News Roundup

• **Aetna Business Credit, Inc.** Michael W. Lane, Pedro A. Rivera and Martin Forcina have been named credit officers at the Factoring Center of Aetna Business Credit, Inc., Hartford, Ct. They are responsible for analyzing, reviewing and approving customer sales orders received from factored clients. They also handle credit requests from these sources. Mr. Lane was formerly with James Talcott Factors, Atlanta; Mr. Rivera came from Flagship Factors Corp., Florida; and Mr. Forcina was with United Factors, New York City.

• **Bank Building Corp.** John Bolognini, senior analyst; Keith M. Kramer, project consultant; and William D. Miller, market analyst, have joined the Financial Research Association Division of Bank Building Corp., St. Louis. Mr. Bolognini is a former assistant national bank examiner from Denver; Mr. Kramer was formerly a senior planner for land use and site analysis for the Urban Programming Corp. in St. Louis; and Mr. Miller was formerly a methods analyst with First National, St. Louis.

• **MGIC Indemnity Corp.** Edward D. Norris has been elected vice president of MGIC Indemnity Corp., a subsidiary of MGIC Investment Corp., Milwaukee. Mr. Norris joined MGIC in 1974 as sales coordinator for the directors' and officers' liability insurance program and continues to serve as national sales manager and product director for that program.

• **Diebold, Inc.** Ronald F. Grandjean has been named manager, Canton plant, Diebold, Inc. He has been succeeded as manager, Wooster plant, by Eugene J. Warner Jr. Robert A. Graham has been promoted to general manager, Commercial Security Group, and Gilman R. King, vice president and assistant manager, Bank/Systems Division, has assumed divisional responsibility for the International Division and Commercial Security Group as well as the coordination functions between Diebold Co. of Canada, Ltd., and Diebold, Inc., USA. Mr. Grandjean joined Diebold in 1950, Mr. Warner in 1968, Mr. Graham in 1958 and Mr. King in 1973.

GRANDJEAN GRAHAM KING WARNER

CLARK

BOCKIUS

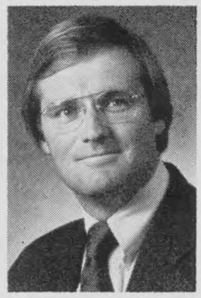
• **Alexander & Alexander Inc.** Norman Clark, former president of Scarborough & Co., has joined Alexander & Alexander, Inc., Chicago, as vice president, financial institutions. Mr. Clark has 25 years' experience in insurance for banks and will be responsible for development and supervision of an extensive program of insurance for all types of financial institutions.

• **Diebold, Inc.** Louis V. Bockius III has been appointed vice president, manufacturing, of this firm, which is based in Canton, O. Mr. Bockius succeeds Cecil Heilman, who had held the post since 1959 and will continue with Diebold in a senior staff capacity. Mr. Bockius has been with the firm since 1953.

• **UMIC, Inc.** James L. Carr has joined UMIC, Inc., Memphis-based securities firm, as a registered representative in municipal sales. He was formerly with Honeywell, Inc., and has been associated with IBM, Martin Marietta Corp. and Sperry Rand Corp.

• **Financial Training Resources.** A new professional training resource for banks and bankers has been formed by John Ginsler, who has been associated with Bankers' Business Development Institute. He is president of the new firm. Financial Training Resources, Glen Ellyn, Ill., will provide training resources including conferences, seminars and workshops in customer development, productive selling and sales management. The firm plans to introduce two bank training services in 1977 and 1978: service knowledge clinics and professional selling clinics. Mr. Ginsler will also serve as president of Training Dynamics, Inc., which will provide similar training services to industry and trade associations.

GINSLER



FLEISCHAUER

• **First Bank Financial Services, Inc.** Jack Fleischauer has been named president of First Bank Financial Services, Inc., regional marketing services company specializing in services and products for banks, thrifts and other financial institutions in Arkansas and 15 other states. The firm is an affiliate of First Arkansas Bankstock Corp., Little Rock. Mr. Fleischauer joined the firm last year and served as vice president and general manager until his appointment as president.

• **LeFebure Corp.** An expansion of marketing staff has been announced by LeFebure Corp., Cedar Rapids, Ia. Scott Benson has been appointed manager, product planning, for motor banking, Tel-Air Systems, vault security and equipment products. Curtis F. Cummins was appointed to a similar post, adding reference and filing equipment and supplies to product planning duties for filing equipment and systems. James Lisenbee, formerly manager, product planning, for Automated Financial Systems, adds responsibilities for planning and development for alarm and reporting systems. Expanded responsibilities were announced for Kersten Larson, sales specialist, Automated Financial Systems, and R. S. (Bob) Milecki and Dean Spina were appointed to the marketing staff as sales manager and regional manager, respectively, western region.

• **Talcott National Corp.** John A. Kingston has been elected chairman and CEO, Talcott National Corp. and James Talcott, Inc. He was previously president and chief operating officer and succeeds Brooke Grant, who served as chairman and CEO since January, 1976. Mr. Kingston joined Talcott in April, 1976. Mr. Grant continues as a director.

Operations

Teller Transactions Up; Errors Down With New Bank Inquiry System

By ADRIAN E. BROADWAY
Senior Vice President
Bank Operations
And Data Processing
Allied Bancshares, Inc.
Houston

WITH Allied Bancshares' new on-line Bank Inquiry System, Allied Bank of Texas now processes more than 5,000 DDA and savings file inquiries daily. This new system, developed jointly by Allied Bancshares and IBM, functions on IBM's 3600 family of teller terminals. The advantage of the IBM terminals is not just faster teller transactions and fewer errors. By choosing the 3600 package, Allied Bancshares has put itself in the position—whenever the time is right—to quickly accommodate automated teller machines (ATMs) and point-of-sale (POS) terminals.

BROADWAY

An Eye to the Future. On January 24, 1977, 28 tellers and other terminal users at Allied Bank of Texas went live on the new on-line Bank Inquiry System. Using the IBM 3600 terminals, our tellers were able to retrieve complete customer-account information and to post "holds" and "stop pays" to the DDA and savings inquiry file.

This move to a new system and new terminals was the first step in a corporate plan designed to provide the following benefits to Allied Bancshares:

- Terminal access to customer information for all member and correspondent banks.
- Ability to move quickly into all phases of electronic funds transfer, including ATMs and POS.

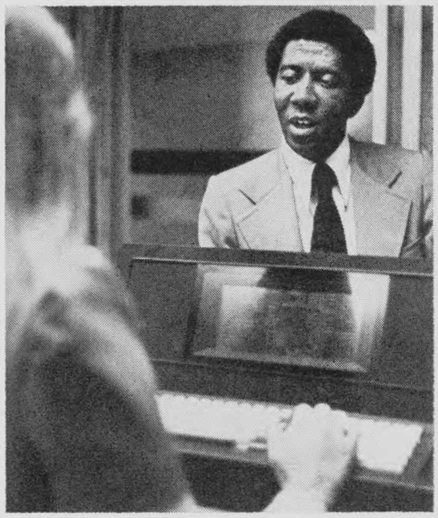
Allied Bank of Texas, with total deposits of $600 million, is the anchor bank of the $1.2-billion Allied Bancshares, Inc. Allied Bancshares is the ninth largest bank holding company in Texas, a unit banking state. We now have 13 member banks and are awaiting regulatory approval on mergers with five more. In addition, we provide data processing services for 35 correspondent banks. Our plans call for expansion of our Bank Inquiry System to these member and correspondent banks, with one already "on stream" and five more in the process of conversion.

The System in Operation. Allied Bancshares' new Bank Inquiry System operates on an IBM System/370 Model 158, linked to 28 IBM 3604 teller terminals throughout Allied Bank of Texas.

Inquiries are entered in the system through the 3604 keyboard. By using special function keys (DDA, savings, deposit, withdrawal, etc.), a teller can enter better than 90% of all transactions with a two-step operation.

Customer information is returned on a gas panel display on the top half of the terminal. The information provided can be as simple as customer name and address. Or it can be as complete as a full account summary (account number, name, address, officer, balance, holds, deposits, revolving-check balance, overdraft limit and all statement data).

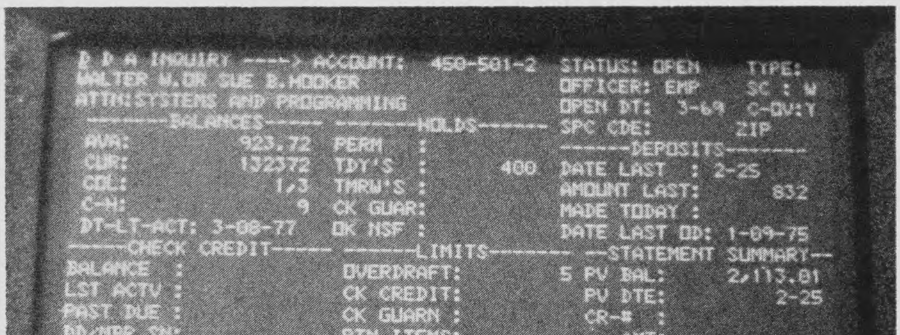
The teller can keep the customer



TOP: "Our new system and new terminals already have improved teller service at Allied Bank," comments Walter Hooker, v.p. in charge of systems and planning. He points out that ability to expand teleprocessing network and to add ATM and POS functions means Allied Bancshares is ready for future.

SECOND FROM TOP: From customer's standpoint, difference in Allied Bancshares' Bank Inquiry System is that faster service than formerly is provided. Most teller transactions now take only two steps.

THIRD FROM TOP: Bank's customer service (bookkeeping) uses its on-line terminals to answer hundreds of telephone inquiries every day. By keying in proper transaction, clerk can display almost all account information pertaining to customer on 3604 gas panel in front of her. Without leaving her desk, she can answer nearly any question.



LEFT: Depending on need, customer information displayed on 3604 panel can be as simple as name and address or as complete as full account inquiry.

The two-sided story of the 60-second money order.

The story of the American Express® Financial Institution Money Order (FIMO) has a happy ending for both sides. Yours *and* your customer's.

FIMO will not only save your tellers valuable time at the counter, they'll also eliminate costly cashier's checks and processing.

All your tellers have to do is issue FIMO in the specified amount. They don't even need an officer's authorization. Then you just mail a weekly report to American Express and your work is done.

We do all the processing—including reconciling, storing, filing and ordering. We'll even run down exception items and stolen money orders. *And* handle refunds.

As for your customers, they're sure to appreciate the fact that FIMO can be issued in under a minute, and that they write in the payee's name themselves for privacy they don't get with most money orders.

No matter which side you're on, FIMO is a story with a happy ending. If you'd like more information, or would like us to prepare a financial analysis of your present system for you, just mail the coupon below to Gil Rosenwald, Director of Money Order Sales Development, American Express Company, New York, N.Y. 10004. Or call him collect at (212) 480-3226.

Gil Rosenwald, Director of Money Order Sales Development Am 11
American Express Company, American Express Plaza, N.Y., N.Y. 10004

The FIMO story interests me very much. ☐ Please send me more information. ☐ I am interested in the financial analysis. Please tell me more.

Name ____________________

Institution's Name ____________________

Address ____________________

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State ____________________

Zip ____________________

American Express FIMO. The money-making money order.

data on the screen as long as necessary. There's no possibility of forgetting any of the data and the teller has time to verify deposit or withdrawal amounts before pressing ENTER and *memo-posting* the transaction. Errors are kept to a minimum.

Response time for 95% of all transactions entered on the terminals is five seconds or under. Frequently, a response is back in less than a second.

Tellers are not the only ones who use the on-line terminals, however. Customer service personnel in such varied areas as credit, international banking, commercial loans and return items all make inquiries to the system. Security is maintained by assigning a unique identification number to each user. A daily report produced by the system provides an audit trail of all on-line transactions entered, by user ID number.

Mandate for a New System. More than a year ago, Allied Bancshares gave the data processing department a mandate to prepare itself to meet the needs of a rapidly growing holding company. Data processing was to gear itself to expanding telecommunications to other banks and position the holding company to accommodate electronic funds transfer.

Until this point, Allied Bank of Texas had been using an on-line inquiry system and a mixture of teller terminals that were adequate for its needs. However, the HC was moving into a new arena. To expand our on-line capabilities for member and correspondent banks and EFTS, our teleprocessing requirements would far exceed those of years past. Specifically, factors we had to consider as they would affect the performance and expense of a large on-line system were:

- Overall system reliability (from the teller's standpoint).
- Response time for terminals in multiple locations.
- Cost of teleprocessing lines.
- Ease of expanding and maintaining the system.
- Ease of modifying the system to add ATMs and POS.

As we analyzed our existing software and hardware, we realized that both were limited in scope. To compete in the future marketplace, we needed to get our data base in shape. To move forward with teleprocessing, we needed *stability* and *standardization* in hardware.

We found that the best approach to meet our new teleprocessing requirements was to use IBM's Systems Network Architecture (SNA), with its new line of banking terminals: the 3600 finance communications system. Implementing the SNA concept at Allied proved to be an especially cost-effective approach because we already had many of the required components installed: the System/370 Model 158, IMS/VS and a 3705 network controller.

The features of SNA and its 3600 system that were of particular significance to us were:

- Maximum system reliability and fast response time due to *remote intelligent controllers* and a new line discipline.
- Reduction in CPU processing time through the off-loading of screen formatting and data editing to the controllers.
- Reduction in teller errors through use of function keys on the terminals and transaction editing on the 3601 controller.
- Ability to handle both file inquiry and data entry on the same terminal, permitting us to *standardize* our *hardware*.
- Multi-function terminals, allowing us to react quickly to market requirements with implementation of ATM and POS devices.

By selecting the 3600 and SNA, we had the multi-application, multibank terminals we needed to complement both our current needs and plans.

Design, Development, Installation. Walter Hooker, vice president in charge of planning, was responsible for development and installation of the new on-line Bank Inquiry System. He designed the system, from creating the computer's data base to formatting the screen displays for the 3601 controller and determining the keyboard configurations on the teller terminals.

The tellers, as the most active CRT users, were consulted about improvements to both the system and the terminals. Their input resulted in several changes. Function keys were substituted for the previous method of keying in a series of transaction codes. Free-form screens were replaced with fill-in-the-blank displays. Index coordinates were furnished on the screen for signature cards kept on microfiche. Revolving-credit information was included in customer-account balances.

Our product became easier to use, less subject to human error and faster. Response time on the new system was —and is—nearly half that of the old.

From concept to implementation, the system came up in 120 days. On January 17, the Bank Inquiry System was installed at Allied Bank of Texas. The tellers here spent a week working with the terminals in a test environment. On January 24, we moved to a live system with the 3604s.

From Here. Our original purpose was and is to move to an integrated data base, data communications system. We've taken the first step by converting DDA and savings to the new Bank Inquiry System. Installment loans, financial control and commercial loans will be the next three applications to go on file inquiry. Data entry is being handled now on other terminals, but we plan to switch that function to the 3604s as soon as it's feasible. And as soon as we establish a compatible network with the system, we will set up a customer information file (CIF), presently scheduled for the first quarter of 1978.

By choosing the 3600 system, we added capabilities that can carry us into the future. Using the basic SNA we now have, we can easily accommodate automated ATMs and POS terminals.

The significance of going to the 3600 is not in 28 terminals, but in *128* or *228* or more. And we could see that possibility in a relatively short period of time. Multibank processing for inquiry purposes is a reality. In June, we converted our first correspondent bank to the new inquiry system. • •

Call Report Preparation Clinics Are Rescheduled by BAI

PARK RIDGE, ILL.—The Bank Administration Institute has announced a new schedule of call report preparation clinics. The rescheduling—in 11 additional cities—was made because of the "outstanding success of the past year's clinics," according to a BAI spokesman.

The BAI has held 39 call report preparation clinics in 20 states, reaching approximately 5,000 bankers. It is estimated that the new clinics will reach 2,000 more bankers.

The FDIC has informed the BAI that the number of banks throughout the country fined for call report delinquencies and errors has been reduced to approximately 15 per quarter from a high of 89 for a three-month period in 1975. The BAI attributes a portion of that reduction to the clinics.

Last-quarter 1977 clinics scheduled are: Kansas City, December 5; Lubbock, Tex., December 12; Oklahoma City, December 14; Memphis, December 16; Fort Lauderdale, Fla., December 19; and Birmingham, Ala., December 21.

Those in attendance will receive an 80-page workbook, "A Simplified Guide to Bank Call Report Preparation," which includes graphics, worksheets and detailed explanations of complicated concepts including computing for quarterly and annual loan-loss and tax provisions.

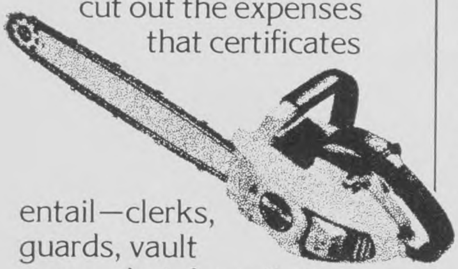
The clinics are held by the BAI in cooperation with the FDIC, the Comptroller and the Fed, and speakers from all four will be on hand.

How to get the most for your safekeeping dollar:

take the depository route, via Manufacturers Hanover.

Cuts holding and handling costs.

For profit's sake, count yourself in on the most advanced way to process securities—by electronic book entry, with Manufacturers Hanover Trust as custodian. Automatically, you "piggy-back" on our long position at Depository Trust Company which entitles you to lower rates. You not only cut out the expenses that certificates



entail—clerks, guards, vault space—but depository processing actually costs you less than a traditional safekeeping service.

Gets you your money faster.

We have the expertise with DTC's Institutional Delivery service to expedite trade confirms and settlement. The fewer the fails, the better control you have of your funds. And we promptly credit dividends on the payable date.

Tells you where you stand.

We're quick to relay the facts you need for reconciliation. In addition to conventional reporting means, we now have one of the most advanced on-line Securities Movement and Control systems—so advanced it can report your transactions on a daily basis. But hardware can't do it all. At MHT, you deal with a staff whose experience in securities administration averages well over 10 years.

Leaves liability worries behind.

When you participate via MHT, you're relieved of the immense pressures that come from safeguarding securities. In fact, MHT has more than $5 billion of its own trust assets on deposit at DTC.

To learn more about how your bank can profit by MHT's relationship with DTC, contact Brian V. Carty, Manufacturers Hanover, 350 Park Avenue, New York, N.Y. 10022. (212) 350-4658.

MANUFACTURERS HANOVER

Member FDIC

Directors' Responsibilities, Liabilities Clearly Spelled Out by Regulators

WHEN A PERSON is elected a bank director, it's far more than just an honor for him (this pronoun is being used in the generic sense because, of course, there are women bank directors). When someone accepts this post, he must realize he's taking on great responsibilities and that if he doesn't carry out those responsibilities to the best of his abilities, his bank might fail.

All three federal bank regulatory agencies clearly spell out the duties and responsibilities of bank directors. Thus, there's no reason for a person elected to a bank's board to go on it ignorant of his duties. Above all, a director should know that he can be held *personally liable* should his bank have to close. Two recent examples of bank directors being sued by the FDIC for "willful negligence" appear elsewhere in this issue. Both these suits, by the way, were filed against directors of defunct Mid-Continent-area banks—International City Bank, New Orleans, and Hamilton National, Chattanooga, Tenn.

The importance of doing a good job as a bank director is emphasized in another article in this issue. It's bylined by H. Joe Selby, first deputy comptroller of the currency for operations. Mr. Selby says that examiners from his office formerly looked at a bank "from the bottom to the top." Now, however, the examiners start with boards of banks and determine how well the directors are functioning.

Mr. Selby also describes in detail eight major responsibilities and duties of a bank director, as determined by the Comptroller's office. In addition, the Comptroller publishes a booklet, "Duties & Liabilities of Directors of National Banks," which spells out provisions of law relating to directors' elections and duties.

The oath a director of a national bank must take is applicable, as well, to state-chartered bank directors. The oath says the director, so far as the duty devolves on him, will diligently and honestly administer the affairs of his bank and will not knowingly violate or willingly permit to be violated any provisions of national banking laws. Neither is a bank director to receive any higher interest rate on his deposits than is given other depositors. In fact, all three federal regulatory agencies emphasize that bank directors must neither expect nor receive any special treatment from banks just because they are on their boards.

Evaluation of a bank's management is described as perhaps the most important duty of a bank director by John E. Ryan, director of the Federal Reserve System's division of banking supervision and regulation. He adds that, although directors themselves play a critical role in making policy decisions and providing oversight, day-to-day operations and implementation of those policies must necessarily be left to a bank's official staff.

"For directors to appraise and supervise management performance adequately," continues Mr. Ryan, "there must be mutual agreement on goals and objectives of the bank. Also, a dialogue of candor between bank management and directors must be established, and well-defined and periodic reports must be submitted to the board for its thorough review.

"With regard to devising reporting and review procedures, directors must be cognizant of cash and due-from-bank accounts; investment strategy; consumer, real estate and commercial loans; concentrations; fixed assets; asset and liability management; and records, systems and controls. These are the areas in which problems are most likely to develop. Self-dealing activities must be scrupulously avoided for, if allowed to persist, self dealing can lead to financial distress and even insolvency.

"Familiarity with outside audit reports and examination reports of supervisory authorities is vital. It is the directors' responsibility to ensure that remedial action is taken to clear up deficiencies, criticized areas and violations of law or regulations. Auditors and examiners have a depth of experience within the banking industry which should not be disregarded.

"While management evaluation and operational oversight are crucial, directors are charged with maintaining safe and sound banking policies. In brief, the policy role calls for attention to banking laws and regulations, a commitment to the community to provide adequate banking services without undue risk and consideration of the profit motive to the extent that shareholders receive a fair return on their investment. If these factors are taken into consideration as policies are developed and implemented, the bank should be a valuable resource to all associated with it.

"The Federal Reserve has been extremely fortunate over the years in examinations of state-member banks. Evidence of negligence seldom arises, and examples of willful negligence are deminimus. For the isolated situations of negligence which do arise, cease-and-desist agreements can be used to formalize understandings between directors and bank supervisors regarding future conduct of banking operations. Should further action be required, the Board of Governors can initiate action to issue a cease-and-desist order."

A listing of reasons the FDIC files director-liability claims was given by the corporation's chairman, George A.

LeMaistre, before the Senate Committee on Banking, Housing and Urban Affairs in September. The committee was conducting oversight hearings to determine whether additional statutory or regulatory safeguards are needed to assure appropriate agency response to a wide range of abusive banking practices. According to Mr. LeMaistre, allegations frequently made in FDIC director-liability claims include:

1. Making of self-serving, improvident and/or excessive loans.
2. Failing to correct conditions and practices criticized by the appropriate regulatory authority.
3. Failing to supervise officers and employees properly.
4. Failing to make periodic audits.
5. Failing to establish and implement adequate internal procedures and controls.
6. Approving payment of improper dividends.
7. Failing to maintain adequate liquidity.
8. Failing to attend directors' meetings regularly.
9. Concentrating too much of a bank's resources in a limited number of investments.
10. Failing to exercise independent judgment, i.e., directors permitting themselves to be dominated by the bank's principal shareholder.

"In my judgment," Mr. LeMaistre told the senators, "the impact of the lawsuits which we have filed in major bank failures in recent years has had an incalculable effect in raising the sensitivities of bank directors with respect to their responsibilities."

In addition, Mr. LeMaistre pointed out that existing law in various states requires bank directors to exercise due care, prudence and diligence with respect to the management of a bank's affairs and in use of preservation of its property and assets.

"Bank directors," the FDIC chairman told the hearing, "who approve exorbitant salaries for bank officers, approve payment of exorbitant or improper stock dividends or knowingly permit the use of bank assets for non-business purposes violate the common-law duties imposed on them. Under existing case law, they should incur personal liability for such improper activities."

With all these guidelines available, there is no excuse for a bank director to plead ignorance when faced with unpleasant consequences because he did not carry out his legal and moral duties and responsibilities. • •

Independent Audits Must Be Reviewed By Banks' Directors to Be Useful

By GRANTLAND L. O'NEAL
Director
Advertising/Public Relations
Central Bank
Birmingham, Ala.

IF YOU want to raise the hackles on the nape of a banker's neck, just tell him he needs another examination. Most will respond with a guttural grunt uttered as you watch their backs disappearing through the doorway.

Given time to recover his poise, the normal banker will ask why, when his bank is examined annually by the appropriate regulatory agencies, does he need another independent examination?

The answer is: An examination is an examination is an examination? Bunk! In reality, the scope and objectives of regulatory agency examinations and those of an independent examination differ substantially.

Regulatory agencies recently have been emphasizing these differences and strongly suggesting that their member banks conduct independent audits. More importantly, however, several well-known bonding companies are making such audits a mandatory requirement of banks seeking renewal of their blanket bond coverage. The latter is serving as a convincing catalyst in the reversal of naturally negative attitudes toward "another examination."

Central Bank of Birmingham has been offering what is called a director's examination to its correspondent bank customers for seven years. Arnold Avery, head of Central's correspondent audit services group, says a bank must not have an examination performed just to appease its bonding company. "The finished report will be useless if it isn't seriously reviewed," states Mr. Avery. Consequently, Central has purposely entitled its examination a *director's* examination, implying that *the final report should and will be presented to the board.*

Mr. Avery's team goes in with the intent of performing a complete examination of asset and liability accounts with emphasis on internal control, prudent banking procedures and verification of customer's accounts.

Carlton P. Pinkerton, senior vice president in charge of Central's correspondent banking division, states, "The attitude of our audit group is a helpful one rather than a policing one. The object of our audit is to point out possible problems or operational deficiencies and then counsel with the bank's directors about proposed solutions."

Because they examine banks of varying sizes, from myriad market areas, with distinctively different balance-sheet composition, Central's independent examiners often must devise creative and original control procedures that can be applied to similar situations at other banks, according to Mr. Avery. He adds that Central has performed directors' examinations for over 150 of its correspondent banks in eight southeastern states, and the reports have been well accepted by regulatory agencies and major bonding companies.

Mr. Avery uses the words "preventive" and "corrective" when discussing an examination, highlighting the dual purpose of an audit. He points out that Central's program stresses the importance of a bank's directors and management picking up internal control and audit skills from his group so that "even a $5-million bank with 10 employees can implement effective control procedures of a bank 10 times its size without having to add to its staff."

One benefit of learning internal audit procedures is that it cross-trains bank personnel and, thereby, strengthens overall employee skill.

"What can you do to overcome the negative predisposition to 'just another examination'?" Mr. Avery was asked. He replied, "Most of the time our independence and objectivity are the key. Once management has seen how we operate and sampled the end product, we usually are invited back." An examiner invited back? "Yes," Mr. Avery asserts, "Our objective is to leave the bank with recommendations and procedures that will make it a smoother running operation. Most progressive managers welcome that attitude."

Another examination? It's a question of priority and desire to improve operations. An independent examination from a group like Central's is rapidly becoming an accepted management tool. It's no joking matter. • •

Nat'l Bank Examiners Start With Directors, Then Work Downward

By H. JOE SELBY
First Deputy Comptroller
Of the Currency
For Operations
Washington, D. C.

