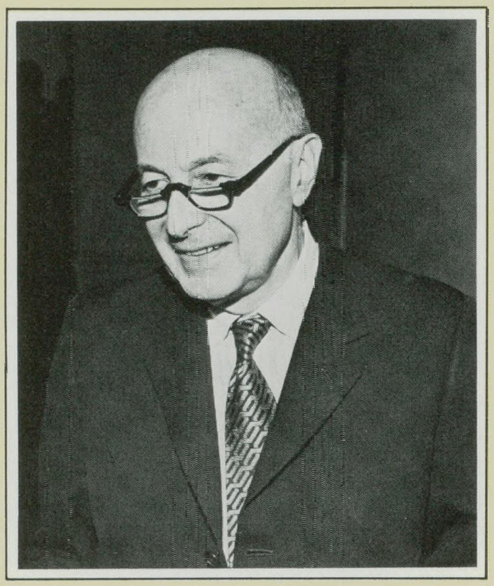
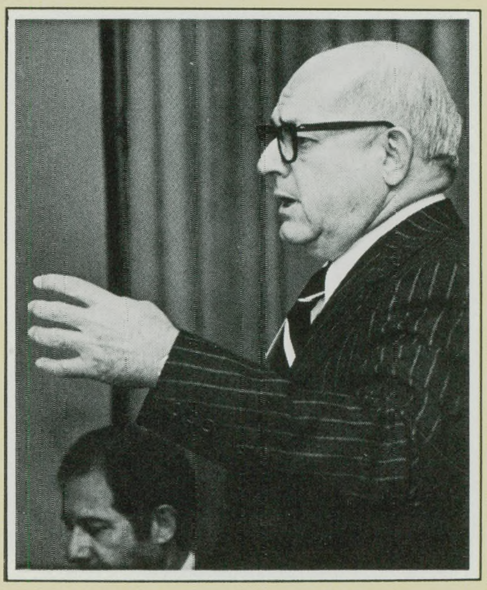
MID-CONTINENT BANKER

DECEMBER, 1978

Predictions on the Prime Rate



13-15% Says Janeway
Page 54



16% According to Francis
Page 48

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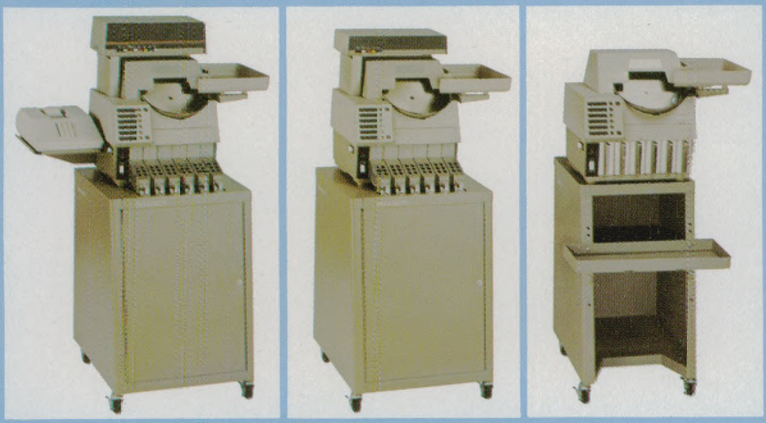
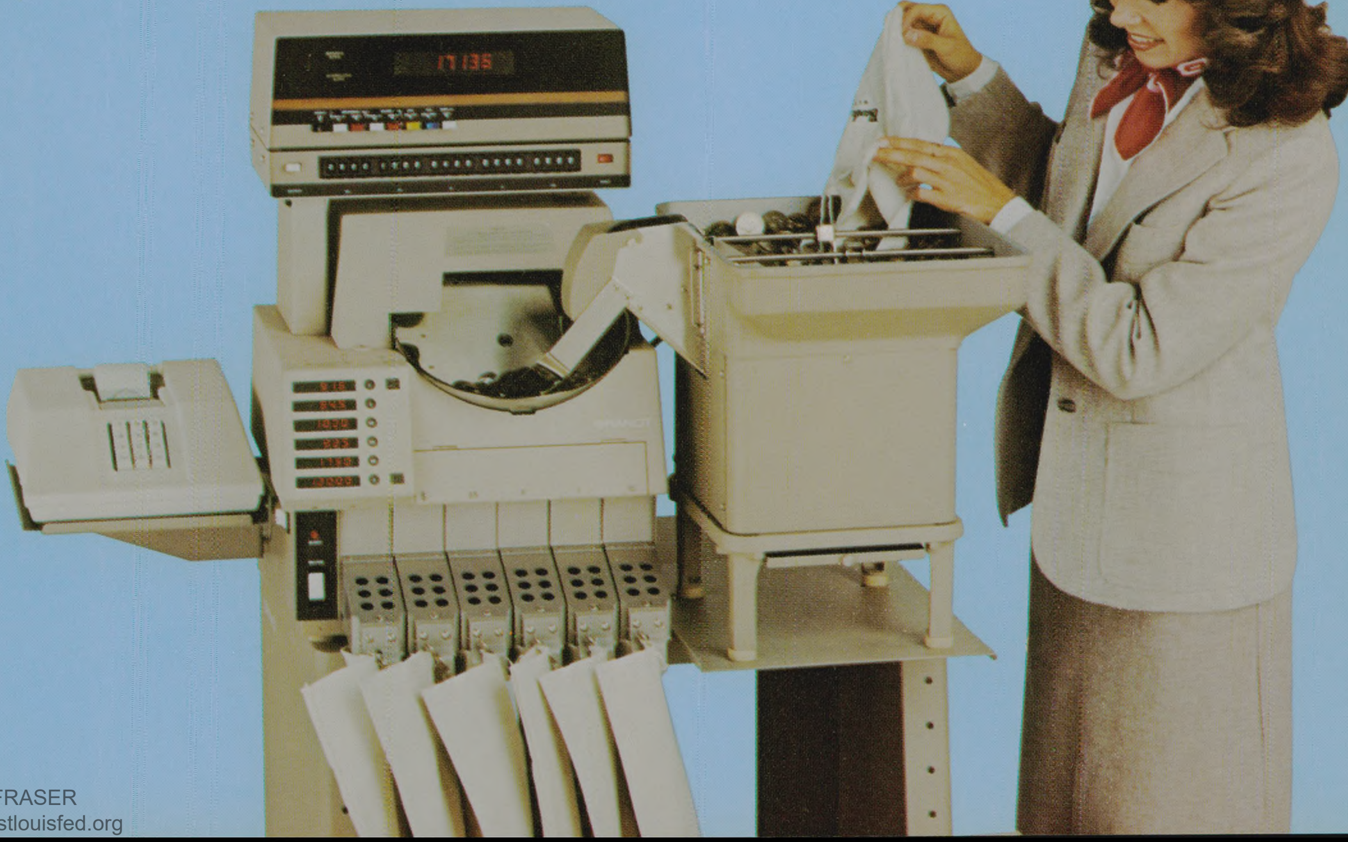


New Brandt Model 954, 952 & 950 sorter/counters.



MID-CONTINENT BANKER

The Financial Magazine of the Mississippi Valley & Southwest

Vol. 74, No. 13 **December, 1978**

FEATURES

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Convention Calendar

Jan. 15-16: Robert Morris Associates Accounts Receivable and Inventory Financing Workshop, New Orleans, Fairmont Hotel.

Jan. 17-19: ABA International Banking Conference, New York City, Waldorf-Astoria Hotel.

Jan. 28-31: ABA Risk and Insurance Management in Banking Seminar I&PD, San Antonio, Tex., Hilton Palacio del Rio.

Jan. 28-31: Bank Marketing Association EFTS Conference, Atlanta, Omni International Hotel.

Jan. 31-Feb. 2: ABA Bank Investments Conference, Chicago, Chicago Marriott.

Feb. 4-6: ABA Corporate Marketing Seminar, New Orleans, Fairmont Hotel.

Feb. 8-11: 34th Assembly for Bank Directors, Boca Raton, Fla., Boca Raton Hotel & Club.

Feb. 11-14: ABA Bank Telecommunications Workshop, Los Angeles, Century Plaza Hotel.

Feb. 11-14: ABA National Trust Conference, Los Angeles, Los Angeles Bonaventure Hotel.

Feb. 11-14: ABA Conference for Branch Administrators, Miami, Omni International Hotel.

Feb. 11-23: ABA National Installment Credit School, Norman, Okla., University of Oklahoma.

Feb. 25-March 1: BAI Bank Auditors Conference, Phoenix, Hyatt Regency Hotel.

Feb. 25-March 2: ABA Community Bank CEO Program, Port St. Lucie, Fla., Sandpiper Bay.

Feb. 26-March 1: Bank Administration Institute Bank Auditors Conference, Phoenix.

Feb. 28-March 2: ABA Advanced-Construction Lending Workshop, Norman, Okla., University of Oklahoma.

March 11-14: ABA Trust Operations and Automation Workshop, Chicago, Chicago Marriott.

March 11-14: National Automated Clearinghouse Annual Conference, Houston, Galleria Plaza Hotel.

March 11-15: Independent Bankers Association of America Convention, New Orleans, New Orleans Hilton.

March 11-16: ABA National Personnel School, College Park, Md., University of Maryland.

March 18-20: ABA National Credit Conference, Phoenix, Hyatt Regency.

March 18-21: Bank Administration Institute Community Banks Presidents' Forum, Hilton Head, S. C.

March 25-28: ABA Community Bank Executive Conference, Kansas City, Crown Center Hotel.

March 25-28: Robert Morris Associates Financial Statement Analysis Workshop, San Diego, Hotel del Coronado.

March 28-30: ABA Trust Investments Seminar, Chicago, Hyatt Regency O'Hare.

April 1-3: Bank Administration Institute National Conference on Bank Security, Washington, D. C., Shoreham/Americana Hotel.

April 1-4: ABA National Installment Credit Conference, Chicago, Chicago Marriott.

April 3-7: Bank Marketing Association Essentials of Bank Marketing Course, Temple University Conference centers, Chestnut Hill, Pa.

April 5-8: 35th Assembly for Bank Directors, San Francisco, Fairmont Hotel.

April 5-8: National Association of Bank Women Southwestern Regional Conference, Tulsa, Williams Plaza.

April 7-9: Louisiana Bankers Association Annual Convention, New Orleans, New Orleans Hilton.

April 7-10: Association of Reserve City Bankers Annual Meeting, Palm Springs, Calif., Canyon Hotel.

April 8-11: ABA Branch Operations Workshop, Nashville, Hyatt Regency Nashville.

April 10-12: ABA Bank Security Seminar I&PD, Hershey, Pa., Hershey Motor Lodge and Convention Center.

April 15-26: ABA National Commercial Lending School, Norman, Okla., University of Oklahoma.

April 25-27: ABA Governing Council Meeting, White Sulphur Springs, W. Va., the Greenbrier.

April 29: ABA Certified Commercial Lender Examination, Chicago.

April 29: ABA Certified Commercial Lender Examination, Norman, Okla.

April 29-May 2: ABA Southern Regional Bank Card Conference, Washington, D. C., Capital Hilton.

April 29-May 3: Conference of State Bank Supervisors Annual Convention, Hot Springs, Va., the Homestead.

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Controlling the Paper 'Blizzard'

By DR. LEWIS E. DAVIDS

Illinois Bankers Professor of Bank Management
Southern Illinois University, Carbondale

OVER THE PAST 10 years, commercial bankers have become increasingly aware that the paper "blizzard" of checks needs to be better controlled.

