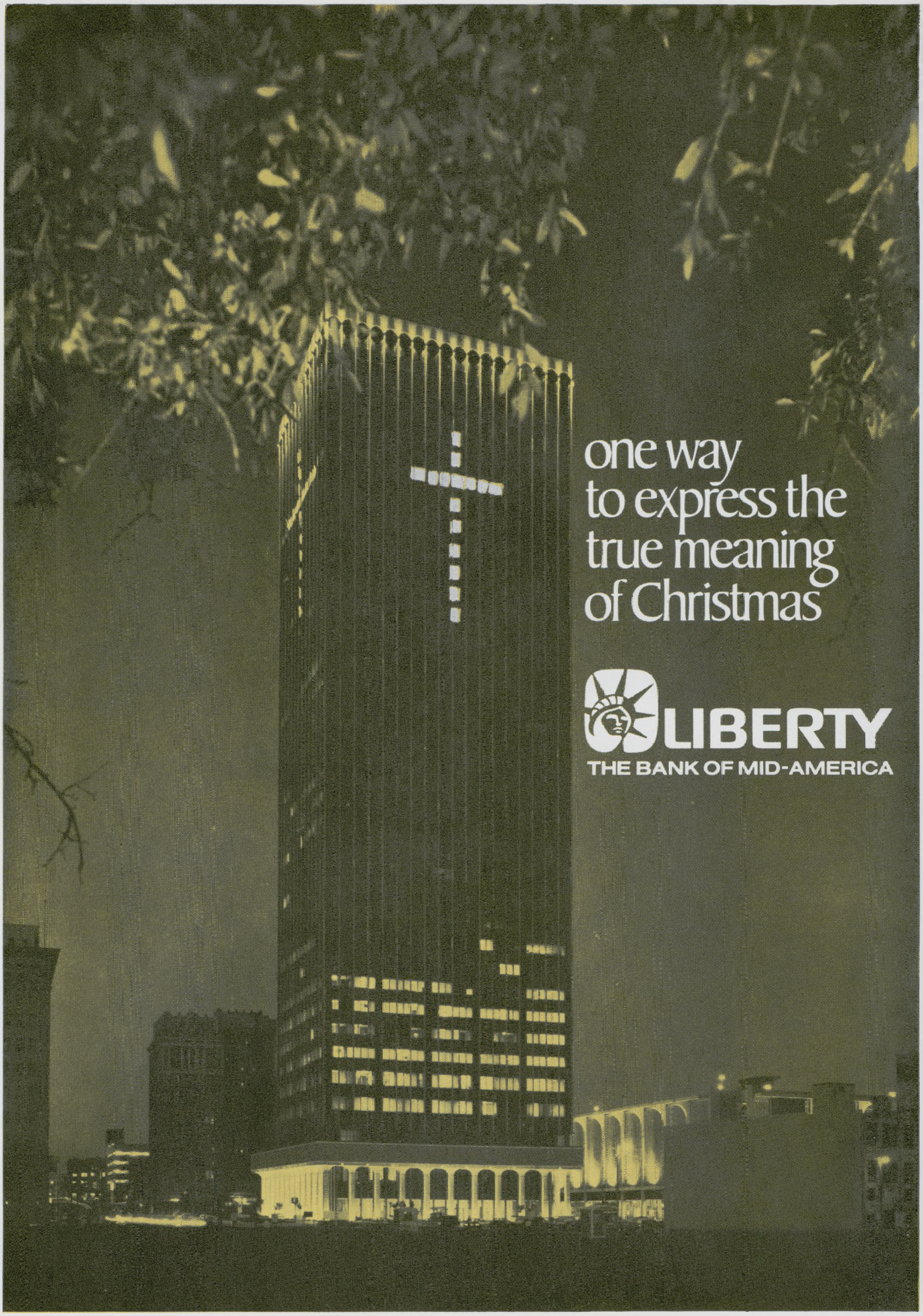
MID-CONTINENT BANKER

The Financial Magazine of the Mississippi Valley & Southwest

DECEMBER, 1977

Commercial Finance

And Leasing Issue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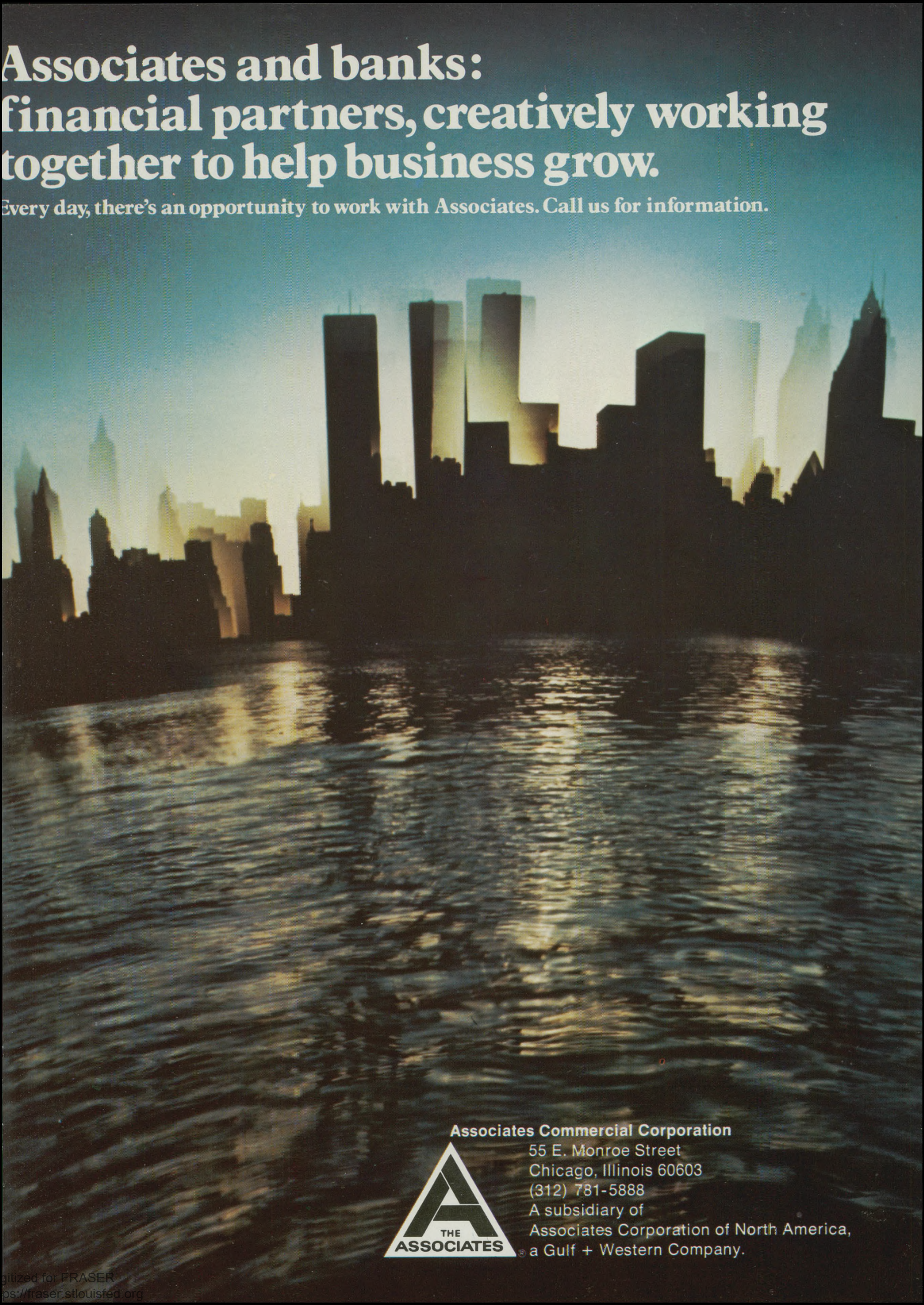
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MID-CONTINENT BANKER

The Financial Magazine of the Mississippi Valley & Southwest

Volume 73, No. 13 *December, 1977*

FEATURES

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MID-CONTINENT BANKER (publication No. 346 360) is published 13 times annually (two issues in May) by Commerce Publishing Co. at 1201-05 Bluff, Fulton, Mo. 65251. **Editorial, executive and business offices, 408 Olive, St. Louis, Mo. 63102.** Printed by The Ovid Bell Press, Inc., Fulton, Mo. Second-class postage paid at Fulton, Mo.

Subscription rates: Three years $21; two years $16; one year $10. Single copies, $1.50 each. Foreign subscriptions, 50% Additional.

Commerce Publications: American Agent & Broker, Club-Management, Decor, Life Insurance Selling, Mid-Continent Banker, Mid-Western Banker, The Bank Board Letter and Program. **Donald H. Clark,** chairman; **Wesley H. Clark,** president; **Johnson Poor,** executive vice president and secretary; **Ralph B. Cox,** first vice president and treasurer; **Bernard A. Beggan, William M. Humberg, James T. Poor** and **Don J. Robertson,** vice presidents; **Lawrence W. Colbert,** assistant vice president.

Convention Calendar

Jan. 8-11: Robert Morris Associates Credit Department Management Workshop, Dallas, Hilton Inn.
Jan. 17-19: Bank Administration Institute Bank Planning Conference, Los Angeles, University of Southern California.
Jan. 26-29: 30th Assembly for Bank Directors, Palm Springs, Calif., the Riviera.
Jan. 29-31: ABA Corporate Marketing Seminar, Chicago, Hyatt Regency O'Hare.
Feb. 2: Bank Marketing Association Basic Advertising Workshop, Dallas, Dallas Marriott Hotel.
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 16-17: Robert Morris Associates Term Lending Workshop, Indianapolis, Hyatt Regency.
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.
April 2-4: National Automated Clearing House Association Annual Conference, New Orleans, Hyatt Regency.
April 2-5: ABA National Installment Credit Conference, San Francisco, San Francisco Hilton.
April 2-5: Bank Marketing Association Research Conference, Atlanta, Omni International Hotel.
April 4-6: National Assn. of Bank Directors Annual Conference, Chicago, O'Hare Inn.
April 6-9: National Association of Bank Women Southwestern Regional Conference, Tyler, Tex., Sheraton Inn.
April 9-12: ABA Southern Regional Bank Card Workshop, San Antonio, Tex., Palacio del Rio.
April 9-12: Conference of State Bank Supervisors Convention, San Francisco, Hyatt Regency Hotel.
April 11-12: ABA Fiduciary Standards Workshop, Chicago, Hyatt Regency O'Hare.
April 13-16: 31st Assembly for Bank Directors, New Orleans, Fairmont Hotel.
April 16-19: Bank Marketing Association Staff Sales Training Workshop, Chicago, Holiday Inn Mart Plaza.
April 16-27: ABA National Commercial Lending School, Norman, Okla., University of Oklahoma.
April 23-25: Bank Administration Institute City Conference, San Francisco.
April 26-28: ABA Governing Council Meetings, White Sulphur Springs, W. Va., The Greenbrier.
April 30-May 3: ABA National Conference on Real Estate Finance, Washington, D. C., Capitol Hilton Hotel.

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By Dr. Lewis E. Davids

Hill Professor of Bank Management,
University of Missouri, Columbia

'ABL-l' and the Effective Board Audit

A DECADE ago, the typical banker was not conversant with acronyms such as "ATM" or "POS." Now it's almost taken for granted that bankers know "ATM" stands for "automatic teller machine" and "POS" stands for "point of sale."

New acronyms are being used by bankers in some sections of the country. They are "BBL" and "ABL." The former stands for "Before Bert Lance" and the latter stands for "After Bert Lance."

The significance of these two acronyms is quite clear: That the unfortunate incidents involving Mr. Lance affected the banking climate.

Most bankers would like to operate in the BBL era. They know that ABL-1 already has seen a raft of proposals regarding banking that, under such euphemisms as "Safe Banking Bill," are bound to add more restrictions on how bankers may operate their shops.

Discussing the Lance situation in a column is a difficult and sensitive task. One would hope that the Lance incident somehow never could have happened. Now that it has, one would hope that it could be forgotten quickly (though its lessons were well learned) so banks could get back to their regular work of accepting deposits, paying checks, etc.

Such a hope is sanguine. The press and legislators are not letting up on the issue.

It's not the purpose of this column to imply that the Lance incidents are illegal, or (as bank examiners have done) an unsafe or improper banking practice, or a diversion of corporate opportunity, or (as the Carter administration held but the ABA refuted) a common banking practice. The purpose of this column is to make the point that such an incident *could have and should have been avoided by an effective board audit.*

An important study on commercial bank boards of directors has been completed by Drs. David W. Cole and Wilbur A. Rapp, both professors of finance at Ohio State University.

They found that only 76.6% of the banks they surveyed had audit committees. This is a remarkable figure if one is familiar with the Comptroller of the Currency's Form CC-1417, which requires "semi-annual examinations made by the directors or by any committee appointed by the directors or by an accountant for such committee."

"Bankers and directors must recognize that if they do not discipline themselves and act with prudence they are opening the door to more restrictive and often counterproductive legislation and regulation."

The regulation goes into specifics, requiring scrutinization of cash items, verification of balances with banks and the Fed, etc., as well as control of collateral and verification that board approval has been given in these and other areas.

Both of the banks controlled by Mr. Lance are nationally chartered and thus are subject to the Comptroller's CC-1417. But even if they had not been national banks, any competent legal counsel could cite such well known cases as Briggs vs. Spalding, Rankin vs. Cooper, Gamble vs. Brown, all of which have established as common law the fact that bank directors who are charged to be prudent individuals are negligent unless periodic audit-examinations are conducted.

Further, it's the policy of the Comptroller not to issue a charter unless a bank's bylaws provide for a directors' examination. Thus, whether a specific bank code calls for a directors' examination or is silent on the subject, common-law liability exists and must be recognized if one listens to recognized banking authorities and legal counsels.

Yet the Cole and Rapp survey indicates that almost one-in-four respondents indicated that their banks did not have such committees. Stated another way, if the data is extrapolated, about 3,600 banks in the nation do not have examination-audit committees to make sure internal controls and operations comply with board policy.

One may conjecture that the boards of 25% of the nation's banks not having audit-examination committees have not read the caveat on their reports of examination, which clearly states: "It is recommended that each director, in accordance with his responsibilities both to depositors and to shareholders, thoroughly review the report. In making this review, it should be kept in mind that, while an examination includes some audit tests, it's not to be construed as an audit, and this report should not be considered an audit report."

There is the possibility that a significant number of respondents to the Cole and Rapp survey may have misinterpreted the questions, since in many banks the audit committee is designated the "examination committee." But that really doesn't alter the basic question: Does the examination committee, or the audit committee, perform in an effective manner? Would an effective audit-examination committee have tested or have competent auditors and/or accountants check the bank's internal op-

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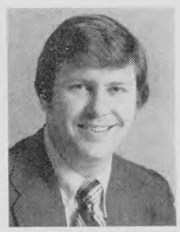
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". . . about 3,600 banks in the nation do not have examination-audit committees to make sure internal controls and operations comply with board policy."

erations to see if they were in compliance with board policy? The oath of office of directors calls for them to "diligently and honestly administer the affairs of (his) bank and not knowingly violate, or willingly permit to be violated, any of the provisions of the law applicable to such bank."

Thus, violation of legal loan limits or unsound banking practices, such as holding sizable overdrafts for an extended period in a "suspense" account, should have been determined and reported to the audit committee and through it to the board as a whole. While violations of legal loan limits are not frequent, they do get written up on page 1-a of "Violations of Laws and Regulations, Section A" of the examination report.

Extensions of credit that exceed the bank's legal loan limit are described under Section B. It's important to note the caveat that appears on this page: "Specific reference is made to the statute or regulation which appears to have been violated, to the limitation or requirement prescribed thereby, and to names of directors who approved nonconforming assets and the date of such approval.

"The term 'extension of credit' includes loans, overdrafts, cash items, items charged-off, enforceable repurchase agreements, bank's own acceptances discounted and all other forms of credit extension. Excessive extensions of credit resulting from accommodation paper, partnership liability, renewed commercial paper, or from other unusual reasons or affiliations. . . ."

In this year of ABL-1, bank officers and directors should recognize that existing common law concepts of prudence and checking internal controls, plus data in the report of examination, should have made the Lance incidents impossible, or at the most, a short-term and soon-corrected situation.

Bankers and directors must recognize that if they do not discipline themselves and act with prudence they are opening the door to more restrictive and often counterproductive legislation and regulation. The audit-examination committee must not be an ineffective rubber stamp that simply goes through the motions but avoids making those tough decisions that keep the bank from violating laws and sound banking practices.

Boards of those one-in-four banks without audit-examination committees should reexamine their policies before their primary regulators formally insist that such committees be established.

James L. Smith Named Pres. Of Consumer Bankers Assn.

PHOENIX—James L. Smith, senior vice president, Security Pacific National, Los Angeles, was elected president, Consumer Bankers Association, at its 57th annual convention held at the Arizona Biltmore.

He succeeds Mason G. Alexander, senior vice president, Citizens & Southern National, Atlanta, who became a member of the association's board of governors and executive committee.

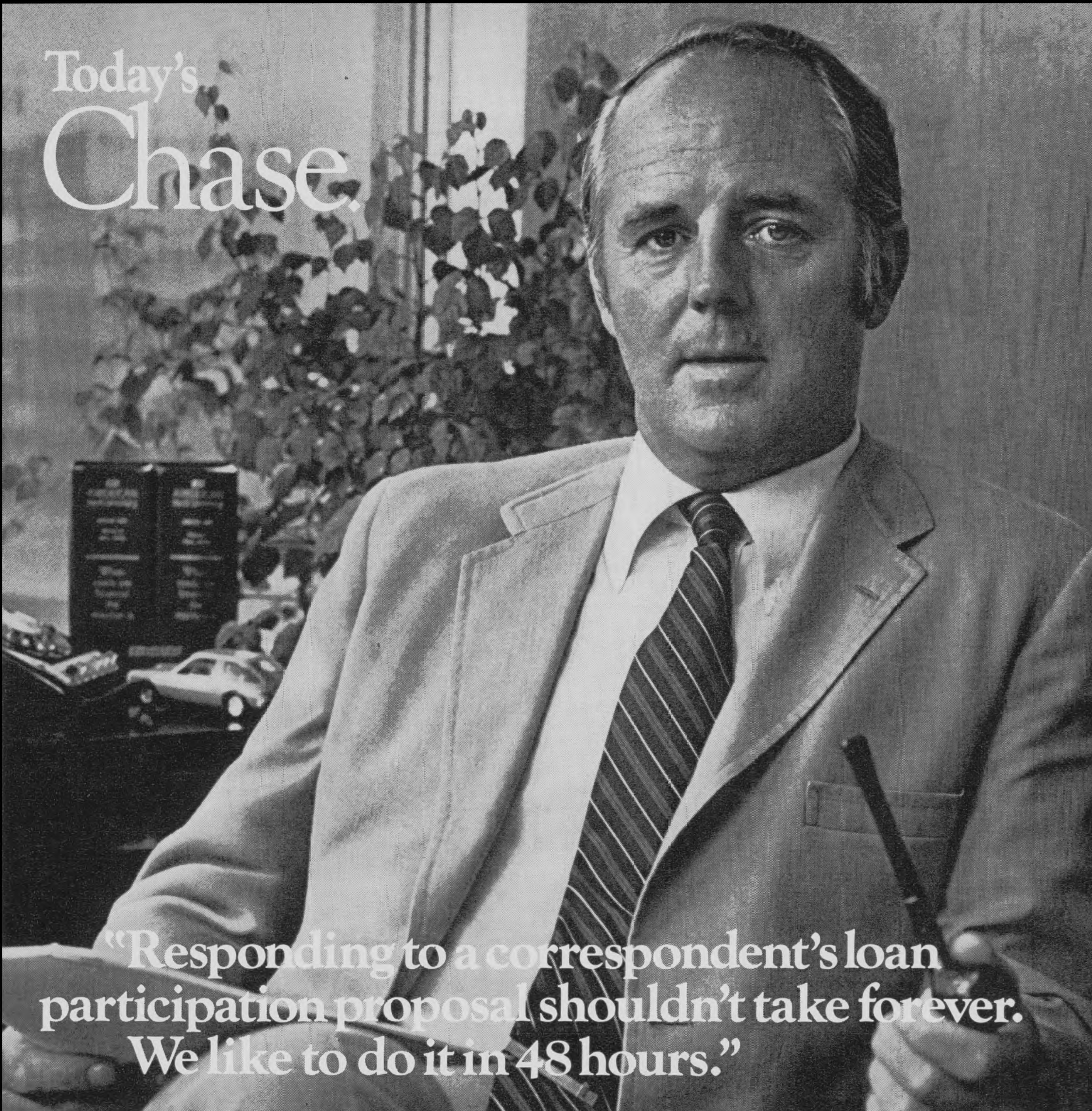
Other CBA officers elected at the convention were: first vice president—Charles F. Patterson Jr., group vice president, Trust Co. Bank, Atlanta; and second vice president—Leslie R. Butler, executive vice president, First Pennsylvania Bank, Philadelphia. Messrs. Patterson and Butler will serve on the CBA executive committee.

John F. Curran, senior vice president, First National, Dallas, was appointed to a three-year term on the CBA board of governors and Glenn Hodges, senior vice president, First Tennessee Bank, Memphis, was named to the executive committee.

The 58th annual convention of the CBA will be held at the Boca Raton, Fla., Hotel and Club. Dates for the event are October 8-12, 1978.

Supermarket Branches Opened

Oregon Bank, headquartered in Portland, will open the second of its manned "Go Bank" offices in Safeway supermarkets this month. The 180-square-foot full-service branches are open from 10 a.m. to 8 p.m. Monday through Saturday. Next month, the bank plans to install ATMs at each "Go Bank" branch to facilitate customer access to their accounts.



Wayne G. Hansen, Senior Vice President/Group Executive, Correspondent Banking

Must it always take a week or more to come to a prudent decision on your loan participation? Wayne Hansen doesn't think so. As the senior officer responsible for Chase's correspondent banking business, he knows that having the right people makes the difference. Your Chase Relationship Manager is a good example. He or she knows what it takes to quickly structure a credit that's right for your customer, right for your bank and right for Chase.

That's why Today's Chase doesn't keep you in the dark about our reaction to your participation proposal. In fact, after you give us all the details, we'll get back to you within 48 hours—guaranteed. Chances are we'll have a "yes" or "no" for you. But if your participation happens to require a little more research, you'll know about it *right away*—not a week or two later.

Nobody responds faster.

If you're in need of a fast response on a loan participation, it would be wise to first talk to your Chase correspondent banking Relationship Manager. Especially if you have an important customer who needed his money yesterday.

CHASE

Community Involvement

Visited by 24,000

Energy-Efficient House Displayed on Bank Plaza

With all the interest in energy conservation now being shown across the country, an outdoor exhibit last summer at Minneapolis' First National proved extremely appropriate. With two cosponsors—Northern States Power Co. and a construction firm—the bank had an energy-efficient house erected on its plaza and then opened it to the public for about three weeks. Nearly 24,000 persons went through the building.

Purpose of the project, according to the bank's public relations director, Gordon M. Malen, was to show practical construction designs and materials that can be incorporated into a modern house to reduce energy consumption significantly.

The house, says Mr. Malen, was the first to be accorded Northern States Power Co.'s energy-efficient home medallion, signifying that it had been built to exacting energy-conservation standards. It's estimated that the structure will produce a 50% savings in energy required for heating and a 33% reduction in energy needed for cooling. The 1,116-square-foot house contains attic and wall insulation double that required for current minimum new-home standards, triple-glazed windows, core-insulated doors and specially engineered heating, cooling and ventilating systems. A solar-assisted hot water heater also was shown.

Power company representatives were on hand to discuss all aspects of the energy-efficient-home program with visitors.

Massive timbers supported the house when it was erected on the bank's plaza. About 2½ weeks were required for construction. Its cost was recovered by the contractor when, after being moved to a site in a Minneapolis suburb, it was sold in the $60,000 price range. A full basement and two-car garage had been added after it arrived at its permanent site.

Mr. Malen says, however, there was about $15,000 in special expenses, which the three sponsors shared equally and which the bank considers quite reasonable in view of the publicity and favorable attention (the 24,000 visitors) the project generated. Included were advertising and promotional expenses of about $9,000. Also, it cost $3,900 to move the completed house on a flatbed trailer from downtown to a suburban location.

This energy-efficient house was displayed for 2½ weeks on plaza of First Nat'l, Minneapolis, then transported to suburban site, where full basement and two-car garage were added. House then was sold for around $60,000.

Oklahoma's First:

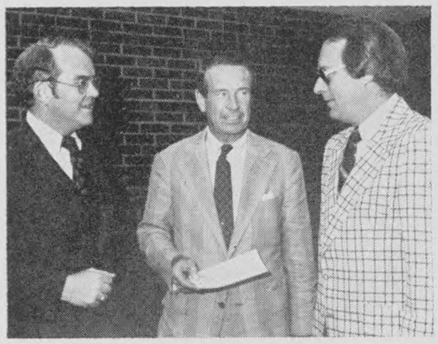
Bank's Tennis Tournament Features $50,000 Purse

Bank of Oklahoma, Tulsa, will sponsor the first Colgate Grand Prix tennis tournament to be held in Oklahoma, according to a bank spokesman.

The event will be held April 24-30, 1978, at Shadow Mountain Racquet Club and will feature 32 players competing for a $50,000 purse.

Serving as tournament chairman is Dan Keating, bank vice president, who notes that at least two of the top 10 ranked players in the world will play in the tourney.

Bank's Fund Gains Donor



Paul Thomas (r.), v.p., First Nat'l of Lincolnwood, Ill., accepts a $1,000 check for the Patrolman James Koumoundouros Fund from John R. Montgomery III (c.) and William J. Hocter. Mr. Montgomery is pres., Ill. Bankers Assn., and pres., Lakeside Bank, Chicago; Mr. Hocter is IBA exec. v.p. First Nat'l has contribtued $5,000 to the fund, which is designed to aid the family of the bank's security guard, who was killed while attempting to prevent a robbery September 7.

Lowered Rates:

Energy-Wise Citizens Benefit in Loan Program

In conjunction with the free home energy survey program of St. Louis County, St. Louis County Bank, Clayton, Mo., is cutting the interest rate charged on FHA home improvement loans to home owners who have the survey made and need to finance suggested improvements.

A bank spokesman says the interest rate will be cut 20% from normal on loans with maturities of three years or less, slightly less on longer-term loans. Home owners only need have the survey done and meet the bank's normal credit requirements.

Under direction of the county's Department of Human Resources, surveyors check attic insulation, air infiltration throughout the house and suggest ways to conserve energy. The bank hopes to encourage energy-saving improvements and bolster the county program's visibility.

It's Now Attractive:

Solar Energy Financing Offered to Californians

Bank of America, San Francisco, has begun a solar-energy financing program for California home owners. Qualified customers will be able to obtain financing for installation of solar hot-water heating, swimming-pool heating and home space heating and cooling.

The bank feels that rising energy costs from traditional sources have made solar energy attractive and that there are solar energy systems of suf-

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ficient quality for which to offer financing. The bank hopes to help bring solar energy into the mainstream through its program.

Bank of America already offers financing for other energy-saving improvements—insulation, double-pane windows and more efficient heating and cooling systems, for example.

For Area Employees:

Personal Financial Plan Is Aim of Workshops

Harris Trust, Chicago, has held a series of one-day programs designed to help area corporate employees learn how to prepare and carry out a personal financial plan.

Heading the programs was Wallace W. Grieser, Harris Bank personal financial planner, who used slides and workshop manuals to demonstrate a master financial plan, from which participants could adapt a plan to meet their personal needs.

Topics covered in the workshops included how to determine reasonable housing costs, how to use credit wisely and how to budget and establish realistic investment goals and strategies. More technical subjects such as income-tax reduction, investment alternatives, insurance coverage and estate planning were discussed in the context of pre-professional counseling. Individual follow-up counseling also was available.

The fee-basis workshops were conducted at Harris Bank or on corporate premises.

Truck Promotes Fire Prevention

As part of Fire Prevention Week, Manufacturers Hanover Trust, New York City, sponsored this special van, which traveled throughout the city's boroughs spreading the word about fire prevention. The truck was equipped with a public-address system and audio-visual programming featuring "Cool Cat," an animated cartoon character who conducted running conversations with spectators. The mobile unit toured New York for 10 days, concentrating on areas with high incidences of fires and false alarms.

Giving 'the Needle' to Local Students Is One Function of Bank's Program

STUDENTS at Borden High School, Jeffersonville, Ind., got "the needle" from Citizens Bank recently, and the students were proud to get it! "The needle" is a trophy the bank awards annually to the local high school having the largest percentage of eligible students who donate blood to the Clark County Red Cross Blood Program. In Indiana, anyone 17 or older may donate blood.

Mary Johnson of Citizens Bank, Jeffersonville, Ind., gives "needle" to Jeff Walton of Borden High School. Mr. Walton, member of bank's student advisory board, accepted award on behalf of his school, which had highest percentage of eligible students donate to county blood drive. Award is part of bank's student advisory board program.

The contest involves each school hosting its own drive—this year's contest resulted in the collection of 659 pints of blood from high schoolers in the county—and is part of Citizens Bank's student advisory board program.

The student advisory board was formed in 1972 and is comprised of students from area schools. It has as its goals the education of students regarding services offered by commercial banks; helping the bank better understand students' financial needs; and helping Citizens Bank fulfill its social responsibilities in the community.

Besides the blood program, the board in past years has given presentations at several schools on services offered by commercial banks, including checking and savings, installment loans, student loans, financing a college education, insurance, establishing credit and, of course, on the advisory board program itself.

A student-of-the-month program also is held by the board to honor outstanding area students. Each high school submits a candidate for the month. The candidate is chosen for reasons of scholarship, civic activities and leadership qualities. The winning student is featured in local newspaper ads, and receives a certificate of achievement and a $25 savings bond from Citizens Bank.

During the Christmas season, the student advisory board participates in a fund to benefit underprivileged children. One year, roadblocks were set up by students to collect donations from motorists, while used toys were collected and repaired during another Christmas season.

The student advisory board also has initiated some changes at the bank. For instance, it helped develop a loan policy for students to travel abroad; the board also helped design a youth-oriented checking-account program. Newspaper ads featured student advisory board members promoting the checking program. Members also promote the service by word of mouth.

The student advisory board is allocated $500 by the bank for scholarship purposes. However, this year's $500 was donated to North Clark County Hospital for needed equipment. • •

Banker Appointed:

Swearingen Chairs Group Advocating Tax Reform

Eugene Swearingen, chairman and CEO, Bank of Oklahoma, Tulsa, has been named Oklahoma state chairman of the nationally based Committee to Reform Double Taxation of Investment.

The committee's main objective is elimination of double taxation of corporate dividends in the U. S. Such dividends presently are taxed when a company earns the money and also when stockholders receive their dividends. The committee has proposed that stockholders receive credit on personal taxable income for corporate taxes already paid on dividends.

As Oklahoma chairman, Mr. Swearingen will appoint district chairmen and coordinate efforts to encourage legislators to repeal double taxation. According to the Tulsa banker, a recent study revealed that there is a potential 1,200,000 jobs that would be created in the U. S. within a year due to new capital created by the repeal of double taxation.

The holiday season…a time of quiet reflection. Snowblanketed scenes that bring to mind holidays past and yet to come. A time of thanksgiving. For warm hearths and hearts, and friends who dwell there.
May all your seasons be filled with peace and joy.