THE COMPTROLLER'S OFFICE, over the past year, has instituted a new set of examination procedures for use in examining national banks. The procedures are intended to give our examiners tools needed to supervise the national banking system in the ever-changing financial intermediary process.

In the design of these procedures, we had to start from the beginning and rethink the purpose of an examination and redefine the concepts of an examination. In the past, the examiners entered a bank and looked at a number of specific documents from which they constructed the way the bank was run. In other words, they built the bank from the bottom to the top—from the individual documents all the way up to the policies put forth by the board of directors. The examiners met with the board only in those cases where the bank had deficiencies that needed corrective action. We had no policy of meeting with the boards of directors periodically.

We evaluated this position and thought, wouldn't it be better to start from the top level and work downward to the documentation? This became one of the basic concepts of our new examination process. *Rather than waiting until the end to analyze the directors, we start from the beginning and determine how well the directors function.*

Directors are placed in positions of trust by a bank's shareholders, and both statute and common law place responsibilities for management of a bank firmly and squarely on the board of directors. Directors of a national bank may delegate the day-to-day routine of conducting the bank's business to their officers and employees, but they cannot delegate their responsibility for consequences of unsound or imprudent policies and practices whether it involves lending, investing, protecting against internal fraud or any other banking activity. The directorate is responsible to the depositors and shareholders for safeguarding their interests through the lawful, informed, efficient and able administration of the institution.

The affairs of each national banking association are to be managed by directors who initially are elected by shareholders at a meeting held before the association is finally organized to commence business and, afterward, at meetings to be held at least annually on a day specified in the bylaws. Directors hold office for one year and until their successors are elected and have qualified. The number of directors of each national association is limited to not less than five nor more than 25. Various laws govern the election, required number, qualifications, both liability and removal of directors or officers, as well as disclosure requirements for outside business interests. Other laws pertain to certain restrictions, prohibitions and penalties relating to securities dealers as directors, officers or employees, interlocking directors, purchases from directors and sales to directors, commissions and gifts for procuring loans, embezzlement, abstraction, willful misappropriation, false entries and penalties for political contributions.

An examiner sometimes has to impress bank directors with the extent of their duties and responsibilities. Unless bank directors realize the importance of their positions and act accordingly, they are failing to discharge their obligations to shareholders and depositors. They also are failing to take advantage of the opportunity to exercise a sound and beneficial influence on the economy of their community. The Office of the Comptroller of the Currency (OCC) has compiled what we feel to be eight major duties and responsibilities of a bank director.

The first duty is to select competent executive officers. It's a board's primary duty to select and appoint executive officers who are qualified to administer the bank's affairs effectively and soundly. It's also the board's responsibility to dispense with the services of officers who prove unable to meet reasonable standards of executive ability and efficiency.

The second responsibility is to supervise the bank's affairs effectively. The character and degree of supervision required of a bank's directors to assure a soundly managed bank involves reasonable business judgment and confidence and sufficient time to become informed about the bank's affairs. Directors cannot avoid responsibility for their bank's sound management or its problems.

If supervisory negligence is involved, a director's responsibility may extend to a personal financial responsibility. The responsibility of directors to supervise the bank's affairs may not be delegated to the active executive officers. Directors may delegate certain authority to executive officers but not the primary responsibility to maintain the bank and its policies on a sound and legal basis.

The third principal responsibility is to adopt and follow sound practices and objectives. Directors must provide a clear framework of objectives and policies within which the chief executive officer must operate and administer the bank's affairs. Such objectives and policies should cover all areas. Some of the more important areas would be investments, loans, liquidity, asset and liability management, internal controls, profit planning and budgeting, capital planning and personnel policies. We feel that directors should set the stage by formulating the rules within which bank management must play.

Fourth, directors must avoid self-serving practices. A self-serving board, whether weak or strong in other respects, historically has worked to a bank's detriment. The fact that individuals are bank directors does not increase their borrowing privileges. It simply increases their borrowing responsibilities. A bank's directors bear a greater than normal responsibility in dealing with loans to members of the directorate, and they must make decisions that preclude the possibility of partiality or favored treatment. Unwarranted loans to bank directors or to their interests are a serious matter from the standpoint of credit and management. Losses that develop from such unwarranted loans are bad enough, but the weakening effect on the bank's general credits standards is likely to be even worse. Directors who

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The talk on which this article is based was given by Mr. Selby at the New Mexico School of Banking's symposium for bank directors in Santa Fe.

become financially dependent on their bank normally lose their usefulness as directors.

Our examiners have been instructed to scrutinize transactions between directors and their interests and the bank. In addition, our examiners will be alert for such things as: gratuities to directors for the purpose of obtaining their approval of financing arrangements or use of particular services, use of bank monies by directors to obtain loans or transact other businesses and transactions involving conflicts of interest. These always represent potentially self-serving transactions. When board decisions involving a potential conflict of interest are made, the director should fully disclose the manner in which the transaction tends to be beneficial and should abstain from voting on the matter. The abstention should be recorded in the minutes.

The fifth primary duty is for directors to be informed on the bank's condition and management policies. For a new bank being chartered, the OCC requires that—through a provision in the bylaws—directors provide for a director's examination. When directors lack adequate knowledge of examination techniques and procedures, they are encouraged to employ outside auditors to make some or all of the examination on their behalf. Such an examination performed by an outside firm is much more beneficial to directors if the examining committee or the entire board plays an active role in it. Directors should participate at least to the extent of appraising policies, obtaining and understanding procedures to be employed by the auditor and reviewing the audit report with the auditor. In general, they should ensure an accurate, timely and comprehensive reporting mechanism. Before concluding the review, directors should understand thoroughly the significance of all details contained in the report. When outside auditing firms are utilized, the scope of the examination should include direct confirmation of a representative number of the bank's loans and deposits. Copies of the director's examination report and reports of outside auditors should be retained in the bank's files and should be made available to examiners. When an accounting firm supplements its audit report with a letter report containing recommendations for improvement in internal control, accounting or other matters, the examiner will obtain a copy of it and review its contents. Its significant deficiencies having been noted, the examiner will test to determine if they have been corrected.

The sixth primary duty of the directorate is to maintain reasonable capitalization. The board has the responsibility of maintaining its bank on a well-capitalized basis. A bank's capital base supports growth while protecting depositors against the uncertainties of investing funds. The OCC does not demand that national banks build capital to such proportions as to be able to absorb the strain of total economic collapse or to accommodate a wholesale run on deposits at any given moment. To do so would impair their ability to compete and expand. Rather, capital should be adequate to permit the bank to operate as a viable institution capable of moving funds responsibly and providing related services to the community it serves, while protecting against unanticipated adversity.

The seventh primary responsibility is to observe banking laws, rules and regulations. Speaking as a regulator, this almost goes without saying. But directors must exercise care to see that laws are not violated. If laws are violated with board knowledge, directors may bear a financial responsibility for losses arising out of illegal actions. Directors must be familiar with laws, rulings and regulations and have an internal control system to prevent violations.

The eighth duty is important, yet difficult to quantify. That duty is to ensure that the bank has a beneficial influence on its community's economy. One reason for approving bank charters is to meet a specific community need. Directors, therefore, have a continuing responsibility to the community to provide those banking services that will be conducive to well-balanced economic growth. Directors should be certain that they attempt to satisfy all legitimate credit needs of the community. This is especially true for legitimate new and developing business credit. Yet the desire to serve the economic needs of a community must still be balanced against risks involved in lending. So the soundness of national banks is the direct responsibility of their boards.

Our examiners have been instructed to analyze the extent of the discharge of that responsibility. Reports prepared for directors and board meeting minutes indicate the board's degree of interest and involvement. However, until an examiner attends a board meeting, a complete evaluation is extremely difficult. Such a meeting also serves to keep directors informed and provides them with an opportunity to discuss with an examiner situations germane to the bank or general banking community.

Beginning in January, 1976, the OCC adopted a policy that required an examiner to meet with directors of each bank at least once in each calendar year. Those meetings normally should be convened in conjunction with the examination of the bank and in all cases should be attended by the examiner-in-charge. The examiner may meet with the examining, executive or discount committee in lieu of the full board, if the regional administrator considers it appropriate, provided outside directors are represented on those committees. When an examiner is convinced that the bank does not have a significant shortcoming, he may conduct the meeting during the examination. Similarly, if the regular meeting is scheduled during the examination, the examiner may meet with the board at that time. Attendance by honorary directors is permitted so that they may participate in decisions and review the examination report. However, they do not have voting privileges. Any person or organization connected with the bank as attorney, auditor or holding company representative may attend the meeting on resolution passed by the board. However, the examiner may excuse such persons if deemed appropriate.

At such meetings, the examiner may discuss such things as: whether the bank's policies, practices and reporting systems are in compliance with those one would expect to find in a well-managed bank offering similar services and of similar size. The examiner also will discuss whether senior management and directors are receiving information needed to manage the affairs of the bank effectively. If no major deficiencies have been noted, the examiner will concentrate on obtaining the board's views on the bank's operation in the near future. The examiner will encourage inquiries and discussions

(Continued on page 65)

Examination Guide

WASHINGTON, D. C.—The ABA has published a "Guide to General Examinations for National Banks" to help bankers prepare for new bank-examination procedures recently implemented by the Comptroller's office.

The new guide is not intended to be a substitute for the Comptroller's "Handbook for National Bank Examiners," which is required reading for all senior bank officers. The ABA publication was designed to assist in the use of the Comptroller's handbook with emphasis on departmental checklists and advice in preparation for an examination. It also highlights changes in the examination process and tells where to find needed reference materials.

Copies are available for $15 to ABA members and $18.75 to nonmembers.

Vulnerability of Directors Made Apparent As FDIC Sues Boards of Defunct Banks

By ROSEMARY McKELVEY • Editor

"BANK DIRECTORS waking up to vulnerability" read a headline in a St. Louis newspaper. It appeared over an article about the launching by the FDIC of a series of lawsuits to hold directors of some defunct banks personally responsible for their closings.

Two of these suits were filed recently in the Mid-Continent area—against the boards of International City Bank, New Orleans, which was closed December 3, 1976, and Hamilton National, Chattanooga, Tenn., which was closed February 16, 1976.

These actions by the FDIC should bring home graphically to present and potential bank directors the awesome responsibility that must be assumed when one is elected to a bank board. As a director of a bank in Memphis put it when he learned about the FDIC's suit against the closed Chattanooga bank's directors: "It's going to scare the devil out of anyone who would serve on a bank board."

The director vulnerability referred to in the St. Louis newspaper headline is borne out in the FDIC lawsuits. For instance, the corporation is asking for a $13.7-million judgment against board members of the defunct International City Bank.

In its complaint—filed in August—against directors of the New Orleans bank, the FDIC points out that each director named in the suit "subscribed to the oath required by the statute, accepted his election to the said board of directors and entered upon the discharge of the duties as such director. In accepting his election as a director of the board, and qualifying and assuming to act as such, each of the aforesaid directors entered into a contract with the bank and with its stockholders to honestly, diligently and faithfully discharge his duties as such director, not only those duties required by the statutes of the state of Louisiana, but, also, the fiduciary duties common to all such directors with regard to policy, supervising and controlling the affairs of the bank."

However, as charged in the FDIC's complaint, during the entire period covered by the suit—July 1, 1973, to December 3, 1976—*"the aforesaid directors . . . failed to exercise reasonable care and due diligence in the management of the affairs of International City bank. . . ."* (Italics are the editors', not the FDIC's.)

The FDIC's complaint lists each defendant director in the suit and charges him with failing, neglecting and refusing to keep informed on the bank's affairs and operations, to supervise and control the bank's officers and wholly surrendering his responsibilities and duties to the various officers. The directors also are charged by the FDIC with failing, neglecting and refusing to inform themselves on the bank's condition as to loans, discounts and other transactions, neglecting and refusing to comply with Louisiana statutes that require them to examine the bank and failing and refusing to study or act on suggestions, comments and advice of bank supervisory personnel.

As a result, the FDIC claims, the directors' failure to discharge their normal fiduciary duties as reasonable and prudent men resulted in improvident and illegal loans being made by the bank. These loans, as charged by the FDIC, were inadequately secured and were extended to borrowers located outside the normal and prudent business territory of the bank. The FDIC complaint says that other inadequate loans were made based on incomplete information as to collateral and security; loans were made in which a bank officer was interested without complying with the safeguard provided by statutes, and loans made to affiliated firms and their principals were not screened adequately by the board.

ICB's directors, the FDIC suit alleges, failed to adopt and follow written loan policies, resulting in hazardous lending and lax collection practices; failed to adopt policies with respect to investments, resulting in a securities portfolio with significant market depreciation and an extended maturity distribution inappropriate to the bank's liquidity needs; failed to adopt policies in the operations area, thus contributing to the bank's operating at a deficit from 1974 to the time of its closing.

In addition, the FDIC charges, the directors failed to adopt appropriate personnel policies, resulting in a stock-purchase plan that subsequently proved to be in violation of securities laws and a poorly conceived plan that, when canceled, produced adverse publicity for the bank and that, ultimately, will result in a significant loan loss.

"Wilful and negligent" is the description given the defendant directors of the defunct Hamilton National of Chattanooga in an FDIC suit, which also was filed last August. The complaint in this case says that directors of that bank "wilfully and negligently failed to exercise that degree of care and diligence which ordinarily prudent men would have exercised under the same or similar circumstances in the conduct, direction, supervision and control of the business and affairs of Hamilton Bank and thereby failed, neglected and refused to perform their statutory, contractual and common-law duties as directors and officers."

Specifically, the suit alleges that as a direct result of the failure of Hamilton Bank's directors to live up to their responsibilities, the bank incurred substantial losses from purchases of certificates of participation in imprudent and insufficiently or improperly collateralized real estate loans, ultimately causing the bank to fail and to incur substantial direct and consequential losses.

The FDIC charges that the directors authorized and permitted the bank to engage in unsafe and unsound banking practices and failed to exercise due diligence in discovering that such unsafe and unsound practices were occurring. For instance, says the FDIC, participations were allowed from Hamilton Mortgage Corp. in numerous real estate loans described by the FDIC as not safe, sound or prudent investment risks, many of which violated various provisions of the National Bank and Federal Reserve acts. Because Hamilton Bank was committed to buy 99% of these loans from Hamilton Mortgage, in substance, says the FDIC, the bank was making the loans since it was taking almost the entire risk.

The FDIC claim lists many other violations of sound banking practices in dealings between Hamilton Bank and Hamilton Mortgage.

In addition, the FDIC claims that the bank's directors did not supervise its officers and relinquished general authority to one in particular, a defendant who served as CEO from January 1, 1973, to March 12, 1975. The corporation's brief says the bank's directors had no supervision over this CEO's activities, thereby permitting him "to circumvent the established loan policies and procedures of Hamilton Bank and to commit Hamilton Bank to the purchase of real estate participations from Hamilton Mortgage totaling millions of dollars without the prior knowledge or approval of the executive committee and/or board of directors of Hamilton Bank."

The FDIC's charges against Hamilton Bank's directors include:

Allowing overdrafts to Hamilton Mortgage as a normal business practice, without sufficient collateral and without proper controls being exercised on repayment methods.

Committing a disproportionate amount of the bank's assets to illiquid investments.

Failing and refusing to properly review and examine the Comptroller's examination reports, which would have disclosed the bank's continuing unsafe and unsound financial practices, and failing to take action to correct improper loan practices revealed in these reports.

Purchasing and/or continuing to fund participations in violation of an agreement dated December 18, 1974, between the bank and its directors and the Comptroller.

Taking the CEO's word that loans the bank was participating in were sound and in accordance with prudent banking practices even after the directors were aware, or, says the FDIC complaint, with due diligence should have been aware, that these loans had been made in violation of safe and sound lending practices and in violation of the bank's established loan policy. • •

Exposure to Lawsuits Hard to Avoid, State Attorney General Tells Directors

DIRECTORS sit at the controls of gigantic engines of economic power and misuse of the controls can bring the engine into collision with customers, competitors, employees, the public and government, said Robert F. Stephens, Kentucky attorney general, at a recent bank directors' conference sponsored by the Kentucky Bankers Association.

Such a collision, he said, can inflict enormous damage on the engine, which, although run by directors, is the property of stockholders, all of whom have rights that they may choose to vindicate in court.

"In short, the managers of a company can hardly avoid exposing themselves to litigation and to liability which is measured, not in terms of the personal fortunes of the individual managers, but according to the vastly larger scale of the corporation's operations," he said.

Bank directors represent the corporate body of the bank and the directors are the executive representatives of the corporation, Mr. Stephens said in his talk, which was titled "The Director's Role."

"The peculiar relationship they bear to the corporation and the owners of its stock grows out of the inability of the corporation to act except through such managing officers," he said.

Directors are not ordinary agents in the immediate control of stockholders, he continued. Rather, the powers of the directors are, in an important sense, original and undelegated.

Stockholders do not confer, nor can they revoke, those powers or create a sterilized board, he said. Directors hold their office charged with the duty to act for the corporation according to their best judgment and, in so doing, they can't be controlled in the reasonable exercise and performance of that duty.

"The stockholders do not have the general management and control of the affairs of the bank," he said. "They are deemed to have consented to the management and control of the corporate business by the board of directors."

He said directors have plenary authority to transact all the ordinary business of a bank within the scope of its charter powers. What the *directors* do within the scope and purposes of the bank, the *bank* does.

"Within the chartered authority you have the fullest power to regulate the concerns of the corporation according to your best judgment," he said.

In a broader legal sense, he continued, the directors of a corporation are its agents. While they may not be—in a strict sense—"trustees," it's well established that they occupy a fiduciary or—more exactly—quasi-fiduciary relationship to the bank and its stockholders. The entire management of corporate affairs is committed to the directors' charge, with the trust and confidence that those affairs will be cared for and managed within the limits of the powers conferred by law on the bank and for the common benefit of the stockholders.

"Directors are required to act in the utmost good faith and, in accepting the office, they impliedly undertake to give the enterprise the benefit of their care and best judgment and the exercise of the powers conferred, solely in the interest of the corporation or the stockholders as a body or corporate entity, and not for their own personal interests," he said.

A person with such a high degree of public trust must have a standard of conduct imposed on him by which society will judge his performance, Mr. Stephens said. These standards are the duty of loyalty and the duty of care.

"The duty of loyalty requires that you avoid conflicts of interest, that you be fair in your dealings with the corporation and that you respect the confidentiality of the nature of your relationship with the bank," he said.

The duty of care requires that directors generally supervise the operation of the bank to always be certain that its activities are in its best interest. It further includes a requirement that directors give their attention to matters affecting the well being of the bank and that they exercise caution when relying on information provided by others and when they delegate any portion of the public trust, he said.

He said the best statement about the duty of directors is that prepared by the American Bar Association: "The director shall perform his duties as a director, including his duties as a member of any committee of the board upon which he may serve, in good faith, in a manner he reasonably believes to be in the best interests of the corporation, and with such care as an ordinarily prudent person in a like position would use under similar circumstances."

Mr. Stephens also called attention to the duty directors have to be responsible for keeping their bank within the requirements of all statutory law.

In that regard, he predicted continued intrusion into the private affairs of


Rich

banks by the Securities & Exchange Commission (SEC).

"The issuance of securities by banks has long been exempt from the registration provisions of federal and state securities acts," he said, "and, while not statutorily immune, banks have not generally been the subject of the so-called anti-fraud suits brought under federal and state securities acts.

"However, the trend is definitely toward more supervision by the SEC and as that happens, directors will have to examine more closely the types of documents, types of advertising and types of representation they make to the public with regard to the services they offer."

He said that if a bank is planning to raise new capital by issuing additional stock, it would not have to register that stock with any federal or state agency. However, should a purchaser of that stock at some time find or claim to find that he was not fully informed about the condition of the bank at the time of purchase, he might have a cause of action and that cause might reach to the directors.

"You could be personally liable to any purchaser who could prove that material facts were omitted in the offer of the bank's securities," he said.

He said there is a possibility that a liberal judiciary might extend the operation of the federal securities acts to the issuance of CDs.

"As a word of warning," he said, "I would advise you to be keenly aware of forthcoming changes in the area of federal and state securities laws and when you see something of this nature in the banking or business press, take it up with the bank's counsel." • •

New York State Education Dept. Establishes Stonier Credit Guides

WASHINGTON—Five courses at the Stonier Graduate School of Banking may be eligible for college credit following a decision by the New York State Education Department.

The decision marks the first time in the history of the 42-year-old Stonier program that such credit recommendations have been granted by a state board of education. Since other colleges and universities often accept New York state guidelines, the decision could have national importance for Stonier students.

The entire three-year Stonier program must be completed in order for a graduate to receive consideration for credit. For evaluation purposes, topics taken throughout the three-year program were grouped together into five courses: basic macroeconomics, business policy, commercial banking, management of commercial banks and the thesis or assigned research project. The first four may be applied to either an undergraduate or a graduate degree program. The fifth qualifies only at the graduate level.

The education department's Office on Non-Collegiate-Sponsored Instruction will include the course descriptions, with the recommended credit evaluation, in its next edition of "A Guide to Educational Programs in Non-Collegiate Organizations."

Final decision for granting credit lies with each individual institution. A college may choose not to grant credit, but it might waive a prerequisite or a required course to give advanced college placement instead.

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ABA Plans Fraud Control System To Remedy BBB Insurance Situation

Arkansas will be first state to participate

AN OUTSIDE examination and internal control reporting system to help banks detect internal fraud and thereby aid in retention of bond coverage from underwriters is set to begin this month in Arkansas.

Announcement of the plan was made at the ABA convention last month in Houston. The ABA is cooperating with the Arkansas Bankers Association in getting the program started. Other states are expected to enter the program shortly.

The program, which is voluntary, is known as the Controlled Group Bonding Plan. Its purpose is to demonstrate to the insurance industry that banks are willing to solve their BBB coverage problems, particularly in the area of embezzlement by senior officers.

Embezzlement is the number one contributor to BBB losses, insurers claim. The result of increasing frauds has been the withdrawal of insurers from the BBB field. Only about one-third of the underwriters offering BBB 10-15 years ago are actively soliciting such business today.

According to William G. Kirchner, chairman of the ABA's audit committee task force that developed the control system, the system is a reflection of banking's willingness to take the initiative to save the blanket bond market from collapse. Mr. Kirchner, who is a member of the ABA's governing council, is chairman, Richfield (Minn.) Bank.

The plan calls for directors of interested banks to agree to a "memorandum of understanding" to comply with internal control procedures and provide for periodic external examinations that are similar to a directors' exam but designed specifically to pinpoint potential embezzlement losses.

Standards and criteria for the examination were developed jointly by the ABA audit task force, insurers and regulators.

Participating banks in Arkansas will be provided with lists of ABA-approved examining firms from which they will select examiners. From that point, banks will contract directly with examiners, said Edgar W. Armstrong Jr., director of the ABA's insurance and protection division.

"If, in the examiner's opinion, the bank's in-house controls are inadequate, his report will contain specific recommendations for corrective action," Mr. Armstrong said.

He added that the review program and internal control reporting systems can be an addition or an adjunct to other audits, examinations or control programs.

Once a bank agrees to the memorandum-of-understanding examination, results will be forwarded to the insurance agent or broker designated by the bank.

The ABA will provide a broker if the bank wishes, Mr. Armstrong said. He added that the agent or broker will forward all pertinent documents to any participating insurers it represents.

Insurers then decide whether and at what premium they wish to underwrite the bank's bond. They use their own rating schedules and bond forms and make their proposals directly to the bank, agent or broker, Mr. Armstrong said.

"It's expected that the examining firm's fee to the bank will be substantially offset by reduced premium costs arising from insurer confidence in the operational controls and external examinations" as evidenced by an improved loss experience, Mr. Armstrong said.

It's expected, he added, that some insurers will insist that banks participate in the program in order to qualify for BBB coverage.

At the time of the ABA convention, 10 BBB insurers had agreed to participate in the program.

According to Mr. Armstrong, the plan contemplates only one radically new idea—bankers' taking the initiative in a cooperative effort with insurers to strengthen the bond market and keep prices at a reasonable level.

He said that the plan is an alternative to the concept of the ABA establishing its own captive insurance firm. The captive route was not taken, Mr. Armstrong said, because it was felt the ABA couldn't do much better than existing insurers. Such a firm would be impractical because well-run banks would end up "financing the losses of loosely run" institutions. • •

Insurers Explain BBB and D&O Insurance Situation

WHAT IS the situation as far as bankers blanket bond (BBB) and directors and officers (D&O) liability coverages are concerned? Is BBB hard to obtain? Will D&O liability premiums go up? Several insurance-industry representatives have given MID-CONTINENT BANKER their opinions.

Bankers Blanket Bond. "Although there are not as many companies writing bankers blanket bonds today as there were several years ago," says Robert W. Marshman, vice president/marketing, Scarborough & Co., Chicago, "I do not believe there's a really severe problem of bankers obtaining bankers blanket bond coverage.

"We at Scarborough & Co. are actively soliciting bankers for their blanket bonds as well as other coverages.

"If a bank maintains sound internal controls, adequate audits, a viable loan policy, and top management has the proper attitude on the need for these controls, there should not be a serious problem in obtaining bond coverage. Undoubtedly, some banks are unable to obtain BBB coverage, but such banks almost always are either in deep financial trouble or have refused to correct glaring vulnerabilities, or both.

"The cost of this insurance certainly has risen, but monetary inflation as

"The problem of bankers obtaining BBB coverage is no greater than the decision of management . . . facing up to the fact that insurance companies no longer are content to look on a bank's insurance business as a 'loss leader.' "

well as severe loss experience also has played a material part in this increase. Again, a real concern by top management to develop procedures and controls that will reduce or eliminate losses eventually will produce acceptable loss ratios for the industry, thereby reducing the need for rate increases, except by growth of the bank and/or inflation."

William Chris Eickhof Jr., president, Financial Insurance Service, Inc., Schaumburg, Ill., says: "The problem of bankers obtaining blanket-bond coverage is no greater than the decision of management or the board of directors facing up to the fact that insurance companies no longer are content to look on a bank's insurance business as a 'loss leader.' For years, insurance companies and regulatory authorities have been advocating sound management and certified auditing practices.

"These past few years, extremely adverse loss experience has driven insurance companies to the point of looking at facts and 'getting their backs up' and insisting that the banking fraternity conform to underwriting recommendations, which now have become underwriting requirements, before a blanket-bond application is considered.

"Admittedly, some insurance companies have withdrawn from the market, and others have moved to limiting programs to one-year premiums, compared with the previous three-year-premium standard—formerly a premium saving of about 12%. Of course, this keeps an insurance company from being 'tied down' for three years, and the annual rating gives it the advantage of a premium commensurate with growth factors and more consistent with exposures.

"It isn't a matter of a banker being backed into a corner and forced to accept ridiculous deductibles and any exorbitant premium. There still are expert agencies that can do the necessary field underwriting and pre-qualification of an account to satisfy insurance company underwriters. It's not a case of 'shopping' your bankers blanket bond, but rather a matter of qualifying your operations on a sophisticated basis with people experienced in banking and insurance. In addition, the expansion of coverage to include EFT exposure, trading-loss coverage and extortion coverage has resulted in increased charges when purchased.