Introduction of magnetic-ink-character-recognition systems in the 1960s caused many bankers to believe they had achieved a victory over the blizzard of checks that threatened to engulf bankers. Today, we know the victory was really only a hiatus.

Numerous methods have been suggested for improving the payments mechanism, and some of them seem to be rather helpful. Specifically, the federal government now is expediting check handling by direct deposit of government funds to banks and other financial institutions via magnetic tapes rather than by mailing individual checks to recipients of government monies, such as those on social security rolls.

In many Latin American countries, banks don't return checks to customers. They send statements that enable customers to reconcile their accounts.

Many other corporations and state and municipal units have adopted similar procedures for payment of wages, salaries, pensions and even welfare grants.

In the last few years, some attempts at check-handling truncation have been made with carbonless-copy checks. The drawer of this type of check retains the carbonless copy as his record. The bank then remits to the customer only the statement, either monthly or quarterly, to provide a means for account reconciliation.

Several banks have attempted to use such a system. The most publicized case involved First Woman's Bank in

New York City. What was originally viewed by many as a good marketing and operational technique actually proved otherwise in practice. Customers of First Woman's Bank found that the carbonless copy didn't meet their needs. Some wanted to have proof that they had made payments by checks — they wanted canceled checks in their possession. Others had problems proving payment when called on by agencies such as the Internal Revenue Service. The IRS wasn't satisfied with a carbonless check.

For this and related reasons, including considerable time and expense to the bank, the innovative technique was dropped. The bank concluded that the new method didn't work as well as the old system of returning checks to depositors.

Publicity about this situation influenced a number of bankers to abandon the idea of adopting carbonless check-record systems.

It's pertinent to point out that in many Latin American countries, banks don't return checks to customers. They send statements that enable customers to reconcile their accounts.

It's interesting to note that a good-sized mutual savings bank, Farmers & Mechanics Savings, Minneapolis, now has adopted a carbonless-copy approach of offering non-interest negotiable orders of withdrawal. These NINOWs are used by more than 4,000 of the bank's customers. According to a bank spokesman, only three customers have asked to have their drafts returned. For this service, they must pay $3. A bank spokesman said the institution is pleased with the way the system is working.

If First Woman's Bank had levied a stiff fee to provide originals of collected checks, its system might have proved more effective. As it was, First Woman's Bank observed that it had dropped the carbonless-copy approach because of excessive costs to the bank caused by the large number of requests to furnish photostats or originals of checks. The significant point is that the operation could have been a source of profit if it had been priced properly.

It may well be that the short period of time that Farmers & Mechanics has been offering NINOWs hasn't generated sufficient volume to bring forth requests for photostats. Or it may indicate other factors. It may be that the type of customer patronizing Farmers & Mechanics has not been educated to need copies of his cleared checks.

More than a few country banks don't mail checks to all their customers. Rather, customers pick up their checks at their convenience.

For example, New York commercial-bank customers may be inclined to draw more checks than customers of the typical mutual. Because of this, there obviously would be more need to have increased documentation, based on the higher volume of checks drawn. The message Farmers & Mechanics has conveyed to its customers may be a factor — that while the accounts are free, additional documentation is fairly costly. It's quite likely that First Woman's Bank didn't convey that message, and in ef-

(Continued on page 44)

Community Involvement

Marketing the Economy:

Free-Enterprise Booth Tells Bank's Role in Financial World

Instead of acting as an information center dispensing vital statistics, at this year's "Free Enterprise Fair," Citizens National, Bowling Green, Ky., graphically depicted a commercial bank's contributions to the free-market system.

Citizens National had participated in the annual fair for the past three years, primarily informing visitors about bank services, number of employees and total assets. This year, the bank thought it was time for a conceptual change.

The fair's purpose was to inform and to educate young people about free enterprise and show that it is vital to the nation and to the local economy. It was held on the Western Kentucky University campus. A local artist constructed and painted a visual booth display showing the bank as the center of local business, the mechanism that puts idle funds back to work in the community. The booth was staffed for two days with bank officers who answered questions and handed out leaflets.

What the bank learned was startling. Few visitors realized, for example, that commercial banks were businesses trying to make money, not government agencies. The fair gave the bank the opportunity to inform the public and produce valuable public relations for Citizens National at the same time. When the fair was over, the display was dismantled for future use in school presentations.

Free-enterprise display was arranged by Citizens Nat'l, Bowling Green, Ky., to show public how bank supports economy and free-market system through financial services to individuals and businesses.

Issues and Answers:

HC Holds Political Reception For Office Hopefuls, Guests

Three weeks before Missouri's general election in November, Commerce Bancshares, Inc., Kansas City, held a two-hour reception for about 40 Republican and Democratic candidates and officeholders at Arrowhead Inn, Kansas City.

The meeting was sponsored by Commerce Bancs Political Action Committee (PAC) to give members an opportunity to better acquaint themselves with the politicians and the issues.

PAC is a voluntary statewide organization that was started during the Bicentennial to encourage greater awareness of governmental affairs. Made up of Commerce Bank and Bancshares employees, officers, directors, shareholders and their immediate families, it has 240 members in the four state regions combined.

Frost Nat'l, San Antonio, purchased message center scoreboard for indoor sport use in city's arena. It is approximately 14x28 feet, weighs 10,000 pounds, contains more than 12 miles of wiring and has 12,504 lamps that can spell out messages.

Lamp-Lit Scoreboard

Bank Gives Indoor Sports Bright New Way to Score

About the only thing the Frost National, San Antonio, message scoreboard doesn't do is shake pompons. Hanging from the ceiling in the city's Hemisfair Arena, the multipurpose scoreboard can spell out team cheers, announce emergency information, post game scores and keep the time, quarters and fouls. It's one of the largest scoreboards in the National Basketball Association and is powered by a Mark 400 computer console.

Frost bought the lamp-bank scoreboard and two smaller auxiliary ones to monitor the San Antonio Spurs' basketball games in the recently expanded arena. The bank hoped the scoreboard would increase fan excitement and total game enjoyment.

"We are proud of the Spurs," says C. Linden Sledge, bank president and CEO. "They've been able to catch the imagination of San Antonio and to make professional athletics a paying proposition for the Alamo city." This season, the Spurs became contenders for the league championship.

The scoreboard was designed so each seat has the best possible view of the scores as they happen. The bank's name is displayed on each side. The scoreboard can be used also for hockey, tennis, track, boxing and wrestling.

Scholarly Endowment:

Banks, University Collaborate On Chair in Banking Donation

Indiana National, Indianapolis, has joined with 21 banks from 10 Indiana cities to pledge more than $800,000 for a chair in banking at the University of Notre Dame. The endowment will allow the university to add a senior professor with outstanding teaching and scholarly credentials to the faculty, according to bank president, Thomas M. Miller.

Representatives from the banks have planned to meet with university officials to elect an executive committee to develop plans for the chair.

Temple Gets Gift:

Bank Donates Mail Machine After Getting New Computer

A complete Addressograph mailing system, valued in excess of $10,000, has been donated by Citizens Bank, Pacific, Mo., to Congregation Temple Israel, Creve Coeur, Mo. Components of the system are capable of handling plate making, storage and addressing.

A new computer system at the bank made the equipment surplus, but because the Addressograph was relatively new, the bank donated it to the temple.

The temple plans to use it for religious, educational and service programs.

The Greenville Connection

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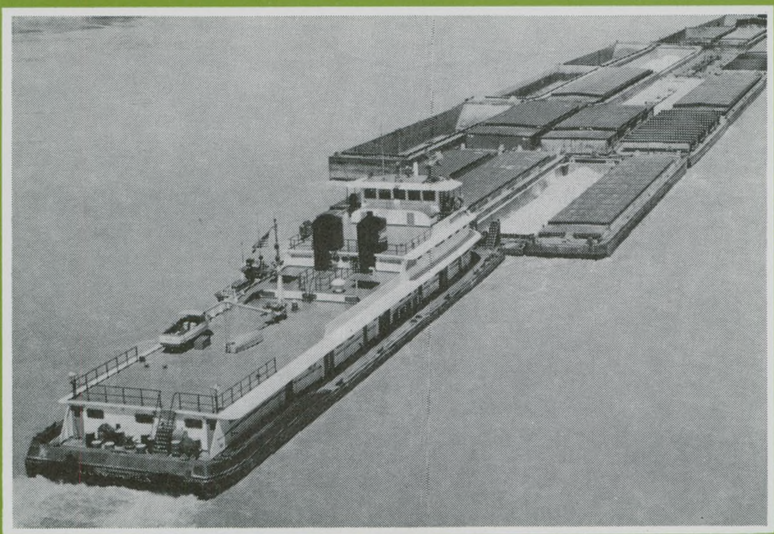

Commercial National Bank

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For 11th Birthday:

Cake-Baking Contest Sponsored by Bank

When Shepherd Mall State, Oklahoma City, celebrated its 11th birthday this year, 55 persons baked cakes for the occasion. They did so to enter a cake-baking/decorating contest sponsored by the bank in honor of its anniversary.

The contest had two categories: flavor, which attracted 37 entries; and decoration, which had 18 entries. Judges were the home economics director, Oklahoma Natural Gas Co., a woman who teaches cake decorating for J. C. Penney and two bank employees. The cakes were brought to the bank the morning of the judging and were on display until 1 p.m., when the judging took place. The bank is located in a shopping mall, and the lobby can be seen from the mall. Thus, the cake display and judging drew many passersby.

There were four cash awards in each category: $50 first prize; $40, second; $30, third, and $20, fourth. In addition, each of the two first-place winners received plaques, and the bank gave $5 to all contestants, some of whom were children.

After the judging was over, cakes in the flavor category were cut, and slices were distributed to lobby visitors. Other refreshments also were served. Cakes in the decoration category were sent to nursing homes, orphanages and children's hospitals.

This was the third consecutive year the bank has held such a contest, and a larger number of contestants have entered each year. Customers were told about the contest through newsletters sent out with statements, and the bank placed a sign about the contest in the shopping mall outside the bank lobby. Although most of the contestants were from the bank's trade area, one did come from 30 miles away.

Purpose of the contest was two-fold: It gave the bank an opportunity to develop its public relations and attract new customers and it gave employees an opportunity to work together during the bank's birthday celebration.

Portion of cakes baked to celebrate birthday of Shepherd Mall State, Oklahoma City.

American Fiesta:

Pinata Spills 'Sweets' At Bank Housewarming

First National, Duluth, Minn., held a "fiesta" of sorts when its $1-million remodeling program was completed: On tapping the trigger of a pinata model of the bank, Dennis W. Dunne, president, released 217 silver dollars that went streaming into an antique copper boiler below. The coins, one for each million dollars of the bank's resources and one for the million-dollar investment in remodeling, were distributed to the first 217 customers to go through the line after the pinata was broken.

Blindfolded Dennis W. Dunne, pres., First Nat'l, Duluth, Minn., receives some help from city's mayor, Robert Beaudin, in tapping trigger on bank-shaped pinata. When broken, pinata released 217 silver dollars, which were given away to customers.

Mr. Dunne and the bank's ad agency invited media representatives and local officials and dignitaries to the event. As a result, the pinata breaking was covered at length in the local newspaper and also by Duluth TV stations in their 6 p.m. and 10 p.m. newscasts.