Employee-Discrimination Charges Denied by Chicago's Harris Bank

A DENIAL of employee-discrimination charges has been issued by Chicago's Harris Bank. In addition, the bank petitioned the U. S. Department of Labor for a hearing before an administrative law judge on the charges, which had been made by the Treasury Department.

For the past two years, the bank has been involved with both the Treasury and Labor departments in a review of its equal-employment-opportunity programs. According to Charles M. Bliss, president and CEO, the bank believed that substantial progress had been made in satisfying the reviewing agencies' inquiries about its personnel practices.

Then, last August 24, Treasury issued a "show-cause" notice charging that Harris Bank had discriminated against women and that it had failed to respond adequately to Treasury.

According to Mr. Bliss, there are two main issues:

1. Does Harris Bank have an "affected class" of women who are paid less because of discriminatory practices?

2. Has the bank failed to cooperate with the government in its investigation?

To both issues, Mr. Bliss answers no and then looks at them one at a time.

First, he discusses the question of an "affected class" of women.

"On May 11 of this year," says Mr. Bliss, "Treasury told us that it believed an 'affected class' of women did exist. This conclusion came from work done for the government by an outside statistical consultant, Applied Urbanetics, Inc., which used payroll data supplied by us.

"Our counsel then retained the services of an eminent independent statistician, Dr. Harry V. Roberts, professor of statistics at the University of Chicago. He was asked to take personnel records of the bank and, using whatever statistical methods he thought appropriate, to examine the question of whether we have an affected class. Dr. Roberts has been given complete freedom to direct the course of this examination. The methodology employed by Dr. Roberts was not developed hastily for our case, but represents his work extending over a number of years in applying the statistical technique of regression analysis to the determination of an affected class.

"On August 22 of this year, Dr. Roberts' first preliminary study was presented to Treasury. He pointed out that, in its statistical work, government consultants had taken into account only tenure at the bank and total years of schooling. We all know that an individual's salary and advancement reflect many other factors, such as previous job experience, type of college specialization and on-the-job experience. By failing to make allowance for these and other factors, the government's consultants at best gave a very incomplete picture. In Dr. Roberts' judgment, the government's study cannot support the conclusion drawn, because it fails to employ the appropriate statistical methodology and presents far too fragmentary a picture.

"Harris intends to continue to pursue its data analysis vigorously, wherever it may lead. . . . We continue to believe we have been honest and fair in our treatment of all Harris employees."

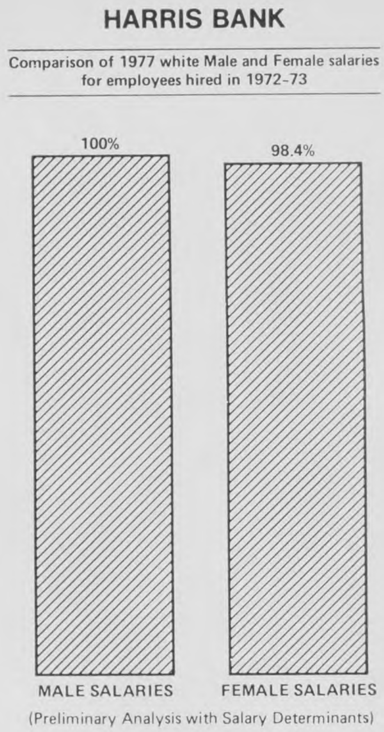
"The best way for me to describe Dr. Roberts' work is by a simple bar chart (on this page) showing how average male and female salaries compare with each other in 1977, based on employees hired in 1972-73. This shows that average female salaries are 98.4% of the average male salary. The percentage differential of 1.6% is not statistically significant. Dr. Roberts has concluded that this analysis shows no evidence of an 'affected class' of females so far as salary advancement is concerned. Subsequently, Dr. Roberts has gone back to our 1966-67 hirees to perform a similar preliminary analysis of salary advancement for the period 1966-67 to 1977. The result was similar to that of the analysis of those hired in 1972-73 and is powerful evidence supporting our case of long-standing equality of salary regardless of gender."

Mr. Bliss points out that Dr. Roberts is studying all relevant employee groups, including minority employees, even though they have not been the focus of government concern. In addition, Dr. Roberts asked Mr. Bliss to stress that the results the latter is reporting are preliminary and that Dr. Roberts believes much more work will be needed to pin down the whole picture statistically. However, says Mr. Bliss, Dr. Roberts is willing to say that, with a good deal of effort, he has been unable thus far to find any evidence supporting the claims made by the government about an affected class and that, thus far, he has received no clear criticisms from Treasury of the work he has done.

"Harris intends to continue to pursue its data analysis vigorously, *wherever it may lead*," continues Mr. Bliss. "On the basis of information available at this time, we continue to believe we have been honest and fair in our treatment of all Harris employees. If additional data indicate we have fallen short in any way, we are prepared to address the problem and remedy the situation. Our recently submitted affirmative-action plan reflects this philosophy, and our record to date proves the point."

Next, Mr. Bliss discusses the second allegation in the show-cause notice: that Harris Bank has failed to respond adequately to the government's investigation.

"This simply is not true," he says. "Certainly, before the 11th of May this year, the issue had not ever been raised. In a May 11th letter, Treasury claimed just the opposite. The letter stated, 'You and your staff have coop-



This chart shows results of preliminary analysis made by Dr. Harry V. Roberts, University of Chicago.

erated in a timely fashion, with respect to requests made of you by either Treasury or the Office of Federal Contract Compliance Programs.' "

Mr. Bliss maintains that, since May 11, his bank has responded to every request for information and met every meeting scheduled by the government. He says Harris Bank has answered every request made in the show-cause letter and has responded to 26 different requests for information that arose at subsequent meetings with Treasury after May 11.

Mr. Bliss points to some of the bank's long-standing affirmative-action programs and their results. These include:

- A formal program—started in 1952—to recruit and train college women.
- More than 100 internal training classes. Last year, the bank spent $150,000 on college-tuition refunds for 141 persons who chose to continue their education in the evening in Chicago-area universities. Fifty-eight of those in the program are women.
- An equal-employment-opportunity training program designed to make bank supervisors more aware of their EEO obligations.

As a result of all these efforts, Mr. Bliss points out that in 1972, there were 154 women in senior-level positions; five years later, the number is 330. The number of women in management ranks, continues Mr. Bliss, has risen from 22 women officers in 1972 to 69 women in 1977, an increase of over 200%. Five of these women, he says, are vice presidents, and 13 are assistant vice presidents.

Mr. Bliss also has statistics from the minority area: In 1972, the bank employed 415 minorities; today, that number has grown to 724. In senior-level posts, the 1972 figure was 52; it has nearly tripled to 144 today.

In addition to asking for a hearing before an administrative law judge, Harris Bank agreed to comply with the government's latest request to hand over the bank's personnel files covering the period of 1972-77. Because the bank has had a long-standing policy not to disclose personal information about its employees, it coded names, addresses and phone numbers. According to Mr. Bliss, this information isn't required to make a statistical analysis of an "affected class." • •

Credit Department Management, Term Lending Are Topics Of 1978 RMA Workshops

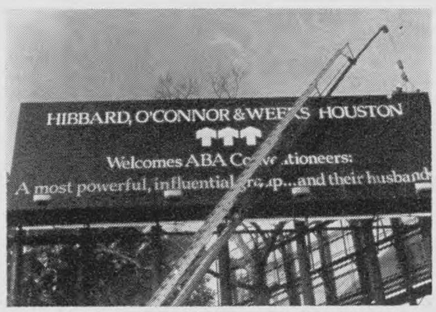
PHILADELPHIA—Robert Morris Associates has slated a number of workshops on credit department management and term lending for 1978.

RMA's Credit Division is again offering its workshop on credit department management, which focuses on helping attendees become better managers and run more efficient credit departments. It also will help banks develop credit departments. Subject matter will be presented through case-study discussions in small group sessions. Dates for the workshop are January 8-11 at the Hilton Inn, Dallas, and April 2-5 at the Parker House, Boston.

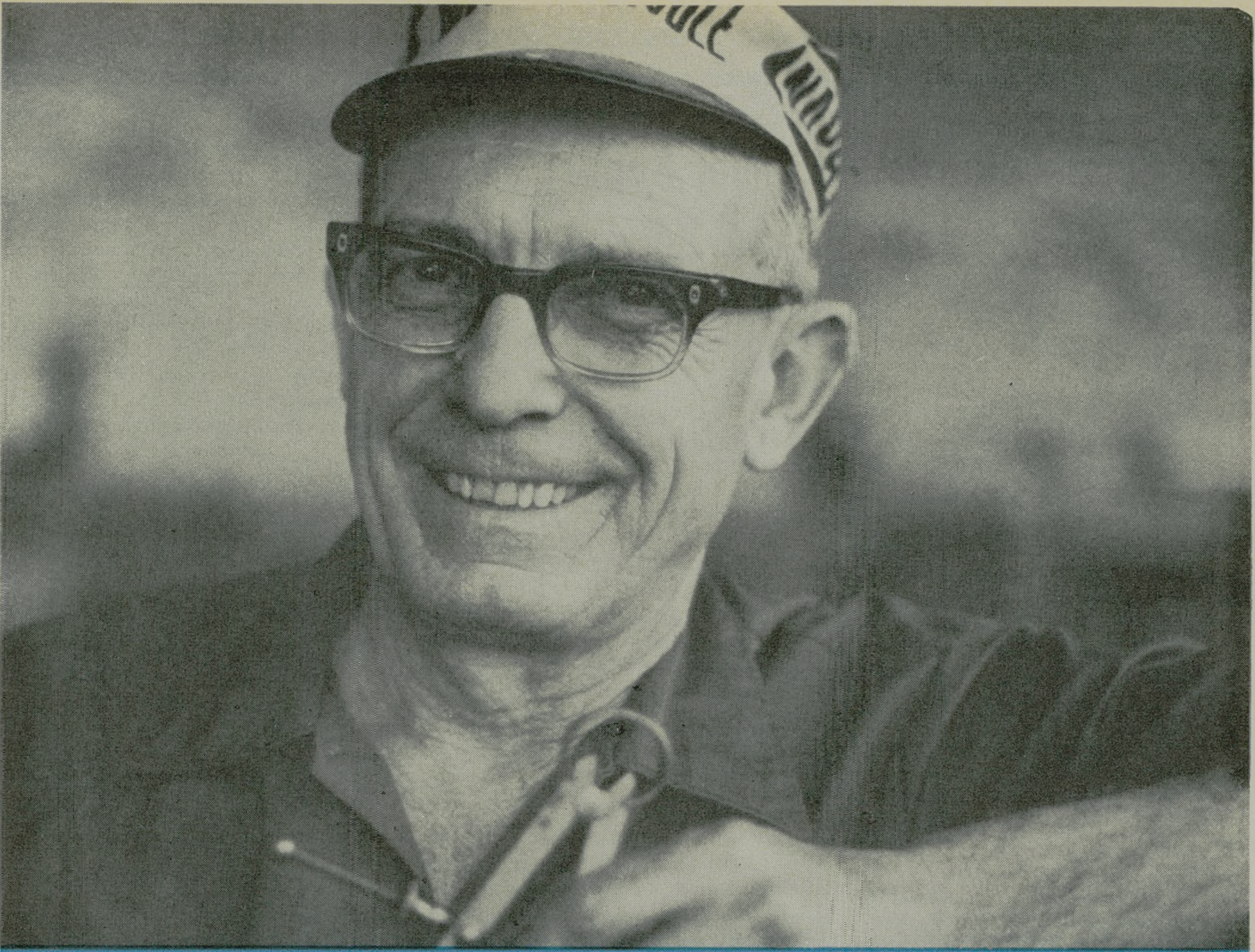
The term lending workshop will deal with all phases of term lending, including proper usage, analytic techniques, control pricing and loan maintenance measures. It is designed to appeal specifically to commercial lending officers and loan supervisory and loan review personnel. Dates for the term lending workshop are January 12-13, Radisson Plaza Hotel, Charlotte, N. C.; February 16-17, Hyatt on Union Square, San Francisco; March 16-17, Hyatt Regency, Indianapolis; and September 14-15, Hotel Sonesta, Hartford, Conn.

Registration material for the credit department management workshop has been mailed to all RMA members. Fee for the workshop is $175 for members and $225 for nonmembers. Registration material for the term lending workshop also has been sent to RMA members, and the fee for that workshop is $165 for members and $210 for nonmembers. For additional information, contact Registrar Cecelia Small, RMA National Office, 1432 Philadelphia National Bank Building, Philadelphia, PA 19107.

ABA Delegates Take Kidding



Workmen adjust final section of "Welcome" sign along Houston freeway prior to opening of recent ABA convention. Tongue-in-cheek message reads "Hibbard, O'Connor & Weeks Houston welcomes ABA conventioneers; A most powerful, influential group . . . and their husbands."



EFT Commission Issues Final Report; Consumer Safeguards Take Priority

THE ISSUES of EFT privacy, sharing, malfunction and branch designation were covered by a number of recommendations made to the U. S. Congress and the President by the National Commission on Electronic Fund Transfers, which issued its final report at the end of October.

The long-awaited report, entitled "EFT in the United States," calls upon Congress to establish "certain fundamental safeguards to protect consumers in an EFT environment" and states that EFT "must be used as a tool and we citizens must be its master." The commission was established by President Gerald Ford in 1974.

In the area of privacy, the commission concluded that present legal safeguards are inadequate to deal with threats to individual privacy that may arise with EFT. It recommended legislation that would require consumers to be notified in advance and be given the right to contest government access to personal EFT information, except for a few specific instances.

Outlawing of the use of EFT systems for government surveillance was recommended, as was the obtaining of an individual's consent before his account information could be released to a third party except when disclosures are a matter of accepted business practices. The commission also recommends granting individuals access to their records along with the right to challenge and correct inaccuracies.

A consumer should not be required to place EFT business with any particular financial institution as a condition of employment or receipt of a loan, according to the commission. Also, every consumer opening an EFT account should be provided with an understandable written statement stating the terms of the service.

A consumer should have no liability for his debit card until he has signed a contract and returned it to the financial institution, the report states. And a receipt for all EFT transactions except cash withdrawals should be required.

The consumer should bear no liability for his EFT account unless the bank can prove the account holder was negligent, with negligence narrowly defined. Establishment of procedures for error resolution were recommended as were procedures that set out the conditions under which a bank would be liable to consumers for damages caused by system malfunctions.

Also recommended by the commission were guidelines for a means of consumer redress through civil litigation and restrictions on the attachment or garnishment of pre-authorized direct deposits.

The commission stated that rules for the placement of EFT terminals by financial institutions should be separate and less restrictive than laws applying to the establishment of conventional branches. The commission also recommended that both state and federal financial institutions be permitted to offer EFT services on a nationwide basis, putting them on a par with checks and credit cards.

The commission also recommended a gradual expansion in the geographic areas in which an institution can offer EFT deposit-taking services, culminating in offering services on a state-wide basis—and even beyond state lines if the states involved have enacted enabling reciprocal legislation. The commission recommended that federally chartered institutions eventually be permitted to accept deposits across state lines and in "natural market areas" regardless of whether states had enacted reciprocal agreements.

Financial institutions should be permitted to share EFT systems and facilities when the arrangement is procompetitive and not in violation of antitrust laws, the commission reported. It further recommended legislation that would affirm the applicability of antitrust laws to shared EFT systems and that would nullify the effect of the mandatory sharing provisions enacted by any state legislatures.

The commission found no evidence to suggest that EFT would benefit one type or size of institution over another —at least in the foreseeable future. It recommended monitoring by regulators of competitive implications.

The commission also found that EFT might significantly alter the share of the credit market supplied by some or all credit grantors, although it probably wouldn't affect the total availability of housing and consumer credit. Since such adjustments could result in consumers turning to finance companies and other credit grantors, the commission recommended that these sources of credit be permitted to share POS EFT facilities.

The commission recommended that, in order to promote competition, regulated common carriers should have the opportunity to offer EFT services and equipment, provided they are untariffed. Common carriers, such as telephone utilities, should be regulated by the Federal Communications Commission.

It was decided by the commission that it's too early to establish federal standards for the design of EFT systems and terminals. The commission concluded that breaches of security in EFT systems are few at this time and urged federal and state regulators to develop uniform security regulations and examination requirements, and that regulators should consider joint solutions to common problems of security supervision.

The commission found no evidence that EFT would impair the effectiveness of current methods of money management—at least as long as the pace of EFT development parallels the implementation of the following two recommendations:

- All depository institutions should be permitted to pay interest on transaction accounts. NOW accounts would reduce the possibility that EFT might lead to greater instability in the money stock.
- The Fed should be permitted to

EFT Report Summarized

A summary providing an overview of the four major areas covered by the final report of the National Commission on EFT is available at no cost from the ABA's Payments System Planning Division, 1120 Connecticut Ave., N. W., Washington, D. C. 20036.

Areas covered are: consumers and EFT (privacy, establishing and operating an account, theft, error and malfunctions); providers' issues (branch vs. terminal deployment, sharing, competitive impact and credit implications); technology (competition among suppliers, standards and security); and the government's role (monetary policy and operation).

The summary also covers the underlying principles of the commission's conclusions and recommendations, plus dissenting statements published with the report.

pay interest on reserves held by member banks.

The commission recommended that the federal government not be involved operationally in POS switches—for the present or the foreseeable future. It concluded that the Fed should continue providing basic ACH services but should not discourage private sector development. It recommended that the Fed offer equitable access to ACH services to all types of financial institutions and that it charge for these services.

Finally, the commission recommended that the Treasury Department sponsor experimental credit transfer payment systems and evaluate their applicability for wider use for federal funds transfers.

The commission was headed by former Congressman William B. Widnall. The only commercial banker on the 26-member body was Richard D. Hill, chairman, First National, Boston. • •

EFT Not Taking Country by Storm—But It Is Growing, BMA Concludes

EFTS ISN'T taking the country by storm, but it is growing. That is the conclusion of Bank Marketing Association's PACE II (Payment Attitudes Change Evaluation II) study. BMA is headquartered in Chicago.

According to a BMA spokesman, the purpose of the study was to develop a resource document to aid banks in making decisions about EFTS planning, development and marketing. To do that, the study:

- Identified specific benefits and concerns about EFTS, as perceived by the consumer.
- Determined current levels of consumer awareness, acceptance and usage of EFTS services.
- Determined consumer interest in and concerns about specific EFT services in markets where not available.
- Provided data to determine changes in awareness and use of key services covered in 1973's PACE I study.

PACE II covers ATM and POS services, including check guarantee and banking transactions, direct deposit of payroll and pre-authorized and individually authorized bill paying. Study findings are based on data collected from a questionnaire developed by BMA's EFTS Marketing Council and Market Facts, Inc., a Chicago-based research firm. The questionnaire was sent to a sample of 3,000 households of Market Facts' consumer mail panel throughout the U. S.

According to findings, awareness of ATMs has risen from 73% to 88% since the 1973 study, and the offering of direct deposit of payroll has increased from 8% to 11% in that time. ATM usage, it was found, has grown to 11%, up from 7% in 1973. This means, the study concludes, that while growth in these services is dependent on their availability, the potential for continuing and more rapid expansion clearly is there.

PACE II findings also indicate that ATMs and POS check-guarantee services are favored, with 80% and 77%, respectively, of respondents citing knowledge of those services. Current usage rate of those services is pegged at 9%.

The study also cited the following:

- Availability, favorability and usage of direct deposit of payroll services is increasing steadily, with one out of nine persons—11%—using this service.
- One in every eight persons is using pre-authorized bill paying services, not a significant growth area since the PACE I study.
- Twenty percent of ATM users also use direct deposit of payroll services, with a similar number also using check guarantee. An additional 16% of ATM users were found by PACE II to use an automatic bill paying service.

PACE II concludes that the potential for EFTS services hasn't yet been reached, and indicates that only when availability increases and consumers' concerns and needs are "consciously addressed" will substantial growth occur.

The PACE II study is available for $25 to BMA members and $50 to nonmembers. Write: Order Department, Bank Marketing Association, 309 West Washington Street, Chicago, IL 60606.

ABA Integrates EFT Into Policy Forum

WASHINGTON, D. C.—The American Bankers Association, in recognition of the growing legislative and regulatory importance of EFT, has consolidated its policymaking function for EFT into one committee that will make recommendations directly to ABA's Government Relations Council.

The EFT panel, which is called the Payment Systems Policy Coordinating Group, is chaired by Charles E. McMahen, executive vice president and chief operating officer, Southwest Bancshares, Inc., Houston.

RABBIT TRANSIT.

An advanced check-clearing system that can dramatically improve your availability of funds.

"Rabbit Transit." It's an improved system devised by First National Bank in St. Louis to expedite the clearing of cash letters.

For you, it can mean two important things: better availability and bigger profits. Here's how.

We're right in the heart of the nation.

That's more important than you might realize. Our location in the heart of Middle America permits ideal transportation into and out of St. Louis and provides a superior transportation network to all Federal Reserve cities.

In addition, St. Louis is a Federal Reserve city which enjoys a proven advantage in mail times, and is less than one hour by air from Federal Reserve Headquarters and International Airports in Chicago and Kansas City.

Our computer is totally dedicated.

It's the latest Burroughs computer system with IPS and MICR technology.

It's used exclusively by our transit operation. And delays do not occur because of conflicting priorities or competition for computer time.

Our Proof-of-Deposit system computes float on each item processed by endpoint and time of day.

Full-time specialized staff.

This staff monitors outgoing transit and keeps current with any changes in transportation scheduling. Volumes and endpoints are monitored continually so cash letters clear efficiently.

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.

Phone (314) 342-6222 for your own transit analysis.

For a copy of our Availability Schedule, to arrange for an analysis of your check-clearing system, or for more information about "Rabbit Transit," phone us now. Or contact your Correspondent Banker at 510 Locust, St. Louis, Missouri 63101.

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Directors / Officers Liability Coverage: Why There Are Certain Exclusions

By EARL R. LANNING, CPCU
Executive Vice President
Crump London
Underwriters, Inc.
Memphis

WITH AN UNUSUAL amount of adverse publicity being given the banking industry, many bank directors are looking closer at their directors and officers (D&O) coverage to see what protection they have and do not have. What the policy does not do, perhaps, is getting as much attention as what it does do. For this reason, we shall discuss the exclusions normally found in this type policy and why these exclusions are necessary.

Although D&O liability coverage was written as far back as 40 years ago, there virtually was no market for it until 15 years ago. Even then, most corporate attorneys didn't believe this type of coverage was needed. Of course, that also was a time when many attorneys, accountants, architects, engineers and other professional people didn't feel they needed liability coverage to protect them against their errors and omissions. The past 15 years have changed that. Anyone who holds himself to be a professional is being sued if he fails to perform in a professional (and ethical) manner. This applies to the bank director as much as to the doctor, lawyer, accountant or architect.

The D&O liability policy is a *professional-liability* (errors and omissions) policy since its purpose is to protect directors and officers against claims made against them by reason of any *wrongful act* done or attempted or allegedly done or attempted by them. The term *wrongful act* is defined to be any breach of duty, neglect, error or misstatement, misleading statement, omission or other act done or wrongfully attempted by the insureds, or any matter claimed against them solely by reason of their being such directors or officers of the bank. (The definition, as well as other conditions, will vary with policies of different markets writing the coverage.) The purpose of this policy is not to take the place of any other liability coverage, such as the comprehensive general liability or umbrella liability; and these other policies do not provide the coverage afforded by this policy.

To provide those who serve in the capacity of directors with broad professional liability protection, the insuring agreement in the policy needed to be extremely broad. Then, to prevent this broad insuring agreement from providing coverage that was not intended, there must be a number of exclusions. This article's purpose is to discuss briefly exclusions you may expect to find in the D&O liability policy. (There may be other exclusions not mentioned, so you should study your specific policy.

The policy is written in two parts. Part I covers directors and officers in their individual or collective capacities as directors and officers. Part II covers company reimbursement, which reimburses the bank where it may be required or permitted to indemnify directors and officers for such loss. Each part has its own exclusions.

In connection with Part I, the insurer shall not be liable to make any payment for loss in connection with any claim made against the insureds:

(a) for libel or slander. (This exposure may be covered by a personal injury endorsement added to the general liability or an umbrella liability policy.)

(b) based or attributable to their gaining in fact any personal profit or advantage to which they were not legally entitled. (This exclusion should need no explanation. One example of how the exclusion may come into play would be in case of a derivative action brought by stockholders requiring directors and/or officers to pay to the bank the personal profit or advantage to which they were not legally entitled. The policy naturally would not be expected to then reimburse them for this illegal profit.)

(c) for return by the insureds of any remuneration paid to the insureds without previous approval of stockholders of the company. Without such previous approval, this payment shall be held by the courts to have been illegal (same basic purpose as (b) above).

(d) for an accounting of profits in fact made from purchase or sale by the insureds of securities of the company within the meaning of Section 16 (b) of the Securities Exchange Act of 1934 and amendments thereto or similar provisions of any state statutory law or common law. (Laws have been enacted to prevent "insiders" from taking unfair advantage of other stockholders in connection with either sale or purchase of stock. Should "insider" officers or directors be required to reimburse an "injured party," this coverage would not, in turn, reimburse these directors or officers for the "illegal profit.")

(e) brought about or contributed to by dishonesty of the insureds. However, notwithstanding the foregoing, the insureds shall be protected under terms of this policy as to any claims on which suit is brought against them, by reason of any alleged dishonesty on the part of the insureds, unless a judgment or other final adjudication thereof adverse to the insureds shall establish that acts of active and deliberate dishonesty committed by the insureds with actual dishonest purpose and intent were material to the cause of action so adjudicated. (Note that *alleged* dishonesty would not void the coverage unless the court determined it to be active and deliberate. In addition, there is a "note" at the end of the list of exclusions pertaining to this and all other similar exclusions that states, "The wrongful act of any assured shall not be imputed to any other assured for the purpose of determining the applicability of the exclusions enumerated in this clause."

(Continued on page 24)

"The D&O liability policy is a professional-liability (errors and omissions) policy since its purpose is to protect directors and officers against claims made against them by reason of any wrongful act done or attempted or allegedly done or attempted by them."

Earl R. Lanning, CPCU, began his insurance career in 1949 and joined Crump London Underwriters, an excess and surplus lines general agency, in 1960. He became v.p. in 1964 and e.v.p. in 1972. He received his chartered property casualty underwriter (CPCU) designation in 1961 and a diploma in risk management in 1969. He became interested in D&O liability coverage while visiting underwriters at Lloyd's in 1963.

"When one becomes a bank director, he takes an oath not only to be honest, but also to diligently administer his bank's affairs, and the courts hold him responsible to do so. This coverage is intended to protect that honest, well-intentioned person who may find his life's savings at stake as a result of an error or omission committed in connection with his duties as an officer or director of a bank."

Therefore, if one director or officer was held to be guilty of dishonesty, this would not void coverage for the others who may have been negligent in allowing it to happen.)

(f) based on or attributable to any failure or omission on the part of the insureds to effect and maintain insurance. (It is not the intent of this coverage to take the place of other coverages. Therefore, if the directors failed to obtain the normal coverages carried by a bank and loss occurred, stockholders could file a derivative suit to require them to reimburse the bank for its loss. Should they be successful, this policy is not intended to then pay the loss, which should have been covered by the other policies. Some forms do not have this exclusion, but do exclude any loss caused by bodily injury or property damage, and this is another way of excluding these losses that should be covered by other policies.)

(g) which, at the time of happening of such loss, is insured by any other existing valid policy or policies under which payment of the loss is actually made, except in respect to any excess beyond the amount or amounts of payments under such other policy or policies. (Should this coverage overlap with other coverages, this policy pays only the loss in excess of the other payments.)

(h) for which the insureds are entitled to indemnity under any policy or policies in force previous hereto. (This exclusion relates to the same type coverage that was in existence prior to inception of this policy.)

(i) for which the insureds shall be indemnified by the company for damages, judgments, settlements, costs, charges and expenses incurred in connection with the defense of any action, suit or proceeding to which the insureds are a party or with which they are threatened or in connection with any appeal therefrom, pursuant to the law, common or statutory, or the charter or bylaws of the company duly effective under law, which determines and defines such rights of indemnity. (This exclusion simply excludes coverage to directors and officers if they are reimbursed by the bank. The bank then would be able to collect from the insurer the loss in excess of the deductible under the "reimbursement for directors and officers liability insurance" portion of the policy.)

(j) arising from charges of seepage, pollution or contamination and based on or attributed to violation or alleged violation of any federal, state, municipal or other governmental statute, regulation or ordinance prohibiting or providing for control or regulation of emissions or effluents of any kind into the atmosphere or any body of land, water, waterway or watercourse or arising from any action or proceeding brought for enforcement purposes by any public official, agency, commission, board of pollution control, administration pursuant to any such statutes, regulations or ordinances or arising from any suits alleging seepage, pollution or contamination based on common-law nuisance, trespass or negligence. (This exclusion is now part of most liability policies and is referred to as the "pollution exclusion." Although this could involve a real exposure in connection with some types of industrial accounts, a bank, as such, would not likely have much concern about this exposure.)

(k) based on the Employee Retirement Income Security Act of 1974, Public Law 93-406, commonly referred to as the Pension Reform Act of 1974, and amendments thereto, or similar provisions of any federal, state or local statutory law or common law. (This exposure can, and should, be covered by a "fiduciary liability" policy designed to provide protection against liability imposed by this legislation.)

Each market that provides this type of coverage has its own form, and exclusions as well as other conditions will vary some among markets. The above exclusions, however, are somewhat standard exclusions that apply to this coverage for nearly any corporation. In addition to these, each market may have special exclusions that apply to a specific industry.

Bank policies may contain the "insured vs. insured" exclusion, which reads as follows:

"In consideration of the premium charged, it is hereby agreed that the insurer shall not be liable to make any payment for loss in connection with any claim or claims made against the insureds by an insured or insureds as defined in this policy, including the company named in Item I of the declarations, except for stockholder's derivative actions brought by a shareholder of the company other than an insured."