"There have not been 'rapid rate increases' in the bankers blanket bond rating. In fact, insurance companies have been slow in seeking and getting rate adjustments to which they have been entitled by reason of substantial additional exposures and liberal interpretations of policies given by the judicial system. Most bankers always have been aware of the loss-experience rating that has existed in the bankers blanket bond rating formula. They are aware that premiums could swing 300% because of severe bank losses.

"To illustrate, the rating historically has been subject to as much as 50% experience credit based on relatively loss-free experience—up to 50% experience debit with adverse loss experience. That is, if the rating-manual premium is \$100, the experience-rated premium could swing from \$50 to \$150 (I'm not being naive in using these single figures, but chose them to illustrate the point. Add additional zero digits to compare with your own premium scale)."

D&O Liability Coverage. Scarborough's Warren Geary, vice president/special risks, in discussing the rate-increase problem of D&O liability coverage, points out that several companies in that market boosted the rate because they recognized they had underpriced the coverage in an attempt to buy their way into the D&O market several years back. He believes there's also a strong possibility the increases have been prompted by reinsurers.

"The directors and officers liability reinsurance market for small bank programs is quite limited," Mr. Geary continues. "This market is only beginning to develop loss experience because of the long time required for the claim-maturing process. It's typical that the first several years' experience will be good with a new market, but after six or seven years, some of the early claims ripen. Most small D&O markets have been in business less than 10 years.

"This still is a relatively young coverage," he says, "and the current market is reacting in the customary way in that developing loss experience produces higher premiums."

According to George Lang, operational vice president, Financial Insurance Service, D&O liability coverage has received a lot of attention from commercial banks during the past decade. Although this form of insurance had been available for many years, he believes that banks, apparently, didn't think the exposure warranted the expense. Ten years ago, he points out, the minimum three-year advance premium was around \$20,000, and only the largest banks could afford the protection or determined the exposure was one that should be insured.

"Historically," says Mr. Lang, "markets were limited for D&O liability insurance, but then a number of domestic insurers began to offer the coverage. Premiums became more reasonable, and many more banks bought the protection. At one point, the minimum three-year advance premium was approximately \$2,500. Recently, the minimum premiums have increased to more realistic levels.

"Premiums for D&O liability coverage will continue to increase in the future. Defense costs as well as amounts awarded are increasing. In 1975, a reputable insurance reporting firm determined the average amount awarded was \$468,000, and an additional \$114,000 was paid out in defense costs. It does not appear that there will be any reduction in these average costs with the continuing benevolence of our jury system.

"Additional legislation and regulations imposed on banks help increase the possibility of a 'wrongful act.' As precedents are established imposing additional liability on the part of directors and officers, there will be further limitations in coverage.

"Perhaps D&O liability insurance will follow a volatile course similar to bankers blanket bond." • •

Financial Aid:

Loan-Guarantee Program Benefits Nation's Students

Students of medicine, dentistry and osteopathy who are in financial need are the target of a privately funded loan-guarantee program in which First American National, Nashville, is taking part. The program made up to \$3.7 million in loans available during the first half of the 1977-78 school year.

All 186 schools of medicine, dentistry and osteopathy throughout the U. S. are cooperating in the program, and a portion of the loan allocation was available to students of Nashville's Meharry Medical College and the Vanderbilt University School of Medicine.

The program is a cooperative effort of the Robert Wood Johnson Foundation, United Student Aid Funds, Inc., professional schools and participating lending institutions.

FBI Gives Tips on:

How to Prepare For Bank Robberies, Hostage/Extortions

By ROSEMARY McKELVEY
Editor

BANK ROBBERY is one of the most serious crimes within the jurisdiction of the Federal Bureau of Investigation because of the potential for violence. So says Harlan C. Phillips, special agent in charge of the St. Louis FBI office.

The violence factor can be seen by these 1976 statistics: 183 injuries, 32 deaths and 83 persons held hostage as a result of the bank robbery statute violations.

Fiscal year 1976 saw a total of 4,511 violations of the Federal Bank Robbery and Incidental Crimes Statute. These violations consisted of robberies, burglaries and larcenies of federally insured and regulated financial institutions, which include banks, federal S&Ls and federally and state-chartered credit unions.

Although, Mr. Phillips points out, the 1976 total represents an approximate 10% decrease from the previous fiscal year, the 3,814 robberies, 350 burglaries and 347 larcenies still are the second highest number of violations reported since enactment of the statute. Loot obtained in these crimes exceeded $27.2 million!

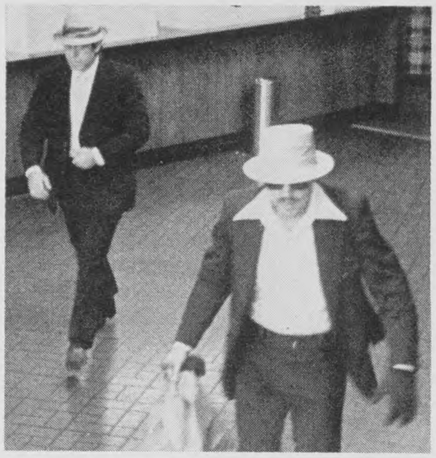
On a brighter note, convictions reached an all-time high of 2,866, and fines totaled more than $133,000 during fiscal year 1976. Mr. Phillips says there were more convictions in the bank robbery classification than in any other single classification of the FBI's investigative work.

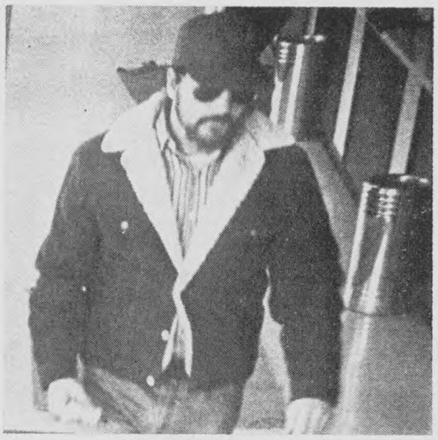
Mr. Phillips emphasizes there is no typical bank robber. He—or she—could be an elderly man, a teenager, a blind beggar or a one-legged bandit. In a northwestern city, bank employees described their assailant as "a little old lady in tennis shoes."

Because banks cannot be made robbery proof, Mr. Phillips has some tips for bankers that should help them before, during and after a robbery:

Install good, dependable cameras at various locations in the bank lobby. Have a clock and a calendar in view of the camera to record date and time if a robbery occurs.

Even if a person just acts suspicious, instruct your tellers to activate cameras. (According to the FBI, some bank robberies have been solved because tellers took pictures of such persons).





Three "stars" of robberies of St. Louis-area financial institutions are shown in action here. Photos were taken by surveillance cameras. Two men in top photo are making getaway from federally chartered S&L, while man in bottom photo is leaving commercial bank.

Be sure lobby personnel have prepared, up-to-date packages of "bait" money, which should include:

1. Denominations of bills.
2. Series years.
3. Serial numbers.
4. Types of notes, including—and this is important—names of the Federal Reserve districts that issued the bills. Mr. Phillips points out that bills from different Fed districts could have the same numbers. Therefore, listing the Fed districts will help convict the robber or robbers. Otherwise, a good defense lawyer could say that since the victimized bank had not listed the Fed district, the bills found in his client's possession could have been obtained anywhere.

Have bait money separate from other money at each teller's window.

Have each teller sign and date his or her package.

Instruct bank employees to comply with all demands of the robber since the safety of individuals is more important than monetary loss.

Encourage the teller to stay calm and to look at the robber closest to him or her and try to form a physical de-

Violations of Bank Robbery Statute, Hobbs Act and Bank Fraud and Embezzlement (BF&E) in 1976 in Mid-Continent States

State	Robberies	Burglaries	Larcenies	Hobbs Act	BF&E
Alabama	17	0	3	1	75
Arkansas	7	0	1	1	32
Illinois	28	6	10	1	252
Indiana	30	2	6	2	62
Kansas	3	0	5	0	56
Kentucky	22	7	1	3	45
Louisiana	29	4	2	2	83
Mississippi	13	7	6	4	32
Missouri	28	4	3	4	134
New Mexico	5	0	1	0	19
Oklahoma	6	2	3	3	121
Tennessee	32	1	9	1	106
Texas	49	13	10	13	371
Sub-Total	269	46	60	35	1388
Other States	1710	168	155	66	3339
Grand Total	1979	214	215	101	4727

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scription to give later to the authorities. Look for identifying marks. Listen to the robber's voice if he speaks. Does he have an accent? If so, what kind? Does he call his confederate by name?

Watch the robber as he makes his escape. Try to measure his height by noting how high up on a door frame he seems to be. If he gets in a car, note its make, year, color. Jot down the license number if possible (although, of course, many cars used in robberies are stolen). Note whether someone else was driving, whether there were any other persons in the car and the direction the car went. If possible, note the type of gun carried by the robber if one is visible.

Protect the crime scene by placing chairs or rope around it.

Tell the police where the robber placed his hands, including doors he may have touched while entering or leaving, so that everything can be dusted for fingerprints.

Have the teller involved write down what he or she saw and heard.

Don't let employees compare notes before law enforcement authorities talk with them.

Don't allow newspaper or TV interviews with the personnel involved until police and/or the FBI talk with them.

Never give out a teller's name and address to newspapers or TV. He or she will be an important witness when the robber is caught, and there's always the fear of reprisal by the robber.

Hostage/Extortion. Crimes against persons involving kidnapping, taking of hostages and extortion demands continue to be prevalent in our society, says Mr. Phillips, and the threat of violence associated with these crimes appears to be increasing. It's obvious, he continues, that kidnapping and other hostage-type criminal acts are among the most heinous encountered by any law enforcement agency. They are among the most difficult to handle. The victim's safety must be the primary concern, according to Mr. Phillips. In keeping with this goal, the FBI's policy in these matters is to spare no effort or expense where the victim's welfare is involved.

First of all, of course, bankers should try to avoid becoming the target of a hostage/extortion attempt. The FBI has two sets of suggestions on how to foil such attempts.

Protecting the Banker's Home.

A. Install sonar motion detectors or burglar and fire alarms on doors and windows.

B. Install an extra key lock on outside doors.

C. Equip each door containing glass with a deadlock.

D. Install viewers in solid outside doors.

E. Put chain locks on outside doors (locking bars on glass patio doors).

F. Instruct deliverymen to leave items outside the door.

G. Teach your children not to admit strangers to your home.

H. Keep all doors locked, especially at night.

I. Install anti-tamper devices on all family cars.

J. Ask the telephone operator to verify when a "repairman" comes for telephone repairs or to make a line check.

Protecting the Bank.

A. On a distinctively colored card, list the numbers of affected police agencies and the following information about each bank officer:

1. All persons residing in the immediate household.

2. Residence address and phone number.

3. Color, year, make and license number of all motor vehicles owned by the family. Indicate the one generally used to go to and from the bank.

4. Names, addresses and phone numbers of neighbors who will assist you in a hostage/extortion situation. These neighbors can check a banker's home to verify the situation. Place a copy of this card under each bank officer's phone. On receipt of a hostage/extortion call, circle the name of the person(s) being held hostage; then wave the card as a signal to other employees, and consult the card for correct steps to take.

B. Prepare a package or satchel of money specifically for an extortionist. Include bait money and photocopy the bills.

C. Vary your daily routine:

1. Don't arrive at the bank at the same time every day.

2. Don't park in the same spot every day.

3. Don't unlock the safe at the same time every day.

D. Report suspicious persons, autos and situations promptly to the police.

When a hostage/extortion situation does develop, the FBI says to:

A. Signal other employees with the information card.

B. Call the police on another line (local police if in a metropolitan area; state highway patrol headquarters if in a rural area).

C. Delay the caller as long as possible by asking questions such as:

1. Who is calling?

2. Is this a prank?

3. How do I know it isn't?

4. May I talk to my wife so I can be sure?

5. What do you want? We don't have that much cash!

6. How do you want the money?

7. How should I package it?

8. Where should it be delivered?

9. How will I recognize the person I'm supposed to give it to?

10. Exactly where and when should the money be delivered?

11. How will I know my wife is all right?

D. To be sure the extortion comes

Kidnap/Extortion Tip

A Kansas banker who was the subject of a recent extortion attempt suggests that bankers affix cassette recorders to their telephones, then record voices of any extortionists. So reports the Kansas Bankers Association. The banker says law enforcement officials told him this practice would be invaluable as a means of apprehending the extortionist.

The banker also recommends frequent review with bank staffs of Bank Protection Manual sections covering extortion/kidnapping. His bank benefited from having reviewed these procedures several days before the extortion attempt.

under federal jurisdiction, use bank money approved by bank officials. When the caller demands money, reply, "I don't have that much," thus, hopefully, leading the caller to say, "Get the bank's money."

E. After the caller hangs up, write down:

1. Time and exact words of the threat.

2. Caller's gender.

3. Any background noises overheard or any other pertinent information. Seemingly unimportant details may be important.

F. Verify the validity of the threat by trying to locate the alleged hostage.

1. If the person isn't a hostage, delay delivering the money until the police can cover the drop site.

2. If the person cannot be reached, begin preparations for delivery. Put bait money in the package.

G. Notify at least one other bank official of the extortion threat and your intentions regarding it.

H. Do not release the following information to the press:

1. Names, addresses, photos of bank employees or families.

2. Amount of money involved.

3. That bait money was used.

I. Above all, remain as calm as possible. The extortionist's principal aim is to make you panic so you won't think clearly.

It decidedly is not pleasant to have to plan for bank robberies and extortion/hostage situations, but it is necessary. No bank is immune. However, if proper preparations have been made and they lead to quick arrests of the perpetrators, perhaps anyone planning such actions will have second thoughts, and then these kinds of felonies at least can be reduced. • •

Insurance/Protection Handbook Available From Scarborough

CHICAGO—An updated "Insurance and Protection Handbook" now is available from Scarborough & Co. The 20-page handbook provides a description of the firm's services, rules for buying financial institution insurance and highlights of policies provided through the company.

A loss-protection index has been added to help financial institutions establish insurance programs. The index lists many causes of losses, cites insurance coverages designed to cover them and suggests operational safeguards to reduce risks.

For free copies, write: Robert W. Marshman, vice president-marketing, Scarborough & Co., 222 North Dearborn Street, Chicago, IL 60601.

Travis Named Chairman Of Credit Systems, Inc.

ST. LOUIS—William G. Travis has been elected chairman, Credit Systems, Inc., St. Louis-based operating center for Master Charge in Missouri, Kansas, Iowa, southern Illinois and western Kentucky. Mr. Travis is a vice president at First National here.


TRAVIS

He succeeds Fred A. Dunmire, executive vice president, Commercial National, Kansas City, Kan.

Mr. Travis, who is division head for retail banking operations at First National, joined the bank in 1968 as assistant vice president in the time finance department. That same year he was elected a vice president and department head. In 1973, he assumed his present post at the bank. Previous service was with investment firms in Omaha and St. Louis.

National Bankers Face Compliance Problems Over Comptroller's Credit Life Regulation

Some state statutes bar banks from retaining proceeds

by JIM FABIAN
Associate Editor

MANAGEMENTS of national banks in some states will be forced to walk tightropes as they attempt to comply with existing state insurance statutes as well as the Comptroller of the Currency's new regulation prohibiting individuals affiliated with national banks from pocketing credit life proceeds.

Many national bankers in Illinois will have to refrain from selling credit life if they want to satisfy both the state and the Comptroller, said Donald M. Wulf, assistant deputy director of the department of insurance, in Springfield. Illinois statutes provide that no state or national bank located in a community of 5,000 persons or more can be issued a license to act as an insurance broker. Also, all insurance commissions must be paid to properly licensed persons—meaning insurance agents, not banks.

The situation in Louisiana is similar to that in Illinois, according to Kenneth E. Pickering, commissioner of financial institutions. Under Louisiana's insurance laws, a bank can't be an insurance agency nor can an insurance agent share any part of his commission with anyone other than an agent for an insurance company. Mr. Pickering would like to see this law changed so banks could receive credit life proceeds, but his department is not making any recommendations to the legislature at this time, he said.

Compliance in Indiana and New Mexico presents no problem. James E. Faris, director of the department of financial institutions in Indiana, said that the last legislature passed a bill providing that banks may accept insurance commissions. The department of insurance in New Mexico has ruled that individuals can't profit from credit life sales. The ruling, according to Kenneth C. Moore, superintendent of insurance, was inspired by the Comptroller's regulation and the federal court ruling in Texas that supports the regulation.

Kentucky permits banks to receive credit life proceeds provided the banks are licensed and all officers making loans where credit life is concerned are also licensed.

There's no problem in Kansas, Alabama, Missouri or Tennessee, since state statutes do not conflict with the Comptroller's regulation, according to banking commissioners in those states.

Few state banking commissioners are planning to attempt to alter state statutes to enable national banks to accept credit life proceeds, as was stipulated in the Comptroller's original draft, issued more than a year ago. The draft specified that proceeds must be collected by the bank and used for the benefit of all stockholders. However, the amended regulation, which takes effect January 1, states only that personnel of national banks can't pocket credit life proceeds.

Under the section of the regulation titled "methods of selling credit life insurance," seven methods are outlined to give bankers leeway when confronted with constricting state statutes.

The methods include the following:

- A bank can act as agent for the sale of credit life and receive income in the form of commissions.
- An employee, officer, director or principal shareholder can be licensed as an insurance agent for the sale of credit life, but he can't pocket the proceeds. The proceeds can be given to an affiliate of the bank, a bank HC or to a stockholder trust.
- A bank can arrange for a group credit life policy and receive the income.
- A bank can contract with an employee, officer, director or principal shareholder to receive credit life income provided that the individual is obligated to turn over the income to the bank.
- A bank can accept reimbursement from an insurance company for services rendered by the bank in selling credit life, maintaining an account to receive premiums, disbursing premiums to the underwriter and periodically issuing a statement of account.
- A bank can provide credit life to borrowers at its own expense.
- A bank can refund all commissions received from the underwriter to its loan customers who purchase credit life.

The Comptroller's office calls the preceding list a "nonexclusive list of methods by which credit life insurance can be sold or otherwise made available by a bank to loan customers." A national bank can use any of these methods, but may not offer credit life in a way that confers personal benefit to an employee, officer, director or individual stockholder owning more than 5% of the bank's shares.

The regulation then states that, if all of the above methods are illegal under state statute, a bank may select another method, so long as it doesn't benefit individuals.

Comptroller John G. Heimann said the regulation provides some benefits for consumers. By prohibiting insiders from personally profiting on the sale of credit life, the regulation makes it less likely that a loan officer, eager to pocket the commission, will coerce a borrower into purchasing coverage he doesn't need. The regulation also permits a national bank to provide credit life coverage automatically to all borrowers without charge, as some credit

IBAA Hits Credit Life Reg

The Independent Bankers Association of America has filed a petition with the Comptroller of the Currency requesting reconsideration and modification of the credit life income regulation.

According to Gene Moore, IBAA secretary, the petition is based "on several critical legal and factual grounds, including substantive changes from the original proposal."

The IBAA also has petitioned for postponement of the January 1 effective date of the regulation to permit time for processing the petition.

The IBAA contends that there is no final judgment in the ruling supporting the regulation made by a federal judge in Texas, since the ruling is being appealed.

It's good to know you've got GLOBE LIFE behind you.

The difference in credit life programs is the insurance company. With Globe standing behind you, you've got a capital structure of over $60 million and over $3 billion of life insurance in force backing you.

Globe Life And Accident Insurance Company offers six credit life programs for bankers—

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unions now do.

In spite of these benefits, the Comptroller acknowledged that the new regulation doesn't solve the serious problem of excessive rates paid by borrowers in relation to the low amount of claims paid by insurers. Nor does the regulation furnish a solution for "reverse competition," whereby said the Comptroller, insurance companies compete with one another to return as much of the premium to the lender as possible, rather than offering coverage at the lowest possible cost to the borrower.

The Comptroller admits that the solution to these problems lies with the states, as provided in the McCarran-Ferguson Act. He said he would like to see Congress take action in this area.

The FDIC, which has been giving thought to the credit life situation, hasn't made plans to issue a regulation, according to Harriet Scholl, public relations director.

However, the agency does have a credit life policy, which was outlined recently by Quinton Thompson, regional director of the Dallas office.

The FDIC's policy regarding distribution of income from credit life states that, on an annual basis, a report should be made to shareholders and directors indicating income received and recipients of that income. Approval from both bodies is required, Mr. Thompson said.

Further, recipients are expected to compensate the bank for use of bank equipment and personnel used in the sale of credit life.

"We also require that the bonding companies be notified of the sale of credit life insurance on the bank's premises and assurances obtained that such activity does not jeopardize the coverage," he said. • •

Blindness Doesn't Prevent Employee Of Bank From Performing Many Tasks

AN EMPLOYEE of First National, Gibson City, Ill., handles microfilming, operates the switchboard, takes care of outgoing mail, types and fills in at a variety of tasks. So what? Well, the employee, Kathy Bielfeldt, was born blind!

Miss Bielfeldt has been with the bank 2½ years, and, according to President Wayne A. "Bud" O'Neal, continues to expand her responsibilities and her banking knowledge. When she started at First National, it took her only a short time to memorize her surroundings. She goes about her bank duties without a cane or handrails. Fellow employees don't even notice that she cannot see; they regard her simply as another staff member.

Miss Bielfeldt earned her bachelor's and master's degrees in French literature from Southern Illinois University, where she taught beginning French for two years as a graduate teaching assistant. She recently took a two-week trip through France. She has become a self-taught organist, playing largely by ear, and has written many poems. She rides a bike and horses, skis, ice skates and bowls.

Despite this extremely full life, Miss Bielfeldt—before she went to First of Gibson City—was refused interviews by several schools and prospective employers because she is "handicapped."

Mr. O'Neal, who hired the young woman, admits he has learned a great deal in the course of their association. He even took special courses at Chicago's Lighthouse for the Blind and bought a braille typewriter for Miss Bielfeldt. However, he adds, the bank makes no special concessions as far as her work load is concerned.

Kathy Bielfeldt, employee of First Nat'l, Gibson City, Ill., doesn't let fact she was born blind prevent her from having normal life and career. She is shown (l.) riding bicycle and (r.) at braille typewriter she uses at bank.

"As a matter of fact," he says, "*my* eyes were opened by Kathy, by her almost infinite capacity to learn. To all other potential employers, I'd like to say that visually handicapped people can be just as productive as anyone else. They're an untapped reservoir of talent that business can well use." • •

State Commissioners Favor Credit Life Regulation

Although several state banking commissioners state they don't intend to push for legislation enabling banks to accept credit life proceeds, they do have strong opinions favoring the practice.

Emery Fager, Kansas banking commissioner, said he would like to see banks, rather than individuals, get credit life income, but he knows that many small, rural banks simply couldn't get competent help to run the banks if the banks didn't offer the extra incentive of insurance commissions to augment meager salaries.

Mr. Fager also said he would not advise national banks in Kansas to switch to state charters simply to be able to continue giving credit life income to individuals.

D. M. Mitchell, superintendent of banks in Alabama, said that his department insists that the few state-chartered banks in the state that do not put credit life commissions directly into the bank's income must secure approval from stockholders before other disposition of commissions is made. In securing this approval, he said, the department insists that full disclosure of the previous years' transactions be made available to stockholders, including amounts and recipients of commissions.

W. Keith Sloan in the Arkansas state insurance department said that the practice of individuals pocketing credit life proceeds "has all sorts of potential both for abuse and for creation of unnecessary conflicts of interest."

Higher, More Responsible Use Of Bank Cards Cited in U.S.

WASHINGTON, D. C.—According to the American Bankers Association, Master Charge and Visa have indicated that more Americans are using their bank cards more often and more responsibly.

Second-quarter statistics show that 34.6 million Americans now have Visa cards, while 43.1 million have Master Charge cards. In the three-month period ending June 30, those card holders charged a total of nearly $6.5 billion in goods and services.

However, the average charge-card purchase was less than $30, an indication, the ABA says, that bank cards "are more likely being used to buy new shoes for the kids than to buy expensive luxury goods."

The ABA points out that card holders are using cards carefully because delinquencies—bills not paid within 30 days—have continued to decline from the previous quarter.

Discussing coal production in Williamsburg are Murphy Brock, Liberty Vice President; Hugh Steely, Chairman and President of Farmer's National; Jim McKenzie, Asst. Cashier Liberty Bank; "Andy" Frost, Owner of Woodbine Coal Company; and John Lawson, Vice President of Farmer's National.

Missouri's Economic Base Is Described as Sound, Business Leaders Are Told

Missouri has a sound economic base because of its diversified economy, Murray L. Weidenbaum said here October 12. Mr. Weidenbaum, director, Center for the Study of American Business, Washington University, St. Louis, was reporting on an analysis of the state's financial situation he prepared for First Union Bancorp., St. Louis-based multibank HC. He presented the report at a luncheon First Union gave in Kansas City for 40 area business leaders there. The luncheon followed a meeting of the HC's board.

According to Mr. Weidenbaum, there are several factors contributing to Missouri's sound economic situation:

- The state has a strong diversified economy with 20 industries, each employing more than 10,000 persons.
- The annual cost of living for the average family is lower in Missouri than the U. S. average.
- Twenty-three firms headquartered in the state are listed in *Fortune Magazine's* list of leading industrials.
- Thirty-five Missouri companies have annual sales of $35 billion and assets of $34 billion.
- As the only state with two Federal Reserve banks, Missouri is a key financial center with several major banks in the region.
- Of a work force of 2.2 million, 2,080,000 are employed and 112,400 unemployed.

In comparing the cost of living, Mr. Weidenbaum found that money goes further in Missouri. A study of the cost of living for families with intermediate budgets in 19 cities showed Kansas City and St. Louis well below the national average. The study revealed the average intermediate family budget was $16,236, with Kansas City's average $15,628 and St. Louis' average $15,623.

Where a high family budget was studied, the U. S. average was $23,759; Kansas City's was $22,968 and St. Louis' $22,437.

Mr. Weidenbaum has prepared an annual economic analysis for First Union for the past five years.

Missouri Bankers Association Announces Regional Officers

Officers of Regions Five through Eight of the Missouri Bankers Association were elected at regional meetings last month. Results of elections for Regions One through Four were reported in the October issue of MID-CONTINENT BANKER.

Region Five—Robert E. Finley, executive vice president, Colonial Bank, Des Peres, was named vice president and Merle M. Sanguinet, chairman and president, St. Louis County Bank, Clayton, was named secretary.

Region Six—Doyle Horne, executive vice president, Bank of Sikeston, was elected vice president and R. T. Reed, executive vice president and cashier, First Bank of East Prairie, was elected secretary.

Region Seven—Charles L. Spangler, president, Aurora Bank, was elected vice president and George R. Curry, president, Central Bank, Lebanon, was elected secretary.