Double Owl I:

Gas Bag Gains Publicity For Owl Network ATMs

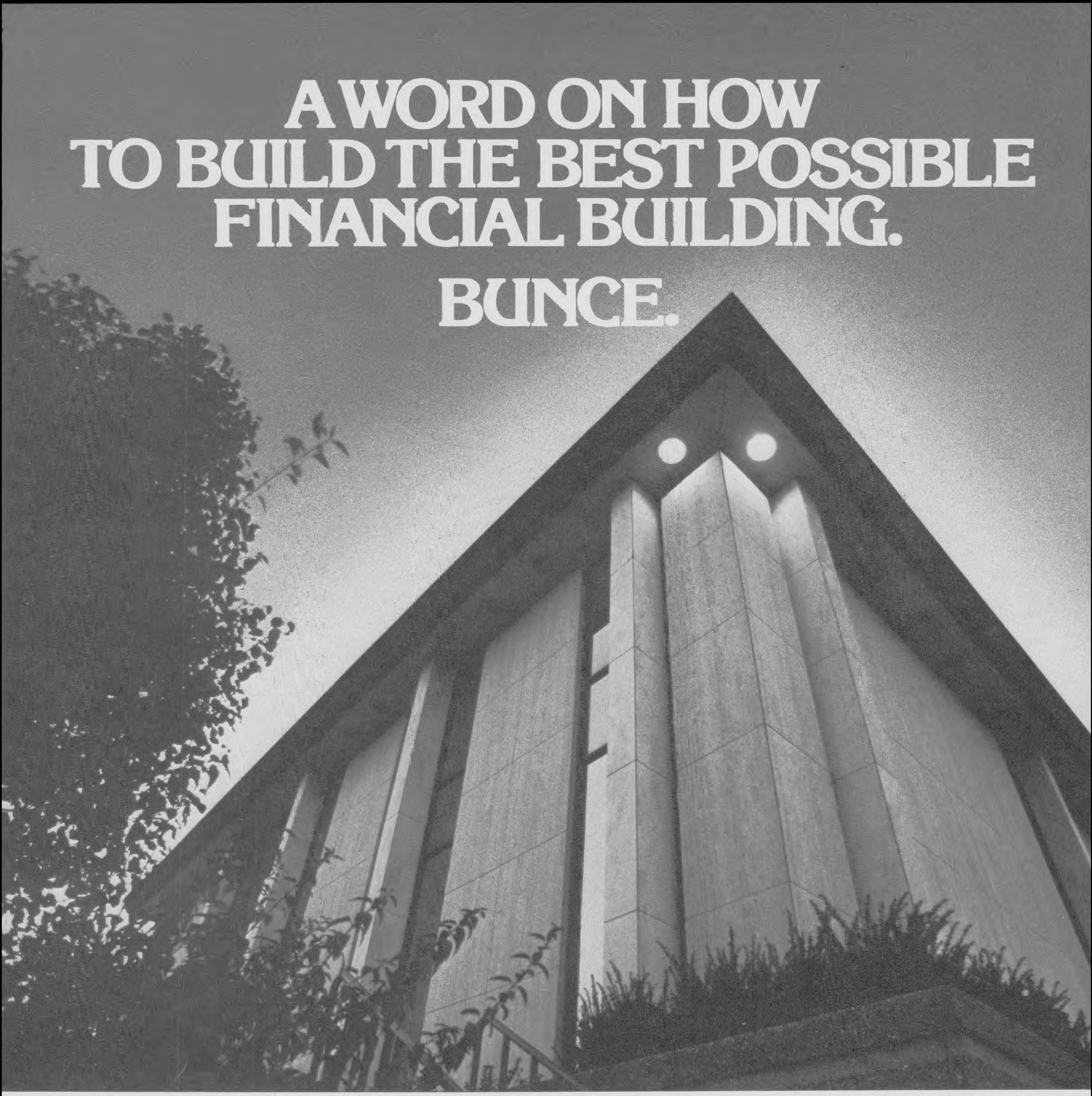
Double Owl I, the hot air balloon that publicizes the Cincinnati-based Owl Network, has been flying high since its maiden flight in August. There seems to be no end to opportunities for the balloon to attract attention to the EFT network that operates in Ohio and Kentucky — as long as good flying weather lasts.

Affiliates of Central Bancorp., HC of which Central Trust, Cincinnati, is the anchor bank, have access to the balloon that measures 55 feet in diameter and 63 feet in height. Its 77,500-cubic-foot volume holds 5,500 pounds of hot air heated by two 4,320 hp burners.

The gas bag attracted attention for the Owl Network's ATMs at such places as the Ohio Aerospace Show, the Kenton County Octoberfest, a Mason-Dixon Line Balloon Crossing event (where it placed third in a race) and at numerous grand openings of bank offices and ATMs.

One event that didn't come off was a remote radio broadcast from the balloon by a Cincinnati radio station, sponsored by Central Trust. Rain forced postponement of the event.

Owl Network hot air balloon made daily visits to Ohio Aerospace Show in September, gaining publicity for network's ATM operation in Ohio-Kentucky area.



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How to Remove Mental Roadblocks

By JOHN R. GINSLER

President, Financial Training Resources
Glen Ellyn, Ill.

IN OUR LAST "Let's Talk Selling" article, we examined three practical methods for resolving resistance:

- *Ask "Why?" and Listen* — clarifying the nature and causes of resistance so that you're better able to select and communicate the appropriate logic and methods needed to resolve it.
- *Describe Third-Party Experience* — relating the experience of a customer with the point of resistance that's been raised to show through his objective experience appropriate facts, logic and reasons that warrant a change in viewpoint and to lessen emotions associated with the resistance.
- *Outweigh Resistance With Benefits* — putting the expressed resistance in proper perspective by causing the customer to analyze and compare what he must invest or give up in relation to the values or benefits that he can gain by changing his viewpoint or status quo thinking and practices.

Let's now examine three additional methods you can use to overcome mental roadblocks encountered during a sales call, as well as the indecision and procrastination that often occur as you seek action at the conclusion of a sales call.

Educate By Analogy. A common cause of resistance is a customer's lack of knowledge or experience with whatever you are proposing. This contributes to resistance, because we all tend to fear, doubt and avoid the unknown.

An effective method for coping with resistance based on limited knowledge or experience is to educate the customer with an analogy. Simply defined, an analogy is an example or illustration drawn from an individual's own or related experience.

Analogy is an effective method for dealing with both rational and emotional resistance, because:

- It enables a customer to educate himself and see the answer to his doubts, fears and questions through his own related knowledge or experience.
- It reduces fears associated with emotional resistance by moving the customer from what he already knows to conclusions about the unknown through what he perceives in the parallel or analogous example.
- It causes the customer to supply most of the logic or reasoning employed to modify his viewpoint.

A customer will resist whatever is being proposed because of lack of knowledge of or experience with it. We all tend to fear, doubt and avoid the unknown.

Using an analogy to resolve resistance involves the following procedure:

1. *Acknowledge and clarify the customer's viewpoint.* This simply involves expressing empathy for the customer's viewpoint to take the sharp edge off it and to avoid the natural inclination to argue. If the resistance is stated in unclear or incomplete terms, you should ask the customer to explain what he bases his viewpoint on. For example: "I can appreciate, Doctor, that you feel fully competent to manage your own investments. But tell me, how much time are you able to devote to this?"

2. *Establish known situation or base experience.* This involves developing facts from the customer's prior knowledge or related experience to establish a base point from which the analogy or parallel experience can be drawn. The most effective way to do this is to ask the customer to supply the base-point facts or experience, so that the logic used to resolve the resistance is his rather than yours. For example:

"Recently you built this attractive, new office building in which you've housed your practice. Possibly you might have served as your own architect or general contractor. However, I understand that you used Lybrand & Harris, a professional architectural firm, to help you plan and execute construction of your building. What do you feel you gained by doing this?"

3. *Draw parallel or analogy based on known experience.* This involves showing the customer how logic or reasoning developed through his known or prior experience applies to the resistance that's been raised. For example:

"You found it advantageous to use a professional architect, like Lybrand & Harris, to put up your building because the firm had the experience and expertise to prepare the plans needed to convert your goals into reality within practical limits of your budget. Also, by handling the complex details of putting out bids, reviewing contractor prices and qualifications, selecting contractors, obtaining building permits, scheduling construction work and following through with contractors to be sure work was completed as contracted for, the firm relieved you of a lot of work, worry, frustration and needless expense. You were able to devote your valuable time to your practice and patients.

For many of these same reasons, many professionals like you use our professional investment management services to help them research and select investments needed to accomplish their investment goals and to reduce the time, work and worry involved in following their investments, making timely buy and sell decisions, investing investment income, preparing tax information, safeguarding securities and handling the tedious paperwork involved in maintaining an investment portfolio. This enables them to devote their valuable time more fully to their patients or other interests."

4. *Get back on track.* To be sure the customer has accepted the logic and reasoning conveyed by your analogy, it's good communications practice to elect feedback with a test question. For example: "Based on this, can you see how the professional help available from our investment department will enable you to make more productive use of your time, while still giving you full control over your investment decisions?"

Add Proof of Performance. When seeking customer action at conclusion of a sales call, it's not uncommon to encounter indecision or procrastination expressed in a variety of ways —

Besides being uncertain, a customer sometimes will be indecisive or will procrastinate because he simply doesn't see or feel the need for immediate action.

"I'd like to think about it," "I'd like to shop around," "We're not quite ready yet," "I'm not sure this is right for us," etc. When you encounter indecision, it's usually not caused by the customer's rejection of what you're proposing, since you seldom would get this far in a sales call unless the customer has accepted much of what you've proposed. Hard-core resistance normally occurs much earlier in a sales call. When you reach the point of seeking action, and indecision occurs, what the customer often is expressing is lack of complete conviction or belief. In effect he is saying: "It sounds pretty good, but is it really as good as you say?" In this age of inflated claims, such skepticism not only is natural, but also is quite healthy, since it helps affirm and validate the soundness of the customer's decision.

Adding proof of performance is an effective method for converting indecision into action because:

- It replaces skepticism and doubt with evidence that affirms the validity of what you're proposing.
- It relieves a customer's fears about the consequences of his decision by showing that many others have made the same decision before him and have benefited from it.
- It lends objective support to your benefit claims by supporting them through the objective experience and performance of satisfied customers.
- It moves the customer's thinking from "Will it work?" to the evidence that "It has and does work."

Applying this method to resolve indecision involves this simple procedure:

1. *Acknowledge and clarify indecision* by expressing empathy for the customer's desire to be certain and by asking the customer to explain his indecision to be sure it's due to doubt or skepticism. For example: "I can understand your desire to be sure this is the right approach. However, in view of the benefits to be gained, there must be some question I haven't answered, causing you to hesitate. What might it be?"

2. *Present number proof.* This involves relating the number of customers who have used and accepted what you're proposing. Such evidence helps reduce a customer's fears and anxieties by showing that the service or capacity is not untried and untested and that many others have used the service or capacity before him and found it beneficial.

For example: "In just the last six months, 18 companies and other organizations in the area have converted to the Sure-Pay method for paying their people."

"Twenty-two firms in this industrial and office park now are using a business savings account with telephone transfer as their primary method of investing surplus funds."

"Nearly two thirds of the firms in this area use us as a primary financing source because of the speed with which we react to and process their financing requests."

