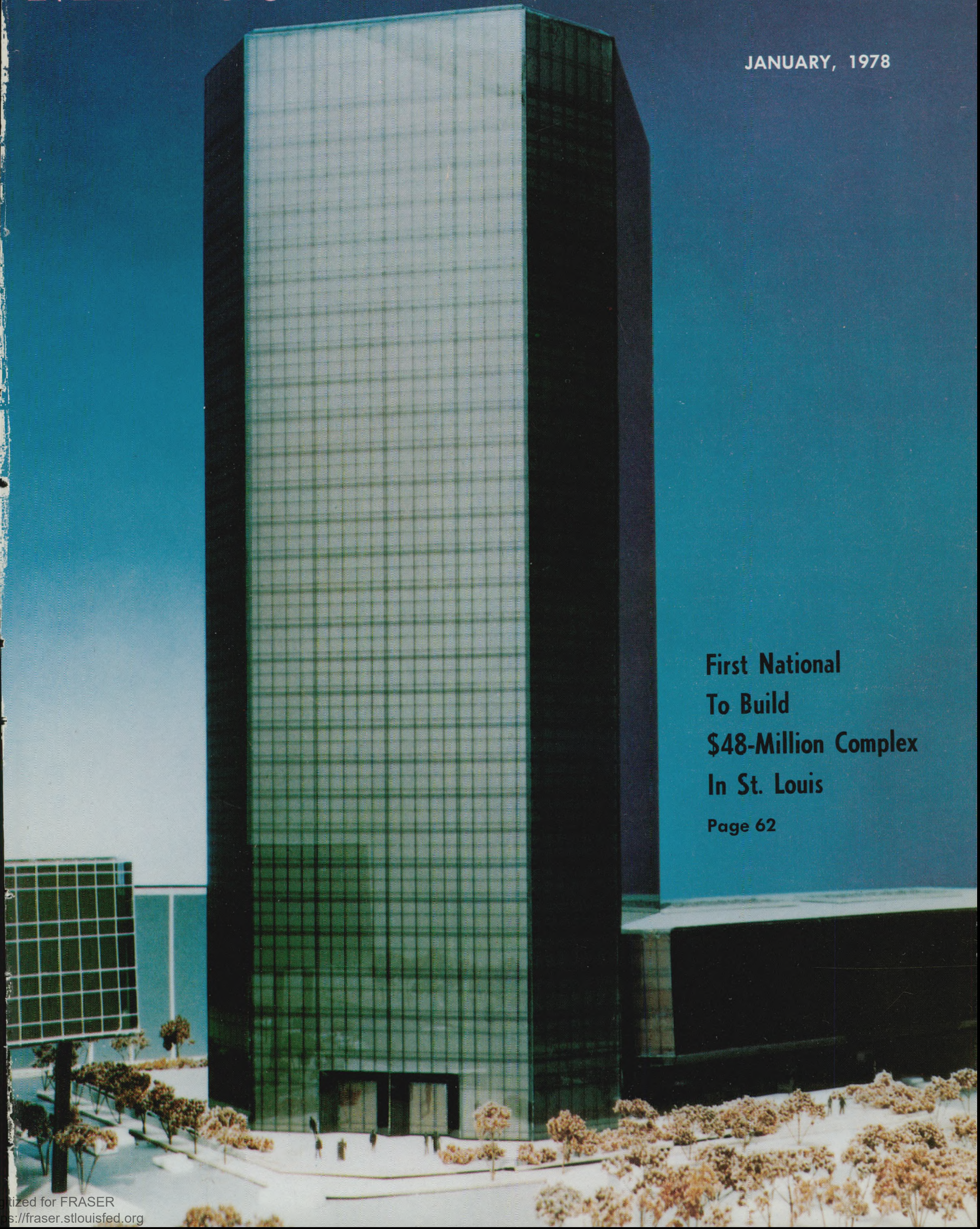
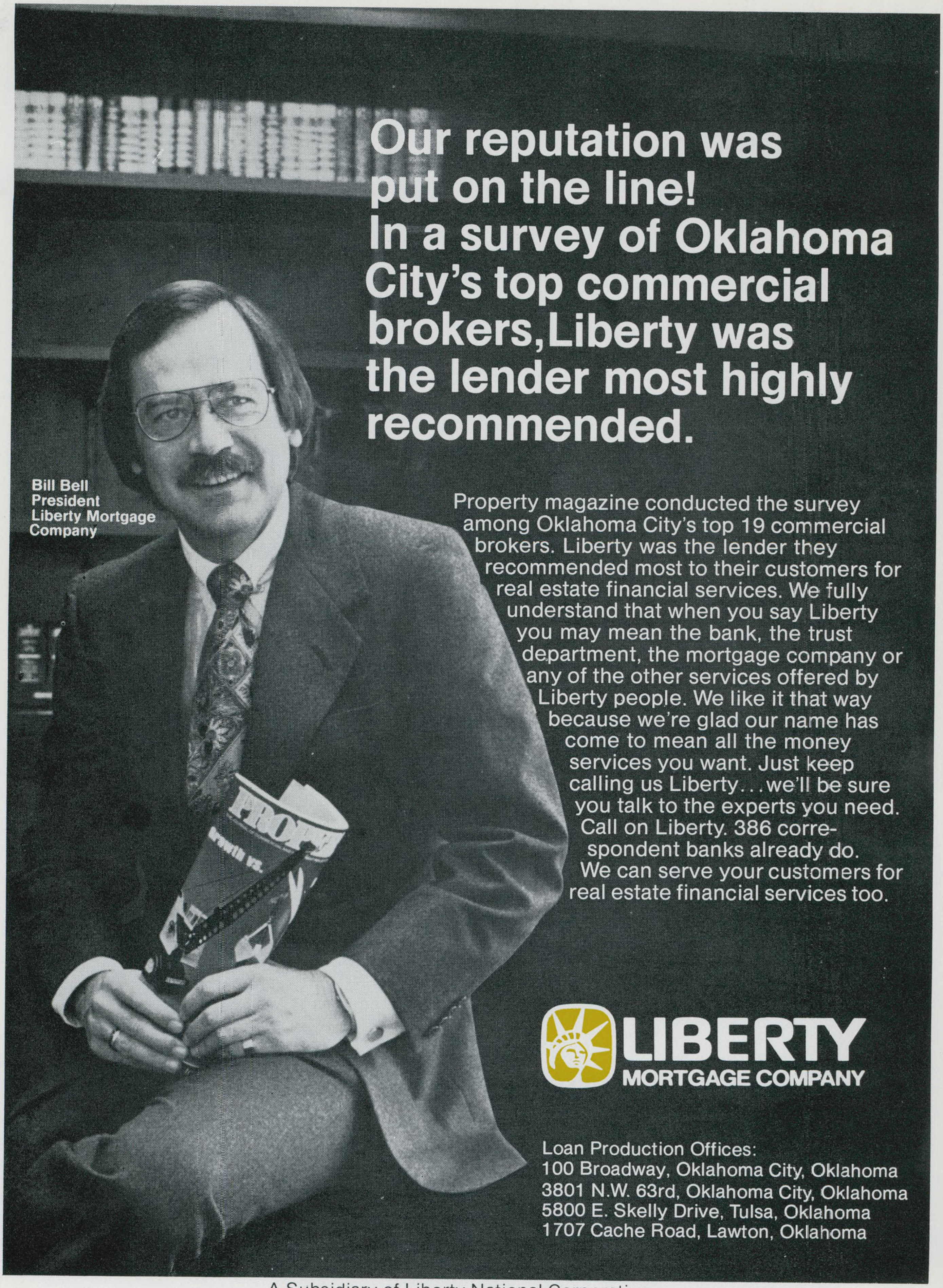
MID-CONTINENT BANKER

JANUARY, 1978



First National
To Build
$48-Million Complex
In St. Louis

Page 62



MID-CONTINENT BANKER is published 13 times annually (two issues in May) at 408 Olive, St. Louis, Mo. 63102. Jan., Vol. 74, No. 1. Second-Class postage paid at Fulton, Mo. Subscription: $10.

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Brandt **Countess Jr.** Model 809

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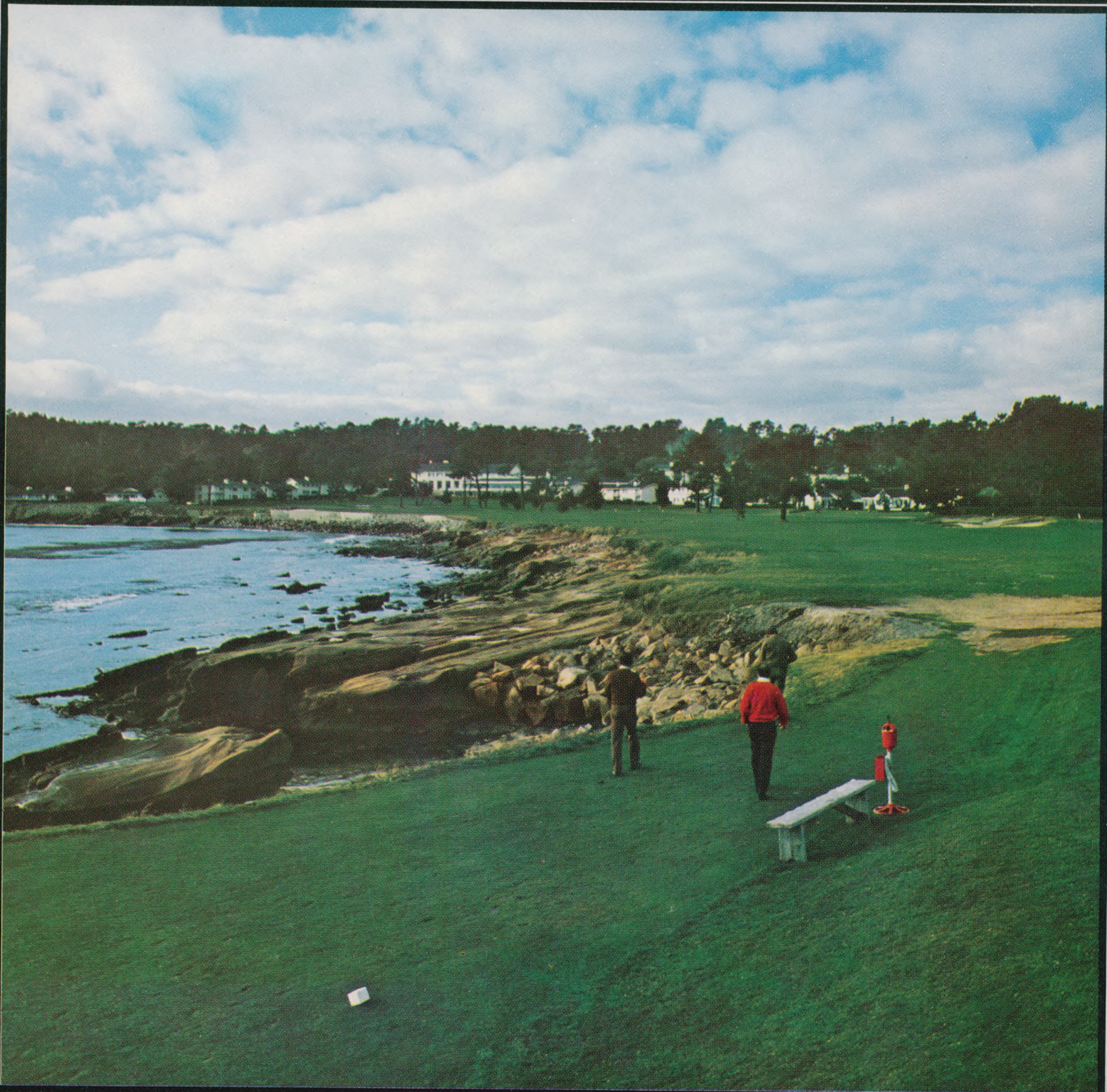

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Few other courses in the world demand so much from the player. Skill. Accuracy. Concentration. Execution.

For the greats of the game, it has become a fitting test where champions reign. It's the standard.

At Deluxe, the test is to meet the standard that we've set for ourselves. Accuracy and consistent execution. And, that takes all the skill and concentration at hand.

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MID-CONTINENT BANKER

The Financial Magazine of the Mississippi Valley & Southwest

Volume 74, No. 1 *January, 1978*

OUTLOOK ISSUE

FEATURES

DEPARTMENTS

STATE NEWS

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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

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.
April 30-May 3: Bank Marketing Association Marketing Planning Conference, Washington, D. C., Hyatt Regency.
April 30-May 4: Bankers Association for Foreign Trade Annual Meeting, Tarpon Springs, Fla., Innisbrook Resort/Golf Club.
May 4-6: ABA Southern Trust Conference, Nashville, Opryland Hotel.
May 7-8: ABA/Insurance Industry Conference, Arlington, Va., Crystal City Marriott.
May 7-9: Texas Bankers Association Annual Convention, San Antonio, San Antonio Convention Center.
May 7-10: ABA Northern Regional Bank Card Workshop, Chicago, Continental Plaza.
May 7-10: Bank Marketing Association Advertising Workshop, New York City, The Biltmore.
May 7-12: ABA National Commercial Lending Graduate School, Norman, Okla., University of Oklahoma.
May 8-12: Bank Administration Institute Introduction to Bank Auditing Short Course (Under $75 million), Iowa City, Ia., University of Iowa.

By Dr. Lewis E. Davids

Hill Professor of Bank Management,
University of Missouri, Columbia

Do You Know Who's Calling?

IT'S AMAZING how much banking business is done on the telephone. Generally, such business is between individuals who know one another, and the preponderance of that business is legitimate.

I have noted an increasing number of WATS line (Wide Area Telephone Service) calls to banks from some very high-sounding firms and individuals. Although I don't know many of these individuals, at times the firms' titles may be very similar to those of nationally known firms. Thus, firms of many callers may be *construed* as subsidiaries of well-known firms, when in reality they are not.

Banks have been taken for millions of dollars in recent years by "bucket shops" and "boiler shops" (high-pressure salespersons working through telephones in a rented office, for instance), and that fact is reflected by the quantum jumps in insurance premiums for banks.

But what can a bank do to avoid being taken by a "boiler shop"? Here are some questions a major federal agency suggests asking when dealing with telephone calls from salespersons with whom a banker has not had previous experience:

1. Is your firm registered with the Securities & Exchange Commission as a broker, dealer or as a member of the National Association of Securities Dealers? If not, what is the name and address of the state agency supervising your firm?
2. Is your firm authorized to transact business in this state?
3. How old is your firm?
4. How many years has your firm done business in this state?
5. Who is or will be your representative?
6. How long have you employed him/her?
7. How long has that representative been selling securities?
8. What are the names of three of your customers?
9. What is the name of an individual we may contact in each of those three firms?
10. Will you send us a recent financial statement showing your firm's current net worth?

Here are a few additional questions I suggest asking such salespersons:

1. Are you affiliated with or members of any organized exchanges?
2. What are the names of those exchanges?
3. What is the name of your lead bank?

Is it practical to obtain such information from unknown, over-the-telephone salespersons? Yes! Just asking these questions and carefully listening to the responses, equivocation or hedging—or the lack of response—should provide a good clue to the caller's professionalism. Where responses are inadequate, convoluted or not directly applicable to the question, your reaction should be to ask the caller not to call again; then you should hang up the telephone. That "wonderful trade" or swap or higher-than-reasonable yield offered by a telephone salesperson should be taken with the following quote in mind: "A bird in the hand is worth two in the bush." It is better to stay with known dealers and suppliers than to grab at some will-o'-the-wisp from an unknown caller.

Incidentally, a great deal can be learned by asking an established dealer, with whom your bank has done business previously, to provide a quote on a transaction offered by an unknown caller.

On the positive side, I no longer hear the wild stories I heard in the 1960s. In one case, a shady bond dealer agreed to sell an unrated bond on a small municipality at a lower price than that for which he would bill the bank. The difference in price was split between the bond dealer and the individual banker.

On the negative side, I hear of more instances of the use of linked deposits to coerce a bank to make a loan or purchase to or from a third party.

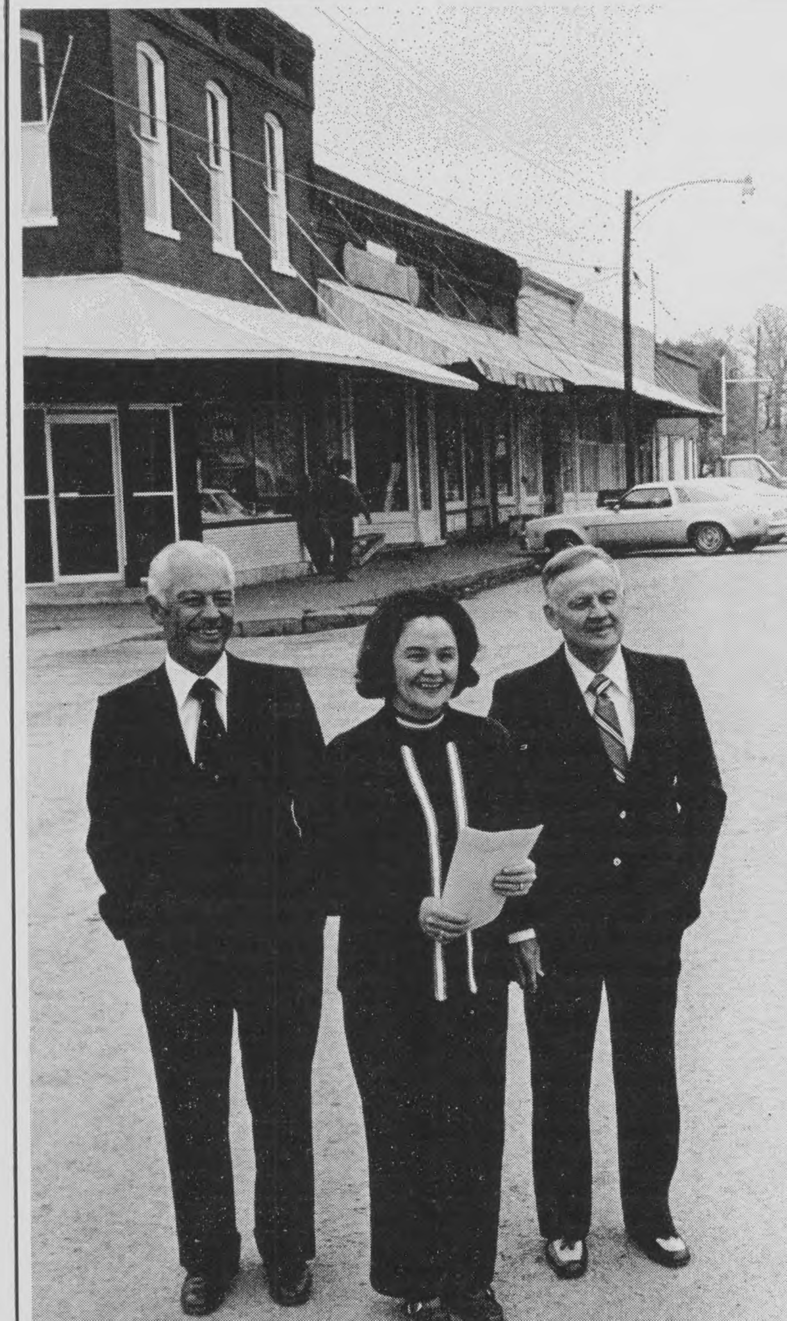
J. P. Morgan, one of the outstanding bankers of his time, noted that, in banking, the most important quality is character. Dealing with an unknown individual at the other end of a telephone isn't conducive to sizing up a person's character, capacity, capital or the condition of his business. An unwillingness or evasiveness by such an individual in responding to the questions I listed previously should be a caveat. Even if the caller responds to those questions, a follow-up should be done to determine whether the information given by the caller is accurate. Special care should be taken not to jump to the conclusion that one firm is related to, or a subsidiary of, another well-known firm just because their names are similar or their home-office locations are close to one another.

Many persons close to banking are concerned with the jump in "white-

(Continued on page 82)

"Banks have been taken for millions of dollars in recent years by . . . 'boiler shops' (high-pressure salespersons working through banks of telephones in a rented office, for instance), and that fact is reflected by the quantum jumps in insurance premiums for banks."

"Our bank is a family bank and always has been. And we look to the First for help just like one of the family."



The Farmers Bank of Blairstown, Missouri is a true success story. A correspondent bank relationship has added financial strength and a team of specialists.

The Whitaker family, two brothers and a sister, continue modern day banking into the second family generation. They understand and study each customer's personal and business needs in the best traditions of the old-fashioned, small town family bank.

In a town with a population of 161, their customers are their friends and neighbors. And they can give them most services they might require.

But the Whitaker family bank has a correspondent relationship with the First National Bank of Kansas City to help them handle those services their customers may need from time to time that they cannot give.

Together, with the First, the Farmers Bank of Blairstown has the added strength of both economic and manpower resources.

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

We take pride in the success of the Whitaker family and the Farmers Bank of Blairstown.

Our correspondent banking tradition has been built on becoming part of the family.

Why not put our strong tradition of excellence to work for your success.

V. S. Whitaker, President
Jane Whitaker Jones, Assistant Cashier
H. D. Whitaker, Executive Vice President

Your success is our tradition.

First National Bank of KANSAS CITY, MISSOURI

An Affiliate of First National Charter Corporation

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NEWS OF THE
BANKING WORLD

• **John W. Rowe** has rejoined First National, St. Louis, as vice president and assistant manager, bond department. Since late in 1976, Mr. Rowe had been vice president and manager, bond department, American National, Chicago. He went there from St. Louis' First National, which he joined in 1967 and where he was vice president and assistant head of the bond department.


ROWE


LIVINGSTON


GLASS


STALNAKER

• **Michael G. Glass,** vice president, Bank Administration Institute, Park Ridge, Ill., has been appointed to the additional post of assistant to the president. In that position, Mr. Glass will be in charge of many of the BAI's primary executive and administrative duties, in addition to his community bank responsibilities. He also will evaluate the effectiveness of the BAI's educational meetings, publications, chapter activities and training aids. Prior to joining the institute in 1976 to assume leadership of community bank research and educational programs, Mr. Glass was president, Wichita State. Earlier, he had been vice president-cashier, Southwest National, Wichita.

• **Homer J. Livingston Jr.** has been elected executive vice president of Chicago's First National and also named head of the newly structured corporate banking activities. The latter have been combined into one centralized department, which continues to have specialized groups serving customers in specific industrial and commercial fields. The department also handles international needs of multinational corporate customers and has a network of regional offices in nine major cities across the nation. In related moves, Alvin C. Johnson and James S. Brannen, both senior vice presidents, have been made deputy department heads of the corporate banking department. James K. Suhr, vice president, has been promoted to senior vice president and deputy head of First National's real estate department. In other action, Gilbert R. Ellis has been elected to the bank's board and also a director of First Chicago Corp. Mr. Ellis is chairman and CEO, Household Finance Corp.

• **Clarence C. Barksdale,** chairman and CEO, First National, St. Louis, has been named by the St. Louis Fed to represent the Eighth Federal Reserve District on the Federal Advisory Council. In that post, Mr. Barksdale succeeds Donald E. Lasater, chairman and CEO, Mercantile Trust, St. Louis. Mr. Barksdale also is chairman, First Union Bancorp., St. Louis, parent company of First National. In other news at the St. Louis Fed, Armand C. Stalnaker, president and chairman, General American Life, has been named chairman, while William B. Walton, vice chairman, Holiday Inn, Inc., Memphis, has been reappointed deputy chairman. Charles E. Silva, senior vice president at the St. Louis Fed, has retired after 40 years. He joined the St. Louis Fed after graduating from high school in 1937 and served the bank in numerous capacities, including field service representative and manager of the safekeeping and money departments. He became an officer of the bank in 1967 and was promoted to senior vice president in 1972. (Mr. Barksdale's photo appears on page 63.)

• **Cathy Bell** has been named assistant director of the Southwestern Graduate School of Banking, Southern Methodist University, Dallas. She formerly served SWIGSBIE as administrative assistant director for faculty and curriculum and joined the school in 1974.

Selling/Marketing

Luncheon Launches Move

This is part of the more than 1,200 employees of Texas Eastern Corp., Houston, who enjoyed hot dogs and chili as guests of Southern Nat'l, Houston. Baseball and tennis hats were given free to all guests. The purpose of the luncheon was to mark the planned move of Texas Eastern to One Houston Center, where the bank also is opening a new office, its fourth. In addition, the bank wanted to thank Texas Eastern employees for their business. Texas Eastern currently is housed in the Southern Nat'l Bank Building, where the bank's Main Office also is located. The luncheon was held in One Houston Center.

For Aspiring Writers:

Seasonal Essay Contest Is Hit With 'Wee Ones'

Heritage Bank, Crest Hill, Ill., has again scored a "hit" with its area's younger residents through its yearly Thanksgiving essay contest.

The contest is for children in various schools in the bank's area. The youngsters this year were asked to write about the most interesting, exciting or unusual Thanksgiving day they'd had and what made it so.

The event was set up in categories pairing grades three and four, five and six, seven and eight, with two 10-12-pound turkeys awarded in each category in each school. Prizes were awarded on the bases of originality and neatness by grade category.

'Mini-Mob' Controlled With Bat

Thanks to the bat of former baseball great Ernie Banks, this "mini-mob" at the Convenience Center opening of First Bank, Oak Park, Ill., was kept under control. No violence was involved; the former Chicago Cubs star was on hand to give batting tips, sign autographs and greet the "mob," which actually was the "Giants" little-league team sponsored by the bank. They won first place in their division this year. Also on hand during the opening were Bill "Moose" Skowron, formerly of the New York Yankees, and Ronnie Bull, retired Chicago Bear. The original Heisman Trophy won by Johnny Lattner was displayed.

'Good Times':

Chicago's 'Eye' Caught By 1st Nat'l Watch Offer

Chicago's collective eye was caught by a recent savings promotion at First National. The bank offered a choice from a variety of Swiss-made men's and women's watches to customers making $250 savings deposits, and over 30,000 of the Sindaco watches were sold, generating about $25 million in deposits!

Almost 50% of those deposits, according to a bank spokesman, represented either new money or rollovers.

The "timely" premium was offered for $4.95 plus sales tax and the bank would mail orders to customers for a 50-cent charge. After the initial deposit, customers could purchase additional watches for $11.95 plus tax.

The watches came in a number of styles: high fashion, "sporty" or casual. The dress watch featured a simulated alligator-skin band mounted to a rectangular watch face with Roman numerals and slim hands, gift boxed in a golden metallic case. The sport and casual models were water and shock resistant with round faces and luminous dials and markers. Men's and women's versions were available.

Ads for the promotion announced the availability of "good times." Coupons for mailing in deposits and premium orders were included in ads run in major Chicago daily newspapers. Radio and television also were used to announce the event.

Another premium run by First National was summer-oriented—beach towels featuring the skyline scene that appears on the bank's checks. The towels were free with a $250 deposit, could be purchased for $2.95, plus tax, by anyone depositing $50, and additional towels could be purchased by depositors for $4.95.

Bankers Sworn in as Deputies

From l., Ray Thebo of the Kansas City, Kan., Police Dept. swears in Katie Logan, Karla Henry and Guyneth Lawler of Rosedale State, Kansas City, Kan., as "deputies" for the annual American Royal Live Stock and Horse Show. Employees of the bank traditionally salute the show by wearing western costumes, something that is said to create an unusually friendly attitude among the bank's customers.

Listener Choice:

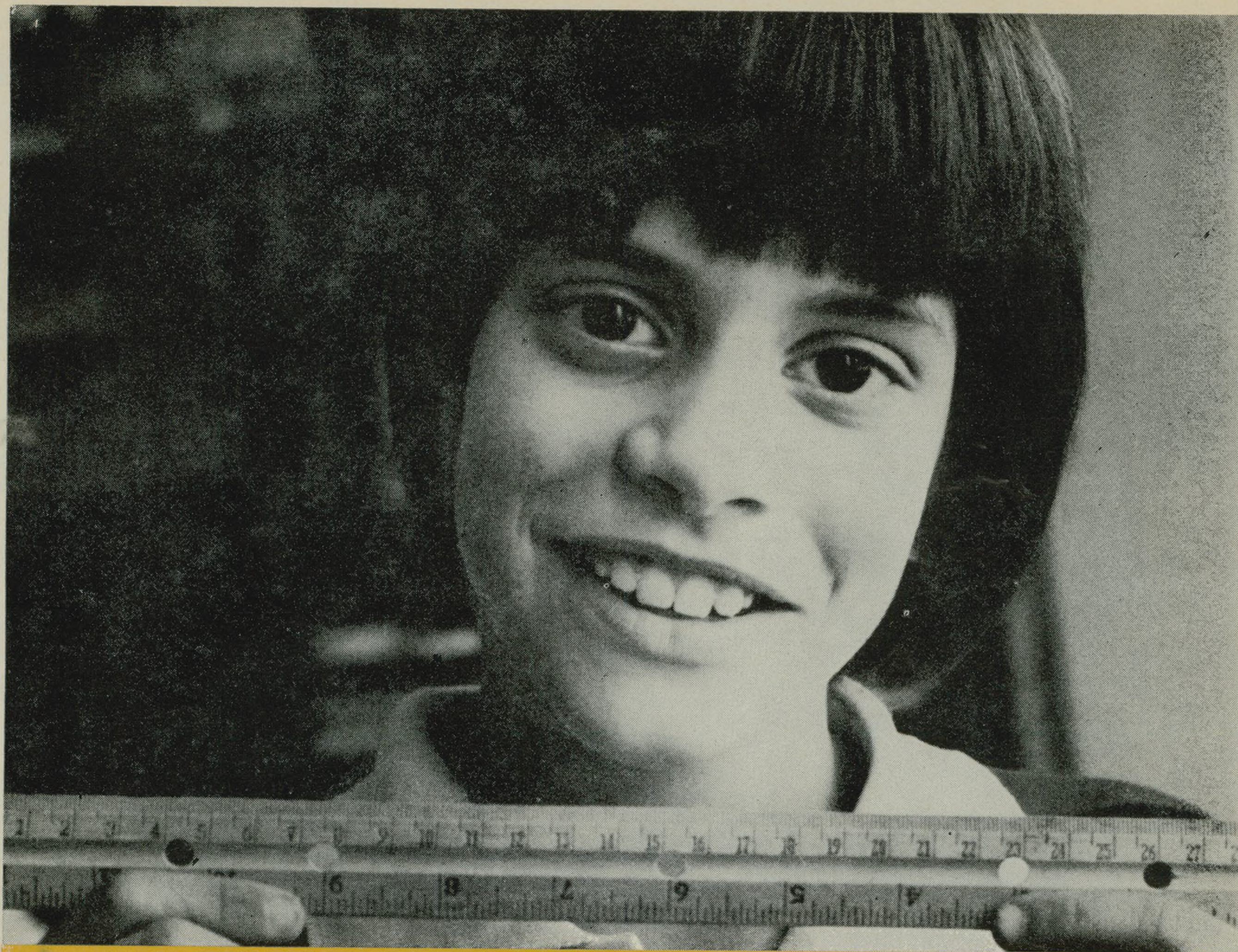
Bank Receives Award For 'Hit' Radio Jingle

Southern Ohio Bank, Cincinnati, has received a gold record for its recent "hit," "Pick-A-Single-Jingle."

The campaign offered prizes to voters who registered their preference of one of four jingles the bank aired on Cincinnati radio stations over an eight-week period. More than 6,000 persons responded to the campaign either by selecting a jingle heard on the air or by visiting one of the bank's 13 offices to pick up a free recording of all four jingles.