Another exclusion that may be found in policies issued within the past year or two is the "payments/disbursements exclusion," which reads as follows:

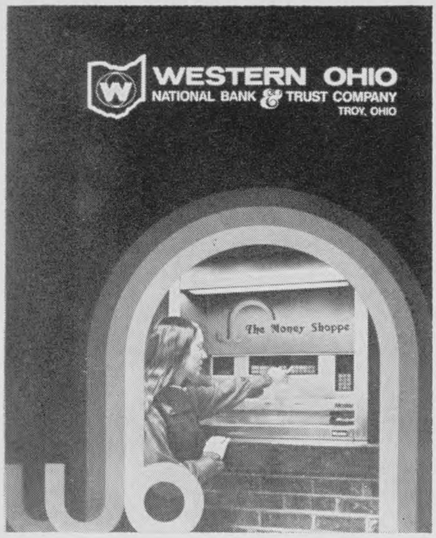
"Based on or attributable to, or arising out of, or in any way involving:

1. Payments, commissions, gratuities, benefits or any other favors to or for the benefit of any full or part-time officials, directors, agents, partners, representatives, principal shareholders or owners or employees or affiliates (as that term is defined in the Securities Exchange Act of 1934, including any of their officers, directors, agents, owners, partners, representatives, principal shareholders or employees) of any depositors or borrowers of the insured association or any members of their family or any entity with which they are affiliated: *or*

2. Political contributions, whether domestic or foreign."

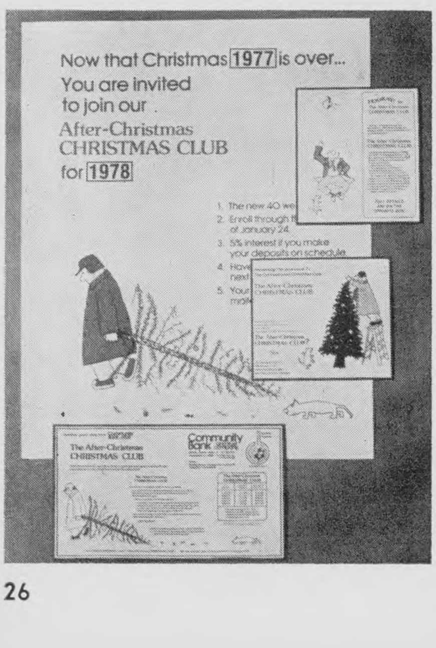
The latest Lloyd's form has reduced the number of exclusions by consolidating several of the above exclusions into the phrase "(i) based on or attributable to their gaining personal profit or advantage to which they were not legally entitled, or (ii) based on or attributable to their having acted dishonestly, or acted in bad faith with knowledge or with reasonable cause to believe that such action was in violation of law (including for purposes hereof the legal rights of others) . . ." Although this wording has been changed, I don't believe the intent of underwriters providing the coverage has changed.

Although there may seem to be a large number of exclusions, they all are reasonable and necessary if this important coverage is to remain available to well-run banks at a reasonable premium. Regardless of how honest and well intentioned one may be, we are all subject to making errors or being guilty of omissions that can bring about loss for which the director or officer may *personally* be liable. When this happens, the honor or status symbol that goes along with being a bank director has a tendency to fade. When one becomes a bank director, he takes an oath not only to be honest, but also to diligently administer his bank's affairs, and the courts hold him responsible to do so. This coverage is intended to protect that honest, well-intentioned person who may find his life's savings at stake as a result of an error or omission committed in connection with his duties as an officer or director of a bank. • •



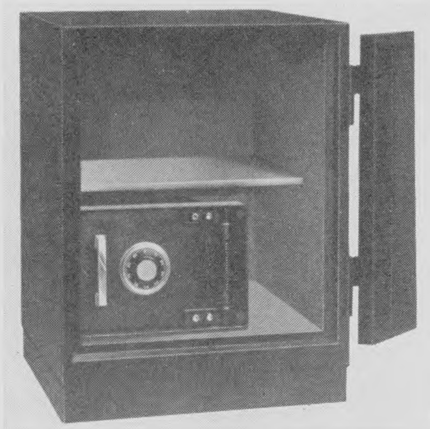
• **Mosler.** A new four-color brochure features the new facility of Western Ohio National, Troy. The branch is a total Mosler installation with equipment ranging from a Teller-Matic 24-hour banking system to a Mosler American vault door. Write: Mosler, 1561 Grand Blvd., Department PR-120, Hamilton, OH 45012.

• **John H. Harland Co.** "After Christmas Christmas Club" is the name of a program that lets bank customers start Christmas club payments up to a full month after Christmas. Checks may be distributed at the usual November date due to the club's 40-payment schedule. Because of the revised payment schedule, participating banks enjoy a 90-day marketing period—from November through January. To promote the club, a basic marketing package is available that includes releases, printed ads, radio and TV commercials, inserts and point-of-purchase aids. All materials are customized and special advertising is available. Write: Royce Britt, John H. Harland Co., P. O. Box 105250, Atlanta, GA 30348.



New Products and Services

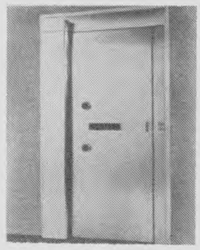
• **Diebold.** A Class "C" safe for burglary protection is offered by Diebold to provide protection for cash and other valuables in homes and small businesses. The safe is made in encased and unencased versions and can be installed within a record safe or in an insulated file drawer to combine fire resistance with burglary resistance. The



safe bears an Underwriters' Laboratories approved group II combination lock and has a relocking device that deadlocks the locking bar if the lock spindle is driven from the door. The lock also has a key-changing feature that enables the owner to change the combination as circumstances dictate. Write: Public Relations Department, Diebold, Inc., Canton, OH 44711.

• **American Bankers Association.** The "1976 Installment Credit Survey" is available from the ABA, Washington, D. C. Designed as a tool for top management and senior lending officers to measure their banks' quality of performance, the survey can give each institution a comparison of whether it was high or low in relation to the rest of the country. Facts and figures in the survey cover the following areas: organizational structure of installment loan and bank credit card departments; income and expense figures by U. S. region and deposit size; average loss ratios by type of installment loan; trends in retail banking concepts, leasing and bank cards; bank credit card losses and growth; financing methods and data; average installment loan distribution by types of loans outstanding and by 1976 loan volume; and interest computation methods for statement and passbook savings accounts. Price of the "1976 Installment Credit Survey" (#206500) is $10. Write: ABA Order Processing Department, 1120 Connecticut Ave., N.W., Washington, DC 20036.

• **LeFebure.** A new 5000 Series vault door is offered by this firm. It is equipped with a modern bar-type handle and dual lock controls. The door is entirely stainless steel clad and has dual spy-proof lock controls that provide a selection of 100 million combinations. It offers a 36-inch wide opening, allowing for easy movement of money buses and portable files as well as convenience for customers in wheelchairs. Controls for a three-movement time lock are concealed behind a full-length panel on the inside of the door and a daytime lock prevents unintentional lock-ins. Write: LeFebure Corp., Cedar Rapids, IA 52406.



• **Bowser Enterprises, Inc.** This Girard, O.,-based manufacturer has announced a highway distress flag. Available as a premium, the flag features the word "HELP" in large fluorescent lettering and is said to be visible up to

one-half mile. A mounting bracket adjusts to seven positions. The flag, which will store in most glove compartments, is designed to summon help while minimizing the dangers of heavy traffic and exposure to cold weather. Write: Bowser Enterprises, Inc., P. O. Box 430, Dept. MCB, Girard, OH 44420.

'Ideal Gifts':

CDs Offered by Bank For as Little as $25

Negotiable certificates of deposit generally have been available in denominations of at least $100,000—until September 28. That's when First National, Totowa, N. J., began to offer such CDs in denominations of $25, $50, $100, $500, $1,000 and $5,000.

Paul H. Coladarci, the bank's public relations manager, says the bank has been broadening its range of consumer services and believes that a savings vehicle such as bearer certificates would be convenient for and accepted by consumers at the retail level.

This thinking has been proved correct, according to Mr. Coladarci, who describes consumer acceptance of the CDs as gratifying, with the $1,000 CD being the most popular. In addition to brisk sales at the bank's 25 branches, Mr. Coladarci reports that the bank has been receiving inquiries about them from across the country.

The CDs are being offered in denominations as low as $25, he says, so that they will be available to all the bank's customers and on the theory that, because of their ease of transfer, they are ideal gifts.

The CDs pay a 6.27% effective annual yield on 6% compounded daily to maturity. At this rate, the bank's promotional material points out, a CD purchaser's money will double in 11 years, four months and 20 days. They mature in one year and are redeemable within 10 days after an anniversary year. As usual, the bank must impose a substantial penalty when CDs are redeemed before their scheduled redemption dates.

This ad announced new negotiable CD program started September 28 by First Nat'l, Totowa, N. J. These bearer certificates may be purchased for as little as $25.

'Ask for Business':

Officer Call Program Has Pro-Football Flavor

There's many a heated discussion about the Cowboys, Redskins, Colts and Rams these days at Liberty National, Oklahoma City, and the boss doesn't mind. Why? The bankers aren't rehashing football games; they're mapping strategy for an officer call program!

The bank has set up 21 teams of officers. The eight-person teams are named for National Football League squads and focus on prospective and current bank customers.

The program's philosophy is borrowed from a familiar football axiom: "Let's get back to the basics."

"In football," says J. W. McLean, bank chairman, "that phrase means blocking and tackling; at Liberty, it means 'ask for the business!' "

The program emphasizes the bank's comprehensive services. Strong knowledge of the bank's services by call officers is emphasized, as is identification of prospects who need those services.

The program will run for one year because it's designed to make business development a way of life among officers, rather than a once-in-a-while thing. The teams are eligible to earn prizes for their efforts during and at the conclusion of the program. The bank will support officers' sales efforts through sponsorship of special sales clinics during the program.

'Cake' from 'Bread':

35-Lb. Pastry Is Symbol Of Bank's Anniversary

When France's Marie Antoinette uttered her famous phrase, "Let them eat cake," she probably never realized that a cake actually could be made from "bread." But Kansas City's Grand

No, it's not part of someone's "fad" diet—it's a 35-lb. cake made of $800 in quarters. Expensive confection was created to symbolize 30th anniversary of Grand Avenue Bank, Kansas City.

Avenue Bank had such a cake—symbolizing its 30th anniversary—and the "bread" from which it was made was $800 in quarters!

The bank aimed to celebrate its entry into its third decade of operation in a "grand" way, according to a spokesman, so the 35-pound confection was whipped up from stacks of quarters. Completing the masterpiece were buttercreme icing and 30 candles.

The creation dominated the institution's newspaper advertising and statement enclosures about the event. Other elements in the "30 Grand Years" celebration included a custom radio jingle and a drawing for birthday gifts.

The month-long event was culminated with a party in the bank during regular banking hours on the last day of the celebration.

Receives 'Others' Award

Thomas L. Dusthimer (l.), pres. and CEO, First Nat'l, Elkhart, Ind., receives Salvation Army's 1976 "Others" Award from Maj. Brian Merritt of Elkhart Salvation Army. The award is given for outstanding achievement in community service and Mr. Dusthimer is the fifth recipient in Elkhart since its 1969 introduction. Mr. Dusthimer was cited by Maj. Merritt for his work on the Special Olympics and as chairman of the 1976 United Way campaign.

Big top pictured at l. was site of "Great Food and Music Festival," held on parking lot of Hyde Park Bank, Chicago. At r. is a portion of 6,000-7,000 area residents who took part in event.

Under the Big Top:

Great Food & Music Fest Involves Bank, Businesses

The big top—a large tent erected on the parking lot of Chicago's Hyde Park Bank—proved to be a major attraction for area residents. Bank officials estimate that between 6,000 and 7,000 persons attended the Great Food and Music Festival, which was co-sponsored by the bank and local businesses.

Featured in the event were performances of flamenco dancing, jazz and classical music. Numerous ethnic foods were offered by a variety of booths, and a local chef was on hand to demonstrate the art of cooking Chinese hushpuppies.

The purpose of the festival was to stimulate interest in and bring people to the bank's community and restaurants. The event was tied together by the Hyde Park Business and Professional Association, of which the bank is a member. Major goods and services —and funds—were contributed by individuals and businesses associated with the bank or the association. Contributions ranged from printing publicity pieces and in-tent posters to free advertising space, floral arrangements, free coffee and cash donations.

Besides donating its parking lot and mall, Hyde Park Bank staffers were instrumental in planning and executing the festival.

'$9 Dinner Deal':

Bank's Dinner Offer Serves Up a 'Winner'

"Come and Get It" was the invitation offered by advertisements of Central Bank, Birmingham, to customers. The offer? Membership in a dining club.

Titled the "Colonial Club $9 Dinner Deal," the promotion was run in co-operation with the Colonial Dining Club (CDC), an independent company headquartered in Birmingham. CDC also operates in Huntsville and Montgomery, and the program also was run at other affiliate banks of Central Bank's parent HC, Central Bancshares of the South, Inc., Birmingham.

Central Bank first offered the CDC booklet in the fall of 1976, through statement stuffers, newspaper, radio and point-of-purchase. The book contains discount tickets for meals, drinks and lodging at various eating and travel establishments in the area; the booklet retails at $15, but the bank offers it to customers at the self-liquidating cost of $9.

"The offer has been a traffic builder and it gives us the extra benefit of doing business with our affiliates in the three aforementioned cities," a bank official states. "In two six-week promotions—fall, 1976, and spring, 1977 —we have sold 8,900 CDC booklets to customers and employees."

By Popular Demand:

Bank Offers Artwork At Below-Cost Prices

Due to popular demand, Heritage County Bank, Blue Island, Ill., again offered oil paintings to customers depositing $200 or more.

The bank's lobby resembled an art gallery during the event. Landscapes, still lifes, seascapes and portraits, matted and mounted in hand-carved wood frames, were offered for prices varying from $6 to $60. Sizes of the art ranged from 5x7 inches to 20x24 inches.

Marianne McGreal (l.), personnel off., and Joyce Korneta, pers. ln. off. (r.), Heritage County Bank, Blue Island, Ill., admire artwork display in bank lobby with Mr. and Mrs. Lorimer Fischer. Paintings were offered at reduced prices for qualifying deposit; event, repeat of earlier offering, was brought back by popular demand.

Corporate Marketing:

Selling to Businesses Is Topic of ABA Seminar

The American Bankers Association has slated its first Corporate Marketing Seminar for January 29-31 at Chicago's Hyatt Regency O'Hare.

The event will be devoted to selling bank services to business. Sessions will include such topics as corporate marketing planning, organizing a corporate marketing function, segmenting corporate markets, officer calls and corporate marketing in the community bank.

The seminar, which has been designed for banks of all sizes, will consist of four general sessions covering the corporate marketing planning process, six special-interest workshops and special luncheon speakers. A feature will be "Success Story" sessions, informal discussions led by bankers who have developed successful corporate marketing programs.

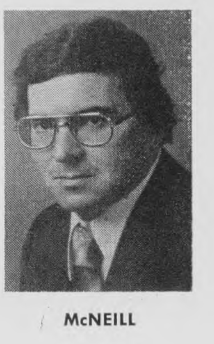
Registration for ABA member banks is $200 and $250 for nonmembers.

Corporate News Roundup

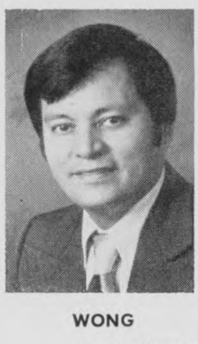
Raymond Koontz (l.), pres., Diebold, Inc., and George Trimble, pres., Bunker Ramo Corp., sign joint agreement to market complete, on-line automated banking system. Signing took place during ABA convention in Houston in October. Two firms will offer banks complete on-line capability from single source. However, each company will continue to market its own systems independently.

• **Diebold, Inc.** A joint marketing agreement has been announced by Diebold, Inc., and Bunker Ramo Corp. The firms, headquartered in Canton, O., and Trumbull, Conn., respectively, are making a bid for an increased share of the market for electronic banking systems. While each firm will continue to market its own systems independently, the joint marketing agreement was created to offer banking institutions on-line capability from a single source. Diebold offers customer-operated ATMs, cash dispensers and transaction terminals. Bunker Ramo offers teller, administrative and POS terminals and minicomputer control units.

• **Doane Agricultural Service.** This St. Louis-based firm has announced three appointments: Jim Wong has joined the St. Louis headquarters staff as manager, research and analysis, marketing research division. Joel A. McNeill has joined Doane as regional marketing manager, farm and ranch management division, with responsibility for overall marketing efforts in Indiana, southern Illinois, eastern Missouri and Michigan. Bill Ayers has been named agricultural consultant in the Memphis office. His initial responsibilities include overseeing and managing farmland in Mississippi, Arkansas and Tennessee. He formerly was with the Agriculture Extension Service, University of Tennessee. Mr. Wong, who is responsible for overall project direction for marketing research studies, formerly was assistant chancellor, University of Houston/Victoria. Mr. McNeill was district sales manager, Funk Seeds International, Inc., North Platte, Neb.



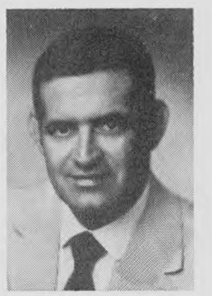
McNEILL



WONG

• **Docutel Corp.** James E. Cunningham has been named to direct efforts of Docutel Corp., Dallas, to test, evaluate and improve designs of automated teller equipment. Mr. Cunningham, who has 15 years' experience in electronic terminals, joined Docutel recently as vice president/engineering.

• **Mosler Safe Co.** R. William Ayres Jr. has resigned as president, Mosler Safe Co., Hamilton, O., to pursue other business interests. Roy Satchell, senior vice president and chief executive, security and graphic arts groups, American Standard, Mosler's parent firm, has assumed leadership of all the company's activities until further notice.



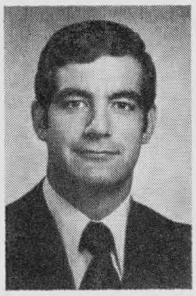
BISCAN

RAYMOND

• **Bank Building Corp.** Two appointments of interest to Mid-Continent-area bankers have been made by Bank Building Corp., St. Louis. Charles M. Biscan and Allyn D. Raymond have been made corporate vice presidents. Mr. Biscan also is assistant secretary and corporate counsel. Mr. Raymond is general manager, southwestern facilities division, Richardson, Tex.

NEWS OF THE BANKING WORLD

van VLIERDEN



ISAAC

GOULD

WILLIAMS

McNAIR

• **C. M. van Vlierden,** executive vice president, Bank of America, San Francisco, retired December 1 after nearly 40 years in banking. With BofA for nearly 27 years, Mr. van Vlierden had been chairman of the bank's money and loan policy committee since 1974. As executive vice president, he had responsibility for global planning and strategy for BofA's world banking division. He plans to devote his time to a number of personal pursuits, including the problems of the world's less developed countries. He joined BofA in 1951 following assignments with a European bank in Europe and Asia, advancing to executive vice president in 1969.

• **William M. Isaac,** vice president, secretary and general counsel, First Kentucky National Corp., Louisville, has been nominated to fill a vacancy on the FDIC board by President Carter. If confirmed by the Senate, the 33-year-old banker would chair the agency's review and liquidation committees. Mr. Isaac is expected to fill the vacancy created by the resignation of Robert Barnett last June and would serve for six years. Mr. Isaac joined First National, Louisville, lead bank of First Kentucky National, in 1974, following service with a law firm in Milwaukee. He served as head of the bank's legal department.

• **Champney A. McNair,** president, Trust Co. Bank, Atlanta, has left that position to become vice chairman of the bank's parent HC, Trust Co. of Georgia, Atlanta. James B. Williams, also a vice chairman of the HC, and president of Trust Co. of Georgia Associates, Atlanta, has been given responsibility for the HC's statewide group of 10 banks, including Trust Co. Bank. In addition, Edward P. Gould, formerly executive vice president in charge of Trust Co. Bank's banking department, has succeeded Mr. McNair as bank president. He also will serve on the boards of the bank and HC. Mr. McNair joined Trust Co. in 1951 as a management trainee and has worked in nearly every department of the bank; Mr. Williams joined the organization in 1957; and Mr. Gould joined Trust Co. in 1955.

• **Carl M. Mueller,** who began his banking career with Bankers Trust Co., New York City, and went on to become president, Loeb, Rhoades & Co., Inc., has returned to Bankers Trust, having been elected vice chairman and executive committee member of the bank and its parent company, Bankers Trust New York Corp. He joins Chairman Alfred Brittain III and President John W. Hannon Jr., as a member of the bank's office of the chairman, where he will share general management responsibilities. Mr. Mueller originally joined Bankers Trust in 1946, advancing to head of its special industries division in 1957. He resigned to join Loeb, Rhoades & Co. in 1960.

• **J. Irwin Miller,** executive committee chairman, Irwin Union Bank, Columbus, Ind., has received the University of Chicago's Rosenberger Medal. The award was established at the university in 1917 by Mr. and Mrs. Jesse L. Rosenberger and is given periodically for "achievement through research, in authorship, in invention, for discovery, for unusual public service or for anything deemed of great benefit to humanity." As a recipient of the medal, Mr. Miller was cited for his efforts to promote minority rights, higher education and ecumenism, as well as his successful charting of the Cummins Engine Co., Columbus, of which he served as president and chairman. He also was cited for his contribution to his community's architectural individuality.

• **Two men** from the Mid-Continent area have been elected regional directors of the American Bankers Association. They are Gavin Weir, chairman, president and CEO, Chicago City Bank, and J. B. Wheeler, president and chairman, Hale County State, Plainview, Tex. They will represent ABA regions II and IV, respectively.

• **Donald N. Brandin,** chairman and president, Boatmen's National, and chairman and CEO, Boatmen's Bancshares, Inc., both of St. Louis, has been reelected a director of the St. Louis Fed. Mr. Brandin, who is a class A director, has served on the Fed's board since January, 1975, and will begin his second three-year term next month.

Treasury Honors Berry

James D. Berry, chairman, Republic of Texas Corp., Dallas, is shown during presentation of Treasury Minute Man statuette honoring Mr. Berry's decade of service to the savings bond program. Award was made by Azie Taylor Morton (r.), U. S. treasurer, during recent ABA convention in Houston.

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Commercial Finance Firms Help Banks Fulfill Full-Service Commitments

By G. PAT BACON

VIRTUALLY all commercial banks advertise themselves as full-service facilities. Yet bankers are the largest single source of referrals to the commercial finance industry.

Why is that so?

Because the referring bankers wisely include commercial finance capabilities in that full-service promise.

Commercial finance companies frequently hear from bankers who are concerned about a good customer's financial health. That customer may find it difficult to repay an outstanding loan, or simply may have capital needs the bank is unable to meet. Still, the company is a good customer and while it does not currently meet the bank's lending criteria, it may, at some time in the future. Further, the company is an ongoing user of other services that may be profitable to the bank.

Alternatively, a customer may be healthy—so healthy, in fact, that it requests a loan the bank is unable to grant because the amount exceeds the bank's own lending limits.

Or the request may require a secured loan and expertise necessary to evaluate, monitor and control collateral properly, but the bank may not have the staff capacity to handle it.

Whatever the situation, the banker is reluctant to turn away a good customer. So he calls in a commercial finance company *as an extension of his bank's services.*

Let's take a look at some typical cases:

A Loan in Trouble. In one instance, a southwestern bank had carried a loan on its books for an extended period of time. The borrower, a manufacturer of electronic circuit boards, had a basically sound business but was unable to pay off the loan. Sales had been slower than projected; working capital was very tight, and trade credit had been stretched to the limit. Even though growth of the business and repayment of the loan were almost a certainty *over the long term,* the bank was becoming uneasy.

The banker decided to call in a commercial finance company—in this case, Aetna Business Credit, Inc.—and we were able to provide a secured loan, using accounts receivable as collateral. With the proceeds from our loan, the manufacturer paid out the bank and received additional working capital that helped him get payables under control. He breathed a sigh of relief, and so did his banker. The bank had eased an uncomfortable loan situation and maintained a customer who utilized many other bank services.

In this case, timeliness on the part of the banker was the key. He had perceived, while problems were still in an early stage, that this customer was experiencing financial difficulty and had acted to help. If he had waited until the company's credit standing deteriorated, most likely, we would not have been able to grant the loan.

Enlarging Bank's Capacity. Troubled credit is one reason banks refer their clients to commercial finance companies, but referrals also are made when times are good.

A customer sometimes is faced with the not-unpleasant problem of too-rapid growth, and its frequent result, a shortage of working capital. When this happens, a bank may find that the customer requires more money than it can provide within its own lending limits. At this point, the banker may wish to consider a participation arrangement with a commercial finance company as a method of providing the total funding required. A participation is simply a situation in which two lenders—such as a bank and a commercial finance company—join to make a loan.

A large central states wholesaler of lumber products is a typical beneficiary of a participation loan. The company was borrowing substantial amounts of money out of town because banks in its area lacked the lending capacity to satisfy its borrowing needs.

One local bank hoped to win the company's business, but recognized that its own lending limits were far below the lumber company's requirements. The banker had worked with Aetna Business Credit before, however, and felt that a participation arrangement would provide the vehicle to service the loan requirements and thus help him attract the banking business back into the local community.

We were able to structure a loan, secured by the lumber company's accounts receivable and inventory, with the local bank participating to its limit. At the same time, the banker was able to convince the prospect of the convenience of dealing with the local bank, thus acquiring a major new customer for a full range of services.

Expanding Bank's Staff. Sometimes a bank will have the financial capability to handle a loan request, yet the situation may not be a good risk unless the loan can be adequately secured. But special expertise is required to evaluate

G. Pat Bacon is senior vice president and manager, central division, Aetna Business Credit, Inc., where he is responsible for business-financing activities in 14 midwestern states.

Mr. Bacon has 25 years' experience in finance, including time spent with James Talcott, Inc., where he was corporate vice president, and Lyon Metal Products, Inc., where he was general credit manager.

He holds a bachelor of science and commerce degree from the University of Iowa. Mr. Bacon also attended the executive management program, Graduate School of Business, Indiana University, where he was on the program's advisory board.

accounts receivable, inventory or equipment; further, the bank may not have sufficient staff capacity to monitor and control the collateral properly once the loan is booked.

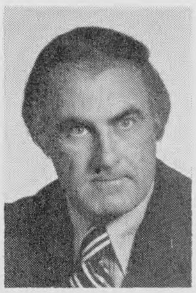
Commercial finance companies not only have the expertise to evaluate a borrower's inventory or receivables, but also have the capacity to manage and control the loan, in which a bank participates. One Kansas banker discovered this when he was approached by a meat wholesaler, seeking a loan to augment his working capital.

The company was a good—and growing—customer. Losing its business was almost a certainty, however, unless the bank could provide additional financing, secured by inventory. But no one on the bank's staff had the special expertise to evaluate the somewhat unique—and perishable—stock.

Commercial financing was the answer. We structured and managed the loan and participated equally in the funding with the bank. Using the proceeds, the customer was able to increase his sales by 20% in the next six months.

Fulfilling a Commitment. Clearly, commercial finance companies can extend a bank's capacities and services. Partnership with them will allow a banker to say no to direct-loan demands by providing an alternative solution while retaining customers' goodwill and patronage of other bank services. And he needn't turn away any potential bank user because the prospect is too big or too demanding. He can, indeed, fulfill his "full-service" commitment—by making a referral. • •

Commercial Finance and Factoring Firms Seen as Auxiliaries to Bank Services



By EDWARD L. BOYD
President
Southeastern Financial Corp.
Charlotte, N. C.

MANY BANKS consider commercial finance and factoring companies to be competitors. In fact, the services offered by commercial finance companies are complementary to banking services rather than competitive.

Frequently, the terms factoring and commercial financing are used interchangeably. While there is a strong similarity, there are also significant differences.

In factoring, the factor performs a service for the client as well as providing funds. The factor guarantees to his client the ability of his customer to pay an invoice when due and actually purchases the invoice from the client. From that point, provided there has been a fulfilled sale, the problem of collection is borne by the factor and not the client. This relationship is much akin to banks and their use of Master Charge or Visa cards. Factors do, if requested, advance funds to the client prior to collection of the invoice as well, thus providing the client with working capital assistance.

Commercial financing also involves working capital assistance, generally through accounts receivable loans. However, the format is different. The client retains ownership of the accounts receivable and the obligation for their collection, but assigns them to the finance company, which makes advances to the client as requested. The finance company also will make loans secured by inventory and fixed assets, particularly machinery and equipment.

As mentioned above, the services offered by commercial finance companies complement those offered by a bank. Being government regulated, banks are often restricted in the amount and types of financing they can provide their customers. By working with a reputable commercial finance company, the bank can often meet its customers' financial needs while continuing to participate in credits to the extent allowed.

Bringing in a finance company and participating with it are an effective way for a bank to increase the credit available to a customer. Furthermore, such an arrangement provides measures of control through the finance company's daily monitoring of receivables and inventory and periodic audits of the client's books that the bank is not able to provide for itself. No amount of monitoring can make a bad credit a good one, but effective commercial finance can make a less than prime credit acceptable to all concerned.

Working with a finance company provides other advantages to the bank. Because a bank normally participates in secured loans with a finance company, regulatory cleanup requirements for an unsecured loan do not apply. Therefore, the nonseasonal customer doesn't have to strain—perhaps against the best interests of the business—to force a cleanup.

If the customer needs total refinancing, a full package with the bank providing the long-term and the finance company the short-term funds may work best. In this way, both financial institutions lend where their expertise is greater.

Although the above comments have been directed to the services a finance company has to offer a bank and its customer, a factor is frequently able to do the same thing. Many independent financial institutions not affiliated with a particular bank, such as Southeastern Financial Corp., provide both factoring and commercial financing services and will structure a program using whichever service best fits the client's needs.

An independent financial institution offers a bank the immeasurable advantage of remaining the customer's only bank. The alternatives in many instances are either to bring in another bank as a participant or to stifle the customer's growth and options, both of which are not in the bank's best interest.

Unfortunately to some, commercial financing has the connotation of being the last financial step before bankruptcy. Quite the contrary, the majority of commercial financing clients are profitable, rapidly growing companies whose growth and cash needs exceed internal financial resources. Although financing is sometimes used by companies that have suffered financial reversals but have corrected the problems, it is more often found as the financing tool used by companies presented with excellent opportunities for growth: expanding plant and sales, purchasing a competitor, acquiring a company from its present owners.

By bringing in a finance company to assist in his customer's growth and progress, the banker performs a vital service to the customer and the community as well and strengthens the relationship between the customer and the bank. The average life of a commercial financing arrangement is four or five years, after which time the bank retains all the financing business of its customers. • •

When Is Commercial Financing In a Bank's Best Interest?

By STEPHEN C. DIAMOND
Senior Vice President
Central Commercial Finance & Factoring Divisions
Walter E. Heller & Co.
Chicago

THE FACT IS, secured lending can be profitable for a bank if it approaches the service with cognizance of the risks involved and under the guidance of experienced personnel. The key is effective collateral administration.

Thus a new dimension has been added to the term "bankability"—or has it? Probably in no area of commercial banking is the definition of credit worthiness more clouded than where the applicant requires secured lending. Some banks, although a decreasing number of them, still feel that a credit should not be bankable without the probability of a loan cleanup in the foreseeable future—a condition that seldom exists for the heavily leveraged borrower who pledges current assets to support borrowing needs.

Other banks define secured-credit worthiness in other ways: Some measure it in terms of the borrower's leverage ratios; some look almost exclusively to collateral ratios. While many factors are responsible for this potpourri of banker attitudes, the principal reasons center around the changing needs of the business and banking communities and, particularly, the rising cost of doing business.

Inflation has tended to increase the debt-to-worth ratios of even the most credit-worthy borrowers simply because more dollars are needed to do the same "real" level (after discounting inflation) of business. As one result, inventory and receivable totals increase (in current dollars). Since the asset build normally is faster than the increase in retained earnings, a company used to unsecured credit might develop a debt-to-worth ratio that no longer justifies such accommodations, at the very time it needs to increase its level of borrowings to keep trade payables manageable. The borrower's plight is laid against the backdrop of a lender who is being forced to choose investment alternatives that will permit it to increase earnings, while its cost-per-employee is rising due to the same inflationary pressures.

Superficially, there is one area that seems to solve both the borrower's needs for additional dollars and the lender's need for additional yield, and that is the loan secured by a borrower's current assets. On that basis, increasing numbers of banks are entering this market.