3. *Present case proof.* With many customers, number evidence will be sufficient to relieve their fears and remove their doubts. However, with some customers who may doubt the credibility of your numbers, it's often necessary to reinforce number proof with specific "for-instance" evidence by naming satisfied customers, relating customer testimonials or citing specific performance results. For example:

"Fred Harper, president of Advance Electronics, estimates that Sure-Pay has saved his company at least $1,900 in payroll-preparation costs, while sharply reducing time lost previously on paydays by employees going to their banks to cash or deposit their paychecks."

"This list will indicate to you the

(Continued on page 56)

Significance of Election '78

ELECTION '78 continued the previous demographic trend toward a greater number of relatively newer members of Congress. However, as bankers look forward to the start of the 96th Congress next month, the only certainty is that change will continue.

The trend toward a more youthful Congress has continued, but slowed somewhat overall. While 95 House members were new in 1975 at the start of the 94th Congress, some 75 will be freshmen in January. However, there will be 20 freshmen in the Senate — the largest freshman class in the Senate since 1947.

As the two years of the 95th Congress established, it's possible early on to profile individual members of the House and Senate and to identify their probable political inclinations. But until the 96th Congress speaks its will on major issues, it will be impossible to characterize its ultimate philosophical bent one way or another.

Republicans show a net gain of three seats in the Senate and an apparent net gain of 12 seats in the House — a less-than-normal gain for the party out of power during an off-year election.

For example, it was widely predicted two years ago that the newly elected 95th Congress would be inclined to be more populist, free-spending, pro-labor and liberal. The final decisions — the major decisions — of that Congress were not made until its last hours October 15, but the ultimate event proved most early predictions wrong.

When the 95th Congress adjourned, it had three times defeated major legislative initiatives by organized labor (the Labor Law Reform Act, common-situs picketing and significantly higher minimum wages than were enacted); it had reversed the decades-long trend toward less-favorable tax treatment of capital gains, and it had shown a greater spending restraint than recent congresses.

Editor's Note: This column was prepared by the ABA's public relations division.

As of this writing, Election '78 had given the Republicans a net gain of three seats in the Senate and an apparent net gain of 12 seats in the House — a less-than-normal gain for the party out of power during an off-year election. The Democrats retained majorities of 276-159 in the House and 59-41 in the Senate.

In the Senate Banking Committee, Democrat John Sparkman of Alabama retired this year, and Democrat Thomas J. McIntyre was denied a reelection bid by New Hampshire voters. Senator McIntyre had been chairman of the Subcommittee on Financial Institutions. In addition, Republican Edward W. Brooke of Massachusetts (senior Republican on the committee) was defeated. Banking issues did not affect either Senator McIntyre's or Senator Brooke's reelection races.

Senator Brooke was replaced as a senator, though not necessarily as a member of the Senate Banking Committee, by Democrat Paul E. Tsongas, who formerly was a member of the House Banking Committee.

Other changes on the House Banking Committee included defeat of Democrats Mark W. Hannaford of California and Edward W. Pattison of New York. Representative Clifford Allen (D,Tenn.) died earlier this year.

On the Republican side of the House Banking Committee, Garry Brown of Michigan and Newton I. Steers Jr. of Maryland were defeated in reelection efforts. Representative Bruce F. Caputo (R,N.Y.) retired, and Representative John H. Rousselot (R,Calif.) will move next year from the Banking Committee to the House Ways and Means Committee.

The relative shift in overall Democratic and Republican strength is not likely to result in any alteration of the ratio of Democrats to Republicans on either the House or the Senate Banking Committee.

House leadership is expected to make committee assignments for new representatives in early December. At that time, present committee members can seek to switch their assignments. On the House Banking Committee, no changes are expected in key chairmanships, but on the Senate Banking Committee, much interest will focus on selection of a new chairman of the Financial Institutions Subcommittee, which has primary jurisdiction over most banking legislation.

One option open to Senate Banking Committee Chairman William Proxmire (D,Wis.) is that of dropping the subcommittee system of organization in favor of having the entire 15-senator panel consider all bills referred to it.

A Look Ahead. Just hours before the 95th Congress adjourned October 15, it seemed that an unwillingness to compromise had ended all chances any banking legislation at all would be enacted. But final passage of the Financial Institutions Regulatory and Interest Rate Control Act cleared a backlog of issues, many of which had been under consideration for several years. (Two years ago, Congress finished its business without having enacted a single piece of major banking legislation, and this year there was a strong desire on both sides of Capitol Hill not to see that record repeated.)

Senate Banking Committee Chairman William Proxmire has the option of dropping the subcommittee system of organization in favor of having the entire 15-senator panel consider all bills referred to it.

The question of Federal Reserve membership and reserve-setting authority, on which debate was begun only this year, is expected to be the only major banking issue carried over from the last Congress to the next. Separate but closely tied to those matters is the question of explicit pricing by the Fed for its services to financial institutions. It's expected that between now and the start of the next Congress, the Fed will come forward

(Continued on page 60)

Regulatory News

New Regulations Proposed For Securities Transactions

Revisions establishing uniform standards for bank recordkeeping, confirmation and other procedures in making securities transactions for trust department and other bank customers have been proposed by the Fed, the FDIC and the Comptroller.

The proposals were made subsequent to a study by the Securities & Exchange Commission on bank securities activities and include certain recommendations made by the SEC.

Under the proposed revisions, banks would be required to maintain the following records concerning securities transactions for three years:

- Itemized daily records of purchases and sales.
- Account records for customers.
- A separate record of each order to purchase or sell securities.

Banks making securities transactions for customers would be required to establish written policies and procedures, including the following:

- Assignment of responsibility for supervising employees involved in securities transactions.
- Provision for fair and equitable allocation of securities and prices to accounts when orders for the same security are received for execution at approximately the same time.
- Provision for fair and equitable matching of buy and sell orders from different customers.
- Requirements for bank employees involved in securities transactions for customers to report their own securities transactions quarterly.

The proposal would exempt banks that normally make only small numbers of securities transactions for customers from certain recordkeeping requirements. The Comptroller and the FDIC would exempt banks making an average of 50 or less transactions a year over the three prior calendar years. The Fed would exempt those with less than 200 such transactions a year.

New Remote Service Facility Approval Procedures Asked

Procedures for processing requests from FDIC-regulated banks to establish remote service facilities have been proposed by the FDIC.

Proposed regulations would define all remote service facilities owned or leased as branches in accordance with recent judicial decisions on bank branching, reduce administrative burdens for applicant banks and provide the FDIC with information concerning remote service facilities necessary for proper bank supervision.

Among the applications affected are requests to establish ATMs, cash-dispensing machines, point-of-sale terminals and other remote electronic facilities owned or leased by an FDIC-regulated bank at which deposits are received, checks paid and money lent.

The proposed regulations would delegate authority to the director of the division of bank supervision and to regional directors to approve remote service facility branches. Additional facilities could be established by a bank without further specific approval by notifying the FDIC in advance. Failure of the FDIC to notify the bank of any objection would constitute approval. Shared facilities would not require FDIC consent.

Fed Proposes Revisions To Equal-Credit Reg. B

The Fed has proposed several changes in Regulation B (Equal Credit Opportunity) to broaden the scope of the regulation.

The agency wants to bring arrangers of credit under the regulation, in addition to extenders of credit. Included in the former category would be real estate brokers, who select the creditor or creditors with whom a credit application will be filed.

The Fed also wants to eliminate the exemption in the regulation of business credit from the record-keeping and notification requirements in certain transactions under $100,000. Regulation B now provides that, in case of adverse action, an applicant for business credit may request written notification of the applicant's right under ECOA and a statement of reasons for the adverse action, but will not receive them automatically. The proposal would further require business credit applications under the same dollar limit to be kept for 25 months, rather than the present 90-day stipulation that provides that applications can be discarded in 90 days unless retention is requested.

The regulatory agency also wants to eliminate the exemption of business credit from the general bar in the regulation against asking the applicant's marital status.

The proposal also would incorporate an official staff interpretation requiring creditors to give applicants for business credit some notice, oral or written, of action taken on an application or an existing account within a reasonable time. This portion is a clarification of the regulation.

Stephen Gardner Dies

Stephen S. Gardner, 56, vice chairman, Federal Reserve Board of Governors, died of cancer November 19. He was a dep. Treasury sec. before being appointed in February, 1976, to a 14-year term on the FRB by then President Gerald Ford. Mr. Gardner had been ch., Girard Bank, Philadelphia, where he had worked for 25 years.

Regulation Z Amended

The Fed has amended disclosure requirements under Regulation Z (Truth in Lending) to emphasize consumers' rights in connection with a change in the terms of an open-end credit plan secured by a consumer's residence.

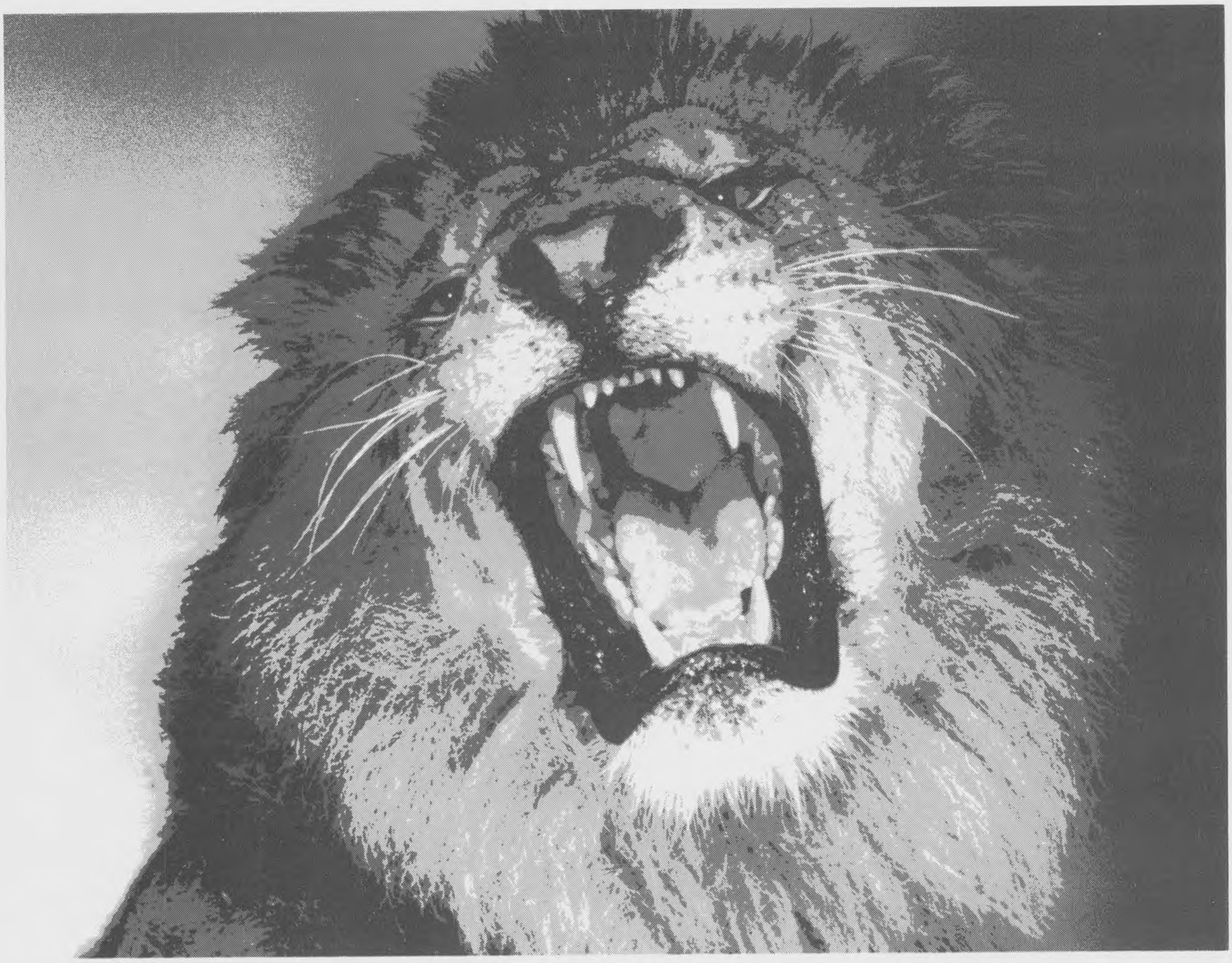
The agency's action modifies a sample disclosure form published in August by the Fed as an interpretation of the regulation. However, use by the creditor of the disclosure form as originally suggested by the board will not be a violation of the regulation.