Versions of the most popular jingles are part of Southern Ohio Bank's radio advertising campaign.

Tom Dix (l.), pres., Southern Ohio Bank, Cincinnati, accepts gold record award from Steve Strauchen, account exec., Sive Associates, Inc. Award was made for bank's "Pick-A-Single-Jingle" radio campaign, in which listeners were asked to vote for favorite radio jingle used by bank.



Regulatory News

Policy on Insider Transactions Proposed by Comptroller Heimann

WASHINGTON, D. C.—Comptroller John G. Heimann will accept until January 20 comments on a proposed policy statement on insider transactions he issued December 6. The statement identifies what Mr. Heimann considers improper banking practices. Specifically, he considers the following practices to be abusive:

- Individual directors permitting loans to be made to themselves or other insiders or their business or family interests on terms not given to other borrowers of comparable credit standing.
- Interbank reciprocal arrangements that allow insiders to obtain loans on preferential terms.
- Trust department services provided to insiders at reduced rates.

The Comptroller noted that corrective action in specific cases could range from requiring a bank to adopt definitive written policies and procedures to police such transactions to requiring reimbursement to the bank by the responsible directors of unwarranted monetary benefits conferred on insiders.

All interested parties are asked to submit their views both on the proposed policy and on the most appropriate means to correct infractions. Comments should be sent in duplicate to: John E. Shockey, chief counsel, Comptroller of the Currency, Washington, DC 20219.

Lower Minimum Interest Rate For Time-Deposit-Secured Loan

WASHINGTON, D. C.—The Fed Board of Governors has lowered the minimum interest rate that must be paid on a loan secured by a depositor's time or savings deposit at a member bank.

The Regulation Q rule for such loans has required that the interest rate on loans using as collateral a time deposit or a savings deposit for which prior notice of withdrawal is required may not be less than 2% above the rate being paid on the deposit.

Now Regulation Q has been amended to provide that the minimum rate such borrowers must pay is 1% above the rate being paid on the deposit. The reduced minimum applies to future interest payments on outstanding loans, as well as to new loans.

The FDIC is expected to take similar action with respect to financial institutions it supervises.

Regulation Z Amendment Is Proposed by Fed

WASHINGTON, D. C.—A proposed amendment to Regulation Z—Truth-in-Lending—was issued December 5 by the Fed Board of Governors. It concerns the right of consumers to be notified that they may cancel open-end credit plans within three days if their homes are pledged as security.

The board requested comment by February 1.

The Truth-in-Lending Act and Regulation Z provide that consumers who pledge their homes as security for credit have a three-day "cooling-off period," during which they may rescind the arrangement. Proceeds of the loan may not be disbursed during this period.

Some lenders who want to extend open-end credit lines secured by an interest in a consumer's home have asked the board how notice should be given of this right of recision in such cases. Credit-card and overdraft arrangements are examples of open-end credit.

The board proposed that consumers must be notified of their right to cancel open-end credit arrangements involving their homes as security during a three-day cooling-off period in three instances:

- When an open-end credit plan is opened.
- Whenever the credit is increased.
- If a security interest in a home is added to an open-end credit arrangement.

Fair Housing Settlement Reached by Comptroller

WASHINGTON, D. C.—The Comptroller of the Currency has reached an out-of-court agreement with civil rights groups to establish a data collection system to analyze national bank compliance with fair housing laws. The agency is the third federal regulator to reach such an agreement.

Ten organizations had sued the Comptroller, the Fed, the FDIC and the Federal Home Loan Bank Board in April, 1976, for failure to enforce the housing statutes. Only the Fed is yet to come to an agreement.

The Comptroller's settlement includes an agreement to conduct data collection programs that civil rights groups contend are a primary tool in effective enforcement of antidiscrimination laws.

Under the Comptroller's system, information will be collected from applicants on a voluntary basis. The information will include race, sex, marital status and age. The computerized data file will be used to identify institutions that appear to need further investigation for possible violation of antidiscrimination statutes. Specially trained examiners are expected to be able to focus on particular institutions, with emphasis on loan acceptance or denials and terms given mortgage borrowers.

The agreement calls for the agency to hire a full-time policy-level civil rights specialist within three months. National banks are expected to be informed within the same 90-day period about the Comptroller's investigation and enforcement tools, including special examinations and cease-and-desist proceedings.

ABA's Investments Conference Set for Dallas Feb. 8-10

The Fairmont Hotel in Dallas will be the site of the ABA's sixth annual Bank Investments Conference February 8-10. Conference co-chairmen are James A. Brickley, senior vice president, First National, Dallas, and William R. Gamble, vice president, First Bank System, Minneapolis.

Workshops will dominate the program. Seven concurrent asset-liability management workshops are set for the afternoon of the first day of the conference (Wednesday, February 8). Three concurrent portfolio management workshops will be held the following morning and more asset-liability workshops are set for Thursday afternoon.

General sessions will feature talks by Alan Greenspan, economist, Townsend Greenspan & Co., New York City; Harry V. Keefe Jr., president, Keefe, Bruyette & Woods, New York City; and James Dawson, senior vice president and economist, National City Bank, Cleveland.

Final event of the program will be an outlook for interest rates, moderated by George W. McKinney Jr., senior vice president, Irving Trust, New York City, and featuring Herbert A. Lewis, vice president economics, Kuhn, Loeb & Co., New York City; J. Dewey Daane, vice chairman, Commerce Union Bank, Nashville; and Jerry L. Jordan, senior vice president, Pittsburgh National, as panelists.

Community Involvement

Crowd Violence Attacked:

Banker Is Instrumental In Motivational Program

Joseph N. Traigle, senior vice president, American Bank, Baton Rouge, and a former Louisiana revenue commissioner, is one of seven executives who formed the Baton Rouge Courtesy Council, a group whose aim is to help "fight" violence at sporting events.

The council sponsored a "full-blown" motivational program at Louisiana State University's Tiger Stadium, which seats 68,000 spectators. The courtesy effort began with the first home football game and continued through the basketball season. Students and fans at the games were greeted with signs throughout the stadium that read, "Courtesy is Contagious. Help Us Spread It."

In addition to the banners, gatekeepers were trained in crowd psychology and wore colorful "Courtesy is Contagious" buttons. The stadium's electronic scoreboard also flashed that message.

Was the program a success? "An immediate success," says Mr. Traigle. "Without exception, each game has been significantly more peaceful than any year in memory. Fewer fights, a dramatic drop in activity at first-aid stations, fewer automobile accidents and traffic citations on Baton Rouge streets following the games and glowing reports of considerate treatment by out-of-town fans resulted. Even a crushing homecoming defeat under standing-room-only circumstances remained peaceful."

Dollars for Teachers:

Educators Are Awarded For Economics Work

Liberty National and Wilson Foods Corp., both of Oklahoma City, have awarded more than $4,000 in cash and prizes to Oklahoma school teachers in the fifth annual "Dollars for Oklahoma School Teachers" competition, which is sponsored by the state's Council on Economic Education.

The competition recognizes economic education programs created by the state's teachers in grades kindergarten through 12 and is an expanded version of the "Creativity in Economic Education" program originally sponsored by the bank.

That latter program was part of Liberty National's "Let's Talk Business" program, a campaign that sought to correct misconceptions about the free-enterprise system. According to the Council on Economic Education, the programs have resulted in significant gains in public awareness of the need for economic education in Oklahoma classrooms.

The 1976-77 competition offered two first-place cash awards of $1,000 from Wilson Foods for the top elementary-school program and similar prizes from Liberty National for secondary-school programs.

Ten runner-up prizes also were awarded: five $500 cash prizes from Wilson Foods and five prizes of 10 shares of stock in Liberty National Corp., the bank's parent HC.

'Lifeliners':

Banker From Chicago Cited for Cancer Work

Milton F. Darr Jr., vice chairman, La Salle National, Chicago, has been honored by the American Cancer Society's Illinois Division, Inc., for his work in the division's "Lifeliner" program.

The program recognizes family members and friends who help others quit smoking. These benefactors are entered in the division's lifeliner registry on receipt of an affidavit from a former smoker stating that he has not smoked in more than a year and that the lifeliner named in the affidavit is the primary influence.

The American Cancer Society indicates that, on the average, one in two pack-a-day smokers will be killed by the cigarette habit. Therefore, every six lifeliner affidavits have the statistical probability of a life saved, and any individual lifeliner acknowledged in affidavits is qualified to receive a gold-colored "Lifesaver" award pin.

Mr. Darr served as chairman of the Society's Illinois Division and currently is chairman of its planned giving and legacies committee and of the division's executive committee.

Milton F. Darr Jr. (l.), v. ch., La Salle Nat'l, Chicago, receives "Lifesaver" pin for work in no-smoking program of American Cancer Society, Ill. Division, from Tom Baab, division e.v.p.

'Our Friends':

Rare Animal Species Featured in Photo Display

Chicago-area residents had a chance to become acquainted with a number of the world's rare and endangered animal species when Chicago City Bank, in cooperation with the Lincoln Park Zoological Society, hosted "Our Friends the Animals," a photo display.

The month-long showing consisted of 101 color photos, which had been selected as the finest examples submitted in two photo contests held by the zoo.

As part of the display, school children were asked to enter an at-random drawing to name a young macaque monkey at the zoo. Name-suggestion entry forms were available at the bank, and prizes were awarded to winners.

Two other activities also were tied into the "Our Friends" event: a mural project and a "zoo learning day" in the bank. In the former, all grammar schools in two local school districts were invited to create a large paper mural to reflect student impressions about the zoo; all murals were hung in the zoo's ape house for one month. The latter event, "zoo learning day," was held on a Saturday at the bank and involved zoo staffers, who lectured on animal behavior and displayed live animals.

For Safer Streets:

Banks' Loan Customers Treated to Driving Class

The streets of San Antonio, Tex., probably are safer, thanks to a defensive-driving course held in the community room of Liberty National by the Greater San Antonio Safety Council.

Cost of the class was $12 per person, but customers of Frost National and Liberty National who had made auto loans during a six-week period were invited to take the course at no charge.

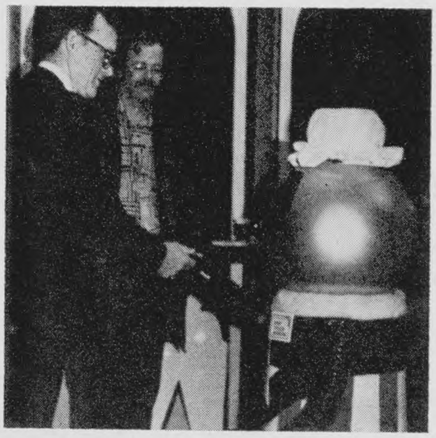
Each class session lasted three hours; those who completed the course successfully were awarded certificates for discounts on auto insurance in Texas.

Robot, Tabloid, Employee Skit Help Bank Introduce Its ATM

LIBERTY, MO.—When the Commercial Bank, which has served this city for more than a century, decided to offer automated-teller service to its customers, it promoted the new service with a robot, an old-fashioned tabloid newspaper and with special employee orientation.

The program was especially designed for the bank by a Kansas City ad agency, Hughes & Associates.

The ATM was named Liberty Belle Teller in honor of the city in which the Commercial Bank is located and also as a play on the nation's Liberty Bell, which is on permanent display in Philadelphia.



"Bionic Belle" robot, dressed in colonial style, "greets" customer during introduction of ATM by Commercial Bank, Liberty, Mo.

Because the 100-year-old bank appreciates traditional things, the agency designed the tabloid to tie in the bank's history with current banking practices. The copy was light enough for enjoyable reading, but significant enough to make the tabloid a souvenir. A flexible logo, "Easy Touch Banking," was designed and calendars and handouts/statement stuffers printed.

A robot called "Bionic Belle" spent two days promoting the ATM. The robot, "dressed" in colonial-style clothes and hat, gave demonstrations as well as testimonies on the virtues of using the ATM. She talked extemporaneously and seemed to fascinate adults as well as children.

At an employee orientation, a play in the form of a spoof on the town and the bank was presented with bank employees taking part. It was a comedy

Staff members at Commercial Bank, Liberty, Mo., present employee-orientation skit in connection with introduction of bank's ATM.

that explained the ATM's capabilities and showed some examples of what employees might expect in the way of public reaction.

On the opening weekend, 609 transactions were recorded on the ATM. The first holiday weekend that followed, the Liberty Belle Teller recorded 844 transactions with a total of $17,685 in withdrawals and $43,449 in deposits.

Okla. City's St. Anthony Hospital Is State's 1st to Join ChecOKard

OKLAHOMA CITY—St. Anthony Hospital has become the first such institution in Oklahoma to join the ChecOKard electronic banking service of Liberty National.

The St. Anthony ChecOKard Banking Center was established for convenience of hospital employees, physicians practicing at the hospital, patients and visitors. Its hours of operation are from 6 p.m.-2 a.m.

The hospital is the 41st location in the state for the ChecOKard service, a joint venture of Liberty National and

Joy Cowen, mktg. off., operations dept., Liberty Nat'l, Oklahoma City, demonstrates ChecOKard Banking Center in city's St. Anthony Hospital to J. Michael Stephans, hospital's associate administrator-operations.

16 participating banks, merchants and other institutions. Liberty National is the authorized Oklahoma licensee for the ChecOKard name and trademark, while National Sharedata Corp. provides data-processing services.

The service allows participating customers to make checking- and savings-account deposits and withdrawals, transfers between checking and savings and account-balance inquiries. ChecOKard also may be used for purchases from participating merchants.

1978 NACHA Conference Open to All Financial Institutions

WASHINGTON, D. C.—NACHA—the National Automated Clearing House Association—has announced its 1978 annual conference, which will be held April 2-5 at New Orleans' Hyatt Regency Hotel. Theme of the conference is "Build Volume—Make Money," and delegates from all financial institutions are invited to attend.

The event will concentrate on information and skills that attendees will need to build volume for their automated clearing houses (ACHs), according to a NACHA spokesman.

The conference will operate under a workshop format, beginning with peer-group sessions in which attendees will be divided into three groups according to their experience with ACHs. The peer-group sessions are intended to instruct conference goers on how to use the conference program to best satisfy their individual needs.

Nine concurrent workshops will cover topics from case histories to specific applications for specific institutions. Delegates will be able to attend as many as six of the sessions.

A final peer-group session—by size of institution—will allow conference-goers to share experiences.

Slated as guest speakers for the event are Paul S. Nadler, professor of business administration, Rutgers University, New Brunswick, N. J.; Virgil M. Dissmeyer, NACHA president and executive vice president, Northwestern National, Minneapolis; Fed Governor Philip E. Coldwell; and L. W. Plumly, assistant fiscal assistant secretary, U. S. Treasury Department.

For more information about the 1978 NACHA conference, contact Karen Reed, NACHA conference coordinator, American Bankers Association, 1120 Connecticut Avenue, N. W., Washington, DC 20036.

Consolidation Phase in Credit Matters Follows Loan Losses of Past 5 Years

By WILLIAM E. PIKE
Chairman
Credit Policy Committee
Morgan Guaranty
Trust Co.
New York City

THE PAST several years have seen the banking industry forced to cope with the most serious credit problems since the depression of the 1930s. Few, if any, of us have firsthand knowledge of the banking crisis of 40 years ago; and, for us, the scope of the problems of the 1970s and the magnitude of the losses truly were without precedent.

It might even be argued that this absence of direct experience with really severe economic distress is a necessary precondition to every new speculative boom; and it may well be that the excesses that led to our current problems could get under way only after the generation of bankers who lived through the great depression finally retired from the scene. In any case, we have had our own sobering experience and, while I don't suggest that we, in turn, will go into our shells for the next generation, no doubt we are more cautious than we were just a few years ago. I suspect the next wave of speculative bank lending will have to wait quite a while until the disastrous record of the last five years is forgotten or ignored by a new group of bankers.

Meanwhile, there seems little doubt that we are going through a consolidation phase as far as credit matters are concerned. We're getting a great deal of experience in working with borrowers who cannot service their debts, many of whom will be with us for some time to come. Our workout units have grown in size and competence as we are forced to devote more time and attention to restructuring problem credits.

One new phenomenon I have noticed in working with problem credits is an unpleasant militancy on the part of a number of borrowers in default. Some REITs, for example, have demanded that banks accept losses through interest forgiveness, asset swaps on unfavorable terms and other arrangements, while public bondholders, both senior and subordinated, are dealt with more leniently and stockholders' interests are fully protected and even enhanced. Some REITs have refused to cooperate in liquidating their holdings of real property even while their portfolios are being carried by bank money at little or no interest.

This situation has developed, I believe, because bankers' training and experience lead them to avoid bankruptcy if at all possible because it's destructive of economic values. Some borrowers, sensing our fears, have skillfully exploited our feeling on this point. They argue that equity must be protected from the erosion caused by paying interest or directors will seek court protection. Bondholders must be protected or *they* will petition the company into bankruptcy. Bankers, so the argument goes, must acquiesce in this by accepting losses quietly or face even larger losses through bankruptcy and its attendant costs. I have even heard the idea expressed by frustrated bankers that public subordinated debt is in a stronger position than bank debt, because banks must allow it to be serviced.

We now have some experience with all of this, and it leads me to the conclusion that banks should stiffen their attitude when faced with unfair demands. Bankruptcy does not always ensue; and when it does, the costs, particularly where real estate is concerned, are not as great as commonly assumed. I do not advocate stonewalling or inflexibility leading to unnecessary bankruptcy; but I do believe banks should demand fair treatment. We want to be reasonable, but our borrowers also must be reasonable.

In the aftermath of the 1974 recession, banks, particularly money center banks, have experienced relatively slack loan demand. There are a number of reasons for this, on which I will not dwell, except to say that at our bank we regard this as a cyclical development rather than as any structural change in the role of banks.

In this environment, there are some types of lending that have, neverthe-

EDITOR'S NOTE: The talk on which this article is based was given by Mr. Pike at the 1977 fall conference of Robert Morris Associates.

LEFT: Southeastern Chapter officers and wives are pictured at 1977 fall conference of Robert Morris Associates. L. to r., they are: Gerry U. Stephens, American Nat'l, Chattanooga, Tenn., chapter v.p., and Mrs. Stephens; W. E. Ayres, Simmons First Nat'l, Pine Bluff, Ark., chapter pres., and Mrs. Ayres; and Mrs. J. Leo McGough and Mr. McGough, Calcasieu-Marine Nat'l, Lake Charles, La., chapter sec.-treas. RIGHT: Texas Chapter officers are shown with their wives at RMA conference. L. to r., they are: Richard Goebel, Texas Bank, Dallas, chapter 1st v.p., and Mrs. Goebel; Mrs. Raymond G. Dickerson and Mr. Dickerson, Continental Nat'l, Fort Worth, chapter 2nd v.p.; and Mrs. Frank A. Sewell Jr. and Mr. Sewell, Peoples Nat'l, Tyler, chapter pres.

less, grown in importance. For example, we are seeing an ever-increasing interest in so-called project lending in which bank syndicates finance development projects without the direct financial obligation of the sponsoring companies. The absence of parent-company guarantees is motivated, on the borrower's part, by the desire to keep balance-sheet leverage at acceptable levels. Frequently, these projects involve extractive industries in foreign countries, and another reason for off-balance sheet financing is to limit foreign political risk. Typically, they are very large undertakings with high capital costs, leading sponsors to seek joint-venture partners among other firms in the same industry or to form a partnership with the government of the host country. Lending in this area is characterized by long lead times between the planning phase and actual loans, premium rates and fees and the requirement for technical assistance in evaluating the project.

While most of this lending has been done by money center banks, I would expect wider participation as interest grows. The techniques are not really new, and they mainly involve structuring the credit with various delivery contracts so that we have the *equivalent* of parent-company obligations even though they do not appear on the balance sheet.

Another area of growing activity is providing financing for the acquisition of one company by another. With stock prices at extremely low levels, the attraction of acquiring assets in this way is obvious. From the banks' standpoint, however, a number of serious questions arise. Does a bank finance the acquisition of one of its clients against the desires of that client? Can a bank be a member of two competing syndicates? How does a bank protect itself from the charge of using confidential information in a takeover battle? Different institutions will come to different conclusions, but it seems important to me that each bank give this subject a good deal of thought, and come up with a well-reasoned policy. This should be done before the fact, because management frequently is called on to make substantial decisions on short notice.

There are a number of other areas where banking practice is evolving, such as administrative procedures for the control of foreign exposure and methods of administering the loan-loss reserve. • •

Home-Mortgage Activity Studied By Kansas Bankers' Task Force

TOPEKA—The Kansas Bankers Association has created a task force whose objective is to collect information on real estate mortgage and housing loan activity from Kansas banks. The purpose is to recommend new real estate lending procedures and encourage bankers in the state to become more active in this area.

In announcing the group's formation, KBA President Elwood Marshall explained that the U. S. will require nearly 20 million new or improved housing units by 1985, according to a goal developed by the Joint Center for Urban Studies at Massachusetts Institute of Technology and Harvard University.

"It's more than a matter of mortgages," said Mr. Marshall, president, Home Bank, Eureka. "We make those, too, but we also make loans for mobile homes, home improvements, residential construction and land acquisition."

Banking's total commitment to housing, including related areas, is more than $246 billion annually nationwide, Mr. Marshall pointed out, "and banks of Kansas must be prepared to do their part."

More Than Half of Nation's Banks, S&Ls Carry Directors & Officers Liability

A WEST COAST bank made a loan to one of its former directors so he could purchase land. The director later was convicted of land fraud. A potential buyer of the land was outbid by the director so the disappointed potential buyer sued each officer and director of the bank for $625,000, charging they knowingly made an improper loan.

Trustees of a midwestern bank sold stocks from a trust fund and made speculative investments designed to increase the fund's earnings. The speculative strategy failed and the disgruntled beneficiaries of the fund sued the bank, its officers and directors for $25 million.

Directors of a northeastern bank rejected the bid of a HC to buy the institution. A group of angry shareholders demanded damages of half a million dollars from the directors because the shareholders considered the directors' decision to have been incorrect.

A neighborhood S&L launched a promotion program that offered free gifts to all new depositors who automatically became stockholders. An established depositor, miffed because he couldn't receive a gift, launched a class-action suit against the S&L, arguing that the free merchandise was actually a dividend that should have been distributed among all stockholders.

The cases are all true and they point to a growing movement whereby bank customers, stockholders, depositors, borrowers and would-be borrowers are suing directors, officers and others in financial institutions holding fiduciary responsibility.

Increasingly, dissatisfied consumers and agencies are bringing liability lawsuits against bank officers and directors. Financial executives are more vulnerable to such suits than are medical people to malpractice claims.

Unlike doctors, however, financial people have a relatively inexpensive way out of their dilemma. They can insure themselves against personal liability through directors and officers (D&O) insurance policies. It's estimated that more than 70% of all S&Ls and 55% of all banks in the U. S. purchase D&O coverage.

D&O liability is popular because of an awareness on the part of directors and officers that they are liable for breaking trust or for error, negligence, failing in one duty or overstepping authority. They realize they are potentially responsible for the actions of management and other directors.

According to law, directors can't delegate their responsibility to a bank's active management, nor can they evade liability by failing to participate in the board's day-to-day business.

Thus, a director who claims he was on an island in the Caribbean when questionable action was taken by active bank management doesn't have a leg to stand on.

To make matters worse, it's difficult for directors or officers to know beforehand what constitutes an actionable offense. The issue can be complex; the law is constantly changing. Interpretations of similar situations vary, so guilt or innocence is not easy to predict.

The increasingly strong consumer movement sweeping the nation has also encouraged individuals, especially those who feel they are the "little guy," to seek redress through the courts for real or imagined damages.

As a result, class-action and third-party suits have skyrocketed. Bankers can be sued by nearly anyone with whom they do business, including stockholders, employees, depositors, borrowers, potential borrowers, competitors and government agencies.

D&O insurance protects the personal resources of bank directors and officers who have been accused of wrongful acts. Most policies also reimburse the bank if it's required to indemnify its directors and officers. Coverage usually includes civil and criminal actions.

"Executives buy the insurance purely for financial reasons, and they are finding that the financial security enables them to conduct business aggressively and with confidence," says Gerald L. Friedman, president, MGIC Indemnity Corp., Milwaukee. "Our business has grown tremendously in the past five years."

According to Mr. Friedman, most D&O policies include the following:

• Total coverage of all losses. Some insurance firms, however, have a co-insurance provision that requires the insured to pay 5% of the damages. On a large settlement, the amount could be substantial.

• Coverage of retired officers and directors for acts that occurred before they left the institution.

• Payment for a successful defense against *allegations* of dishonesty and illegal profits.

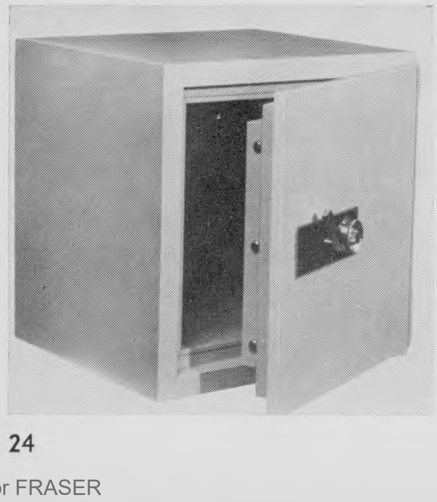
• Coverage for a series of catastrophic losses. If the policy limit is established for each year, one large loss can, in effect, nullify the policy for that year. This becomes no problem when the policy limit applies to each loss.

• Opportunity for the insured to have a voice in his or her own litigation. This includes choice of attorney and the right to play a role in deciding whether to contest legal proceedings.

According to Mr. Friedman, D&O liability insurance is becoming an indispensible operating tool for bankers.

• **Lake Shore Markers, Inc.** Special art designs are offered in personal identification badges from Lake Shore Markers, Inc., Erie, Pa. Manufactured of "lifetime aluminum," the badges may be ordered in individual designs and logotypes, and different color combinations are offered. Write: Lake Shore Markers, Inc., P.O. Box 59, Erie, PA 16512.

• **Diebold, Inc.** A new line of Cashgard® money safes has been introduced by Diebold, Inc., Canton, O. The TL-15, TL-30 and TRTL-30 line of money safes includes models that are U/L approved for burglary and fire protection. The line consists of 16 unencased models and 23 encased models, plus three cash-locker models. Storage capacity for the line ranges from two cubic feet to 35 cubic feet, and a standard feature for the line is U/L listed Group 2 three-tumbler combination locks capable of 1 million different combinations. Optional locking systems include a key-locking bolt throw handle, key-locking combination locks, silent signal anti-ambush locks, delayed control locks and two- or three-movement time locks. All Cashgard safes are designed to accommodate most standard alarm sensing devices without sacrificing interior storage space, and the safes can be completely lined or wrapped for alarm purposes. Write: Diebold, Inc., Canton, OH 44711.



New Products and Services

• **Bank Computer Network Corp.** An ATM that dispenses postage stamps is available from Bank Computer Network Corp. The machine can also perform most common banking transactions on a round-the-clock basis, including: dispensing cash bill-by-bill from customer accounts, taking payments and deposits, handling transfers, balance inquiry and sales of travelers checks or NOW drafts. All of the functions can be performed in a single cycle within 15 seconds, according to the manufacturer. Authorized customers can charge the postage stamps to their account. Write: Bank Computer Network Corp., 10501 Delta Parkway, Schiller Park, IL 60176.

• **Brandt, Inc.** Speed, simplicity of operation, infrared stack detection and adaptability to service as a coin verifier are features announced by Brandt, Inc., Watertown, Wis., for its new Model 1780 automatic coin wrapper. The wrapper is built on a roll-about stand and can produce up to 24 wraps of coin per minute. A minimum number of settings is necessary for total coin packaging and changeover of denominations. When used for high-speed batch counting and verifying, the Model 1780 stops in batches from five to 99,995 and the batch select mode may be set in increments convenient for bagging. The wrapper's double-bin container is on wheels, and the machine's modular design allows addition of auxiliary equipment. Write: Brandt, Inc., Watertown, WI 53094.

• **Mosler.** Pneu-Vista 800 is a new direct-vision drive-up system from Mosler, Hamilton, O., which features an automatic transaction cycle after the customer presses a single button for service. The system gives the teller manual override capability and allows one teller to communicate with as many as six customers. The PV-800 also features a high-fidelity audio system specifically designed for drive-up acoustics. Write: Mosler, Department PR-058, 1561 Grand Boulevard, Hamilton, OH 45012.

• **The Foundation of the Southwestern Graduate School of Banking,** Southern Methodist University, Dallas, has published *New Perspectives for Bank Directors,* a 243-page hardbound collection of presentations to the Assemblies for Bank Directors. The book includes contributions by authors including the former chairman of the FDIC, a regional administrator of banks, a Fed governor, a former ABA president, a past chairman of a state banking commission, presidents and chairmen of banks and HCs of all sizes from a number of states and attorneys and outside bank directors. The book contains presentations on duties, responsibilities and liabilities of directors; relations with bank management and regulatory authorities; director functions in marketing selection of bank management and appraisal and planning of bank performance; board committee organization; capital investments and real estate problems faced by directors; and director relations with trust activities and implications of the changing financial structure and evolving technology. Also included are a sample code of conduct for bank directors and a specimen of a statement of lending policies and procedures. The book sells for $15, and a 20% discount is given on orders of 10 or more copies. Write: The Foundation of the Southwestern Graduate School of Banking, SMU Box 214, Dallas, TX 75275.

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Personnel

Educational Program for Bank Staff Is Brainchild of Four Employees

Andrew Benedict (c.), ch., First American Nat'l, Nashville, talks with football coaches, John Merritt (l.), Tennessee State University; and Fred Pancoast, Vanderbilt. Coaches were guests for kickoff of new "Lunch 'n Learn" program for bank employees.

A PROGRAM called "Lunch 'n Learn" and directed toward First American National of Nashville's employees has proved to be extremely successful. One of the unusual aspects of it is that it was created by four bank staff members.

The objective of the program, as explained by the four women when they presented their idea to President Kenneth Roberts, is to provide an educational and self-enrichment program for all employees, giving those interested an opportunity to take part during lunch. The semiweekly programs are held in three 30-minute sessions in the Main Office auditorium. Thus, those employees with only a half hour for lunch can attend.

Mr. Roberts liked the proposal—advanced by Winifred Hassell and Mary Ann Wilson, administrative secretaries; Cornelia Matthews, assistant manager, Main Office; and Nancy Zoretic, head of the credit and loan administration division. The idea to do something for their fellow employees was an outgrowth of a secretarial training project for nonprofit groups they were helping teach at the Center of Women's Studies at Scarritt College.

The four women asked the bank's personnel director, Thomas Graham, and marketing/public affairs director, Neil Cunningham, to be their advisers. After discussing plans with Mr. Graham and Mr. Cunningham, it was decided to start the program off on a monthly basis, and, if response was good, to switch to semimonthly. It also became clear that First American Center tenants might benefit from the program, and so "Lunch 'n Learn" was opened to the public.

The first program, "Ask the Coaches," was held in November. Fred Pancoast, head football coach at Vanderbilt University, and John Merritt, Tennessee State University's gridiron coach, were guest speakers. Johnny Majors of the University of Tennessee was invited, but had a schedule conflict. Jimmy French, assistant vice president of the bank and former Vanderbilt basketball star, was moderator.

The women were pleased with the turnout. Although no head count was taken, Mrs. Matthews estimates that between 400 and 500 persons passed through the auditorium doors during the 1½-hour period.