Region Eight—Waldo F. Mottaz, president, State Bank, Hallsville, was elected vice president and H. Duncan Edmiston, president, Rolla State, was elected secretary.

■ ST. LOUIS UNION TRUST has promoted Ronald J. Ballinger to pension trust administrator, James H. Behrmann to investment research officer, Benjamin G. Pipkin to mineral officer, William D. Schneck to trust officer, Edward L. Armstrong to estate planning officer, Belle A. Cori to assistant counsel, David L. Kroon to investment officer and Hardy Ware Jr. to trust officer.

The Worth of a Good Security Staff Isn't Measured in Dollars and Cents

By J. JAMES ROWAN
Assistant Vice President
And Security Director
Valley National Bank
Phoenix

DURING THE PAST YEAR, the wife of one of my bank's vice presidents was kidnapped; a branch manager was held for eight hours by a gunman and his girl friend who barricaded themselves in the banking office, and another bank employee almost was seized as a hostage during a robbery, but she foiled the robber by pretending to faint.

These are problems facing any bank's security director *and* staff. But what are the ingredients that make up a good security director? He should be mature enough to handle the job and young enough to be on the job for at least 10 years. The security director should have a college degree, but preferably should be a law-school graduate or have a master's degree in economics, business administration or banking.

The individual may have other qualifications that would preclude the higher-education qualification: The security director should have experience in administration and management, preferably in personnel administration, recruiting and training of personnel.

The security director should be in good health and have prospects for continued good health.

What personal qualities should this person have? He should be educated, a motivator of people, have vision, understanding, be discerning, have an ability to devise and implement new procedures, be a teacher, be able to relate to people, be a communicator, a take-charge person, be inner directed, self disciplined, a leader and a worker.

Where can such a person be found? Internally. The banking industry has produced many fine administrators. Many of these persons have worked in law enforcement and, certainly, some of the ingredients I have mentioned also are part-and-parcel of many executives in banking and industry.

Law enforcement is another source. Many top bank security directors have come from federal and local law enforcement agencies. I recently attended a BAI conference with a bank security officer, and he told me that at least 75% of the security directors in attendance were former FBI agents. (In fact, I'm not sure whether he thought he was attending a BAI conference or a convention of former FBI agents!)

Potential bank security officers selected from among law enforcement officials should have administration and management experience and should have done work with banks in cases involving robbery, burglary, internal and external fraud and in communicating with people. Sources for such persons are the local FBI, Internal Revenue Service, police department, sheriff's and attorney general's offices.

"If possible, keep turnover to a minimum. The security staff should have sufficient education and should be available for travel to the banking system's geographical boundaries in order to handle problems."

Selection of a security staff should be the security director's responsibility. He should look within the bank for staff members: Operations officers make particularly good candidates, as do members of the auditor's staff. Again, age is a factor—I would consider personnel that are mature enough to handle the job and young enough to gain the necessary experience in a reasonable period of time.

If possible, keep turnover to a minimum. The security staff should have sufficient education and should be available for travel to the banking system's geographical boundaries in order to handle problems.

Will the security staff be available after banking hours? This is important; criminals don't always work from 8-5.

Can your security staff communicate? Does it have investigative potential? Do its members organize their work? Can they plan ahead? Are they eager and willing to learn? Can they relate to people? These are some of the things to consider when selecting a security staff.

A bank's security staff may be trained in several ways. The AIB offers courses such as "Questioned Documents," "Security for Bank Employees," "Commercial Law," "Principles of Bank Operations," "Public Speaking," etc.

A bank's security monitoring firm and installer can brief personnel on types of alarms available and their purposes. The bank's building management or properties department can assist in the education of the security staff by supplying information concerning architecture and construction of banks and bank facilities.

The Bank Protection Act of 1968 should be digested by *all* members of the bank staff, since that is the reason for the law's existence. The *Bank Standard Operations Manual* should be reviewed thoroughly by the staff.

The FBI and police provide training in robbery procedures to bank employees, and all employees should attend one or more of these programs. Local police departments and sheriff's offices have been most helpful to my bank in assisting in forgeries, less-cash transactions and other frauds against the bank that fall into their jurisdiction. Law enforcement officers often are able to brief a bank staff on investigative and prosecutory procedures.

Security departments of other area banks may prove helpful in briefing a bank about their systems and procedures. Participation with other bank security departments and the state bankers association's security committee provides an opportunity to share and learn preventive measures and security procedures.

Membership in the International Association of Credit Card Investigators (IACCI) is a must for one or more staff members of a financial institution's security department, and membership in the American Society for Industrial Security (ASIS) is a "plus" in developing overall knowledge of security devices, procedures and methods.

The staff must be educated and trained in specific bank policy. Just what is your branch alert system? A bank's people should know procedures and equipment in order to implement alert and warning systems.

A bank must have a plan, which should be spelled out so the institution's staff will be able to implement that

This article was adapted from a speech Mr. Rowan gave before the 31st western regional convention of the Bank Administration Institute.

INTRODUCING

Teller-Matic® Designer Series 8000

The most basic least expensive cash dispenser you can buy.

Or the most advanced ATM you can buy.

The new Teller-Matic Designer Series 8000 brings a revolutionary new concept to automated teller technology: modularity.

Now, you will be able to select from any of four configurations, from the basic cash dispensers to sophisticated, extended capability ATM's, each consisting of modular components. In effect you will design your own system by specifying modules* to suit your own individual requirements.

Choose single or dual denomination bill dispensing. Customer information displays, fixed or programmable. Card readers, SWIPE or read/write. Select the level of controller intelligence you require. Magnetic tape, floppy disc, and cassette input/output are available. And an alphanumeric receipt printer is now offered.

Four primary configurations of the Teller-Matic Designer Series 8000—lobby and wall cash dispensers, and lobby and wall ATM's—will be available for delivery in the second quarter of 1978. Additional modules and components, permitting a variety of other configurations and capabilities will be available during the 3rd and 4th quarters of the year.

The Teller-Matic Designer Series 8000. It's the most totally flexible system ever designed. By you.

For further information about the Teller-Matic Designer Series 8000, write Mosler, Department 117, 1561 Grand Blvd., Hamilton, Ohio 45012.

Mosler

An **American-Standard** Company

Hamilton, Ohio 45012

*Most modules in the Designer Series may also be retrofitted to the current Teller-Matic 6000 System.

plan swiftly and intelligently for advising local authorities and the FBI, checking out the whereabouts of, for instance, an alleged kidnap victim (to establish whether there has been a kidnapping), advising management, preparing a ransom package, selecting a person to deliver the ransom, making decisions with the FBI or investigating law enforcement agency. Each staff member must be trained to operate with maximum efficiency in such an emergency.

For instance, there is certain information that's absolutely critical in an extortion or kidnap situation:

- The name of the person who has been kidnapped or threatened.
- Whether the employee receiving the initial threat has attempted to contact the alleged hostage.
- The banking office involved.
- The banking office's and victim's telephone numbers.
- The residence address of the victim.
- The physical description of the victim.
- Description of any pertinent vehicle, including license number.
- Specifics concerning the demand —amount of money, denominations, location of drop, time of drop, etc.
- Any information about the caller —gender, accent, age, background noises, etc.

A security staff must be trained to be tactful with complaining customers and to cooperate with law enforcement officers, within the bank's security guidelines. A security staff must be trained in the maintenance of files and in dictation of reports and letters.

The security director and members of his staff must have available for their review and study a complete set of bank manuals and reference books such as the Uniform Commercial Code, Brady on bank checks and a current copy of the state revised statutes.

The security staff should be trained in servicing surveillance cameras, replacement of film cartridges, developing film and proper focusing of the cameras. This information can be obtained from whoever installs the cameras.

It's a good idea to brief the security staff on rules of evidence. This can be done through a working relationship with the FBI, local law enforcement agencies and bank legal counsel.

Regarding the maintenance of case files and administrative files, a system of review should be set up wherein the files are checked periodically to ensure that they are kept current and indexed properly. A weekly or semiweekly conference should be held with members of the entire bank staff to keep them updated on current developments in security measures, happenings in the bank, case developments and bank policy. These meetings offer the opportunity to detail procedures for given security situations.

Specific projects should be assigned to security staff members for research and presentation at these meetings for training of all personnel.

Regular contact should be maintained with police; this is required under the Bank Protection Act for selection, installation and monitoring of security devices in branches.

Selection of a security director and staff who will meet the qualifications for raw material that can be molded into a highly competent and skilled unit is of utmost importance. The training of the staff and its ability to absorb that training and put it into practice may mean the difference for the bank in an emergency situation. This could mean a reduction in miscellaneous losses and an increase in sleep at night.

The time of the bank robber and check passer continues, and now, with the terrorist on the scene, problems are compounded. But a well-selected and trained security staff will reduce losses and instill in a bank's staff a spirit of trust and confidence that cannot be measured in dollars and cents! • •

Three Banks in Oklahoma Acquired by Worthen

LITTLE ROCK—Worthen Bank has assumed control of three small Oklahoma banks, all previously owned by Bill Martin of Tulsa. The banks are Security National of Coweta, Bank of Inola and Bank of Commerce in Jenks.

Worthen acquired the banks because of financial difficulties not related to Mr. Martin's ownership of the banks, according to F. M. Williamson, vice president of Worthen. Mr. Martin "was unable to continue to meet his obligations in connection with certain loans made to him by Worthen Bank," Mr. Williamson said.

When Mr. Martin was unable to meet his obligations under the terms of the loan agreements, Worthen acquired the banks, which constituted the collateral. Mr. Williamson said the acquisition was accomplished with the knowledge and encouragement of the FDIC, the Oklahoma banking commissioner and the Regional Comptroller of the Currency. Worthen also acquired a magazine and a baseball team from Mr. Martin.

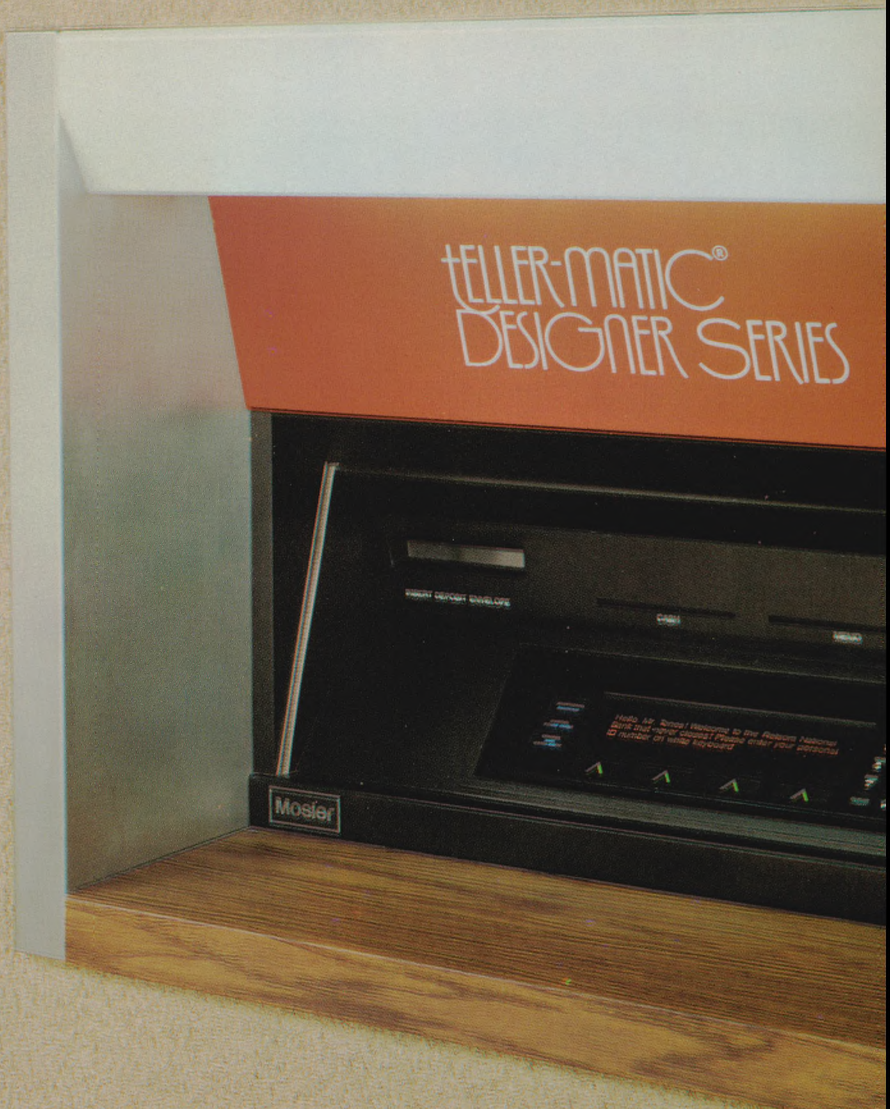
Mr. Williamson said no change in management or staff of the banks is contemplated.

INTRODUCING

Teller-Matic® Designer Series 8000

The most basic least expensive cash dispenser you can buy.

Or the most advanced ATM you can buy.



The new Teller-Matic Designer Series 8000 brings a revolutionary new concept to automated teller technology: modularity.

Now, you will be able to select from any of four configurations, from the basic cash dispensers to sophisticated, extended capability ATM's, each consisting of modular components. In effect you will design your own system by specifying modules* to suit your own individual requirements.

Choose single or dual denomination bill dispensing. Customer information displays, fixed or programmable. Card readers, SWIPE or read/write. Select the level of controller intelligence you require. Magnetic tape, floppy disc, and cassette input/output are available. And an alphanumeric receipt printer is now offered.

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Boatmen's 'Stock Yards' Acquisition Approved By Federal Regulators

NOVEMBER 14 will mark a milestone in the history of banking in St. Louis. On that date, the entire correspondent banking division of National Stock Yards National, National City, Ill., will be acquired by Boatmen's National, St. Louis. The acquisition, announced in May, has been approved by the Comptroller of the Currency.

At the time Donald N. Brandin, Boatmen's chairman and president, announced the Comptroller's authorization for the acquisition, he predicted that the experienced staff from Stock Yards "will supplement our present organization and greatly increase our capabilities to serve our present customers as well as Stock Yards customers.

"All members of the Boatmen's staff are looking forward to the merge of the two divisions," he said. "Quality and personal service have been hallmarks of the tradition at Stock Yards and Boatmen's."

The enlarged Boatmen's correspondent staff will include Ted Smothers, Ken Brown, Harold Smith, Bob Helfer, Phil Isbell, Phil Setterlund, Al Ackermann, Jim Montgomery, Charlie Eatherton, Ernie Hellmich, Bill Springer, Don Baldwin and Vic Granda, Mr. Brandin said and added, "There are few banks at which you can find the years of correspondent experience represented by this group. They have all worked in every phase of banking."

Both institutions have long and colorful histories. National Stock Yards National was established as a private bank in 1872 at the St. Louis National Stock Yards to accommodate the banking needs of businesses located in the yards.

In 1889, Stock Yards Bank was incorporated under state law. Capital was $50,000, and about $200,000 of deposits from the private bank were taken over.

President of Stock Yards was C. G. Knox. G. H. Bradford was cashier.

As the livestock industry expanded, the importance and usefulness of the bank grew. In 1892, capital was raised to $100,000, and deposits stood at $350,000.

In 1908, the bank was reorganized under the National Bank Act, again assuming the name National Stock Yards National. At that time, capital was $350,000, and deposits topped $2 million.

Major growth occurred as bank officers perceived the possibilities of offering bank services beyond the stock yards area. The bank grew until, at one time, it ranked as the largest in Illinois outside of Chicago. The growth resulted in constant subdivision into departments with an expanded official organization.

As Stock Yards became known as "the bankers' bank," names such as Okey Miller, Boots Wilson and Roy Lovell became known throughout the Midwest.

Mr. Brandin expects that the legacy of the "bankers' bank" will continue through the correspondent services offered by Boatmen's, which is known as

DONALD BRANDIN, chairman and president, Boatmen's Nat'l, St. Louis.

On the Cover

Acquisition of the entire correspondent bank department of National Stock Yards National Bank, National City, Ill. by Boatmen's National, St. Louis, marks a milestone in St. Louis-area banking history. Donald N. Brandin, chairman and president, Boatmen's National, poses before montage featuring original Stock Yards Bank building, constructed in 1872 (left), and Boatmen's Tower, home of Boatmen's National, opened in 1976.

JIM MONTGOMERY DON BALDWIN BILL SPRINGER

KEN BROWN BOB HELFER

TED SMOTHERS PHIL SETTERLUND ERNIE HELLMICH

"the oldest bank west of the Mississippi."

Boatmen's traces its origins to 1847, when a charter was granted to a group of trustees to establish the bank. St. Louis was becoming the "Gateway to the West" and the booming city was in need of additional banking institutions.

A portion of the preamble of the bank's charter stated, "Whereas, the boatmen and other industrious classes of the City of St. Louis need an institution in which they can safely deposit . . . their earnings, and experience has proved that savings institutions have been productive of great benefit to the laboring classes, inducing habits of economy and industry." The charter went on to incorporate Boatmen's as "Boatmen's Savings Institution."

Boatmen's proved its value to the community in the latter 1860s, when State Bank in St. Louis failed. Boatmen's took up the slack and prevented a local panic, according to J. Ray Cable, author of the history of Bank of the State of Missouri.

The work of organizing Boatmen's and securing a charter for it was done largely by George Knight Budd, a man reputed to be of substantial fortune and vision, who came to St. Louis from Philadelphia. Mr. Budd and his associates worked long and hard to gain state legislative approval of the bank. These men also became the bank's first depositors when its doors were opened on October 18, 1847, at number 16 Locust Street. By the end of the first month of operation, only $1,000 had been acquired in deposits, but by November 20, enough money was on hand to enable the bank to make its first investment—a $1,000 St. Louis city bond. There probably has been no time since that the bank has not owned St. Louis city bonds.

The bank's first move to a new location, which took place in 1849, was the result of a riverfront fire. On May 17 of that year, the steamer White Cloud caught fire and the flames spread to other riverboats tied up along the mile-long wharf. The fire quickly spread to the levee and the business buildings fronting the river. Twenty-three steamers and 430 buildings were consumed by the flames.

Although the bank's quarters were not badly damaged, the fact that the surrounding buildings had been leveled, combined with news of plans by the city to widen Main Street, forced Boatmen's to move to number 9 Chestnut Street.

As the city grew, so did Boatmen's. The bank was keeping a steady pace with the rapidly expanding "Gateway City."

A red-letter day in the progress of the bank came in November, 1855, when

HAROLD SMITH

AL ACKERMANN

PHIL ISBELL

the Missouri legislature granted the bank a new charter that permitted issuance of capital from $100,000 to $500,000, as the directors saw fit. When $100,000 of stock was offered on the morning of December 20, 1855, it was fully subscribed by noon.

Its Own Building

In 1857, Boatmen's moved into the first of the buildings constructed for its own use. The building, located at Second and Pine streets, was used by the bank for more than 34 years.

During this period, there were several occasions when financial panics resulted in runs on banks that forced many of them to close, but Boatmen's survived them all. The bank also managed to live through the trying days of the Civil War. Although St. Louis was cut off from the greater part of its trade area during the conflict and local business was stagnant, Boatmen's loaned large amounts of money to the Pacific Railroad of Missouri and other western railroads. The funds were used to finance extensive construction programs.

The bank's charter was due to expire in 1876, and early moves were made to gain a new one. The new charter was issued in September, 1873, for a 50-year period. The bank continued to grow under its new charter. By 1877, deposits stood at almost $4.5 million, and the percentage its capital funds bore to St. Louis' total had increased from 11 to 20.

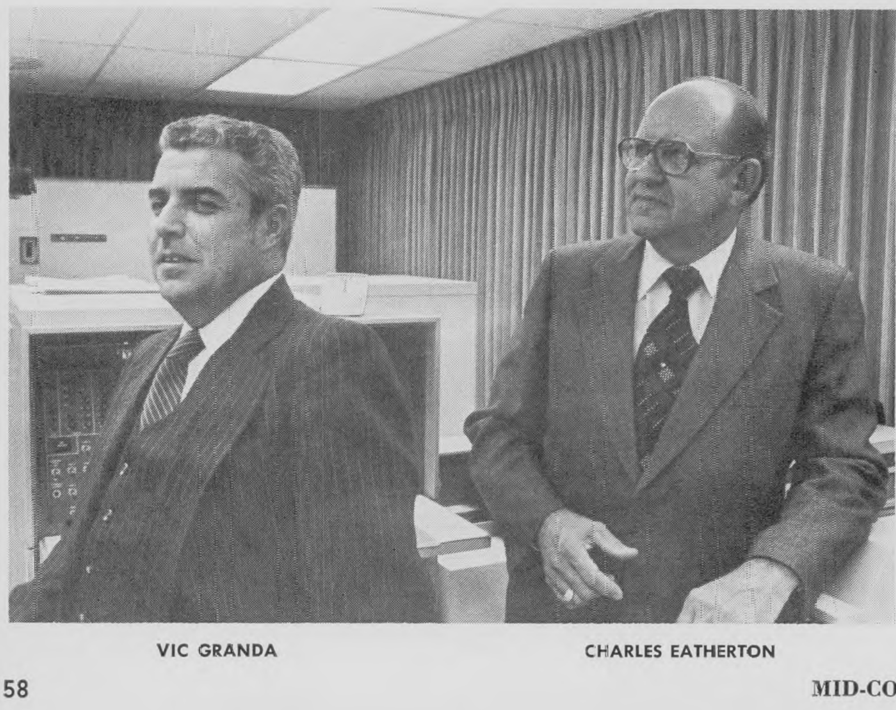
By 1880, the bank found its location at Second and Pine was no longer in the center of the business district, due to a gradual move of the downtown sector westward. Not satisfied to be left in the backwash of progress, the bank purchased a lot on the northwest corner of Fourth and Washington streets and erected a seven-story building that housed both the bank and the Missouri Athletic Club.

When Boatmen's celebrated its 50th anniversary in 1897, its new building was hailed as "the finest bank building in the U. S."

The bank's occupancy of the building was cut short on March 8, 1914, when a fire that started in the quarters of the Athletic Club leveled the building. Temporary quarters were found in the Pierce Building at Fourth and Pine, and business resumed the day after the fire, even though there were no records and currency had to be borrowed. Six weeks after the fire, the old vault was opened and the books and money were found to be intact, but waterlogged.

From 1914 to 1976, Boatmen's occupied a Broadway and Olive location —the longest period the bank has occupied any of its six homes to date.

Other milestones in the bank's history include the appearance of women tellers during World War I; the switch to a national charter in 1926, which resulted in the bank's present name; and creation of a trust division in 1926, which is ranked today as the 52nd largest such department in the U. S. At year-end 1976, according to a bank spokesman, assets under investment management exceeded $2 billion, a bet-



VIC GRANDA

CHARLES EATHERTON

NATIONAL DETROIT CORPORATION

Parent Company of
NATIONAL BANK OF DETROIT
September 30, 1977

CONSOLIDATED BALANCE SHEET (dollars in thousands)

ASSETS

Cash and Due from Banks (including Foreign Office Time Deposits of $903,294)		$2,055,441
Money Market Investments:		
Federal Funds Sold		972,550
Other Investments		96,018
		1,068,568
Trading Account Securities—At Lower of Cost or Market		6,649
Investment Securities—At Amortized Cost:		
U.S. Treasury		645,950
States and Political Subdivisions		754,494
Federal Agencies and Other		44,372
		1,444,816
Loans:		
Commercial		2,033,199
Real Estate Mortgage		781,068
Consumer		322,188
Foreign Office		411,596
		3,548,051
Less Reserve for Possible Loan Losses		52,403
		3,495,648
Bank Premises and Equipment (at cost less accumulated depreciation of $46,464)		65,666
Other Assets		162,950
Total Assets		$8,299,738

LIABILITIES AND SHAREHOLDERS' EQUITY

Deposits:		
Demand		$1,924,469
Certified and Other Official Checks		534,497
Individual Savings		1,476,426
Individual Time		859,266
Certificates of Deposits		451,936
Other Savings and Time		163,428
Foreign Office		1,152,328
		6,562,350
Other Liabilities:		
Short-Term Funds Borrowed	$960,814	
Capital Notes	95,299	
Sundry Liabilities	188,186	1,244,299
Total Liabilities		7,806,649
Shareholders' Equity:		
Preferred Stock—No Par Value	—	
No. of Shares		
Authorized 1,000,000		
Issued —		
Common Stock—Par Value $6.25	75,953	
No. of Shares		
Authorized 20,000,000		
Issued 12,152,465		
Capital Surplus	178,745	
Retained Earnings	240,705	
Less: Treasury Stock—102,646 Common Shares, at cost	(2,314)	493,089
Total Liabilities and Shareholders' Equity		$8,299,738

Assets carried at approximately $401,000,000 (including U.S. Treasury Securities carried at $18,000,000) were pledged at September 30, 1977, to secure public deposits (including deposits of $59,776,790 of the Treasurer, State of Michigan) and for other purposes required by law.

Outstanding standby letters of credit at September 30, 1977, totaled approximately $20,000,000.

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ABOVE: Original site of National Stock Yards Nat'l, National City, Ill. Photo was taken about 1872, year bank was founded. RIGHT: National Stock Yards Nat'l was organized to serve banking needs of firms associated with St. Louis Stock Yards. Circa 1955 photo shows bank officer chatting with buyer, complete with western boots and whip.

LEFT: Boatmen's began operations in 1847 in this building at 16 Locust Street on St. Louis riverfront.

ter than 100-fold increase over the $20 million under management 30 years previous.

Among the Boatmen's bankers who attained national recognition was Tom K. Smith. Mr. Smith was president of the bank from 1929 to 1947. He developed the national accounts banking group and helped enhance Boatmen's reputation among the country's leading business corporations.

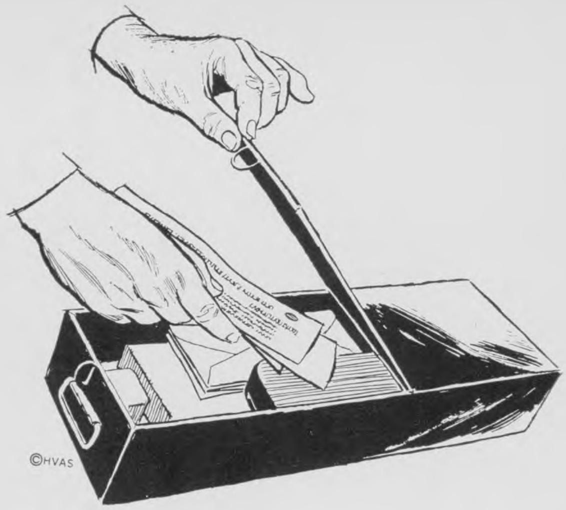
During World War II, Boatmen's offered its entire facilities to the U. S. government. Staff members served in all branches of the armed services and with the U. S. Treasury organizations that sold War bonds. At the direction of the Treasury, the bank opened and operated banking facilities at Fort Leonard Wood and Jefferson Barracks for the convenience of military personnel stationed at those posts.