Ray Gidney Dies

Ray M. Gidney, 91, Comptroller of the Currency from 1953 to 1961, died last month in Jacksonville, Fla.

He started his banking career as a clerk at Commercial Bank, Santa Barbara, Calif., in 1903. He joined the Fed in 1914 and spent 39 years in various Fed positions. He was president, Cleveland Fed, from 1944 to 1953, when he became Comptroller.

He is a past president of Robert Morris Associates.



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EFT Act Provisions Spelled Out

THE 1978 Electronic Fund Transfer Act was enacted in October as the 20th section of an omnibus banking bill. Objective of the act is to provide for customer rights and safeguards in EFT services.

The legislation sets forth disclosure requirements, including:

• Consumer liability for unauthorized transfers.

• Telephone number and address for notification of unauthorized transfers.

• Type and nature of transfers the consumer may initiate.

• EFT charges.

• Consumer's right to stop payment of a preauthorized transfer.

• Consumer's right to receive documentation of transfers.

• Error resolution procedures.

• Financial institution's liability to the consumer.

• Circumstances under which information concerning the consumer's account will be disclosed to third parties.

The act's objective is to provide for customer rights and safeguards in EFT services.

A 21-day notification is required for any changes in an EFT agreement that affects a customer adversely.

Receipts are required for all terminal transactions. Notices are required for preauthorized deposits; however, a financial institution doesn't need to provide a notice when the payor does, and has a choice of providing either notice of receiving a deposit or of the failure to receive a deposit. Prior notice, including the amount and planned date for debiting, is mandated for preauthorized transfers of variable amounts.

Statements are required every month in which a transaction occurs; otherwise, they are required quarterly. Quarterly statements are permitted if the only EFT transactions are preauthorized deposits.

A statement must contain the following information: the amount, date, type of transfer, account number, identity of third parties, the location or identification of the terminal, the beginning and ending balance, fees and charges and an address and telephone number for inquiries and error notices.

If the only EFT transactions are preauthorized deposits, only the amount and date for passbook accounts are required.

Payments may be stopped on a preauthorized transfer up to three business days before the scheduled date of the transfer.

An institution has one day to correct an error after a determination has been made that an error occurred. It has 10 days to look into an error inquiry, but can extend the time to 45 days by provisionally recrediting the customer's account within 10 days.

A customer must notify an institution of an error within 60 days after receiving a statement. Violation could lead to treble damages.

Customer liability. A $50 maximum amount of liability may be imposed on a customer for losses incurred because of unauthorized transfers, except in cases of:

• Fraud by the consumer or someone acting in concert with the consumer.

• Improper use by a person entrusted with an EFT card.

• Failure to report an unauthorized use within 60 days after receiving the statement showing the unauthorized use.

• Failure to report a loss or theft within two days after learning of the loss ($500 maximum liability).

A notice defining the customer's liability for unauthorized transfers, and the telephone number and address to use in the event of an unauthorized transfer, must be provided within 90 days of the statute's effective date for the liability section to be in force.

Liability of financial institutions. Financial institutions are liable for all damages proximately caused by the failure to complete correctly an EFT transaction, and for proved actual damages if the failure resulted from a bona fide error.

Financial institutions are not liable if it can be shown by a preponderance of evidence that action — or inaction — resulted from:

• A circumstance beyond control, and that reasonable care was exercised to prevent such an occurrence.

• A technical malfunction of which the consumer was aware.

Regulations. The Fed is authorized to write regulations, but it must (1) take the continuing evolution of EFT into account, and (2) use cost-benefit analyses in the development of the rules to ascertain the effects of paperwork requirements and on competition among large and small institutions.

The board may modify requirements for smaller institutions if needed to ease any undue compliance burden.

Distribution of cards. Unsolicited cards may be distributed. However, a PIN or access code may be provided only in response to a request or application from the consumer.

Exclusions. The bill exempts the following services from its requirements: (1) check verification or guarantee systems, (2) wire transfers, (3) the purchase or sale of securities, (4) automatic transfers from savings to checking accounts and (5) nonrecurring telephone transfers that are not part of a prearranged plan.

State law is preempted only to the extent of any inconsistencies with the EFT Act.

Effective dates. Most provisions take effect in 18 months of enactment, except for those sections on liability for unauthorized transfers and distribution of cards, which take effect within three months of enactment.

Other provisions. Civil and criminal sanctions are imposed for violation of the law.

The law prohibits any person from requiring a customer to establish an EFT account with a particular institution or condition the extension of credit on the use of EFT services.

State law is preempted only to the extent of any inconsistencies. A state statute prevails when it provides greater consumer safeguards than federal law. • •

Consumer Credit to Dominate Bank Loans

BY 1980, installment lending will dominate commercial lending in the nation's commercial banks, according to James L. Smith, senior vice president, Security Pacific National, Los Angeles.

Bankers can also expect charge-card volume to continue to increase from year to year. The reason, said Mr. Smith to Missouri bankers at their annual installment conference: The consumer is looking for the "better life," and he recognizes that as prices rise, because of inflation, he may as well "buy now and pay later."

Bankers should not be concerned, he said, because consumer credit is the highest profit department of the bank, despite fixed lending rates and ever-increasing operating costs.

What can banks expect in auto sales in 1979, he asked? High in dollar volume, as prices rise, but lower in number of units sold. The current year, he said, could turn out to be either the first or second highest year in terms of dollar volume.

Banks do have almost one-half of all auto loans in the country, he said, and a bad auto year could hurt the installment department. Really, he said, there is no other type of loan to replace the auto loan.

Mr. Smith noted that the 48-month auto loan has been accepted in most sections of the country, and he mentioned that one bank in California presently is offering 60-month loans.

The installment department is faced with problems in the areas of compliance and credit applications. Many questions formerly asked of a borrower are now denied to us, he explained, and proper documentation of loans must be adhered to if we are to avoid problems with compliance regulations.

Mr. Smith expressed some concern about the rapid growth of charge-card credit — 18% growth in 1978! He posed the question: Does recent charge-card activity indicate that consumers have shifted "living expenses" to the charge card to keep pace with rapidly rising prices? Many of those customers, he said, have a repayment schedule that requires 28% of their disposable income!

Missouri bankers heard a number of talks related to their business, including some on leasing.

Keynote speaker James L. Smith, s.v.p., Security Pacific, Los Angeles, is pictured here with installment conference chairman, Robert F. Haake Jr. (r.), chairman, MBA consumer finance committee.

J. Eustace Wolfington, vice president, Yegen Associates, New Rochelle, N. J., pointed out to bankers that the trend in auto financing today was toward leasing. The man who formerly bought his car now is leasing that car. High costs of an automobile, plus favorable terms offered by leasing firms, have caused "buyers" to turn in that direction, he said.

There are some 8,000 auto dealers and 4,000 private firms engaged in leasing, and banks, to compete, should consider setting up their own leasing activities or working in partnership with a private leasing firm.

Robert W. Stubbs, president, Tri-Continental Leasing Corp., also of New Rochelle, N. J., noted that leasing of capital goods (production equipment) also was growing by leaps and bounds — $20 billion per year.

Again, small businesses (or large ones) wishing to conserve operating capital have opted to lease rather than borrow direct or issue new capital.

It is a specialized business, said Mr. Stubbs, and requires an experienced staff. One alternative available to the bank receiving a minimal number of "leasing requests" would be to join forces with a private leasing firm that, in effect, would act as the bank's "leasing correspondent." This would, he said, permit the bank to start up almost immediately in leasing all types of equipment. ● ●

Patterson Named President, Butler, Snyder Named VPs, Consumer Bankers Assn.

Charles F. Patterson Jr., group vice president, Trust Co. Bank, Atlanta, was elected president, Consumer Bankers Association (CBA), at the closing session of the association's 58th annual convention in Boca Raton, Fla. He succeeds James L. Smith, senior vice president, Security Pacific National, Los Angeles, who becomes a member of the association's board of governors and executive committee.

Elected first vice president was Leslie R. Butler, executive vice president, First Pennsylvania Bank, Philadelphia. John K. Snyder, vice president, Wells Fargo Bank, San Francisco, was elected second vice president. Both will serve on the executive committee.

Appointed to three-year terms on the board of governors were: William O. Bland, senior vice president, Wachovia Bank, Winston-Salem, N. C.; Percy N. Clark, senior vice president, Indiana National, Indianapolis; William T. Gwennap, vice president, Pittsburgh National; Paul B. King, executive vice president, Mississippi Bank, Jackson; Paul J. Pfeilsticker, vice president, Continental Illinois National, Chicago; Daniel Schroebel, vice president, Bank of Stockton, Calif.; and Thomas R. Stewart, executive vice president, Security Bank, Southgate, Mich.

Elected to fill unexpired one-year terms on the board were James L. Moore, senior vice president, Virginia National, Norfolk, and James L. Whytsell, senior vice president, Kanawha Valley Bank, Charleston, W. Va.

The following were named to the association's executive committee: Mason G. Alexander, senior vice president, Citizens & Southern National, Columbia, S. C.; Percy N. Clark, senior vice president, Indiana National, Indianapolis; Glenn Hodges, senior vice president, First Tennessee Bank, Memphis; Leonard F. O'Connor, vice president, First National, Boston; and Thomas L. Ridenhour, senior vice president, First Union National, Charlotte, N. C.

The CBA's 59th annual conference will be held in Hot Springs, Va., October 21-25, 1979.

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Daman Bowersock, President
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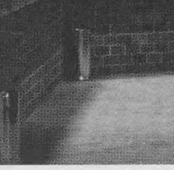

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MC-1278

How Can Banks Cope With Wage-and-Hour Law?

By LIPMAN G. FELD, B.S., J.D.
Kansas City

A BANK MESSENGER complained to me he was underpaid at $3 an hour. "The minimum wage is $2.65," I explained last August.

"I am hired to work from 8 a.m. to 3 p.m. five days a week. I wait around doing nothing lots of the time, but I am almost always given something to deliver on the way home. In the past two years, I worked 203 extra hours. The bank pays me for 35 hours each week because I am on call during lunchtime."

The messenger showed me a booklet in which he had carefully clocked the 203 extra hours. The messenger was correct. The bank owed him money under wage-and-hour laws even though he never worked the full 35 hours he was paid each week for delivering messages. This article will explain why.