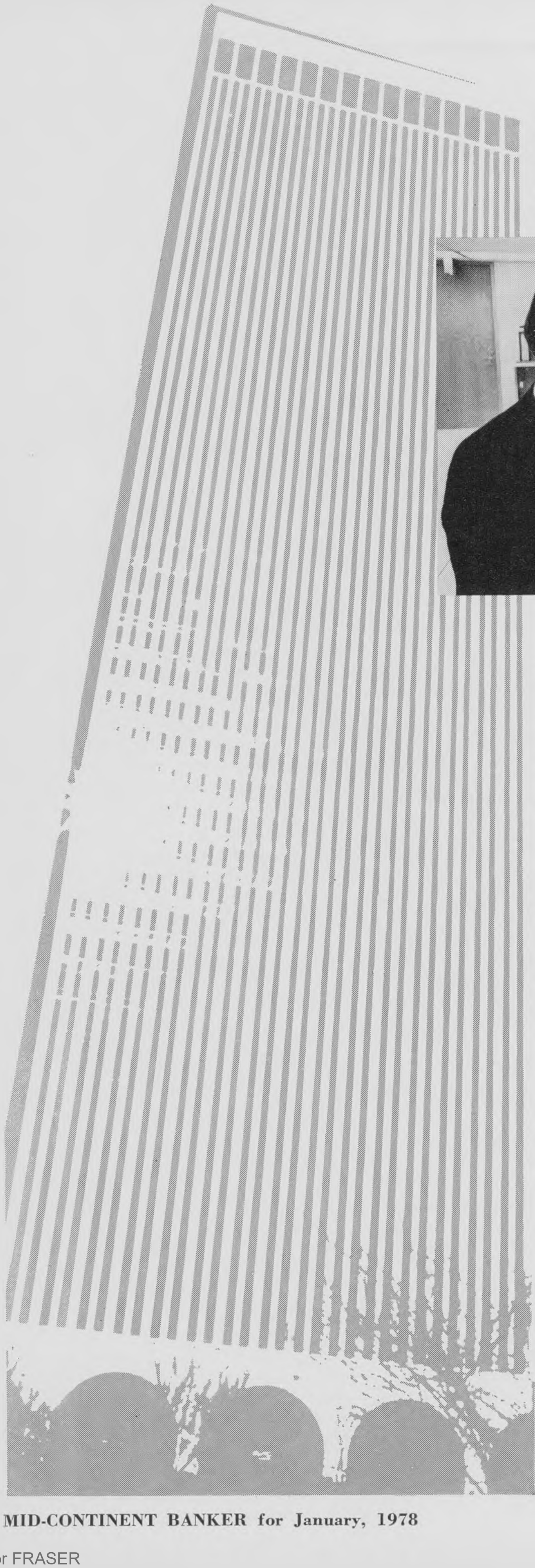
On December 8, the program theme was "Christmas Comes to First American," and it involved many bank employees. Some brought handmade crafts to display; some shared their favorite Christmas recipes and also brought edible samples; others decorated a Christmas tree with handmade ornaments, and still others sang and played musical instruments. Among them was Mr. Roberts, who began the program with a piano rendition of Christmas music.

Ron Kaiser, WTVF-TV weatherman, was a special guest. Described as "a marvelous singer," Mr. Kaiser sang several songs, one of them being his own creation, "Everyone's a Child at Christmas."

The four-women committee is confident that "Lunch 'n Learn" will continue to be successful as long as employees participate in and support the program. From the responses so far, such success seems assured. • •

Hauge Is Honorary Knight

Gabriel Hauge (l.), ch., Manufacturers Hanover Trust, New York City, is congratulated by Peter Jay, British ambassador to the U. S., after Mr. Jay presented Mr. Hauge with the insignia of Knight Commander of the Order of the British Empire. The honor was in recognition of Mr. Hauge's support of Britain and of Anglo-American business links throughout his career.



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Left to right: Charles Rice, Bill Hellen, Russ Snow

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Member F.D.I.C.

Doing Customer Favor Often Can Lead To Disgrace, Ruination for Banker

By OSCAR W. JONES
Director
Loss Prevention Services
Scarborough & Co.
Chicago

HOW OFTEN have you been asked by a customer, "Will you do me a favor?" To be sure, this can be an innocent appeal, and, often enough, it's only a way of requesting help with some minor financial transactions.

JONES

Unfortunately, it's not always so, and the light phrase might be a front behind which some hide their ambition to further their own personal interests, regardless of the consequences.

You might find it hard to believe that a question like "Will you do me a favor?" started an embezzlement finally resulting in the loss of more than $76,000. Yet this is exactly what happened in a midwestern bank.

One day, an officer in this bank was approached by a customer, an insurance agent, who asked whether the officer could do him a favor. It was quite simple. All the agent wanted were a few names of persons to whom he could try selling life insurance. To compensate the officer for his trouble and effort, the agent offered the banker a $5 commission on every $1,000 of insurance sold to one of these prospects.

The officer was delighted. "Here's a chance to pick up a little money on the side and help a good customer at the same time. Furthermore, there's nothing wrong with the arrangement."

However, doing a favor for the wrong type of customer usually is the start of getting in deeper and deeper, until there's no turning back.

This particular little business deal grew from its trivial beginning to such proportions that it finally resulted in the bank officer's ruination and loss and disgrace to the bank. But we're getting ahead of our story.

The initial arrangement proved so satisfactory that the insurance agent decided to raise the officer's "cut" to 5% of premiums on insurance coverage sold.

As is usually the case, the deal grew and spread like wildfire. The agent sold insurance to his list of prospects, and if the insureds were unable to pay premiums in cash, notes were drawn. These notes were brought into the bank for discounting. This lending operation was handled by another officer, not involved in the scandal, and, after a while, this officer refused additional paper of this nature because of the volume already crowding the loan portfolio.

"Even if fraud never has occurred in your bank, you should keep in mind that any embezzlement, anywhere, damages the reputation of the entire banking industry and of every banker."

To secure the continued free flow of his commissions in view of this situation, the original officer involved began discounting notes on his own from the cash in a teller's cage. But these notes didn't become assets to the bank.

To conceal his ever-growing misappropriation of funds, the officer withheld deposit tickets of customer friends.

He deposited the principal and interest back to the teller's cash and never lost hope that, eventually, principal and interest payments would be forthcoming in an amount sufficient to balance the cash.

Even occasional complaints by customers that their deposits were not appearing on statements or else were posted on different dates than actually made did not endanger the embezzler because the complaining customer invariably was referred to him. Generally, he shrugged these customers off with remarks like "The deposit didn't have time to clear." Normally, he didn't delay the deposit tickets too long, except for those of the proverbial "dear, rich, old widow" who permitted the officer to handle all her business.

This house of cards finally collapsed when a senior officer questioned the defaulting officer about the amount of a deposit and asked "why it hasn't been put through the works." His replies were so confused that the senior officer grew suspicious, and, on a holiday, he checked the embezzler's desk. He discovered a cigar box filled with approximately 700 to 800 notes as well as 13 withheld deposit tickets totaling $76,315.22.

This case is an example of what a simple, innocent-sounding request finally can lead to. Naturally, as in every case of fraud, other considerations were present. However, once fraud starts, it's difficult to stop.

Bank officers and employees should be compensated adequately for their work, and they should be asked to devote their full time, attention and efforts to their banks. Additional jobs and compensation always are signs of trouble. It means that an employee either is living beyond his income or is burdened with debts. In either case, it's a bad practice and often recognized as the first sign of trouble.

Also, the closest scrutiny should be given to relationships between employees and customers to prevent or detect collusion.

Again, the importance of an adequate audit and control program, regardless of size, cannot be stressed enough. It's reported that the only examinations ever conducted in that midwestern bank were those made by supervising authorities. A proper control program would have disclosed the loss long before it reached such amazing proportions.

It also would have been helpful had all deposit tickets been checked for withholding and had all customers' complaints concerning errors and discrepancies been referred to the control officer rather than to the individual involved.

Even if fraud never has occurred in your bank, you should keep in mind that any embezzlement, anywhere, damages the reputation of the entire banking industry and of every banker. Further, all of you receive a bill for these losses in the form of rising premiums. • •

EDITOR'S NOTE: This article is reprinted from the December issue of the "Loss Protection/Prevention Bulletin," published by Scarborough.

The best check collection services in the Midwest just got better.

To maximize your available funds, Commerce Bank of Kansas City[NA] now offers continuous service, 24 hours a day. Checks from over 200 banks in 60 major U.S. cities are collected on the day of receipt. Only a limited number of checks take more than one day.

Here's how we work for you.

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The case for putting

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Even though many companies are about the same size, one towers above the rest, not only in experience and service. But in the all-important category of financial strength.

And that's MGIC, the founder of the mortgage insurance industry.

The realistic way to look at mortgage insurers is to examine their balance sheet.

Here's what you'll find. First, that MGIC has total policyholders' reserves of $341 million which accounts for 52 percent of the entire industry.*

The sources for these reserves are capital stock/paid-in surplus. Contingency reserves. And unassigned surplus.

Unassigned surplus, like a lender's retained earnings, indicates a mortgage

more in our basket.

insurer's operating management efficiency.

It shows how MGIC consistently lives within its earned premium dollar and still has surplus left over.

How much surplus? $73 million, or 172 percent of the industry's unassigned surplus is held by MGIC.*

The advantage of this overwhelming financial strength is that it gives lenders an added measure of protection against sudden disruptions and downturns in the business cycle.

Thus, you can literally put a lot more of your mortgage eggs in our basket . . . and feel quite secure.

After all, isn't that what insurance is all about?

For a more detailed look at MGIC and the subject of financial strength, contact your local MGIC representative.

Mortgage Guaranty Insurance Corporation
MGIC Plaza,
Milwaukee,
Wisconsin 53201

MGIC

*Source: Data as of June 30, 1977 from Statements filed with State Insurance Departments.

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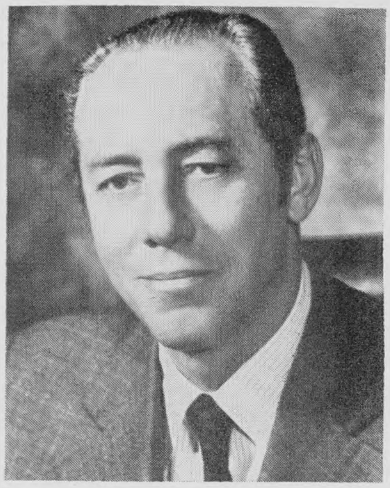
FRANK A. PLUMMER

ROBERT M. HEARIN



DONALD E. LASATER

The Outlook for 1978

Six Prominent Bankers Make Economic Forecasts

Loan Demand to Continue Strong And Bank Income to Increase In Alabama During Coming Year

By FRANK A. PLUMMER
Chairman & CEO
First Alabama Bancshares, Inc.
Montgomery

ALABAMA is out of step. There's a qualification to this statement. Alabama is out of step with nearly everyone except Texas.

Loan demand has been strong throughout 1977 and should continue strong throughout the first six months of 1978. There are compelling reasons for this strength in the credit sector. These reasons are broad-based and encompass capital spending, housing, agricultural and consumer credit; namely:

1. Alabama banking did not have the problem of supporting a booming economy in the early '70s with the resulting heavy loan losses that were prevalent in so many areas. Consequently, Alabama banks have been able to take the initiative in supplying credit for sound loan requests.

(Continued on page 58)

Population, Economic Growth Foreseen for Jackson Area; Unemployment Rate on Decline

By ROBERT M. HEARIN
Chairman
First National Bank
Jackson, Miss.

THE JACKSON AREA has been singled out by various sources as a center of unusual population and economic growth in the years immediately ahead. *Sales and Marketing Magazine* forecasts the Jackson standard metropolitan statistical area (SMSA) as one of the nation's 25 fastest-growing population centers by 1981 with a projected growth rate of 14.5%. This population-growth projection is accompanied by a prediction that the average household's effective buying income will rise from $15,523 in 1976 to $22,317 in 1981.

According to another study, *House and Home Magazine* shows Jackson as one of five metropolitan areas with the most favorable market for residential units. Housing demands are running well ahead of supply, with plenty of

(Continued on page 36)

Increase in Loan Demand; 10%-12% Earnings Boost On Horizon for This Year

By DONALD E. LASATER
Chairman & CEO
Mercantile Bancorp., Inc.
St. Louis

WE ANTICIPATE that the Midwest region, of which St. Louis is the center, will continue to share in the current business expansion cycle, which should remain strong, at least through 1978. The usual elements of a cyclical turn are not apparent at this time, and there's little to suggest that the slower pace following the strong performance of our economy in the first half of 1977 will weaken any further.

With St. Louis area employment better than the national average, our regional economy should continue to benefit from its highly diversified industrial and agricultural base.

Nationally, we look for an increase in the Gross National Product between 10% and 11%, or about the same growth as 1977. It appears that inflation as measured by the GNP deflator

(Continued on page 35)

From the Midwest through the South to the Southwest, officers of banks and bank HCs express pride in their cities and regions. They review the past year there and look ahead at what may lie in store in the economy and for banks in the areas of interest rates, assets, earnings, loans, nonbank competition.

South Has Bright Future: Jobs Double Nat'l Average; Population Is on Increase

By KENNETH L. ROBERTS
President
First American National Bank
Nashville

I AM a southerner. I was born in the South, reared in the South, educated in the South, married in the South and always have lived in the South. It goes without saying that my heart belongs to the South. But my head also tells me that the South is *the* place to be for men and women who want to prosper, earn a good living for themselves and their families and enjoy recreational and cultural opportunities.

The future is bright for the South, especially the Mid-South, where the population is growing steadily. The South is becoming the center for business and industry partly, I am proud to say, because banks now—more than

(Continued on page 34)

Texas Bankers Look Forward To Stronger Loan Demand, Improved Profitability

By NAT S. ROGERS
President
First City National Bank
Houston

DEMOGRAPHERS trace Texas' vigorous growth to the allure of the Sun Belt; and surely, if given a choice, most people do prefer a warm, sunny climate.

Economists take a slightly different approach and attempt to explain the region's strength in terms of economic "comparative advantage." Applying this principle, Texas' current momentum can be traced largely to an abundance of natural resources. Industrial psychologists prefer to place the credit on the receptivity of Texans to adapt to rapid change, which is characterized by the cooperative attitude of Texans toward industrial growth.

(Continued on page 34)

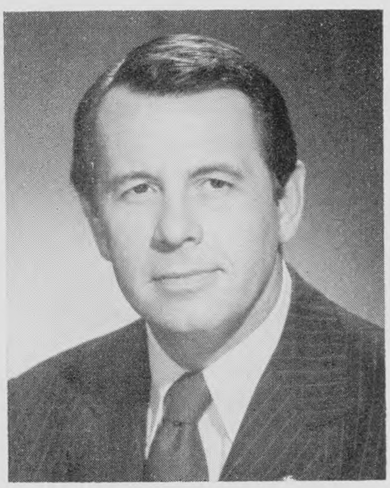
Economic Expansion Rate Expected to Be 5%-6% In Texas During 1978

By ROBERT H. STEWART III
Chairman
First International Bancshares, Inc.
Dallas

ALL SIGNS now are pointing to another good year for the Texas economy in 1978. The outlook for the Dallas-Fort Worth Metroplex is even brighter.

Construction activity will be a main source of new expansion in the state during the year. Residential building is expected to continue at a very high level, and nonresidential construction is expected to continue to pick up in major metropolitan areas as the year goes by.

The only sector expected to continue to show some significant weaknesses is agriculture. A severe cost-price squeeze in which farmers have been caught for nearly two years is not like-



KENNETH L. ROBERTS

NAT S. ROGERS

ROBERT H. STEWART III

ly to ease up much during the year. Ranchers may fare a little better.

The Texas economy, which still has strong growth underpinnings, typically has outperformed the national economy in good years and in bad ones. Thus, if the nation's real economic expansion rate for 1978 is now projected to be in a 4% to 5% rate range, it's reasonable to project a 5% to 6% range for Texas' real performance. The real rate of expansion for the Dallas-Fort Worth Metroplex is likely to be a bit better than that.

Most banks in the state had a good year of deposit growth and earnings gains in 1977. All current indications are that they will have another one in 1978.

Off-premise EFT system development by Texas banks was vetoed by Texas voters in 1977. S&Ls and credit unions are not restricted to on-premise EFT machines in Texas as banks are.

Because it will be nearly two years before the matter can again be put before Texas voters and at least an additional two years before enabling legislation could be passed, development of electronic banking in Texas now has been seriously delayed. In the interim, competition for banks from nonbank financial institutions for payments-type accounts is expected to intensify.

Even so, the 1978 outlook for Texas banks and for bank holding companies is for another good year. • •

South's Bright Future

(Continued from page 33)

ever before—are involved in the South's economic development and play a major role in upgrading our economy.

From my travel in other parts of America, I know that some people think the South is backward. If they were aware of the international trade conducted in the South by American companies relocating here, they might change their outdated opinion. We may have been slow to industrialize and modernize our agricultural processes, but that gap has been closed.

Needless to say, the election of President Jimmy Carter has helped bring the South to the attention of all Americans. What our fellow Americans are seeing is a section of our country that's meeting the needs of business and industry as well as providing a standard of life for its citizens that is gaining rapidly on the national average. In some areas, per-capita income exceeds the national average.

According to a survey of 15 southern states (Maryland to Texas) conducted by the Southern Growth Policies Board, new jobs were created at a rate almost double the national average. Unemployment in most parts of the South was lower than national averages during the early '70s. Even more startling was the region's population growth.

Census Bureau estimates released for the period of 1970 to 1975 reveal dramatic changes in the nation's population pattern, and the count on July 1, 1976, showed that the South's population increase was 53.2% higher than the total national population increase.

This population change is due in major part to the fact that people from other regions of our country are immigrating to the South. The word certainly is getting around that the South is *the* place to be, and it's reaching all points on the globe. In fact, the South is one of the seven fastest-growing regions of the world, according to Herman Kahn, director of the Hudson Institute in New York. The others include the Middle East, Japan, Southeast Asia, southern Europe, the Communist-dominated countries excluding the Soviet Union and the Latin American grouping of Mexico, Brazil and Colombia.

Growth of job opportunities, lower prices, lower taxes, abundant labor, an excellent transportation system including air, water, rail and truck and a mild climate have drawn industry, especially manufacturing operations, to the South. The South offers accessible energy sources, and tourism is another key attraction that adds many dollars to its coffers.

I cannot say enough good things about tourism's impact on our economy in Nashville. We are the center of the recording industry. Enormous crowds flock to Nashville to pass through the gates to Opryland, U. S. A., and the neighboring Grand Ole Opry House. Tour buses are seen around every corner in the summer months. The Nashville Area Chamber of Commerce met with tremendous success in 1977, when it offered a Room-Finder service for our out-of-town visitors who were having great difficulty finding available lodging.

Advancement of tourism thus called for new and modern hotels. The Hyatt-Regency chain was one of the first to recognize the vast potential for convention and tourist business and constructed a downtown Hyatt that is one of the area's focal points. Only a short time ago, the Opryland Hotel opened and has conventions booked into the early 1980s.

Diversity and stability of our economy are primary factors in Nashville's recent growth. Our top 23 employers are government, colleges, insurance companies, banks, department stores and print-and-publishing firms.

I'm sold on the South, and I'm particularly sold on Nashville. There is a bright and happy future for us here, and those of us who help finance this future are very excited about the challenges and rewards ahead. • •

Texas Bankers

(Continued from page 33)

Obviously, all the above factors contribute to Texas' vitality.

Time and time again, the question is asked, "Will the growth continue?" Key economic indices provide at least some clue to the answer. Industrial production in Texas, after dipping only slightly in 1975, compared with the sharp drop nationwide, subsequently has kept pace with U. S. advances. The Texas unemployment rate has widened its favorable historical position compared to the U. S. rate and now stands at 5%, a full two percentage points below the national average. The year 1976 established a construction record that already has been broken in the first nine months of 1977 with a total construction value of $8.3 billion. At this pace, construction in 1977 should exceed the record 1976 amount by almost 50%. Commercial and industrial loans in the 11th Federal Reserve District have increased almost twice as rapidly over the past four years as that of large U. S. banks. It's especially noteworthy to mention that in terms of population, Texas became the fastest-growing major state in the nation in 1976.

Currently, there are no significant impediments to the continuation of Texas' growth in 1978. It's also my view that in the longer term, say the next 20 to 30 years, the Texas economy will continue to experience sound economic expansion. My reasons are:

1. Texas will continue to be the international headquarters for energy technology. Although the current administration has estimated that the world has only 30-40 years of oil and natural gas supplies at current consumption rates, worldwide energy specialists disagree, estimating the worldwide supply of oil to be 150 to 200 years and for natural gas to be in excess of 100 years. These revised esti-

mates are considered possible due to higher prices and improved technology. Texas provides a major part of U. S. petroleum reserves; it is the center of secondary processing activities such as petrochemicals, plastics, synthetic rubber, etc.; and it is the energy technology capital of the world. There is nothing visible that will disrupt this comparative advantage in energy over the next two to three decades.

2. The allure of the Sun Belt will continue.

3. There are no geographic obstacles to the growth of the region, since usable land is abundantly available for expansion of major metropolitan areas.

With a growing regional economy, it's consistent to forecast that 1978 will be a highly satisfactory year for Texas commercial banks. Nationwide, economists are calling for only a minor rise in short-term interest rates over the next 12 months (less than 100 basis points), while the demand for credit is projected to remain firm, but not excessive. Major Texas banks should incur a strong loan demand with loans increasing by approximately 15%. Concurrently, deposits should rise by at least 12%. The outlook for bank earnings also is encouraging, with income statewide advancing by at least 10-12%, with many individual banking companies enjoying larger increases.

Banking in Texas should continue to be marked by a conservative approach to new services and procedures in 1978. Texas citizens recently defeated a proposed constitutional amendment, whereby unmanned banking units would be permitted. The long-term status of electronic banking in the state is now less certain, but the action will have little impact on the performance of commercial banks in 1978.

In summary, optimism currently is the key word in Texas business and banking circles, and this view should continue to prevail throughout 1978. The Sun Belt will enjoy continued comparative advantages over other regions, and banking in Texas should reflect these advantages in terms of asset growth, stronger loan demand and improved profitability. • •

Increased Loan Demand

(Continued from page 32)

will be about 6½%, somewhat above the 5½% rate estimated for 1977. Disposable personal income should continue to increase at about a 10% rate, and, if a tax cut is effective by mid-1978, the rate of increase might be somewhat greater.

Government spending is expected to increase approximately 12% in 1978, up from an increase of about 9% in 1977. This is a result of actions taken at the federal level to stimulate the economy, as well as increases in state and local spending following a marked improvement in the last two years in their general fiscal status.

In the private investment area, we would expect housing starts nationwide to be no higher and possibly modestly lower than the estimated 1.9 million starts in 1977. Plant and equipment spending should continue to increase at about a 12%-13% rate. After-tax corporate profits may rise about 10%, only slightly under an estimated 1977 increase of 12% or 13%.

The continued strength in the economy should result in increased loan demand. In turn, bank earnings industrywide could experience an increase of 10%-12% on average, with banks in our region ranging toward the higher side of that spread. Undoubtedly, there will be wide variations among individual banks.

While there may be some profit opportunities in the movement of short-term interest rates, the outlook for growth in interest earnings in general appears to be minimal except for increased loan volume. The rise in short-term rates, which began in the second quarter of 1977 and carried the prime rate from 6¼% to to the present 7¾%, may continue to move the rate to 8¼%-8½% in the latter part of 1978. This rise is not seen as a steady progression, and a brief step downward along the way is a fairly good possibility.

Optimizing the earnings mix by careful attention to such non-interest areas as trust and various fee services, coupled with prudent cost controls, offers key sources of earnings growth for many banks.

As nonbanking competition increases, commercial banks may face a continually smaller share of the total financial market. Insurance companies, S&Ls and other nonbank competitors will continue to strive for a greater share of business.

This year will see a continuation of the trend toward more government regulation of business and banking. The increase in banking regulations will come about not at the whim of federal or state banking regulators themselves, but as a result of legislation passed by Congress and the states, which then require banking regulatory agencies to promulgate the laws into various regulations. These increased regulatory requirements may well have a negative effect on the industry's productivity factor.

Quite frankly, the banking laws and attitude in the state of Missouri do not encourage internally generated and natural market growth of a major bank or bank holding company. Missouri is a unit-banking state whose laws severely restrict the expansion of any bank in its natural marketplace. As we know, banks have been allowed a second drive-up facility only within the past few years. S&Ls, on the other hand, have basically no geographical restrictions on opening multiple branches—and, in fact, they are doing so at a steady pace. We have no quarrel with S&Ls. To speak candidly, we envy their freedom of decision on how best to serve their customers.

Experience tells us that it's difficult to liberalize Missouri banking laws. Fear of size and predictions of controlled banking prompt some bankers and legislators to oppose holding company growth and resist off-premise electronic banking terminals. However, the banking industry today is on the threshold of introducing major changes in the nature and scope of its services, which will have lasting effect for many years to come.

Application of electronic-funds-transfer technology is a major area of opportunity for increased service to individual and corporate customers alike. It will allow banking customers to select and execute the banking transactions they desire with speed, efficiency, privacy and protection. At the same time, EFT will help banks achieve better control of operating expenses through containment and reduction of the mass of paper documents flowing through the banking system.

Nonetheless, a much greater effort must be made to inform the general public and their elected representatives of the practical benefits available to all through such rapidly growing technology. This will require an arduous effort by the banking industry. It is a relatively long-range undertaking that must be implemented on a much more fully coordinated basis than in the past. However, rewards to the customers we serve and to our industry will be well worth the task. • •

Population Growth

(Continued from page 32)

purchasing and renting power in all price ranges. The magazine found high buyer confidence that investing in a house was a wise hedge against inflation.

In another area, a University of Nebraska study ranked Jackson sixth in the top 100 larger cities in the nation from the standpoint of attractiveness. This kind of recognition is an obvious fallout from Jackson's healthy economic climate.

Jackson currently is experiencing a period of rapid growth similar to the years following World War II. During the '60s, the area's growth slowed but never experienced the economic ups and downs and heavy unemployment that plagued most areas of the country. This was due primarily to Jackson's diversified economy, which helped cushion recessionary periods and minimize their impact.

Substantial state and federal government employment, strong transportation and distribution activity, moderate climate and aggressive leadership are some of the other factors contributing to Jackson's stable economy.

Barring unforeseen difficulties, 1978 brings to the Jackson metropolitan area some $1 billion worth of construction, planned or actual. This includes a new city-owned 500-acre industrial park; one of the South's largest shopping malls with 125 stores; and a new multi-million-dollar, 15 story federal office building, which rises from the core of a deteriorating downtown area. Final touches are being applied to Allstate Insurance Companies' new $1.6-million regional headquarters.

There are other indicators of confidence in Jackson's economy. Frito-Lay has begun a $7-million expansion, and construction has started on Southern Farm Bureau Insurance Co.'s new $3.69-million headquarters in a huge new office park.

Major projects planned, but not yet under construction, include a $12-million Acute Services wing for the University of Mississippi Medical Center and a $5-million assembly building at Jackson State University.

Another favorable trend is the decline in unemployment. Latest figures show Jackson's unemployment rate to be under 5%, considerably less than the nation's current 7% rate.

Continuing the trend of a number of years, the state's nonagricultural employment keeps rising. Latest figures show 762,900 persons employed in nonagricultural jobs, an increase of 30,500 over the previous year. All industry divisions posted gains, but most were concentrated in the trade, manufacturing and services sectors.

Most economic indicators statewide during the past 12 months have been on the up side. Barring a severe and unexpected downturn in the national economy, Jackson and Mississippi should continue to score good gains in every area of our economy. During the past year, Mississippi has shown these increases: retail sales up 21.7%, bank demand deposits up 9.7%, bank time deposits up 19.1%, bank loans up 17%, construction loans up 36.7%, lending by S&Ls up 104.4%, total cash receipts for marketed crops up 15.9% and total cash receipts for marketed livestock up 5.7%.

The substantial size in retail sales, a key indicator of consumer sentiment, we feel, is a clue to a healthy economy in Mississippi next year. Jackson and Mississippi share in the "Sunbelt Phenomenon." The increase of the rest of the nation's industry in what the South has to offer is reflected in the area's current growth and holds prospects for an even brighter future. Plenty of competent labor, which often is nonunion, lower taxes, close-by and rapidly expanding markets, good transportation systems, mild climate, dependable energy sources and a more enriching lifestyle combine to make the Sunbelt a most desirable area for industrial expansion. The continuing flow of investment dollars into Jackson and Mississippi tend to bear this out.

The consensus of some bankers in the mid part of the country is that earnings will be up in 1978. This was indicated in a recent poll by a large Mid-Continent bank. I believe this will be true in our area because of the favorable economic climate mentioned above. There are, however, forces at work now that may cause our earnings to be only moderately increased. New hourly wage increases and general cost of operations will affect us more in 1978 than ever before. While this problem has been facing bankers for several years, I think 1978 will be critical and will require management's undivided attention.

Interest rates have increased slightly the last quarter of 1977 and probably will remain level through the first quarter of 1978, increasing again slightly during the second quarter of 1978. However, from all indications, there is not likely to be a credit crunch.

With the prospect of interest rates remaining above level with year-end 1977, we must seek other ways of increasing earnings. Re-evaluation of the whole service-charge structure should and will be a priority item for most banks in 1978. There will be more emphasis on increasing or initiating service charges on consumer accounts—in particular, NSF charges, overdraft privileges, checking accounts, savings accounts and safe deposit boxes. The trend toward giving it all away and being all things to all people will slow and/or stop. The NOW account has had much influence in this thinking.

Though the NOW account is the subject on most everyone's minds, it's apparent that it's a dead issue as far as this Congress is concerned. It probably will not be acted on during the election year of 1978. Everyone from bankers to consumerists is opposed to the bill in its present form, and Congress is not willing to lose votes over the issue this coming year. Should the NOW account be passed in some form, we will be ready for it. However, I would certainly not welcome the account unless we achieve parity throughout the financial industry on interest-rate ceilings, reserve requirements and limit NOWs to the only interest-bearing-transaction account permitted for banks, thrifts, S&Ls and credit unions.

While we contemplate the effect of NOW accounts, interest rates, competitive factors, growing use of EFT and other problems facing the commercial-banking industry in 1978, the general outlook for the economy is good. The favorable performance of economic data the last quarter of 1977 points toward an optimistic view of 1978, namely modest growth, no recession. However, this favorable assessment is keyed to favorable economic policies coming out of Washington, D. C. • •

Forgery Detection Taught To Employees of Bank

EVERGREEN PARK, ILL.—Forgery, said to be the second largest and second fastest growing crime in the U. S., was the topic of employee workshops at Heritage Standard Bank here.

According to Robert J. Conlan, bank vice president, "The most successful forgeries are not due to the skill of the forger, but to the people who accept these checks because of the lack of knowledge of detection."

On hand to conduct the classes on forgery was Patricia C. Thompson, certified handwriting analyst.

Legislative Outlook '78:

Many Issues Affecting Banking Await Congressional Action

By A. A. MILLIGAN
President
American Bankers Association

THE PATTERN of things done and things left undone by the 95th Congress in the first of its two years provides the key to forecasting congressional action this year.