The fact is, however, that secured loans are not necessarily a panacea. While the comfort of the collateral may permit the lender to loan more money to a particular borrower, the risk of a borrower's failure increases as that borrower's balance sheet gets more heavily leveraged. Thus, while secured loans generally offer higher yields to the lender and greater dollars to the borrower, they also require strict credit parameters, rigid administrative procedures and a "quick reaction" philosophy that may be inconsistent with a bank's general lending policy.

When a lender begins to shift the determination of credit worthiness from financial strength to collateral strength, it must also increase its ability to determine the value of the collateral in relation to the loan on a daily basis. A borrower's accounts receivable and inventories change from day to day in both amount and quality. It is not difficult to set-up controls to determine the daily amount of the borrower's accounts receivable, nor to make a monthly analysis of a receivable agings.

When one delves below the surface, however, and begins to analyze potential set-offs, to determine the total dilution factor and to note daily changes in concentrations, a greater degree of professional expertise is required. When one makes loans on inventories, a requisite is the ability to analyze the five primary inventory variables on a daily basis—quantity, quality, mix, age and technical or style obsolescence.

Thus, as a lender relies more heavily on collateral, both the degree of administrative controls and the quality of administrative people required increase markedly.

A bank entering the field of secured lending should determine in advance what its credit criteria are to be. It should define to what extent its credit judgment will be based on collateral, and to what extent a borrower must offer financial strength. These criteria may differ, depending on the type of collateral involved. In addition, it should determine, before the fact and not after, the point at which a secured borrower in a deteriorating situation will become nonbankable.

The major question is one that all professional secured lenders ask before approving a secured credit and repeat on a continuing basis thereafter: "If we had to liquidate the company today, how much would we receive from the collateral?" The answer not only involves determination of collateral values, but an evaluation of legal risk as well; for today there's an increasing tendency of courts to permit the use by a borrower of collateral pledged to a secured lender in order to facilitate Chapter XI or Chapter X reorganization.

Our opening comment is worth repeating: Secured lending can be profitable for a bank if it approaches the service with cognizance of the risks involved and under the guidance of experienced personnel. The key is effective collateral administration: The greater the degree of control exercised, the higher the operating expenses will be now—but the lower the bad debts in the future.

How far a given bank should involve itself with secured lending without the support offered by a professional secured lender is a matter of individual determination, based on market needs, staffing capabilities and a number of other criteria. Many banks have found that a valuable input to that decision can be an in-depth visit to a professional secured lender such as Heller. This exposure can add significantly to a bank's understanding of the risks and rewards of secured lending. In many cases, a bank may find in analyzing its market that the cost of proper staffing is too great to justify the market-share increase that can be developed—and this is particularly true when inventories are destined to be a significant part of the borrowing base.

'Freebie' Features Funnies

A "freebie"—a free exhibit—at Detroit Bank featured a look back on 50 years of the art of the funnies. Titled the "Fascinating World of Comics," the lobby display was developed by the Detroit *Free Press* and explained much of the technical side of comics, as well as contributions the art form has made to society.

Bankers Give Reasons for Participating With Commercial Finance Companies

BANKERS generally do not consider commercial finance firms to be competitors. Rather, these firms can serve as valuable bridges between the time a firm is organized until the time its lending requests become bankable.

These and other comments were gleaned from interviews with bankers whose institutions participate regularly with commercial finance firms.

Why do these banks participate? Because bankers realize that commercial finance firms, which are collateral-type lenders, often possess greater expertise to handle this type of loan than banks do. Bankers usually are not comfortable with collateral-type situations.

A bank usually steers clear of collateralized loans because it doesn't want to take the risk of having to end up with the collateral. Most commercial finance firms are set up to handle collateral and don't hesitate to take the risk of doing so, those interviewed said.

The primary reasons banks participate with commercial finance firms are to share the risk and keep the borrower's account on the books. Whether a bank recommends a participation depends on the borrower's financial strength. Often a firm will be experiencing substantial growth and needs an influx of capital to increase production. The bank doesn't want to assume the entire risk, so it calls in a commercial finance firm. This type of arrangement results in a lower total cost to the borrower than if the borrower dealt exclusively with the commercial finance firm, and it tells the borrower that the bank is interested in his future business.

Thus commercial finance firms are viewed as supportive. Their personnel are considered expert at their specialty, although the firms are not as flexible as banks generally are.

Commercial finance firms participate with banks because participation enables the firms to undercut their competitors' rates, bankers state. Participation results in a "blended" interest rate that is higher than the bank's rate, but lower than the commercial finance firm's rate.

When shopping around for a commercial finance firm to work with, bankers generally look for financial strength, skills to handle the type of business involved, a reputation for integrity, fair pricing, fast service and efficiency on the part of the local office's staff.

Acquisitions have been a good source of business for participations, bankers state. Often, a firm desiring to acquire another firm will find it necessary to borrow funds to swing the deal. A participation often can be worked out when working assets of both firms, along with receivables, are pledged as collateral. Such an arrangement usually satisfies the requirements of a commercial finance firm.

Sometimes a reverse situation works well as a participation. Should an acquisition go sour, the former owners can often obtain funds to reacquire the concern by pledging assets and accounts receivable to a commercial finance firm.

It's necessary for a commercial finance firm to charge higher interest than banks because the cost of servicing collateralized loans is high, and, in many cases, funds loaned by the commercial finance firm are supplied by commercial banks, bankers state. Servicing costs are high because of the on-site checking of collateral that is required. Also, commercial finance firms must have staffs with the expertise necessary to handle collateralized loans.

It's not unusual for a downstream correspondent bank to participate with both its upstream correspondent and a commercial finance firm, enabling all three participants to maximize risk spread.

Bankers state that it pays to shop around when seeking a commercial finance firm as a partner in a participation because managements of each firm have different operating criteria.

Bankers also state that it's usually better for all concerned for a bank to participate with a commercial finance firm than to try to "reinvent the wheel" by setting up its own commercial finance operation. • •

Commercial Finance Division Established To Broaden Expense/Revenue Spread

A PROBLEM that doesn't receive a lot of publicity but is of real concern involves the narrowing spread between bank expenses and revenues. This narrowing spread has been blamed on the recession and inflation of 1973-74, but Fed and FDIC statistics show it started long before then.

As dramatic evidence of this problem, total bank loans expanded at a compound rate of 13% during the 1969-74 period while bank earnings increased only 9.5% in the same time span.

Three basic ways exist to improve bank earnings. One is to cut expenses, but this approach has drawbacks. Often the initial step in trimming expenses is a reduction in personnel, which poses the danger that existing business will not be serviced adequately, not to mention the possibility of lessening the bank's ability to produce new business. Also, many expense areas can't be cut: taxes, energy costs and postage, to name a few. Rather, these expenses will no doubt increase.

Another way to improve earnings is to increase loan interest rates, service charges and fees to offset rising expenses. The major drawbacks to this approach are competition from other banks and, at times, political jawboning.

The third way to improve earnings is to offer new services. Examining the alternatives, Hoosier State, with resources of $114 million, elected the third method and is offering commercial finance as a new service that is expected not only to improve earnings but benefit customers as well. The new division is the culmination of more than two years of research and planning and is an outgrowth of a thesis project submitted in partial fulfillment of the requirements of the Stonier Graduate School of Banking.

Looking at the market served by the bank, Lake County, Ind., is located on Lake Michigan and begins where Chicago's southeast side ends. It's primarily an industrial area with concentration in steel, petroleum and trucking. Market research conducted through local government offices, universities

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Assistant Cashier
Hoosier State Bank
Hammond, Ind.

and utility companies revealed a large number of commercial and industrial companies with annual sales ranging between $750,000 and $5 million. Many of these firms sell to moderate- and large-size corporations. The major percentage of the assets of these firms is in inventory and accounts receivable—making the firms prime candidates for a commercial finance program.

The accepted definition of commercial finance is an operation that lends aganist accounts receivable, inventory, machinery and equipment.

Leasing—both direct and indirect—was added to our program, which is a departure from the approach taken by major money-center banks. Many of these banks have entered the commercial finance and leasing fields by way of acquisition during the past 20 years and maintain each operation separate from the other. Our approach is to combine them because of overhead considerations.

With general industry rates ranging between 3½% to 6% over prime, commercial finance yields can be impressive. The information and data developed in researching the project showed the profit potential and opportunity for diversifying the loan portfolio to be excellent, but indicated that the element of risk was greater than was the case with traditional bank lending. Careful planning was the common thread woven through the information developed from those experienced in this type of lending.

An important part of planning for a commercial finance operation is division management. With over 18 years' experience in banking, credit and finance (including commercial finance and leasing) the author was chosen by senior management to develop and administer the program. During the initial start-up phase, existing commercial loan personnel and bank facilities support the program. As the portfolio grows, specially trained personnel will be added to the division.

Because of the bank's new lending approach, it was decided not to establish specific goals in number of accounts or dollar volume. This was done because all too often emphasis on volume results in substituting quantity for quality. However, our research shows the program has limited application to our existing class of customers, so a marketing effort is needed that will result not only in increasing deposit and loan volume but in broadening customer mix.

As part of the planning process, consideration must be given to the types of services offered. Accounts receivable and inventory financing are the basic tools of a commercial finance program. Some banks are uncomfortable with this form of lending or will extend it only on a small or moderate scale.

There are times when a customer may request a loan package consisting of accounts receivable financing and a term loan secured by equipment. If the bank is willing to extend the term loan but is uncomfortable with the accounts receivable line, the solution is to call in a commercial finance company on a participation arrangement.

Historically, commercial finance companies have been looked at as lenders of last resort. However, many cases exist where a bank has met its customer's needs and at the same time spread the risk by participating with a commercial finance firm. These participations can be based on percentage of the loans, on a specific dollar amount or on a basis similar to the previously cited example.

Leasing offers another clear-cut alternative to both meeting customer needs and adding to bank earnings. The opportunities include direct-lease financing (purchasing the asset and leasing it to the customer) as an equity or debt participant in a leveraged lease transaction, financing lease contracts for dealers or vendors and sale/lease-back arrangements, where the bank buys existing equipment from its customers (creating immediate cash) and leases it back to the customer.

A word of caution—commercial finance and leasing often involve highly complex transactions and documentation requirements. The assistance of legal counsel in reviewing documents used in the program is strongly recommended. Leasing can have a major impact on a bank's overall tax liability, so consultation with the bank's controller and accountants should be part of the planning process.

With proper credit and collateral analysis, monitoring of accounts and pricing within the risk-reward framework, a commercial finance program can become a profitable addition to a bank's loan portfolio.

It's been suggested that a commercial finance and leasing department at a bank of Hoosier State's size is breaking new ground. The problems of rising expenses and narrowing profit margins affect all sizes of banks. If the future is mirrored in the past, and it generally is, then two facts are quite clear:

- The nation's banks will continue on a course that swings increasingly away from traditional short-term, self-liquidating bank credit to term financing. Commercial banks have, in effect, become a major part of the capital markets.
- To support both short- and long-term lending, bankers will continue to rely on purchased money.

In view of these trends, new approaches in bank lending are necessary for expansion, diversification and risk spreading. A commercial finance program is one approach that fills these needs.

When we examine the commercial finance industry, it's obvious that banking is very much involved in the picture and the role of banking in this field isn't limited to those institutions with established commercial finance and factoring departments. Money-center banks extend loans to commercial finance and factoring companies at or near the prime rate; then these companies lend the same funds to their clients at higher rates.

Commercial finance companies that obtain the bulk of their funds in the commercial paper market call on banks to support their borrowings with unsecured lines of credit. These lines aren't limited to large money-center banks, but include banks of all sizes in all areas of the country. Usually, the lines are granted without compensation and remain unused until the nation's money supply constricts and funds become difficult to obtain. It's ironic that at the time these lines are drawn down, banks need them to meet the needs of their customers. The rate charged the finance company is usually at prime, so the end result is a negative impact on earnings.

Most banks in major areas like New York City, Boston, Philadelphia and Atlanta have established commercial finance divisions or subsidiaries through holding companies. In recent years, the concept has caught on at major banks in Chicago, Dallas, Los Angeles and Seattle.

Why should small- and medium-size banks look at commercial finance and leasing? First, with over $200 billion in lease financing and commercial financings outstanding and a growth rate in excess of 20% a year, a strong market exists with ample opportunities for banks of all sizes.

Next, consider that most commercial finance companies have avoided establishing limited trading territories. The only limits were those imposed by the resources available and the allocation of those resources. Today, it's common for money-center banks to take the same approach in marketing their commercial finance operations. So, competition isn't limited to the banks within a city or a traditionally defined trading area.

The commercial finance industry is a major force in America's economy and it's not suggested that this volume of lending be replaced by bank credit. It is suggested, however, that bankers, regardless of the size of their respective institutions, look at commercial finance companies as competitors rather than as just users of bank funds.

After examining this concept in line with asset structure, capital resources and staff availability, some banks may conclude that a complete commercial finance program isn't appropriate; some may elect to establish a modified program, while others may choose to limit their activity to participations with correspondent banks and finance firms.

Historically, risk is the main objection to entering the commercial finance field. The risks are greater than in traditional bank lending, but so are the rewards. While commercial finance is a specialized kind of risk management, the important thing to remember is that risks are inherent in any kind of lending.

With proper credit and collateral analysis, monitoring of accounts and pricing within the risk-reward framework, a commercial finance program can become a profitable addition to a bank's loan portfolio.

It's too early to tell if our program will be a profitable addition to the line of services offered to customers. However, it's our belief we're moving in the right direction. In an increasingly complex lending environment, our customers are faced with complex financial needs. Innovative approaches in lending may well be necessary not only to meet the customer's needs but improve the bank's earnings. • •

Bank Directors' Institute Scheduled for Jan. 5-8

The first of a series of Institutes for Bank Directors is scheduled for January 5-8 at Vanderbilt University, Nashville. Sponsor is the National Association of Bank Directors.

The three-day, in-depth weekend program is open to inside and outside directors of commercial banks, advisory directors and qualified employees of federal or state regulatory agencies. Purpose of the institute is to enable directors to gain an increased understanding of their role in banking.

Topics to be featured on the program include legal responsibilities and policy making, supervisory authority, duties of directors and director accountability.

Among the speakers scheduled are Charles J. Kane, chairman and president, Third National, Nashville; Roy Jackson, regional director, FDIC, Memphis; Cantwell Muchenfuss III, counsel, FDIC, Washington, D. C.; Joe H. Hemphill, Tennessee banking commissioner; and Ben S. Kimbrough, vice chairman, Tennessee Valley Bancorp., Nashville.

The Institute will award certificates in bank board directorship to those completing the session. A second session is set for the University of Colorado, Boulder, in June.

Registration forms are available from the National Association of Bank Directors, P. O. Box 11201, Alexandria, VA 22312.

Customer of Bank With 'Hidden Resources' Saved by Use of 'Capital Alternative'

A CREDIT-WORTHY business customer occasionally may approach its bank with a request for financing that the bank cannot reasonably fulfill at the time.

Does that mean the loss of a longtime customer? Not necessarily. Can the bank satisfy its customer from other sources? Very often, it can.

To illustrate, take the case of a Kansas bank which for years had been serving as a financial adviser and the primary credit source to a small manufacturer of valves.

Although its business had been growing, two years ago the manufacturer began experiencing a financial pinch. Because of a generally tight money situation, customers' cash was short and accounts receivable turnover was lagging. As a result, the manufacturer could not maximize market opportunities, take advantage of supplier discounts, increase inventory of steel supplies when the price was advantageous or otherwise exploit profit-making and cost-saving opportunities.

More cash was needed for day-to-day operations, but bank credit lines were in full use and had not been cleaned up for 30 months.

When the company turned to its bank to seek additional working capital the response was a regretful "no." Although the bank realized the company was growing and was suffering from only a temporary liquidity problem, the bank's loan committee decided it could not extend its credit lines any further. There seemed to be nothing else the bank could do to help its old customer until the next cleanup except to suggest the possibility of seeking an infusion of longer-term insurance or equity financing, neither of which seemed particularly desirable for this short-term situation.

At this point, the bank could very well have lost a good customer, because the manufacturer might have sought out another bank that was willing or able to provide the needed financing. It needed to provide its client with a viable capital alternative.

To achieve this, the Kansas bank contacted the money-market bank with which it had a correspondent relationship, outlined the situation and learned about a made-to-order solution for its client's problem—and its own.

It was suggested that a commercial finance arrangement was workable, through a financial institution like Citicorp Business Credit, an affiliate of Citibank, New York.

A loan facility based on the value of the company's current assets would be made available and administered by Citicorp. The Kansas bank would participate. Moreover, the Kansas bank would continue to be the primary depository and provide all standing corporate banking services for its client.

Thus, the regional bank was able to return to the manufacturer, even though it didn't have the internal capability itself, and recommend asset-based finance as a logical avenue the bank could provide through ancillary resources.

The net result to the manufacturer was its ability to secure an equivalent to the capital financing it needed through asset-based commercial finance.

To the bank, the result was maintenance of an important client relationship. And the bottom line was additional earnings from its portion of the asset-based loan.

Although such internal growth situations are the most frequent reason for participation with asset-based lenders, even more sophisticated cases of external growth funding are on the record. Specifically, and of most current interest, is the asset-based leveraged financing of acquisitions and divestitures.

Corporations large and small, divisional managements buying corporate spin-offs, older owners seeking more liquidity in their estates and even individual entrepreneurs, are finding this approach desirable. It increases the financial leverage of the buyer by providing maximum cash funds based on the assets of the company being acquired and gives the seller cash on the barrelhead, while protecting the lender's interest.

In all cases, however, the main result is to provide, for the client, the level of working capital required to support growth.

When its bank first suggested that asset-based finance would be a sound means of securing the needed financing, the valve manufacturer was hesitant because of misconceptions held by its management. They were loath to "turn over" accounts receivable to another organization or otherwise "sacrifice" the company's autonomy.

However, this fear was unfounded. In asset-based financing arrangements, clients continue to own, manage and collect their own receivables. Citicorp, as the financing institution, simply monitors the accounts receivable being used as collateral. There is no requirement or need for the company's customers to know about the arrangement.

This ability to monitor receivables and inventory as collateral on an ongoing basis ensures a solid source of repayment. It's the reason asset-based financing specialists can make funding

"One of the most important corporate benefits of asset-based financing is the constant access to cash as needed—a steady cash flow."

available when a bank can't, because of a client's inability to generate internal cash flow to amortize or clean up debt.

The area bank, without in-depth expertise in secured lending techniques or the fixed costs associated with colateral monitoring, simply takes advantage of a participation relationship with the asset-based institution.

It assumes a portion of the loan which meets its lending criteria and earns the commensurate portion of the interest earned on it.

However, it is solely the responsibility of the asset-based lender to assume all administration and monitoring of collateral and to assure the continued value of the loan and the appropriate credit availability.

With this asset-based finance program, the valve manufacturer had the use of cash right away instead of waiting weeks or months for accounts receivable to be converted into cash. The company received cash as advances on the receivables and, as it discovered, was able to generate a larger working capital base than through a traditional cash-flow-oriented bank loan arrangement.

One of the most important corporate benefits of asset-based financing is the constant access to cash as needed—a steady cash flow. In effect, the manufacturer has access to a revolving line of credit that grows with the growth of receivables. Repayments are made in the normal course of business as receivables are paid and availability of fresh funds is replenished with the addition of new inventory and receivables.

There is never any necessity for cleanups because the asset-based loan has no amortization schedule. (For this reason, it's often termed "evergreen.") Its ongoing nature makes it an effective substitute for hard-to-get medium- or long-term funds. Thus it serves this rapid-growth company as a real capital alternative.

As the manufacturer also discovered, the dollar cost of the asset-based finance arrangement, including interest and the fee for collateral management, is about the same as the interest rate on a similar bank loan. This is possible because there is no requirement for compensating balances and because interest is charged only on the actual outstandings on a per-diem basis, with cash advances repaid just as quickly as the underlying accounts receivable are collected. In addition, the company benefits from the value of additional sales made possible through this arrangement.

So the per-diem offsets the higher-stated rate of interest vis-a-vis traditional bank lending for the client, yet produces similar interest income for the bank on a loan it might not otherwise have been able to offer at all.

Over the years, Citicorp, with Midwest regional headquarters in Chicago and offices in Minneapolis and Cleveland, has compiled a list of the objectives that a bank counseling on the use of asset-based finance might encounter. In addition to the misconceptions about the possible loss of control of a company's receivables and the costs relative to traditional bank financing, there are other concerns:

First is that asset-based finance is a weak or failing business's "last resort" method of obtaining financing. This probably arose because the companies who find this financing tool most advantageous are generally less well capitalized and therefore find an unsecured, cash-flow-oriented arrangement less appropriate.

But in these inflationary times and particularly in a fast growth situation, many companies find it difficult to build their capital base as fast as the growth in their overall business.

However, clients in asset-based finance arrangements have to be strong and growing companies. In fact, basic criteria for such lending are that clients have reasonable credit histories; strong, viable managements; a proved market and good receivables.

Second, there is the feeling that trade creditors will object to (asset) liens. This rarely is true. The primary concern of trade creditors is that they get paid on time. Actually, supplier relations are improved by the increased liquidity and purchasing power that commercial finance produces.

Third is the idea that it is preferable —though not necessary—for a publicly held company to have its name associated with banks rather than with finance institutions. To meet this desire, commercial finance subsidiaries of bank holding companies will frequently book their loans in the affiliated commercial bank.

The fourth concern is that it takes too much company time and trouble to supply the kind of information the commercial finance institution wants for monitoring of accounts receivable. With experience, this objection tends to dissipate quickly.

Usually, the company's own established management information systems make it an easy, almost automatic, operation to feed data to the asset-based lender. On an ongoing basis, the time required is generally one or two company hours of clerical work per day.

The capability of offering asset-based financing to customers is one of the services many regional banks are able to offer through the resources of correspondent money-market banks. Asset-based finance is one of those "hidden" services that are too often neglected by banks that have a nucleus of commercial or industrial customers, particularly in the middle market range—annual sales volume of $5 million to $150 million.

The fact that an officer in the Kansas bank had the foresight to seek out a specialized financial partner allowed him to profitably retain an important client and satisfy the client's needs for additional capital. • •

Risk/Insurance Management For Bankers to Be Discussed At ABA Seminar in 1978

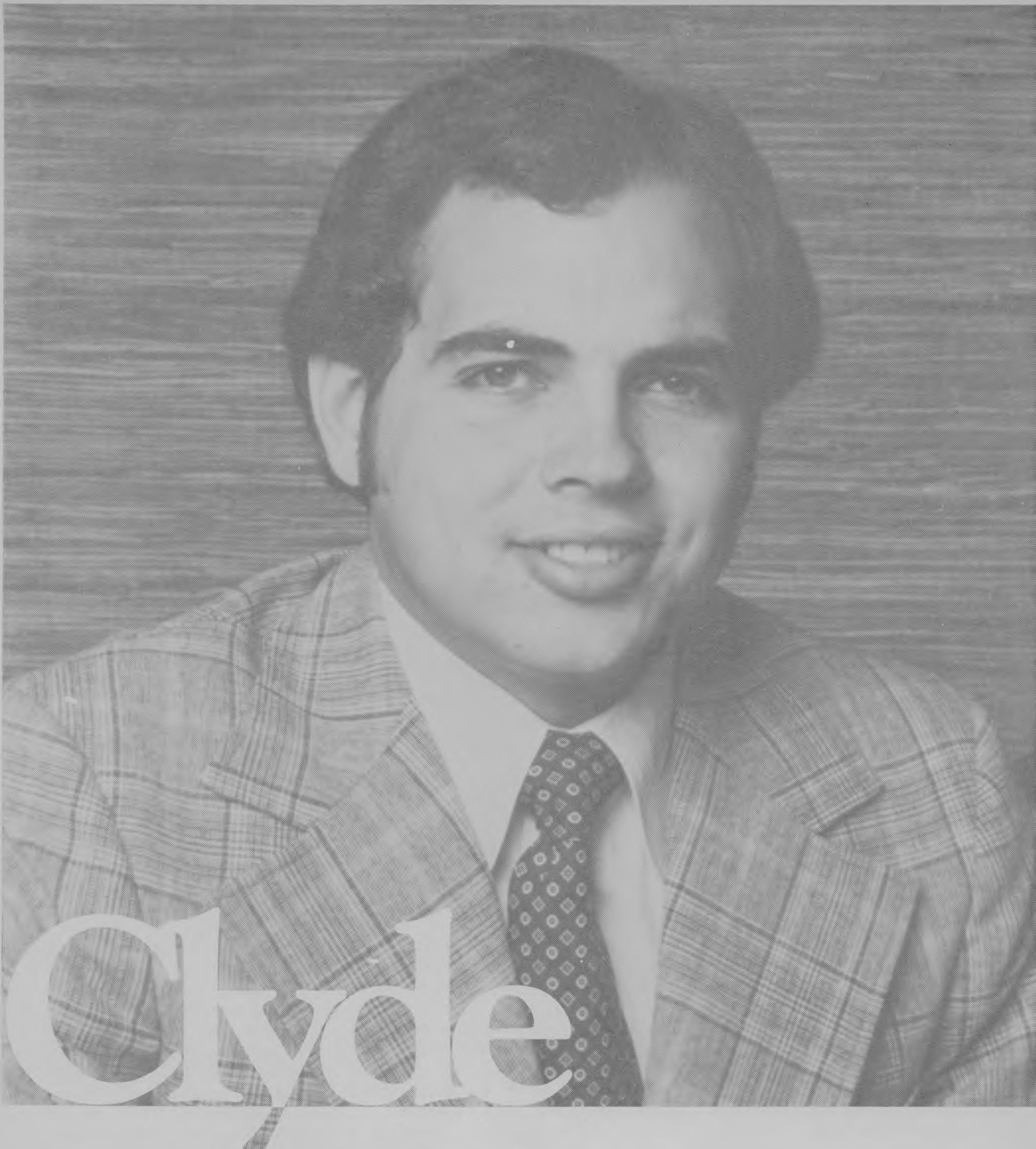
The ABA, realizing that many bankers are concerned about the adequacy of their banks' insurance programs and increasing premium costs, has designed a seminar for them on risk and insurance management in banking. The seminar, sponsored by the ABA's insurance and protection division, will be held February 26-March 1 at Quail Lodge, Carmel, Calif. It will be limited to 65 registrants, who should be executives responsible for their banks' insurance programs and management of their accidental and criminal-loss exposures.

Talks will be given on: "Concept and Purpose of Insurance and Risk Management in Banking," "Identifying and Evaluating Your Bank's Exposures to Accidental Loss," "Risk Control" and "The Bankers Blanket Bond and Related Coverages."

There will be panels on "Organizing and Administering Your Bank's Insurance and Risk Management Program" and on delegates' specific problems. In addition, there will be group case problem preparation and presentations.

The seminar is designed to provide bankers with: a working knowledge of risk management principles, a guide to important insurance coverages and markets, including bankers blanket bond, D&O liability and other fiduciary liabilities, and new exposures arising from EFTS participation.

The registration fee is $245, which does not include hotel accommodations. Write: Nancy Krakover, registrar, insurance and protection division, ABA, 1120 Connecticut Avenue, N. W., Washington, DC 20036.



Clyde Crutchmer. Correspondent Banking Officer.

You might say Clyde has been part of the first string team ever since he was starting quarterback for the University of Colorado.

At Fourth National Clyde is continuing this tradition by being the number two man in the correspondent banking department. Clyde's first-hand knowledge of competition and winning can help you stay ahead of your bank's, and your customers' needs.

Fourth National is The Bank for Entrepreneurs, even banking entrepreneurs like you. Develop your strategy, then use us for that specific information only an expert can provide.

An expert, like Clyde.

Fourth National Bank

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The Bank for Banking Entrepreneurs.

Many Banks Seeking More Outside Help In Competition for Business Customers

LOCAL AND REGIONAL bankers, faced with increased competition from money-center banks for business customers, may be turning for help in larger numbers to "third party" specialists in certain financial and other services.

That's the opinion of Jonathan R. Harlow, director of marketing-financial institutions, for Baltimore's $4-billion Commercial Credit Co. He cites several reasons for his belief, among them:

- Despite strong business liquidity nationally, commercial finance volume this year is expected to increase about 12% to a record $46 billion. Participations by commercial finance firms in bank business loans are a major contributing factor for the increase.
- Some money-center banks are strengthening their leasing operations again, which means that local and regional banks are becoming more interested in developing leasing capabilities of their own. For example, Mr. Harlow said, when Commercial Credit introduced a leasing participation program earlier this year, smaller banks expressed "excellent" interest.
- High costs involved in establishing and maintaining computer programs are producing "steady and strong" inquiries from local and regional banks about data services that financial institutions can offer their customers and that Commercial Credit can provide through its parent, Control Data Corp.

Mr. Harlow attributes the increased usage of "third party" specialists to several factors. First, he says, small companies, which are the principal customer base of local and regional banks, have more complicated or flexible financing needs today and their managements are more aware of financing options. Companies can also afford to "shop around" more right now, making them more susceptible to big-name bankers from out of town.

In addition, Mr. Harlow observed:

"The entire financial industry has become far more competitive over the past five-to-seven years. With banks from cities like New York, Chicago and Atlanta chasing business customers half a continent away, local and regional banks have had to become more aggressive to protect their turf. They've got to go out and sell, too.

"What makes Commercial Credit—and other companies that provide services—attractive in this atmosphere is the fact that a lot of smaller banks don't have, and can't afford, the specialists money-center banks have. Sometimes these smaller banks lack the resources to do certain business financing, also, and we can help that way, too." Plus, he adds: "Local and regional banks see us as being 'safe.' We're not a threat to take away cash accounts or other services that banks provide their customers.

"For example," Mr. Harlow said, "bringing in a business finance company to participate in a business loan secured by current assets can enable a banker to keep his customer happy by providing a loan that might otherwise be rejected. The bank also gets a piece of the action, has a loan portfolio with less risk, and, often, has more of its own capital left to lend to other business applicants.

"Business finance firms are better staffed—both internally and geographically—to evaluate and monitor accounts receivable or inventory. That's so important in many current-asset lending arrangements," Mr. Harlow said. "The finance company may also have broader access to liquidating inventory if that type of loan should go bad."

On the fixed-asset side of financial services, Mr. Harlow said, "We find that many smaller banks are leery of leasing because it's a specialized kind of deal that hurt a lot of banks several years ago. But the money-center banks are active again, and a lot of businesses like to lease equipment, whether it's cars and trucks or production equipment.

"Leasing frees up working capital, helps a company keep equipment up-to-date, and does away with a lot of administrative paperwork. So local bankers should be able to provide leasing as a way of retaining customers who are being wooed by outside bankers."

Demand for data services is also increasing from local and regional banks, Mr. Harlow said, citing Commercial Credit's unique position among financial services firms of being able to provide bank or business customers with a number of data services.

Through Service Bureau Co., another part of Control Data Corp., a bank can obtain for resale to its customers such data processing services as general ledger, financing reporting, payroll, labor distribution, accounts receivable, sales analysis and accounts payable.

Commercial Credit and its affiliates also began marketing an EFT system to financial institutions earlier this year. The "Telemoney" program provides institutions and their retailer customers with credit-card authorization and check-verification services that are independent of money-center banks.

"The costs of developing and maintaining competitive computer services programs are immense," Mr. Harlow noted, "which is another reason local and regional bankers are seeking outside help." • •

Annual Exams of HCs To Begin January 1 Under New Fed Rule

A number of bank holding companies will be inspected by Fed examiners on an annual basis, rather than on a triennial basis, starting January 1, due to a Fed regulation designed to scrutinize HCs more closely.