Just a year ago, bank operations were moved from Broadway and Olive to the bank's 22-story aluminum-clad skyscraper located on the block bordered by Broadway, Pine, Fourth and Chestnut streets.

Speaking about the Stock Yards acquisition, Mr. Brandin said, "We are delighted about the approval of the acquisition and look forward to meeting our new customers, although most of them are old acquaintances." • •

Tragedy and triumph in history of Boatmen's. LEFT: Charred ruins of what was termed "finest bank building in U. S." when Boatmen's built structure at corner of Fourth and Washington in 1896. Fire occurred in 1914. RIGHT: Boatmen's Tower, 22-story aluminum-clad home of bank opened in October, 1976. At left, rear, is building occupied by bank from 1914-1976.

Safe Deposit Boxes: Are They Loss Leaders Or New-Business Tools?



TRADITIONALLY, safe deposit boxes are looked on in banks as loss leaders, yet as a service that has to be provided. Seldom does this service get a share of a bank's advertising budget. Most likely, it's promoted through statement stuffers and perhaps sporadic lobby displays.

However, this stepchild of bankers would become a lot more attractive in their eyes if they realized that box renters stay with their banks almost three times longer than other customers, that they maintain larger checking and savings accounts than other customers and that they use other financial services more frequently.

This information and more were obtained for Mosler, Hamilton, O., by National Family Opinion, a research house. This group conducted a nationwide survey of 2,000 households demographically and geographically distributed to provide a microcosm of the U. S. population as a whole and received what Mosler describes as an "astonishingly high" return of 72%—1,440 respondents. In addition, a variety of statistical tests and checks were performed to verify this distribution so that Mosler is satisfied that it has a bona fide sample.

The survey, says Mosler, points out five reasons safe deposit box users are banks' best and most profitable customers:

1. Their income level is about 13.5% higher than the national average.

2. Their employment is better. In fact, 41.8% are professionals or managers.

3. Box users are better educated—26.2% have college or advanced college degrees.

4. Box users use more financial services than other customers. A service-by-service comparison reveals that usage levels for box owners averaged: 13.4% higher for savings accounts; 7.5% higher for checking accounts and 16.1% higher for credit cards.

5. Box users stay with an institution longer. One with a savings account stays an average of 13.5 years; with checking, about 14.5 years. Other independent studies reveal that most customers stay a maximum of five years with institutions.

On the average, according to the Mosler-sponsored study, older customers have larger balances. Half the heads of households who have boxes are 50 years old or older. Obviously, Mosler points out, with time come wealth and more reasons to own a box.

The nonuser typically is a younger blue-collar worker with less education and a lower-income level than the user.

Not only did the survey get information on present box renters, but it also peered into the future by asking nonusers whether they would rent boxes someday. A "surprising" 19.5% said they would do so within the next 10 years.

The future shows that users then will be younger and have more moderate income than present box renters. Also, new users will do business with *fewer* institutions, yet have more account relationships.

Besides the present market, says the survey, the potential market for new rentals is somewhere between 17% and 37% of U. S. households. In effect, this doubles the present box rentals. This category applies to those who say, "I simply haven't gotten around to renting a safe deposit box."

The survey says that the price of a box is not important in the decision to rent one. Approximately 460 box users ranked—in the following order of preference—the reasons they chose the banks where they have safe deposit boxes:

1. They already had another account there.
2. Location convenience.
3. Friendly bank employees.
4. Cheapest box rental rates.
5. The box was part of a service package.

Not only did Mosler survey individuals; the firm also interviewed bankers, more than 50% of whom said safe deposit operations were either a loss or at best a break-even proposition. Another 13% said they couldn't prove anything about profitability, but they believed boxes were a losing proposition.

Mosler developed a national financial service institute panel to get the input of everyone concerned with safe deposit boxes. This panel includes financial institutions of all types, deposit sizes, branch types and geographical areas. Years ago, Mosler says, it developed one of the first nationwide advisory panels in the industry.

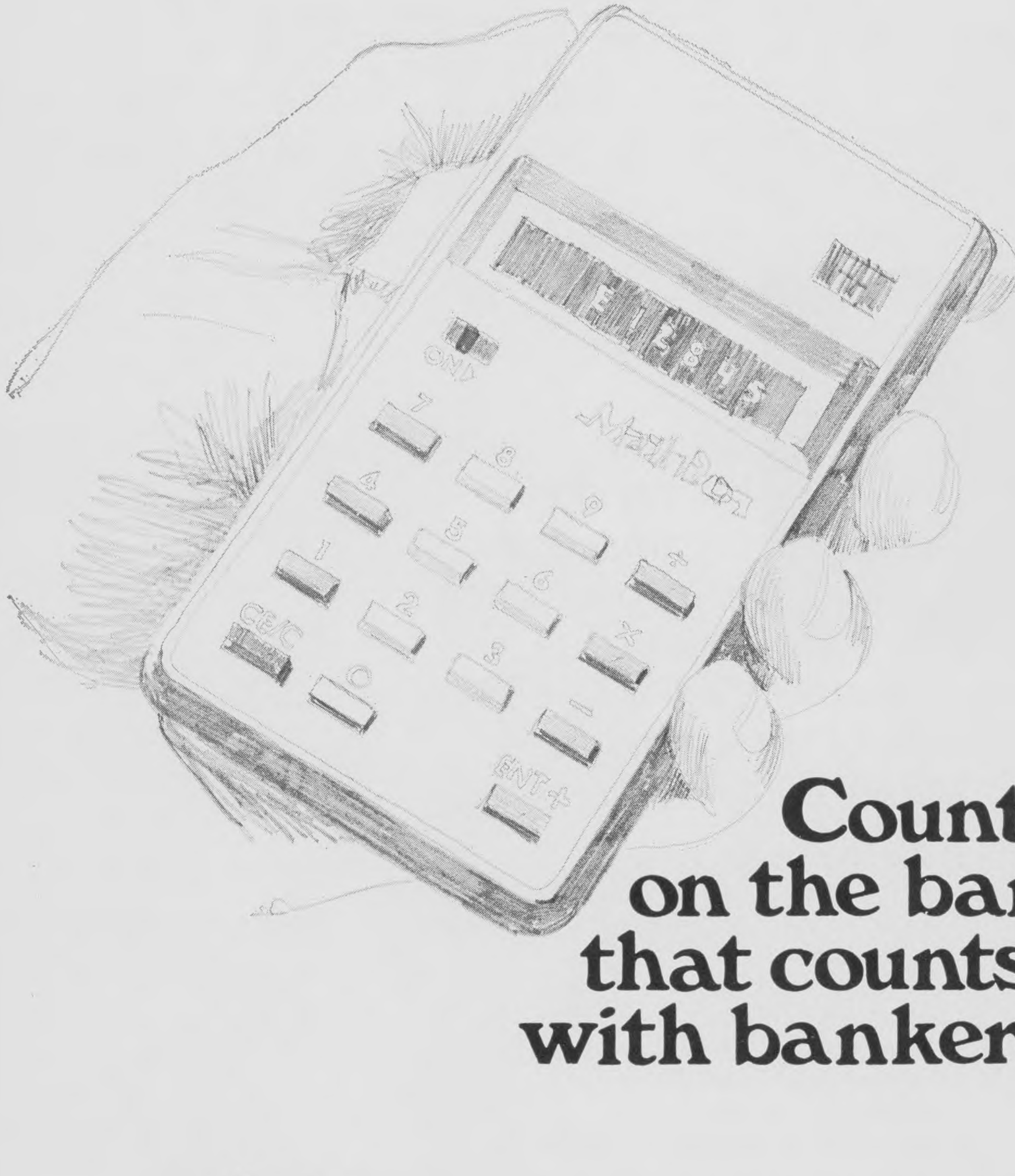
The survey involved differing views from within the organization. Interviews were conducted in about 200 locations, with custodians, facility planning people in branching/properties departments, marketing and branch administration people.

In announcing results of the survey,

The Mosler Local Market Analysis Handbook referred to in the accompanying article was designed to show bankers how to acquire profiles of their safe-deposit-box activities by surveying both users and nonusers of their boxes.

The handbook has a questionnaire similar to the one used by Mosler in a national survey and a suggested introductory letter. The questions used in the questionnaire also can be used as the basis of a telephone survey, says Mosler.

For more information, write: Mosler, 1561 Grand Boulevard, Hamilton, OH 45012.



Mosler says it was learned that most bankers believe the demand for boxes is strong and that many intend to promote them further, *but* most bankers are taking a wait-and-see attitude. Why? asks Mosler.

Seventeen percent of the panel said substantially fewer new branches would have boxes. Many bankers also are trying to cut their costs in full-service branches by building smaller vaults.

"When you think costs of vault building are way up, when you think that EFT devices can cut your costs," says Mosler, "when you think your safe deposit service is not generating profits, you consider not offering the service . . . or at least cutting back until some new data comes along."

Mosler points out that this is where its National Family Opinion survey comes in, that bankers can use the survey data to prove to management that:

- Safe deposit customers are profitable; they stay with banks a long time.
- Banks can increase their rental rates and boost operational profitability.

Many banks, Mosler continues, believe the way to operational profitability is to stop building full-service offices and switch to EFT devices. Mosler adds that it was among the first to develop and market a full-service, customer-operated automatic teller, and the firm believes ATMs and other devices will play a major role in expanding market areas and servicing financial transactions more profitably. But, Mosler emphasizes, a machine is a machine, and when institutions begin sharing these machines, what will "wed" or lock a customer to a particular institution?

Mosler sees safe deposit boxes as a way to attract and keep new customers and suggests several marketing methods:

- Banks can give boxes away free.
- They may tie the boxes into financial services packages.
- They can charge a pittance and make the service a loss leader.
- Or they can charge what the traffic will bear and run a profitable safe-deposit operation.

Mosler suggests that all these possibilities may be considered as alternatives in view of each bank's particular situation. In fact, the firm recommends that each bank analyze its market, but not use only Mosler's national statistics. Therefore, Mosler has developed a way for banks to verify these national statistics in their own markets.

To help banks verify these national statistics in their own markets, the firm has published the *Mosler Local Market Analysis Handbook*. Banks can combine data acquired in their own studies with the findings of Mosler's national study and thus obtain clear profiles of their safe deposit customers. Mosler adds that all this data then can enable banks to make sound decisions about the future of their own safe-deposit operations. • •

Oklahoma Independent Bankers To Hold Annual Convention

OKLAHOMA CITY—The fourth annual convention of the Independent Bankers Association of Oklahoma will be held November 17 and 18 at the Sheraton Century Hotel here. Convention theme will be the one-bank holding company, according to Frank Swan, convention chairman, and president, City National, Oklahoma City.

Keynote address will be given by Edward A. Trautz, president, Independent Bankers Association of America, and president, East Lansing (Mich.) State. Mr. Trautz also will speak on the effect NOW accounts have on banks at the business meeting. Other bankers on the program include John Zoellner, vice president, Kansas City Fed; James H. Oliver, vice chairman, Commercial Bank, Grand Island, Neb.; and Forrest D. Jones, executive vice president, Fidelity Bank, Oklahoma City.

Nat'l Bank Examiners

(Continued from page 30)

that will generate comments on proposed changes in bank policy that might have a significant impact on the bank's future condition. Annual sessions with the board are expected to foster a working relationship with that group of individuals directly responsible for the affairs of the bank.

In addition to the annual meeting, the OCC has a policy requiring examiners to meet with directors in certain special situations. When an examination discloses specific problem areas of an overall unsatisfactory condition, a meeting is to be held with the board. The severity of those problems and whether they have been previously identified by the OCC normally will determine the timing and representation at that meeting. When a bank's problems are moderate, yet require attention, a meeting will be held in direct conjunction with the examination. In those situations, regional or Washington office representation may not be required. Examples of such situations include: When differences of opinion involving reasonably important matters such as charging off estimated losses cannot be resolved by the examiner and the active executive officers or where important violation of law exists or when policy domination by a person or persons is immoderate and apparently harmful to the best interests of the bank. As a basic rule, examiners will meet with the board whenever they consider it in the best interests of the bank.

An administrative official of the OCC, such as the regional administrator, a regional staff member and the examiner-in-charge, will meet with the board or one of its committees if any of the following serious conditions exist: The bank has entered into a formal agreement with the OCC or a cease-and-desist order has been issued. Self-serving activities or other unsound or unsafe practices exist in the bank or any other condition or practice remains that places or could place the bank in a seriously weakened or extended condition. Such meetings need not be held at the end of an examination, as it may be preferable for bank management and directorate to review the report of examination and to evaluate and/or prepare their plan of corrective action prior to such meetings. However, the meeting normally will be held within 21 calendar days of the date on which the report was mailed to the bank. The regional administrator has authority to approve a later date.

When an examination discloses significant problems that previously were not identified by the OCC, a notification meeting will be held during the examination. At that meeting, the examiner is instructed to: inform the board of the situation, state that the report of examination will be completed and forwarded to the bank, request that the board consider its course of action to correct the problems, inform the board that administrative OCC personnel and the examiner will meet with it after the report has been forwarded and state that the board be prepared to discuss corrective action at that meeting. The meeting is intended solely to notify directors of existing problems so that they may have additional time to consider alternative courses of action. After the notification meeting, another meeting will be held following transmittal of the report. Its purpose is to explore avenues of correction and determine that proper corrective action will be forthcoming. Regional or Washington office representation is necessary at those meetings.

In summary, the quality of management is the single most important component in a safe and sound banking institution. That quality must start at the director level. We hope that each bank director has a clear understanding of his responsibilities and exercises reasonable and sound business judgment when supervising his bank's affairs. By stressing the importance of director involvement, we hope to foster an even healthier national banking system to serve the public's needs. • •

■ ARTHUR L. GONZALES, executive vice president at First City National, El Paso, has assumed the duties of President George V. Janzen, who resigned after holding the office since 1966.

Handbook for Consumer Exams Published by Comptroller's Office

WASHINGTON, D. C.—The Office of the Comptroller of the Currency has published the *Comptroller's Handbook for Consumer Examinations.* The 244-page looseleaf manual is a compilation of consumer laws and regulations applicable to banking and emphasizing commonly discovered violations that may affect consumers adversely.

Copies of the handbook are being distributed to all national banks and copies will be available to the public at a yearly subscription price of $15. Copies may be obtained from Publications Control, Comptroller of the Currency, Administrator of National Banks, Washington, DC 20219.

Employee Stock Ownership Plans Can Benefit Employees, Stockholders

By SANFORD L. ABRAMS, CPA
and RONALD C. BAUM, CPA
Alexander Grant & Co.
Atlanta

MANY TYPES of pension plans are available for companies that seek to provide this adjunct to a wage-benefit package. The Employee Stock Ownership Plan (ESOP) is one such plan and has been the subject of a good deal of discussion since enactment of 1974 pension-reform legislation.

One aspect that has not received much notice, however, is that establishment of a qualified employee stock ownership plan may offer additional, companion benefits to shareholders of independent banks by creating a market for their stock.

In some states, bank HCs have the right to acquire banks outside their immediate areas. Generally, only a limited market exists for the stock of small, independent banks, so that, typically, the stock that does change hands is sold on an individually negotiated basis—a convenient method for the take-over bid. Moreover, resistance to such a bid is often complicated for owners of an independent bank because any stock that is offered for sale must be paid for with after-tax dollars.

It's interesting to examine how establishment of an ESOP can help to overcome these difficulties, as well as providing pension benefits for the employees of the independent bank.

An ESOP is a qualified employee benefit plan, providing the bank an income tax deduction for its contributions to the plan. Contributions may be in cash or bank stock, and may amount to as much as 15% of the employee's annual compensation. (With the combination of a pension plan designed to acquire bank stock, contributions may be increased to 25% of the employee's compensation.)

Benefits, on the other hand, must be paid in bank stock, so it's important for the trust established under the plan to obtain enough stock to be able to make distributions as participants retire. Stock contributions may be voting or non-voting common or preferred stock.

The income-tax treatment of lump-sum distributions from an ESOP is worth noting, also: While the cost of the stock to the ESOP is taxed as ordinary income, it's subject to favorable 10-year averaging tax provisions, and appreciation in value of the stock (since its acquisition by the ESOP) is taxed at capital gains rates upon sale of the stock.

The Tax Reform Act of 1976 changed the estate tax treatment for distributions from all qualified plans so that the proceeds may be excluded from a decedent's estate if the employee names a beneficiary other than his estate and the distributions are not a lump-sum payment as defined.

The ESOP provides bank employees with an opportunity to acquire an equity interest in the bank in which they are employed without being required to use their own resources to purchase the stock.

The value of an employee's retirement benefit is directly related to the value of the bank stock, a factor that may provide greater incentive and motivation to good work than most other types of fringe benefits.

From the standpoint of the bank, there are several major advantages. With the option of making contributions to the ESOP in either cash or stock, the bank, by contributing stock, may preserve working capital and at the same time increase its net worth by the amount of the tax savings.

However, the most important use of an ESOP to a bank is in the area of financing transactions. Generally, when a bank borrows money or buys shareholder stock on a debt basis, it must earn $2 for each $1 it must repay, since no tax deduction is available for the repayment of principal. By using an ESOP, a bank can borrow money and repay the loan with pre-tax dollars on a dollar-for-dollar basis. This is accomplished through annual, tax-deductible contributions of stock made to the ESOP, in a large enough amount to equal the principal portion of the debt due that year. Alternatively, the debt might be incurred by the ESOP, which can legally enter into a debt transaction, something a profit-sharing plan can't do. The loan proceeds are used to purchase bank stock and the ESOP debt may be amortized through tax-deductible cash contributions, presuming that the bank has a sufficiently large compensation base to permit contributions adequate to amortize the debt.

A further benefit is to the shareholders of a bank, for whom the ESOP creates a market in the stock. Transactions involving bank stock must be at fair market value and this must be determined independently. In order to fund the purchases of a retired employee's stock, the ESOP must build up liquidity and, while distributions from a bank ESOP must be made only in the stock of the bank, it's not required to invest all its funds in such stock. Its liquidity may be useful, also, in fending off take-over attempts by bank HCs.

Some of the problems to be considered before establishing an ESOP are the dilution of stock ownership that may result, proper valuation of the stock, securities laws and various nuisance problems.

It's also important to plan carefully the matter of voting rights for stock held by the trust. One safeguard would be to provide that the board appoint the ESOP committee and this committee exercise all voting rights on stock held by the trust.

While the establishment of an ESOP must be warranted by many factors, its benefits extend beyond those of bringing stock ownership to employees as a retirement fund, helping to solve the liquidity problem for bank shareholders and providing a means by which a bank may retain its independence in the community. • •

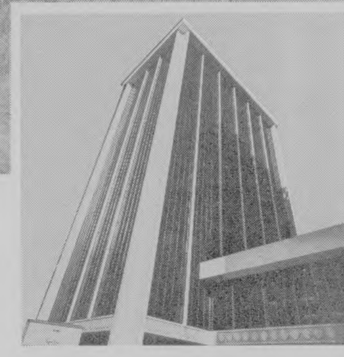
Erle Cocke Sr. Dies

ATLANTA—Erle Cocke Sr., 82, died here October 7. He was a former chairman of the FDIC and headed the ABA in 1956, when he was vice chairman of the board and chairman of the executive committee, Fulton National, Atlanta.

Third Nat'l Hosts Luncheon

Officers of the Middle Tennessee Group of the National Association of Bank Women gather during an NABW luncheon hosted by Third Nat'l, Nashville. From l., they are: Reba Gordon, a.v.p., Bank of Ardmore—treas.; Evelyn Avaritt, a.v.p., Murfreesboro Bank—sec.; Linda W. Bramblett, customer relations off., Peoples Nat'l, Shelbyville—1st v. ch.; Helen D. Miller, a.v.p., host bank—ch.; and Virginia P. White, a.v.p., Williamson County Bank, Franklin—2nd v. ch.


When you think
Mississippi...



Astrodomain Holds ABA Delegates 'Captive' With Dawn-to-Dusk Sessions, Shows

By RALPH B. COX
Publisher

THE THIRD LARGEST group of bankers ever to attend an ABA convention learned last month that everything is big in Houston and that they were practically captives to the sprawling Astrodomain complex that housed almost every official convention function.

Exhibitors were pleased that delegates and spouses thronged the exhibit center between sessions and delegates were glad to remain inside the complex due to a combination of warm outside temperatures, the great distance between the convention site and their hotels and the idiosyncrasies of the mammoth transportation system designed to move people about the city.

All but one of the official convention activities was held in the huge Astrodomain complex, which includes the Astrodome, Astrohall and Astroarena, which are clustered in the center of what would seem to be the world's largest parking lot.

ABA reported that more than 12,000 people attended the convention, making Houston almost as popular as Honolulu and San Francisco as convention cities.

The general sessions got off to a pleasant start for most bankers. Keynote speaker Senator John G. Tower told delegates that NOW account legislation in Congress has no chance of passing this year. He added that chances are good that the bill won't make it next year either. Senator Tower is second-ranking Republican member of the Senate Banking, Housing and Urban Affairs Committee. He attributed the trouble the NOW account legislation is having to growing opposition to interest-bearing instruments on the part of the public and the financial industry.

He also expressed doubts about passage of a bill in the House of Representatives that would control alleged abuses in personal borrowing practices by financial executives. The measure, called the Safe Banking Bill, is the outgrowth of the T. Bert Lance affair.

NEW OFFICERS for 1977-78 include (from l.) Thomas R. Smith, treas.; W. Liddon McPeters, gov. council ch.; A. A. "Bud" Milligan, pres.; John H. Perkins, pres.-elect; Willis W. Alexander, e.v.p.

Senator Tower said the NOW account bill is not the answer to improving structural reform in the financial community. What is needed, he said, are financial reform changes to help banks and the NOW legislation doesn't do that. He said banks in some areas are losing funds and experiencing disintermediation and the nation needs sound financial reform proposals to solve such banking problems. The limited use of NOWs has shown that the accounts are not beneficial to the industry.

He decried the House Safe Banking Bill as being unwarranted and aimed at isolated practices of a few banks and bankers.

Outgoing ABA President W. Liddon McPeters, president, Security Bank, Corinth, Miss., said preferential treatment for bank customers isn't wrong, although the business of preferential treatment that brought about current legislation aimed at insider lending is off target.

He defended preferential treatment for preferred customers, which he termed "reciprocity," as being common in American society. He referred to the example of an auto parts dealer "who probably buys his car from an auto dealer who buys his parts from him."

"Banking isn't very different," he said. "The degree of risk involved in a loan, the relative cost of origination and acquisition, the potential of other business referrals and related matters all go into determining whether a potential borrower deserves preferential treatment. These are legitimate factors that have a bearing on the profitability of a given loan."

The legislative proposals to which the ABA president referred would limit bank loans to insiders to 5% of capital and would forbid loans to stockholders of any institution with which the bank has a relationship.

Incoming ABA President A. A. Milligan, president, Bank of A. Levy, Oxnard, Calif., said the ABA is willing to consider creation of an ethics panel even though banking has a higher level

At last, a look at the unheard-of: an actual overline ad.

You may have noticed that not many banks exactly advertise the fact that they offer overlines to their correspondents.

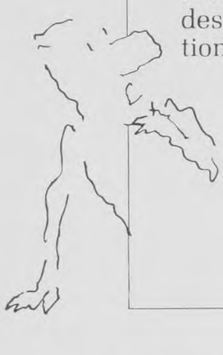
But Continental Bank does. In fact, we're running this ad to make a bid for overlines—from our correspondent banks, and from a lot of other banks we'd like to have as correspondents.

We have a simple approach to each overline request we get: if our correspondent values a customer enough to lend its legal limit, we think its overline deserves some pretty serious consideration on our part.

At Continental Bank your credit requests don't go from committee to committee to committee. They go to your account manager—one officer who has the authority to say "yes" or "no" on most loans. So you get your decision fast—direct from the person who made it.

Call John Tingleff at 312/828-2191 with your request. If we can get together with you over an overline, Continental might just become more important to you overall, as a correspondent. And that's exactly what we're trying to do.

We'll find a way.



CONTINENTAL BANK
231 SOUTH LA SALLE STREET, CHICAGO, IL 60693

Continental Illinois National Bank and Trust Company of Chicago.

of ethics now than any other industry in the nation.

He said the industry is grounded on a strong ethics code based on public trust, but still the ABA will study a proposal made by a Florida banker to set up an ethics board.

Mr. Milligan also participated with Ed Gilbert, Hollywood actor who appears in the ABA's TV commercials, about banker support for the revitalized "full-service bank" concept. He said bankers should work to help the public realize that only commercial banks can offer the full service that consumers need to conduct their financial affairs.

Treasury Secretary W. Michael Blumenthal told the convention that the Carter Administration plans to propose a substantial cut in business and personal taxes in a planned tax revision package. He also suggested that a plan to require financial institutions to withhold taxes on interest from savings accounts would be included in the proposal.

He said the purpose of the tax cut would be to stimulate business investment for new jobs and greater productivity. He added that the reduction would be both substantial and permanent.

Mr. Blumenthal said the Administration plans to intervene to support the currency in disorderly foreign exchange markets and that Mr. Carter does not feel that a dollar depreciation would solve the trade deficit. Such a solution can only come with a comprehensive U. S. energy policy, he said.

W. Liddon McPeters, outgoing ABA pres., cuts ribbon to open ABA convention. Mr. McPeters is pres., Security Bank, Corinth, Miss.

ABA convention exhibits were housed in sprawling Astrohall exhibition center. Photo shows Diebold/Bunker Ramo exhibit at r., Mosler exhibit at l. Aisle leads to EFT Village and EFT Village Theater.

He commented on interest and dividend withholding by financial institutions at a press conference following his speech. He defended the proposal as being fair to taxpayers, since all other forms of income are taxed. It has been estimated that up to $2 billion in tax income is being lost annually due to the non-reporting of savings and investment income.

Mr. Blumenthal admitted that the proposal was not at the head of his priority list, but he told bankers not to be surprised when it does become a reality.

A representative of the Comptroller of the Currency's office told bankers that sales of credit life insurance are getting increased scrutiny by the agency to determine if some banks are forcing policies on small-loan customers.

The representative, however, denied that the Comptroller was getting ready to compel banks to include insurance premiums in their quoted interest rates where an extraordinarily high ratio of insurance sales to small loans is apparent. "Even if the penetration rate for sales reaches 90%," he said, "we're not going to automatically conclude that sales are being forced."

He said that about half the 5,000 national banks have been examined in a special consumer compliance check and that some banks have begun to voluntarily repay borrowers who have been overcharged.

In the agriculture area, a panel of farm loan experts predicted that banks will have to strain to carry their ag borrowers through next year due to weakening farm profits and high equipment and land costs that are endangering some loans.

Delegates were advised that the short-term relief the President's new farm bill is expected to provide could make it more difficult for farmers to repay their loans. They said that banks may have to intervene with customers to force crop sales if prices rise above government commodity levels in the program in order to get their loans repaid.

Despite the gloomy farm picture, a panelist said, some farmers will make money this year.