A year ago, as this Congress began its work, the presence of new leadership in both the House and Senate and a new Administration made it certain that there would be many legislative initiatives. Some came in the form of specific bills relating to well-defined issues, while others were put forward to serve the dual purpose of introducing new ideas and stimulating debate and discussion over the long term.

When the second session of the 95th Congress gets under way January 19, therefore, many proposals affecting banking will be awaiting resolution. However, several substantive items were enacted into law last year, including a measure providing for payment of interest on Treasury tax and loan accounts, a bill restricting practices of debt collectors (banks are exempt from this legislation except when they act as collection agents for other entities), so-called Community Reinvestment amendments to an omnibus housing-authorization bill and extension of the Interest-Rate-Control Act for one year to next December 15.

Several other major legislative proposals affecting banking also have been voted on. These include class-action-lawsuit provisions of Federal Trade Commission legislation and a bill to promote the accountability of the Federal Reserve System. Both the House and Senate have passed measures expanding the FTC's powers and jurisdiction, but certain differences between the bills remain to be ironed out by a conference committee early this year. As introduced, both bills would have given consumers the right to bring class-action lawsuits for alleged violations of rules and/or cease-and-desist orders issued by the FTC, as well as violations of certain Fed rules. In addition, the House bill would have granted the FTC major jurisdiction over banks. Both of those objectionable provisions were deleted from the legislation, however, before it was passed.

A bill to promote the Fed's accountability has been approved by both the House and Senate and signed into law by the President. This bill was incorporated into the measure that extended the Interest-Rate-Control Act. It would make the Fed's quarterly testimony at congressional oversight hearings on monetary policy a requirement of federal law, broaden public representation on boards of Federal Reserve banks, permit the President to appoint the Fed chairman and vice chairman (with Senate confirmation) for four-year terms after 1982 and extend conflict-of-interest provisions of present laws to Fed officers, employees and directors.

Unresolved by Congress so far are issues that, by comparison, are much more far-reaching. Of those issues, the most controversial is the so-called Safe Banking Act (H.R. 9600). As it originally was introduced, the measure contained provisions that would have: cut in half permissible single-borrower limits on all loans to directors, officers, 5% stockholders, their family members and all companies controlled by them; imposed an aggregate limit equal to 50% of capital accounts on all such "insider" loans; subjected any ownership transfer of 25% or more of the stock of a bank to advance approval by the FDIC; imposed margin requirements on all bank stocks; outlawed all loans to bank officers, directors and owners of 5% or more of a bank's stock by financial institutions with which their bank has any relationship; and required banks to post and publish in a newspaper at least annually a list (by loan category) of dollar amounts of loans classified substandard, doubtful and loss.

It became apparent in hearings and in action by the House Banking Subcommittee on Financial Institutions that not only was there strong banking opposition to the bill, but also there was little sentiment within the Subcommittee supporting the measure. By

A. A. Milligan is pres. & ch., Bank of A. Levy, Oxnard, Calif., which was started by his grandfather some 90 years ago. He joined the bank in 1940, took time out to serve in the Navy in World War II, returned to become asst. sec. in 1946, director and executive officer in 1950 and advanced to his present posts in 1955. Mr. Milligan has been active in the ABA since 1964 and also in the California Bankers Assn., of which he is a former pres.

There is little congressional support for the restrictive legislation represented by the Safe Banking Act.

mid-October, opposition to the proposal was so stiff that its author, Representative Fernand J. St. Germain (D,R.I.), introduced a substitute bill that was slightly less restrictive, but still contained many features that bankers and the ABA found objectionable.

By the end of October, Representative St. Germain announced he would make no further effort to advance the bill in that session of Congress—but he promised it would be his first priority in the second session this year. He issued a statement crediting the ABA and its members with having mounted a lobbying effort against the bill "seldom matched in the history of the committee." Representatives, he said, had been "flooded by mail from literally thousands of banks. . . . It is a nationwide campaign being orchestrated through the Washington offices of the American Bankers Association under the guise of 'grass roots' opinion."

In the present environment, there is little congressional support for the type of restrictive, even punitive, legislation represented by the Safe Banking Act. However, in all likelihood, an effort will be made early this year to try to revive a crisis atmosphere, which could improve the bill's chances. Whether the results of the FDIC's special call report on banking practices can be interpreted by the bill's supporters to create this kind of climate remains to be seen, but it's practically certain that bankers and the ABA will have to renew their efforts early this year to help congressmen understand the disastrous real-life effects such legislation could have.

At the same time, support exists for a Senate-passed bill that would give banking regulators the more effective enforcement powers for which they have asked. That bill—the Financial Institutions Supervisory Act amendments (S. 71)—would: empower regulators to issue cease-and-desist orders against individual bankers as well as banks; allow imposition of civil fines on individuals or banks that violate banking laws and regulations; and further refine regulatory agencies' existing authority to remove bank officers (under due process) when their actions endanger the safety or soundness of their banks.

The measure had been accepted by the ABA because it was seen as generally constructive, though less than perfect, and because the regulatory agencies had asked for the enforcement powers the bill would give them. (The ABA does not support provisions of the bill that would tend to limit issuance of standby letters of credit.) By contrast, however, the Safe Banking Act would do serious damage to the nation's banking system, mandating unjustified and radical changes from which no public benefit can be expected to accrue.

The Consumer Financial Services Act—which would extend NOW accounts nationwide and permit the Fed to pay interest on required reserves it holds—was approved by the Senate Banking Committee last August and may be considered by the Senate in 1978. The ABA has declared its willingness to accept such legislation, but *only* if it is amended so that it: deals fairly with bank savers by closing the interest-rate gap; eliminates provisions that would allow the Fed to set NOW-account reserve requirements for state-chartered nonmembers of the Fed; and provides that any payment of interest on reserves by the Fed be on an equal basis to all member banks.

With the issuance of a final report by the National Commission on Electronic Fund Transfers, congressional interest in EFT and related subjects is increasing. Several bills affecting EFT already have been put forward, but it's widely thought that the process of developing useful EFT legislation will be long and complex and that election-year action on this front by Congress is unlikely. Of the several EFT bills introduced so far, the one most likely to draw attention is a measure sponsored by Senator Thomas J. McIntyre (D,N.H.). It would free deployment of electronic terminals from the strictures of current branching laws.

Senate Banking Committee Chairman William Proxmire (D,Wis.) plans to schedule final committee action on a bill to simplify federal Truth-in-Lending laws shortly after Congress reconvenes. The ABA is urging Congress to limit required disclosure under the Truth-in-Lending Act to items meaningful to borrowers: amount financed, finance charge, annual percentage rate, amount and due dates of payments and the total of payments. The association also is asking that agricultural loans be exempted from the strictures and paperwork burden imposed by the Truth-in-Lending Act. Assuming that the specific provisions of a bill can be agreed on, a great deal of support exists in principle for Truth-in-Lending simplification.

The comprehensive tax-reform proposal that the Carter Administration may put forward could prove to be an illustration of the point that, while major elements of legislation can be positive, other aspects of the same bill can have a massive negative impact on in-

(Continued on page 58)

ABA Declares War on Regulations

Banks are declaring war on regulations, rules and restrictions that cost bank customers and banks hundreds of millions of dollars annually but serve little or no useful purpose, said the new ABA president at the recent National Agricultural Bankers Conference.

A. A. Milligan, president, Bank of A. Levy, Oxnard, Calif., said a battle plan has already begun to be implemented by ABA. Called "operation unravel," the plan is aimed at 44 laws, regulations and procedures that are termed particularly costly or onerous to banking. The ABA plans to begin by zeroing in on five specific regulations, he said.

- Truth in Lending—Get it back to its original purpose, which is to provide borrowers with meaningful information they can use in shopping for credit. Remove ag loans from the law because they are not consumer loans.
- Tax Reform Act of 1976—Termed an "administrative nightmare" that significantly increases the taxes of heirs who sell inherited property.
- The farm valuation provision of the Tax Reform Act—An "impossibly complicated" provision covering the sale of farm property by heirs.
- ERISA (Employment Retirement Income Security Act)—A law that has resulted in 30% of the country's private pension plans being closed down rather than improving the quality of pension plans.
- RESPA (Real Estate Settlement Procedures Act)—Instead of improving disclosure, he said, the paperwork involved in this act serves only to lengthen and complicate the final closing of real estate transactions.

Mr. Milligan asked bankers to get involved in making Congress, regulators and the public aware of the costs of overregulation.

Farm-Income Prospects Not Bright for 1978

By F. L. GOETSCH
Chairman
Doane Agricultural Service, Inc.
St. Louis

IT'S NOT NEWS to state that net farm income was down in 1977 compared to 1976. Farmers, ranchers and rural bankers know this from first-hand experience.

The agricultural strike of December 14 arose almost spontaneously about nine weeks previously in the heart of the wheat country where, according to government studies, the price of wheat is at least $1 per bushel under the cost of producing it. Pockets of severe drought during the summer of 1977 further aggravated the situation for many farmers. The sum total of these factors—lower prices, rising costs and drought—resulted in a drop of $2 billion in farmers' realized net farm income in 1977 compared to 1976, according to Doane's staff economists.

GOETSCH

Unless foreign demand increases sharply this year or production in this country drops significantly, realized net income will drop an additional $2 billion in 1978 compared to 1977. Gross farm income including government payments will rise slightly in 1978, but all the increase will come from higher government payments. However, farm-production expenses will increase more than enough to offset the higher level of gross receipts.

Government a Bigger Factor. Wheat growers received slightly over $1.2 billion in government payments on the 1977 wheat crop in December. This year wheat growers, milo and barley producers are expected to receive substantial deficiency payments.

As of now, wheat, corn, milo and barley producers will face a set-aside program for 1978. It will be strongly to the advantage of wheat growers to participate by setting aside an amount of cropland equivalent to 20% of the acreage of wheat they grow. Milo and barley producers also will find it advantageous to participate in the 10% feedgrain set-aside program. Corn growers, though, have much less potential and aren't expected to participate heavily in the set-aside. With these programs cranking up again, there will be uncertainty over acreages that could cause confusion from now until spring.

"Unless foreign demand increases sharply this year or production in this country drops significantly, realized net income will drop an additional $2 billion in 1978 compared to 1977."

There also is the outside possibility that farmer pressure on congressmen in this election year could result in some further changes in farm legislation. Already there are several bills before Congress that would increase government spending for agricultural programs. We repeat, such a development stands only an outside chance, but anything is possible in an election year.

Livestock a Stronger Factor. Traditionally, livestock and livestock products gross more each year than the sale of crops. That hasn't been the situation for several years, but this long-time relationship again prevailed in 1977, and, this year, livestock and products will gross almost $6 billion more than crops. Unfortunately, this gain comes as much from a decline in crop income as from a real gain in livestock receipts. However, cattle are expected to show considerable improvement in prices during 1978 compared to 1977. Fed cattle prices could average as much as $4 to $5 per cwt higher this year with a big if—if rainfall allows normal grazing conditions. Fed cattle marketings will be higher this year than last, and non-fed marketing must be reduced if this price level is to be achieved. With adequate grazing, it's expected that beef producers will begin to rebuild their herds after the long decline. If the pastures are adequate, then non-fed slaughter will drop significantly, allowing for price improvement in fed cattle.

Near term, late winter appears to be a somewhat vulnerable period for fed cattle markets. The very cheap corn during late summer and early fall of 1977 encouraged very heavy placements onto feed. These cattle will be coming back to market during late winter.

Hog producers are in the process of overdoing their expansion that was brought on by sharply lower feed prices. Latest official estimates by USDA on farrowings indicate a surge in farrowings has occurred and is still occurring. However, the very favorable hog-corn ratio that existed in late summer of 1977 has receded, and it could be hog producers are having second thoughts about such a high level of farrowings. Nevertheless, it will be prudent to expect that hog prices will show only minor strength into spring at best, and there could be rather sharp reversals. Throughout this year, hog prices will range in the $30s and, by year's end, could be down to near $30 per cwt.

Dairymen are in reasonably good financial shape and will continue to receive relatively good prices for milk, thanks to the 1977 farm law. It provides that adjustment must be made, if needed, each six months in the milk-support price to reflect 80% of parity. After March 31, 1979, the milk-support level may be set at between 75% and 90% of parity. At present, it's slightly over 80% of parity.

The gloom in the dairy industry is the sharp rise in purchases by the Commodity Credit Corp. (CCC) of butter, cheese and dry milk to maintain the support price level for manufacturing milk. The USDA expects milk production to average 1% to 2% higher this year than last. More than 6 billion pounds of milk equivalent was purchased in the form of cheese, dry milk and butter during 1977 to maintain support levels. This is the most purchased since 1971. According to the USDA, there's little demand for these stored products at present.

Grain Supply Large. Though set-aside programs have been announced for wheat, corn, milo and barley and possibly cotton for 1978, these programs aren't expected to do much more than stabilize the overproduction problem that exists for most grains. Further, the government farm programs are new and relatively complex. It's hard to tell at the moment whether farmers using the programs will opt for the maximum acreage reduction to get deficiency payments on their entire planted acreages.

The annual farm price of wheat for the marketing season now under way will average slightly below the loan of $2.25 per bushel. This is down about 65¢ from the 1975-76 season. In addition, a deficiency payment was made of 65¢ per bushel of normal yield, times each producer's allotment. For the wheat crop that was seeded last fall and will be harvested this summer, the average price will exceed the loan of $2.25 only slightly. A deficiency payment at least as high as last year's will be paid. Carryout of unused wheat at the end of the 1978-79 year will be slightly less than this season's 1.2 billion bushels.

Corn prices for the current season, 1977-78, are expected to average under the national average loan rate of $2 per bushel at the farm. Markets could do slightly better than this with any uncertainty for growing conditions this spring and summer. There's some concern that the spring will be quite wet, forcing delay in planting. For the corn crop that will be produced this year, markets are expected to be slightly improved compared to the present season. But the difference will be in pennies. At the most, an incentive of no more than 10¢ per bushel will be paid to program participants.

The corn carryout at the end of this current season is expected to rise about 50% from the near 900 million bushels that were carried over into this marketing year on October 1. Even with a set-aside program in effect and assuming normal weather, the stock of corn on hand at the end of the 1978-79 year is expected to rise at least 200 million bushels to nearly 1,400 million bushels.

A record crop of soybeans was harvested last fall from a record acreage. Anticipation of this crop caused a sharp drop in soybean markets from the $10 level. Since that time, excellent export and domestic use has resulted in somewhat better prices than would have been expected from the burdensome supply situation. Overall for the year, prices should average in the $5-per-bushel area, though they have been higher than this during early winter. One problem is that bean acreage will show only modest reduction this year and, with normal weather, supplies will continue burdensome. However, soybean markets can be quite volcanic, and many producers are holding at least a portion of last year's production, hoping for some domestic or worldwide development that could move the market significantly. There's some indication that China did not harvest a good crop last year, and this could further boost the pace of exports. But cash requirements for growing soybeans are much lower than for either corn or cotton, so we can only assume there will be a substantial acreage planted this spring. • •

Take It and Stuff It!

Last month, a national publication pointed out how banks are being pressured to hire minorities (women, blacks, Puerto Ricans, etc.) under threats from the Treasury Department that the latter would withdraw government funds from noncomplying banks. The Treasury has ordered banks to step up hiring and promoting minorities, and some of the country's major banks are specific targets. In fact, Chicago's Harris Bank now is involved with both the Treasury and Labor departments in a review of its equal-employment-opportunity program.

Usually, when the federal government issues an order, there may be some grumbling, but it's obeyed. However, the minority-hiring rule has run into opposition in at least one place in the South.

The president of a major bank there has reported to MID-CONTINENT BANKER that he had "negotiated" long and hard with Treasury officials, explaining that "in his market" it just wasn't possible to find qualified minority-group members. Thus, his bank wasn't able to reach the "approved percentage level of employment."

The Treasury would have none of that. So, in frustration, the bank president wrote to the Treasury and said, "Close the account. We're tired of these frustrations."

Was the money pulled out of the bank? No, because—believe it or not—the Treasury came back with a "Hold on, let's wait and see" attitude. "Maybe we can work something out," the department suggested and added, "We don't want to close the account!"

Other banks may want to applaud the southern bank president's courage, but, before following suit, they would have to determine how much money they would lose should the Treasury, indeed, remove the federal money. In addition, would the action create a lot of ill will and produce bad public relations if local newspapers published stories putting the banks in a bad light? These stories, although unfounded, could picture the banks as anti-women or anti-black.

Despite any possible repercussions, it's heartening to see a U. S. citizen fight back against regulations endlessly streaming out of Washington.

Capital Markets and Interest Rates: A Forecast for the New Year

By NICHOLAS J. DeLEONARDIS
Vice President
First National Bank
Chicago

NOVEMBER, 1977, marked the 32nd month of the current economic expansion—an expansion we feel will continue for some time to come. However, during most of this expansion, the behavior of short- and long-term interest rates has been most surprising. Between March, 1975—the recession trough—and July, 1977, money-market rates were generally below their trough levels, with the exception of a brief period in the summer of 1975. Long-term rates have yet to return to their trough levels. This activity is contrary to what we have come to expect from previous recoveries.

Two of the most often cited reasons for the excellent performance of the financial markets and contra-cyclical performance of interest rates do not stand up to scrutiny. We must examine these reasons before we draw any conclusions concerning the outlook for interest rates and credit demands in 1978.

First, the current recovery has been mediocre. WRONG! By almost any measure, this recovery has been one of the strongest on record. Moreover, with the exception of real personal income, a selection of the most comprehensive measures will demonstrate that this recovery has exceeded the average of the previous postwar expansions. Admittedly, some sectors have not performed well, such as business investments and our balance of trade, but on the other hand, consumers' durable goods and housing have been extremely strong.

Second, the current recovery has been characterized by a lack of strong credit demands. WRONG! The expansion of credit demands during this recovery has been typical of postwar recoveries. Total funds raised in U. S. credit markets have been increasing since mid-1975, and this growth has been accompanied by a normal cyclical change in the composition of debt raised. As the economy emerged from the recession in 1975, almost 40% of funds raised were borrowed by the Treasury. Since then, although the federal deficit has remained large, the credit markets have expanded to meet the increasing funds requirements of the consumer and business sectors.

The following can be given as the fundamental reasons why interest rates have not responded in the typical fashion of previous recoveries:

- Moderation of inflation
- Easy money
- Reduced risk
- Support from unaccustomed quarters

First, interest rates have declined as the rapid inflation rates of 1973-74 moderated. Just as occurred after the 1969-70 recession, the moderation of inflation has been accompanied by declines in bond yields. In 1973 and 1974, bond yields failed to rise as far as inflation rates. The virulent inflation of that period was viewed as somewhat transitory. However, yields did rise to record levels and have failed to return to rates that prevailed in 1971 and 1972. This suggests that the markets do not expect inflation rates—which have dropped dramatically—to return to early 1970 levels anytime soon.

Second, the last two years have been characterized by easy money. Somewhat paradoxically, interest rates, which have receded along with the rate of inflation, have also benefited from an atmosphere of easy money. The paradox arises from the fact that these same easy money policies are now widely and popularly associated with future inflationary pressures. This association reveals itself most obviously in the well-chronicled behavior of the credit markets on Thursday afternoons—when the money supply figure is released. Each large weekly increase in the money supply is met with sharp increases in rates and yields. Yet, when the violent weekly fluctuations are put in a longer-run perspective, increasing growth in the supply of money has occurred along with the steady decline in bond yields.

Third, the private credit markets have benefited from a substantial reduction of risk. Corporations have improved their balance sheets significantly. Although credit demands have expanded significantly since 1975, nonfinancial corporations paid particular attention to their balance sheets, which were badly distorted under the pressures of 1973 and 1974. Some improvement in liquidity as measured by the ratio of liquid assets to short-term liabilities is characteristic of all early expansions, but the repair in this recovery has been increasing among these corporations since the beginning of the recovery. They have also made tremendous progress in lengthening their liabilities. Again, even though progress is typical early in an expansion, the current period has seen relatively more improvement.

Fourth, the credit markets have received some valuable support from various quarters. Several investing sectors of the economy have demonstrated an unusually high propensity to invest in fixed-income markets. Insurance companies and pension funds have devoted an inordinate share of their substantial cash flows to the bond and money markets, rather than to traditional equity investments.

For example, life insurance companies directed 24.3% of their total investments to equities in the last recovery, while only 9.8% have done so this

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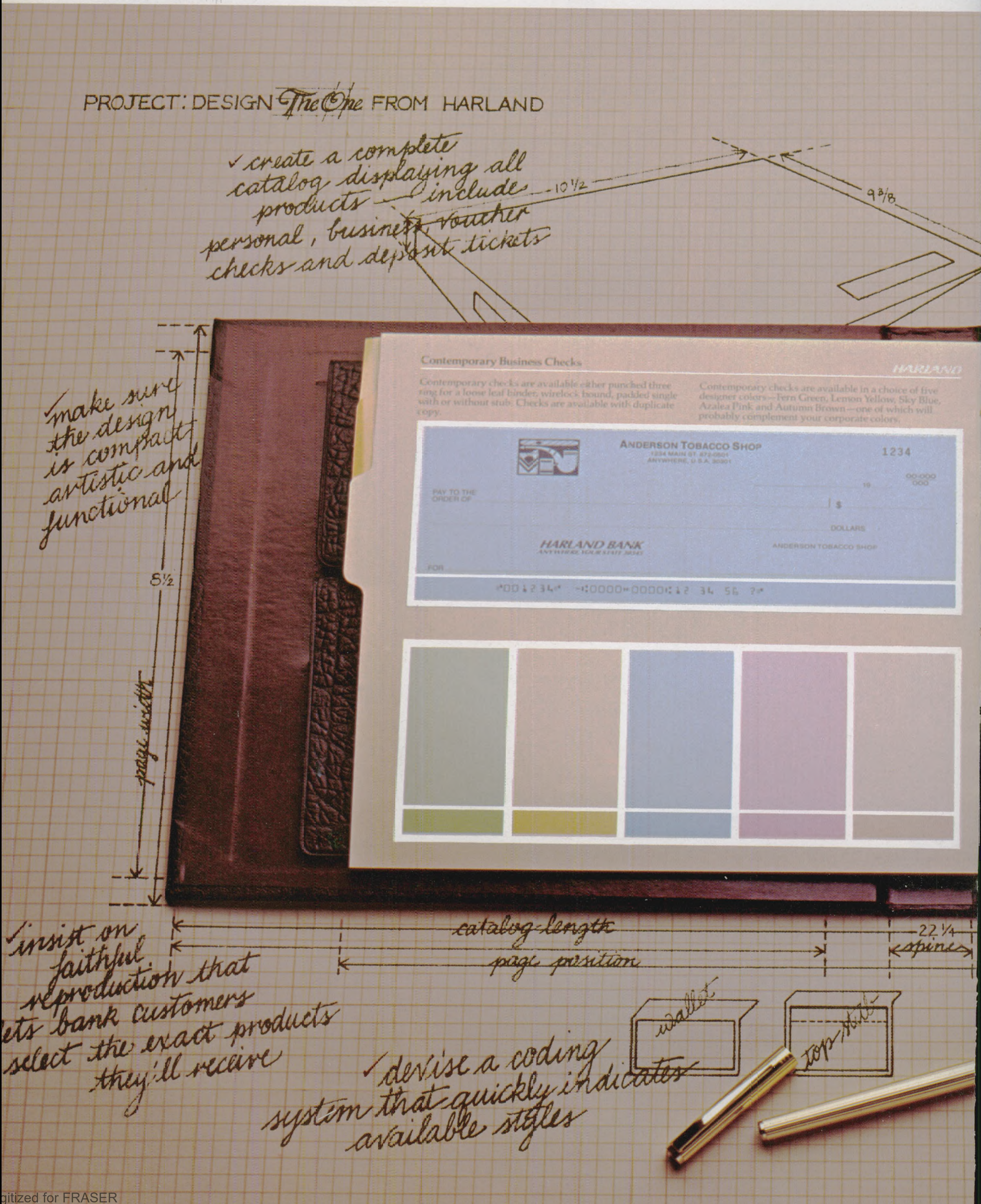
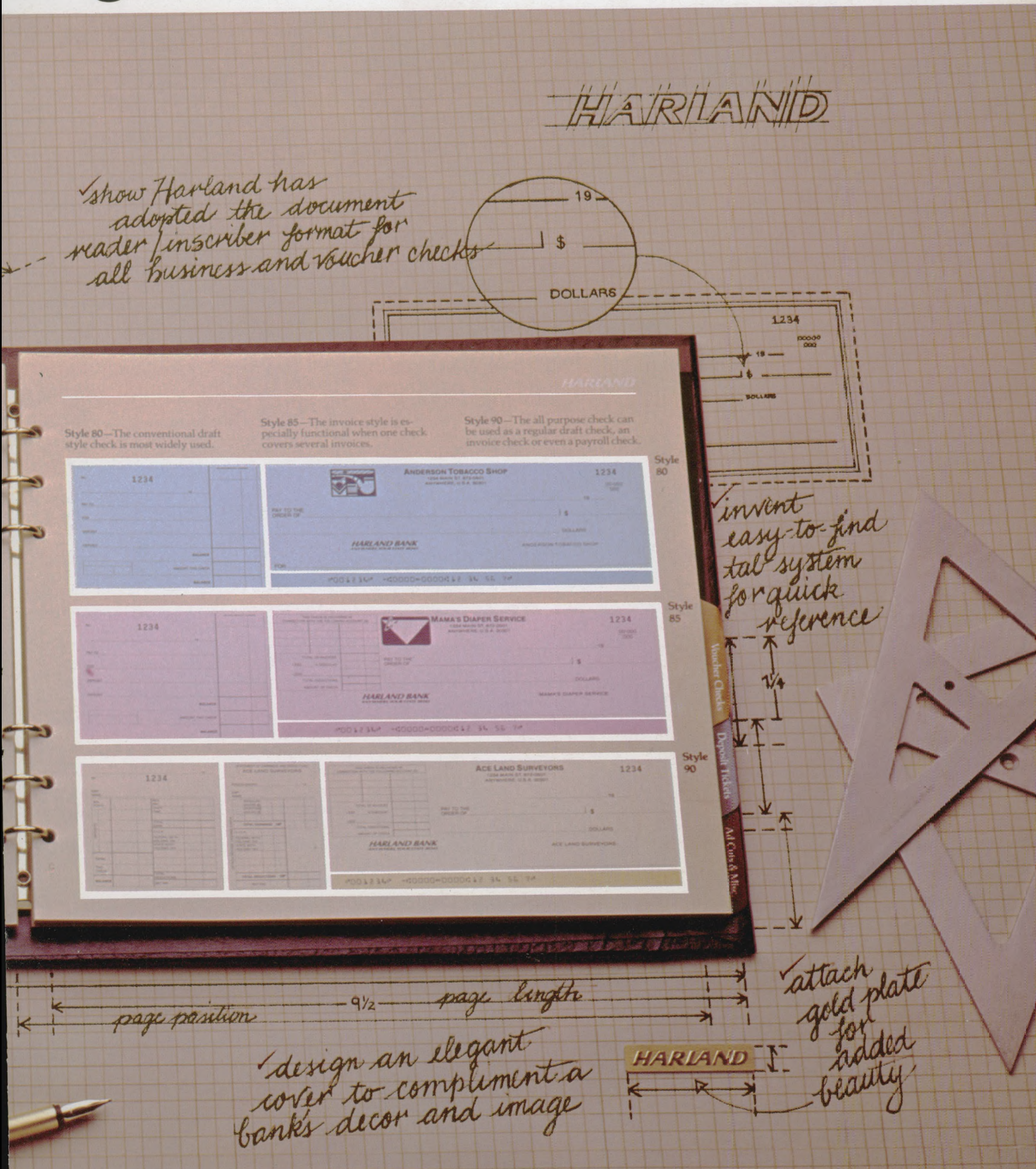
This article is based on remarks delivered by Mr. DeLeonardis at the 31st Conference of Bank Correspondents, sponsored by First National, Chicago, last November.

A masterpiece begins with classic



design. Here's *The One* from Harland.



BOX 105250, ATLANTA, GEORGIA 30348 (404) 981-9460 time.

Similar patterns show up in the investment strategies of casualty companies and pension funds. This is one reason for the disappointing performance of the stock averages, which has, in turn, reduced the amounts of equity capital raised in the current expansion.

The inflows of these funds to the fixed-income markets have kept yields on these securities lower in this recovery than might have been expected, while at the same time kept stock prices depressed.

A second area of support has come from the foreign sector. Although our trade balance has been in record deficit, a significant portion of the dollars flowing out in payment for goods and services has been returned in the form of capital flows. Net financial investment is estimated to reach $16.3 billion for 1977, versus a decline in financial investment of $8.4 billion in 1976. For example, over 50% of new Treasury borrowing in the first three quarters of 1977 was funded by foreigners. In part, this inflow resulted from relatively more attractive yields in this country, but more importantly, it reflects a fundamental faith in the safety of investments in our economy.

Turning to the outlook for the credit markets and interest rates for 1978, a key ingredient will be the durability of the economic expansion. The economy appears fundamentally sound; the current expansion is likely to continue for at least another year. Real growth is expected to run about 4.5% in 1978, only slightly less than the 4.7% growth projected for 1977. In 1978, the economy will be boosted by business investment, the government sector, consumer durable goods demand and by improvement in the trade balance.

Business fixed-investment will grow by more than 14% in 1978, which, when adjusted for inflation, should be a 7½% increase in real plant and equipment. An increasing share of business fixed investment will occur in the form of structures as opposed to business equipment, reflecting both higher capacity utilization and the greater confidence of the business community in the health of the economy.

Government purchases in real terms are expected to expand at a 2.8% rate in 1978—down from 6% in 1977. But, state and local spending will advance 4.7%, reflecting higher tax receipts, larger grants-in-aid from the federal government and the resulting easier access to credit markets.

Consumer durable goods purchases will continue to gain, although it is anticipated that new car sales in 1978 will be roughly unchanged from 1977 at an $11.3 million rate.

Although net exports of goods and services will remain in substantial deficit in 1978, the deficit could be lower than in 1977. The large trade deficits posted in 1977 resulted from the aftereffects of the cold winter, which severely depleted oil inventories. As these are replenished, the enormous oil import bill, which has adversely affected our trade balance, should moderate. Moreover, the flow of Alaskan oil should insulate somewhat our balance of trade in 1978, even though energy usage is likely to continue to grow.

As the last two years will attest, an expanding economy, by itself, is no guarantee that rates will rise. Therefore, it may be useful to reexamine the four reasons I have offered for the uncharacteristic behavior of rates so far in this expansion, and determine what impact they will have in 1978.

Moderating Inflation. The substantial rise in inflation rates in 1973 and 1974 was viewed as, and in fact was, transitory. However, the gap between current bond yields and current inflation rates—which serves as a measure of real return on corporate bonds—has already returned to "normal" levels. Thus, only a substantial further reduction of inflation rates will lead to still lower yields.

Such a substantial reduction seems highly unlikely. Even most optimistic forecasts of inflation in 1978 see nothing lower than 5%, and our forecast is for 6%—at best!

Easy Money. Monetary policy has been extremely accommodating in the last 12 months. Nevertheless, the Fed, in response to accelerating growth in the aggregates, has not been reluctant to raise money-market interest rates in an attempt to rein in growth.

Even though the Fed has failed to moderate monetary growth, its resolve has not wavered. Each new indication of strength in the aggregates has been met with a prompt, firm response from the Fed. Although it will become politically more difficult at progressively higher interest rate levels, we believe the Fed will continue to work toward reducing the rate of monetary expansion. This will, however, augur even higher short-term interest rates.