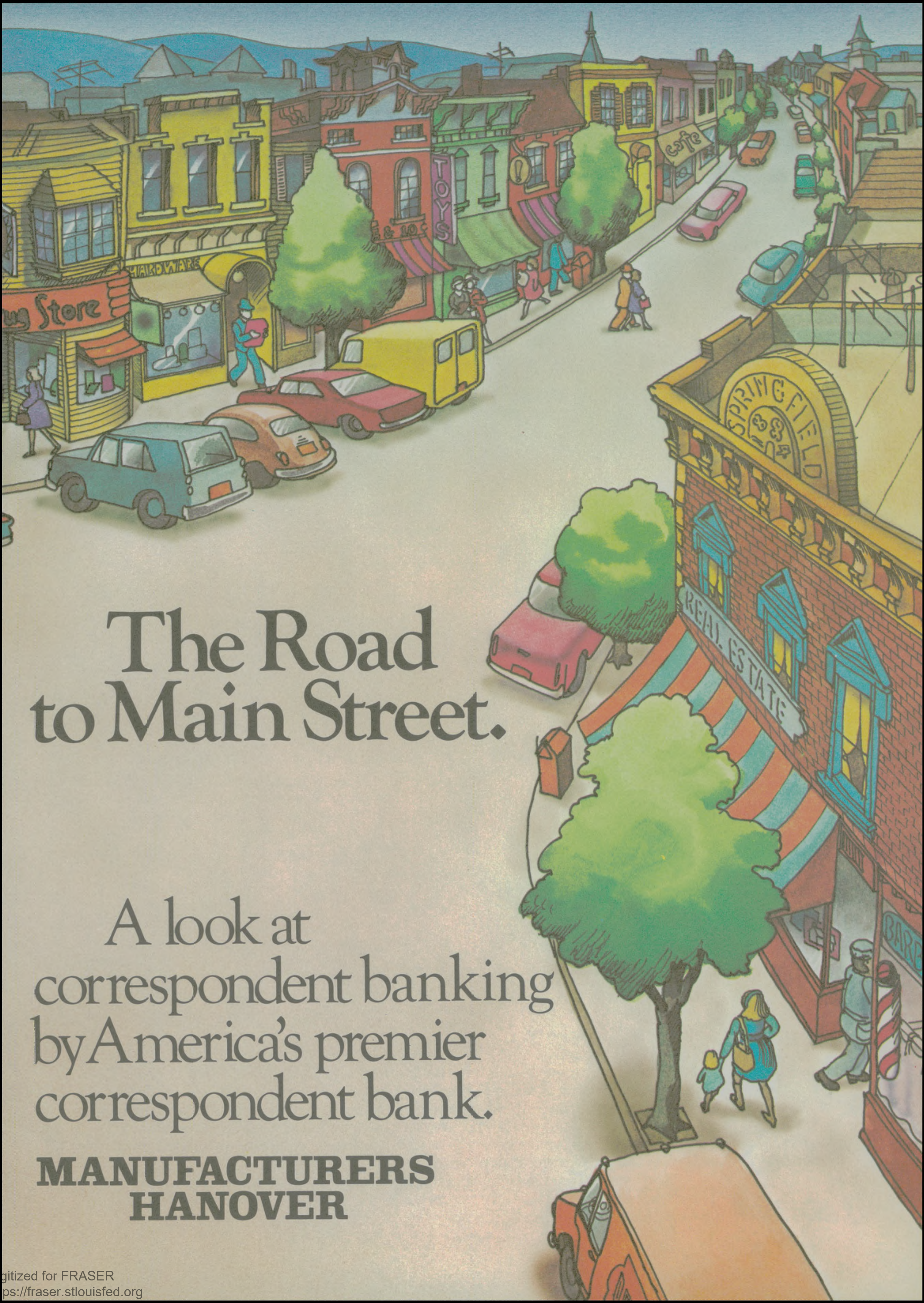
The regulation is said to reflect a growing uneasiness on the part of federal regulators on the operations of large bank HCs and their nonbank affiliates.

The fact that a new examination form will be used by examiners has sparked a charge that the Fed wants to regulate nonbank operations of HCs. This would be a policy shift and is said to reflect concern on the part of some Fed governors that somewhere in the HC approach lurks abuses such as surfaced in the utility HC approach in the 1930s.

Concern has been expressed over the operations of HC subsidiaries since Hamilton Bancshares, Chattanooga, became defunct in 1975. It has been charged that the primary cause of the problems of the HC was the bankruptcy of nonbanking affiliates of the HC.

The new Fed HC inspection program will affect most HCs with assets in excess of $300 million, which amounts to about 225 firms that represent from 85% to 90% of total bank HC assets.

The new examination form asks Fed HC examiners to request HC policies on supervision of their subsidiaries, a narrative financial analysis of the HC and a review of the assets of credit-extending nonbank subsidiaries. HCs will be required to state whether dividends paid by any affiliate are considered excessive and whether management service fees of affiliates are considered to be reasonable.


Store
HARDWARE
TOYS
Cafe
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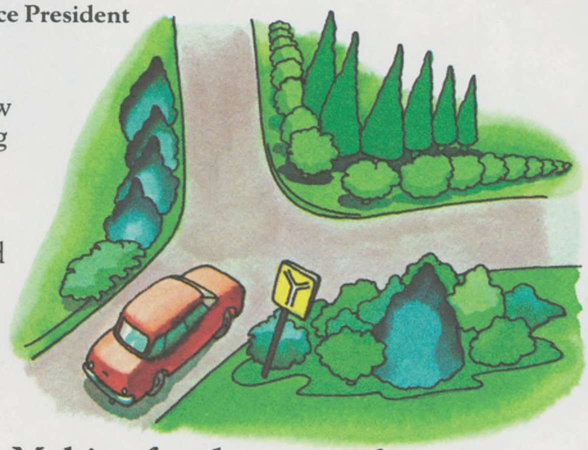
REAL ESTATE
The Road to Main Street.
A look at correspondent banking by America's premier correspondent bank.
MANUFACTURERS HANOVER

"At Manufacturers Hanover, the National Division is a traveling unit... We stress not only the right road, but the right people to travel that road."

Llewellyn Jenkins, Executive Vice President

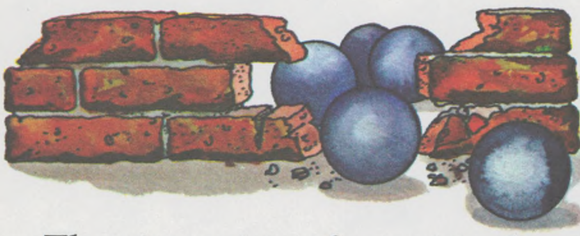


The right road.

When correspondent banking began, over a century ago, it grew with the railroads. We built our family of correspondents by following the railroads—bringing "interior" banks the money center services they needed to serve their customers.

Today, with more than 3,200 banks around the country calling us *their* banker, MHT is America's premier correspondent bank. And for good reasons.

We have kept pace with the more complex space-age needs of our customers—bringing innovative and specialized services, often computerized or automated, to banks of all sizes. And we put MHT specialists "on the jet road" to help serve you and your customers in a changing world.



The nitty-gritty of securities handling.

Manufacturers Hanover has always been important to its correspondents for safekeeping and handling of securities.

Vault safety was one of our earliest concerns. Back in the 1800s, some of our people came up with the unique idea of putting cannonballs in the walls around the vaults. Thus, if a thief tried to tunnel through to the money, he'd get zonked on the head with a cannonball!

Times have changed. Book-entry depository processing is here, and it's fully operational at Manufacturers Hanover. With MHT as your custodial bank, you automatically participate in the Depository Trust Company, the nation's largest holder of stocks and bonds—with substantial savings in costs and manpower.

Our modern TRANSEND service offers a speedy method of reporting both demand deposit and securities transactions. And MHT's famous "Coupay" service gives you the first completely automated system for coupon paying, reconciliation and destruction.

Making funds move—faster.

Maximizing cash flow is the name of the game today. And at Manufacturers Hanover, our Cash Letter Express Services are designed to give you the speed, accuracy and control you need to be competitive.

Our Early Bird helicopter relay service soars over traffic tie-ups, enabling you to meet the 10 a.m. Clearing House deadline. And because MHT computes our Earnings Credit Rate differently from many other New York City banks, we keep balance requirements down to give you superior service at unusually low net costs.

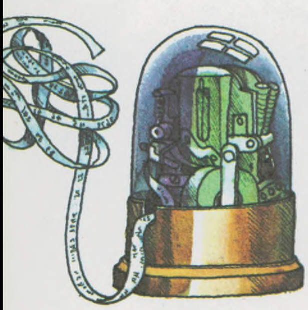
Serving your Aunt Jane.

Through our specialized corporate trust services, we can provide your corporate customers with modern and personalized programs.

Transifac, our fully automated securities transfer system, provides complete on-line shareholder and bondholder information.

MHT, as issuing agent of commercial paper and certificates of deposit, assures timely delivery to broker or purchaser. And we can act as paying agency, co-paying agency or trustee for corporate and municipal debt issues, and offer complete escrow services.

How now, Dow Jones?



Correspondents can tap MHT's trust specialists to serve their customers' investment needs. For instance, more than 20 analysts in our research department, plus our roster of economists, back up PIR/C—Professional Investment Research, Computer-Aided. In this program, we furnish subscribers with the same information supplied to our own portfolio managers. And we back it up with additional counsel whenever needed.

Manufacturers Hanover expertise is also available for assistance with a correspondent's own investments. We tailor your program to your bank's position.

And to assist your bank in management training, MHT conducts a three week Trust Development course for staff members of our correspondents to sharpen their technical knowledge and sales ability.

Geobanking®—a unique worldwide approach.

MHT is a leader in worldwide banking. But unlike most major international banks, Manufacturers Hanover does not enter a region or a country with a rigid operational philosophy. Instead, we adopt the way of banking that works best for a particular place at a particular time.

In some countries, we maintain full-service branches. In others, we set up specialized subsidiaries and affiliates.

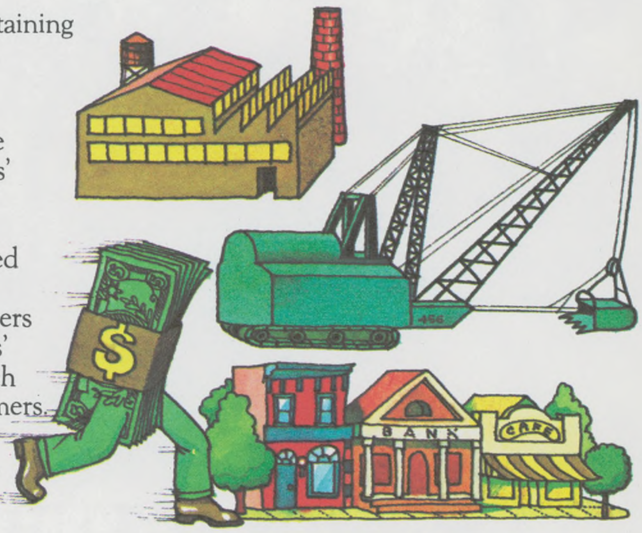
And elsewhere, we have representative offices to work with indigenous banking systems — forming this country's largest network of international correspondents.

Thus, Geobanking is wholly responsive, since it fine-tunes banking to national and regional needs. It is flexible, quickly adjusting to changes in prevailing conditions.

And Geobanking enables Manufacturers Hanover to marshal for you and your customers the worldwide resources of a $31-billion organization.

Geobanking® is a registered trademark of the Manufacturers Hanover Corporation for its international banking services.

The credit alternatives of the '70s.



Your ability to meet customers' credit needs is crucial in maintaining your position in your market. MHT's capabilities help you to be competitive by making available a full range of credit programs.

As America's premier correspondent, MHT welcomes the opportunity to discuss participations in loans to your customers. We work in strict confidence with you, so that you serve your customers' credit needs while increasing your valued corporate relationships.

Through our affiliate, Manufacturers Hanover Leasing Corporation, you can meet the growing demand for these specialized leasing and equipment financing services anywhere in the world.

Our factoring and commercial financing affiliate, Manufacturers Hanover Commercial Corporation, helps you serve your customers' accounts receivable financing needs. MHCC may participate in such lending but you retain the direct loan relationship with your customers.

And you have MHT's expertise, including our advanced computer programming, to evaluate loans in a variety of industries.

Benefits for your employees.

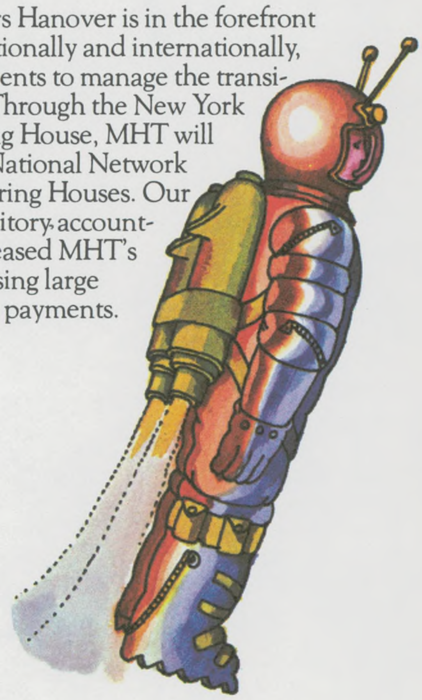
Manufacturers Hanover is the leading supplier of correspondent benefit plans. The latest and fastest growing of these "fringes" is group dental insurance.

Unlike some other group dental plans, the MHT Dental Assistance Plan is tailored to each correspondent's specific needs. The rate structure reflects the geographic location of your bank, and coverage is based on prevailing dental charges in your region. All premiums paid into the Plan by your bank are tax deductible.

Economies of scale also permit you to participate at low cost in our group life insurance program, our major medical and long-term income protection plans, as well as pension programs.

The road to the future.

The banking marketplace is changing before our eyes, transformed by computer technology. Interbank funds transfer technology is in a revolution as well. As we look down the road, we see vital new services developing, while many traditional services disappear and transaction costs go down.



Manufacturers Hanover is in the forefront of EFT changes, nationally and internationally, helping correspondents to manage the transition to the future. Through the New York Automated Clearing House, MHT will have access to the National Network of Automated Clearing Houses. Our international depository accounting system has increased MHT's efficiency in processing large dollar international payments.

The right people.

We've come a long way since the days when one of our traveling bankers crossed the Andes on a burro to call on a South American correspondent. But it's still a prime rule among our people to know the "territory."

The MHT traveling banker gets to know your needs. Behind each officer are service specialists who go into the field whenever needed. We group our people in multi-tiered teams to give you the kind of professional service to help you meet competition.

So if you want to get on the right road to correspondent banking services, give us a call. The number is (212) 350-6604.

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Manufacturers Hanover Leasing Corporation

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LEASING: On Track and Growing

By JOE M. NACHBIN
Executive Vice President
Continental Illinois Leasing Corp.
Chicago

THE LOS ANGELES Coliseum is one of the country's major sports arenas, with seats for more than 100,000 fans. But at a really big event, even an employee of Continental Illinois Leasing Corp. (CILC) might have trouble locating an empty one.

Which would be ironic, since CILC finances every seat in the stadium under terms of a lease assignment that the subsidiary of Continental Illinois National, Chicago, purchased from the seating equipment manufacturer.

This is a somewhat unusual example of CILC activities, but it shows the extent of leasing service today, and indicates the extra financing dimension leasing offers. Long a fixture in apartment life and in the world of car and truck rental fleets, leasing has zoomed in popularity among industries serving the nation. Typically, CILC offers financial alternatives to businesses supplying some of the economy's basic needs.

Utilities lease power plants. Manufacturers lease machine tools. Airlines lease jets. Builders lease construction equipment. Coal mining operations lease draglines, shovels, shuttle cars. Printers lease presses. Oil and gas companies lease drilling rigs. Railroads lease locomotives and freight cars. Shipping firms lease ore boats, barges and container vessels. Business offices lease desks, typewriters and food vending machines as well as computer systems.

In addition to equipment leasing, lease finance programs are packaged to assist the sales and marketing efforts of manufacturers and distributors—for products that can range from irrigation systems for farmland to devices used in blood analysis.

Leasing's concentration on large equipment can obscure the ways it benefits the individual. The health care field, where costs have been rising traumatically, is a case in point. Twenty-five years ago, a typical community hospital might possess an X-ray machine and little else. Today, the same hospital might well have a wide range of diagnostic equipment for the detection of disease in its early and curable stages. Much of this equipment is financed under some form of leasing agreement.

The dollar value of equipment under lease has been increasing for more than a decade. According to U. S. Department of Commerce statistics published at year-end 1976, equipment leasing now accounts for an estimated 15% of capital investment spending and the original cost value of all equipment leases outstanding is believed to total more than $100 billion. Commerce also estimates that the average dollar value of new equipment leased has increased 12% to 15% in each of the past several years—and that this trend will continue.

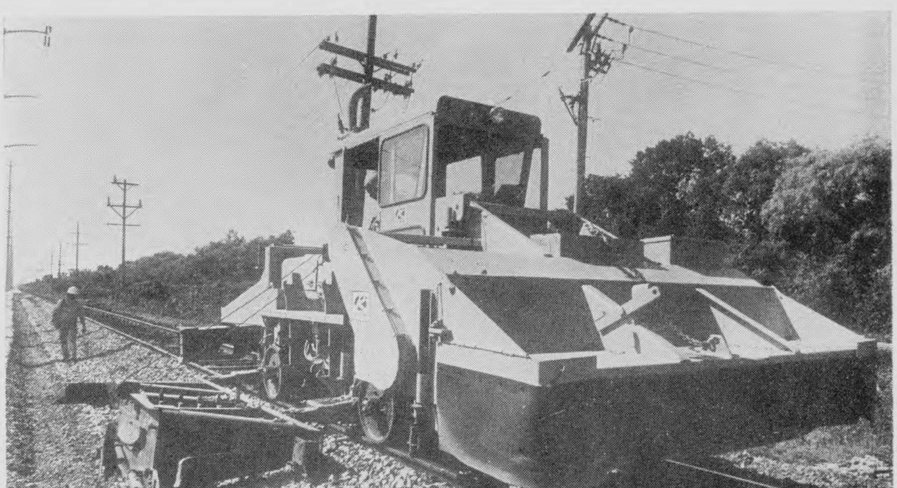
Obviously, business has taken to leasing in a big way. The reasons vary. They may include a company's capital equipment spending plans, tax structure and access to the financial markets—but they all ultimately boil down to one: money and its cost.

Companies engaged, for example, in energy production, transportation, construction and heavy manufacturing have a more or less constant need for capital investment to modernize and expand plants and facilities. In less inflationary times, such capital-intensive businesses floated corporate bonds, issued stock, borrowed from banks or added long-term debt. Today, however, capital outlays are being allocated more carefully. And for many companies, going to the capital markets has become difficult and costly.

As a financing technique, leasing offers a way to conserve capital while adding earning power in the form of more efficient machinery or the latest technology. At the same time, it provides a means of preserving lines of bank credit for business purposes other than recurring equipment purchases that could quickly surpass available bank lines. Moreover, such purchases can easily exceed a company's ability to utilize the investment tax credits generated. Equipment leases, however, can be structured so that the owner-lessor of the equipment can pass on some of the tax benefits of ownership to the user-lessee in the form of lower financing costs.

Consider the case of a commercial airline that wants to expand long-distance service.

A plane like the Boeing 747 has the



This multi-function track grader smooths way for trains. It was financed by Continental Illinois Leasing Corp., which specializes in financing costly equipment.

required range and capacity. It also carries a price of about $40 million, enough to throw a budget off course.

Fortunately, the airline has an alternate route. It can avoid the budgetary turbulence of heavy capital outlays for today's high-cost equipment. Continental's leasing people can mobilize the kind of money it takes to acquire 747s or other equipment and lease them to the airline on an economical long-term basis. Normally the cost of funds will be at a fixed rate below that prevailing for borrowed money, with monthly, quarterly or semi-annual payments tailored to the airline's cash-flow cycle.

As lessee, the customer will have predictable-cost 100% financing, with an end-of-the-lease option of buying the equipment at its then fair market value, or of renewing the lease at a fair rental. That, in brief, is how leasing works.

We see growth in leasing as another way of diversifying Continental's financial services and benefiting the economy as a whole.

We understand the cost factors of income-producing equipment. We have developed different product lines and introduced our share of innovations. And the equipment we finance helps to overcome problems facing the nation—in energy, transportation, health care and other sectors of the economy.

The leasing of equipment by third-party specialists—i.e., leasing companies not associated with equipment makers—has been widespread since the early 1950s.

At first, commercial banks were involved primarily as lenders, providing credit to leasing companies and intermediaries. The broad-scale entry of banks into leasing began with a 1963 ruling by the Comptroller of the Currency that held that the leasing by a bank of personal property acquired on specific request of and for its customer was a lawful exercise of the powers of a national bank and necessary to the business of banking.

The ruling made diversity possible and leading banks were quick to begin offering customers leasing alternatives.

But a number of circumstances intervened. Periods of tight money placed emphasis on the availability of bank credit for conventional loans. Changes in tax laws affected short-term leases and amortization schedules. Ongoing expansion in other service areas occupied planners, marketers and bank capital. And state branching laws tended to limit the operations of a leasing bank.

These conditions, and amendments to the Bank Holding Company Act early in the 1970s, fostered the formation of bank HC subsidiaries to engage in leasing and lease financing activities. Thus, in 1972, CILC was formed.

The unit now spearheads all Continental leasing activities and manages the combined lease and lease financing portfolios of the bank and corporation with year-end 1976 outstandings exceeding $270 million. It should be noted that outstandings represent only the not-yet-amortized portion of original equipment costs; if leasing portfolios were valued according to original equipment costs, the dollar figure would be considerably higher. During CILC's five years of operation, its earnings have climbed steeply to $3.9 million in 1976.

As in any specialized form of finance, the leasing field is highly competitive. In addition to leasing subsidiaries of other bank HCs, it includes other leasing firms, independent brokers and intermediaries and the captive finance companies of major manufacturers. Carving out a share of the market requires, along with financial resources, thorough understanding of leasing's credit, tax and accounting ground rules, coupled with vigorous marketing. CILC has combined a sales team of leasing professionals with a strong support staff to achieve an impressive growth rate and build an extensive portfolio.

Generally speaking, the subsidiary's lease financing transactions fall into one of two major categories: tax-oriented "true" leases, or commercial finance.

A true lease involves large capital equipment purchases and for tax purposes requires that CILC be the owner of the equipment for the entire term of the lease. Continental Illinois Leasing Corp. may be the sole owner, or it may take a major percentage and split the remaining ownership among other participants—for example, banks, finance companies or manufacturers' credit subsidiaries. A flexible payment schedule can be arranged for the lessee, based on the cash-generating ability of the equipment or project financed. Payments can be smaller at the time of high start-up costs and increased gradually as the efficiency level of the equipment rises or as the facility becomes more productive.

In contrast to a short-term loan or revolving credit line, equipment leases can run from three to 25 years, extending the responsibilities and risks, as well as the benefits, of ownership. Structuring such leases requires specialists in long-term credit evaluation. At the expiration of the lease, the customer may have the option to purchase the equipment at fair market value or continue leasing it.

A true lease may also be leveraged, with CILC borrowing a major portion of the required capital to purchase the equipment but retaining ownership benefits on the full cost. Leveraged leases can be structured so that the lease and loan run for identical periods—20 years, for example—with payments on the debt or borrowed portion covered by lease payments for the life of the transaction. A participating lender might provide $6 million for a $10 million purchase and would have a first lien on the equipment.

Leveraged leases can sometimes be structured to provide a lower money

Continental Illinois Leasing financed a communication system used throughout Pennsylvania by state police. System links officer at scene with others in area, at headquarters, or at mobile base stations. At left, John Canfora, manager of CILC's Cincinnati office, checks out performance of $15 million system.

cost to the lessee than normal leasing. However, because leveraged leases require costly documentation, this form of financing is usually appropriate only for the large-cost ($5 million and higher) equipment leases.

Joint venture leases are an offshoot of the above, and an area in which CILC has become increasingly active. Such leases are designed for manufacturers who want not only to finance equipment but desire to retain ownership benefits. The equipment knowledge of the manufacturer is combined with the financial expertise of CILC to provide an attractive financing arrangement for the purchaser of the equipment.

Financing has always been required to manufacture durable goods. Today, it's also needed to sell them. A manufacturer's salesman must be prepared to show prospective customers both a product and a way to acquire it.

To assist sales efforts, CILC's commercial finance section provides manufacturers, distributors and dealers with the equivalent of their own finance company. Sales aid programs may be developed on a national basis. The manufacturer is provided with a continuing source of funds whether money is tight or easy. CILC can provide the credit investigations, furnish documentation, bill customers, collect payments and follow up on delinquencies. The manufacturer contracts to use any one or all of these services, depending on the capabilities of his staff. Since the manufacturer's plan is sold with the equipment, he obtains all the advantages of a captive finance company without the problems of running it.

CILC's sales aid programs thus differ from conventional installment loans, conditional sales and equipment leases. Operating as a manufacturer's own finance firm, the Continental subsidiary concentrates on complete financing and leasing service. Instead of buying and owning equipment as would be the case in a true lease, it arranges, purchases and manages the stream of payments from end users to equipment makers.

Val F. Pautz, vice president, CILC, has been involved with this type of operation since the day he came to Continental Bank in 1960.

"In the commercial finance area," he says, "we work closely with Continental's commercial banking department to identify manufacturers and distributors whose sales can benefit from our programs. These programs are developed for the specific needs of a customer company, based on the requirements of the marketing and treasurer's departments. All the parties involved—the company, its customers and Continental—must benefit from the arrangement."

CILC intends to keep growing. The subsidiary opened a Cincinnati office in 1975 and plans are being considered for new offices in major cities. CILC also has been active in international leasing and will be expanding its capabilities in this area.

CILC, along with other leasing firms, should benefit from the clearer understanding of the ground rules for lessors and lessees provided recently by the Internal Revenue Service and the Financial Accounting Standards Board.

In financing an electricity-generating plant that helps provide peak power for 1.5 million people in the Phoenix metropolitan area, CILC itself was instrumental in helping to finalize the tax guidelines relating to public utilities and limited-use property. The subsidiary also has been in the forefront of such innovations as longer lease terms when warranted by equipment and joint ventures with manufacturers.

Mining trucks, shuttle cars and drilling equipment for the production of energy; diesels, auto racks, coal cars, piggyback trailers and roadbed graders to speed rail shipments; cranes, foundry equipment and hydraulic presses for heavy manufacturing; electronic cash registers and on-line terminals for retail businesses—these and many more types of equipment and service are included in CILC's extensive leasing portfolio. They indicate the Continental subsidiary's growing ability to serve industries serving the nation.

A lease contract always points forward into the future. But if a customer were to look backward over the lease term, he would see that he has been able to obtain the use of equipment and increased earnings for his business at an attractive cost of funds. That's value.

• **Bank Administration Institute.** A new "Statement of Principle and Standards for Internal Auditing" has been published by the Bank Administration Institute, Park Ridge, Ill. The new audit statement succeeds the one issued 10 years ago and recommends major changes reflecting current thinking on the internal audit function, the role of the internal auditor and the importance of professionalism in internal auditing. It calls for new organization, personal, performance and communications standards, requiring: that the internal audit function be accountable to the board of directors; technical training and proficiency measurements, such as the BAI's CBA program; commitment to a formal audit plan and presentation of detailed and summary reports to executive management at regular intervals. Write: Bank Administration Institute, P. O. Box 500, Park Ridge, IL 60068.

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The Prospects for Success Are Good For a Small-Town Bank Leasing Program

WHY WOULD a bank located in a community of about 10,000 people located in northwest Iowa want to get into the leasing business?

"For profit," says Douglas M. Heppner, vice president, Citizens First National, Storm Lake, Ia.

The profit to be gained from a leasing operation, Mr. Heppner says, might not be in the form of actual dollar return on invested capital. More likely the profit would be the hidden benefits afforded a lessor under present Internal Revenue Service guidelines. These guidelines afford tax advantages to lessors of certain items of personal property that aren't allowable under conventional loan arrangements. Lessors are entitled to investment tax credits (ITC) and depreciation.

Here's an example from Mr. Heppner. "Let's assume you purchase $1 million worth of equipment during a given year and it's put out on a lease —or several leases—for seven years. Such a plan offers $100,000 of ITC—a deduction taken directly for the bank's tax liability.

"In addition, the bank may elect to take rapid depreciation on the equipment. On items with a life expectancy of eight years, the bank would be entitled to $250,000 depreciation the first year, $187,500 the second, and so on during the life of the equipment.

"If the bank is in a 50% tax bracket, it would save $125,000 during year one and $93,750 during year two. This is in addition to the $100,000 the bank already has saved through ITC."

Mr. Heppner cautions that, if such a plan seems too good to be true, it should be remembered that the bank must have earnings sufficient to enable it to utilize the tax deductions.

"These are the hidden benefits afforded the bank and leasing company," he says. "You will also include your cost of money plus the return you desire into a lease payment to be paid by the lessee."

Rates being charged by leasing companies may fluctuate from 10% to 25%, Mr. Heppner says, depending on the circumstances and competition. Many leasing companies will sacrifice yield for the tax advantages of leasing. "I certainly think a bank would rather have a 10% lease than a 10% loan," he says.

To increase the yield further, he adds, leases can be leveraged. This is usually done when bank leasing personnel become more sophisticated or the supply of money dwindles. Leveraging, in layman's terms, Mr. Heppner says, means borrowing at a set rate and putting the money to work through leases at a higher rate.

He cites an example:

"Assume you purchase equipment at a cost of $500,000. You negotiate a loan with a correspondent for 80%—or $400,000—at a 10% rate. Your lease is written at a 13% rate. The bank will receive 13% on its investment of $100,000 and 3% on the funds from the correspondent. This will mean an additional $28,938 to the bank on the $400,000 over a five-year period—an increase in the bank's return on its $100,000 from 10% to about 20%."

Mr. Heppner cites additional benefits a lessor will enjoy. Equipment returned to the bank at the expiration of a lease can prove to be a valuable asset.

"If you have had a piece of equipment out on a lease for seven years and it's fully amortized on your books, you may end up selling it at 20% of the original cost, which does nothing but increase your effective yield."

Another advantage to a lessor, he says, is that if the bank decides to get into the leasing business, it may find it's the only institution offering leasing services in its trade area. Such a situation provides an excellent opportunity for obtaining new bank business. Not only does the bank have a captive market, it has a good opportunity to sell its other services.

However, Mr. Heppner says, a lease, like a loan, isn't without risk. Oftentimes there are inherent risks associated with a lease that are not found in loan situations.

"We have found that, when a lease agreement is entered into," he says, "even though absolutely binding, the lessee doesn't feel the same obligation that he normally feels in the case of a loan. I guess it goes back to pride of ownership."

The customer sometimes feels that, since his payments haven't built up any equity, he may void the transaction at his discretion. If this should happen, the lessor may find himself in a loss position if the payments received have not kept up with depreciation, Mr. Heppner says.

Obsolescence is another risk associated with leasing, he says. Obsolescence can occur because of technological advancement or because of age.

"A lessor should never negotiate a lease that will run longer than the expected useful life of the equipment," Mr. Heppner says. "If this happens, you may find yourself with a five-year-old worn-out machine with two years left on the lease."