There were standing-room-only crowds for several sessions during the convention. Among the most popular attractions was one on new national

(Continued on page 84)

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The First City National Bank name also stands for vast experience and professional understanding of the businesses and industries that have shaped the economic character of the great Southwest. Agribusiness. Oil and gas. Petrochemicals. Import/export. Over the last 100 years our financial participation has earned us a reputation of banking expertise in these and other specialized industries.

While the strength of First City National Bank of Houston is computed in billions of dollars, it is best measured by our ability to serve you and your customers. At every opportunity. Which is why correspondents need a bank that is in a position to provide more service. We're in that position. The Regional/Correspondent Department, First City National Bank, P.O. Box 2557, Houston, Texas 77001.

FIRST CITY NATIONAL BANK OF HOUSTON

We can do it all.

Should Municipals Be Purchased When Bank Has Earnings Squeeze?

By JOHN W. ROWE
Vice President
American National Bank
& Trust Co.
Chicago

THE MANAGER of a bank's investment portfolio whose institution does not have a strong commitment to agricultural or real estate lending currently may be faced with some difficult investment decisions.

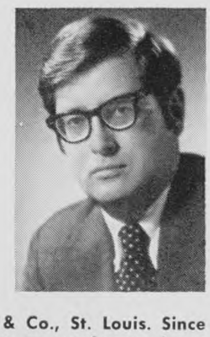
It's quite likely his bank recently has experienced little growth in loan demand and may be subject to some earnings pressure to meet 1977 budgeted profit goals. This earnings squeeze probably is attributed to either a growth in deposits accompanied by lack of loan demand or recent narrowing of the spread between cost of funds and the prime rate, or a combination of both phenomena.

In the first quarter of this year, the spread between federal funds and the prime rate was 175 basis points, but recently that spread has narrowed to less than 100 basis points.

The portfolio manager may be faced with the dilemma of increasing the investment portfolio to shore up bank-wide earnings even though he feels reasonably certain that interest rates will continue to rise throughout 1977. If he buys now, he could be missing an opportunity to invest at higher rates later in the year or early next year. Securities purchased today soon will be valued at paper losses after comparing cost to market. The question is whether to buy today at these lower-yield levels or to wait a few months for higher rates that not only will compensate the portfolio for its delaying tactics, but also provide greater income over the life of the investments.

Increases in commercial-loan demand have been moderate to nonexistent throughout 1977, and there are few signs to indicate a near-term reversal of that situation. Economic gains during the first half of this year were largely the product of aggressive consumer spending, not capital spending generated by our nation's commercial enterprises. Corporate borrowers have remained on the sidelines and enjoyed their newly found liquidity. The current conservatism of U. S. businesses may reflect the wounds that were suffered and the lessons that were learned during the 1974 tight-money period. Having managed to survive that frightening era, many corporate leaders seem to have adopted a more conservative financial strategy. Therefore, despite encouragement from the consumer sector, corporate borrowers have not been active, and income statements of many members of the banking fraternity have begun to suffer the consequences.

It seems inevitable that the federal-funds rate will be in the neighborhood of 6¾% to 7% by year-end. The nation's basic money supply, known as M-1, which consists of demand deposits plus currency in circulation, is growing more rapidly than Federal Reserve money managers believe is desirable. M-1 has soared 10.7% in the latest statistical quarter, 9.6% in the last six months and 7.7% during the last year. Yet the Fed's own M-1 growth target is reported to be 4% to 6½%. To get M-1 growth under control and prevent a future inflationary explosion, the Fed will continue to force short-term interest rates higher.



John W. Rowe joined American Nat'l in November, 1976, as v.p. & mgr., bond dept., going from St. Louis' First Nat'l, where he had been a.v.p. & bond salesman since 1971. He had been with the latter bank since 1967. For four years before that, Mr. Rowe was a municipal bond trader and salesman for Stifel Nicolaus & Co., St. Louis. Since 1973, he has been a lecturer at the Graduate School of Banking, University of Wisconsin, and the Illinois Bankers School, Southern Illinois University, and an AIB instructor.

It may seem strange to be discussing increasing interest rates and lack of bank profitability in the same text, but it must be remembered that interest rates are rising because of Fed activity, not because of increasing loan demand. Furthermore, the declining spread between federal funds and the prime rate is not unusual during periods of ascending interest rates. Between February, 1973, and July, 1973, the prime rate advanced from 6% to 8¾%, but the federal funds rate climbed from 6⅛% to 10½%. In that instance, increased money costs to banks clearly outdistanced the enhancement of income. This is the type of earnings squeeze that many financial institutions currently are experiencing. In today's political environment, it would not seem logical or prudent for the banking industry to attempt to reverse this trend by accelerating the velocity of prime-rate increases. Consequently, we can expect this negative earnings factor to persist over the near term.

The great surge in loan demand that many economic soothsayers have been prognosticating for the last two years does not appear to be on the horizon. According to the latest statistics, consumer confidence fell in September and has been on a generally downward slide since early spring. The real estate market is still quite strong, but seems to have settled back from the hyper-expansion levels earlier this year. Corporate managers who have maintained a wait-and-see attitude before initiating capital-spending programs, may now be encouraged to continue to delay. Since banks can not expect loan growth or prime-rate increases to solve earnings difficulties, it's up to the portfolio manager to step into the breech and make some formidable investment decisions.

U. S. Treasury and federal agency securities maturing within the normal bank-investing range generally move in harmony with the federal funds and other short-term interest rates. The latest upward cycle of short rates, which began around August 1, has not

yet produced the expected harmonious performances. The federal-funds rate has increased 90 basis points, while intermediate Treasury securities have experienced a yield advance of only 30 basis points. Coupled with the fact that short-term rates are expected to continue their upward progression, it would appear that yields on bank-range Treasury securities should score significant increases. Therefore, banks with earnings pressure should delay purchases in this market for a short period to take advantage of the contemplated market corrections.

Municipal-securities commitments need to be interpreted in an entirely different context. Even though large money-center banks, casualty insurance companies, individuals and bond funds have been substantial purchasers of municipals throughout 1977, municipal yields have continued to remain historically attractive when compared to other investment instruments. This unusual situation is due primarily to the record volume in the state and municipal market. This volume has been almost equally divided between revenue and general-obligation securities. Both sections of the market have had ready and willing buyers to support the large volume.

Over 50% of the bonds underwritten in 1977 have been revenue bonds, and a great deal of those revenue issues have been negotiated as opposed to being sold at public sale. Casualty companies recently registered strong earnings growth due to rate increases awarded over the last few years and have participated enthusiastically in the revenue sector. The startling growth of bond funds also has been a positive factor in maintaining the healthy climate in which revenues have been distributed.

The general-obligations portion of the municipal market has received its greatest support from the banking community. Because of anticipated growth in loan demand, a large number of banks over the last two years have limited investments to relatively short-term maturities. This spring, some of those funds began to find their way into the intermediate- and long-term municipal market, and this procession is still continuing. Inflation has pushed an increasing number of individuals into tax brackets that make investments in tax-free securities advantageous. This volume of individual commitments also has had a stabilizing effect on the municipal market.

Heavy market volume paired with an eager investor population has kept the municipal market on an even keel, and there is no reason to believe this environment will be altered soon. As interest rates continue to rise, municipal yields will increase, but not as quickly or as steeply as the return on taxable securities. Furthermore, high-grade bank-range municipals currently afford an investor a taxable equivalent return of approximately 9% to 9½%, which—from a historical perspective—is quite attractive. A bank needing to buy municipals as a result of an earnings problem should, therefore, begin to execute those purchases now because waiting will not produce an advantageous result. • •

Simon, Bilandic Slated For Upcoming Conf.

CHICAGO—Former Treasury Secretary William E. Simon and Chicago Mayor Michael A. Bilandic will be featured guest speakers at an upcoming conference sponsored by Continental Illinois National titled "What Will Tomorrow Cost? The Challenges of Capital Formation." The event is slated for November 29 at the Continental Plaza Hotel.

The conference will examine the future capital needs of the U. S. and the world, and the uncertainties surrounding the issue of capital investment will be discussed.

Mr. Simon's speech will be titled "Capital Formation in Today's Political Setting." He was Treasury Secretary, 1974-1977, and currently is a senior adviser for Booz, Allen & Hamilton, Inc., and senior consultant for Blyth Eastman Dillon & Co. Prior to his service as deputy treasury secretary in 1973-1974, Mr. Simon was a senior partner with Salomon Brothers.

Mayor Bilandic will be on hand to welcome the approximately 500 business and governmental leaders who are expected to attend the event. His speech will underscore the city's role as a leading financial community.

Also slated as speakers for the conference are George W. Ball and Paul W. McCracken, former presidential advisers. Mr. Ball will discuss "Capital Formation in a One-World Economy," while Mr. McCracken's morning session speech will concern "The Nature of the Capital Problem in the Coming Decade."

A panel discussion, "Capital Spending and the Financial Markets," will include bank Executive Vice Presidents David G. Taylor and Charles R. Hall.

Market Day Principals

Curtis L. Giles (l.), pres., Illinois-Missouri Bank Marketing Association, and v.p., St. Louis County Bank, Clayton, chats with Market Day Speaker Alex Sheshunoff of Sheshunoff & Co., Austin, Tex., at association's annual marketing event in St. Louis, held recently in conjunction with Missouri Bankers Association.

"Since 1887, we've had 90 years of successful partnership with Oskaloosa, and 40 years with the First."

The State Bank of Oskaloosa, Kansas is a true success story. A correspondent bank relationship has been a bond of strength for forty years.

This hometown bank has stood on the town square for ninety years. And as the bank has grown, the town has literally grown up around it, everyone knowing everyone.

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If your bank could benefit from assistance with overline loans, investments, transit collection, bonds, international services, trusts, cash management and other financial services, call the professional staff of the First National Bank Correspondent Department.

We take pride in the success of The State Bank of Oskaloosa and our nearly half century correspondent association.

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Barbara R. Bowser, Assistant Vice President and Director

Your success is our tradition.

First National Bank of KANSAS CITY, MISSOURI

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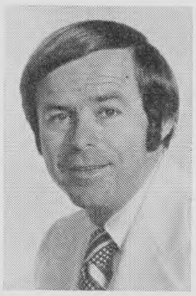
Short-Run Timing—
The Most Important Strategy



By WARREN G. CREIGHTON
Chairman
UMIC, Inc.
Memphis

WE HAVE a philosophy at UMIC, Inc., that goes something like this: "The bulls and bears make money, but the hogs get eaten." It may sound rather cornball, but it has always been true for us.

We are specialists in fixed-income securities for institutional investment. Our principal job is not to forecast what the market holds for the long-range future, but to maintain a feel of the market's general direction for our clients. I can think of no better way to emphasize what is a way of life with us and our clients.

Most institutional investors have a permanent commitment to the bond markets and that commitment grows on an annual basis based on growth in earnings and in total assets. Few are in a position to "play" the market by trying to peg the highs and lows during swings of the interest-rate cycle. There are many reasons for this, not the least of which is that to speculate with investment funds and lose can be disastrous on earnings, liquidity and future growth.

Until now I have been talking about long-range activity. Given the above factors, long-range forecasts of interest rates and bond market levels become rather academic when it comes to institutional investors. But it magnifies the need for aggressive investment strategy, for within the above limits, the portfolio manager must look for management techniques, innovative ideas and special situations in order to maximize his yields.

I don't want to underestimate the need for accuracy in forecasting market trends, but I would like to view it in terms of the average institutional investor and what is most important to him, in my opinion. It is what is known as "a feel for the market." Some traders have it; some don't. But by spreading your business around several active brokers, you will determine for yourself who has the best feel. It is this feel that can improve your yield through the timing of your investments on a week-to-week and month-to-month basis.

The major problem with short-run forecasting today is that it has become a product of the Fed's open-market activity and its target for the money supply. But at the same time, it could be viewed as the opportunity. For the past several months, I have been bullish on long-term bonds for several reasons.

Most important is that inflation has been under control and the economy has been growing at a gradually softening pace. At the same time, tremendous liquidity remains in financial institutions.

We have been in a period that some have called "disinflation." The result has been reduced capital spending and a move toward full capacity and concern for earnings and liquidity. Consequently, the demand for long-term credit has been virtually nil. At the same time, loan policies of major institutions have become extremely restrictive and very little, if any, risk is apparent.

This means that the tremendous inflationary effect of the speculative loans of the early '70s is just not present. What we have is the exact opposite. To sum it up, I have been bullish on long bonds simply because of the tremendous supply of investment dollars and the apparent lack of demand for long-term credit. This money had to flow into the bond markets.

Each time the Fed has acted in a more restrictive way during the past six months, the market would adjust downward and then the pure supply and demand factors would take over and move the market to a new higher level. Recently, the Fed has moved to sharply higher targets for short-term rates, and this has had some effect on long bonds. But there remains good demand for bonds, and this could very well be the best buying opportunity for the balance of the year.

In looking at the balance of 1977 and early 1978, one must ask at what point political and public pressures will force the Fed to recognize that there is slack in the economy, acceptable inflation and no need to hit the panic button on the money supply. In other words, how can the Fed justify higher short-term interest rates when the growth rate is slowing? Given the supply and demand that exist for credit today, if the Fed psychology were to moderate or even remain steady, we could very well have lower interest rates—both short and long—by the end of the year and on into early 1978.

I would like to challenge portfolio managers to be more creative and innovative in their management techniques. There are many opportunities to increase yields and profits in today's bond markets due to the many new methods being used by investment bankers, such as advanced refundings and U. S. government guaranteed programs. Probably the greatest opportunity exists in bonds issued to finance public housing under Section 8 of the new Federal Housing Act. This is a new program which has not yet been readily accepted or understood. Consequently, the yields are good in relation to other bonds of similar quality.

Investment strategy must be tied to forecasting to some extent, but short-run timing is the most important single factor in determining long-run profitability. • •

Dynamics of 'Carter Market' And Tips on Coping With It

By RICHARD E. MINSHALL
Senior Vice President
And Trust Officer
Fourth National Bank
Tulsa

SINCE Jimmy Carter's election as President a year ago, the Dow Jones Industrial Average has declined approximately 17%, qualifying as a bear market certainly to those who have been through it. I am told that in Georgia, they have been "saving their Confederate money" for a long time. At this rate, it could begin to have value again.

What, then, are the dynamics of the Carter Market, and how do we cope with it?

As has been apparent, the market is more sensitive to changes in interest rates and the political climate of Washington, D. C., than to any other factors. With the benefit of 20 : 20 hindsight, it is easy now to see why the much expected summer rally has taken instead a bear market turn. Of course, interest rates have moved up during 1977 from their 1976 lows—approximately 150 basis points on short rates. However, I believe the primary cause of the present market miasma is a lack of confidence that is growing into real apprehension about the direction of the Carter Administration.

Look at the record: Mr. Carter has not taken a positive or productive approach to energy by decontrolling the price for newly discovered oil and gas in order to provide maximum free-market incentives to explore for new reserves to replace declining U. S. production. Instead, he has opted for price controls and "conservation," pointing out that the Japanese use far less energy per capita than the U. S., and that he won't permit "profiteering" by the U. S. oil industry.

We know that most countries of the world are less productive than the U. S., but I mentally blink in disbelief as our Chief Executive holds up such examples of foreign distress as worthy of our national standards and emulation. Although I believe Mr. Carter to be well intentioned, his analysis truly is "underwhelming."

Because the Carter Administration has adopted a counterproductive approach to the U. S. energy shortage, oil producing securities were eliminated, or substantially reduced, in most of our trust department's discretionary portfolios during the first quarter of 1977. The approach of Mr. Carter to the energy issue is, I believe, a clear indication of things to come in the private sector as a whole, with Congress standing as the last resort to preventing implementation of planned shortages and lower productivity. For example, Mr. Carter is proposing (1) lifting quotas on specialty steel imports, (2) a comprehensive health-care program for the U. S. at an unestimable cost and (3) "tax reform," which eliminates the preferential capital-gains tax.

The question for the equity markets at this juncture is whether the mysterious mechanisms of the market already have discounted the potential impact of Mr. Carter's policies on our economy and way of life? To liberally paraphrase a quote I read recently: "There are three things which will drive men crazy—wine, women and predicting the direction of the stock market." Perhaps this explains why some segments of the investment community are seeking refuge in index funds, on the premise that superior management is unattainable; therefore, judgment has no value; therefore, why not settle for the mediocrity of an index fund? My lawyer friends would point out the "non sequitur" in this line of thinking. Nonetheless, it fits in well with the Carter approach to the economy.

Richard E. Minshall joined his bank in 1972 after six years as a stockbroker and manager of the Tulsa branch of a southwestern securities brokerage firm. In the past five years, Fourth National's trust department assets and income have doubled, and annualized return on its pooled equity fund has averaged 8.4%. In 1976, it wound up at the top of the national measurement services (A. G. Becker and Pensions and Investments) by achieving a gain of 43.3%. For the 12 months that ended last June 30, it continued to rank first, with a 20.8% increase.

However, I still believe in the value of security analysis, experience and judgment. In that regard still within the majority of our industry, the question is: what to do?

In general, I view conditions today as unlike the 1973-1974 experience. Liquidity in the private sector is greater; savings and real personal income are up; real GNP and corporate profits are up, and U. S. industry is operating at a comfortable 83% of capacity. Under present circumstances, it's difficult to foresee a scramble for capital comparable to 1970 and 1974. The 90-day Treasury bill rate should top out at 6.5% to 7% within the next three to six months, with a corresponding downside risk on the Dow Jones industrials to the 750-800 level. While my present view of the market anticipates little downside risk, neither do I foresee any great upside potential until there is a commitment by the government to provide a stimulus for increased industrial productivity, personal real disposable income and capital formation.

With the overview of the economy and market as briefly outlined above, my present portfolio strategy is to remain 65% to 70% invested until the direction of the market has perceptibly changed. With my view of the limited downside risk, but unexciting upside potential, I will prefer to write covered call options on a portion of the portfolio, rather than reduce portfolio equity commitments to 50% in the event that the market doesn't evidence a turnaround in the very near term. With regard to selection of individual securities, I will continue to concentrate holdings in those industries and companies which (1) are noncyclical, (2) pay a cash dividend, providing

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overall portfolio yield in excess of 4%, and (3) have a highly visible rate of estimated earnings growth of 15% per year or more.

Mr. Carter has been eager to draw parallels to "war" and "moral equivalents to war" in his economic policies and programs. In frustration over Mr. Carter's misdirected leadership and being an historical buff on the Civil War, I am reminded of the leadership of another southern commander-in-chief, Jeff Davis. At the Battle of First Manassas, Mr. Davis arrived from Richmond after the Federal Army was in a complete rout to Washington. Mr. Davis, moving from the rail depot to the battlefield, encountered the Louisiana militia, which had been ordered to the rear by General Beauregard for a well-earned rest. The rub is that Mr. Davis mistakenly thought the unit was in retreat, whereupon he boldly ordered them to "follow me, boys" back to the battle. All would have been well had not the militia uniforms been "blue." General Beauregard, unaware of the leadership of his commander-in-chief, received the report of a large body of Federal troops advancing on his rear. As you may suspect, General Beauregard immediately ordered an end to the pursuit of the Federal Army fleeing toward Washington in order to face this apparent attack on his rear. By the time the facts were known, the opportunity to take Washington had passed. Jeff Davis, though well intentioned, had misdirected his "leadership" and thereby deprived the Confederacy of perhaps its only real chance to win the war.

In summary, Mr. Carter is leading in the wrong direction, perhaps attacking the very underpinnings of our economy. Over the past year, the market has been a mirror of the growing apprehension to the direction of the Carter Administration and the rise in interest rates. Rates should be near their peaks—within 50 to 100 basis points. The Dow Jones industrials, although apparently having very limited downside from the 818 level, should not have significant upside without a change in the basic economic policies of the U. S. government. • •

ABA Internat'l Banking Conf. Slated for New York, Jan. 18-20

NEW YORK CITY—The Waldorf-Astoria will host an estimated 300 senior international lending "decision makers" from banks around the world at the American Bankers Association's International Banking Conference January 18-20.

Providing the focus for the event will be lending policies and practices. An ABA spokesman said the conference will "afford an opportunity to assess future direction in pragmatic terms."

Keynote speaker at the opening session will be Henry A. Kissinger, former Secretary of State, who will discuss "Responsibilities and Opportunities for International Bankers." Mr. Kissinger is university professor of diplomacy at Georgetown University's School of Foreign Service and is vice chairman, international advisory committee, Chase Manhattan, New York City. Mr. Kissinger, drawing on his experience as an international diplomat, will discuss needs of developed and developing countries and ways in which banks can satisfy those needs.

Other issues to be discussed at the conference include "Regional Banks and Foreign Credits," "Role of the Private Banking System in Financing in Developing Countries" and "Analyzing Country Risk."

One panel discussion will feature users of international credit, who will forecast their borrowing needs and discuss how banks can best satisfy them. A second panel will feature representatives from the Fed and foreign central banks in a discussion of policy considerations they take into account regarding international lending.

Kansas BA Holds Regionals

The Kansas Bankers Association's regional meetings were held throughout the state last month. Among the principals participating were (left) Elwood Marshall, KBA president, and president, Home Bank, Eureka, and (right) Harold Stones (seated), KBA director of research, who presented legislative update.

Fox Named Sr. V.P. at BAI, Heads Communications Division

PARK RIDGE, ILL.—R. Gerald Fox has been elected senior vice president and director of Bank Administration Institute's newly formed Communications Division. He formerly had served as vice president and publications department director.

FOX

The new division includes the publications department and an expanded public affairs department. According to a BAI spokesman, the Communications Division will center the various member and industry communications activities in one area, allowing a more coordinated effort as the BAI moves into new communications vehicles. Its newest publishing venture is *Issues in Bank Regulation*, a quarterly journal that commenced publication in July, 1977.

Mr. Fox joined the BAI 10 years ago as managing editor of *Bank Administration*. He introduced *Journal of Bank Research*, a technical quarterly, seven years ago. Mr. Fox instituted the BAI's Bank Planning Conference for CEOs and chief financial officers of member banks; the event presently is held three times yearly at Dartmouth College, Hanover, N. H., University of Southern California, Los Angeles, and University of Virginia, Charlottesville.

The BAI's expanded public affairs department will be headed by Jeffrey E. Kingan, former director of public relations, while Donald K. Howard, previously managing editor of publications, will head the publications department.

Astrodomain

(Continued from page 70)

bank general examinations, where a progress report about the Comptroller's attempts to score bank managers was given. The new examination forms include some 41 points that examiners use to determine the level of responsibility of bank management. This section is not classified and the Comptroller has urged that its contents be examined by directors at meetings at which the examining staff is present.

Another well-attended session dealt with an ABA-controlled group blanket bond plan that will begin this month in Arkansas. The purpose of the plan is to set up an audit and control system to help banks detect internal fraud and thereby aid in retention of bond coverage from underwriters. (See article on page 36.)

ABA Executive Vice President Willis Alexander spoke on what he termed the "new normal" for banking. A new normal occurs after a crisis has thrown things out of kilter so far that they do not return to their former state. He referred to the drought in the western states that has forced citizens to cut down drastically on the use of water. Once the shortage is over, he said, most people will refrain from returning to the former rate of water usage, but will settle for a rate that is somewhere between the former rate and the rate used during the emergency.

He said the recent series of so-called banking crises has signaled the emergence of a new normal for the banking industry.

Crises like the T. Bert Lance affair have made the public more aware of banking operations, he said. They want to learn all about banking and its policies, which puts a strain on bankers.

"The new normal of heightened public expectations is being applied to a wide variety of banking activities that it never occurred to many of us to question," he said. "Yesterday's actions are being judged by today's standards and it makes for a very uncomfortable fit. And when we venture into new areas of banking such as EFT, we can't be sure how these new standards will be applied. In fact, it may well be that public expectations tomorrow will be even more demanding than they are today. The only certainty is that the standards of the last decade will not be applicable."

This sense of certainty is sometimes sought through increased government regulation, he said. This appears to be an easy way to curb what is perceived as widespread unethical conduct. It also tempts bankers to feel more certainty will result for the industry.

"But this temptation must be resisted," he said, "because laws are rigid by definition. They limit our ability to respond to change in the marketplace and in society. They restrict our freedom to innovate. And, as more and more people are beginning to realize, you can't create a new regulation for every facet of a problem without bringing the system to a grinding halt."

Like it or not, he said, bankers must realize that a new normal of public expectations of banking is on the scene that forces bankers to do more and do it differently. He said banking's response must come in the form of performance, not words.

He cited, as an example of performance, the ABA's attempt to channel NOW-account legislation in a way that would benefit the most participants—consumers and financial institutions.

"Our proposal," he said, "would give bank savers a fair deal by ending the interest-rate gap. Our proposal would organize all the new third-party payment powers that our competitors have gradually gained under one set of equitable ground rules. And our proposal has the support of growing numbers of thoughtful bankers who have recognized the competitive and public interest realities to today's environment."

He said banker involvement during the past year is just the beginning of the new normal and it will make it possible for bankers to stay abreast of the public's changing expectations without surrendering their freedom to innovate.

The convention was not lacking in entertainment, gastronomic surprises and hokum indigenous to the Houston area. Daily gunfights by Texas Rangers were contrasted by routines by pretty cheerleaders, astrology presentations and on-the-spot mulligan stew cooking exhibitions. Fashion shows, exhibits of artifacts of the West, mariachi bands and the teaching of crafts kept those who tired of banking topics occupied throughout the convention.

The closing session saw the installation of officers for the 1977-78 term. Mr. Milligan was named ABA president. John H. Perkins, president, Continental Illinois National, Chicago, was installed as president-elect. New treasurer is Thomas R. Smith, president, Fidelity Brenton Bank, Marshalltown, Ia. Mr. McPeters assumed the title of chairman of the governing council, succeeding J. Rex Duwe, president and chairman, Farmers State, Lucas, Kan.

Next year's convention will be held in Honolulu, October 21-25. • •

Security Nat'l Hosts Football Party

Security National, Kansas City, Kan., held its annual football party for correspondents last month. Pictured at pre-brunch reception at Ramada Inn are (top row, left) Frankie Dunnick, Citizens State, Moran; Joan Finney, Kansas state treasurer; Brian Jackson and John King, both Citizens State, Moran. (Top, right) Marty Istock, Marie Delich, George Breidenthal, Gary Breidenthal, all with host bank. (Middle, left) Lois and Jerry Alban, Security State, Great Bend; Ken Domer, host bank. (Middle, right) Jim Danielson, Exchange Bank, Lenora; Frankie Dunnick, Citizens State, Moran; Bill Webber, host bank. (Bottom, left) Mr. and Mrs. Al Hatch, First State, Leoti; Jay Breidenthal, host bank. (Bottom, right) R. R. Domer, host bank; Mr. and Mrs. Harold Clary, Vermillion State. Security National took group to KU-Oklahoma State football game after brunch. Score: KU 7, Oklahoma State 21.

PUT A SHARP PENCIL TO YOUR CORRESPONDENT BANK.