Reduction of Risk. The balance sheet reliquification begun by non-financial corporations in 1975 has run its course. In addition, the overall demand for external funds has accelerated, and the composition of non-financial corporate debt is changing. Liquid assets were reduced by almost $6 billion at an annual rate in the second quarter, the first such decline since 1974. In the first half of 1977, non-financial corporations increased liquid assets by less than half the annual amounts in 1975 and 1976.

Moreover, short-term debt accounted for over 40% of the total new debt raised in the first half of 1977, in contrast to only 22% in 1976 and a liquidation of short-term debt in 1975. These trends toward shorter debt maturities will probably continue.

Equity issues are expected to total approximately $5 to $6 billion in both 1977 and 1978. However, issues of corporate bonds will probably fall to the $15 to $18 billion range, from $18 to $20 billion in 1977. Bank loans, on the other hand, should accelerate—from $19 to $20 billion to $20 to $22 billion.

Support from Other Quarters. One hopeful feature of the present outlook is that the strong support lent to the fixed-income markets by insurance companies, pension funds and foreigners is likely to continue. An unattractive stock market is likely to persist, as is the basic attraction of our economy's stability and safety to foreigners.

Finally, at the same time corporate demands for credit are continuing to expand, Treasury borrowing is not likely to diminish. The fiscal 1978 budget deficit will probably come in at $50 to $55 billion, somewhat below the current Administration and Congressional estimates, which are approximately $60 billion.

Based on our outlook for continued economic expansion, an end to the moderation of inflation and the continued growth in credit demands, we expect interest rates to trend upwards during 1978.

Specifically, we look for rates on short-term money market instruments to be from 1 to 1½ percentage points higher than today's levels by the end of 1978. This would put Fed funds at between 7½% to 8%, 90-day Treasury bills at 7¼% to 7¾% and three-month commercial paper in the 7½% to 8% range. Commercial banks' prime rate should rise somewhat less than the above-noted increase, to perhaps 8¼% to 8¾%, as banks make further progress in reducing the burden of poor performing assets on their earnings.

Long-term rates should also be rising, although by less. Triple A corporates, currently trading around 8%, should move toward 8½% to 8¾%. While these instruments will continue to benefit from heavy demand from insurance companies and pension funds, the lack of any further improvement on the inflation front precludes any significant declines. • •

Five Banking Association Presidents Discuss Trades' Major Issues

Present Forecasts for the New Year

Marketing Skill Honing Gains New Importance Among BMA Members

By MARTIN J. ALLEN JR.
President
Bank Marketing Assn.

IT'S BEEN said that everything is marketable and there's a market for everything. While the statement sounds simple, financial marketing executives in 1978 will face a number of major challenges because of the changes taking place in today's regulatory, technological, economic and competitive financial environments.

The financial industry has always been competitive, but now commercial banks have an added dimension of concern brought about by the vast array of similar customer services being offered by S&Ls, savings banks, credit unions and other institutions. Adapting to the new environment will be difficult and will require more professional and precise marketing skills than ever before.

Strategic planning is the key to the overall marketing process. The bank that plunges ahead without the benefit of a workable marketing plan runs the risk of losing a profitable share of the market. The secret is to understand what consumer transaction patterns exist relative to current services, why they exist and what the most likely paterns of adoption of new services might be. This is particularly true as the nation's delivery system moves into the electronics era.

An effective marketing plan, therefore, must have a proper mix of the

(Continued on page 49)

Mr. Allen is a senior vice president at Old Kent Bank, Grand Rapids, Mich.

Environment Critical As Consumer Bankers Ponder Expectations

By JAMES L. SMITH
President
Consumer Bankers Assn.

IT'S THE TIME of year when all of us are counting up the marbles remaining from last year and reviewing, one more time, what we expect for 1978.

In order to visualize the role consumer credit may take in 1978 from the commercial banker's view, it may be best to think about the environment in which consumer bankers will be expected to perform. What, then, is the role of the consumer loan banker in a commercial bank in 1978?

What new factors will influence the decision process of bank management? We have seen the role of management shift from one of asset management to liability management, and, more recently, to capital accumulation. Profitability was the major emphasis in 1976 and 1977.

Clearly the impact on profitability will play a major role in the development of each bank's consumer service strategies this year. The contribution consumer credit has made in recent years has been amplified by the reduction in commercial loan demand. Consumers continue to pace our economic recovery, with some five million new workers since the beginning of last year and strong gains in personal income. And, although consumer confidence is reported to have dipped re-

(Continued on page 49)

Mr. Smith is a senior vice president at Security Pacific National, Los Angeles.

Legislative Activities To Occupy Independents Throughout New Year

By EDWARD A. TRAUTZ
President
Independent Bankers Assn. Of America

PREDICTING the future is frequently a no-win proposition: If you're right, no one will remember, and if you're wrong, no one will let you forget.

The enduring tendency of history to repeat itself, however, gives legislative prophesy a helping hand. The wheels of change grind exceedingly slowly on Capitol Hill and, in this age of recycling, many of the measures to be considered have passed this way before.

One such issue penciled in for a 1978 comeback is NOW accounts. Rebuffed in the House in 1975, Senate supporters of the proposal to pay interest on checking accounts tried their hand in 1977. Despite Senate Banking passage, the bill's path to the floor was blocked in the closing weeks of the first session.

It is with alarm that the IBAA has watched the congressional drive to take the New England NOW-account experiment nationwide. The spur behind the push remains something of a mystery. No public clamor has risen for interest on demand money. No overnight success story has decreed NOWs the wave of the future. In fact, the New England experience has yielded mostly negative conclusions concerning NOW-account impact on earnings, capital re-

(Continued on page 49)

Mr. Trautz is president, East Lansing (Mich.) State.

Information Exchange Gets High Priority On BAI '78 Calendar

By HORACE DUNAGAN JR.
Chairman
Bank Administration Institute

AS THE educational and research organization of the nation's banking industry, the Bank Administration Institute is in the information-exchange business. The institute constantly directs itself toward providing more pertinent, applicable, information services to our member banks, which comprise 95% of the country's total banking assets.

Consequently, we have been involved in some key developments within the past year at the BAI.

New directions have been given to the BAI's educational and communications programs, technical studies and research.

As I said above, our first and most basic objective is to provide for the exchange of information. That means education. The BAI's educational programs are aimed at analyzing what the experts are doing and sharing these ideas and experiences. Other educational programs stem from in-depth research and technical programs carried out by the institute. The BAI's commitment to continuing education and applied research is reflected in the conferences, courses and chapter presentations held throughout the United States.

In this fiscal year, the BAI will conduct more than 160 separate educational programs reaching several thousand individual bankers.

Another important area for the exchange of information is the BAI's newly formed Communications Division. This new division includes the publication department and an expanded public affairs department. It centers the various member and industry communications activities in one area and allows more coordinated effort as the BAI moves into new communications vehicles such as the new quarterly journal, *Issues In Bank Regulation.*

Our other major quarterly, *The Journal of Bank Research,* continues to gain in readership and recognition. And the monthly *Magazine of Bank Administration,* now the second-largest paid-cir-

(Continued on page 48)

Mr. Dunagan is president, First State, Caruthersville, Mo.

Economy to Guide Course Of Commercial Lenders As New Year Unfolds

By WILLIS F. RICH JR.
President
Robert Morris Associates

ANY DISCUSSION of the outlook for commercial lending in 1978 must, of course, be preceded by at least brief comment on the likely direction our economy will take during the year.

I am optimistic about our economic growth in 1978. I see real growth decelerating toward the long-term growth path of the last 20 years, but this is a positive, solid scenario for a sustained economic expansion. Real GNP growth in 1976 and 1977 averaged around 5%. To maintain improved levels of GNP growth in 1978 would lead to excesses in the economy that eventually could result in another recession. So our predictions are for real GNP growth to average 4½% in 1978.

This reasonably stable economic environment will present bank commercial lenders with healthy but only moderately increased loan demand. There was a good expansion in commercial loans in 1977, primarily outside the major money centers. I see a slight shift in the areas of growth this year with a gradual increase in portfolios of the money center banks and a continued, but slower, expansion in the regionals. I just cannot expect, however, regional banks such as ours to continue the 20% growth rate we had in 1977.

Some of the loan demand, unfortunately, will be created by inflation, which we in our bank see accelerating through the year to 7% by year-end. Another source of demand will be in capital spending, which may grow slowly in the first half of 1978, but which can provide the backbone of the economic expansion and our loan growth, particularly in the second half.

I see improved demand coming from plant expansion and large equipment purchases. Simultaneously, corporations will continue to control inventory expansion tightly in a conscious effort to avoid excesses and slow-moving items. But even with the most careful controls, inventory costs will move up sufficiently to provide an additional source of loan demand.

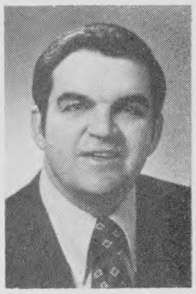
In addition, although commercial-paper volume relative to total loans is small, I also feel that the money center banks will see a return of more CP-issuing customers to bank borrowing. The CP market has been used actively by major corporations during the past two years, but the narrowing of the spread differentials between bank rates and CP rates will make bank borrowing more enticing.

As far as interest-rate levels are concerned, I think we will see a prime rate gradually moving during the course of 1978 to a level as high as 8.75%. The main impetus for the increase will come from tight monetary policy rather than from a sudden surge in demand. In its continuing fight to control accelerating inflation, the Federal Reserve will tighten interest rates to slow the growth of the money supply. No matter who the next chairman of the Federal Reserve may be, the Fed's monetary policy would not be expected to change significantly.

As loan demand increases, bank competition will remain strong, but with a return to more normal "earning spreads" and a revival of compensating balance requirements.

Tempering my optimistic forecasts,

Mr. Rich is executive vice president, Northwestern National, Minneapolis.



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however, is the very real fact that competition from nonbanking financial institutions will remain intense. Finance and insurance companies will continue to aggressively serve potential bank customers. Credit unions, other savings institutions and even stock brokerage firms will continue expanding their appetite for our traditional deposits. And, as we know, these competitors are not harnessed by the multitude of laws and regulations that cover banks. This makes the competition from nonbanks even more fierce.

Within the U. S. banking system, we are faced with competition from such entities as foreign bank branches. They have an advantage in not having reserve requirements on offshore loans to domestic borrowers although the differential recently was narrowed.

As we know, banks are weighted down by a political and regulatory environment that produces distortions and requires continual adjustments in our lending methods. Most bankers feel that regulations and their bureaucratic interpretations will continue to be more oppressive and stultifying. The next session of Congress most likely will produce renewed attempts to legislate such things as more reporting and disclosure requirements, more restrictions in the international-lending area, privacy excesses that would impede the free interchange of commercial-credit information, further expansion of powers to nonbank financial intermediaries and more inroads into allocation of credit by the government. We must remain alert and united in vigorously resisting any further erosion of the free-enterprise system.

Legal and regulatory restrictions are spawned often times by only a few whose conduct provides an opening for legislative or regulatory overkill. Positive steps for self regulation can defuse in part the explosive potential of burgeoning controls.

So, I would like you to consider a self-regulatory program, namely development of your own written internal employee code of ethics if you do not already have one. Have it carefully spell out positive, concise guidelines for your commercial personnel and, indeed, all your employees' personal financial behavior. It should be fully understood by everyone, reviewed frequently and rigorously enforced. I believe these guidelines properly communicated would not only be of service to our own bank staffs, but would blunt the more zealous thrusts of those legislators who feel that only governmental restrictions can prevent abuses.

Now is also a good time to conduct an overall review of our lending operations, to upgrade our portfolios, to make sure our lending and credit personnel are receiving adequate training. While we certainly have an obligation to provide financing to enable our communities to grow, we must not interpret that obligation as one to assume undue risks. We must pay stricter attention to pricing. We must avoid the credits which—through rate, risk or ignorance—will assuredly give us problems. Increased costs these mistakes produce erode our earnings, the very strength we need to compete, grow—indeed, exist.

So then, I am optimistic. I have confidence that we commercial bankers are alert enough, tenacious and innovative enough and responsible enough to take advantage of the growth opportunities which I predict. • •

Information Exchange

(Continued from page 47)

culation magazine in the industry, is read by more than 100,000 bankers each month.

As a personal aside, I'd like to say that I'm proud of our entire Communications Division. Thanks to its ongoing commitment to excellence, the BAI recently was honored for having the best total communications program of any association in the country.

The BAI chapter network also is expanding to meet the needs of our membership. The 278th local unit was recently formed, and more chapters are expected to be chartered soon.

The extent of the changes within both our education and communications programs is reflected in the kinds of projects that our research group, the all-important Banking Services Division, is stressing today. Emphasis is on more applied research as well as development of useful tools and systems for the industry. One example of how this kind of thinking and planning can pay off is the success of the call-report-preparation clinics.

Here, a serious problem confronting the industry was identified, the problem researched, possible solutions explored, and the findings were effectively communicated to our members via education and communications programs. What's even more significant, the results have since been measured showing substantial progress after the BAI became involved.

The problem was that too many banks were turning in call reports with serious errors. But now the FDIC recently reported an 80% *improvement* in error reductions. This turnaround was at least partially due to the one-day BAI call report clinics that reached over 5,000 bankers from 34 states during the past year.

The programs initiated during the past year in financial services, auditing and industry systems also are addressing major industry-level problems.

The BAI has represented the banking industry to the nation's Financial Accounting Standards Board on inflation accounting problems and with the Securities and Exchange Commission on the proposed changes in Article 9.

In the area of corporate-to-corporate electronic funds transfer, the BAI has been a leader toward building an interindustry, non-paper bill-paying system. Participants from corporate treasury offices who are involved in the BAI's present programs in this EFT field include such respected companies as AT&T, IBM, International Harvester, Monsanto and Prudential Insurance.

The critical importance that the institute ascribes to its audit programs has brought increased efforts in such key areas as EDP auditing, EFT security, audit standards, the chartered bank auditor program and new BAI literature on the audit function.

So, the BAI is working to better coordinate its research and educational and communications staffs to either develop an improved methodology for a current problem or challenge, or to help construct a new technique for taking advantage of new industry opportunities.

My chief concern is that the BAI continue to be a responsive organization not only to the needs and goals of the nation's banking industry, but to the country as a whole.

In closing, the BAI, in my judgment and that of its board, is well on its way to expanding its efforts to produce even more valuable contributions to our industry. I hope there's evidence of this

Horace Dunagan Recovering

Horace Dunagan Jr., chairman, Bank Administration Institute, has returned to a full schedule at his bank following successful surgery in Baptist Hospital, Memphis, November 28. He is president and CEO, First State, Caruthersville, Mo., and a past president, Missouri Bankers Association.

Although Mr. Dunagan had never suffered a heart attack, he underwent a double-bypass heart operation. He was released from the hospital December 8.

in the substantive and far-reaching programs in which we are presently involved. • •

Marketing Skills

(Continued from page 46)

disciplines of research, product development, communications and pricing. If any one of these four basic elements is missing, the plan will have difficulty succeeding.

While each discipline is vitally important, the meaningful pricing of services will be perhaps the most challenging. To approach pricing intelligently, we will have to know what our costs will be, which means greater interaction with other banking functions.

In essence, marketing officers will have to be better bankers. They will have to have a better grasp of the overall banking process to gain the credibility needed to support line efforts in such important areas as the internal-transfer pricing system. High-performance marketing executives with bottom-line concern will move away from past practices of emotional pricing in lieu of more rational pricing of individual services.

To be consistent with corporate bottom-line objectives, a bank's marketing strategy must be an integral part of the profit plan. There must be a systematic process that ties the functional areas of marketing together to meet the needs of the line people. This process, synthesized with the total profit plan of the bank, is what the marketing-planning process is all about. It pulls the various factors together so that everyone is on the same track, working toward the same objectives.

On balance, in 1978 and beyond, the most important question facing every bank officer is how to convert apparent problems into profitable opportunities in an extremely complex environment. A certain amount of risk may be involved in the process. However, with accurate information, properly researched and communicated to management in the highest professional sense, commercial banks will more than survive. They will prosper. • •

Legislative Activities

(Continued from page 46)

tention and stability of commercial banks. Yet Senate passage still has a chance, and defeating NOWs will claim a top priority in this new year.

Credit unions also would share in the spoils if the NOW bill became law. Check-like share drafts, already available in several states, won a berth in the multifaceted legislation, ensuring CU support. Armed with the third-party-payment option previously reserved for the commercial-banking world, credit unions could begin to live up to their reputation as commercial banking's most dangerous long-term rival.

Court challenges of share-draft programs in Iowa, Florida and Texas should heat up in 1978. Although a decision in the CUs' favor on the local level would not serve as a precedent for federal authorization of the instrument, it assuredly would have a catalytic effect on the introduction of the program in additional states.

The predictable effects of the NOW-account bill provide the IBAA's ammunition against the concept. The real loser in the NOW game is precisely the one the legislation purports to reward —the average consumer—with profits from the venture likely to pad the vaults of the nation's largest banks. Seeds of concern over these financial facts of life planted in the first session should take sufficient root in the second to possibly defeat the bill on the Senate floor and to cut it off at the subcommittee level in the House.

Specific, often contradictory demands of interested, influential parties could help shred the bill's fabric. The same interest on Fed reserves provision, which is wedded to the Federal Reserve Board's endorsement of the NOW proposal, is unacceptable to Senator William Proxmire (D.,Wis.), powerful head of the Senate Banking Committee. The fate of the differential will determine where the nation's thrifts will come down on the issue. Such face-offs on the Senate floor could badly splinter the delicate coalition proponents have pasted together, and conditional support for the legislation could tumble like a house of cards.

Even more threatening to our members is the Safe Banking Act, a measure dragged onto center stage on Bert Lance's coattails. The tight controls the bill would impose on the financial community could be fatal to the future of independent banking in the rural heartland. Although the House sponsor hoped the OMB director's fall from grace would ensure 1977 passage, an outpouring of opposition from the nation's bankers foiled the attempt, stalling the bill in subcommittee.

The IBAA supports some of the provisions of the bill—the cease-and-desist powers it would confer on the nation's financial regulators and the civil penalties it would impose on violators represent meaningful reforms. But the bill directs most of its thrust at curbing potential abuses with legislative overkill, flexing significantly more muscle than its Senate-passed counterpart.

The nation hasn't heard the last of the Lance affair, and congressmen intent on binding bankers' hands will use still-to-come publicity drawn by the pending Securities & Exchange Commission investigation to fuel the regeneration of the so-called Safe Banking Act. A regulatory survey of national bank practices also is due out this month, the results of which could figure heavily in determining the bill's fate.

The returning Congress also will resume debate on a handful of electronic-fund-transfer proposals. Despite the cool reception accorded the recommendations of the National Commission on Electronic Fund Transfers, one measure already introduced in the Senate tracks the panel's controversial conclusions. If enacted, the bill would give federally chartered institutions interstate deposit privileges in natural market areas through EFT terminals by 1980, grant them immediate nationwide debit-service authority and nullify state mandatory sharing laws in favor of federal antitrust laws.

The measure draws a clear distinction between EFTS components and traditional brick and mortar branches, a view not shared by the courts, which have ruled that an EFT outlet constitutes a branch within the meaning of federal banking laws. The proposals strike at the heart of the McFadden Act and represent the first step on the road to nationwide branch banking.

The controversiality of these issues, heightened by dissention within the commission itself, could make it difficult to assemble majority endorsement of the bill. Privacy concerns, the basis for two other measures under consideration in Congress, will garner broader support, with 1978 enactment of tighter consumer safeguards a sure bet. • •

Environment Critical

(Continued from page 46)

cently, it is still high.

Auto sales are projected by industry representatives to reach all-time highs in 1978. With higher auto price tags and new high-mileage models available, auto loans will do well. This is particularly true in our extremely mobile and consumption-oriented society. Most of us will find our time occupied with analyzing the growing number of questions about competition, privacy, electronic payment and funds transfer systems, deciding how to approve loans without discriminating and how to collect them in an era of deteriorating creditor remedies.

But other considerations are beginning to have an influence on the role of bankers in 1978.

Many bankers are taking hard looks at where they are and how they got there. Since the beginning of the American banking system, bankers have been deeply involved in the business, social and cultural life of the communities they serve. Beginning as caretakers of the property of others, banking has expanded to marketing products unheard of just 10 years ago. In the process, our desire for growth in outstandings and profits has taken us away from the image of "keeper of the purse strings," in the minds of many of our customers.

" 'We are creditors, not predators,' must be more than a campaign slogan for legislative consumption."

This may well be a year of adjustment in growth rates and a period of consumer regrouping in buying attitudes. The consumer banker can be a positive force in assisting consumers, should this occur. "We are creditors, not predators," must be more than a campaign slogan for legislative consumption.

If there is a leveling of demand, let us, as bankers, take the opportunity to evaluate our loan terms and conditions, types of credit offered and marketing techniques to ensure that we are operating within the limits imposed by our knowledge and expertise.

We must conduct our consumer activities, both lending and counseling, with an eye to the consumer's historical reliance and confidence in banking, as well as to the need to measure expanding opportunities in a more competitive atmosphere.

In an era of renewed responsibility and during this current effort to brighten any possible tarnish, consumer bankers can constitute a positive force because of their direct customer contact. In the legislative and regulatory area, for example, past involvement has taken the form of encouraging officers and employees to assist in the various fund-raising activities of community endeavors, social agencies, the county fair, the fund to support the symphony orchestra and other important, but noncontroversial, issues.

More recently, the issues have come into sharper focus and specific commitments now have to be made by bankers. Where the commitments are still made reluctantly, social pressures will bring a demand for clarity and visability for taking a position and making it known—a "put your money where your mouth is" insistance by consumers.

Some bankers are already responding. Never before have banks been so eager to provide a public record of full disclosure and creditability. To be sure, some of this change has been mandated by federal and state legislation, but not all, by far. The banker's role in 1978 can include an expansion of programs for community involvement and social responsibility to ease racial tensions and assist the minority applicant who is sincere.

One such program is the HUD Community Redevelopment or "Block Grant" program. Bankers can provide the most important ingredient in this approach: skill in application processing, funds disbursement and loan accounting. The use of federally insured Title I Programs can leverage community funds 10 to one.

The government process—which created the several consumer related acts designed to protect and inform consumers—can, and should, be affected by bankers. We now have two fronts to consider in this area. On the one hand are the many well intended—but not always well informed—legislators who will listen and are helped by an active banker involved in a proposed bill affecting the industry.

A much more ominous situation is emerging as more and more regulatory agencies are eager to "make law" by their own proceedings. Many of them are staffed by inexperienced but highly motivated reformers who believe the answer to every problem is to pass a regulation.

We can look for a continuation of this in 1978 and should make a firm resolution now to become more involved in the effort that must be made to affect legislation as much as possible. It has been proved many times that you can't have an impact on legislation without a commitment in time and money.

An area of real concern to me in fulfilling our role in the social area is the present situation regarding student loans. Costs of an education continue to increase and many educational institutions are finding it difficult to provide all the financial aid students need. Any parent with a son or daughter in college, or about to enter college, certainly knows this. In addition, hundreds of badly needed vocational schools and community colleges make a real contribution. "A mind is a terrible thing to waste" is a powerful comment.

Bankers have been the predominant lenders since the present program was originated in 1965. In recent years, the burden of federal processing requirements, a general lack of direction and very high default rates outweighed the "social responsibility" reason for being in the program and led more and more bankers to restrict or discontinue their participation.

At this time, in most states, consumer bankers are working hard to take advantage of the 1976 amendments in an effort to have a workable state-administered plan in place in time for the 1978 fall enrollment. It doesn't appear that many of them will be successful in time and outstandings will again decline, leaving many student applicants vainly seeking alternate sources for tuition expenses.

The vast majority of Americans handle their installment debt obligations with only minor difficulty, or none at all. The titles of "Merchants of Debt" or "Plastic Poppers" and "Credit Card Junkies" are sadly misplaced, but widely reported. It's our responsibility to ensure—on the consumer credit level, and throughout the bank—that we conduct our daily business on the highest level without ever giving a customer a reason to believe otherwise.

EFTS Marketing Meeting Planned For New Orleans Feb. 26-March 1

NEW ORLEANS—"1978: The Time to Decide EFT" is the theme of the Bank Marketing Association's EFTS marketing conference scheduled for February 26-March 1 at the New Orleans Marriott.

The first day's discussion will focus on an external and internal analysis of today's EFT issues. The next day, delegates will examine both plastic and nonplastic strategies for implementing automated-teller-machine and point-of-sale systems and telephone bill paying. On the third day, successful approaches to communicating EFT services to consumers will be described. In addition, the program will include talks on financial implications, and what to expect from the legislative/regulatory faction, a consideration of ATM activities, unveiling of a recent analysis that will provide another alternative to evaluating bank systems and a futuristic look at EFTS in the banking industry.

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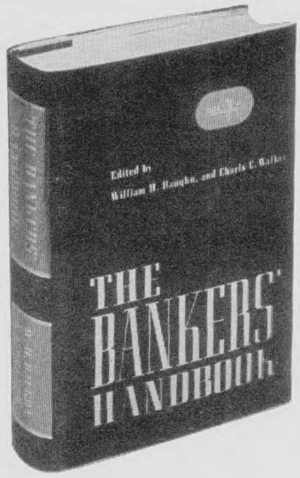

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Busy, But Quiet, Year Is Foreseen in State-Legislative Area

A BUSY, but relatively quiet, year seems to be looming ahead on the state-legislation horizon. As usual, there are proposals for legislation in the areas of EFTS, credit unions and detached facilities. Also, various state legislatures may consider such subjects as credit cards, right of privacy, insurance and foreign banks.

However, in Indiana, there probably will be many bills proposed that could affect banking.

Here is a roundup of some of the legislation that may be considered in individual states in the Mid-Continent area:

Illinois—Further credit-union legislation is a possibility, according to Donald X. Murray, general counsel, Illinois Bankers Association. He points out that the IBA and a number of its banks sued the state's director of financial institutions concerning the matter of CU share drafts and expanding powers.

During the past year, the IBA's EFTS commission was reestablished, and Mr. Murray believes legislation most likely will be proposed in this area.

Another major area of legislative interest in Illinois, he continues, will be proposals for changing its present unit-banking structure to allow some form of multi-office banking. Legislation in this area has been introduced consistently over the past 15 years, he adds.

In addition, Mr. Murray says the IBA expects the normal amount of consumer activities, tax and general bank housekeeping legislation to be introduced.

Kansas—A legislative session more complex than usual is forecast here by the Kansas Bankers Association's state affairs commission (SAC). All members of the Kansas House and statewide officials will run for reelection following the 1978 session. In addition, there seems to be an unprecedented number of legislators who are considering running for higher office. In any event, according to the KBA's SAC, 1978 will be a year of change.

A particularly "hot" item this year could be HB 2561—consumer loans in detached facilities. The bill was carried over and still is in the House Committee on Commercial and Financial Institutions. The KBA is maintaining a neutral stance on this bill.

The state affairs commission has recommended that the KBA actively seek legislation that would require a creditor garnisheeing a person's bank account to stipulate the amount.

Kansas Insurance Commissioner Fletcher Bell has announced intentions of lowering credit life premiums from the present 75¢-per-hundred rate. The KBA has recommended to Mr. Bell that a 70¢ rate be adopted and voices the hope that the rate will not go below 65¢ per hundred.

SAC has recommended that the KBA have legislation ready for introduction in the 1978 session authorizing direct deposit of state payroll, even though it may be a lengthy bill. The KBA's attorney has been instructed to try a simple "proviso" amendment first.

Louisiana—The Louisiana Bankers Association, looking toward the April 17th commencement of the state's regular legislative session, foresees one piece of legislation that will be of great concern to banks. According to Allie C. Kleinpeter Jr., the LBA's government relations officer, this bill is the "equal-management" concept, which would mean rewriting the state's Civil Code on community-property laws. Mr. Kleinpeter points out that while this is not specifically a banking matter, it will affect the banking industry to a great extent since it deals with encumbrances on community property of a husband and wife. Interim committee hearings are being held now, but Mr. Kleinpeter says no one will know the impact this proposed legislation will have until the latter part of February.

In addition, he expects the usual "insurance-agents" bills, which have appeared in each of the last five or six years, and a credit-card-rate-reduction bill, which would be the same as one proposed in an earlier legislative session.

Mississippi—Five requests pertaining to banking are being made by the Mississippi Bankers Association in the state's 1978 legislative session, which began January 3 and adjourns April 2. According to MBA Executive Director John R. Hubbard, these requests are:

- Amend existing law to provide for a reduction in the minimum par value of state bank stock from $5 to $1 a share, while allowing state banks to have a classification of common stock known as authorized-but-unissued.
- Amend existing law to broaden the list of securities eligible to be pledged by banks for public-fund deposits and make uniform the list for state, county and city funds.
- Liberalize the time after an official call for call reports to be submitted to the state bank comptroller from 10 to 30 days.
- Adopt a law requiring any foreign bank that wants to establish a branch in Mississippi to obtain approval of the state banking board prior to establishment of such a branch.
- Establish a fee schedule in connection with applications for new bank charters and mergers.

Indiana—The 1978 Indiana General Assembly is a so-called short session because it lasts only 30 session days and must be adjourned by March 15. Thus, it should be a session when fewer bills are introduced, especially in the banking area, but at present, according to the Indiana Bankers Association, it looks as though a great deal of legislation affecting bankers will be proposed. How many of these bills will receive serious consideration remains to be seen.

The IBA says one reason there will be several bills is that the state's department of financial institutions (DFI) has taken a new aggressive posture and has obtained approval of the governor's office to sponsor several bills, some of which will be controversial. For example, the IBA points out, the department will sponsor a "failing-bank bill," which would provide that, under certain conditions, a failing bank could be taken over by a bank located outside its county and then be operated as a branch. This would be despite the fact that Indiana law limits branching to the county in which a bank's home office is located.

Another DFI bill—to which the governor did not give his approval—would permit expanded branching into contiguous counties and eliminate home-office protection. Another bill would permit multibank HCs. The IBA predicts a lot of banker opposition to these bills.

The IBA is neutral on all banking-structure issues.

The DFI will propose legislation that would allow S&Ls to be depositories for public funds up to their FSLIC insurance limits; eliminate present reserve requirements for state-chartered banks; and permit variable payments on real-estate-mortgage loans. The IBA opposes the first proposal, neither supports nor opposes the second and hasn't taken a position on the third.

The IBA will sponsor a bill to permit a bank to own property and lease it to a store (grocery, drug, etc.) when the bank has a mini-branch in the building. In turn, the store would sublease the branch and/or drive-up facility to the bank. The bill has these restrictions: The property could be owned by the bank only when a branch is located on the property. The store must be a substantial business, and the dollar amount should be part of the present limitation on total banking-house expenditure. Approval of the branch would be a separate issue. In sponsoring such a bill, the IBA points out that mini-branch operations are becoming increasingly popular and make sense from an economic point of view.

Another IBA-proposed bill would permit reciprocal foreign administration of trusts. Under the proposed change in the Indiana Probate Code, the state would allow fiduciaries in other states to act in that capacity in Indiana if the other states have reciprocal laws.

Senate Bill 55—supported by the IBA—would authorize public investments in repurchase agreements and passbook-savings accounts and prescribe the interest rate for CDs. Under present law, the state treasurer can invest in repurchase agreements, but local government units cannot. Presently, neither state nor local funds can be put in passbook-savings accounts.