He cautions lessors also to beware of specialized equipment, since there is no ready market for it should a need arise to dispose of it. A banker who has call for such equipment must have confidence in the lessee and must make sure an equity position in the equipment is maintained at all times.

Leasing offers the risk of becoming involved in substandard credit, Mr. Heppner says. Many people have the misconception that leasing is for the individual or corporation that can't borrow money to pay for the equipment outright. But this isn't true, he says. Leasing is designed for the entity that is able to utilize the tax benefits afforded by the lease. This is normally someone in a higher tax bracket who doesn't have an interest in ownership—someone who is looking for a fast tax write-off. "You as a lessor must take the position that you will not lease to anyone who couldn't buy the equipment if they so desired," he says.

Mr. Heppner offers this advice to a banker wishing to enter the leasing field—proceed slowly. Don't let the thought of 20% return on funds cloud good credit judgment, he says. "Place sound business on the books and the profits will follow." • •

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CHICAGO DISTRICT MANAGER
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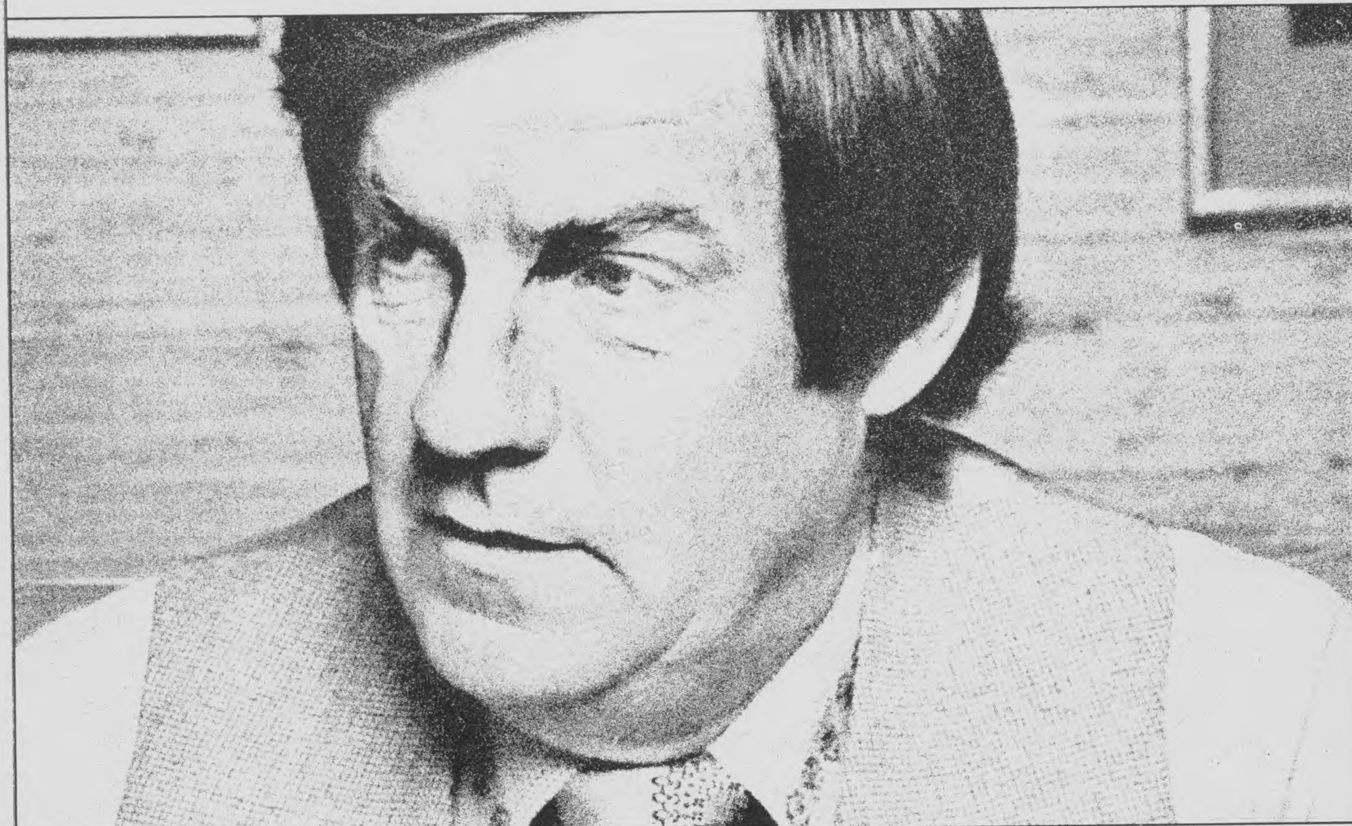

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Newcomer Program at First of Jackson Makes Friends and Produces Customers

By BILLIE SHAW
First National Bank
Jackson, Miss.

Billie Shaw entered banking at First Metropolitan Bank of Jefferson, Metairie, La., where she established a newcomer program. She went to First National, Jackson, Miss., in 1972 and began immediately to develop the First Friend newcomer program described in the accompanying article. Mrs. Shaw is in the bank's marketing department.

THE SAYING goes, "To make a friend, be a friend." The newcomer department of First National, Jackson, Miss., not only is making many friends of new Jackson residents, but it's adding new customers for the bank at the same time.

Appropriately called "First Friend," this welcome-to-Jackson program has paid off consistently with new accounts for First National.

When we started First Friend five years ago, our goal was to obtain two new accounts out of every 10 contacts or calls. Much to our delight, we surpassed our original goal and now average five accounts out of every 10 contacts.

FNB's First Friend program is successful because of the way it's designed to work. Two of us make newcomer calls on a daily basis. The bank's other First Friend representative is Glenda Weber. We keep constant watch on the housing and apartment market so we will know whenever someone new moves into the area. When that is determined, one of us tries to plan our schedule in order to greet the newcomer on the same day the moving van arrives.

If we don't get there first, one of our competitors might arrive before we do. We don't want that to happen, especially since First National was the first bank in Mississippi to offer a program like this. It has been so successful that four other local banks now are offering a similar service.

Besides a warm and personal contact with the newcomer, the First Friend provides a kit of helpful literature. Included is a special brochure—prepared by First National—which contains a variety of useful information about the Jackson area. This brochure contains up-to-date facts about schools, taxes, recreational facilities, churches, hospitals, cultural activities, government services and services offered by First National. Also included in the kit are maps and assorted folders about community services.

For the information to be helpful to a newcomer, it must be accurate. That means we have to be constantly aware of changes, because in a metropolitan area of more than 300,000 people, laws change; school zones are moved; new facilities are added, and addresses and telephone numbers are changed.

The First Friend program not only offers accurate information, but personal assistance as well. For example, part of the First Friend service includes telling new residents about stores, services, schools, medical facilities, etc., convenient to their neighborhoods.

A newcomer appreciates all the personal assistance and information she can get to be able to adjust to new surroundings and be happy in her new hometown.

We also leave our names and telephone numbers and ask newcomers to call us if they have any additional questions or problems. Before we leave, we try, politely of course, to persuade them to open their bank accounts at First National. If no firm commitment is made when we leave, we make a note of it for our files so we can call them later to offer additional assistance and follow-up on the new business effort.

While useful information and personal assistance are beneficial to newcomers, First National's First Friend service goes even further to make new residents feel welcome and a part of the community's social life.

This is achieved through occasional social functions sponsored by First National to help newcomers make new friends. Such events have included: brunches, garden parties, fashion shows, luncheons, craft shows and coffees.

Quite simply, our First Friend program is based on what a friend would do for another friend moving to town—being there to meet her, offering helpful hints and getting her involved in the community.

We are proud of our First Friend program, and newcomers are pleasantly surprised at the personal attention they receive. We really have made a lot of friends for First National simply by just being a friend. • •

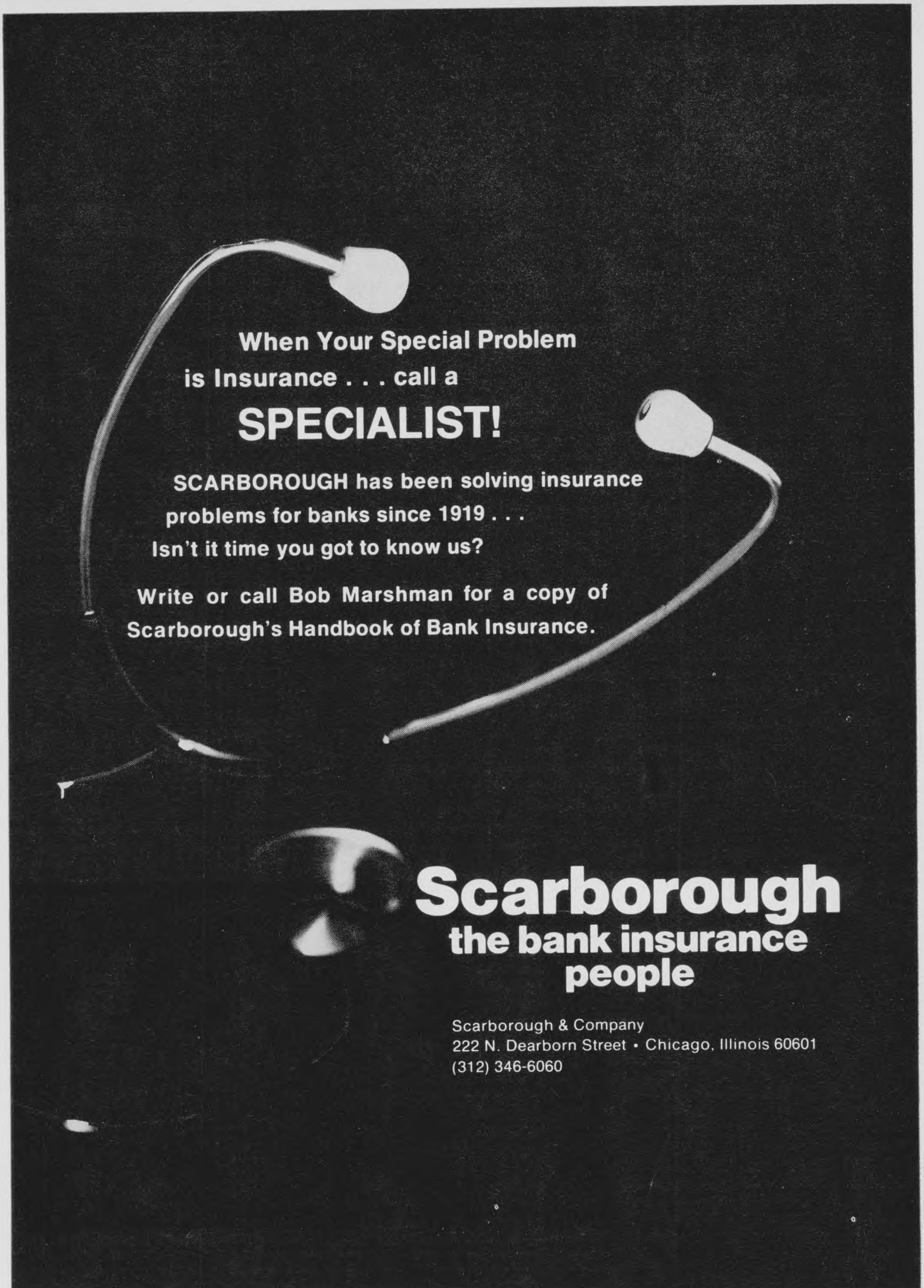
Billie Shaw (l.) and Glenda Weber (r.) are representatives of First of Jackson's First Friend program. They make daily newcomer calls and arrange bank-sponsored social functions for new arrivals in city.

Brookhaven Likes Newcomers

BROOKHAVEN, MISS.—Newcomers are treated royally in Mississippi. First National of Jackson's First Friend program is described in the accompanying article, and Brookhaven Bank has a program designed especially to help new arrivals get acquainted in Brookhaven. It was started 19 months ago.

Lynn Sisco is Brookhaven Bank's newcomer representative. Through various sources, she obtains names of new persons moving to the community, seeks them out and offers to help them move to Brookhaven.

One method the bank uses to welcome newcomers is a luncheon such as the one given October 20 at the Brookhaven Country Club for about 100 new women residents. The program included a welcome from Assistant Vice President Rebecca N. Vaughn, who told the audience about the newcomer program and its "tremendous results." A style show rounded out the afternoon.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Correspondents Hear Variety of Topics At National Boulevard Conference

Eliot Janeway (l), political economist, was luncheon speaker; Llewellyn Jenkins, head of corres. dept. at Manufacturers Hanover, New York City, spoke at afternoon session.

By JIM FABIAN
Associate Editor

A VARIETY of topics of interest to downstream correspondent banks was aired at a correspondent bank conference sponsored by National Boulevard Bank of Chicago last month. The meeting was the first of what National Boulevard President Henry K. Gardner hopes will be many such annual meetings.

The newly installed Illinois commissioner of banks, William C. Harris, started the program with a jab at the banking association situation in Illinois. He termed having three statewide banking associations competing with one another "kind of goofy" from an economic and competitive standpoint. He said he was puzzled as to how the banking industry in the state could continue to finance three trade groups and suggested that the ability of commercial banks to compete effectively against thrifts has been weakened by the devisiveness that has made Illinois bankers mavericks on the state banking association circuit.

Mr. Harris stated that liberalization of the Illinois branching prohibition is sensible, but stressed that any change is up to the legislature, not the banking commissioner. Mr. Harris is a former state senator and assumed his present duties recently as an appointee of Illinois' governor, James Thompson.

Even though liberalization of banking statutes seems to be in the best interests of the public and the banks, he said, whenever he attempted to gauge the views of bankers when he was a senator, he always found them strongly against any change in the branching prohibition.

Mr. Harris promised to be an advocate for the banking industry "vis a vis savings and loans and credit unions," both of which have their own strong supporters in the regulatory area.

He warned bankers that he might have to appeal to them for assistance in upgrading his office. He stated that previous administrations have sorely neglected the banking department under its previous administrators. He pledged to do all he could to remedy the situation.

Despite claims that loan demand is slow, an "awful lot" of loan business is available to be spread among large money-center banks, said Llewellyn Jenkins, executive vice president and head of the correspondent banking department at Manufacturers Hanover, New York City.

He said he welcomes the aggressive marketing approach being taken by some banks in both California and Chicago and added that his bank was having no trouble meeting loan demand or matching the competition on pricing of credits for large business customers.

He said that commercial and industrial loan volume in the banking system is the highest it's ever been and he forecast that the rate of loan growth in the business sector will be gradual in the months ahead. He added that he saw nothing unfavorable in such a situation.

Mr. Jenkins minimized the advent of nationwide banking, stating that such a development, combined with a decrease in the number of banks in the U. S., remains in the distant future—perhaps as long as 25 years.

But, he said, when it comes to pass, New York City banks won't necessarily be running things from their banking towers. There likely will be regional affiliations stretching coast-to-coast involving large HCs in one section of the country linked with large HCs in other sections of the country.

He also said that the correspondent banking field is in good shape and has the ability "to do anything it wants" in marshaling capital to meet the credit demands of the nation.

The chairman of Electronic Funds Illinois, Inc., said the final report of the National Commission on EFT is inconclusive and he doubts if the banking industry can utilize many of the panel's recommendations.

Electronic Funds Illinois is a proposed statewide EFT system and is headed by Daniel N. Quigley, executive vice president, National Boulevard Bank.

He accused the EFT commission of failing to address a number of key EFT issues while failing to give an adequate voice to the views of small banks.

"It's not surprising that there is a division among bankers over the report," he said, "since only one segment of our industry was represented." Richard D. Hill, chairman, First National, Boston, was the only commercial banker on the commission.

Mr. Quigley suggested that President Carter might want to appoint his own commission, since the Gerald Ford-appointed commission left so much more work to be done. He said any

Participants at Nat'l Boulevard correspondent conference included (from l.) Eugene L. Larkin Jr., Haskins & Sells; Henry K. Gardner, pres., host bank; William C. Harris, Ill. banking commissioner; and Daniel N. Quigley, e.v.p., host bank, and ch., Electronic Funds Illinois. All were on morning program.

new commission should keep in mind "the lesson the now-defunct commission has taught us."

He said that any new commission should try to stay closer to EFT questions rather than investigating areas such as NOW accounts.

"It's crucial that there be an early definition of the parameters of study and that they only involve issues related to EFT, respecting the rights of systems developing on a local or state level," he said.

Regarding the Illinois EFT group, he said Electronic Funds, Illinois (EFI) has injected an orderly and positive note into the development of EFT in the state.

"We now have the makings of a very competitive environment that can only mean better banking and therefore better service to all our customers," he said. "Nearing a membership of some 700 banks, EFI represents some 50% of the banks of each of the associations in Illinois. . . . This is hard fact and concrete proof that the bankers of Illinois—divided on branching—can get together on EFT."

He said the success of an Illinois EFT system depends on the quality of the legislation written to authorize such a system. He called for adequate commercial banker representation on any EFT commission set up by the Illinois legislature.

Mr. Quigley also called on small to medium-size banks to start making things happen rather than play "follow the leader." The survival of these bankers, he said, depends on this new course of action.

Henry J. Hyde (R.,Ill.) U. S. representative serving on the House Banking, Currency and Housing Committee, spoke to the meeting by phone from the Capitol cloakroom.

He predicted that Fed Chairman Arthur F. Burns will be reappointed because President Carter doesn't want to jeopardize already tenuous confidence on the part of the business community by naming someone else to the post. He added that Mr. Burns would provide the President with a convenient scapegoat if things in the economy go amiss.

Luncheon speaker was Eliot Janeway, political economist and columnist, who bombarded the audience with his usual caustic comments about the state of the economy and the intelligence of those in the Carter Administration running the nation.

He said polsters were actually running the nation and that it would behoove bankers to get their names on the polsters' lists so bankers would be in a position to add their influence to the input being fed to those in the federal government. He predicted that Chairman Burns will end up being a scapegoat if he remains as Fed chairman and said it would be in Mr. Burns' best interests to leave his post in order to regain his credibility and become a martyr in the eyes of his supporters.

Approximately 160 bankers from Illinois and Wisconsin attended the day-long meeting. • •

Oneal Netherland Leaves 1st of Tulsa To Head School for Retarded Children

SOMEONE ONCE TOLD Oneal Netherland that he and his wife, Catherine, must be special people in God's eyes. Their son, Gary, is retarded, a tragedy that drew the Netherland marriage closer together.

And now Mr. Netherland is helping many retarded children as chairman of McCall's Chapel School, a privately funded boarding school near Ada, Okla. He goes there from First National, Tulsa, from which he retired September 30 after 31 years' service. He had been a senior vice president.

"We plan to open a Tulsa office for the school in the Farm Office Building," says Mr. Netherland.

"I'm doing this in an effort to help others as my family has been helped," he continues. "McCall's Chapel houses more than 100 students ranging in age from 6-40—most residents are in their mid-teens—in fact, my son, Gary, has been there for 15 years."

Besides aiding in the opening of the school's branch in Tulsa, Mr. Netherland will help other parents adjust to the fact that their children are handicapped. "You have to be a realist," he says. "You have to use the words and get accustomed to hearing them."

McCall's Chapel was founded in 1954 to provide a homelike environment and lifetime care. Residents live in cottages and are supervised by a "mother." The school is the only accredited school of its kind in the state, and students are taught at an individual pace until their maximum potential is achieved. "The only requirement," notes Mr. Netherland, "is that they be able to live in a group environment."

Another of Mr. Netherland's jobs as head of the school will keep him in touch with bankers, trust officers and attorneys: He will help parents and others arrange lifetime care for those who need it.

"A major aim of McCall's Chapel is to encourage a strong Christian environment, even though the school is nondenominational," Mr. Netherland stresses. "Ada churches come to the school to work with the children of each faith. The children return thanks at each meal and some sing with a choir that tours the area. Participation is the key, although we don't force it on them.

"As a parent, what's your ambition for your child? Most people want to rear them with Christian morals, to let them feel they belong and are useful. They want their children to contribute and to be happy. Our son has had all that for the 15 years that he's been at McCall's Chapel." • •

More Time-Deposit Flexibility Granted by Fed Rules Change

Two amendments to Reg Q have been adopted by the Fed to provide consumers with more flexibility in handling their time deposits.

Under the new rules, Fed-member banks can extend the maturity of a time deposit without imposing a penalty on the consumer as long as there is no increase in the interest rate.

Previously, a consumer holding a time deposit and wishing to change the maturity date would have had to pay a penalty on the amount withdrawn when the bank reissued the certificate.

The Fed also modified its rules permitting banks to redeem time deposits on the death of the owner named on the deposit instrument without imposing the penalty provision. Banks may now redeem the time deposit, without penalty, on the death of any owner of the funds, regardless of whether the person is named on the deposit instrument.

Washington-Related Events Add Color To Correspondent Meeting in St. Louis

By JIM FABIAN
Associate Editor

A CALL for the reappointment of Dr. Arthur Burns as Fed chairman and a cutting attack on the agricultural policies of the Carter Administration were made at the 31st annual Conference of Bank Correspondents, sponsored last month by First National, St. Louis.

More than 800 bankers and guests attended the day-long event at the recently opened Sheraton-St. Louis Hotel, adjaçent to the Gateway Convention Center.

Clarence C. Barksdale, chairman and CEO, First National, put his weight behind Dr. Burns' reappointment, stating that keeping Dr. Burns in the top spot at the Fed would result in a renewed sense of confidence on the part of businessmen that would strengthen the stock market.

Mr. Barksdale said the Carter Administration is becoming increasingly hostile to the banking industry. He said that Bert Lance's resignation was in the best interests of banking, even though the ex-budget director's influence is sorely missed in the capital.

Mr. Barksdale ticked off what he termed the "tragic" record of the Carter Administration, including withdrawal of the tax rebate, a tax reform program that's in a shambles, inflationary changes in the social security financing plan, raising the retirement age and a lackluster energy program. He said he favored ratification of the Panama Canal treaties, calling them crucial to good relations with Central and South America.

The attack on the Carter ag policies was given by Earl L. Butz, former Secretary of Agriculture and chairman emeritus of the School of Agriculture at Purdue University.

Mr. Butz charged that the renewal of government intervention in agriculture threatens the nation's farm system. He spoke against the recently enacted farm bill that was first criticized, then signed, by President Carter. The four-year act is directed at farm programs for 1978-81 and continues some provisions of past legislation, such as target prices and loan rates, but introduces new concepts in determining how much acreage is to be planted.

"This new farm bill is putting government back into the commodity business," Mr. Butz said. "We are again becoming the world's residual supplier, the world's warehouse—at increasing taxpayer expense."

Mr. Butz called attention to his efforts as agriculture secretary to help farmers get out from under government policies. He charged that present policy would enable the federal government to keep farmers from earning a fair profit for their labors.

As has been the case for a number of years, those attending the First National conference had their say. The annual opinion survey revealed that bankers attending the conference expect the Dow-Jones Industrial Average to be between 900 and 1,000 next November, that unemployment would remain at its current 7% rate, and that the prime rate would rise to over 8%. A majority said the new agricultural policy of production control and target pricing is harmful.

More forecasting was done at the investments panel, moderated by Frank K. Spinner, senior vice president, host bank. He predicted that the Fed funds rate would hit 8% next year; the prime would be between 8½% and 9%; one-year Treasury notes would be at 8%, and seven-year governments would hit 8¼%.

Earlier in the day, Murray L. Weidenbaum, moderator of the economics panel, reported that economists are in general agreement about forecasts for 1978; however, they tend to disagree about the end of the new year. Some say that fourth quarter 1978 will be up, others down.

He said GNP would be up 10¾% next year, but only 4½% would represent real growth. He added that the fact that

Gerald M. Lowrie (l.), ABA's exec. dir./government relations, and Clarence C. Barksdale, ch. & CEO, host bank, participated on federal regulatory and legislative panel.

TOP: Former Secretary of Agriculture Earl L. Butz (c.) was featured speaker at first in St. Louis correspondent conference luncheon. He's flanked by Edwin S. Jones (l.), ch., exec. com., and Richard F. Ford, pres. & chief operating officer, host bank. BOTTOM: Participants on investments panel included (from l.) Frank K. Spinner, s.v.p. & moderator, and panelists Donald H. Ludwig and Donald C. Hartig, both v.p.s at host bank.

Chatting during break at conference were (from l.) Robert L. Levin, v.p., Normandy Bank, St. Louis; Charles L. Betz, v.p., and head of corres. dept., host bank; Murray L. Weidenbaum, economist at Washington University, St. Louis; and Denis S. Karnosky, v.p., St. Louis Fed.

fourth-quarter declines are becoming a trend doesn't seem to disturb the people in Washington.

He predicted that consumer spending would be up 4% next year, down 1% from 1977 due to a predicted decline in auto sales. Housing starts will increase from 1.9 million to 2 million, due to the fact that more young people will reach the home-buying age in 1978 than did in 1977. A modest increase in business investment was predicted by Mr. Weidenbaum, who is director of the Center for the Study of American Business at Washington University in St. Louis.

He added that short interest rates will rise about 1% by mid-1978 and long rates will increase ¾% in the same period. He estimated next year's budget overrun will hit $55 billion, up $11 billion from 1977.

A risk/price management session, moderated by Neil F. Bergenthal, vice president, host bank, concentrated on the theme that farming doesn't have to be a high-risk business.

Panelist Carl Heinisch, vice president, DeKalb (Ill.) Bank, told the assembled bankers that farming today "is sticking your neck out but keeping your head on!" He said bankers must learn to appreciate the needs of the people on both sides of the desk. Every banker should know what it's like to be a borrower and every borrower should know what it's like to be a banker. The banker's job, he said, is to help farm customers make a profit.

He stressed the need to use established records and said that most records are not used effectively. "Many farmers keep records to satisfy the Internal Revenue Service but neglect to use them to make a profit from their operation," he said.

Bankers should help their clients understand their balance sheets, he said. Bankers should discuss the goals of their clients and how these goals can be achieved. The farmer's knowledge and experience in the marketplace determine his profit picture.

Panelist Lyle P. Campbell, Continental Commodity Services, Inc., stated that only 10% of farmers use markets to transfer risks, which means there's a tremendous potential market for hedging services. So few farmers are hedging, he said, because most farmers aren't convinced that their bankers believe in the futures market. Too many bankers feel hedging is a risk-abusing method rather than a risk-reduction method.

The Washington legislative scene was examined by Gerald M. Lowrie, executive director/government relations at the ABA in Washington. He said that much of the disappointment businessmen express toward events in Washington is caused by the tremendous lag time that is inevitable when there is a change in administrations. He said that much legislation has been proposed during the last four years, but little has been enacted.

He predicted that 1978 would be a vigorous legislative year. Even though the NOW account legislation is languishing at present, he said, certain events could make it viable and likely to be enacted.

He said the Safe Banking Bill is not the result of the Bert Lance affair; its seeds were sown years ago and just happened to flower at the time Mr. Lance was forced out of office.

The final event on the program was "What's New in Banking," an annual presentation at which First National officers report on new services and trends in the banking industry. • •

First of St. Louis Seeks Aldermanic OK For Tax Abatement for Proposed Office

FIRST NATIONAL in St. Louis, along with two partners planning a $40-million office building in downtown St. Louis, are seeking approval from the St. Louis Board of Aldermen to construct the building under provisions of Chapter 353 of the Urban Redevelopment Corp. law that provides for tax abatement over a 25-year period.

The bank has conducted a study that indicates that construction of the bank-office complex is expected to provide tax revenues of $8.6 million to the city over the next 25 years.

"Our study shows that the city of St. Louis will realize some $8,650,000 in tax revenues during the 25-year abatement period if construction of the building is allowed to proceed," said Richard F. Ford, president, First National.

"There has been some concern over the building being completed under Chapter 353 and the effect this might have on tax revenues for the school system," Mr. Ford said. "The two-block area in question has been off the tax rolls since 1969, providing no revenues for the St. Louis public school system since that time. Once the property is transferred by the present owner, the Land Clearance Authority, to Civic Center Redevelopment Corp., which will act as the construction agent for the new building, the land will be returned to the tax rolls and both the city and the school system will benefit."

The two-block construction site, bordered by Market, Eighth, Walnut and Tenth streets, is currently being used as public parking lots that generate nearly $10,000 a year in parking lot taxes that go into the city's general revenue fund.

"Obviously this revenue will be lost once the transfer of property is completed," Mr. Ford said, "but it will be more than made up by the estimated $28,000 in annual property taxes . . . with approximately half . . . going to the St. Louis public school system."

Many of the recently constructed buildings in the downtown area were built under the Chapter 353 provision tax abatement. Business leaders state that it's doubtful that any would have been constructed without the benefits of the provision.

Mr. Ford said the bank's new building, which it plans to construct in cooperation with the Equitable Life Assurance Society and IBM Corp., is expected to take about three years to complete. He also said that an estimated 250 construction workers will be required to erect the building, which will involve a gross annual income of $6 million subject to the city earnings tax. "This will generate another $60,000 a year in earnings tax," Mr. Ford said.

He added that, during the first 10 years of the abatement period, the city should realize about $1 million in property, sales and earnings taxes above the $100,000 it would have received if the property had remained in use as parking lots.

During the 11th year of the abatement period, Chapter 353 requires a re-

assessment with the land and improvements returned to the tax rolls at a 50% level. "Based on the 1977 tax rate," Mr. Ford said, "the land and building together should generate approximately $425,000 annually in property taxes, or $6.4 million during the remaining 15 years of abatement. About half of this amount would go to help finance the public school system."

He noted that First National's present building will continue to be used and will remain on the tax rolls. The bank plans to retain its present first-floor banking facilities and its sister institution, St. Louis Union Trust Co., will occupy two floors of the present building. Remaining space will be available for rental. • •

Ruth Smith Is Named President Of Nat'l Assn. of Bank Women

Ruth I. Smith, executive vice president and a director, Tower State, Kansas City, Kan., has been elected 1977-78 president, National Association of Bank Women.

Elected NABW vice president was Esther Smith, vice president, Commerce Union Bank, Nashville. Mary C. Feeney, assistant vice president, Virginia National, McLean, is the new secretary; and Josephine M. Webster, vice president and investment officer, American Fletcher National, Indianapolis, is serving a second year as treasurer.

(At press time, it was learned that Miss Feeney resigned the NABW secretary's post because she has left the banking field. Patty Enos, vice president, First National, Huntington, Ind., was named the new NABW secretary.)

Among 15 elected regional vice presidents were the following Mid-Continent-area bankers: Karen Thomson, vice president, St. Joseph Valley Bank, Elkhart, Ind.—Lake Region; Lorraine S. Moore, assistant vice president, American Bank, Baton Rouge—South Central Region; Anne Flannagan, first vice president, Commercial National, Anniston, Ala.—Southern Region; and Hellen H. Reese, senior vice president, American Bank, Odessa, Tex.–Southwestern Region.

E. SMITH R. SMITH WEBSTER

Coldwell Scheduled to Speak At 30th Directors' Assembly In Palm Springs Jan. 26-29

PALM SPRINGS, CALIF.—Philip E. Coldwell, member, Fed Board of Governors, will open the 30th Assembly for Bank Directors here by talking on "The Financial Situation." The assembly will be held January 26-29 at the Riviera.