A bank is vulnerable to Department of Labor wage-and-hour investigations or lawsuits in situations where a retailer sometimes does not have to comply with wage-and-hour. Establishments engaged in banking are listed as establishments lacking the "retail concept" (Page 5881, Section 779.317 — partial list of establishments lacking "retail concept," Part 779 — the Fair Labor Standards Act as applied to retailers of goods or services). Thus, banks must comply with wage-and-hour laws and regulations.

Unlike the small bank, a retailer grossing less than $275,000 a year exclusive of excise taxes need not bother with wage and hour or, in some cases, can continue to pay some employees $2.65 per hour minimum wages after January 1, 1979. On that date, other businesses go to a $2.90 per-hour minimum wage as scheduled.

All wages required by the federal Fair Labor Standards Act, administered by the Labor Department, are due on the regular payday for the pay period covered.

This new $2.90 hourly rate, up from $2.65 in 1978 ($2.10 in 1975), is not the end. Unless someone puts a halt to this stimulus to inflation, the following increases are scheduled: beginning January 1, 1980 — $3.10 per hour; beginning January 1, 1981 — $3.35 per hour.

How do you compute overtime pay? Overtime must be paid at a rate of at least 1½ times the employee's regular pay rate for each hour worked in a workweek in excess of the maximum allowable in a given type of employment. Generally, the regular rate includes all payments made by the employer to or on behalf of the employee (excluding certain statutory exceptions). The following examples are based on a maximum 40-hour workweek:

• Hourly rate — regular pay rate for an employee paid by the hour. If more than 40 hours are worked, at least 1½ times the regular rate is due for each hour over 40.

Example: An employee paid $3.80 an hour works 44 hours in a workweek. The employee is entitled to at least 1½ times $3.80, or $5.70, for each hour over 40. Pay for the week would be $152 for the first 40 hours, plus $22.80 for the four hours of overtime — a total of $174.80.

Mr. Feld warns that a bank is vulnerable to Department of Labor wage-and-hour investigations or lawsuits in situations where a retailer sometimes does not have to comply with wage-and-hour.

• Salaries — the regular rate for an employee paid a salary for a regular or specified number of hours per week is obtained by dividing the salary by the number of hours.

Example: Under the employment agreement, if a salary sufficient to meet the minimum-wage requirement in every workweek is paid as straight time for whatever number of hours are worked in a workweek, the regular rate is obtained by dividing the salary by number of hours worked each week.

To illustrate, suppose a bank employee's hours of work vary each week, and the agreement with the employer is that the employee will be paid $150 a week for whatever number of hours of work are required. Under this pay agreement, the regular rate will vary in overtime weeks. If the employee works 50 hours, the regular rate is $3 ($150 divided by 50 hours). In addition to the salary, half the regular rate, or $1.50, is due for each of the 10 overtime hours, for a total of $165 for the week.

If a salary is paid on other than a weekly basis, the weekly pay must be determined in order to compute the regular rate and overtime. If the salary is for a half month, it must be multiplied by 24 and the product divided by 52 weeks to get the weekly equivalent. A monthly salary should be multiplied by 12 and the product divided by 52.

Is an employee entitled to be paid while he's waiting in the bank to be sent out on a message? Periods during which an employee is relieved completely from duty and which are long enough to enable him to use the time effectively for his own purposes are not hours worked. He's not completely relieved from duty and cannot use the time effectively for his own purposes unless he is definitely told in advance that he may leave the job and that he will not have to commence work until a definitely specified hour has arrived. Whether the time is long enough to enable him to use the time effectively for his own purposes depends on all the facts and circumstances of the case. So waiting around the bank for someone to give a person messages to deliver is hours worked for which the employee described at the beginning of this article must be paid.

Suppose any employee of a bank, such as a conscientious bookkeeper, works extra hours voluntarily — continuing to work at the end of the day without explicit permission from the boss or even without being asked by the boss. Should the banker be delighted? Not necessarily.

We remember the messenger was requested by the bank to deliver mes-


E. B FONCANNON

sages and packages on the way home. Here the bookkeeper is not ordered to go home, but is permitted to work after hours.

Under wage-and-hour regulations, work not requested but suffered or permitted is work time for which the employee must be paid even when it's the employee's wish to correct his errors or prepare reports outside the workday. This is true on hours if the employee comes in at 7 a.m. or works until 6 p.m. The reason is immaterial. The employer knows or has reason to know the employee is continuing to work, and the extra time is working time.

Suppose the bank employee takes his books home? The same rule also is applicable to work performed away from the premises or job site or even at home. If the employer knows or has reason to believe that the work is being performed, he must count the time as hours worked.

In all such cases, it's bank management's duty to exercise its control and see that the work is not performed if the bank does not want it to be performed. The bank cannot relax and accept the benefits without compensating for them. Mere promulgation of a rule against such work is not enough. Wage-and-hour's position is that management has the power to enforce the rule and must make every effort to do so.

Rest periods of short duration running from five minutes to 20 minutes are common. Wage-and-hour's position is that they promote an employee's efficiency and are customarily paid for as working time. They must be counted as hours worked. Compensable time of rest periods may not be offset against other working time, such as compensable waiting time or on-call time.

What About Meals?

Bona fide meal periods are not work time. Bona fide meal periods do not include coffee breaks or time for snacks. These are rest periods. The employee must be relieved completely from duty for the purpose of eating regular meals. According to wage-and-hour regulations, 30 minutes or more are long enough for a bona fide meal period. A shorter period may be long enough under special conditions. The employee is not relieved if he's required to perform any duties — active or inactive — while eating. For example, a bank teller at a drive-up window who is required to eat lunch at the window while waiting for customers is working while eating even if few customers drive up.

Bankers may want to review this touchy situation in greater detail than I have covered it here. They should ask the Department of Labor for Interpretive Bulletin, Part 785: Hours Worked Under the Fair Labor Standards Act of 1938, as amended, WH Publication 1312 (Reprinted February, 1978).

Does the employee usually recover? Always have the upper hand over the boss?

Nonunion employees send to the Labor Department a number of complaints that are termed invalid.

The Fair Labor Standards Act does not require: vacation, holiday, severance or sick pay; discharge notice or reason for discharge; rest periods, holidays off or vacations; premium-pay rates for weekend or holiday work; pay raises (except for minimum wage previously mentioned) or fringe benefits; a limit on hours of work for employees 16 years of age or older.

These are matters for agreement between employer and employees. • •

NEWS OF THE BANKING WORLD

• **C. Kent Garner,** banking officer, energy and mineral resources, Continental Illinois National, Chicago, has been assigned to the representative office in Sydney, Australia, to assist customers in the mining and oil and gas industries. According to Continental, Mr. Garner is the first representative from a non-Australian bank assigned to Sydney specifically to work with these industries.

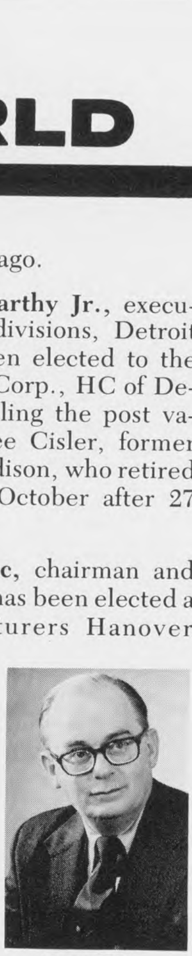
• **A. Ray Einsel,** former senior vice president, Bankers Trust, New York City, has joined First National, Chicago, as head of its card services group. He is responsible for the VISA service center and its point-of-sale (POS) terminal network. Mr. Einsel was the president of B. T. Credit Co., Inc., which is the credit card services subsidiary of Bankers Trust.

• **Richard M. Morrow,** president, Standard Oil Co. (Indiana), has been elected to the board, First Chicago Corp., and its principal subsidiary, First National, Chicago.

• **Walter J. McCarthy Jr.,** executive vice president/divisions, Detroit Edison Co., has been elected to the board, Detroitbank Corp., HC of Detroit Bank. He is filling the post vacated by Walker Lee Cisler, former chairman, Detroit Edison, who retired from the board in October after 27 years of service.

• **Michel Bergerac,** chairman and CEO, Revlon, Inc., has been elected a director, Manufacturers Hanover Corp. and Manufacturers Hanover Trust Co., New York City, its principal subsidiary. Mr. Bergerac joined Revlon in 1974 in his current position. Prior to this, he served as president, ITT Europe, and corporate executive vice president, ITT, Inc.


GARNER


McCARTHY

• **Security Pacific National,** Los Angeles, has received approval from the Comptroller of the Currency to establish a Houston-based subsidiary, Security Pacific Southwest, Inc. The subsidiary will perform loan production activities of the bank in Texas. It will be headed by George C. Slain, who has been in the bank's corporate banking group, Los Angeles, specializing in energy financing.

• **Arthur F. Burns,** former Fed chairman, has been given the BAI key for meritorious service to the banking industry, the institute's highest honor. The award was designated by the BAI's board at a recent annual meeting in New York City.

Loan Participations?

Getting Right Partner Most Important Step

WE'VE ALL had the experience of being in the right place at the right time, but with the wrong partner. On the tennis courts, for example, a novice can make any of us look foolish. Or out on the golf course, the wrong "pro" can help us lose the best parts of our game in record time. And when it comes down to it, even in our personal relationships, a mismatched or inept partner can make life unpleasant.

That's particularly true for the bank seeking a partner to participate in a secured lending transaction.

Why? Because whether you're looking for a tennis partner . . . or for a commercial lending partner . . . some of the same qualities hold appeal. For example, you'll want:

By THOMAS H. LAWSON JR.
President
Commercial Credit Business Loans, Inc.
Baltimore

- Someone who knows what he's doing and provides the service and expertise to get the job done as promised, efficiently and economically.
- Someone who understands your needs and those of your client.
- Someone who is responsive — who can be there when you need him, not next week or next month.
- Someone who has access to sufficient capital to be available whenever you need assistance and who can take even greater risks than you yourself can handle in your present situation.
- And someone, above all, who will step gracefully into the background when no longer needed and be on call in the next hour of need.

A fanciful analogy? Not entirely. While you may not need (or want) all those qualities in a personal relationship, they're vitally important to any bank entering into a participation-lending agreement.

Particularly in these times of excess cash flows generated by inflation, secured or collateral lending is becoming increasingly vital to a banking institution's overall financial stability. According to the latest figures, in excess of $5 billion in participation loans now are made annually. We have seen this trend ourselves at Commercial Credit Business Loans, Inc. (CCBL), where nearly 20% of the 400 new loans booked last year involved participations with banks.

Small banks, regional banks and even some of the country's largest banks are now turning to commercial finance companies like CCBL to keep themselves in touch with their customers' needs. In fact, participation lending with the right business-finance partner allows a bank to effectively extend its range of services — and customers. At the same time, reduced risks of such lending add a margin of safety to a bank's operations, while keeping bank examiners happy. Equally important, participation allows a bank to say "No" to a direct-loan request, but still retain a customer's goodwill and the oftentimes lucrative deposit, payroll, tax, pension and even data processing accounts of that same customer. Finally, shared loans reduce the administrative cost to a bank and probably are more profitable.

> "As more and more banks across the country are realizing, the participation loan permits a bank to use its assets wisely, without jeopardizing or compromising lending standards."

As more and more banks across the country are realizing, the participation loan permits a bank to use its assets wisely, without jeopardizing or compromising lending standards. Mean-

Loan Participations?

while, participations can help "groom" a promising new customer or a heavily leveraged borrower whose too-rapid growth temporarily has thrown his debt-to-worth ratio out of kilter. Incidentally, of course, it's this latter type of bank customer — the company booming along with the economy or a new trend and being threatened, in effect, by its own success — that often turns into tomorrow's strongest and most "bankable" prospect.