Missouri—This state is expected to have a hectic legislative session, with more than 800 bills already pre-filed to be considered in a short four-month period. Under these conditions, the Missouri Bankers Association believes it's unlikely that major banking laws will be passed. There is one bill—on electronic funds transfer—that promises to be one of the more controversial issues this session. It was developed by the House Consumer Protection Committee. Other possibilities are:

- Clarify late charges on installment-loan payments.
- Redefine banking day.
- Reduce bank liability and end will searches of joint safe deposit boxes.
- Ensure consumer financial privacy.
- Require abandoned funds to be turned over to the state.
- Under the Uniform Consumer Credit Code, recodify usury laws to provide greater consumer protection than is provided at present. • •

Steady Recovery Forecast For Economy This Year By Banker in Chicago

CHICAGO—The economy this year will continue its steady recovery, with government intervention, inflation and capital spending still looming as adverse factors. This was the opinion expressed at a press conference December 14 by Allen P. Stults, chairman, American National, and president, Walter E. Heller International Corp.

STULTS

According to Mr. Stults, the Administration's tax proposal—if enacted in its present form—would be counterproductive because it doesn't include sufficient incentives for capital expenditures and private investment.

Here's 1978 at a glance, as foreseen, by Mr. Stults:

Real GNP will increase 4% to 4½%, and nominal GNP will go up 10% to 10½%, reflecting a 6% inflation rate. Housing starts will total 1.9 million, against the two-million estimate of 1977. Eleven million to 11.5 million autos will be sold, compared with the 1977 level of 10.5 million units.

A 13% capital-spending increase will be less than the estimated 15% of 1977.

Prime interest rates should be 7¾%, 8%, 7¾% and 7½%, respectively, in the four quarters. This will compare with 6¼%, 6¾%, 7¼% and 7¾% in the 1977 quarters. Long-term interest rates will vary between 8¼%-8¾%, compared with the 1977 figure of 8¼%.

Unemployment likely will go down to 6.5% from the current 7.1%.

'Banking 1985'

A Look Far Into the Future For Financial Institutions

MOST of the articles in this issue of MID-CONTINENT BANKER, as is traditional every January, contain forecasts for the year ahead by banking-industry leaders in areas of interest to and that affect banking. Admittedly, it takes courage to make these forecasts because of the uncertainty surrounding the economy, legislation and banking itself.

Therefore, it's unusual when a forecast is made, not just for the next 12 months, but for a period covering almost a decade. That's just what Mosler Safe Co. did in a recently published booklet, "Banking 1985." The authors are Albert H. Kocher, director of industrial economics, American Standard, Inc., Mosler's parent company, and Joseph P. Patten, Mosler's director of market planning.

The study was made, says the introduction, to help bankers plan ahead by analyzing the various changes that are taking place and projecting their impact on the banking industry through 1985.

Messrs. Kocher and Patten foresee a slowdown in economic growth, a phasing out of protective banking legislation, accelerated development of electronic funds transfer systems and a shifting of assets toward large multinational banks.

The 68-page booklet examines some changes that will take place mainly in three spheres: economic, political and technological. The study is divided into two major sections:

1. Factors of change in economics, legislation and EFT development.
2. Impact of change on banking operations, industry structure, delivery of services and bank security.

To gather the information necessary to forecast changes in these areas, it was necessary to single out those advances having the greatest significance to banking in the next few years. In doing so, the authors used two major sources:

1. Direct consultation with experts (via interviews and discussions with bankers, economists, Mosler staff experts and others).
2. Investigative research in business surveys, technical papers and other literature.

Results of these efforts were reduced to quantitative data. Next, individual variations were blocked out and refined as a set of structural equations, which were tested to assure proper identification, and used to estimate values through 1985. These estimates then were formulated into an empirical model of the banking system, and a 1985 scenario was created, says the study's introduction.

The Mosler booklet described in the accompanying article forecasts what lies ahead for banking not just in the next year, but all the way to 1985. The booklet envisions the following changes being voted into law over the next five years:

1. Extension of checking accounts to all depository institutions.

2. Phase out of Regulation Q interest-rate ceilings within a four-year period and permission for institutions to pay interest on demand deposits.

3. Broader consumer-loan powers given to thrifts.

4. The power to offer residential mortgages given to credit unions.

Space limitations prevent reporting the booklet completely. However, the following highlights should provide readers with an idea of the information contained in the study. See the accompanying box for information on how to order copies of the booklet.

Economic Climate. The economic climate over the next eight years will be marked by moderate real growth, high inflation rates, high unemployment and lower "quality-of-life" expenditures by individuals. A major problem affecting the growth of the economy and particularly the financial industry is expected to be a shortage of capital needed to finance commercial and industrial expansion. The role of banks in allocation of financial resources will become more dominant over the next decade. As individuals' funds are channeled into commercial banks at high savings-rate levels, these institutions must carefully allocate this scarce resource to commerce, industry and individuals.

Political Factors. The financial industry will be deregulated to some extent over this period. Protective legislation such as Regulation Q and various state banking laws will be phased out to promote stronger competition among institutions, particularly in the interest-rate area. Financial reform will not be completed until the early 1980s. The restructured industry will continue to have specialized types of institutions—commercial and mutual savings banks, S&Ls and credit unions—but the distinctions will be far less clear than they are today. New control powers by the Fed will enable the central bank to more effectively administer monetary policy and protect against disintermediation in the future.

Financial-Institution Reform. The booklet envisions that the following changes will be voted into law over the next five years:

1. Extension of checking accounts to all depository institutions.
2. Phaseout of Regulation Q interest-rate ceilings within a four-year period and permission for institutions to pay interest on demand deposits.
3. Broader consumer-loan powers given to thrifts.
4. The power to offer residential mortgages given to credit unions.

Bank Regulation/Supervision. The dual system of state and federal regulation will survive the next decade, but the system will evolve more into a division between big and small (big representing nationally chartered banks and small representing state-chartered banks).

Uniform reserve requirements for all federally chartered banking institutions will be obtained by the Fed to yield a finer monetary control. This will result in a tendency for smaller banks to convert to state charters, where reserve requirements generally are lower.

McFadden Act modifications will loosen branching restrictions on nationally chartered banks. These changes won't be a direct attack on branching restrictions; rather, they will be viewed as subtle alterations that will permit national banks to offer more convenient services. The most important changes will be to establish a new definition for electronic terminals that clearly will exempt them from branching restrictions (i.e., electronic satellite facilities instead of customer bank communication terminals and remote service units) and extend services so that a Loan Production office or Edge Act office may provide services/loans to corporations and consumers. These changes would convince larger state-chartered institutions to convert to federal charters.

Interstate banking nationwide will not be developed through federal legislation in the next eight years, but will come about gradually. The previously mentioned expansion of services offered to Loan Production offices and HCs' operation of nationwide finance company chains will firmly establish de facto interstate banking by 1985. So, too, will there be an extension of debit-card services into nationwide interchanged bank-card operations. Further, it's expected that many states will open their boundaries to out-of-state banks through reciprocal branching agreements in the 1980s.

EFTS. The key to EFTS success will be complete customer acceptance of credit and debit cards as "plastic money." While a large body of individuals now habitually utilizes a card, the base must be expanded to include most people who use the banking system. This will happen over the next eight years because use of a card has many advantages to the consumer. Eventually, only one card will be used—a bank card that either does or does not have overdraft (credit). This would be equivalent to today's checking accounts. The same card could be used as a check-guarantee card, with usage functions coded on the card.

The automated clearinghouse (ACH) will be the electronic intrastructure for EFTS—a neutral interconnection among the nation's banks (all financial institutions will be allowed access to the system). The Fed will develop and control this system.

The ACH will *not* be a nationwide computer switching system for on-line, real-time debiting and crediting. Although many regional ACHs will have the ability by 1985 to communicate computer to computer, the principle of operation will be batch processing. Most transfers in 1980 will be through mag tape or other machine-processable media. Float still will exist, but it will be much lower than with physically moving checks.

There will be exceptions to the above-mentioned definition of ACHs. Some regional centers probably will get involved with on-line, real-time authorization networks, point-of-sale projects and shared ATM experiments. From a practical standpoint, this still will be considered experimental even in 1985 unless there's a Fed commitment to support a nationwide switch. This is unlikely, however, because of the huge systems resources required and the desire by most in the industry to keep the federal government out of the domain of private business.

The Bank Wire, Society for Worldwide Interbank Financial Transactions (SWIFT) and New York Clearinghouse Interbank Payments Systems (CHIPS) wire systems will continue to develop separately from the ACHs as high-dollar-value, low-volume-transfer networks. These systems will be upgraded continually to allow computer-to-computer communications (such as between Bank Wire II and SWIFT) and eventually will be opened for direct use by large corporations.

The real action in EFTS will center about development efforts in banks' proprietary on-line systems. On-line, off-premise terminals will tend to operate in a shared mode due to the economics of splitting the EDP investment and because of certain state laws that do and will require mandatory sharing. The shared networks will require a switching and processing center (SPC) to process and control switched throughput and provide backup for unavoidable bank-system failures.

POS and ATM terminals will be bank owned (or owned by an independent firm jointly owned by participating banks) or owned by retailers (when POS terminals also are used for a cash register, inventory control, accounts receivable, etc.).

Initially, the systems will be operated on local bases, then expanded to regional participation. By 1980, there should be about a dozen pilot projects operating around the country.

Banking System Changes. The industry will accelerate the current trend of concentrating assets in large, multinational banks. The "small" bank will continue to have a role in the banking system, but there will not be the large number that presently exist. Laws that now protect small institutions against competition will be phased out, and unit banks that don't have good managements will fold or sell out to larger institutions. Multibank HCs also will tend to convert to branch networks (when laws permit) to facilitate centralized accounting. The branch office still will exist in 1985, but its primary purpose will be to serve as a personalized financial service center. At this point, external delivery systems will be utilized to handle a fair percentage of routine transactions.

Demand-deposit and savings accounts will be combined into one interest-bearing demand account. Time savings accounts will be used in place of today's certificate of deposit.

Overdraft banking will become a popular form of banking, primarily with small and medium-sized businesses. More of the burdens of cash-flow management for industry will shift to commercial banks.

Contrary to the Booz-Allen & Hamil-

(Continued on page 60)

"The 'small' bank will continue to have a role in the banking system, but there will not be the large number that presently exist. Laws that now protect small institutions against competition will be phased out, and unit banks that don't have good managements will fold or sell out to larger institutions."

Copies of the Mosler booklet, "Banking 1985," may be obtained by writing: "Banking 1985," Mosler, 1561 Grand Boulevard, Hamilton, OH 45012. A charge of $15 per copy is being made to help defray printing costs.

Loan Demand

(Continued from page 32)

2. Alabama has been discovered as an excellent location for new and expanding industry. Interviews with industrial executives moving into the area indicate the following motivational factors: (a) The Alabama work force, men and women, is more productive per dollar of wage cost. (b) Alabama is a primary source of energy resources. Hydroelectric, fossil fuel and nuclear power are available, plus gas and oil in lesser quantities.

3. As the Sunbelt develops as a larger consumer, Alabama is strategically located for distribution.

4. Alabama, traditionally rich in natural and human resources, has achieved the capability of marshaling its financial resources with the advent of the holding company. This new credit tool has great appeal to new and expanding industry.

Impact on Bank Earnings. Bank earnings for the last two years, acknowledging isolated, individual bank problems, have been at a high level. This high level of earnings has been possible primarily for the following reasons:

1. Quality of loan portfolios has precluded abnormally high allocations to loan reserves.

2. Quality of loan portfolios has maintained loans in the non-accrual and other real estate at low levels.

3. Good deposit growth, combined with steady loan growth, has taken pressure off liability management and permitted a better than normal interest margin.

Improved Earnings Opportunities. We all recognize that national economic trends and money-market developments beyond the individual banker's control can have an impact on earnings; however, many planned courses of action are available to Alabama bankers to improve income in 1978 such as:

1. In the credit area, an aggressive plan of action to allocate credit properly in the local market will increase income, improve the marketplace and diminish the possibility of sizable losses experienced when overzealous bankers go outside their defined marketplaces.

2. Bankers can continue to upgrade service-charge schedules in all departments. The level of charges in Alabama has lagged, escalating by a wide margin, particularly in the smaller banks.

3. At this late date, it's surprising how many banks do not segregate the items of interest income, interest expense, non-interest income, non-interest expense. Installation of a simple system designed to present this essential data in an orderly manner could be an excellent management tool as well as an excellent guide for policy decisions by the board of directors. Interest margins are easily computed, and serious operational leaks are spotlighted. Intelligent directors will quickly detect when growth is being bought instead of earned. The inevitable result of simple, sound accounting will be higher earnings.

4. A survey of statewide banks reveals an alarming increase in the category of "miscellaneous losses." This category includes robberies, frauds, teller deficiencies, etc. The banking industry has a new generation of bank staff personnel, and in many banks this new group, however well intentioned and industrious, appears to have a lack of understanding of basic bank-accounting principles. This lack of understanding leads to heavy losses, which impair earnings. A well-organized training program at this level should be a strong factor in eliminating this erosion of earnings.

Regulatory agencies are becoming increasingly sensitive to the need for banking structure changes.

As the banking industry moves into 1978, there will be no lack of opportunity to restore vitality to our economy; however, to attain maximum results, we must address ourselves to some "gut" regulatory problems.

The pace of change in our financial institutions now challenges the viability of the dual-banking system as it has been known traditionally. A new approach to regulation that protects the public, provides equity and eliminates overlapping of functions and harassment is now a necessity. A commonsense approach to allocation of responsibility for regulation and monetary controls would escalate our capacity to solve our country's multitudinous economic and social problems.

Because of the present economic and legislative environment, it's not prudent to rock the boat. However, it is gratifying to observe that the regulatory agencies are becoming increasingly sensitive to the need for recognition of the changes in our banking structure. It's equally important for bankers to be sensitive to the need for certain disciplines within our industry and work in a constructive mode with regulators with the objective of preventing hastily, ill-contrived legislation.

With the assurance that the described climate is attainable, one banker would be more bullish than Merrill Lynch, Pierce, Fenner & Smith. • •

Legislative Outlook

(Continued from page 38)

dividual businesses. For example, it is expected that the Administration proposal will include tax cuts for both individuals and businesses—a step that's generally seen as productive and needed. But with no warning, a proposal to withhold at source the taxes on interest and dividends apparently has crept into the Carter tax package.

This concept, which was soundly defeated in the debate of the 1976 Tax Reform Bill, would impose tremendous operational costs on banks (which are the principal payors of interest and dividends) and generate only doubtful or marginal revenue gains for the government. Other issues of special concern to banking which likely will be included in the Administration's tax-reform proposal are: partial integration of the corporate and individual tax systems; a taxable bond option; a stiffer tax on capital gains; and revision of the deduction for bad debts.

Many Washington observers are predicting that substantive tax-reform legislation will be delayed until 1979, primarily because 1978 is an election year and members of Congress want to clear up the legislative logjam built up during the past year.

The final report of the Privacy Protection Study Commission is under study by the Carter Administration, and it's believed that review will result in a new legislative proposal. The two representatives who were members of the commission already have introduced numerous bills on the subject, and it's expected that the issue of privacy protection will be considered during this session of Congress. The ABA's special committee on the right of privacy is reviewing the commission's recommendations, which affect banking most in the area of consumer credit-granting and depository services.

The ABA is on record as supporting legislation that would limit governmental access to records of customers of financial institutions unless such access was authorized by the customer or was ordered as the result of appropriate administrative or judicial proceedings. • •

NOW Accounts, Pricing of Services Discussed at First Alabama Forum

NOTHING but good news was predicted for Alabama banking by Frank A. Plummer, chairman, First Alabama Bancshares, Montgomery, at the HC's recent 31st annual bank forum. About 450 bankers and their spouses from throughout the state gathered to hear about the effect of world money markets on the economy, the outlook for banking in Alabama, pricing of bank services and a prediction about negotiable orders of withdrawal (NOW accounts).

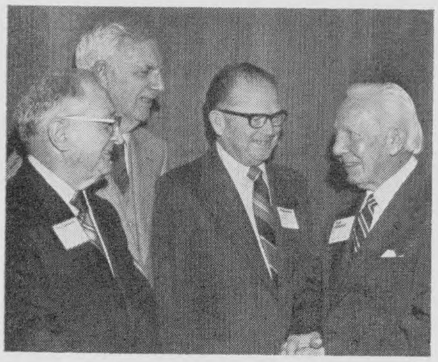
"In the next five to 10 years," said Mr. Plummer, "we will be working in a boom economy. Alabama and the Sun Belt have been discovered." In discussing 1978 for banks, he said, "The way to make money is to be more productive, have good accounting, watch miscellaneous losses, watch allocation of credit and, most importantly, train your staff.

"In the short range, I believe the economic environment in Alabama in 1978 will be similar to 1977. For the long range, I am bullish about Alabama. It will be a new era of opportunity for the alert, aggressive, professional commercial banker. However, it could be a disaster for the banker who puts his feet on the desk and leans back in his chair."

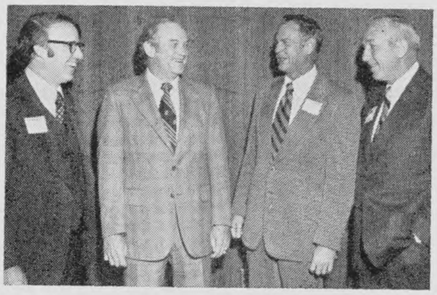
Bankers were cautioned by Lynn H. Mosley, the HC's president, that for their institutions to remain sound and profitable, they were going to have to spend more time and effort in pricing bank services realistically. He listed four basic actions that would result in upgrading prices:

1. Make a comprehensive study of all services and their prices. In-house cost studies are the best method of formulating prices.
2. Obtain current factual information about competitors' prices for the same services.
3. Utilize information available from the Fed about the cost of various bank services.
4. Make cost studies of another bank or banks of comparable asset size and makeup.

According to Mr. Mosley, a continuous plan of gradual upgrading will produce results.



Frank A. Plummer (r.), ch. & CEO, First Alabama Bancshares, Montgomery, greets three other Alabama bank officers at his HC's 31st annual bank forum. L. to r. are: Hugh C. Dale, retired s.v.p., Camden Nat'l; Clarence Turnipseed, pres., First Nat'l, Brewton; and J. M. Barrett, pres., First Nat'l, Wetumpka.



Shown between sessions of bank forum held by First Alabama Bancshares, Montgomery, are (l. to r.): Thomas D. Rogers, v.p., State Street Bank, Boston, forum speaker; James S. Gaskell Jr., ch. & pres., First Alabama Bank, Montgomery; A. G. Westbrook, ch. & pres., Commercial Nat'l, Demopolis, Ala.; and Lynn H. Mosley, pres., First Alabama Bancshares, also forum speaker.

Speaking on "Money and the World Economy," Eugene A. Birnbaum, vice president and chief economist, First National, Chicago, said that since the 1973 breakdown of the Bretton Woods system that was established in 1944, capital investment practically has ceased, except in the U. S. and the Middle East oil countries. This lack of investment is a result of restrictions on credit, he continued, and "everything we do is dependent on an extension of credit by someone." He added that "Even the experts hold completely contradictory views about monetary conditions."

Mr. Birnbaum advocated replacing the present control of money by politicians with one that creates the crisis threat of the Bretton Woods system. He also suggested international rules as an external source of discipline for national policymakers, who are politically vulnerable to their constituents' demands, if the modern global economy once again is to flourish.

NOW accounts were discussed by Thomas D. Rogers, vice president/corporate marketing officer, State Street Bank, Boston. "The NOW account," he said, "is part of the evolution of consumer-banking services. Commercial banks have not paid interest on checking accounts up to this time because federal law prohibits such payment." He said that the NOW account will, in many instances, cause banks to replace other services, and paying interest on personal checking accounts will preclude banks from providing many services free or at reduced costs, as they have in the past. Mr. Rogers does not foresee any NOW-account legislation being passed this year. However, he added, that doesn't mean that NOW accounts won't be available in some form even without legislation because customers consider it the best service offered by banks. • •

Banking 1985

(Continued from page 57)

ton study, "The Challenge Ahead for Banking," primary users of bank funds will be commerce and industry rather than individuals. Thrifts then will become more important sources of credit for individuals.

Banking by telephone will be a popular method of pre-authorized bill paying in the 1980s.

"Banking 1985" forecasts banking activity year by year up to and including 1985. Included are an extensive summary of the data on which general predictions were made and an explanation of models employed to arrive at these conclusions.

More than 50 tables and graphs provide data in easily readable form, and a complete bibliography provides sources for more detailed study of the banking-industry outlook.

"Bankers will have to make some vital decisions in the next few years that will determine whether their banks flourish or fade away," says Mr. Patten, one of the booklet's authors. "The information in this booklet, prepared from a very large amount of data from governmental, private and public sources, will help them make the right decisions." • •

Plans Revealed for $48-Million Complex For First National in St. Louis

Tri-venture includes IBM, Equitable Life Assurance Society

DETAILED PLANS and the architectural model for the new $48-million 31-story First National Bank Building were unveiled last month by officials of First National Bank in St. Louis, International Business Machines Corp. and Equitable Life Assurance Society. The three firms are developing the office building and bank complex as a tri-venture in downtown St. Louis.

The project will encompass a two-block area to be known as IBM Plaza bounded by Market Street on the north, Walnut Street on the south, 10th Street on the west and Eighth Street on the east.

The project's first phase calls for construction of an octagonally shaped tower with a three-story low-rise connecting unit extending over Ninth Street to a new drive-in facility. Included in the plans is the construction of a substructure on which a second twin tower will be built on the westernmost block of the site when the need is determined for additional space.

Completion of the first phase is set for fall of 1980.

On the Cover

Architectural model of 31-story First National Bank Building on IBM Plaza, in downtown St. Louis. When competed in 1980, building is expected to be largest of its kind in Missouri. Corporate headquarters of bank and First Union Bancorp. will be located in structure, and drive-in facility will be housed in low-rise portion at right. Ground breaking is expected next month.

The complex is said to be the largest structure of its kind in Missouri and will contain 876,000 square feet of floor space.

The model of the complex was unveiled last month by Clarence C. Barksdale, chairman, First National. He cited the important impact the building is expected to have on the metropolitan St. Louis community in terms of jobs created, materials purchased and taxes generated "while serving as a firm demonstration that three major corporations are committed to the continuing growth of the St. Louis area."

He added that completion of the project could serve as the catalyst for further development of downtown St. Louis. "We are particularly pleased," he said, "to have as our partners in this tri-venture, IBM and the Equitable, which rank among the most respected corporations in the nation."

The eight-sided tower will be positioned diagonally across one block of the site and will blend with the existing structures in downtown St. Louis, according to the designer, Harwood Taylor, senior vice president, 3D/International, Houston.

"We have attempted to create a strong architectural statement on the St. Louis skyline," he said, "which complements the strikingly designed General American Life Building immediately east of the new structure. For the exterior surface, we have selected a bronze-tinted, low-reflective glass curtain wall for beauty as well as energy conservation."

The glass curtain wall will be beveled along vertical and horizontal edges to emphasize the sculpturesque quality of the building, he added. The truncated corners of the octagonal tower will provide a large number of corner offices and maximize the scope of exterior views from interior building spaces.

Clarence C. Barksdale (r.), ch. & CEO, First Nat'l, St. Louis, and Lawrence K. Roos, pres., St. Louis Fed, examine model of First Nat'l Bank Building on IBM Plaza in bank's lobby. Mr. Roos is former e.v.p. of First Nat'l.

First National Bank's new building will occupy two-block site outlined on photo of downtown St. Louis. Site is bordered by Market, Walnut, Eighth and 10th Streets, will span Ninth Street. First portion of project will include 31-story tower on eastern portion of site and three-story low-rise on western portion. Duplicate tower will be added on western portion when conditions warrant.

Sixty per cent of the exterior surface of the building will be of opaque bronze glass with a high insulation factor that is symptomatic of the studies that have been taken to make the project as energy efficient as possible, he said.

The building's main entrance will be at the intersection of Market and Eighth streets and will feature a warm-toned gray granite-paved plaza. The reception area of the tower will be on the third level, with access provided by escalators. The reception area will serve as the dispatch center for 15 passenger elevators as well as for persons entering the building via a covered walkway from the Stadium West Parking Garage across Walnut Street.

Also located on the third-floor-tower level will be meeting rooms, an auditorium, dining rooms and the bank's employee cafeteria. The low-rise portion of the structure will feature an atrium plaza rising through the full three stories to rooftop skylights.

First National's corporate headquarters, as well as those of its parent, First Union Bancorp., will initially occupy about 350,000 square feet of space in the tower and the 300-foot-wide low-rise structure. IBM will occupy the mezzanine level of the tower and an additional seven tower floors. Each floor of the tower will contain 21,500 square feet of space, while each level in the low-rise structure will include more than 70,000 square feet of area. First National and IBM will occupy about 70% of the building's office space initially. The remaining space will be for lease.

First National will offer drive-in banking operations at the street level of the low-rise building. All retail banking operations will remain in the lobby of its present location at 510 Locust Street. St. Louis Union Trust Co., an affiliate of the bank and HC, will remain at 510 Locust and will occupy some of the space vacated by First National. Remaining space will be offered for lease.

Ground breaking for the new building is expected next month. • •

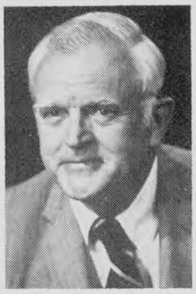
First Nat'l Building Designer World-Renowned

During the past 20 years, 3D/International (formerly Neuhaus + Taylor), Houston-based architectural-engineering firm that designed the new First National Building, has participated in the design of major commercial, governmental, institutional, medical and university projects in 33 states and throughout the world.

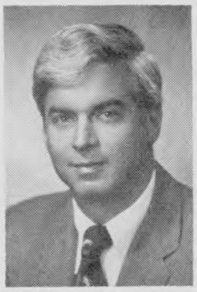
Among its projects are Houston's Galleria and Hyatt Regency Hotel; the Lyndon Baines Johnson Presidential Library in Austin; the new U. S. Department of Labor Building in Washington, D. C.; the U. S. Embassy complex in Mexico City; the NASA Manned Spacecraft Center near Houston; and University of Texas medical schools at Houston, San Antonio and Galveston.

Other projects include the 32-story TownCenter Office Building in Southfield, Mich.; the 28-story Number One Financial Plaza Building in Hartford, Conn.; corporate headquarters for American National Insurance Co., Galveston, Tex.; the 40-story 2001 Bryan Tower in Dallas; Cameron Iron Works world headquarters building, Houston; and the 40-story Dresser Tower and adjoining 22-story Marathon Manufacturing Building in Cullen Center, Houston.

BARKSDALE



JONES



FORD

MacCARTHY

Barksdale Gets CEO Post In Top-Level Changes Made at First Union

ST. LOUIS—Clarence C. Barksdale was elected chairman and CEO, First Union Bancorp., effective January 1. The HC's lead bank is First National here. Mr. Barksdale, who continues as First National's chairman and CEO, succeeds Edwin S. Jones at the HC. Mr. Jones became chairman of the HC's executive committee. Mr. Barksdale formerly was First Union's president and chief operating officer.

In other action, Richard F. Ford was made the HC's president and chief operating officer, but remains as the bank's president and chief operating officer. He had been the HC's executive vice president.

John Peters MacCarthy was elected First Union's senior vice president. He is president and chief operating officer, St. Louis Union Trust, one of the HC's lead institutions.

In his new post, Mr. Jones remains an active member of the First Union senior-management team. He said Messrs. Barksdale's and Ford's promotions were part of a program for transition of top management that had been planned for some time.

Mr. Barksdale joined First National in 1958 in its executive training program. He was named by *Time* magazine in 1974 as one of the top 200 leaders in America.

Mr. Ford went to the bank in 1969 after working as manager, institutional

(Continued on page 69)

Fed Competition, Bank Stock Loan Curbs Aired at Correspondent Conference

By RALPH B. COX
Publisher

COMPETITION from the Fed and restrictions on bank stock loans were major topics of discussion at the recent ABA National Correspondent Banking Conference, held in New Orleans.

ABA President A. A. Milligan called for a re-examination of the unique role played by the Fed in the nation's payments system. He noted that the Fed provides a payments system of its own in competition with those of member banks it regulates. At the same time, he said, the members help subsidize the Fed through deposits of reserves. Mr. Milligan is president, Bank of A. Levy, Oxnard, Calif.

"I can't think of another situation in this country—or anywhere else, for that matter—where an industry subsidizes its regulator to compete with it," Mr. Milligan told the more than 600 bankers and spouses attending the conference.

Pointing out that the entire concept of the role of regulation is coming in for close scrutiny now, Mr. Milligan declared, "There could be no better time for bankers to put the spotlight on the inconsistencies, inequities and injustices perpetrated by a system that too often seeks to substitute the judgment of a regulator or legislator for that of the marketplace."

While not suggesting that the Fed get out of the payments business and check-clearing functions, Mr Milligan suggested that "now might be an appropriate time to examine what role the Fed ought to play to ensure the existence of an effective and reasonably priced payments mechanism. Certainly, we need to conduct such an examination before any serious consideration is given to expanding the Fed's role in the future."

He also called attention to EFT as an area where the Fed stands to become even more of a competitor to banks.

While the Fed is doing a good job of acting as regulator and catalyst in the development and growth of EFT, he said, "it shouldn't become a permanent competitor to the banks themselves in providing electronic payments systems."

He added that, if that step is ever taken, it should be done only when it has been determined that the electronic payments mechanism not only is necessary but also can't be provided by the private sector.

He urged bankers to point out the basic contradiction of turning a regulator into a competitor "and then having to subsidize him at the same time."

Banks are capable and eager to provide the necessary services once the services become economically viable, he said.

More on the Fed as a competitor was presented by Charles A. Pancoast III, senior vice president, Philadelphia National. He told how a policy change on the part of the Philadelphia Fed resulted in Philadelphia National losing correspondent business.

He said the Fed initiated an inbound transportation network in 1973 and it remained relatively unchanged since its inception. About a year ago, after lengthy planning, Philadelphia National offered banks in a remote area from Philadelphia—Johnstown, Pa.—an inbound airplane run to deposit checks with the bank in Philadelphia.

Johnstown, he said, is in the Fed's Third District, but is right on the district's western edge. Since there was no direct transportation route to Philadelphia from Johnstown, the plane service would permit Philadelphia National to increase significantly the availability of the Johnstown banks.

But, Mr. Pancoast said, after it learned about Philadelphia National's plans, the Philadelphia Fed made Johnstown a relay point and offered its Johnstown members a completely subsidized inbound transportation run to Philadelphia. "While we would have shared part of the cost of the plane with our respondents in Johnstown," he said, "The Fed came in and completely subsidized the cost of the plane for its members." This resulted in Philadelphia National not getting the deposit business that would have been attractive to the bank.

"More importantly than just offering the service," he said, "the Fed aggressively marketed participation in the Johnstown relay to Philadelphia. Aggressive marketing had never been characteristic of the Fed's service policy before."

In this case, Mr. Pancoast said, "Philadelphia National was the target of an unanticipated competitor swooping in with an ability to subsidize the full cost associated with transportation and processing. Competition in this type of environment is very difficult to

Members of regulators' panel at ABA corres. conference include (from l.) John G. Heimann, Comptroller of Currency; George A. LeMaistre, FDIC ch.; William T. Dwyer, moderator; Philip E. Coldwell, Fed gov.; and Harry E. Leonard, Okla. banking commissioner.

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PUBLISHER

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react to" since it's nonprofit-motivated competition.