Other topics to be discussed include: "Changing Standards of Bank Regulation," John G. Hensel, regional administrator of national banks, 12th National Bank Region, San Francisco; "Qualifications of Directors of Financial Institutions," George LeMaistre, FDIC chairman, Washington, D. C.; "The Legislative Environment," Ronald A. Terry, chairman and CEO, First Tennessee National Corp., Memphis, and chairman, ABA government relations council; "The Technology and the Financial Community," John B. Benton, executive director, National Commission on Electronic Funds Transfer, Washington, D. C.; and "Developments in the Bank Holding Company," James E. Smith, executive vice president, First Chicago Corp.

"Managing Bank Costs," "Asset Management" and "Director Organization and Functions" will be discussed by Roy D. Hartmann, executive vice president, Security Pacific National, Los Angeles; Harold R. Hollister, senior vice president, United Missouri, Kansas City; and Bookman Peters, president, City National, Bryan, Tex.

There will be special discussion groups, to which the assembly faculty rotates on a carefully prepared schedule. The assembly will be closed with special group discussions on the changing financial environment, trusts and legislation and regulation.

A spouses' program will feature the following topics and speakers: "What Every Intelligent Person Should Know About Banking" and "What to Know About Finance," Donald F. Jackson, professor of finance, Southern Methodist University, Dallas; and "Trusts and You," Will Mann Richardson, vice chairman, Citizens First National, Tyler, Tex.

For information on the assemblies program, contact the Foundation of the Southwestern Graduate School of Banking, SMU Box 214, Dallas, TX 75275.

The 31st assembly will be held April 13-16 at the Fairmont Hotel, New Orleans.

Committee Plans Effort To Standardize Operations In International Banking

CHICAGO—Strengthening the voice of American banking in standardizing international banking efforts will be the goal of the Mid-America Committee on International Banking for the next year, according to V. John Chalupa, second vice president, American National, Chicago, chairman of the group.

The organization is made up of operations officers representing some 75 mainland international banks and concentrates on establishing and pursuing positions for the American banking community in three main areas: Uniform rules for international collections; international standard forms for letters of credit, collections and payment orders; and internationally adopted payment settlement rules.

Members of the planning board, in addition to Mr. Chalupa, include: Peter Poolos, assistant vice president, American Fletcher National, Indianapolis—vice chairman and treasurer; William Spolec, assistant treasurer, Bankers Trust International (Midwest) Corp., Chicago–secretary; William O. Schinagl, assistant vice president, Harris Trust, and Andrejs Racenis, manager, international operations, Central National, both in Chicago.

Also on the planning board are members of the group's various subcommittees: Raymond J. Lacy, assistant vice president, Credit Lyonnais, Leon W. Mills, assistant cashier, Bank of America, International, and James M. McCord Jr., assistant manager, First National, all in Chicago; Warren Teague, operations officer and manager, Indiana National, Indianapolis; Harry D. McAlpine, supervisor, Northwestern National, Minneapolis; Charles McGuire, assistant vice president, Mellon Bank, Pittsburgh; Edward Lenahan, vice president, Continental Illinois National, Chicago; Jack Harlow, senior vice president, Sears Bank, Chicago; and Leslie M. Boll, assistant vice president, Mercantile Trust, St. Louis.

First of Hutchinson Corres. Conference Concentrates on Long-Term Outlooks

THE LONG-TERM outlook for Kansas was the theme of the annual Conference for Correspondent Banks held recently by First National, Hutchinson, Kan. More than 150 bankers were in attendance.

M. D. McVay, president of Cargill, Minneapolis, speaking about the ag situation, said that markets must be found outside the U. S. for as much as 30% of the corn, 60% of the wheat, more than 50% of the soybeans and up to 40% of the cotton grown in this country.

He added that the most likely nations to purchase our agricultural surpluses are those whose economies are expanding; in other words, nations that are enjoying rising standards of living.

U. S. agriculture, he said, is the most efficient producer of ag commodities in the world, but the trend of increased production per unit is slowing while competition from other ag producers in the world is increasing. This is going on coincident with a slowing in the domestic demand for ag products. Thus, "holding and serving existing export markets, identifying and establishing facilities to build and serve new markets is absolutely essential to the economic health of our farmers."

He said the current economic situation in the world leaves two basic courses open to the U. S.—isolation from the competition of the rest of the world or competing more aggressively for foreign markets.

Mr. McVay recommended the latter course. But, he added, this course requires "that we be competitive; it requires that we increase productivity as we increase wages; it requires a recognition of the importance of selling outside the U. S. as well as buying; it requires politicians, government and public to recognize the importance of businesses' efforts to produce products competitively and to join in the effort to help industry be efficient. It requires a degree of fiscal responsibility that many politicians presently find unsettling and unacceptable. In fact, some have so little experience with fiscal responsibility that they find it not understandable.

"But the course is important to you and me and it's vitally important to U. S. agriculture. Isolation surely leads to rapidly increasing costs of production and to a loss of market share for U. S. ag products. It means increased inflation and a continued devaluation of the dollar in relation to the currencies of the world's more efficient producers, like Japan and Germany.

"It's important as a nation that we avoid the lure of isolation, that we avoid the temptation to select what appears to be the easy course and fail to make the fundamental adjustments necessary to cause us to be competitive in world trade."

Charles Kimball, chairman, Midwest Research Institute, Kansas City, spoke on the growing viability of the Kansas City area as a population center that can manage an influx of people in the next 25 years. He said it will be necessary for cities that can handle increased populations to bid for the people who will be migrating in the future. If they don't do this, he said, these people will settle in places that are overcrowded—such as New York City—and add to the burdens now being borne by those living in such places.

He spoke of the benefits industry can experience by relocating in the Midwest, such as reduction in overall air fare costs for traveling executives, better distribution due to the central location of places such as Kansas City, fewer workers to do the job due to increased productivity on the part of midwesterners—not to mention cleaner air and water.

A third speaker, Paul J. Caubin, spoke on the progress being made by weather researchers who are working to control destructive hail storms.

The second day of the conference included the annual golf tournament. Nickerson State's contestants garnered three awards of the seven presented. Dick Klassen, president, received the low gross award; R. Clark Wesley, vice president, garnered the low net award; and Mr. Klassen was honored for the longest drive. Other awardees included Bob Martin, executive vice president and cashier, Grant County State, Ulysses; Roy P. Britton, president, Citizens State, Ellsworth; Joe Walter, president, First National, Meade; and Bob R. Crabill, president, Farmers State, Jetmore. • •

• **Bank Marketing Association.** A new 15-minute color/sound filmstrip program, "How to Relate Profitably With Our Market Groups," has been announced by the Bank Marketing Association, Chicago. The filmstrip isolates four major market groups: youth, women, professionals and senior citizens. It then analyzes several basic questions about each group, such as, "Who are these customers?" "What age group, percentage of population and buying power do they represent?" and "Why do they perceive the world as they do?" The filmstrip package includes a meeting leader's guide and viewer's workbooks, and it is available for $80 to BMA members and $120 to nonmembers. Write: Bank Marketing Association, 309 West Washington Street, Chicago, IL 60606.

Robert Morris Issues Guidelines For Domestic Multibank Credits

PHILADELPHIA—Robert Morris Associates has published a set of seven "Guidelines for Domestic Agented/Agreement Credits."

According to RMA, an agented/agreement credit exists when more than two banks enter into a common loan agreement to provide funds to a borrower. They recognize the existence of an agent bank that provides them with information about the credit. It also provides certain other administrative and service functions.

The brochure, which has been mailed to all RMA member-bank representatives and all CEOs of banks in the U. S., provides a detailed discussion of the role of an agent bank in domestic multibank lending.

The seven guidelines cover such points as the necessity of the agent bank or borrower providing advance information on the proposed credit to each participant; the need for participating banks to make full disclosure to one another of existing loans to the borrower and its principals prior to the signing of the loan agreement; and the need for each participant to make its own analysis of the credit prior to entering into the agreement.

Also pointed out in the brochure are the following: In general, each participant needs to be a signatory to the loan agreement and hold its own note; participants have an obligation to share with one another subsequent information bearing on the borrower's financial condition; consent of all participants must be obtained before any changes in the loan agreement can be made, and all participants must respond promptly to questions from one another concerning the loan agreement.

Copies of the guidelines are available for 50 cents each, with a minimum order of $5, from RMA, 1432 Philadelphia National Bank Building, Philadelphia, PA 19107.

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Left to right: Doug Keffer, Bill Suliburk, Rob Rainey, Charles Rice

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LEFT: Main Street entrance of Merchants Bank, Kansas City, features bridge over sunken garden. RIGHT: New $4-million Merchants Bank building features facade of solar bronze glass and precast aggregate panels.

New Home Occupied, New Name Adopted By Merchants Bank in Downtown KC

"THE GREENING of Ninth and Main" came about on October 31 when Merchants Bank, Kansas City, held grand opening ceremonies at its new $4 million building in the downtown section. The event also observed the bank's new name (it was formerly Merchants-Produce Bank).

The site of the 45,000-square-foot headquarters of the bank extends from Ninth to Eighth streets and from Main to Baltimore streets. The building covers the equivalent of about three-quarters of a city block. The structure is a recent recipient of Downtown, Inc.'s "major project award," presented for the beautification and preservation of the downtown Kansas City area.

The title of the grand opening was significant in several ways: it referred to the fact that a business handling money was occupying the site; that the site was beautified by landscaping; and that the bank was giving away live potted plants to those attending the grand opening.

The building was constructed to harmonize with an existing garage, a seven-level facility that provides free parking for bank customers and monthly parking for 330 cars. The structure was designed to support 10 additional levels.

The bank's building features a solar-bronze glass exterior with warm-tone precast aggregate panels. Two 45-foot skylights accent the front entrance on Main Street and a large sunken garden is featured along Main and Ninth streets.

Each floor of the building contains about 15,000 square feet. The main floor area and lobby feature a 30-foot-high atrium and houses an 80-foot tellers' counter made of light brown English oak inlaid with white Vermont marble. A fiber art piece, called "Four Part River," adorns the wall behind the tellers' counter. The art piece is woven in blues, camel and rust colors and it blends with the bank's interior colors. The main floor also houses the safe deposit area and the main vault. Executive offices and the marketing, loan and operations divisions are also on the Main Street level.

A walk-up teller station is located just inside the Main Street entrance. It's open from 8 a.m. to 5:30 p.m. Monday through Thursday and from 8 a.m. to 6 p.m. on Fridays.

The lower level houses the data processing division and the proof and distribution department. The bank manages data processing for seven other banks with combined assets of more than $400 million. A 2,500-square-foot computer room also occupies the lower level.

The top floor of the bank houses the trust and comptroller's divisions, a li-

"Rondole" is title of huge fiber art creation that's part of decor at recently opened Merchants Bank, Kansas City. From left, are Don Hagemann, interior designer; William B. Fullerton, architectural designer; Norman C. Schultz, bank pres., and Janet Kuemmerlein, creator of wall design.

think, also, about a major Regional Bank!

Many people, when they "think Mississippi," have in mind the state's Old Capitol Museum in Jackson, or a civil war battlefield, or a beautiful antebellum home, or some other historic or scenic feature for which Mississippi has long been famous.

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brary, offices of the chairman, a directors' room, executive dining room and conference rooms. The building is designed to take an additional three floors, encompassing some 50,000 square feet.

The bank was organized as Merchants Bank in 1916 and was located at Fifth and Walnut. Controlling interest was purchased in 1948 by the Schultz family when total assets were $14 million and total capital accounts were $600,000.

In July, 1957, Produce Exchange Bank consolidated with Merchants Bank and the name was changed to Merchants-Produce Bank. Total assets at that time were $27 million and total capital accounts stood at $2 million.

Today, the bank has total assets of more than $75 million and capital accounts topping $8 million. The bank has 75 employees.

Norman C. Schultz, president, stated at the grand opening that "the move of Merchants Bank to its new facility at Ninth and Main marks a new era in the bank's history. The new bank (building) and our new name celebrate our 61st year in the banking business." • •

Essentials of Banking Topic of ABA School

WASHINGTON, D. C.—The American Bankers Association has announced formation of the "Essentials of Banking School," which has been structured to cover its topic in a comprehensive one-week session.

The school's first session will be held June 25-July 1 at Duke University, Durham, N. C.; applications must be received no later than March 31. All ABA member banks have been mailed brochures on the school, along with application forms.

According to Willis J. Wheat, chairman of the development committee for the school, the course is designed "to give the staff specialist, new graduate and future bank manager essential knowledge of the overall functions performed in the modern commercial bank." Mr. Wheat is senior vice president, Liberty National, Oklahoma City.

The Essentials of Banking School's program will be presented through preschool readings, lectures, small group discussions and a special version of BankSim, a computerized bank management simulation game. Special-interest sessions will address the role and objectives of specific bank departments, how they operate, what performance is expected of them, how they interact with one another and potential conflict areas.

Tuition for the Essentials of Banking School is $590 for ABA members and $740 for nonmembers. All course materials, room and board are included. For more information contact Shirley Hawkins, registrar, Essentials of Banking School, American Bankers Association, 1120 Connecticut Avenue, N. W., Washington, DC 20036.

'Chicago in Motion'

Chicago Mayor Michael Bilandic (l.) presents Michael Griggs, local high school senior, with the first-place certificate for Harris Bank's 1977 photo contest, "Chicago in Motion." Michael won a $500 savings account at the bank and a Hubert the Harris lion doll for his photo, "Lyric Ballet School Outdoor Performance." The young photographer also received a 35mm camera on behalf of his school. The city-wide competition drew entries from 38 local high schools.

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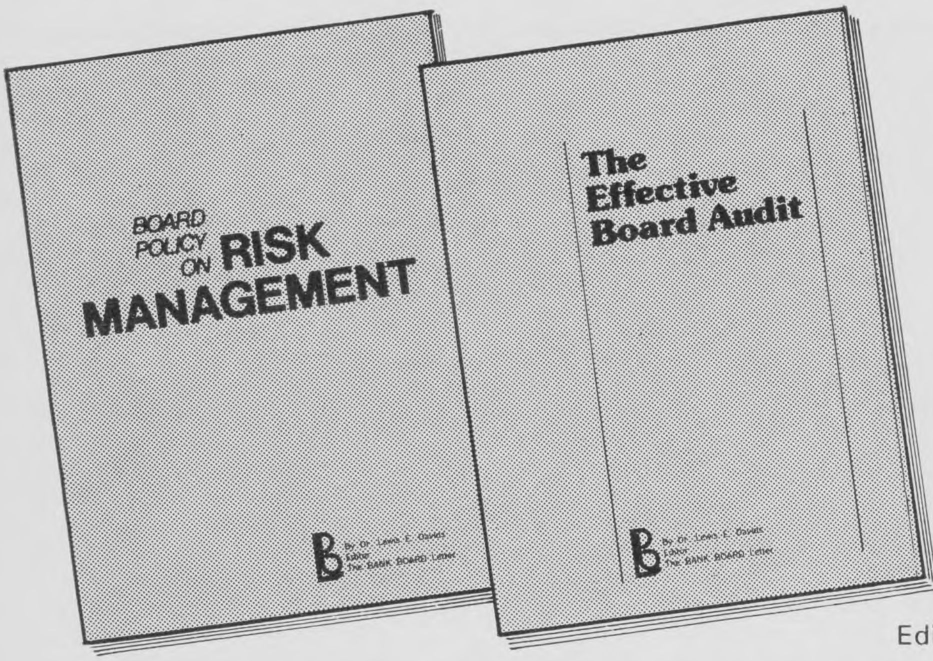

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It includes checklists for social responsibilities audits, audit engagement letters and bank audits. Other topics: Charitable contributions permitted by regulators, conforming trust audits, correspondent bank director audits, audits of nonbank affiliates, audits through the computer, communication between audit committees and CPAs, disclosure and responsibility, conflicts of interest and auditing forecasts. Every boardroom should have a copy of this manual in its library!

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Customer-Profitability Analysis: A Tool to Improve Bank Profits

EDITOR'S NOTE: The following article contains the summary, findings and conclusions taken from Professor Lee's PhD dissertation completed last June at the University of Georgia. The study is based on a questionnaire-type survey taken in the spring of 1976 to determine the extent to which commercial banks have instituted a systematic approach to the problem of measuring the net profitability of their large customers. The 246-page dissertation is called "Commercial Bank Customer Profitability Analysis: an Empirical Study of the Sixth Federal Reserve District." This district includes three Mid-Continent-area Fed branches: Birmingham, Nashville and New Orleans, and territory covered includes all or parts of Alabama, Louisiana, Mississippi and Tennessee.

By JOHN T. LEE
Assistant Professor
Of Finance
Tennessee Technological University
Cookeville

THE FOCUS of my study was on the concept of a formal customer-profitability analysis (CPA) as a tool to improve bank profits. Although the idea is not new, its potential benefit has been magnified by a combination of factors that, in recent years, have adversely affected bank profits.

The two major forces behind the profit squeeze are the impact of inflation on total bank costs and increased competition for depositor funds. Banks have experienced a relative decline in low-cost demand deposits as customers attempt to minimize idle balances. With increased loan demands, as well as an expansion into other non-loan services, growth has been financed with higher-priced deposit funds and costly external borrowing.

The profitable practice of liability management requires careful consideration of the true impact of growth in assets as it relates to a bank's risk posture and its bottom-line profits. Furthermore, in response to competitive pressures and customer demands, many larger banks have become multi-product organizations, providing a broad array of services for their customers, often without pricing (charging for) these ancillary services in a manner that promotes profits. As the business of banking has become more complex, and as profits continue to be subject to external constraints, the need has become more urgent for a technique to link the components of the total customer relationship.

What then is CPA and its potential benefits? As used in this study, CPA is a comprehensive formal attempt to measure the net profitability of a given customer relationship by consolidating and quantifying all relevant costs and benefits associated with that relationship. A full analysis goes beyond the standard deposit-account analysis to incorporate the lending relationship and selected non-loan services regarded as a significant part of that particular relationship. The net-profit contribution is derived by matching income generated against expenses incurred in providing services.

The ultimate objective of any CPA effort is to improve bank profits. Adoption of a CPA system offers several primary benefits: (1) it systematically measures the net-profit contribution of major customers, either relative to other customers or compared to the desired profit objective for banks; (2) it provides a functional instrument to facilitate better pricing decisions in terms of interest, fees and balance requirements that will promote the profit goal; (3) it is useful to management as a vehicle for overall planning and control; (4) it generates valuable information for the marketing program, and (5) it allows for a more equitable measurement of loan-officer performance.

John T. Lee received a BS degree, Tennessee Technological University, 1964; MS, University of Tennessee, 1966; and PhD, University of Georgia, 1977. He began his teaching career at Tenn. Tech in 1966 and has been there since then except for two years (1971-73) at the University of Georgia, where he taught part time while working on his PhD degree. Professor Lee worked for the Retail Credit Co. for a short time before going to Tenn. Tech. Currently, he is teaching courses in money and banking, investments and managerial finance, and his major research interest is in banking.

There are several problems or limitations that either may impede development of or restrict application of a comprehensive CPA system. Acceptance and proper use of CPA demand a full appreciation of these shortcomings. Major criticisms of CPA are: (1) it's too costly to be economically justified for many banks; (2) it's too complex and requires numerous subjective inputs; (3) it suffers from lack of creditable cost data, thus limiting precise measurements; (4) it's impossible to quantify all "intangibles" that exist in the "customer relationship"; (5) it may generate a short-run (historical) measure of customer profitability when a longer-run view is more appropriate, and (6) it may be justified on a conceptual or economically rational basis, yet it may be impractical from an operational viewpoint unless accepted by customers as equitable and adopted by competition.

A review of the literature revealed that banks utilizing a customer-analysis technique remain enthusiastic in their support and feel that its benefits have been clearly demonstrated in practice. While it's impossible to make a definitive statement as to how many banks have adopted a formal approach to profitability measurement, the consensus suggests that relatively few banks—under 100—are utilizing a comprehensive CPA measure effectively. One survey (McKinsey & Co.)—taken in 1975—concluded that fewer than 25% have installed a customer-profitability measure. Exactly what this includes is unclear, but certainly it does not refer to a full analysis system. In addition, the Reich-Neff (1972) study noted that "banks successfully using CPA range in size from $150 million to $25 billion in deposits." Thus, there's ample evidence that while the most detailed, comprehensive and costly analysis systems may be restricted to larger banks, functional analysis of a lesser scope is being used effectively by various size banks.

Perhaps even more significant is the considerable interest and activity directed toward future development or expansion of present analysis efforts. This is true particularly for those banks

that have automated or plan to automate their operations.

The foundation of any profitability evaluation is the basic deposit-account analysis (DDA). This procedure involves decisions on proper treatment and specification of reserve requirements, earnings credit on excess deposits, service charges and compensating balances. Evidence is presented on the existence and implications of options employed by the banking community. While a well-designed DDA is the cornerstone of any analysis, it's only a partial gauge of a customer's true value. Where the customer has a banking relationship that includes loans and other measurable non-loan services, these items should be considered.

Two basic alternative approaches to a more comprehensive measurement are return on funds (ROF) employed and yield on capital (YOC). Variants of the ROF approach include (1) gross yield on net funds used; (2) net yield on net funds used; (3) gross yield on loans and (4) net yield on loans. Another somewhat different option is the net margin on total revenue.

Major differences lie with (1) stress given to different aspects of the customer relationship and (2) how the profit objective is defined. ROF seeks to derive a profit contribution, with (net) or without (gross) deducting the cost of funds and utilizing different proxies for the size of the relationship —net funds used, loans or total revenue.

YOC carries the analysis one step further in an effort to relate individual customer profitability to bottom-line return on the bank's capital. This requires explicit assignment of capital to assets (loans). Thus, while this approach is more complex, it offers the most complete and most flexible alternative. Each alternative was delineated in terms of its formulation, characteristics, applicability to various types of relationships and major strengths and weaknesses.

Other features examined were choice of profitability standards and details of system design. Among design considerations are customers and services included, sources and uses of funds included, revenues and expenses included and the critical question of costing bank funds.

The primary purpose of this study was to determine the extent to which commercial banks within the Sixth Federal Reserve District have instituted a systematic approach to the problem of measuring the relative profitability of their large customers. That is, what the status of customer analysis is in this region.

While the main focus of this study was on the formal technique of CPA, which is a comprehensive measure of the customer relationship, it was decided that a clearer picture of the overall state of customer analysis would be developed by surveying a broad base of banks. The sample taken included all banks within the district with deposits of at least $100 million. It was known that a sophisticated, formal customer analysis such as specified by the restrictive definition of CPA would not be appropriate for smaller banks. Yet the need to systematically measure the "customer relationship" is not restricted to larger banks.

A broader view of customer analysis was taken by expanding the survey to include a sample of banks having deposits between $25 and $100 million. Accordingly, the questionnaire was designed to generate more detailed information on existing formal CPA efforts and also to reveal any plans under way to establish formal analysis procedures, as well as to provide insight into decision processes of those banks that adopt an informal approach to profitability analysis.

Results of the questionnaire are based on responses of 157 officers representing banks ranging in deposit size from just over $25 million to over $1 billion. In the analysis that follows, the banks are stratified into four classes: Class I (deposits of $500 million), Class II (deposits from $100 million to $500 million), Class III (deposits from $50 million to $100 million) and Class IV (deposits between $25 million and $50 million). Of the 93 district banks with at least $100 million in deposits, 51 or 54.8% responded to the survey. Additional input was provided by 106 banks having deposits between $25 million and $100 million.

Findings. Major findings of this study follow:

1. Survey results clearly support the proposition that the nature and scope of customer-profitability analysis is a positive function of bank size. Furthermore, the size and composition of C and I loans proved to be significant, in that those banks with a higher proportion of large business loans have, on the whole, gone further in their analysis efforts.

2. Twenty-eight percent of the 157 respondents indicated their banks did no formal analysis of any facet of individual customer profitability.

3. Seventy-two percent of the banks generated a demand-deposit-account analysis (DDA) on at least some of their customers. Most did either all or selected large business accounts, while about one-third extended the analysis to individual accounts. Class I banks also regularly analyzed correspondent accounts.

4. Banks that restricted the analysis to the deposit account generally look for a net positive balance without further comparison to a "target" or calculation of a profitability index.

5. Seventeen banks—11% of the total sample—have extended the analysis beyond DDA. The additional quantification of the customer relationship

varied from a simple, manual, loan-yield calculation to a highly refined, largely automated, comprehensive CPA system encompassing non-loan services as well as the deposit-loan relationship.

6. Eleven banks had added a simple gross-loan-yield calculation, which is related to a desired return on assets, funds used or capital.

7. Three banks carried their analyses a step further by including cost of funds in a measure of net yield on loans. Other refinements to the analysis include such inputs as loan-administration expense and individualized risk factors.

8. One Class I bank had adopted a similar measure—net yield on net funds used, where net funds used replaces loans as the denominator of the computation.

9. The two most sophisticated approaches were in operation at Class I banks. One was a net-yield analysis with capital allocation. The other was a "net-funds" approach.

10. Responses to the question on the relative importance of uses of CPA were fairly consistent among banks with varying degrees of analysis. Determination and improvement of individual customer profitability was considered the most important use. Pricing of bank services and/or establishment of compensating balances were ranked second overall. Use as a marketing aid was perceived as being the third most important use. One difference was noted among the four size classifications of banks: While all agreed on the two most important uses, Class I bankers, regardless of the extent of their analyses, ranked evaluation of loan officers as the third most important use.

11. The question on shortcomings or limitations evoked a more varied response. Those officers with banks with no formal analyses cited lack of personnel and cost considerations as major limitations.

12. The DDA group regarded the need for an automated central information file (CIF) and the limited scope of their analysis as the principal shortcomings of their present system. In assessing the potential move to a broader CPA system, bankers in Classes I and II viewed the major limitation as being design and implementation considerations such as the problem of measurement and allocation of costs, no CIF and effective application of the system. Class III and IV bankers were concerned with cost of development and implementation compared to benefits to be gained for their size banks.

13. In the group of 17 banks that went beyond DDA, disadvantages

varied according to type of analysis. For most of these banks, the incomplete nature of the system was the chief limitation. Also important were the expense of a further extension and restriction of a manual operation. Only one banker from Classes I and II banks observed that cost was a major obstacle. For the few larger banks with more extensive analyses, the major emphasis was on problems of design and implementation, including establishment of a fully automated analysis or unresolved problems of inflexible applications, cost figures, risk measurement and establishment of targets.

14. Of those responding to the question on future plans, only 9% of the bankers in the no-formal-analysis group expected their banks to establish a formal approach. In the DDA group, all Class I bankers foresaw a more comprehensive analysis; 57% of Class II bankers expected an improvement or expansion; 23% of Class III bankers anticipated further development, and about one-third of Class IV bankers envisioned an extension. Several respondents from those banks that now go beyond DDA noted plans to expand or improve their systems by broadening the scope of analysis or automating the process.

15. Sixty percent of the DDA group had automated their deposit analysis. About half the Class III and IV banks were still using manual deposit analyses.

16. Those banks that had extended analyses beyond DDA also had gone further in automating their analyses. Only one Class IV bank had not automated the deposit portion of the analysis. On the other hand, only four of the 17 banks had automated most of the loan data and other inputs used in the broader profitability measure.

Conclusions. Survey findings established that formal customer-profitability analysis in the Sixth Federal Reserve District is relatively undeveloped. While 72% of the 157 banks that responded to the survey have instituted demand-deposit analyses on certain customers, only 11% of the banks do any further analyses beyond the standard account analysis. Even among the larger banks—over $500 million in deposits—most restrict analyses to the deposit relationship. Where the customer relationship extends beyond a deposit account, any measurement restricted to deposit profit represents an incomplete measure of total customer profitability. Furthermore, the majority of those 17 banks that extend their analyses are doing a limited loan yield on selected large accounts.

These findings for the Sixth District appear to conform generally to what has been documented in literature on CPA. That is, relatively few banks have established a formal comprehensive CPA system.

A substantial body of evidence —both theoretical and empirical—exists in support of the practical benefits to be gained from a systematic approach to analysis of customer profitability. CPA is a tool aimed at improving bank profits by integrating fragmented information needed to arrive objectively at better decisions. It's used not only to determine the actual profit contribution of a given relationship, but also to determine whether a bank's overall profit goal is being promoted. A full analysis of a customer relationship recognizes the total cost/benefits, provides a basis for making comparisons, isolates key elements and pinpoints needed alterations. As a functional pricing tool, CPA permits the bank to adopt a profit strategy based on a microanalysis of individual customers that can be translated into a vehicle for establishing prices in terms of interest, fees and balances necessary to meet the desired profit objective. This means that resources are allocated on a factual basis rather than on guesswork. Without such a framework to link information on component parts, no real plan of action exists. Thus, CPA provides a direct mechanism through which profits can be engineered.

"The profitable practice of liability management requires careful consideration of the true impact of growth in assets as it relates to a bank's risk posture and its bottom-line profits."

Each bank must determine the type of system that matches its particular set of objectives and constraints. Differences such as bank size, customer base, philosophy, composition of loan portfolio, non-loan services, market environment and constraints on information, time and expertise all influence the appropriate choice. It's unlikely that a universally applicable CPA system can be designed to meet all banks' needs. No attempt was made to define the ideal system, nor was one approach recommended. Certainly, not all banks would benefit equally from, nor could they afford, an elaborate CPA system. In this study, a broad formal CPA system was judged to be unwarranted from a need or cost-benefit appraisal by the majority of bankers whose banks restrict the analysis to DDA. Most of these bankers represent banks under $100 million in deposits. On the other hand, few respondents from banks above $100 million in deposits appear to regard the cost of a more comprehensive approach as prohibitive. Likewise, while the majority of the bankers from the larger—Class I and II—banks accept the validity and desirability of a full customer analysis, the smaller—Class III and IV—bankers expressed serious reservations. A trade-off always exists between additional costs and a more nearly complete or accurate measure of customer profitability.

In any case, development and introduction of a CPA system tend to be evolutionary, not revolutionary. Whereas a comprehensive analysis system requires considerable expense, effort and expertise to develop, initiate and implement, an analysis of key accounts may be undertaken prior to a broad systems effort. The fact that much of the information necessary for a structured analysis is available makes the current limited adoption of customer-analysis technique somewhat puzzling.

However, there appears to be considerable interest and activity directed toward future developments in measurement of customer profitability. One problem in the past has been the failure of banks to centralize information on separate services. Overemphasis on a single service or bank function overlooks the total relationship. With the spread of automated capabilities and the trend toward combining all information on a given customer through a broad financial reporting system, the outlook for CPA is favorable. As banks continue to become more profit oriented, they are likely to adopt methods of "fine tuning" their profitability analysis. Indicative of this direction is the fact that a majority of the surveyed banks with deposits above $100 million have plans to expand their present analyses. All Class I banks that now restrict their analysis to DDA indicated plans to expand to a broader approach. Even among banks in the under-$100-million group, several were considering a further expansion of deposit analysis or addition of a loan yield.

The spread of CPA as a tool of bank management is an important development. All banks should consider the potential benefits of an analytical, systematic approach to customer-profitability measurement. This is not to suggest that such a procedure will have the accuracy of a mathematical equation. Any formulation is no better than its

(Continued on page 90)

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NEWS From the Mid-Continent Area

Alabama

■ C. M. A. ROGERS III has been named chairman, American National, Mobile, to fill the vacancy caused by the death in October of A. Danner Frazer. Mr. Rogers' full title is chairman, president and CEO. He joined the bank in 1967, became president in 1972 and CEO in 1974.