Whether such a customer is a current borrower, or a new loan applicant, the same thought might strike your instincts as a good banker: We want this customer, but not *all* of him; not just yet. For instance, you may not be willing to evaluate, monitor and control assets such as accounts receivable, inventory, equipment or real estate.

What, then, are your options? It's impractical and unrealistic for your bank to develop an overnight expertise in secured lending, even if you were willing to take the full risk of the loan being requested. It's also improbable that your bank would want to commit its assets to collateral not easily liquidated.

It's at this point that bankers wisely turn to an established business finance company to form an "ad hoc partnership." A commercial lender such as CCBL, the industry's largest (with more than $600 million in outstandings), has the staff and expertise to make and control loans secured by various business assets. Moreover, the right commercial finance company can structure a secured loan for your customer's, and your bank's, maximum flexibility and future earnings.

Here again, it becomes critical to select the right partner for ventures of this sort. For unless you choose the lending partner stable enough to withstand the company's ups and downs, reputable enough to ethically monitor a participation loan to the highest standards and experienced enough to liquidate secured collateral, your bank may be aggravating its risks needlessly.

In our 66 years of commercial-finance activity, we have structured numerous participation loans to meet criteria cited thus far. One recent such arrangement involved a strong regional bank in the Great Lakes area and its customer, a fast-growing electronics firm. The bank was still confident of the customer, but was not able to lend additional working capital on the basis of the company's most recent balance sheet, which, in fact, showed a loss of close to $250,000. Offsetting that gloomy figure was the strength of the firm's accounts receivable and inventory stocks. Accounts receivable, we found, totaled approximately $155,000, with a write-off potential not beyond $10,000. Inventory valuation was set at approximately $125,000, based on estimated liquidation proceeds. While those figures in themselves were not particularly encouraging, the electronics firm had in hand a Defense Department contract for over $800,000 in radar range equipment. The profit potential was approximately $195,000.

> "Particularly in these times of excess cash flows generated by inflation, secured or collateral lending is becoming increasingly vital to a banking institution's overall financial stability."

At the time we were approached, the midwestern bank was owed slightly over $55,000. The electronics firm was requesting an additional line of $155,000 to cover start-up expenses for the DOD contract and to meet other incidental payments due.

Because CCBL had 15 fully staffed regional finance centers around the country, including one in the Great Lakes area, we were able to send in an experienced account executive the day after that bank contacted us. Our representative was the sole intermediary in the participation loan, providing services other companies assign separately to sales reps, collateral analysts and auditors. This account executive was fully qualified to analyze the electronics firm's balance sheet, cash flows, accounts receivable and inventory. He also was responsible for determining the firm's actual cash needs, processing the loan application, structuring the terms and rates of the revolving loan and then servicing the customer after the financing program was activated.

As it developed, the bank participated for 35% of the $175,000 loan agreed on. Its interest rate was set at the same rate it had offered the firm previously. Commercial Credit's rate was set for the remaining 65% of the loan. The result for the customer: a lower, blended rate that would not have been possible otherwise. The result for the bank: a satisfied loan customer, as well as retention of deposit accounts and other banking business.

You may have noticed that the final loan figure of $175,000 was more than originally requested by the bank's customer. The figure was set after our account executive determined that the electronics firm could realize significant cash and volume discounts (which would contribute to future profitability) if it had the capital to buy its supplies for the DOD project in larger quantities than it normally did.

Along those same lines, several recommendations were made to the firm's owners for an inventory realignment. The suggestions netted the company an additional, immediate $20,000 in working capital.

Benefits a specialist in current assets can provide are another advantage to a bank's customers that comes from having the same individual fully versed in all aspects of secured lending. When just one man or woman is designated to handle a particular participation loan, both the customer and the bank lending partner are assured of better communications, surer follow-through and a more informed monitoring of the borrower and the status of its secured collateral.

Our 15 regional finance centers across the country are fully staffed with experienced professionals. In practice, this means a participating bank, and its customer, can get an answer on a loan quickly, anywhere in the nation.

Financial strength. Experience. Integrity. Efficiency. These are essential ingredients in the "right partner" for any bank's participation lending. And given that "right partner," quite a few banks have realized that participation arrangements are the ideal way to expand their staffs — and their opportunities — effectively without expanding their payrolls or risks.

So while the "ideal" partner might not apply to your golf or tennis game, it decidedly does for your participation lending. And that's doubly true for the bank that hasn't yet gotten its feet wet in this type of secured lending, but wants to keep on *growing* with the competition. ••

Commercial Financing—

Salve for Firm's Growing Pains

By STANLEY A. LEWY
Vice President
Aetna Business Credit, Inc.
East Hartford, Conn.

IT'S BEEN CALLED a growth syndrome, and an increasing number of small companies are experiencing it.

Typically, the affected company is expanding rapidly. Chances are, sales have increased suddenly — exceeding expectations — and it's becoming more and more difficult to keep pace with orders. To meet this new demand, it may be necessary to order new equipment. Substantial material purchases are essential, and an increase in employment may be overdue.

But those additional inventories must be paid for, and the payroll met — long before sales turn into receivables and receivables into cash. Suddenly, the company finds itself in a cash bind.

That's the growth syndrome — a company in need of money to sustain growth, but unable to generate the necessary capital internally — or at least, not able to generate it fast enough. And usually, the company has reached its credit limit at the bank.

It's ironic, isn't it, that those much-desired increases in sales may precipitate financial pressures that inhibit the company's ability to capitalize on the potential it has unearthed.

As a banker, you've seen a lot of this, of course. And you know that a cautious banker cannot ignore the fact that rapid growth often is structured on a low equity base. This sometimes means that it will be necessary to cut back on growth even if sales and profitability are penalized as a result.

Sound banking demands that a loan officer be concerned with ratio requirements. And while he may understand that rapid growth is positively affecting other areas of a company's financial picture, he knows that it may have little appreciable impact on net worth. Therefore, a proposal for additional advances to a company with the growth syndrome may not meet bank credit criteria if it means a highly unbalanced ratio of debt to worth. In other words, while the company may need the loan for valid and justifiable reasons, a bank credit committee may not be able to approve it.

You've probably seen other symptoms of the growth syndrome — such as the rapidly expanding company that contacts its bank for additional credit when it finds that overoptimistic planning or financial or operational setbacks have led to low profitability and low working-capital levels.

When this happens, a banker often is faced with the unpleasant choice of declining a customer with a sizable deposit balance and a promising future, or insisting on infusions of equity to balance increased borrowings. Of these alternatives, one is undesirable and the other often impossible.

However, there is another option. The banker can refer, and perhaps participate with, a commercial finance company such as Aetna Business Credit, Inc. (ABCI), to offer the growing company more funds than would be possible through the bank alone.

Normally, through secured lending in which a bank participates, commercial finance companies can offer more funds for working capital or equipment purchases and plant expansion than the bank alone would be able to provide. Most importantly, the finance company's collateral experts protect the bank's investment, along with its own. Thus, the bank can comfortably retain a relationship with its customer.

Historically, such situations have worked well.

In a recent growth-financing situation, Aetna Business Credit was called on to assist a bank loan officer with a client who had encountered operational problems. The client, a manufacturer of valves, had tripled its sales in a four-year period and had a promising future, but temporary setbacks had led to reduced profitability and an immediate cash crisis.

The bank was unable to justify additional advances and called on ABCI to provide secured financing, collateralized by accounts receivable and inventory. The bank participated

"Bringing in a commercial finance company . . . provides an attractive solution for a banker when a client is contemplating the most rapid means of growth — acquisition. Many . . . debt/equity considerations noted for growth companies apply to acquisition situations."

in the loan, thereby retaining its deposit balances and its relationship with its customer.

In another case, a sizable food processor and wholesaler had a significant marketing opportunity that required purchase of substantial raw materials for processing. Financial requirements associated with the increase in inventory, however, exceeded the client's credit limit. The bank referred the company to ABCI, which provided the funds. Subsequently, the bank joined ABCI in the loan. The company's sales volume increased sharply as funds to support this expansion were supplied by ABCI and the bank.

As a result of successful operations and increased profitability, both these companies repaid their commercial loans and returned to the referring banks as larger, stronger and more significant customers than they had been prior to their relationship with a commercial finance company.

These cases point up what you, as a banker, already know — that financing a rapidly growing company in any stage of development often means dealing with requests for debt that may exceed normal lending guidelines. In such cases, referral and, possibly, participation with commercial finance companies such as ABCI represent a practical alternative.

Bringing in a commercial finance company also provides an attractive solution for a banker when a client is contemplating the most rapid means of growth — acquisition. Many of the same debt/equity considerations noted for growth companies apply to acquisition situations.

One need only examine recent publicity on the subject to witness the increasing number of acquisitions — especially those where the smaller of the two companies has been the purchaser — in which commercial finance has played an active role. This is because secured-lending techniques not only allow us to structure a sound financing program, but they also allow us to monitor an acquisition closely, especially in the early stages, when absorption is a concern.

Commercial finance services can assist bankers in *many* growth situations where a client's objectives prompt loan requests that exceed normal credit limits, or where they exceed the bank's own lending limits. It's evident that prudent referral and participation can benefit the bank through customer retention.

And there's another, less obvious, advantage — the economic benefit of increased business activity, for both the bank and community. By helping a local business grow, the bank performs an additional community service. Growing companies generate greater income in the form of payroll dollars added to the local economy. A growing firm also requires more supplies and services, and this means more money for other local companies.

"Commercial finance services can assist bankers in many growth situations where a client's objectives prompt loan requests that exceed normal credit limits, or where they exceed the bank's own lending limits."

Retail sales growth also may occur as employee consumption of goods and services increases, and deposits in savings and checking accounts likewise mirror the infusion of additional income into the metropolitan area.

Thus, referrals and participations with commercial finance companies can do more than enable rapidly expanding companies to capitalize on their growth syndrome. Cooperation between these lending institutions also can have a beneficial effect on the community the bank serves — an effect magnified many times over and that results ultimately in a major contribution to the economic growth and social well-being of that community.

In short, the remedy for the growth syndrome also may serve as economic medicine for the whole community. • •

Infusion of Funds Triggers Turnaround

The infusion of commercial finance funds triggered a dramatic turnaround in the fortunes of Hadco Printed Circuits, Inc. The firm received the annual National Commercial Finance Conference award for the achievement of outstanding success with the use of commercial finance funds at the NCFC convention in Chicago last month. Hadco manufactures printed circuit boards used in a wide variety of electronic products.

For the fiscal year ended October 31, 1978, Hadco projects after-tax profits of $1.5 million on annual sales of $21 million. Back in 1972, prior to obtaining financing, Hadco had annual sales of less than $3 million and had not operated profitably for seven consecutive years.

Unable to obtain conventional bank financing, Hadco turned to a commercial finance firm.

Recognizing that Hadco had a quality product, the commercial finance firm determined that a secured lending program would right the undercapitalized company. Hadco was being impeded by its own rapid sales growth.

Hadco was loaned $666,000. The loan was collateralized by fixed and current assets and marketable securities.

Given operating room by the secured lending package, Hadco engineered a sharp turnabout. In less than a year, profits in excess of $600,000 were achieved on sales of more than $5 million. When the loan was paid out in 1977 the company had annual sales of $15 million and profits of $900,000.