1. Is your Correspondent Bank interested in serving your needs…or in buying your bank?
( ) Serving my needs ( ) Buying my bank

2. Does your Correspondent Bank have a *proven record* of supporting independent banks, the choice of being a member or a non-member, and the dual (State and National) banking system?
( ) Yes ( ) No

3. Does your Correspondent Bank assist with your customers…or do they compete for your customers' business after you've introduced them?
( ) Assists ( ) Competes

4. Have your Correspondent Bank's investment representatives sold your bank securities you're pleased to have in your portfolio?
( ) Pleased with purchases
( ) My Correspondent is always buying and selling out of my portfolio. He tells me that he's making me money …but my portfolio gets longer in maturity and poorer in quality every time I take his advice.

5. Can you rely on your Correspondent Bank's advice on investments, credit decisions, personnel administration, management succession, operations…on all banking matters…or does their track record indicate that you had better seek advice elsewhere?
( ) Good track record
( ) I'd better ask someone else

6. Is your Correspondent Bank the right size for you?

Service
( ) Can get prompt answers to my requests
( ) Takes several days and several committees to get an answer
( ) I'm still waiting for an answer

Executive Staff
( ) I know the chief executive officer at my Correspondent Bank
( ) He knows me
( ) The chief executive officer has visited my bank
( ) My town
( ) My state

Common Knowledge and Interests
( ) My Correspondent Bank's Staff is knowledgeable about my size bank's operation and day to day problems.
( ) My Correspondent Bank is large (billion(s)), very specialized and departmentalized. I'm transferred, shuffled and put on hold so much I forget what I wanted to talk about.
( ) My Correspondent Bank likes to talk… mostly about foreign lending, multi-state banking, and machines.

7. Is the Correspondent Bank's Staff that handles your account experienced and stable?
I've known my Correspondent Banker
( ) 3 months ( ) 6 months ( ) 1 year
( ) 5 years ( ) 20 years
My Correspondent Banker has traveled my area for
( ) 3 months ( ) 6 months ( ) 1 year
( ) 5 years ( ) 20 years

8. Does your Correspondent take an active role in governmental affairs at the state and national level to assist banks of your size?
Resists all efforts of competitors to promote legislation detrimental to your bank. ( ) Yes ( ) No
Wants to compromise with competitors and promote the interest of larger and larger banking institutions.
( ) Yes ( ) No

9. Is your Correspondent also the principal Correspondent of your Competitor?
( ) Yes ( ) No
If so, does your bank benefit from your Correspondent's business referrals and "best service" or does your competitor?
( ) My Correspondent tells me that I get all referrals and my competitor gets nothing but the privilege of carrying *his* deposits with *my* Correspondent.
( ) My Correspondent rotates referrals and other "goodies" between me and my competitor.
( ) I think my competitor gets all the referrals and I get double talk and back-slapping when I ask about assistance or priority service.

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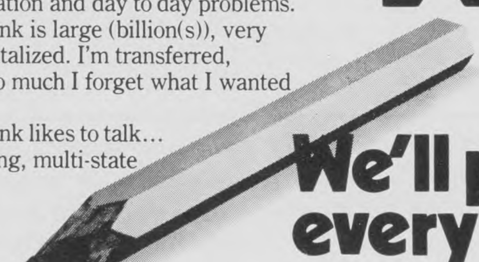


We'll pass every time.

Economic Judgment Reflections

By HENRY KAUFMAN
Partner
Salomon Brothers
New York City

FROM ECONOMICS to sports, performance measurements abound. In our own fields of economics and finance, we are deluged with pronouncements on the significance and implication of weekly and monthly business and monetary indicators.

The proliferation of judgments is mainly the result of vast improvements in technology, communication and of interpretive techniques. Not only are there legions of people in the business of collecting statistics but an enormous computer capability is available to store and rearrange historical information, and it can be programmed to project data in a nearly endless variety of ways.

Looking at data in terms of such statistical procedures as "average," "median" or "standard deviation" is old hat. The sophisticated analysts of today have a whole new language that only a few understand. They explain business and financial activities in terms of exponential smoothing, autocorrelation, covariance matrices and Box-Jenkins techniques. At the same time, the quick generation of data that immediately follows the occurrence of an economic event makes business statistics a news item for the press, thereby increasing the pressure to turn virtually inside out every weekly or monthly indicator in order to spot possible changes in trends.

We Americans have brought our own brand of fervor to the making of business and financial judgments. Because we are a business-oriented society, we thrive on the continuous decision-making that our system requires if it is to function well.

Most important of all, the measuring of results and the making of judgments are, in our society, identified with leadership. The top managements of business and the hierarchies of political life carefully guard their judgment-making prerogatives. Because these decisions come from people in high positions with considerable power, it is exceedingly difficult to reverse or modify their incorrect decisions. Moreover, the willingness to make decisions quickly and to take risks is identified as a necessary attribute for leadership. In contrast, it's risky for aspiring leaders to say, "I'm not sure I have all the facts to reach a conclusion," because such statements tend to be associated with indecisiveness and ambivalence.

The improved techniques for making decisions and for measuring performance have contributed importantly to our way of life in business and finance. Living in the current generation, it's hard to imagine how our forefathers could have succeeded without computers, calculators, scantlin machines and other rapid information transmitting devices. But, even with our modern-day wizardry, we are still faced with major shortcomings in making judgments. The current plethora of instant interpretations tends to emphasize the near term without adequate regard for longer-term objectives. This problem is compounded by the compressed time scales within which business and government function.

Judgments on the performance of our economy, or any other economy, require a clearly defined objective. Too often, the objective is taken for granted, or there are multiple and often contradictory objectives. Unless we are clear on our objectives, we are not able to say that our economic performance is good, bad or so-so.

A list of accepted objectives by most nations might include: optimum growth, full employment, price stability, accumulation of wealth, narrowing the income gap between rich and poor, productivity, racial equality and improving health and environment. Some of these objectives are precisely measurable while others are not, even though they may be equally important. To achieve some, others may have to be compromised while many are mutually compatible. But judgments, in answer to the common question, "How are we doing?" can be meaningless unless the objectives are defined.

The time parameter is one of the most vexing aspects in making judgments. To be sure, serious assessments can't really be made on the basis of events spanning a week or a month. But, I also wonder whether calendar or fiscal years or political terms of office provide an adequate framework. When business and political leaders assume their roles, they are undertaking them in the midst of complex ongoing activities. The real value of management decisions often is apparent only many years following the initiation of the decision itself. Perhaps what we should do is analyze the impact of the decisions in any one period on the longer-term performance.

In the political arena, why should we emphasize the skill and acumen of national policy makers only on the basis of the initiatives they introduce and legislate? Sometimes, the events that do not materialize are more important than those that do. Should we not try to ascertain what decisions political leaders are undertaking that will be of great benefit to their nations following their terms of office?

We are also faced with the problem of fashions in economic judgments. Many who lived prior to the crash in the late 1920s thought they were in a new era without real risks. As the crash took its toll, both in the U. S. and around the world, theories of economic maturity and stagnation became popular. The economic theories of Maynard Keynes formed the basis for national policy making in many industrial countries and were not challenged until the rise of the monetarists in the last decade, led by Milton Friedman.

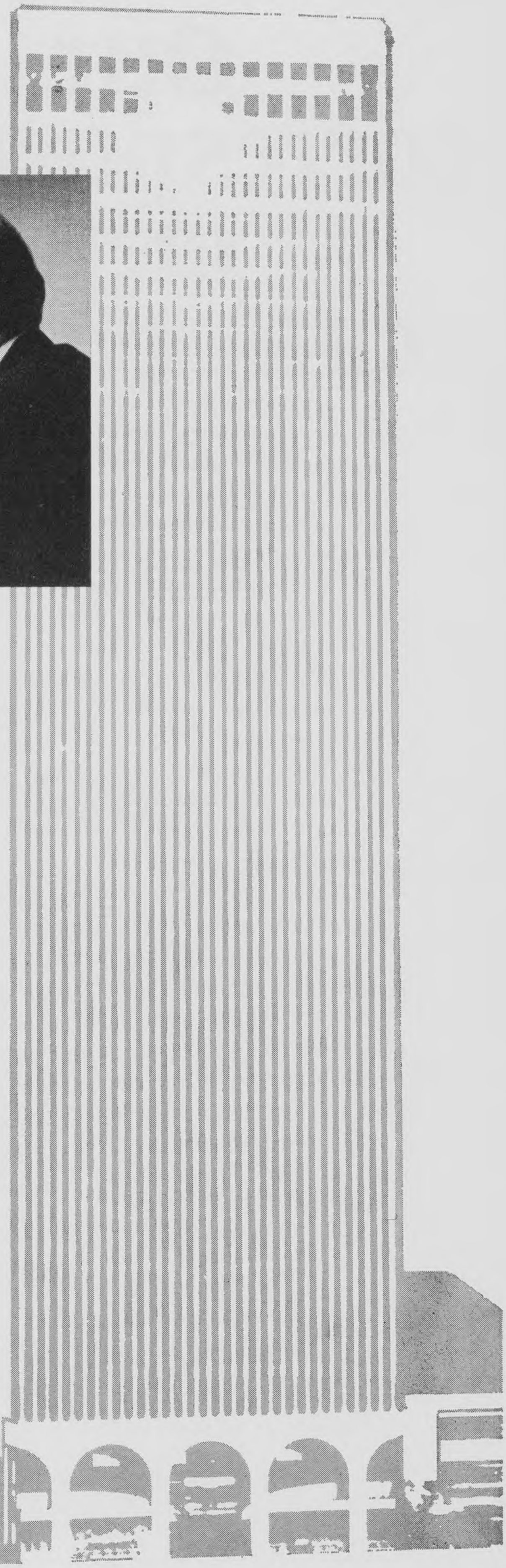
In the years right after World War II, many believed that 2½% interest rates on long-term U. S. government bonds would last forever and that common stocks had limited investment value. But, by the late 1960s, one financial magazine said that bonds would follow dinosaurs into extinction while stocks were expected to dominate portfolios. A decade ago, portfolio managers prided themselves on the individuality of their investment selections. Currently, it's the vogue to invest in securities comprising broadly based indices.

In making economic judgments, we are also inclined to look for the comparability and similarity of events. We stress, for example, seasonality and

"We desperately need judgments now that recognize the importance of many non-cyclical developments that encompass the impact of decisions on the longer as well as the immediate future, and that reflect a clarity in setting forth objectives and opportunities."

Within Bank of Oklahoma Tower...

Left to right: Marvin Bray, Charles Rice, Dan Keating



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cyclicality while minimizing longer lasting forces. Just as accountants compartmentalize the financial and operational life of a business, economists do the same with the pattern of business activity. This approach provides useful insights, but it also oversimplifies the complexities of economic life and sometimes obscures an important ongoing activity.

In the current world situation, the problems of disengaging from a period of high inflation, of remedying structural unemployment and of dealing with the shift in wealth induced by increased energy costs requires a broad perspective. Even so, we persist in placing a cyclical cast on our evaluation of business activity.

Sectors that are not behaving in cyclical fashion are thought to be failing economic consistency, which often is attributed to a lack of confidence. This is the explanation for the sluggish growth in business spending on plant and equipment in most industrial countries and for the poor performance of the stock markets in most world financial centers.

If this assessment has validity, we ought to ask, "Lack of confidence in what?" and "What is the real significance and implication of this phrase?" Some say that it's a distrust in the ability of our government to manage the economy in a reasonably orderly fashion. Others say it reflects doubts about the workings of the marketplace. Unfortunately, these views do not go to the heart of the matter. In a democratic society, the actions of a government can't be separated from the wishes of its people. People who govern tend to follow the governed. Ultimately, weaknesses and strengths of a government are a mirror image of the strengths and weaknesses of its people.

Thus, the confidence crisis is many-sided. Why shouldn't individual investors in common shares be disenchanted with a system in which corporations report one set of earnings to the tax collector, another set to stockholders and still another to reflect replacement costs? At the same time, these individuals can compare the good performance they have achieved with the assets they have controlled themselves, such as investments in homes, high yielding fixed-income obligations and works of art and antiques. Why should corporations rush to increase capital outlays when pending energy and tax legislation clouds the horizon and when the recent bitter experiences of sharply rising costs, illiquidity and profit declines are clearly remembered by business decision makers? In addition, the combination of the weaknesses that have been exposed in the practices of

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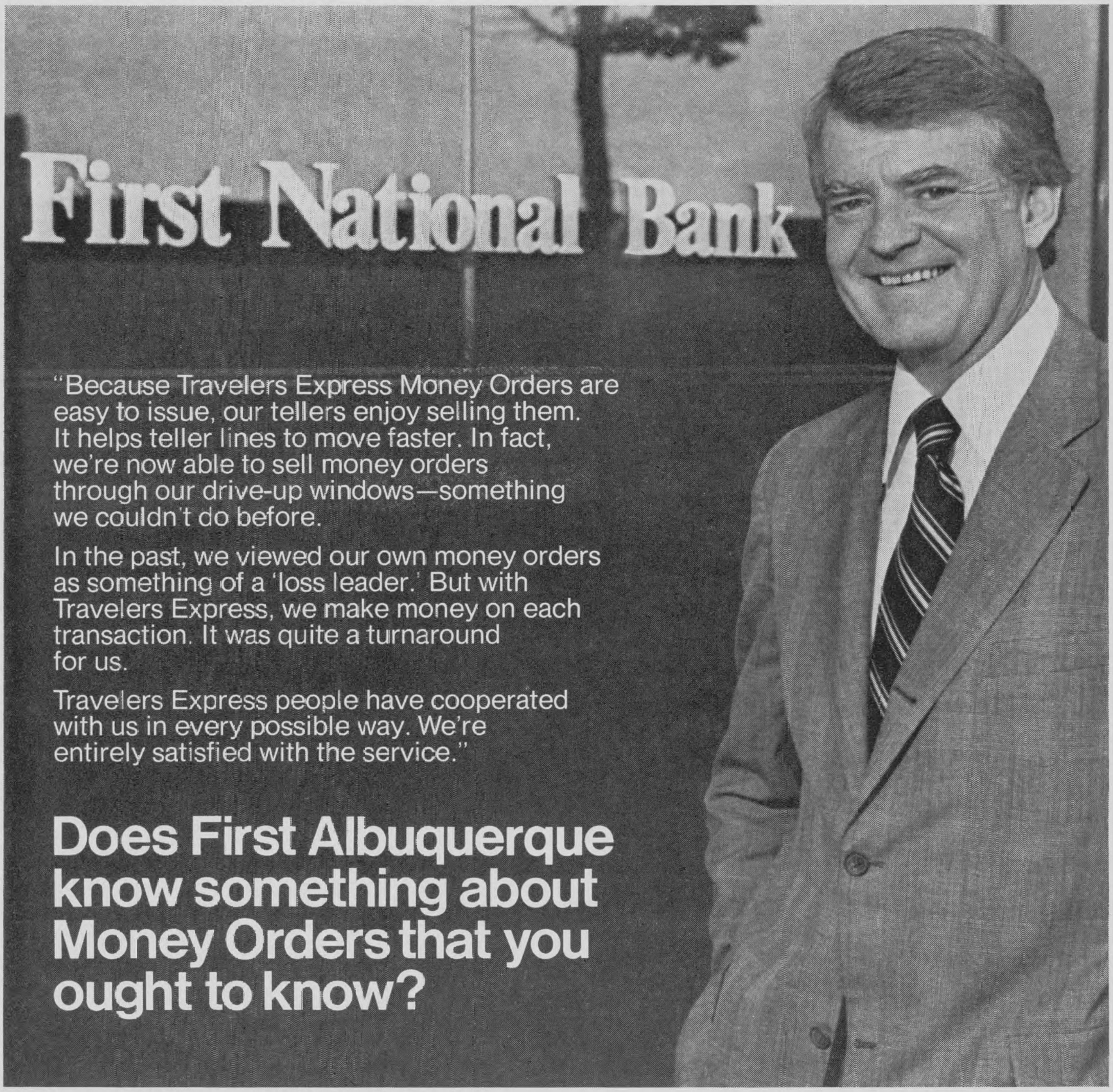

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FINANCIAL SERVICES

leaders from government and business and of the laxity in private behavior of many others can hardly be viewed as contributing to confidence.

The dictionary defines confidence as "full trust, belief or trustworthiness," and in this simple definition is found the non-cyclical and important implication for us. Confidence can be built only on the accumulation of acts, decisions and events that engender trust. Once the bond of confidence is broken, it can't be healed in the public sector by a single or several actions of government or in private life by a simple apology.

At the same time, it should be recognized that the lack of confidence is also a powerful disciplining force. In this sense, it's actually constructive because it works to rectify past mistakes. It forces governments to be more realistic in their promises and to narrow the gap between the political rhetoric and actual achievements. It encourages business to strive for improved efficiency and profitability.

Thus, the process of unwinding a crisis in confidence has many positive aspects to it that reach perhaps past the life span of one period of economic expansion. In a strongly market-oriented economy like that of the U. S., it may actually improve the resiliency of the system. In economic systems in which ties to the private decision-making process have been badly damaged, it may unfortunately accelerate the trend toward centralized decision making and the corporate state.

When we make economic judgments about the future, our statements are heavily influenced by the immediate past and the current situation. Often, the future is interpreted as an extension of the recent past. When conditions are good, the tendency is to conclude that they will get better and vice versa. For projecting nearer-term trends, this approach may sometimes be valid, but surprise-free scenarios do not contain the elements of change that influence the longer term.

"In the political arena, why should we emphasize the skill and acumen of national policy makers only on the basis of the initiatives they introduce and legislate? Sometimes, the events that do not materialize are more important than those that do."

To illustrate the problem of perceiving fundamental or longer-lasting change, allow me to cite a few instances from the pages of history and ask if we could have perceived the changes that materialized, given today's analytical skills.

At the dawn of history, life was dominated by huge dinosaurs, 50-foot crocodiles and the seas swarmed with 20-foot lizards while the mammals, small and shrewlike in form, hid in the thickets and grasses during the day and ventured out only at twilight or dark. Undoubtedly, a modern-day rating agency would have accorded the dinosaurs the highest credit rating and given no rating at all for the frightened mammals. Today, the dinosaurs are extinct and mammals are the dominant life form.

How many living in biblical times were able to perceive the far-reaching impact that the deliverance of the Ten Commandments would have on the morality and standards of much of mankind?

You might say these two illustrations are remote. How many of you would have made the correct value judgment about the rise of the U. S. to the position of leadership had you lived in the 19th century? Textbooks often describe the U. S. of the 19th century as a succession of excesses and calamities. Booms are pictured in terms of wild speculation, knavery and irresponsible finance.

Let's recall a few of the difficult periods. There was the crisis of 1837, the panic of 1857, the dislocations of the Civil War, the panic of 1873 and the financial panics of 1884 and 1893. During these periods of travail, security prices fell sharply and banks suspended specie payments. In one panic, 14 railroads went into bankruptcy and in another, 600 banks failed. Nevertheless, it was during this century, despite these wide fluctuations, that the West was developed, massive railroad construction took place, prosperity was occasionally spectacular and the U. S. began to blossom into an industrial giant.

Consider also how hard it would have been to project some of the major developments around the world, if in 1945 you were standing in the ruins of World War II. How predictable was the spectacular recovery staged by Germany and Japan, or the rapid growth of multinational corporations and the new network in international finance?

I know of no scientific procedure that yields accurate economic judgments about the long-term. I can only offer a few incomplete pointers.

First, history shows that to project the future by merely extending the past is a dangerous thing. In this century alone, each decade has sharply differed from the other. The decade of the 1910s was marked by World War I; the 1920s by speculation; the 1930s by worldwide depression; the 1940s by World War II; the 1950s by economic recovery and rehabilitation; the 1960s by a long economic expansion and the start of a new wave of inflation.

Second, fashions in economic judgments are dangerous. They contribute to unsustainable business momentum, either up or down.

Third, leadership—be it in business, finance, industry or culture—has a definite life cycle. The duration of this cycle varies. We need only look to the Roman Empire, ancient Greece and Spain for examples. In the business world, IBM was an unknown when the American railroads were the elite credit in the marketplace.

Fourth, finance is the handmaiden of economic growth. It serves as both the stick and the carrot, encouraging growth with new funds and disciplining those who have abused contractual relationships. Developments in finance reflect the strength and weakness of mankind.

Fifth, the interdependence of nations will continue to increase with further rapid strides in science and technology and have its impact on our individual performances.

Sixth, in a world marked by substantial differences between the industrial and less-developed nations, between rich and poor, and between the educat-

ed and illiterate and between countries having ideological differences, limits to economic growth are not an acceptable solution. Neither is the shortsighted neglect of future economic potential. The objectives and efforts of mankind will continue to be directed to the enlargement of production and wealth with perhaps more efficient, farsighted means than were available in the past in order to continue to raise living standards and to provide outlets for human achievements.

With these few pointers in mind, what can be said about the shape of things to come? After experiencing the painful remedies required to end an excessive economic boom and the frustrations associated with a deep recession, our judgments should be sufficiently honed to prevent us from repeating major past mistakes.

Some recent developments are encouraging. Despite difficult circumstances, monetary policy both here and in some other countries is following a more disciplined approach than it did in the past. This effort, however, requires far greater support and understanding than is evidenced by the reactions of some market participants and legislators.

Correct behavior in business and political life is being scrutinized and stressed. In international finance, cooperation is being maintained despite the mounting debts in some parts of the world. Nevertheless, the challenges to be met are complex and difficult to resolve with one or two legislative acts, and the solutions can't be put into one comprehensive package.

We desperately need judgments now that recognize the importance of many non-cyclical developments that encompass the impact of decisions on the longer as well as the immediate future, and that reflect a clarity in setting forth objectives and opportunities. In many instances what is required is a steady hand and constancy of purpose in economic and financial matters. This is a difficult assignment in a judgment-oriented world. But its mastery is crucial if democratic economic and financial systems are to be preserved. • •

How to Thwart CD, Fictitious Note Embezzlements

LACK OF proper controls over CDs and notes makes it possible for embezzlers to conceal their crimes, writes Oscar W. Jones, director, loss prevention services, Scarborough & Co., Chicago-based bank insurance firm.

Writing in a recent issue of Scarborough's "Loss Protection/Prevention Bulletin," Mr. Jones says that this serious situation merits the attention of bankers because tight controls over the CD and note operations can minimize the possibility of losses.

He recommends that CDs be prepared in triplicate, with each set prenumbered. The original should be given to the customer; the duplicate should go to the bank officer in charge of issuing CDs; and the triplicate should be given to the signing officer by the issuing teller. In turn, the signing officer should give the triplicate copy to the auditor. If a bank has no auditor, the signing officer should give the triplicate to an officer who has no part in or responsibility over issuance of CDs.

The following steps are recommended by Mr. Jones when a CD is redeemed or renewed:

The original should be surrendered by the customer and sent to the central proof or comparable department to be transferred directly to the auditing department where it will be verified as to amount, interest, number and date of issuance. As soon as these steps have been taken, the CD should be cancelled. If a bank has no auditing department, the officer who received the triplicate copy when the CD was issued should carry out the verification and cancellation.

The duplicate should be removed from the files, stamped "paid" and transferred in numerical order to the paid file.

Mr. Jones also recommends a monthly trial balance and reconciliation to the general ledger control. This operation should be conducted by someone other than the party who checks the paid items.

In a branch bank, the same procedure should be followed, but with the following variations:

The signing officer who receives the triplicate copy from the teller should send this copy directly to the auditor at the main office. Surrendered certificates should also be sent to the auditor at the main office. The auditor or other responsible party should follow the same procedure as he would if the transaction had been made at the main office.

Mr. Jones recommends the following additional steps:

Control of the supply of CDs, numbered or unnumbered, should be placed with the auditor, who should be required to report periodically on the number of CDs issued and the supply on hand.

Interest calculations should be verified by the auditor.

Control should be vested in three people, each of whom operates independently of the other.

Certificates should be redeemed at a window other than the one at which they are issued.

Changes, erasures, corrections or differences in type should be watched for. The use of a protectograph machine is recommended.

Mr. Jones says that this procedure, which involves no expense and is simple to maintain, could reduce any possibility of one of the bank's employees running a private banking business within the bank.

He says that fictitious note losses can be just as disastrous as those resulting from CDs. It doesn't take long for such losses to amount to astronomical figures. Direct verification is the only positive control over this operation, he adds.

Each loan, whether it is made at a main office or a branch, should be verified within a period of 30 days by the auditor or the officer who performs the duties of auditor in a bank having no auditing department.

The verification request should be accompanied by a return envelope addressed to the personal attention of the auditor or verifying officer. No one except the person addressed should be permitted to open the envelopes. Any request that is returned because the recipient can't be located should be followed up without fail.

Banks that have no full-time auditors should delegate the verification duties to an officer who has not had anything to do with making the loan.

The same procedure of verification used on new loans should be followed on renewal notes. It will prevent the headache of fictitious renewals of notes that have actually been paid by the borrowers and the proceeds diverted, Mr. Jones says.

Wherever possible or practical, he adds, these additional recommendations should be followed:

Require cancelled notes to be mailed to the borrower; verify all notes and collateral annually; have the audi-

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With their up-to-the-minute knowledge, our specialized staff can also make a complete and objective analysis of your check-clearing system after an appropriate test period. Then, they'll present a written recommendation of how it can be handled with increased speed and efficiency.

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tor review all new notes daily for approval and signatures; make an immediate direct verification of installment paper purchased from dealer customers.

Mr. Jones cautions that these controls must be maintained at all times if they are to be effective over the long run. • •

'Trust Marketer of Year' Is New Annual Award of BMA

CHICAGO—The trust marketing council of the Bank Marketing Association has revealed plans to present its new "Trust Marketer of the Year" award to an individual who has demonstrated leadership and made a significant contribution to development and implementation of important marketing concepts, programs or cooperative efforts benefiting the entire trust industry.

The award also is intended to bring to management's attention the fact that marketing is the key to the trust industry's future, according to a BMA spokesman.

"The trust marketing council feels that trust CEOs of the future will come up the marketing side of the organization rather than the investment or legal side," the spokesman noted. "The last 10 years have proved that we cannot count on an ever-increasing marketing value of the assets we administer for our growth and for bottom-line improvement."

Individual BMA members and the designated member-bank representative may nominate one candidate each for the award. Nominees will be prescreened by the trust marketing council's awards subcommittee, and the names of six finalists will be submitted for majority vote by the council. The first award will be presented at the annual trust marketing workshop at the Americana of Bal Harbour, Miami Beach, Fla., November 30-December 3.

Rules Suggested to Prepare Bankers Considering Solar-Heating Loan Requests

THE "sunshine boys" may be con men, warns Insured Credit Services, Chicago, in a recent edition of its *Modernization Topics*. The article reads:

"Solar heat is a great untapped lode for the home-improvement fast-buck prospector. The public's attitude is an amalgam of hopes and fears, combined with expectations of federal tax breaks and grants. In Florida, for example, one firm has been promising buyers they'll get $400 grants from the government if they buy the company's equipment.