ROGERS

■ ALABAMA BANCORP., Birmingham, is said to be the first financial institution in the state to attain $2 billion in assets. The record in assets was achieved five years after the HC became the first institution in the state to hit the $1-billion mark. The HC was formed in 1972.

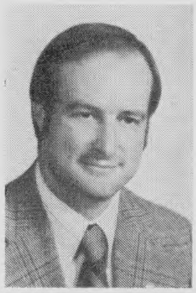
■ FIRST NATIONAL, Birmingham, has begun construction on a $6-million operations center at 39th Street North. The 190,000 square foot building will house about 350 employees of the bank's operations and data processing areas. It's scheduled for completion next October.

■ FIRST NATIONAL, Opp, has announced the following promotions and elections: Frances D. King, to vice president and auditor; Hilda J. Pierce, to trust operations officer; Laurette R. Blair, to assistant vice president; Louise P. Harper and Lou Ellen Thompson, to assistant cashiers; Kenneth Taylor and Danny Bess, to assistant loan officers; Danez B. Davis, to data processing manager; and Rebecca P. McLeod, to assistant data processing manager.

■ MARY QUATTLEBAUM has been promoted to vice president, First National, Decatur. She organized the women's division, now the newcomer division of the marketing department. Anne Crane has been named assistant marketing officer.

Arkansas

■ THOMAS D. WEATHERLY has joined Commercial National, Little Rock, as vice president in the commercial loan department. He was formerly with Union Planters National, Memphis; Dumas State and Pine Bluff National.



WEATHERLY

KIRKWOOD

■ JIM L. KIRKWOOD has joined First Arkansas Bankstock Corp., Little Rock, as vice president, human resources. He is responsible for personnel service and human resource management for the HC and its 15 bank and financial service company affiliates. He was formerly with an insurance firm in Dallas.

■ MARCELLINE GIROIR has been elected vice president, marketing, at Pulaski Bank, Little Rock. She was formerly with Arkansas Power & Light Co.

Illinois

■ HARRIS BANK, Chicago, has named Philip A. Delaney, senior vice president, executive in charge of the Midwest banking group. He also heads the financial banking group. He joined the bank in 1952. Valerie K. Hanna, Stanley K. Peirce Jr., George H. Bahe and Lawrence Hall were named vice presidents.

DELANEY

■ NORTHERN TRUST, Chicago, has announced that Edward Byron Smith, chairman and CEO of the bank and Nortrust Corp., HC, will not stand for reelection following the bank's annual meeting next March. It is expected that E. Norman Staub, presently vice chairman of the HC and the bank, will succeed Mr. Smith as chairman and CEO of the bank. Mr. Smith will continue as chairman and CEO, Nortrust Corp., until March, 1979, when he will reach age 70. At that time, Mr. Staub is expected to succeed Mr. Smith as HC CEO, but Mr. Smith will continue as chairman of the HC. Philip W. K. Sweet Jr., will continue as president of the HC and the bank.

■ GEORGE S. DUSENBERY has joined the bond department at National Boulevard Bank, Chicago, as an assistant vice president. He was formerly with Continental Illinois National, where he was active in bond sales.

■ AMERICAN NATIONAL, Chicago, has elected J. Patrick D. Miller vice president and head of the international banking division; Eugene P. Tunney, vice president and head of the real estate division; and Harold A. Steben, vice president. Named second vice presidents were Thomas K. Calhoun, Stephen E. Hoffmann and Michael J. Hennessy. Mr. Hennessy is with the correspondent banking division. Promoted to commercial banking officers were Michael B. Hagen, Marcus C. Hutchinson and John L. Losquadro.

TUNNEY

MILLER

STEBEN

HENNESSY

York State Groundbreaking

Taking part in the groundbreaking ceremonies for an addition to and remodeling of the Main Office of York State, Elmhurst, are (from l.): Edward Jaskowiak, architect; Rollin Smith, Elmhurst Chamber of Commerce exec. dir.; William C. Gooch, Jr., bank pres.; Henry G. Bates, bank ch.; Abner Ganet, Elmhurst mayor; and Robert Palmer, Elmhurst city mgr. The new building is expected to be completed by May, 1978, and will provide executive offices, an expanded loan department, new teller stations and an enlarged vault.

■ FIRST NATIONAL, Chicago, has named Thomas M. King, vice president, head of the public funds division in the bond department. He was formerly in the correspondent banking division and joined the bank in 1968.

■ BANK OF ELK GROVE held ground-breaking ceremonies November 15 for its new operations center. The one-story structure will be located across the street from the main bank building. The Bunce Corp. of Milwaukee is handling the project's design, planning and construction management.

Died: Martha Ruth Pratt, 42, director and vice president, First State, Morrisonville, of cancer.

Indiana

■ LINCOLN NATIONAL, Fort Wayne, has promoted Richard G. Adams to senior vice president and board secretary. He succeeds Roger S. Moliere, who has resigned as vice president and board secretary to join a local law firm. Mr. Adams joined the bank in 1952.

■ J. HOMER SHOOP, president, Counting House Bank, North Webster, has been admitted to the 50-Year Club of the Indiana Bankers Association. He began his career in 1927 at First National, Buchanan, Mich. He has been associated with his present bank since 1947.

Kansas

■ LARRY W. HABLUETZEL has been elected president, Capital City State, Topeka. He formerly was executive vice president and has 16 years' banking experience in Topeka and Holton. In addition, James Hentzen was elected bank chairman and Jerry Kent was named consumer loan officer.

■ OAK PARK NATIONAL, Overland Park, has celebrated the grand opening of its new Main Bank with a four-day open house. The new building is located on the corner of 95th and Nieman Road and occupies 11,000 square feet of space on the first floor of its contemporary building. The interior features earth tones accented with oranges and autumn colors and has been designed for maximum business flow. The exterior is of oversized brown brick and has four motor lanes, two of which are for immediate use and feature pneumatic systems.

■ FOURTH NATIONAL, Wichita, has retained Penn Bradford Stock Services, a subsidiary of Bradford National Corp., to provide corporate shareholder services that include recordkeeping of securities owned or transferred by shareholders, preparation of stock certificates and transfer journal sheets, calculation and mailing of dividends, proxy material and reports to shareholders and handling of shareholder correspondence. In other action, Jordan Haines, bank president, has been appointed to the Kansas Board of Regents, which is responsible for the operation of the state's seven universities.

Died. Richard J. Williams, 77, vice president, Iuka State. He was a former state senator.

Robert H. Jennison Dies

Robert H. Jennison, pres., Kansas Bankers Assn., 1974-75, is dead at the age of 65. He was pres. of three banks: First State, Healy; First State, Ransom, and Security State, Scott City. Mr. Jennison joined the Healy bank in 1936. Mr. Jennison was a member, Kansas House of Representatives, 1949-57, and speaker there for the 1955 and 1956 terms.

Kentucky

■ WILLIAM F. SCHILDKNECHT has joined Fort Knox National as a collections officer. He was previously with Citizens Fidelity, Louisville.

■ ROBERT L. FARRIS has been promoted to senior vice president-loan administration, at First National, Louisville. He joined the bank in 1941 and was named vice president in the loan administration department in 1976.

■ CITIZENS FIDELITY, Louisville, has promoted Cathie Wiegand, Chester A. Misbach and William R. Hilbert to assistant vice presidents; Bernadette Lanham, Kay Armstrong, Mary Lou Thielmeier and Barbara Burke to assistant cashiers; and Dennis Turner and Glenn Johnson to auditors. Randall L. Fields has gone from assistant cashier to assistant cashier and branch manager.

Louisiana

■ A. PEYTON BUSH has been promoted to senior vice president, First National Bank of Commerce, New Orleans. He joined the bank in 1974 and is manager of the operations group. George R. Pabst Jr., vice president, has been promoted to director of marketing for the bank and its HC, First Commerce Corp. He joined the bank in 1960 and has assumed responsibility for advertising, public relations, sales training and coordination of the business development program.

■ RAYMOND L. BOND has been elected president, Bossier Bank, Bossier

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Among the many innovative customer services offered by some banks today are: the **On Line Teller Terminal** with instant update of transactions and the **Instant Statement**. These exclusive services have been initiated and implemented in all of our bank offices along with the monthly **Combined Statement.** They are automatically a part of every personal checking account. Our customers like them and yours will too. Call us or stop by when you are in Wichita. We will be happy to share our expertise with you.

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KANSAS STATE BANK AND TRUST COMPANY

MAIN OFFICE	MOTOR BANK	LINCOLN HEIGHTS EAST	KSB&T-WEST
123 N. Market	122 N. Main	Douglas & Oliver	13th & West St.

City. He succeeds Jean A. Quartemont, who has become president of a West Monroe bank. Mr. Bond was formerly senior vice president and trust officer and has been with the bank since 1946. Gerald J. Zubik has been elected a senior vice president and director of the bonds and investments division. He was formerly with a securities firm in Houston, and has served Capital National, Austin, Tex., and Texas Commerce Bank, Houston.

■ KENNETH L. CRANK has been named vice president in charge of the installment loan department at Bank of New Orleans. He was formerly with Fidelity American Bank, Lynchburg, Va.

CAMBRE

CRANK

■ CONNIE CAMBRE has been named assistant vice president at Bank of St. John, Reserve. She also serves as business development officer and was formerly with a bank in New Orleans.

Welcoming Photo Display

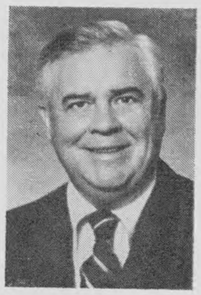
Taking part in opening ceremonies for the Professional Photographers of Louisiana (PPL) exhibit at First Nat'l Bank of Commerce, New Orleans, are (from l.): Ory Miguez, PPL pres.; Rodger Mitchell, bank pres.; James Fitzmorris, state lt. gov.; and Leon Bolen, PPL v.p. The two-week display represented the 30 best prints selected by judges from prints submitted at PPL's annual convention, and went on to tour the state after its appearance at the bank.

Mississippi

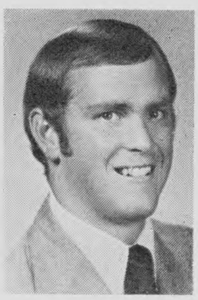
■ HANCOCK BANK, Gulfport, has promoted Nancy Wood Morse and Daniel L. Edwards from assistant trust officers to trust officers. Mrs. Morse joined the bank's trust department as account administrator in 1975 and became assistant trust officer in 1976. Mr. Daniels became assistant trust officer in 1975 after having joined the trust department in 1973. He formerly was with a law firm in Bay St. Louis and Deposit Guaranty National, Jackson. Both Mrs. Morse and Mr. Edwards are attorneys.

■ WILLIAM E. HOWARD JR. has advanced to chairman at Commercial National, Laurel, and has been succeeded as president by Robert S. Gaddis. Mr. Howard had served as bank president since 1965. He was elected to Commercial National's board in 1954 and joined its staff in 1959 as vice president. The 1976 president of the Mississippi Bankers Association, Mr. Howard presently serves on the MBA's executive committee. He also is a member of the American Bankers Association's Administrative Committee. Mr. Gaddis goes to Commercial National from Central Bank of Montgomery, Ala., where he had held a similar post.

GADDIS



HOWARD



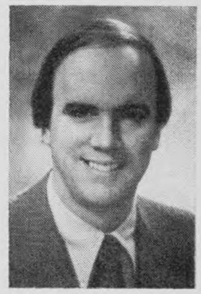
FOWLER

■ FIRST NATIONAL, Jackson, has promoted Thomas F. Darnell, Clifton B. Fowler, Matthew L. Holleman III, Vincent C. Jackson Jr., Bobby O. Jones, Harry M. Walker and R. Gray Wiggers to vice presidents. Thomas F. McRee has been named assistant cashier, Commercial National, Greenville, a First National affiliate. Mr. Fowler is with the correspondent bank department.

Missouri

■ TERRY E. ALEXANDER has been named vice president and manager, leasing section, First National, St. Louis. He joined the bank in 1971 and had been an assistant vice president since 1975. In other action, First National elected John J. Keith an assistant vice president. He is manager, Visa charge card department.

MILLER



ALEXANDER

■ BOATMEN'S NATIONAL, St. Louis, has promoted Sandford Miller to vice president, David M. Diener to assistant trust officer and H. Chandler Taylor to assistant cashier.

■ EDWARD A. SCHOLL JR. has joined Commerce Bank, Florissant, as a commercial banking officer. He was formerly with Boatmen's National, St. Louis.

■ MERCANTILE TRUST, St. Louis, has promoted Charles E. Self, Billy W. Albl and Raymond W. Peters II to assistant vice presidents. Vincent S. Boyer was promoted to operations officer. Mr. Self joined the bank in 1975, Mr. Albl in 1962, Mr. Peters in 1972 and Mr. Boyer in 1970.

■ COMMERCE BANK, Kansas City, has promoted Gary L. Callaway from vice president to senior vice president in the Bank Card Center, elected A. Ray Speer, president, COMPAC Services, Inc., a senior vice president in operations; elected John F. Guettler an assistant vice president and director of personnel; and elected Kent E. Mitchell a trust investment officer.

Paul V. Helein Dies

Paul V. Helein, 65, founder and pres., Insurance Enterprises, St. Louis, died November 21 of a heart attack while vacationing in Pompano Beach, Fla. Mr. Helein was on the boards of South Side Nat'l, St. Louis, and Jefferson County Bank, Hillsboro.

NEW! Four Fact-Filled Manuals For the Bank Director

(Every Director Should Have a Copy!)

The Bank Director's World.
$6.25

"(Many) directors are unable to adopt (an) easy solution to the conflicts dilemma. They must recognize that conflicts of interest always have and always will exist in bank boards . . . the board obviously can't have each director resign whenever a conflict . . . presents itself. Rather, the board should . . . police itself (and) openly discuss factors involving conflicts." That quote illustrates one of many overlooked points of bank board membership that are examined in this book by Dr. Lewis E. Davids, Editor, The BANK BOARD Letter. Director relationships with the HC, CPAs, legal counsel, stockholders, correspondents and advisory boards are covered. Includes models, exhibits.

WOMEN: the "Forgotten" Directors.
$2.00

Could be most helpful to banks contemplating the election of a woman or women to the board. Survey results from women directors across the country show how they view their relationships to other directors of their banks, what they feel are their relationships to men and women staff members of the institution, frustrations and delights encountered in board service and what they see as today's major banking problems. By A. Ruth Davids, Senior Research Associate, with Dr. Lewis E. Davids, Editor, The BANK BOARD Letter.

A Trust Guide for the Bank Director.
$5.00

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

Behind Board Room Doors.
$6.00

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

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Brentwood Bancshares Formed

BRENTWOOD—Brentwood Bank has been purchased by Brentwood Bancshares Corp., a new HC, and a complete renovation of the bank's interior, exterior, parking lots and drive-up facilities is under way.

The HC is headed by Holland F. Chalfant Jr., who was named chairman and CEO of the bank. He has 30 years' banking experience. Peter C. Baerveldt Jr. continues as bank president.

Brentwood Bank has about $41 million in total assets.

■ JOHN P. "JAKE" MASCOTTE has been elected to the directors' advisory council, First National, Kansas City. He is senior vice president in charge of the Western Home Office, Mutual Benefit Life Insurance Co., Kansas City. He is a former officer of Peoples Trust, Fort Wayne, Ind.

John F. Lilly Dies

John F. Lilly, 88, retired chairman, president and CEO, St. Louis County Bank, Clayton, died last month following a brief illness. Mr. Lilly's banking career began in Cape Girardeau and he served as a national bank examiner prior to joining Clayton National as CEO in 1933. When Clayton National merged with St. Louis County National in 1946, Mr. Lilly was named president of St. Louis County National. In 1951, he added the titles of chairman and CEO, but relinquished the president's title in 1960. He served as chairman until his retirement in 1965 and remained a director until 1973. He was chairman, Clayton Federal Savings, at the time of his death.

■ JERRY L. YEAGER, president, Mercantile National of Clay County, Kansas City, has succeeded John Ferguson, vice president, Commercial Bank of Liberty, as president of the Clay County Bankers Association. Named secretary-treasurer of the association was John Hughes, senior vice president, National Bank, North Kansas City.

■ JAMES E. SMITH, executive vice president, Union State, Clinton, has been appointed an agricultural action banker for the American Bankers Association for 1977-78. In that post he succeeds James A. Atchison, vice president, First State, Caruthersville. As an agricultural action banker, Mr. Smith will serve as a liaison between the ABA and the Missouri Bankers Association to ensure a flow of information and effective action to benefit agricultural banking at the national, state and local levels.

■ L. D. SCHMIDT has been elected cashier of Country Club Bank, Kansas City.

■ BOATMEN'S BANK OF CONCORD VILLAGE, St. Louis, has elected Toni Oster customer service officer and promoted Dennis J. Geoghegan to assistant vice president.

■ WESTPORT BANK, Kansas City, has elected E. Dudley McElvain president, succeeding W. E. Severns, who has been elected chairman. Also, William R. Dahl has been elected executive vice president and H. F. Harrison has been named senior vice president-installment loans. Mr. Severns has been with the bank for 41 years and Mr. McElvain has been in banking 14 years. Mr. Dahl has been with Westport Bank for 16 years, one year less than Mr. Harrison.

Bank of Washington Reaches Centennial

A seven-tiered cake is the center of attention during Bank of Washington's 100th-anniversary celebration. Pictured with the cake are (l. to r.): R. L. Vossbrink, e.v.p. of the bank; Donald N. Brandin, ch. & pres., Boatmen's Nat'l, St. Louis; Louis B. Eckelkamp, ch. & pres., Bank of Washington; and Ted Smothers and Bob Helfer, both of Boatmen's Nat'l.

Town's 1st Bank Is in Landmark

This is the new facility of United Missouri Bank of Jefferson City, and it's located in St. Martins. Besides being the town's first bank, it is housed in a building that has been a public landmark since 1937. First used as a general store and dance hall, the structure has been remodeled with two teller stations, a lobby, office area, main vault and safe deposit vault. A conference room is available for civic meetings. The exterior features new landscaping, a parking lot, a drive-up window and a night depository.

■ TOM D. HARMON has been named president, Jackson County State, Kansas City, advancing from vice president. He replaces Roy Glish, who went to Mercantile Bank, Springfield, as executive vice president.

New Mexico

■ SAM SUGG has been elected chairman, Fidelity National, Albuquerque. He is a former director of First National and former vice chairman of Bank Securities, Inc., both of Albuquerque. At Fidelity National, Mr. Sugg replaces Milo McGonagle, who remains as a director. Mr. McGonagle relinquished his position due to increasing responsibilities in the parent HC, New Mexico Bancorp.

■ ANNETA CHENEY has advanced to assistant vice president and administrative assistant at First National, Hobbs. In addition, Debra L. Collins has been named assistant cashier and executive secretary; Robert L. Gossard has been elected auditor and Charles A. Shull has been elected data processing officer. Linda Diggs has joined the bank as assistant cashier and consumer loan secretary, and Verne Nogelmeier has joined First National as assistant cashier and collection field officer.

■ GRANTS STATE has announced the election of Rose Lopez and Alva Patterson to assistant cashiers.

■ WAYNE C. R. HUDSON has been named assistant vice president and Eubank Branch manager by First National, Albuquerque.

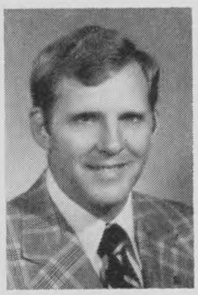
Vice Presidents Named

Security National, Roswell, has named Tom Mears (l.), Joe F. Corff (2nd from l.) and John W. Dowling (r.) vice presidents in its loan department. They are pictured with bank President Charles Joplin (2nd from r.).

■ N. W. GILLIHAN, administrative senior vice president, Bank of New Mexico, Albuquerque, has been given additional responsibilities as corporate secretary. In addition, Robert E. Gish has been promoted from vice president to manager of the Main Office and Christopher H. Preston has been named an assistant vice president and assistant branch manager. Mr. Gillihan has over 30 years' banking experience and joined Bank of New Mexico in 1966. Mr. Gish joined the bank last July and Mr. Preston has been with the bank since 1973.

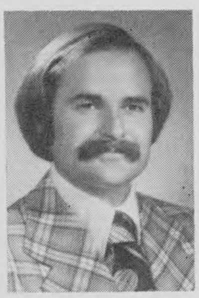
Oklahoma

■ BANK OF OKLAHOMA, Tulsa, has promoted Gregory J. Flanagan to senior vice president and manager of the metropolitan department. He joined the bank in 1974. Named vice presidents were Dennis Brand, Hayden Watson,

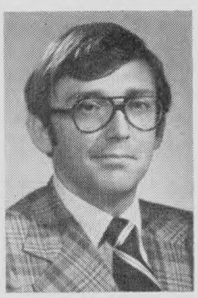


BRAND

FLANAGAN



WRIGHT



WATSON

Thomas K. Wright and Edward G. Carlton. They joined the bank in 1973, 1974, 1975 and last October, respectively. New assistant vice presidents are Christopher Andrews, Jerry Hudson, Jack Stephens and Charles Rogers.

■ FIRST NATIONAL, Oklahoma City, has promoted Thomas E. Johnson and Bernard P. Hall to senior vice presidents and named John Preston and Stephen Inman vice presidents. David Christofferson was named an assistant vice president. First Oklahoma Bancorp. has elected Mr. Preston a vice president and general counsel. He was formerly with a bank in Cleveland, O.

■ QUAIL CREEK BANK, Oklahoma City, has named Mary Powell and Dale Washa assistant cashiers. J. David Davenport and Albert J. Lowery have been elected directors.

Died. Robert Lee Lunsford Jr., 85, chairman, First National, Cleveland. He had been active in bank affairs up to the day of his death.

Tennessee

■ COMMERCIAL & INDUSTRIAL BANK, Memphis, has promoted Roger Cofer to vice president-operations and George W. Freeman III to assistant cashier. They joined the bank in 1974 and 1976, respectively.

■ FIRST AMERICAN NATIONAL, Nashville, has promoted James W. Burton and Vema S. Minor to assistant vice presidents. Also, Paul V. Callis and Cal Turner Jr. have been elected to the board.

■ ROBERT A. "BUDDY" LANIER has been promoted to vice president in the correspondent banking division at First Tennessee Bank, Memphis. He joined the bank in 1972 and handles accounts in Mississippi.

Texas

■ FRANK A. SEWELL JR., senior vice president, Peoples National, Tyler, has been elected president, Texas Chapter, Robert Morris Associates. Other new officers include Richard J. Goebel, senior vice president, Texas Bank, Dallas—first vice president; Ray Dickerson, senior vice president, Continental National, Ft. Worth—second vice president; and Robert Ullom, senior vice president, Capital National, Houston—secretary-treasurer. New directors are Dan Morgan, credit officer and assistant

SEWELL

cashier, Bank of Oklahoma, Tulsa; Rusty Workman, chairman and CEO, Westwood Commerce Bank, Houston; and John Roan, senior vice president, American National, Austin.

■ BANK OF THE SOUTHWEST, Houston, has promoted John L. Cook, vice president and trust officer, to manager, trust financial planning department. He joined the bank in 1962. New vice presidents include Glenn G. Parker, bank protection; Ronald J. Brescian, trust; Henry H. Kuhlmann III, real estate and Robert B. Holland, U. S. corporate. J. Richard Breazeale has been appointed auditor and new assistant vice presidents are Gainer B. Jones Jr., L. Gerald Patin and Larry W. Martin. Charles R. Porter has been named vice president-data processing and operations, Southwest Bancshares, Inc.

PORTER

COOK

■ ARTHUR L. GONZALES has been elected president and CEO, First City National, El Paso. He joined the bank in 1972 as executive vice president and director and was formerly with Valley National, Phoenix.

■ REPUBLIC NATIONAL, Dallas, has promoted William H. Nuchols to vice president and elected Shirley A. Gilmer and Terry A. Shipley assistant vice presidents.

■ FIRST NATIONAL, Dallas, has elected Donald R. Beall to its board. He is executive vice president for aerospace and electronics at Rockwell International Corp.

■ ROBERT H. FRAZIER JR. has been appointed vice president and loan officer at Parker Square State, Wichita Falls. He was formerly with the Texas Department of Banking and First State, Abilene.

Improve Bank Profits

(Continued from page 80)

inputs, many of which are, in this case, qualitative or imprecise. The usual caveat therefore, is in order. In the final analysis, "There is no substitute for sound judgment." Yet, merely drawing all facets of a relationship together is important as an aid to focus on those issues requiring decisions and to avoid arbitrary, inequitable treatment of customers. Small banks may find the cost of developing their own analyses to be prohibitive. It's likely, however, that as larger banks adopt CPA, smaller banks will have access through holding company affiliation or correspondent relationships. All banks should be aware of the concept and its implications. It's hoped this study has contributed to that awareness.

Implications for future research are suggested by this investigation. One potential obstacle in any study of CPA is the inconsistent interpretation of the meaning of the term customer-profitability analysis (CPA). Because of the composition of the sample, this problem was present in this particular survey. Some bankers' responses, particularly those from smaller banks, indicated a failure to distinguish clearly among various degrees of customer analysis. What is regarded as a broad analysis effort for a smaller bank is different from what a larger bank with numerous large business relationships and offering a broad array of services would consider a broad analysis effort. Future researchers could avoid this problem by restricting their studies to a more homogeneous sample.

The question of measurable cost-benefit support for specific systems of customer analyses should be addressed in the future. None of the banks in this survey offered a response to the question on cost-benefit. Research should be conducted to determine if those banks with a viable automated CPA have conducted such an analysis, or if the system has been adopted piecemeal without explicit economic justification for the CPA. Given the complexity of this question and the possible confidentiality of such information, the researcher would have to take a limited case approach to shed light on this issue.

Another area that deserves attention is the question of pricing philosophy. The fundamental pricing philosophy of banks is complex with a profit margin often built into different sections of the profitability analysis. Banks should distinguish between price and cost in their analysis programs. Use of a price that differs from cost can lead to false conclusions regarding profitability. • •

Five-Year Review Home Loan Set by Bank of America

SAN FRANCISCO—Bank of America plans to introduce a new type of variable rate home loan next year in California. The interest rate on the loan will be reviewed on a five-year basis. Some aspects of the loan are patterned after a five-year rollover mortgage that is popular in Canada.

A bank spokesman said the new program is being developed in response to a continuing need for assured sources of mortgage funds. California Governor Edmund G. Brown Jr. recently signed legislation supported by the bank that permits such loans beginning January 1.

The five-year variable rate real estate loans will be made at fixed interest rates for five years and will be automatically reviewed for possible rate changes at the end of the fifth year. Rate changes will be tied to movements of a predetermined index that reflects the prevailing cost of real estate funds generally available in the market.

At the time of the five-year rate reviews, the customer will have the option of accepting the new rate or paying off the loan without penalty. If a rate increase is necessary, the borrower also will have the option of retaining about the same monthly payment by extending the maturity on the loan from the usual 30 years to a maximum of 40 years. The borrower may also receive the benefit of a decline in the cost of funds index through a decrease in the interest rate.

The spokesman said the bank plans to offer the new loan with an initial rate lower than that on a fixed-rate loan. In addition, assumption of the loans by qualified buyers is guaranteed.

• **Robert Morris Associates.** The 1977 edition of "Annual Statement Studies" has been published. The book gives bank commercial credit and loan officers a tool for analyzing customers' financial statements, enabling bankers to see if—and how—a firm fits into a general, nationwide profile of its particular industry. The volume contains a composite balance sheet and income data for each of 306 different industries plus 16 commonly used operating ratios, presented as medians and quartiles, for 288 of the industries. All figures are for fiscal closing dates between June 30, 1976, and March 31, 1977.

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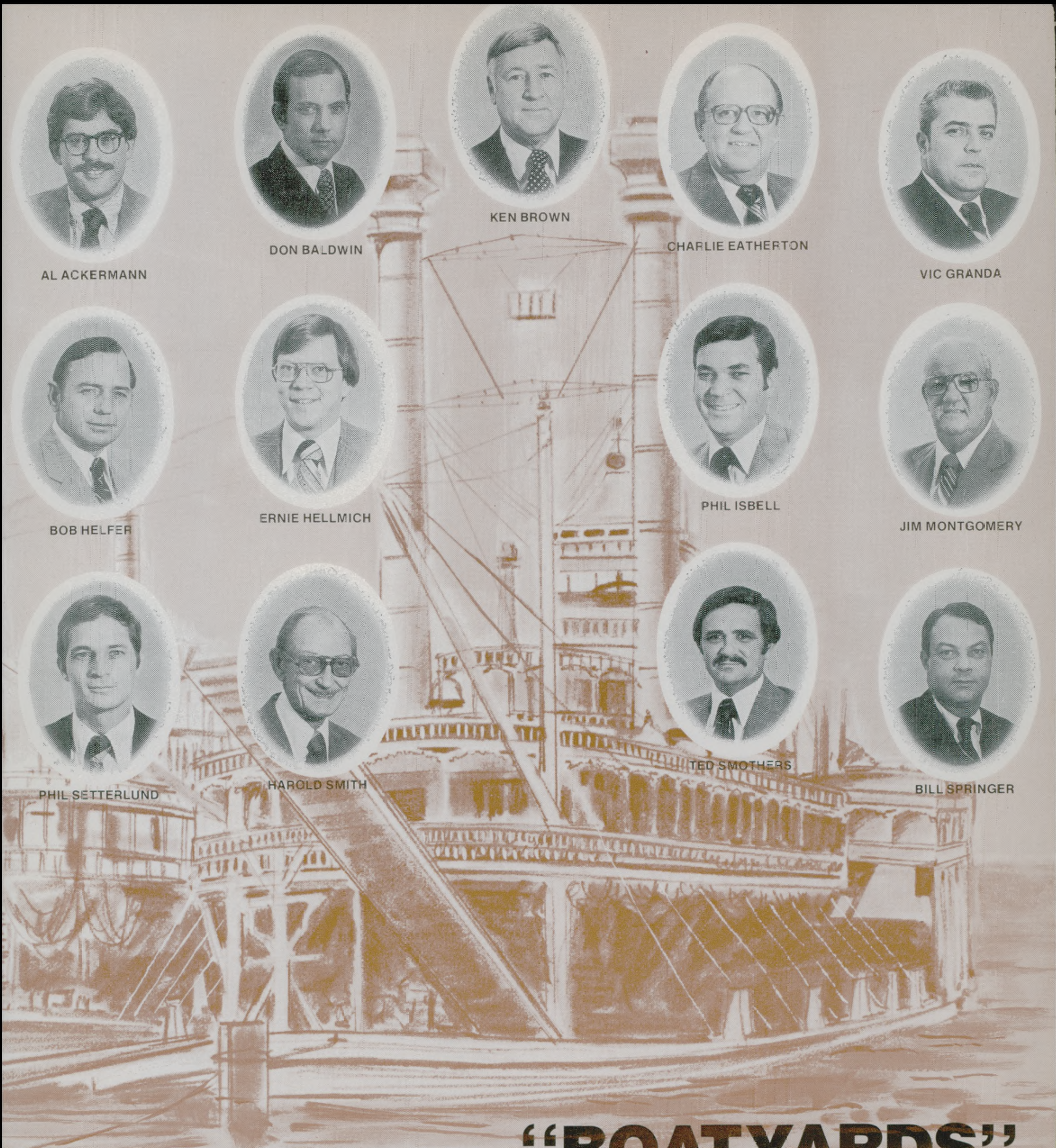

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