"We have budgets, we have long-range plans, we have to factor in real resource requirements, and, finally, we have to make a profit . . . the Fed still has an opportunity to subsidize this type of processing service without due regard to the cost and operational considerations that affect our business," he said.

He added that the Fed has a monopoly position and has the ability to subsidize service that banks as profit-motivated organizations can't provide. "The Fed, because it is self-regulated, is basically unrestricted, which we, of course, are not. We feel that the Fed can't be the regulator of banks on the one hand and the initiator of competitive service against its banks on the other."

The topic was raised during a panel discussion featuring regulators, held during the conference. Moderator was William T. Dwyer, vice president, First National, Chicago, and panelists included Philip E. Coldwell of the Fed; John G. Heimann, Comptroller of the Currency; George A. LeMaistre, FDIC chairman; and Harry E. Leonard, Oklahoma banking commissioner.

Mr. Coldwell explained that the competitive role of the Fed was "built in" to the legislation creating the agency and that it would take legislative action to remove it.

It was also brought out during the discussion that it was necessary for the Fed to offer services that are now considered to be competitive with bank services because banks could not or would not offer them at the time the Fed was created.

If consideration is given to eliminating Fed services that compete with bank services, Mr. Coldwell said, the public interest must be considered. The question must be asked, that, if banks are given the opportunity to provide services formerly offered by the Fed, will the banks offer these services equally to every area of the nation? Will banks offer the same services being offered now by the Fed without altering the services to suit their own needs? He said the Fed can't give up its services without positive answers to these questions. He also called attention to services the Fed offers that banks may not wish to take on, such as Bank Wire II.

Mr. Leonard stated that the Fed should offer only those services that the banking industry can't offer. He advised bankers to put the Fed out of the job of check collections by simply taking the business away from the Fed—by not sending their checks to the Fed.

ABA Pres. A. A. Milligan (r.) presents Silver Eagle award to William T. Dwyer, outgoing ch., ABA corres. banking div., and v.p., First Nat'l, Chicago, during corres. conference. Award was presented for Mr. Dwyer's service to ABA. Mr. Milligan is pres., Bank of A. Levy, Oxnard, Calif.

The topic of restrictions on bank stock loans also was touched on by Mr. Milligan. He said that lack of consumer awareness of the correspondent banking system is leading to legislation and other government actions that can result in harm to customers, communities and financial institutions.

"Already we see some evidence of this in a bill mistakenly called the Safe Banking Act," he said. "It's under consideration by the House Banking Committee and has a number of unwarranted provisions. At least one of them relates directly to correspondent banking. It would bar loans to bank officers, directors and stockholders by institutions with which their bank has any relationship—including that of correspondent."

He said no need has been shown for such legislation. "The granting of sound loans to officers, directors and stockholders of these banks harms no one—and benefits many. Especially the customers and communities served by the smaller bank."

He said loans from correspondent banks have been used historically to maintain local control of community banks—to the benefit of the communities they serve.

Loans from correspondent banks to stockholders and directors of community banks have also proved to be beneficial, Mr. Milligan said. Such people are often the most substantial and credit-worthy business people in their communities.

"But, under existing law, they effectively limit their access to the very credit they may need to expand, modernize or improve their outside businesses whenever they establish a significant investor relationship with a bank," he said. "To further limit their access to credit by shutting off their access to a correspondent bank would serve no useful purpose. Indeed, it could only make it more difficult for community banks to get and keep the type of investors and directors they need."

The regulators' panel discussed this topic, also. It was the general consensus of the regulators that legislation such as the Safe Banking Act comes about because of publicity concerning preferential lending policies at some banks. The solution, they said, is for banks to launch a drive to convince the public that such abuses are few and far between and are on the decline.

Anyone who has to pay regular interest rates on a loan winces when he learns that a director of the bank is charged a lower rate, they said. It's up to the banking industry, in cooperation with an enlightened press, to explain banking's position on such issues. • •

What's an RCPC?

This question was asked by the Comptroller of the Currency as he sat on a panel of regulators at the recent ABA National Correspondent Banking Conference in New Orleans.

RCPCs are the brainchild of the Fed, designed to facilitate check collection procedures. They have turned out to be a thorn in the side of correspondent banks because they offer—free of charge—services that correspondent banks offer respondents as a profitable service. The Fed can offer this service at no charge because it has the use of reserves, a portion of which are supplied by the same correspondent banks that are in competition with the Fed.

The question, "What's an RCPC" is an astounding one to be asked by the new Comptroller, and it illustrates the fact that many facets of the banking system are not understood by regulators and congressmen who formulate the regulations that govern the banking industry.

Is it any wonder, then, that bankers must tell their story over and over again to those in Washington, D. C.?

—RBC

Problems of Farm Lending, Food Production Discussed at ABA Agricultural Conference

By RALPH B. COX
Publisher

TODAY'S depressed commodity prices resulting in substantially tight cash flows in agricultural communities constitute one of the most difficult periods in farm lending, said C. N. Finson, conference chairman for the ABA's Agricultural Bankers Division at the ABA's National Ag Bankers Conference in Kansas City recently.

"It's this economic framework that has attracted so many ag lenders here to share their views and experiences," he said. "The political, monetary and social implications of today's national and worldwide agricultural economy demand a careful examination of our business." Mr. Finson is president, National Bank, Monticello, Ill.

More than 1,800 ag bankers and spouses registered for the annual meeting. Among the speakers on the three-day program was Walter E. Hoadley, executive vice president and chief economist, Bank of America, San Francisco.

Mr. Hoadley said 1978's global economic outlook will be "moderately better," despite slower growth predictions. He added that the free world is "badly out of balance, and governments must give far more attention to encouraging the 'supply' (saving, investment, productivity) side. Weak confidence is retarding private investment in particular, with an important deterring effect on new job creation."

He said that events during 1977 have convinced him that much of the free world, including the U. S., is in the early stages of a new era of massive structural change that will last from five to 10 years. The era will be fraught with slower growth, inflation fears, sharply revised public expectations, the rise of egalitarianism, political redistribution of income and wealth, splintering of political groups, entrenched consumerism and environmentalism, new standards of business ethics and human rights, excessive financial liquidity, shortages and major moves by socialist nations to enter more actively into Western financial and other markets.

All of these factors, he continued, affect the supply of food on a worldwide basis. He called for fresh thinking regarding expanding food production so that developing countries can become more self-sufficient in providing food for their citizens without having to depend on U. S. exports. Among the keys to achievement of this goal, he said, is the export of food technology and management on the part of the U. S. and other food exporting nations.

John C. White, deputy secretary of agriculture, told bankers that the greater degree of dependence on the Farmers Home Administration (FMHA) for farm credit reflects a rising demand for this credit that isn't being met by banks or other private sources.

He said FMHA will soon implement loan guarantees for above-moderate-income housing in an effort on the part of the federal government to ease the financial bind of farmers. In addition, he said, substantial increases in guaranteed farm lending may occur early this year. He also reported on provisions of the Food and Agriculture Act of 1977, which provides price support loans for major commodities, deficiency payments for farmers and establishes a food and feed grain reserve.

Another speaker, Morton I. Sosland, publisher of *Milling & Baking News*, said there is no need for a set-aside program for wheat and feed grains, due to the shortfall in the Soviet harvest that has led to a sudden change in world grain prospects. Mr. Sosland spoke before the Food and Agriculture Act was passed, which provides for set-asides.

There will still be a tremendous carryover of wheat in the U. S., he said, forestalling a large upward surge in grain prices, but world carryover may fall short by as much as one billion bushels.

"The wisest gamble the Carter Administration could take would be to cancel the program requirement that wheat growers must devote 20% of their acreage to conserving uses in order to be eligible for price support loans and target price payments on the 1978 crop," he said.

He said maximizing production is the best long-range order of business for the U. S.

Max Dickerson, senior vice president, Commercial National, Kansas City, Kan., presented an outlook for ag in 1978. Cattle prices are expected to be a little higher in 1978 over 1977 figures, he said, since the national cow herd has been liquidated down four million head since 1974. The last half of 1978 is expected to be more profitable than the first half for cattlemen.

Feed grain profits should be about the same or perhaps a little higher in 1978 than in 1977, he said. • •

Chatting during lull at ABA Ag Conference were (from l.) C. N. Finson, conf. ch., and pres.. Nat'l Bank, Monticello, Ill.; A. A. Milligan, ABA pres., and pres., Bank of A. Levy, Oxnard, Calif.; and Walter E. Hoadley, e.v.p., Bank of America, San Francisco, keynote speaker.

MBA Management Conference Slated for February 6-9

OSAGE BEACH—Marriott's Tan-Tar-A resort at the Lake of the Ozarks will host the 38th annual bank management conference of the Missouri Bankers Association. Dates for the event are February 6-9.

Among topics to be examined during the conference are "Bank Leadership in Managing the Energy Crunch," featuring Donald C. Navarre, vice president-marketing, Washington Natural Gas Co., Seattle; "The 95th Congress and You," with Utah's Senator E. J. Garn of the U. S. Senate Committee on Banking, Housing and Urban Affairs; "1977 Study of American Opinion" by W. E. Robertson, director of marketing, *U. S. News & World Report*, Washington, D. C.; "What You Are Is Where You Were When," with Morris Massey, associate professor of marketing, University of Colorado-Boulder; and "A Model Written Loan Policy and Procedures for All Size Banks," featuring Robert F. Benzer, associate director, Wisconsin Bankers Association, Madison. NOW accounts will be discussed by Edward E. Furash, senior vice president, Shawmut Bank of Boston.

A panel titled "Ask the Regulators" will be moderated by David Culver, senior vice president, First National, St. Louis. Answers to conference-goers' questions will be provided by John R. Burt, regional administrator, 10th National Bank Region, Kansas City; Edgar H. Crist, commissioner, Missouri Division of Finance, Jefferson City; Michael J. O'Keefe, regional counsel, 10th National Bank Region, Kansas City; Robert E. Scott, chief examiner, Kansas City Fed; and Robert V. Shumway, regional director, FDIC, Kansas City.

Special-interest sessions will spotlight: ag lending and hedging, with J. William Uhrig, professor of agricultural economics, Purdue University, West Lafayette, Ind.; personnel, with Walter R. Klostermeier, senior vice president, First National, St. Louis; and taxation, with J. Allan Harkness, partner, Peat, Marwick, Mitchell & Co., St. Louis. Size-group sessions also will be held during the conference.

In addition, Robert W. Crawford, MBA executive vice president, Jefferson City, will provide a look at legislation. An investment panel will be moderated by Frank K. Spinner, senior vice president, First National, St. Louis.

A program on what the banking industry can do and has done to promote energy conservation will be sponsored by the Missouri Bankers Association and the Missouri State Energy Program as a prelude to the MBA Bank Management Conference, February 6-9 at Tan-Tar-A. Title of the afternoon program, which is set for Monday, February 6, will be "Bank Leadership in Managing the Energy Crunch."

Donald C. Navarre, vice president, marketing, Washington Natural Gas Co., Seattle, will be keynote speaker. Washington Gas won the national award for public service advertising last year. Following Mr. Navarre's talk, he will show slides to illustrate successful energy conservation promotions at banks and other institutions in the U. S.

Barksdale

(Continued from page 63)

and corporate business development department, Merrill Lynch, Pierce, Fenner & Smith, in St. Louis.

Mr. MacCarthy, who continues as First Union's secretary, joined St. Louis Union Trust in 1969. He had been a partner in the St. Louis law firm, Bryan, Cave, McPheeters & McRoberts.

Leaders in Six Industries Make Forecasts for 1978 At Boatmen's Conference

John M. Brennan (r.), e.v.p., Boatmen's Nat'l, St. Louis, visits with Zane E. Barnes, pres. & CEO, Southwestern Bell, St. Louis, prior to Boatmen's business forecast conference, held December 7. Mr. Brennan introduced conference speakers, including Mr. Barnes.

By ROSEMARY MCKELVEY
Editor

LEADERS in six business areas presented their 1978 outlooks December 7 at Boatmen's National of St. Louis' fifth annual business forecast conference. Represented were banking, telecommunications, men's and women's apparel, chemicals/plastics/textiles, agriculture and insurance.

Banking. Donald N. Brandin, the host bank's chairman and president, told his audience that he doesn't look for many major developments in banking in 1978. EFT, he continued, is evolving, but the checkless society still is well down the road; and there's continuing talk about NOW accounts and about breaking down branching barriers, but it's doubtful there will be any significant federal or state legislation that will change the industry's basic method of operation this year. Mr. Brandin, who also is chairman, Boatmen's Bancshares, pointed out that a change of leadership at the Fed could have an impact on banking, but probably would affect monetary policy more than regulatory policy. The latter, he said, would, of course, affect all industries. He believes the Fed will survive if Arthur Burns is not renamed chairman, but if President Jimmy Carter doesn't reappoint him, he will miss what Mr. Brandin described as "a golden opportunity to score a coup." (On December 28, President Carter nominated G. William Miller, chairman, Textron, Inc., Providence, R. I., to replace Fed Chairman Burns.)

Telecommunications. The 1978 outlook for this industry was summed up in one word—*change*—by Zane E. Barnes, president and CEO, Southwestern Bell Telephone Co., headquartered in St. Louis.

There are two driving forces behind change in telecommunications, said Mr. Barnes—technology, which holds more promise today than at any other time in the 101-year history of telephony; and national policy, which will determine how *much* we will benefit from technology and *who* will benefit from it.

As for 1978, Mr. Barnes said his industry will be introducing sophisticated feature packages for its successful family of dimension private-branch-exchange systems. In addition, capacity of solid-state private branch exchanges will be boosted from 2,000 stations to either 3,200 or 4,700 stations. For the smaller businesses, there will be a new system with stored program control that has the flexibility and custom-calling features of larger, more expensive systems.

Also, according to Mr. Barnes, there will be big changes in the telecommunications network behind the equipment. For instance, one of the new services would let a customer program Bell's central office computers to give calls from priority numbers a special ring. Another service would be automatic callback: A person getting a busy signal wouldn't have to keep dialing because he or she would be signaled and connected with the number wanted as soon as it's free.

Donald N. Brandin, ch. & pres., Boatmen's Nat'l, St. Louis, presents outlook on banking during his bank's fifth annual business forecast conference December 7.

Turning to national policy, Mr. Barnes said it's undecided, and this uncertainty comes from Federal Communications Commission decisions in recent years that have allowed more and more firms to enter the market for telecommunications services. According to Mr. Barnes, these new firms have been allowed to serve whomever they want, wherever they want and under completely different rules from the established telephone companies. In short, Mr. Barnes believes, the FCC has created an artificial situation where new firms have free rein, and the rest of the industry doesn't.

If the FCC's artificial division of the market continues, he pointed out, the telephone firms eventually will be forced into a cost-based rate structure. This would mean lower rates for large business and heavy users of long distance, but, at the same time, it would mean significantly higher rates for most customers—primarily, 68 million home customers.

Men's and Women's Apparel. William L. Edwards Jr., chairman and CEO, Interco, Inc., St. Louis, said that as far as his firm's business is concerned—it's primarily general merchandising and footwear retailing and apparel and footwear manufacturing—there will be a continuation of a mixed economic climate, which will be confronted with a higher cost of doing business, desperately low-priced imports and continuing high inflation.

He said that perhaps it will be more mandatory than before for his firm to reduce operating costs, improve turnover and quickly eliminate any operation that's not carrying its own weight. As he described it, every division must be a profit contributor; there can be no crutches to carry the losers.

Interco's plans for 1978, he said, won't be much different from 1977—to continue a program of careful inventory monitoring with adequate margins and to emphasize quality merchandise at competitive prices. In addition, he said, Interco needs to do a better, more profitable job of cash management.

Chemicals/Plastics/Textiles. Another strong year in chemicals is foreseen by John W. Hanley, chairman and president, Monsanto Co., St. Louis. This year won't be a record breaker, perhaps, he added, but it will be one of orderly adjustment to a more sustainable rate of growth.

In the past, according to Mr. Hanley, conventional wisdom has held that the chemical industry grew at roughly twice the rate of real Gross National Product. This ratio has been declining and, in 1977, has run about 1.5%. In 1978, Mr. Hanley expects something in the neighborhood of 1.2% or 1.3%.

Monsanto economists see an increase of about 5% for the combined output of basic and agricultural chemicals, synthetic materials, drugs and medicines, soaps and toiletries and paints. Last year's rise amounted to about 7%.

Production of basic chemicals—durable building blocks of Monsanto's business—is anticipated to parallel the industry in general, increasing about 5% after nearly a 6% rise last year.

Mr. Hanley foresaw promising opportunities for Monsanto in these specific areas: the automotive market, which will use more tough thermoplastics and foamed plastics, crop chemicals and manmade fiber.

Summing it up, Mr. Hanley sees another strong year for chemicals in 1978, not a banner year, but one of orderly adjustment to a more moderate growth rate.

Agriculture. Although the agricultural outlook has seemed dark lately, said Ernest T. Lindsey, president and CEO, Farmland Industries, Inc., Kansas City, there have been some encouraging rumors of large grain purchases by the Soviet Union and perhaps by the Peoples Republic of China. Better times seem to be ahead for livestock producers as well, he continued. According to Mr. Lindsey, a spokesman for Cattle-Fax, the statistical arm of the American Cattlemen's Association, said that the liquidation phase of the cattle cycle apparently is complete, and prices should improve soon. This spokesman predicted several years of profit ahead.

A favorable hog-corn ratio has kept hog producers in a fairly equitable position, said Mr. Lindsey, who described the mood of farmers now as cautiously optimistic, as anxious, but not despairing. Farmers seem to think the agricultural pendulum has hit bottom and begun to swing back up again. Despite poor weather in some parts of the Midwest, harvests generally are good, in some cases, very good, and, of course, news of export sales is good for a farmer's spirit.

Mr. Lindsey predicted that farm exports will continue to grow; the new government loan rates, revised by the 1977 Farm Act, will help dissolve part of the grain glut, and there'll be some acreage shifting away from wheat and food grains. In summary, Mr. Lindsey believes the agricultural outlook now is brighter than it was a year ago, especially for an efficient farmer who's weathering the current squeeze. The key, in farming as in any business, is good management, he added.

Insurance. Armand C. Stalnaker, chairman and president, General American Life Insurance Co., St. Louis, expects life insurance sales to continue to increase in 1978. He predicted that government-administered and tax-financed health insurance for economically self-sufficient employed people will continue to be advocated in segments in 1978. However, he said, his industry will keep on pressing for privately administered premium-financed health insurance. He added, "Much of our success and our financial results will depend on whether the rising cost of medical care can be contained. This will be a critical year."

The pension business will be excellent in 1978, according to Mr. Stalnaker, and for about the next decade until the central-social-planning advocates acquire strength enough to declare that the easiest way to take over control of the economy is to take over the direction of the investment of pension assets through regulation or nationalization.

Although General American is not in the property and casualty insurance business, Mr. Stalnaker said he was asked to say a word about it. Writers of those coverages, he pointed out, are getting adjusted to adequately anticipating the inflation of repair and replacement costs, and 1978 could be a reasonably good year. The big uncertainty, of course, is the expansiveness in court awards for liability, punitive and class damages. • •

Regional Director Named

Robert P. Gough has been appointed an assistant regional director in the FDIC's Chicago Region, which includes Illinois and Indiana. Mr. Gough joined the FDIC in 1959 as a member of the field-examination staff of the New York Region. In 1966, he was named to a review-examiner post in the FDIC's headquarters in Washington, D. C. Most recently, Mr. Gough had charge of the division of bank supervision's merger-review section.

Capital Formation Conferees Discuss 'Cost of Tomorrow' At Continental Bank Meeting

CONGRESS should enact by the middle of 1978 an across-the-board cut in corporate and personal income taxes and provide investment incentives, said Roger E. Anderson, chairman, Continental Illinois National, Chicago, at the bank's Capital Formation Conference, held late in November. Theme of the conference was "What Will Tomorrow Cost?"

Mr. Anderson told about 500 business leaders that a "full-dress tax reform or revision package, about which we hear much talk, will take at least a year to work out and we should not wait that long."

He also specifically suggested higher investment tax credits and accelerated depreciation be used as investment incentives and said the slow advance of capital investment has been a major disappointment during the current business expansion.

"In the present recovery, business fixed investment after adjustment for inflation has been only about half of that typical in previous recoveries," he said.

"There has been relatively little focus on major purchases of equipment to expand production or on new structures," he continued. "Only in recent months has some attention been paid to the need to expand capacity, and this has been limited to relatively few industries."

He said the need for plant and equipment expansion can't be overemphasized. A steady and adequate growth of productive capacity is essential to support sustained, long-term economic growth without starting the inflation spiral.

Poorly defined governmental policies are causing uncertainty among businessmen, he said. "Businessmen have been faced with an unusual number of legislative proposals in the areas of energy, tax reform and social security financing, as well as changing environmental protection and safety regulations. It seems that we are long overdue for a major reordering of our governmental priorities and policies. In my opinion, something must be done—and soon—to bring some order out of the present policy turbulence."

Former presidential adviser Paul W. McCracken told the audience that "the statistical evidence is quite clear that during the 1970s the processes of capital formation have been more sluggish than at any time since the era of the Great Depression.

"We have seen, in short," he said, "a reduction in the profitability of corporate assets and a shrinkage in retained earnings during the last decade. That we might then see associated with these developments a sluggish pace of outlays on new facilities and equipment is hardly surprising."

Mr. McCracken, who is currently a professor of business administration at the University of Michigan, answered the question of what should be done about the short-fall in capital formation by stating, "The single most important contribution that government could make to orderly financing would be firm restraint on budget outlays in order that both the volume of Treasury borrowing and taxes can be reduced.

"We must then have a reduction in corporate profits tax rates of about four percentage points, an increase in the investment tax credit, or some combination of the two," he said. "The probability that without some such action capital formation will remain sluggish is high."

Mr. McCracken maintained that those for whom a modification in corporate taxation is most important are some people about whom society is rightly concerned. They are those without work who need to be seeing more "help wanted" signs in front of new factories, stores and other facilities.

Building on Mr. Anderson's opening remarks about a tax cut, former Secretary of the Treasury William E. Simon advised that the U. S. economic agenda "must also include crucial items like regulatory reform and fiscal and monetary restraint." He added that business must win the political fight as well as the economic battle.

"To translate our economic goals into realities," he said, "we must work through the political system. There does not appear to be a groundswell of support in the public and in the Congress, and in certain parts of the Administration, for stimulating greater capital investment."

He said that a major task in the coming months will be to encourage and strengthen that support so politicians in Washington will know that how they vote on economic policies will ultimately make a difference at the polls.

Mr. Simon is currently senior advisor for Booz, Allen & Hamilton and senior consultant for Blyth Eastman Dillon & Co.

He advised those attending the conference to pledge their wholehearted support to those forces within the Carter Administration who seem to be pushing toward a more realistic, more understanding approach to economic problems. He urged businessmen to "continue thinking and working independently to come up with the kind of agenda that will encourage steady economic growth in a non-inflationary environment."

He added that the current economic troubles in the nation stem from the

John H. Perkins (at lectern), pres., Continental Bank, Chicago, moderated panel on capital considerations in major industrial sectors at bank's recent capital formation conference. Panelists (seated, from l.) included William B. Johnson, IC Industries; Marvin G. Mitchell, Chicago Bridge & Iron; Keith R. Potter, International Harvester; and Gordon R. Corey, Commonwealth Edison.

mistaken belief that only government holds the keys to the economic kingdom. "To argue, as did the sponsors of the original Humphrey-Hawkins Bill, that only through vastly expanded public works programs can we solve our unemployment problems is to completely misunderstand the foundations of our economic system," he said.

"And we suffer economically today, not because the private enterprise system has failed us, but because we have failed that system—we have failed to encourage enough savings and investment for a sound future," he said.

Investment incentives and balancing of public-private competition are necessary to assure adequate capital formation, said a panel of financial people appearing at the Continental conference.

The panel was moderated by Donald C. Miller, bank vice chairman, and included Charles R. Hall and David G. Taylor, host bank executive vice presidents; Prince Jean d'Arenberg, vice chairman of Continental's Brussels subsidiary; and Paul R. Judy, president and CEO, Becker Warburg Paribas Group, Chicago and New York City.

"In view of the long-term capital needs necessary to finance desirable growth and employment objectives, a strong equity market must provide the alternative to debt," said Mr. Hall.

"Yet the owners of equity securities have been poorly rewarded for the risks they assume. Individuals in particular must be attracted back to the equity market by the availability of higher after-tax returns from dividends and the prospect of a larger stream of real earnings."

Mr. Judy noted that, in addition to weakness in the equity markets, a major obstacle to capital formation is on the investment side of the equation as opposed to the financing side.

As compared with other major competitors for funds, he continued, especially fixed-income funds, "most corporations are unique in that they develop substantial surpluses of funds from operations and they have by far the widest variety of debt instruments available to them through which to tap the credit markets. The funds availability, the flexibility of forms of financing and the costs of capital from this corporate market provide very substantial support to the capital formation process."

Another panel, comprised of business leaders and moderated by John H. Perkins, host bank president and ABA president-elect, agreed that capital needs for energy, agribusiness, manufacturing and transportation will rise sharply over the next five years.

Gordon R. Corey, vice chairman, Commonwealth Edison Co., said the energy sector of the economy, consisting of electric power, oil, gas, coal and uranium firms, "is the most capital intensive of all the industrial sectors," with electric power leading the list, having $3.50 invested for each dollar of annual revenue.

He estimated that the energy industries' requirements for new money will approximate $25 billion over the next five years, and considerably more thereafter. Environmental control expenditures will account for a large part of that spending.

Citing a recent study by the University of Chicago that showed that the resulting environmental benefits were often not justified by the costs involved, Mr. Cory called for a more realistic approach to regulation, particularly in light of overall capital needs.

Keith R. Potter, executive vice president, International Harvester Co., pointed out that "farming has become a capital intensive business and will continue to be so."

He said total assets of the farming sector had increased 380% between 1950 and 1977, growing from $132 billion to $634 billion. The 1977 total represented about three-fifths of the capital assets of all manufacturing corporations in the U. S.

"Capital requirements will continue to remain high," he said, "as a result of operational expansion, the application of irrigation in semi-arid areas and purchase of more sophisticated, more productive farm machinery."

These requirements will be met, Mr. Potter said, because "agriculture will continue to be one of the better investments available in this country."

Marvin G. Mitchell, chairman and president, Chicago Bridge & Iron Co., maintained that "any capital investment decision is really an exercise in the assessment of risks." He added that this task has become more difficult because of increased uncertainty over the future. Among the factors contributing to this uncertainty, he said, are growing government regulation, market forces, inflation and the supply of energy.

William B. Johnson, chairman and CEO, IC Industries, Inc., called the nation's railroad system an energy efficient and environmentally acceptable form of high-volume freight transportation.

If they are to continue performing this function, he continued, railroads will require enormous capital outlays in the years ahead. He predicted that railroads would meet these needs if they are permitted to perform with less regulatory restriction, greater ratemaking flexibility and under tax policies that stimulate profits and investments. • •

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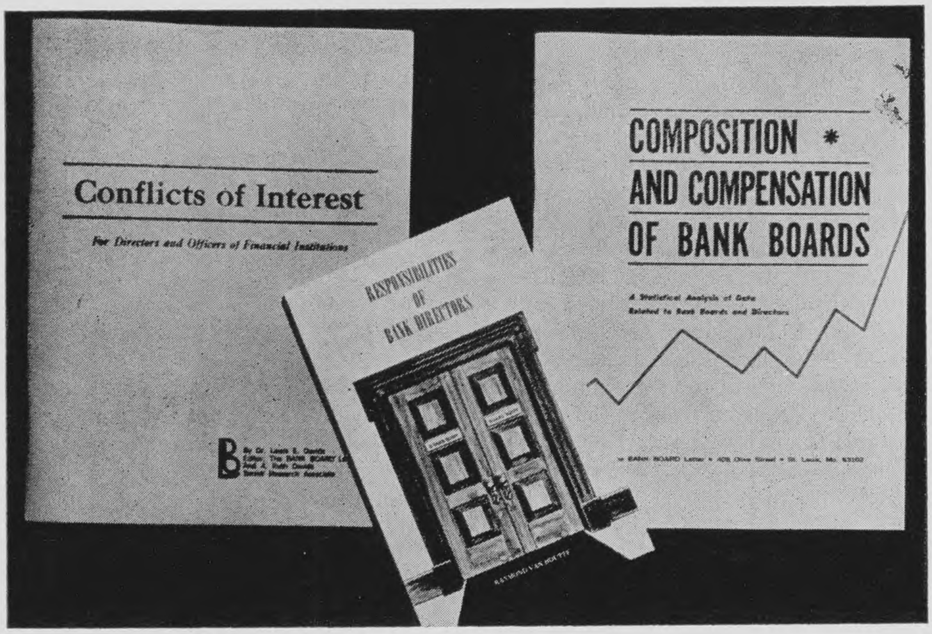

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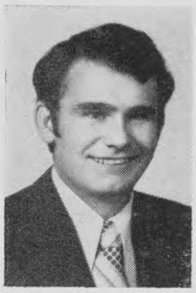
NEWS
From the Mid-Continent Area

Alabama

■ MERCHANTS NATIONAL, Mobile, has named Ben T. Lanham III vice president and trust officer; John C. Frayne vice president, Citronelle State Branch; W. Gaillard Bixler assistant vice president, commercial loans; W. Terrance Ankerson assistant vice president, Crichton Branch; and Judith Miller trust officer. In addition, Paul J. Fleming, recovery department, and Greg Sutton, Skyline Branch, have been elected assistant cashiers.



FRAYNE

LANHAM

■ ROBERT L. RAY III has been named comptroller of Commercial Guaranty Bank, Mobile. He joined the bank in July, 1977, and formerly was with Jacksonville (Fla.) National.

■ FIRST ALABAMA BANCSHARES, Inc., Montgomery, has announced appointments of two staff members who will head new statewide departments for the multibank HC: John C. Gamble has been named agricultural economist, to coordinate ag and agribusiness activities of the HC's bank affiliates and to provide specialized advice and assistance to customers; and John Andresen will establish and manage an international department. Mr. Gamble holds a master's degree from Auburn University and a PhD degree from the University of Illinois, Urbana, both in agricultural economics. He has worked in the farm mortgage field and has been associated with the University of Kentucky Extension Program. Mr. Andreson has 17 years' international banking experience, most recently as vice president and manager, international banking division, First Tennessee Bank, Chattanooga.

■ FIRST NATIONAL, Mobile, has named Renn Rothrock Jr. vice president, with responsibilities that include management and provision of services relating to petroleum and other energy resources. He formerly was engineering editor, *Petroleum Engineer International.*

Arkansas

■ THOMAS H. GRUMBLES, vice president, First State, Dermott, has been elected a director. He has been in banking since 1973 and joined First State in 1975.

■ CHARLES A. HADDEN has been named vice president and trust officer at National Bank of Commerce, Pine Bluff, going there from First National, Little Rock. Michael Patterson has joined NBC as a loan officer in the installment loan department. He formerly was with First National, West Point, Miss. In addition, NBC's Carl F. Cooper, senior vice president, has been named a director. He has been with the bank since 1963.