"Our observation suggests that many solar heating systems are vastly overpriced. Even at expected rates of increase in energy costs, these retrofits will take 12 to 15 years to pay for themselves. The performance promises are excessive, and the technology is not mature.

"When you are asked to lend funds for a solar improvement, you should:

"*Know your project*. Read up on it. Consult an engineer, architect or someone professionally familiar with solar heating. See that claims for the unit's performance have been evaluated by an independent laboratory or other reputable third party.

"*Know your dealer*. Observe his work; check up on his reputation; be aware of his credit worthiness.

"*Know your law*. Will building codes and zoning laws allow the improvement? Is it permissible for a neighbor to plant a tree or build an addition that shades your borrower's solar collectors? We expect the matter of 'sun rights' to be a very active field of litigation."

The article concludes by pointing out that a solar-energy reading list is available, without charge, from: National Solar Heating and Cooling Information Center, P. O. Box 1607, Rockville, MD 20850. • •

Pies Promote ATM Center

As part of a promotion for its new 24-hour automatic banking center, Roselle (Ill.) State sponsored a cherry pie baking contest in conjunction with an ice cream social. Why cherry pies? Because the bank's ATM is tagged "By George!" A $50 savings bond went to the winning pie baker, with $10 savings accounts awarded to runners-up. After judging, pies were sold to those attending ice cream social and proceeds were donated to Friends of the Library, sponsor of the social. Photo shows contestants awaiting results of judging.

We were helping banks back when most banks couldn't help themselves.

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It's all part of a correspondent banking commitment that keeps our doors open to any banking service your bank isn't quite ready to handle alone.

You can get full information on any correspondent banking service by talking to the Third National Correspondent Banker who serves your area today. Our Tennessee WATS Line is (800) 342-8360. In neighboring states, dial (800) 251-8516.

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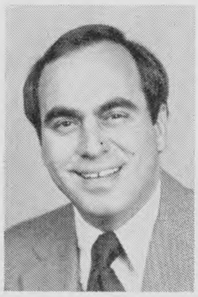
NEWS
From the Mid-Continent Area

Alabama

■ CHARLES B. SAVAGE has been promoted to the corporate banking office of First Alabama Bancshares, Inc., Montgomery. He was formerly a vice president and marketing officer at First Alabama Bank, Montgomery.



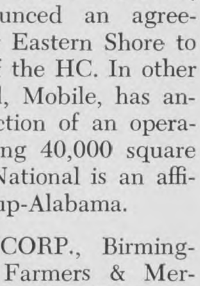
SAVAGE

■ FIRST BANCGROUP-ALABAMA, INC., and Eastern Shore National, Daphne, have announced an agreement in principle for Eastern Shore to become an affiliate of the HC. In other action, First National, Mobile, has announced the construction of an operations center comprising 40,000 square feet of space. First National is an affiliate of First Bancgroup-Alabama.

■ ALABAMA BANCORP., Birmingham, has acquired Farmers & Merchants, Ashford, as its 15th affiliate. In other action, First National, Birmingham, has promoted Mrs. Virginia H. Cornelius to regional branch supervisor.

■ THOMAS A. "TOM" JONES JR. has been elected manager, Riverchase Office, Southern National, Birmingham. The office is set for an early 1978 opening.

E. Ward Faulk Dies



E. Ward Faulk, 74, retired pres., Southland Bancorp., and former ch. of that HC's lead bank, Merchants Nat'l, Mobile, died October 4. He was an active director of the bank and treas. and a director of the HC at the time of his death. Mr. Faulk was with Merchants Nat'l 49 years, 45 of them as an officer. In 1972, he stepped down as ch. to become vice ch. until 1974, and he continued as a consultant after that time.

Arkansas

■ DeWITT BANK has celebrated the opening of its new building with a "Great Happening Grand Opening." The event was an open house featuring a vacation for two or cash prizes. Other winners became "millionaires for a day," receiving 7% interest on $1 million for one day. Free gifts, refreshments and balloons for the children also were provided. The bank's building is a parallelogram design with drive-up facilities on its north side. All southern windows are set back from the brick exterior to gain protection from the sun, and brick pylons the same color as the building support the bank logo at street corners in front of the institution's two entrances.

■ FIRST BANK, Jonesboro, has moved into a new main office building that combines antiques, comfortable chairs and quiet atmosphere with modern equipment, room for expansion and parking. The institution formerly was located on four small levels, but now is on one. "First Plaza," as it has been named, is located across from a shopping center and features extended hours of operation.

■ FIRST ARKANSAS BANKSTOCK CORP., Little Rock, has announced the issuance of FABCO commercial paper notes. Plans are to issue up to $5 million in notes. They are available in minimum denominations of $100,000 and in maturities of up to 270 days, and bear an F-2 rating.

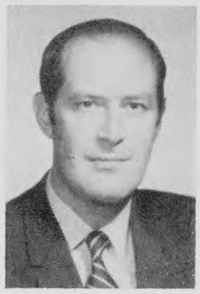
■ GEORGE E. ROWLAND JR. has been named senior vice president and manager, business banking division, First American National, North Little Rock. He has been in banking for 19 years, working in Arkansas, Indiana and Oklahoma.

■ W. F. CARLE, executive vice president and general manager, Riceland Foods, Inc., Stuttgart, has been elected a director of Commercial National, Little Rock.

■ FIRST NATIONAL, Little Rock, has elected Arthur E. Korenblat, president, I. K. Electric Co., and vice president, North American Metals, Inc., to its board.

Illinois

■ CENTRAL NATIONAL, Chicago, has promoted W. Keith Smith to vice chairman and director, Andre J. Bial to executive vice president and chief credit officer and Howard P. Blechmann to executive vice president and chief investment officer. In addition, Thomas P. Hickey, executive vice president, will report directly to Jackson W. Smart Jr., president and CEO. Mr. Smith joined the bank in 1971 and continues as executive vice president and treasurer of Central National Chicago Corp. Mr. Bial is new to the bank and Mr. Blechmann has been with the bank since 1969.



SMITH

BIAL

BLECHMANN

HOCTER

■ WILLIAM J. HOCTER has been elected executive vice president, Illinois Bankers Association, succeeding Robert C. Schrimple, who has retired after being with IBA for more than 22 years. Dr. Hocter served as staff vice president for the six months prior to his election. He was formerly a vice president and economist, Cleveland Fed. Mr. Schrimple has been retained as a consultant.

■ NATIONAL BOULEVARD, Chicago, has promoted Wesley M. Martin and Jack L. Riley to assistant vice presidents, Thaddeus J. Dutkiewicz to trust tax officer and Howard H. Hinkle to trust operations officer.

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■ JAMES A. GRELL has been named president, Heritage Pullman Bank, Chicago, and Edward W. Hannon has been elected vice president, real estate division. Mr. Grell joined the bank in 1970, moved to Heritage County Bank, Blue Island, in the same year, and returned to Pullman in 1972. Mr. Hannon is new to the bank, but has been in banking since 1956.

SEAMAN

GRELL

■ IRVING SEAMAN JR. has been elected president and chief operating officer, Sears Bank, Chicago. He succeeds Thomas F. Monahan, who has announced retirement plans. Mr. Seaman was formerly vice chairman of the bank. Emory Williams will continue as chairman and CEO.

■ JOHN E. TROUTMAN has been elected president, First State, Pekin, going from Morton Community Bank, where he had been vice president.

■ BRUNO V. VALENTE has joined Heritage First National, Lockport, as executive vice president. He began his banking career in 1954 at Heritage Pullman Bank and, in 1965, moved to Heritage Bancorp., where he was a vice president. He is a director of Heritage Bank, Crest Hill, Heritage Olympia Bank and Heritage Bank of Oakwood, Westmont.

Ill. Banks Provide Ag Credit

Illinois banks maintained their leadership in ag credit services, providing more than $2 billion in loans to farmers in 1976, according to John R. Montgomery III, president, Illinois Bankers Association, and president, Lakeside Bank, Chicago.

Illinois banks provided $1.6 billion in non-real estate loans, an increase of 18% over 1975 figures, and $445 million in farm real estate loans, an increase of 22% over the previous year.

■ ALTON BANKING & TRUST has promoted Robert Lynn Hall from vice president to executive vice president; Ruby M. Fritz from vice president and secretary to senior vice president and secretary; and Judith A. Dickinson from assistant cashier to assistant vice president and assistant cashier. They joined the bank in 1976, 1946 and 1959, respectively.

■ JOSEPH J. KURTZKE has left his post as senior vice president, national loan division, River Forest State, to join Albany Bank, Chicago, as senior vice president, commercial loans. Albany Bank is a new institution.

■ FRANK P. KAMPER has been promoted to senior vice president and comptroller, Avenue Bank, Oak Park. He joined the bank in 1961.

BOERSMA

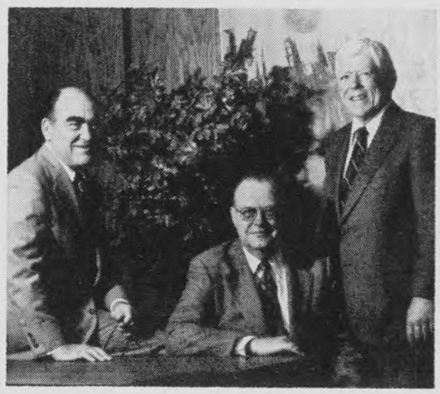
■ NORTHERN TRUST, Chicago, has appointed Phillip H. Boersma, vice president, as head of the Illinois division, replacing Harold E. Hindsley, vice president, who now heads the northwestern division.

Indiana

■ MARIAN E. ROBERSON has been elected president of Chandler State. She formerly was vice president and cashier. Succeeding Mrs. Roberson as cashier is Jeanne Helms. Mrs. Roberson joined the bank in 1960; Mrs. Helms in 1965.

■ A. DANIEL ODERKIRK has joined Purdue National, Lafayette, as senior vice president and senior trust officer. He will manage the trust department. Prior to joining Purdue National, Mr. Oderkirk was with First National, Racine, Wis., where he had similar responsibilities.

■ R. J. BRUNTON has been named to succeed M. C. Oberhelman as chairman and CEO, Citizens National, Evansville. Replacing Mr. Brunton as president will be Robert W. Hargrave, who also will serve as chief administrative officer. Mr. Oberhelman, who will retire January 1, 1978, will continue at the bank as executive committee chairman. He joined the bank in 1958; Mr. Brunton in 1960; and Mr. Hargrave in 1948.



Flanking M. C. Oberhelman, retiring ch. and CEO, Citizens Nat'l, Evansville, are R. J. Brunton (r.), new ch. and CEO, and R. W. Hargrave, pres. and chief admin. off. Mr. Oberhelman will continue at bank as exec. comm. ch. after his retirement Jan. 1, 1978.

■ MERCHANTS NATIONAL, Indianapolis, has promoted Jan P. Adams, Norman S. Hatch and Glen R. Jacobs from assistant vice presidents to vice presidents. Michael T. Schafer was promoted from branch manager to assistant vice president and James P. McCallister has rejoined the bank as an assistant cashier. In other action, Dr. Gene E. Sease was elected to the board. He is president, Indiana Central University. Mr. Adams joined the bank in 1970, Mr. Hatch in 1972 and Mr. Jacobs in 1971.

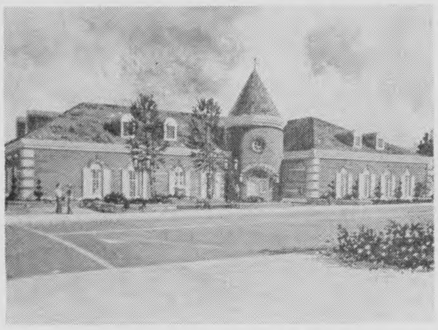
Kansas

■ COMMERCIAL NATIONAL, Kansas City, has appointed James Patrick Baldwin to manager, investment department, and Joseph A. DeCoursey to investment officer. Mr. Baldwin formerly was a government securities specialist with Bache, Halsey, Stuart & Shields and Mr. DeCoursey has more than 10 years' experience as an investment account executive with several firms.

■ MULVANE STATE will expand its operations into the building presently occupied by the City Library. The bank purchased and remodeled the Pix Theater Building, which it traded to the city in exchange for the library's quarters.

Exchanging deeds to the Pix Theater (background) and the Mulvane City Library are Frank L. Carson (2nd from r.), pres., Mulvane State, and Mulvane Mayor Robert O. Sullivan, while Jean Shaw (l.), library board member, and Nina Wessels, librarian, look on. Bank purchased and remodeled theater, which was traded to city for library's old quarters, into which bank will expand its operations.

New Chanute Bank Building



This is an artist's rendering of the new headquarters of Bank of Commerce, Chanute. The Normandy-style building will be of concrete construction with a brick veneer exterior, slate roof and copper-covered dormers. A patio area in front of the building will be surfaced with paved bricks, which also will be used in the entrance area and main lobby. Bank of Commerce's building will have 11,800 square feet of space on the main floor and in the basement, while a mezzanine floor will contain the boardroom and two offices.

■ LEWIS T. BAMBICK has been promoted from assistant cashier to assistant cashier and operations officer at State Bank of Fredonia.

Kentucky

■ FIRST NATIONAL, Louisville, has promoted Thang Cao Dang to associate international credit officer, Thomas S. McGrain to assistant operations officer and Stewart K. Wise to associate commercial credit officer. First Kentucky National Corp. has promoted Alison L. Falls from economist at First Kentucky Trust to economist and investor relations officer at the HC. At First Kentucky Trust, F. Patrick Dant has been named assistant operations officer.

■ RANDY L. ATTKISSON, vice president, international banking, First National, Louisville, has been appointed an adviser to the Governor's Economic Development Commission on the Tourism/Travel Task Force. Governor Julian M. Carroll draws from the business sector throughout the state to fill committees on the commission.

■ JAMES R. BURKHOLDER has been promoted to assistant vice president in the correspondent banking division at Louisville Trust. He has been with the bank since 1973 and is a graduate of Transylvania University, Lexington.

■ MALCOLM B. CHANCEY JR., senior vice president at Liberty National, Louisville, has been named to succeed William D. Meyers as senior vice president and cashier, effective January 1. Mr. Meyers is expected to retire at that time after serving the bank since 1962. Mr. Chancey, who also serves as head of operations, joined the bank in 1968. He was a founder and first president of the Kentuckiana ACH, which he now serves as vice president.

CHANCEY

BURKHOLDER

■ SHIVELY R. MITCHELL has been elected president, Peoples Bank, Greensburg, succeeding Woodson Lewis, who resigned after filling the post of president for 20 years. Mr. Mitchell has been with the bank for 38 years and has been CEO since 1958. Mr. Lewis has been with the bank for 50 years. Virgil Price was elected first vice president and William Lewis was elected a director.

Louisiana

■ FARRELL J. CHRISTOPHE, equal employment coordinator, Boh Brothers Construction Co., has been appointed to the advisory board of Liberty Bank, New Orleans.

■ JOSEPH N. TRAIGLE, executive vice president, Great American Corp., parent of American Bank, Baton Rouge, has been named chief operating officer of the HC. He has assumed responsibility for the day-to-day management of the HC and its subsidiaries, including the bank.

HUGHES

■ FIRST NATIONAL BANK OF COMMERCE, New Orleans, has named Samuel D. Hughes, senior vice president, as manager, national accounts division and regional department in addition to his existing responsibilities for the total United States/international banking group, which includes correspondent banking. Allen E. Frederic Jr., vice president, has been named to head the international banking division. Mr. Hughes joined the bank in 1971 and Mr. Frederic has been with First NBC since 1972.

■ CONRAD E. ANDERSON has been elected chairman, First Guaranty Bank, Hammond, succeeding E. A. Courtney, who has resigned to devote his time to personal business commitments. Mr. Anderson has been a director for 10 years and also serves as a city official.

Mississippi

■ DEPOSIT GUARANTY NATIONAL, Jackson, has promoted John R. Jones and Thomas L. Scott to assistant vice presidents.

■ HAYS McCAULEY has retired from Bank of Philadelphia as an active officer, but retains the title of president emeritus. Kenneth A. Madison is president.

Missouri

■ UNITED MISSOURI BANK OF JEFFERSON COUNTY, Arnold, has elected James M. Boyd chairman and CEO and James R. Finks president. Mr. Boyd has been president since 1975 and joined the bank's predecessor, Arnold Savings, in 1958. Mr. Finks joined the bank in 1975 after service with Mark Twain State, Bridgeton.

COOPER

HOGG

GRIMMER

VASILEFF

■ BOATMEN'S BANCSHARES, St. Louis, has promoted Allen A. Cooper Jr. to vice president. Boatmen's National has elected S. Ernest Hogg, Richard E. Grimmer and Michael W. Vasileff vice presidents. James R. Clement and Frank C. Dunne were named trust officers and Larry J. Descher and William Kling Jr. were elected assistant vice presidents at the bank. Mr. Cooper joined the HC in 1974.

New Manchester Bank West County Opening in Portable Building

Manchester Bank West County is scheduled to open for business in a portable building early this month in the St. Louis suburb of Maryland Heights. Capital and surplus are $500,000 each, and undivided profits are $200,000.

W. C. Johns is president, and Ronald K. Hammelman is vice president and cashier. Mr. Johns has been senior vice president, Manchester Bank of St. Louis, where Mr. Hammelman was assistant vice president. Both banks belong to Manchester Financial Corp., a multibank HC, headquartered in St. Louis.

Ground was broken October 13 for the new bank's permanent home, which is scheduled for occupancy by next June 17. The bank has 10 employees and is located in a 22-acre shopping center.

■ ST. LOUIS COUNTY BANK, Clayton, has appointed Stephen D. Golden assistant vice president, Gerald J. Hoeing assistant comptroller and Richard A. Matt operations officer. Mr. Hoeing succeeds David Evangeloff, who has been elected assistant vice president of County National Bancorp. The HC has sold its mortgage banking subsidiary, General Mortgage Co., to GMC Co.

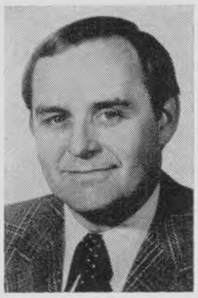
■ FIRST NATIONAL, St. Louis, has elected J. Michael Accardi and W. Kenneth Braden retail banking officers; J. Leon Stanek and Carlene Wirth operations officers; and Dorothy M. Feigl bond operations officer.

■ GEORGE W. SHERMAN has been elected executive vice president, Laurel Bancshares, Kansas City, and a director of each of the three Laurel banks. In the past, he has been associated with Mercantile Bank and United Missouri Bank, both in Kansas City.

■ UNITED MISSOURI BANK, Kansas City, has elected Barton S. Blond corporate secretary and Allen Davis assistant cashier. Mr. Blond is also general counsel and assistant to the chairman. Mr. Davis joined the bank in 1973.

Pictured breaking ground October 13 for new Manchester Bank West County are Alfred J. Fleischer (4th from l.), director, Manchester Financial Corp., HC that owns bank; W. Clyde Johns (5th from l.), pres.; and Ronald K. Hammelman (5th from r.), v.p. & cash. They are with several employees of new bank. Mr. Fleischer is managing partner, Fleischer-Seeger Construction Co., contracting firm for new bank building.

ROGERS



HOECKER CARROLL

■ MERCANTILE TRUST, St. Louis, has elected Robert J. Carroll Jr. and Burdet W. Hoecker vice presidents and named John P. Rogers, vice president, manager of the new accounts-customer services division. Mr. Carroll is in the eastern division of the national banking department and Mr. Hoecker is in the real estate division of the regional banking department. Richard M. Mueller has been promoted to assistant auditor and Gerald Bolfing has been named operations officer. Mr. Rogers joined the bank in 1968.

■ LeROY B. CHASTEEN has been elected vice president and cashier at Mercantile Commerce Trust, St. Louis. He was formerly associated with First Missouri Bank, Creve Coeur.

New Mexico

■ GROUND has been broken for the new building for San Juan National, Farmington. The 2,400-square-foot building will include a drive-in and parking lot. Construction manager is Bank Building Corp., St. Louis.

■ THE ORGANIZERS of the proposed Valley Bank of Commerce, Roswell, have received approval from the state banking commissioner to go into operation. Other regulatory approval is pending. Serving as president of the institution will be John H. Burson, formerly executive vice president, Security National, Roswell. Named as vice president of the new bank was Betty Hughes, former Security National assistant vice president, while Harry Birrell, former customer relations representative at Security National, will hold a similar post at Valley Bank. Organizers hope to open the bank by December 1. They have taken an option to purchase property in the 200 block of North Pennsylvania and would open in a modular banking unit.

■ BANK OF LOS ALAMOS has received approval as a new bank from the state banking commission and is expected to open before year end. Howard Hudgeons is president. The bank is capitalized at $750,000 and will be the city's third financial institution.

■ ROBERT REY has been elected vice president, Plaza del Sol National, Albuquerque. He goes there from American Bank of Commerce, Albuquerque.

Oklahoma

■ CHARLES O. RICE has been elected senior vice president, Bank of Oklahoma, Tulsa. He was previously vice president, correspondent banking department, and will continue to be responsible for correspondent banking. He joined the bank in 1973. In other action, Francis G. Hawkins, senior vice president, has resumed leadership of the trust division. Since 1970, he has been manager of operations. He has been with the bank for 31 years, longer than any other senior officer.

RICE HAWKINS

■ H. HARBER LAMPL has advanced from president to chairman and CEO, American National, Shawnee, while David A. Lampl has been promoted from executive vice president to vice chairman, president and chief administrative officer.

■ LEA YOUNG, vice president, has assumed additional duties as cashier, United Bank, Tulsa. She is a charter employee of the bank, which opened in 1973, and was formerly cashier.

■ CARL GRANT, senior vice president, Liberty National, Oklahoma City, has been appointed to the Oklahoma City Board of Park Commissioners for a four-year term. Mr. Grant heads the personal banking department and has been with Liberty since 1969.

Tennessee

■ JOE DIEHL, senior vice president at Third National, Nashville, has been appointed director of the retail division. He is in charge of five major areas in the bank, including branches, installment loans, credit card center, retail services and savings. He has been with Third National since 1951. In other action, the bank has promoted M. Carl Sneeden to vice president and named the following assistant vice presidents: Eff W. Birdsong Jr., Robert E. Matthews, Owen R. Blanton, Mrs. Helen D. Miller and David M. Emerson.

OGILVIE DIEHL

■ CHARLES W. OGILVIE JR. has been named president and chief operating officer, City National, Memphis. Fred W. James, formerly president and chairman, has relinquished the president's title. Mr. Ogilvie has been with the bank since its opening in 1974 and was formerly executive vice president.

Texas

■ MAIN BANK, Houston, has named N. O. Adams Jr. president and CEO and elected Sam Boyd senior vice president. Mr. Adams had been president and a director of Bank of South Texas, Alice, and, before that was president and CEO, First National, Alice. The two banks merged four years ago. Mr. Boyd was formerly a vice president at Bank of South Texas.

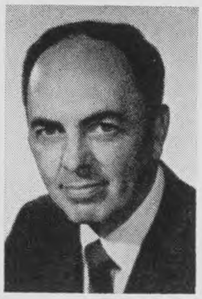
■ PLAINS NATIONAL, Lubbock, has announced plans to construct an Express Facility at 50th and Akron, across from the bank's main building. The facility will feature 18 drive-up lanes, parking for 200 autos, four inside windows for commercial customers and a 24-hour ATM. Completion has been slated for spring, 1978.

■ FIRST NATIONAL, Dallas, has announced executive changes to take effect December 31. Harry A. Shuford, present chairman, will become chairman, executive committee, and will continue as chairman, directors' trust

MASON

SHUFORD

HOBGOOD

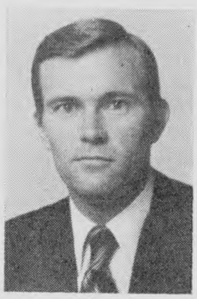


HART

committee. Elvis L. Mason, current president, will become chairman and continue as CEO. Richard M. Hart will become president and chief administrative officer as well as a director. He is now executive vice president. Gordon Hobgood Jr. has been elected executive vice president and trust division head. Mr. Shuford joined the bank in 1966, Mr. Mason in 1976, Mr. Hart in 1956 and Mr. Hobgood is new to the bank, going from First International Investment Management, Inc., a subsidiary of First International Bancshares, HC of which First of Dallas is an affiliate.

■ BANK OF THE SOUTHWEST, Houston, has promoted C. Richard Vermillion Jr. to manager, commercial banking division, which includes the correspondent banking department. He is a senior vice president. In other action, the bank has named the following assistant vice presidents: Hans I. Christensen, Wilbur G. Meinen Jr. and Charles E. Dalton.

VERMILLION



■ THEODORIC C. BLAND JR. has been elected president, First City Bank-Bellaire, Houston, formerly First City Bank-Executive Plaza. Mr. Bland was formerly with First City National, Houston, which he joined in 1972.

STATEMENT OF OWNERSHIP, MANAGEMENT AND CIRCULATION (REQUIRED BY 39 U.S.C. 3685)

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8. Known bondholders, mortgagees, and other security holders owning or holding 1 percent or more of total amount of bonds, mortgages or other securities: None.

10. Extent and nature of circulation. The average number of copies each issue during preceding 12 months are: (A) Total No. copies printed (Net Press Run), 6,454; (B) Paid circulation: 1. Sales through dealers and carriers, street vendors and counter sales, 0; 2. Mail subscriptions, 5,683; (C) Total paid circulation, 5,683; (D) Free distribution by mail, carrier or other means. Samples, complimentary, and other free copies, 343; (E) Total distribution (Sum of C and D), 6,026; (F) Copies not distributed: 1. Office use, left-over, unaccounted, spoiled after printing, 428; 2. Returns from news agents, 0; (G) Total (Sum of E & F—should equal net press run shown in A), 6,454. Actual number of copies of single issue published nearest to filing date: (A) Total No. copies printed (Net Press Run), 6,400; (B) Paid circulation: 1. Sales through dealers and carriers, street vendors and counter sales, 0; 2. Mail subscriptions, 5,621; (C) Total paid circulation, 5,621; (D) Free distribution by mail, carrier or other means. Samples, complimentary, and other free copies, 345; (E) Total distribution (Sum of C and D), 5,966; (F) Copies not distributed, 1. Office use, left-over, unaccounted, spoiled after printing, 434; 2. Returns from news agents, 0; (G) Total (Sum of E & F—should equal net press run shown in A), 6,400.

11. I certify that the statements made by me above are correct and complete.

RALPH B. COX, *Publisher*

12. For completion by publishers mailing at the regular rates (Section 132.121, Postal Service Manual) 39 U.S.C. 3626 provides in pertinent part: "No person who would have been entitled to mail matter under former section 4359 of this title shall mail such matter at the rates provided under this subsection unless he files annually with the Postal Service a written request for permission to mail matter at such rates." In accordance with the provisions of this statute, I hereby request permission to mail the publication named in Item 1 at the phased postage rates presently authorized by 39 U.S.C. 3626.

RALPH B. COX, *Publisher*

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under his thumb
banking problems