Illinois

■ F. WENDELL GOOCH, senior vice president, Harris Bank, Chicago, became head of the bank's reorganized trust department January 1. The reorganization, made along product lines rather than functional responsibility, was made to facilitate future customer service, says a bank spokesman. Mr. Gooch, who joined the bank in 1955, had been in charge of the corporate services group. The four reorganized groups and their executives are: investment services, Vice President Edward B. Dillmann; corporate trust/operations, Senior Vice President John S. Dunhill; personal trust, Vice President David S. Finch; and institutional trust, Vice President Kenneth R. Meyer. As part of the reorganization, James E. Mandler became chairman, trust legislative and compliance committee, and also is responsible for the trust counsel and personal trust reten-

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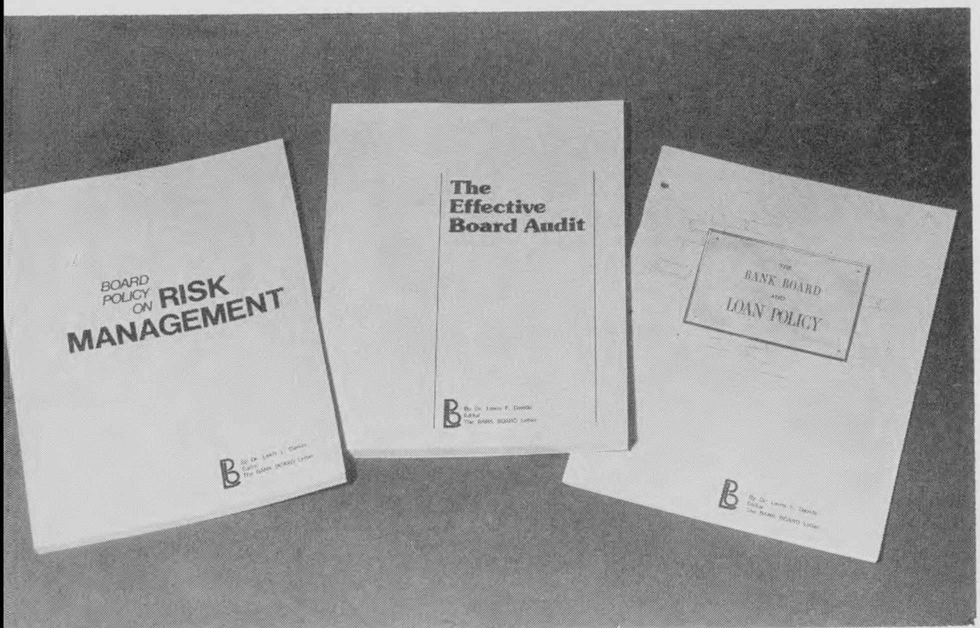

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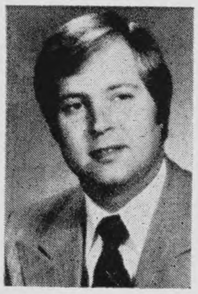
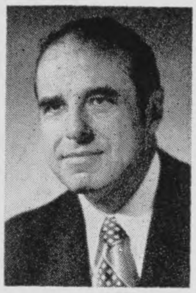
tive selling activities. William S. Gray, in his continuing capacity as chairman, trust investment committee, remains the trust department's senior investment officer.

■ WILLIAM D. OLSON has been appointed director of government relations by AMBI—the Association for Modern Banking in Illinois. The first person to hold that post with AMBI, Mr. Olson had been associated with Household Finance Corp. for nine years, most recently as manager of government relations, Iowa/Illinois division. He is a former president, Illinois Consumer Finance Association. In his AMBI post, Mr. Olson's duties will be to promote good relations between AMBI and Illinois' general assembly, executive branch and various regulatory agencies.



OLSON



GERLITS

■ JOHN T. GERLITS JR. has rejoined American National, Chicago, as vice president and credit division head. He originally joined the bank in 1955 and left in 1963 as a second vice president.

■ HARRIS BANK, Chicago, has announced elections of the following vice presidents: Nancy M. Sorensen, administrative employment section head; James A. Ryser, compensation and research division head; Charles C. Brosius, money market division head; and Robert M. Ladone, government bond division representative office, New York.

■ CONTINENTAL BANK, Chicago, has announced the following promotions: to vice presidents—Luke P. Miller, Robert K. Garro, Raymond P. Harris Jr., D. Nicholas Manocheo and Jack A. Grohne; to second vice presidents—Jon D. Carlson, Sally A. Morris and Brian K. Riordan.

'Women's Lib' Breaks Ground

"Women's lib" breaks new ground in LaGrange Park as Eleanor Joern—the only woman dir. of Bank of LaGrange Park—does the honors to mark the beginning of construction of the bank's new facility. Looking on are male officers and directors. Plans for the facility include a public lobby, tellers cages and five drive-up windows.

■ JOHN H. PERKINS, president, Continental Bank, Chicago, has been elected to a three-year term as a director of the National Minority Purchasing Council, Inc. (NMPC), a not-for-profit corporation that encourages business firms to purchase goods and services from minority-owned companies on a basis of mutual self-interest. The council was founded in 1972 by business executives working with the Office of Minority Business Enterprise of the U. S. Department of Commerce. Mr. Perkins, who also is ABA president-elect, has been a member of the council since 1973.

■ FIRST NATIONAL, Winnetka, has named two new vice presidents: Chapin Litten and James A. Smith. Mr. Litten comes from Chicago's Northern Trust, which he served for 25 years and where, most recently, he was vice president, banking department. Mr. Smith formerly was vice president and senior loan officer, First Arlington National, Arlington Heights.

Indiana

■ THE FED has denied a move by Citizens Bancorp., Inc., Hartford City, to become a bank HC through acquisition of Citizens State, Hartford City.

■ C. RAY HERSHMAN has been named vice president, Lafayette National. He joined the bank in 1968 and serves in the marketing department.

■ NORTHERN INDIANA BANK, Valparaiso, has opened its first "mini" banking center at 1605 North Calumet. Situated between a supermarket and a drug store, the facility has tellers stations that face into each store to serve customers without their having to leave the building. A night depository is located on an exterior wall. The "mini" bank performs all regular tellers services, accepts utility bills and makes credit-card-loan advances. The bank maintains approximately the same hours of operation as the supermarket and drug store.

■ LARRY A. MYERS has been named vice president at Lincoln National, Fort Wayne, while Diane L. Burch has been elected assistant cashier, and William H. Leming has been appointed assistant cashier and manager of marketing. Mr. Myers joined the bank in 1976; Miss Burch in 1971; and Mr. Leming in 1975.

Kansas

■ KENNETH E. JOHNSON, chairman and CEO, Kansas State, Wichita, has received the City of Hope National Humanitarian Award for 1977. He was named "Kansas Man of the Year" at a dinner banquet sponsored by the Greater Wichita Civic Executive Council of the City of Hope and is said to be the first Kansan to have been so honored. Banquet proceeds were given to the National Pilot Medical Center, City of Hope. The award acknowledges Mr. Johnson's leadership and ability in the banking industry and his active participation in community causes.

■ CRAIG BACHMAN, president, First National, Centralia, has been reelected a director of the Kansas City Fed. He will serve his second three-year term in that post.

■ FOURTH NATIONAL, Wichita, has purchased the J. C. Penney Building at 132 North Broadway. The bank plans to renovate the four-story building, which is adjacent to Fourth Financial Center. The building's exterior will be refaced, while the interior will be remodeled for use by the bank and other occupants. It will be connected to Fourth Financial Center by an enclosed walkway at the fourth level. Completion of the project is slated for January, 1979.

■ OAK PARK NATIONAL, Overland Park, has opened its new Main Bank building. The structure has 11,000 square feet of space on two levels and is adjacent to the Oak Park Shopping Center. Features of the new building are four motor lanes and multi-car off-street parking.

Kentucky

■ JAMES A. FLOYD has joined Citizens Fidelity, Louisville, as an assistant vice president, regional division. Gregory A. Hoeck has been made an assistant vice president, commercial lending. Mr. Floyd formerly was chief financial officer, Engineered Services Co., Lexington, and once was a commercial loan officer at Chicago's First National. Mr. Hoeck was with First Union National, Salisbury, N. C., where he also was an assistant vice president.

■ FIRST SECURITY NATIONAL, Lexington, has started a Financial Services Exchange, an automated-teller-interchange program for participating banks. The new service allows member-bank customers access to certain transactions, such as cash withdrawals, from ATMs in Fayette County or at any other ATM in the Financial Services Exchange program. In other action, First Security National elected two new directors: Terrell A. (Ted) Lassetter and Elmer Whitaker. Mr. Lassetter is vice president/manufacturing, IBM's General Business Group International, and location general manager in Lexington. Mr. Whitaker is chairman and president, Whitaker Coal Corp. and six affiliated companies in Hazard.

■ ROBERT W. NICHOLS has been promoted from vice president to senior vice president, First Kentucky Trust, Louisville. He continues to be head of the bank investments, bond dealer and corporate trust department. The bank also promoted Donald C. Wells from senior trust officer to vice president and trust officer and James A. Brady from senior marketing officer to vice president.

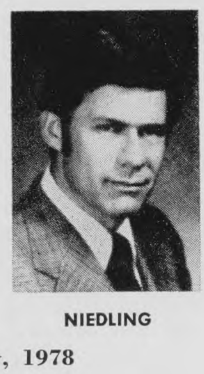
■ OWNERSHIP of more than 80% of the capital stock of Citizens National, Somerset, has been transferred to 12 local investors, including three officers of the bank: Chairman James E. Haney Sr., President Clay Parker Davis and Executive Vice President Charles T. Coffman. Representatives of the estate of the late Garvice D. Kincaid went to Somerset to consummate the multimillion-dollar deal. The change-over marks the first time in 30 years that control of the bank has not been held by one individual.

■ CHARLES E. ELZA has been named president, London Bank, succeeding Maurice Knight, who resigned to become senior vice president, First National, Nicholasville. Mr. Elza went to the bank in 1975 as an assistant cashier and head of the installment loan department. Mr. Knight also spent eight years as director of credit for Bank Management Associates, Inc., a Lexington consulting firm. Both banks belong to the Kentucky Group Banks, an association of banks in central and southeastern Kentucky.

■ ROBERT E. HARRIS has joined Peoples Bank, Berea, as executive vice president. He had been an assistant vice president and commercial lending officer, Richmond Bank. In his new post, he has responsibilities in real estate and commercial lending.

Louisiana

■ MICHAEL D. CHARBONNET has been named a vice president at Bank of New Orleans. He joined the bank as assistant controller in 1972 and subsequently served in the controller's department as assistant vice president.


NIEDLING


CHARBONNET

■ AMERICAN BANK, Baton Rouge, has promoted Darryl E. Edwards to assistant vice president, Kenny Caruso to investment officer, Sue A. Keith to personal loan officer, Clynord B. Hansen to assistant manager, Airline Office, Douglas McCoy to BankCard officer and Betsy Vincent to manager, LSU Office.

■ PETER R. CAMIOLA has been promoted to vice president and manager, administrative services division, First National Bank of Commerce, New Orleans. He joined the bank in 1963 and is also vice president and manager, First Commerce Real Estate Corp.

Mississippi

■ HANCOCK BANK, Gulfport, distributed a record amount of Christmas club funds recently when it made its 64th club payout. More than $1,349,000 was distributed to residents of South Mississippi, according to bank President Leo W. Seal Jr.

■ MISSISSIPPI BANK, Jackson, has promoted Max T. Allen Jr. from president to vice chairman and elected Richard D. Chotard Jr. president and director. Mr. Chotard is a former deputy Comptroller of the Currency and was at one time a vice president at Deposit Guaranty National. Mr. Allen joined the bank in 1954 and had served as president since 1959.

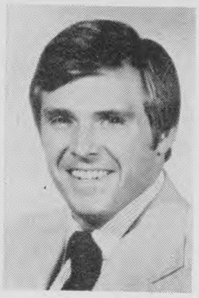
Missouri

■ RICHARD I. NIEDLING has been appointed assistant vice president and director of correspondent banking at Tower Grove Bank, St. Louis. He joined the bank last year following service with banks in Illinois and Missouri.

■ COMMERCE BANK, Kansas City, has elected Shirley M. Smith a trust officer in the probate department and appointed Lawrence H. Holden an assistant vice president in the National Division. Mr. Holden was formerly with Liberty National, Louisville, Ky. Commerce Bancshares has elected Gary L. Callaway and Michael S. Dafferner vice presidents. Mr. Callaway is also a senior vice president at Commerce Bank; Mr. Dafferner is director of marketing at the HC.

■ MARSHALL E. SCHENCK has been promoted to assistant vice president at United Missouri Bank, Kansas City. He was formerly with United

METZGER



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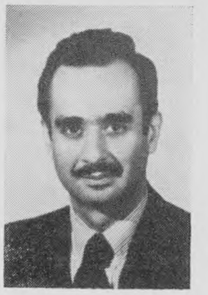
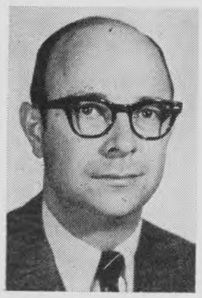


HUSAIN

YOUNG

Missouri Bank South, assigned to the commercial division of the business development department.

■ MERCANTILE TRUST, St. Louis, has elected Akbar Husain a vice president in the international department. He was formerly with Mellon Bank, Pittsburgh. Named assistant vice presidents were Larry Young, national group; and Gary E. Metzger and Stephen R. Green, central group, regional banking division.



SMITH

KUNZE

■ LAWRENCE E. SMITH was promoted to senior vice president, Boatmen's National, St. Louis, last month. The bank also promoted David E. Kunze to assistant vice president and elected Joy B. Fox real estate officer, Albert F. Macy III assistant cashier and David E. McClure operations officer.

Merc's Brown Honored

Jane Desloge Brown, a.t.o., Mercantile Bank, St. Louis, receives the 1977 Alumni Merit Award from the Rev. Daniel C. O'Connell, SJ, pres., St. Louis University. The school honored Miss Brown as an alumna "who exemplifies the university's creed to an eminent degree in her daily life." Miss Brown received a master's degree in social work from the St. Louis University School of Social Service in 1959.

■ VERNON E. WHISLER has joined Chillicothe State as president, succeeding Robert Popple, who resigned in December. Mr. Whisler was senior vice president, American National, St. Joseph.

■ BOATMEN'S NATIONAL, St. Louis, has elected David L. Foulk assistant secretary and assistant treasurer.

Died: Roz G. Morris, 80, retired chairman, Vandalia State. He began his banking career in 1920 as a clerk at People's Bank, Jonesburg. He purchased Vandalia State in 1945 and became active in its management in 1946, following service with United Bank, St. Louis.

Centennial Observed

Bank of Washington recently observed its centennial. At the time of its opening, it had capital of $10,000 and for 10 years was the only bank in Franklin County.

The bank's assets increased fivefold during its first two months of operation. After 20 years, assets stood at half a million dollars. On its 75th anniversary, resources reached $5 million and have grown to nearly $50 million at present.

The bank's present building at Main and Oak streets was constructed in 1923 and remodeled in 1967. The bank was the first in its area to install electronic posting machines, to have an installment loan department, to offer drive-in service and a walk-up window.

Louis B. Eckelkamp, chairman and president, has been with the bank for more than 33 years.

During the centennial observance, the bank issued a 16-page newspaper supplement that was mailed to about 8,000 subscribers. Additional copies were distributed to those visiting the bank during the observance.

New Mexico

■ SAM E. ABEYTA has been named vice president and cashier, Southwest National, Albuquerque, which he joined when it was organized in 1975. For five years before that, he was with Bank of Las Vegas.

■ MICHAEL SPARKMAN has been elected vice president and planning control officer, First National Bank of Lea County, Hobbs. He has an accounting and auditing background.

■ LIBERTY NATIONAL, Lovington, has named Max Houston Proctor vice president and trust officer and head of the trust department. For the past 1½ years, he has been practicing law in Hobbs.

■ A PROPOSED BANK in Roswell has been approved by the FDIC. It is called Valley Bank of Commerce and was scheduled to open January 3. John H. Burson is president; Bettie Hughes is vice president, and Robert D. Scaling is cashier.

■ CECIL R. IRVIN has been named assistant vice president and manager of the newest branch of Rio Grande Valley Bank, Albuquerque. The new facility is located in the Southeast Heights section. Mr. Irvin has been in banking six years.

Died: Frank Light, 89, former president, American National, Silver City. He had been with the bank 50 years when he retired in 1970. One of the few Rhodes scholars to be selected from New Mexico, Mr. Light was graduated from Oxford University in 1908 and served on the Rhodes scholar selection committee for the western U. S. for many years.

Oklahoma

■ JOSEPH M. FARRELL has been appointed district manager for Oklahoma by Brandt, Inc., which is based in Watertown, Wis. Mr. Farrell, who formerly was a Brandt sales representative in Florida, will be assisted by Glenn Zellner, sales representative. Mr. Farrell will be based in Tulsa.

■ GEORGE W. MORRIS JR. has been named bond investment officer in the investment department at United Missouri Bank, Kansas City. He joined the bank in 1975 and serves customers in Oklahoma.

■ BANK OF OKLAHOMA, Tulsa, has celebrated its first anniversary in the Bank of Oklahoma Tower, which reportedly is the state's tallest building. The event was marked by a sheet-cake replica of the tower and a party for bank employees. A cocktail party and dance were sponsored by the institution's Employees' Club at a Tulsa disco on the evening of the anniversary.

Eugene Swearingen, ch., Bank of Okla., Tulsa, prepares to cut "52-story" cake—likeness of Bank of Oklahoma Tower—marking bank's 1st anniversary in building. Looking on (from l.) are: Marcus Tower, v. ch.; Leonard Eaton, pres.; Sam Hayes, e.v.p.; Francis Hawkins, s.v.p., Clayton Woodrum, s.v.p., and Rob Rainey, s.v.p.

■ LIBERTY NATIONAL, Oklahoma City, has announced several promotions, including those of two correspondent banking department officers to vice presidents. They are C. Ken Fergeson and George R. "Pat" Kelly. Donald E. Balaban and C. A. Hartwig were advanced to senior vice presidents and senior trust officers; Jean R. Johnson to senior vice president and senior investment officer; Harry DeBee to senior vice president, international division; James A. Jennings, Richard D. Manley and L. W. Smith to senior vice presidents; Mel B. Edwards, Paul J. Kelly Jr., Donald W. Marshall, John H. Masters, and John A. Shelley to vice presidents; Keaton Cudd, Ron Perryman, Bessie Stephenson, Colleen Adams, Michael Barnes, Ben Byers, Barbara Farley, Dan Thompson and Dennis Olsta to assistant vice presidents. Rodney F. Saunders was promoted to senior vice president of the bank and Liberty Financial Corp.

■ THE FED has denied the application of Chickasha Bancshares, Inc., to become a bank HC through acquisition of Chickasha Bank.

■ FIRST NATIONAL, Oklahoma City, has elected Guy B. Harrell, a former New Orleans banker, senior vice president in charge of metropolitan lending. Promoted were Mary R. Morris from assistant vice president to vice president and Michael Presley from assistant cashier to assistant vice president. Elected to the board were Gary M. Gray, the bank's executive vice president, and Sydney Upsher, president, Mistletoe Express Service.

■ BANK OF OKLAHOMA, Tulsa, has opened its eighth TransFund Banking Center. This one is located in the Ranch Acres Shopping Center and is open 24 hours a day.

■ FOURTH NATIONAL, Tulsa, has two new assistant vice presidents: Bernard O. Tonquest, also marketing officer; and Randal W. Smith, also commercial loan officer. Mr. Tonquest joined the bank last August 1. He formerly was an assistant professor of government and political science, Benedictine College, Atchison, Kan. Mr. Smith was a national bank examiner before joining Fourth National October 31.

■ REPUBLIC BANK, Tulsa, has named James N. Young Jr. senior vice president and manager, commercial loan division; Robert W. Heathcock vice president, commercial loan division, and G. Richard Degen vice president and controller. Mr. Young was vice president and manager, metropolitan department, Bank of Oklahoma, Tulsa. Mr. Heathcock retired last year as vice president and manager, metropolitan department, First National, Tulsa. Mr. Degen, a CPA, formerly was assistant controller, Commerce Bank, Kansas City.

Tennessee

■ THIRD NATIONAL, Nashville, has named J. G. DeLacey financial executive vice president and cashier, W. Joseph Diehl Jr. first vice president and W. Steelman Morss Jr. senior vice president. Mr. DeLacey, who also serves as executive vice president of Third National Corp., the bank's HC, joined the HC last year. Mr. Diehl has been with the bank since 1951 and heads the retail division. Mr. Morss is new to the bank and was formerly with Aetna Life & Casualty Insurance Co., Hartford, Conn. Also promoted were James B. Smith and Robert P. Watson, to vice presidents, and Robert M. Calloway Jr. and John J. Cipriano, to assistant vice presidents.

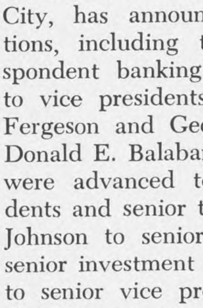
■ PIONEER BANK, Chattanooga, has elected Rodger B. Holley vice president and comptroller and Fred Ballard assistant vice president. Mr. Holley joined the bank in 1973 and has been comptroller since 1974. Mr. Ballard joined the bank in 1969 and has been a branch manager since 1974.

Texas

■ W. J. MOFFETT has retired as executive vice president, Parker Square Bank, Wichita Falls. He had served the bank as an officer since its inception in 1956. He began his banking career in 1938 as a bookkeeper for First National, Henrietta, and had been executive vice president at Parker Square since 1972.

■ OSCAR C. LINDEMANN has been elected vice chairman, United National, Dallas. He is a former CEO of Texas Bank and is a past president of the Texas Bankers Association.

■ FIRST NATIONAL, Dallas, has elected James A. Brickley and George W. McAulay executive vice presidents. Mr. Brickley, with the bank since 1973, heads the investments and funding division and has charge of that division's portfolio management group. Mr. McAulay, who joined First National in 1968, heads the operations and information services division and is president, First International Services Corp., a wholly owned data processing sub-



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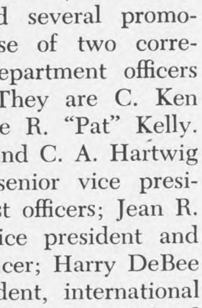

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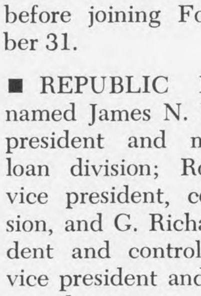

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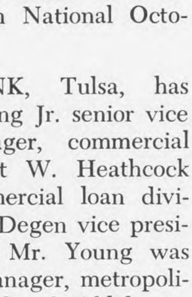
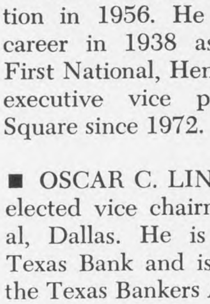


MORSS



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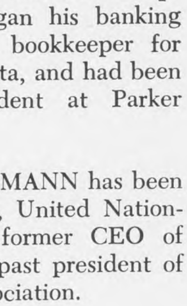


LINDEMANN

GAILEY REED CALDWELL HOUSEMAN KNIGHT ROGERS HALL SINGLETON HANDLEY

sidiary. Both officers formerly were senior vice presidents.

■ FIRST NATIONAL, Amarillo, has promoted H. Joe Horn to senior vice president and trust investment officer and named the following as vice presidents: Geoff Caldwell, Lena Mae Houseman, Dwain Knight, Doris Rogers, Don Gailey, Jack Hall, Don Handley and Lynn Singleton. T. J. Gilbreath, Cliff Goss, Larry Reed, Mike Floyd and Rosemartha Tyson were named assistant vice presidents. Mr. Reed is assigned to the correspondent banking department.

■ BANK OF THE SOUTHWEST, Houston, has promoted Gary J. Gehring to assistant vice president, Terry L. Masterson and Murray E. Brasseux to energy loan officers, William M. Page Jr. to personal banking officer and Judith A. Allen to assistant trust officer.

■ FIRST INTERNATIONAL BANK, Houston, will be an owner and major tenant in the new First International Plaza, said to be Texas' tallest office building. The bank plans to occupy a 106-foot-high banking lobby and the first seven floors of the 55-story tower. The bank is acquiring an ownership position along with Gerald D. Hines Interests and PIC Realty Corp., a subsidiary of Prudential Insurance Co. The bank expects to occupy its new quarters in 1980.

■ REPUBLIC NATIONAL, Dallas, has promoted the following to vice presidents: Howard Baker, Melvin H. Willess, Charles E. Tucker, Edwin S. Schriver III. New assistant vice presidents are Olin C. Lancaster Jr., David L. Baldwin and George C. Ethel III. Promoted to trust officers were W. Raymond Colvin, Carol L. Peaster, John W. Rupley, Paula A. How and G. Louise Graham. Officials of Republic of Texas Corp. and Bexar County National, San Antonio, have signed an agreement in principle for the HC to acquire the bank.

■ FIRST CITY NATIONAL, Houston, has elected Ken E. Loomis a vice president in the finance division. He was formerly with First City Bancorp, the bank's HC. Named assistant vice presidents were Nathan E. Christian, Mathew F. Ellis and James B. Evans. Gary L. Shields was elected an international banking officer and Anne M. Propes was named an international operations officer. New credit officers include Thomas N. Delavan, Donald R. Iglehart and Jack M. Roney.

Banking Scene

(Continued from page 8)

collar" crime. They also are concerned with the unknown risk exposure to fraud in the newer areas—computers in particular. New rate structures on telephone calls have increased the use of this valuable instrument by some less-than-savory organizations. The telephone is in some ways a communication device similar to computers, particularly in the area of "paperless entries." Hundreds of banks have had their bankers blanket bond (BBB) insurance coverage canceled because of the underwriter's perception that a bank's internal controls aren't adequate.

By asking the preceding questions of an unknown telephone salesperson, a bank can, in at least one area, help run a tighter "ship" and help keep insurance claims down. Sadly, there are too many bankers who feel that because their bank's insurance covers fraud and the like, they don't have to worry about taking prudent steps to avoid losses in this area. It's this attitude that is part of the reason for the sweeping cancellations of BBB and the increase in deductibles and premiums for that coverage. By instituting tighter controls, not only on the use of the telephone but in other areas as well, banks can help reverse the upward push of insurance costs. • •

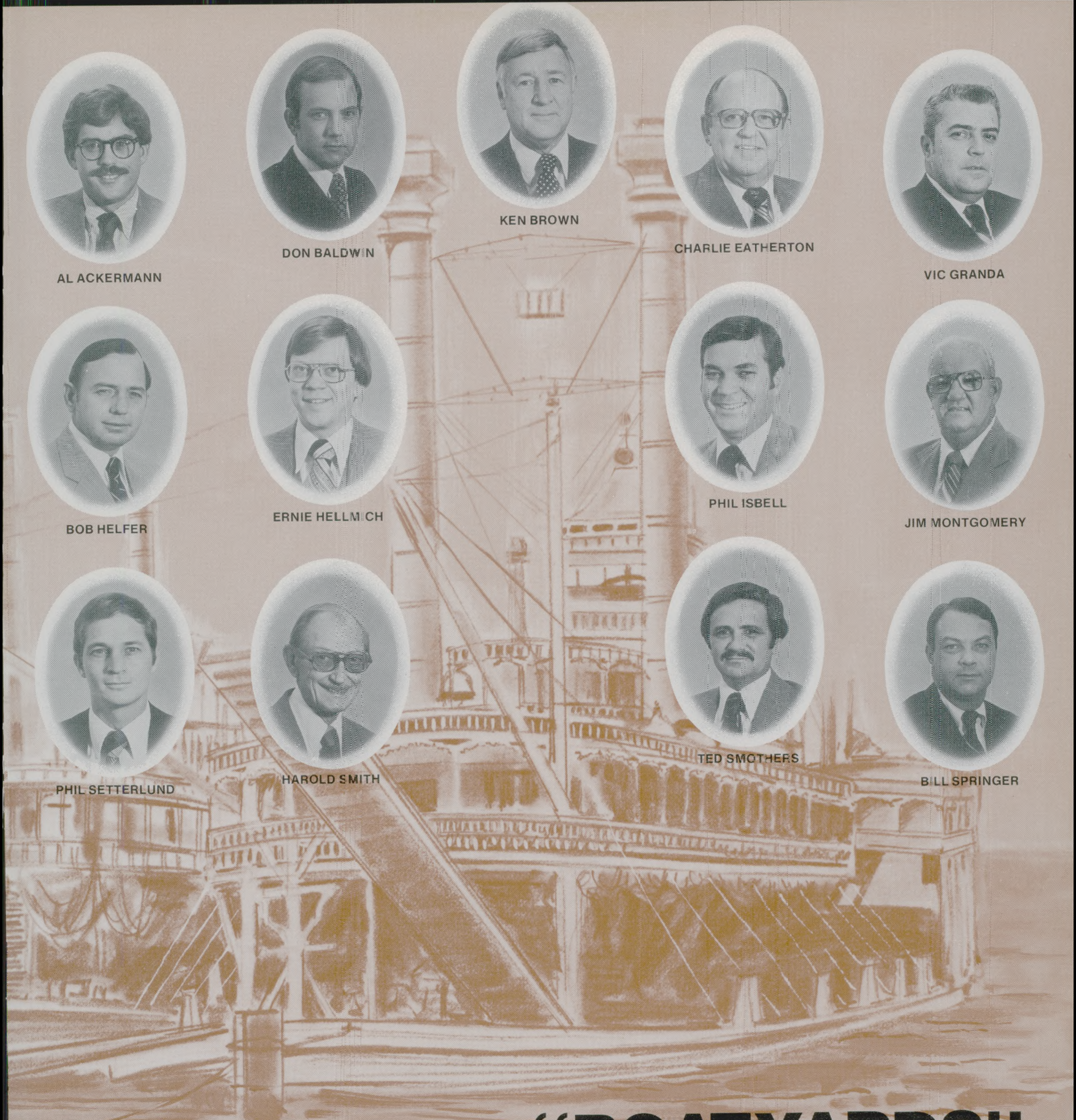
• Index to Advertisers •

Marriner Eccles Dies

SALT LAKE CITY—Marriner S. Eccles, 87, a former Fed chairman, died at his home here December 18.

Mr. Eccles wrote the Banking Act of 1935, which restructured the Federal Reserve System, and became Fed chairman in 1936. He held that post until 1948.

Mr. Eccles formed First Security Corp., said to be the first multibank HC in the country, in 1928. It is headquartered here and has offices in Utah, Idaho and Wyoming. At the time of his death, he was honorary ch. of the HC.



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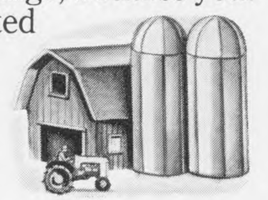

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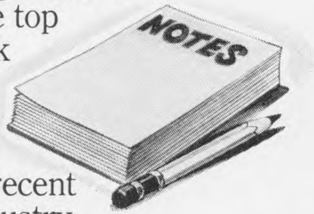

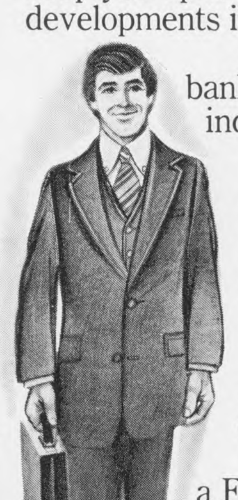

Of course, your correspondent banker is always available for individual consultation. He's the key to our relationship and the person we depend on to make fast decisions on our behalf. He's the one you can depend on, too, when you want to get more from your correspondent bank. He can help you plan for your bank's future and for our future together.

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