Jake Butcher Loses

Jake F. Butcher, Knoxville banker, lost his bid for the governorship of Tennessee last month to Lamar Alexander, Nashville attorney. Last May, Mr. Butcher stepped down as board chairman, CEO and executive committee chairman, United American Bank, and placed his holdings in that bank and in other banks in trust while he made the gubernatorial race.

Nat'l Bank Examiner Named

William L. Smith has been named a national bank examiner for the 10th National Bank Region, headquartered in Kansas City. He had been an assistant examiner since joining the Comptroller's office in 1963.

Identifying the Need For a Secured Lender

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

THE BUSINESS COMMUNITY has become more demanding in requesting loans and services from banks. Secured lending is one means by which a bank can extend the accommodations offered, but secured lending departments are an additional expense and require specialized personnel. Banks that don't have in-house secured lending departments often utilize services of independent commercial finance companies and thus are able to profit from providing increased loans and services to growing customers, while maintaining customer loyalty and keeping risk levels within desired parameters.

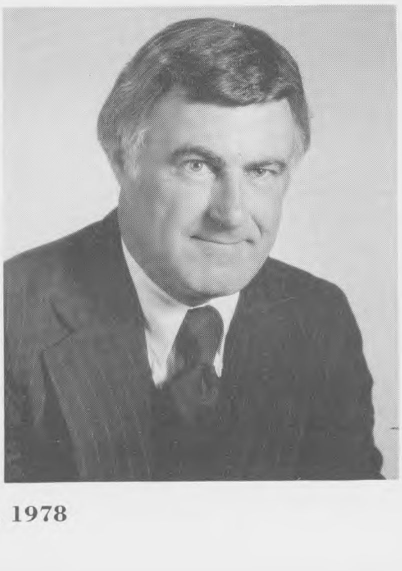
"In addition to reducing the bank's risk and possibly creating a demand for additional services, introduction of an independent secured lending company gives the participating bank a way out of a loan if such action becomes desirable."

Identifying situations where secured lending is advisable calls for an understanding of available alternatives. This type of financing involves agreements whereby a financing institution advances funds to its clients either by making loans secured by assignment of open trade accounts receivable or by purchasing such receivables as they are created. The lender may purchase the invoices with or without recourse to the client. The lending institution then is repaid as the borrowers' customers pay the invoices that have been used as collateral.

Possibly the most effective use of secured lending is found in rapid growth businesses, where expanding sales require financing beyond a bank's ability or willingness to provide. Many rapid growth companies that have used secured lending to finance expanding sales have grown to become widely recognized names. Among these are Emory Air Freight, Nucor, Vitamin Corp. of America, Monsanto Co., National Airlines, O. A. Sutton Corp., Lithium Corp., Diners Club of America, Dow Chemical and Continental Motors.

Secured lending is a flexible means of financing that can be applied effectively to more than just rapid-growth companies. It can be used quite advantageously in start-up and turnaround situations. Secured lending also can be used effectively in acquisitions where new owners require financial help to consummate purchases.

Commercial finance companies are staffed with people who are knowledgeable in many different fields and are able to offer their specialized services to a broad spectrum of businesses. Generally, secured lending is utilized by manufacturers and wholesalers of standardized products that are sold in finished form. Terms of sale normally are finite as opposed to being on a consignment or installment basis. Reasons for this are that a secured lender using receivables and inventory as collateral should be able to conduct an orderly liquidation in event of an insolvency.



"The most commonly asked question from both banks and their customers is, 'How much does secured lending cost?' The answer depends on type of program requested and characteristics of the business requesting the service."

A bank that participates with a secured lender has the option of doing so either in factoring or accounts-receivable financing arrangements. With either alternative, the bank's risk factor per dollar loaned is reduced to a lower level because the collateral (more often accounts receivable) is managed by a secured lending specialist.

From the standpoint of a participating bank, the differences between a factoring and accounts-receivable financing arrangement are relatively minor. A commercial finance company buys the receivables and guarantees payment of invoices in a factoring relationship. It conducts at least quarterly audits of receivables and inventory in a receivables-financing relationship. Detailed audit reports are provided the bank on a routine basis. In either case, a bank can participate in lending against closely monitored collateral that's self liquidating.

The end result is that the customers' needs are satisfied; the bank is able to retain account loyalty, and individuals making the loans are able to gauge risks much more accurately. Also, customers' ability to generate more cash flow may result in more rapid expansion and create needs for other bank services.

In addition to reducing the bank's risk and possibly creating a demand for additional services, introduction of an independent secured lending company gives the participating bank a way out of a loan if such action becomes desirable. In times of tight money, or as a change in management philosophy, a bank might want to reduce, temporarily clean up or eliminate selected marginal exposures. Participation of a secured lending company makes these options possible without interrupting the customer's availability of outside financial support.

The major advantage offered to the bank customer is the ability to leverage against accounts receivable (and in certain situations, inventory) without a corresponding increase in the debt-to-equity ratio. In factoring, accounts receivable are sold immediately and converted to cash. In accounts-receivable financing, the customer borrows against receivables as soon as they are created and thus is able to turn over debt much more often than a normal receivables turn based on invoice terms would permit. Both forms of secured lending increase cash availability by reducing the operating cycle and reducing the need to maintain permanent working capital. By having a more positive control over cash flow, the customer is better able to take advantage of trade discounts, bulk discounts and off-season specials.

The most commonly asked question from both banks and their customers is, "How much does secured lending cost?" The answer depends on the type of program requested and characteristics of the business requesting the service. In general, an expanding company experiences savings that outweigh the cost. The only way to accurately assess the alternatives is to work with secured lenders and allow them to perform an analysis.

Consulting with a commercial finance company won't always provide a solution to a bank with a loan request from a potentially good, but not quite bankable, customer. Understanding the secured-lending alternatives will, however, enable both the bank and the customer to make a more thorough analysis and often arrive at a more profitable solution for both parties. • •

Financing Demands Rise With Inflation

Inflation will create increased demand for financing and factoring services, said Monroe R. Lazere, president, Lazere Financial Corp., and chairman, National Commercial Finance Conference, Inc. (NCFC), both in New York City. Mr. Lazere was keynote speaker at last month's NCFC convention.

For example, he said, an operation selling the same volume in units in 1978 as in 1977 experiences an increase in dollar volume of 8-15%. If the firm is unionized, it's likely that labor costs have risen substantially. Depending on the size of the enterprise, it may or may not be able to put the increased cost into its price. Such an operation probably will be a candidate for secured financing because its required borrowings probably will exceed the accommodation available under unsecured lending ratios.

Larger and larger operations find themselves in this posture, he said. Therefore, average borrowings will be substantially increased. It follows that participations among lenders and other co-lending arrangements will increase, too.

Inflation twists different operations in different ways, Mr. Lazere said. Hence continued inflation undoubtedly will create increased demand for credit protection by vendors. And the demand will develop in many fields not traditionally covered by factoring.

Two problems must be attacked, he said. Studies have shown that the term "factoring" is anathema in some industries. Because of years of bad publicity, it's associated with rigor mortis or other financial difficulties. But the same respondents like the services offered by this type of operation. This suggests that credit-risk management and cash-flow management services should be renamed so they can be marketed more effectively.

The second problem, he said, involves insufficient credit information that deters factors from entering some new fields. But, on the other hand, he continued, until such fields are penetrated, sufficient credit information will not be forthcoming. He suggested that the NCFC partially subsidize some credit agencies in such areas for a short time.

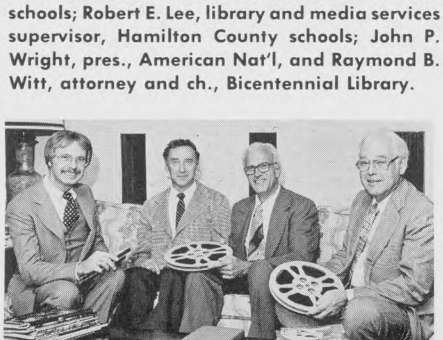
He also advised NCFC members against favoring continued inflation because it would expand the operations of the commercial finance industry.

Good Citizenship Encouraged With Film-Series Donation

A film series of history, current events and future trends has been donated to area junior high and high schools by American National, Chattanooga, Tenn. A print of each film from the "Screen News Digest" series was given to the Chattanooga City School System, Hamilton County School System and Chattanooga Hamilton County Bicentennial Library. Private schools will be able to use the library's print.

John P. Wright, bank president, said the public service was to "help today's students become tomorrow's good citizens." The Screen News Digest was founded in 1958, and its eight films will be seen by more than 10 million students across the country this school year.

American National, Chattanooga, Tenn., donated print of each film from series of eight to area junior high and high schools. From l.: E. LeBron Cox, librarian, technical services, city schools; Robert E. Lee, library and media services supervisor, Hamilton County schools; John P. Wright, pres., American Nat'l, and Raymond B. Witt, attorney and ch., Bicentennial Library.



Financing Leveraged Acquisitions Is Joint Role of Banks, Commercial Finance Firms

By STEPHEN C. DIAMOND

THE FLOURISH of corporate spin-offs by companies that became conglomerates in the late 1960s has created exciting profit opportunities for commercial finance companies and banks. A great many of these divested operations have been purchased by buyers whose equity contributions are relatively small. Hence, the popular term, "leveraged acquisitions," and the need for complex, asset-based financing, usually the only way to make these projects possible.

"In a leveraged buy-out, the financing firm lends money on a secured basis, using existing assets of the divested subsidiary or division as collateral."

Our company has helped finance about 50 significantly sized leveraged purchases in the past three years, ranging the industrial spectrum from soup mixes to pile drivers. In most cases, either a bank has referred the situation to us or we have brought the situation to a bank. Likewise, in most cases, a bank has participated in our financing program. We also have financed many acquisitions requiring less funds, but which were no less important in the eyes of the buyers and participating bankers. Overall, the size of these divested units, in terms of annual sales, has ranged from $1 million on up to $250 million.

In this article, we will present some of the mechanics of typical leveraged-acquisition situations, to illustrate how commercial finance firms and banks can cooperate profitably.

In a leveraged buy-out, the financing firm lends money on a secured basis, using existing assets of the divested subsidiary or division as collateral. An important additional feature of the financing agreement is the continual flow of working cash to the new company while it establishes itself.

To structure the financing, it's generally required that there be accounts receivable, inventory and/or fixed assets that can be appraised at reasonably accurate value. Collateral value must be sufficient to support a loan large enough to cover purchase price and provide ample working capital. However, more liberal collateral ratios can be applied to a company with a history or realistic projection of strong profitability.

Stephen C. Diamond is senior vice president, Central Commercial Finance Division, Walter E. Heller & Co., Chicago.

There are several methods by which funds can be provided and, most often, techniques are combined to structure a financing package. They include:

- Extending credit against the security of accounts receivable under a one- to three-year financing agreement.
- Extending credit against the security of the borrower's inventories.
- Extending credit against the security of plant and equipment, generally for a three- to seven-year term.

"The leveraged acquisition does, indeed, present commercial finance companies and commercial banks with an exciting opportunity to profit, especially under profit-squeezing conditions."

With these techniques in mind, let's look at our first case, also an example of how we brought a bank into the situation as a participant in our loan.

Managers of an about-to-be-divested operating division sought to purchase it before the unit was sold to some outside interest. As is often the case, the prospective buyers had limited capital available. Therefore, it was necessary for them to borrow a large portion of the purchase price, and they could not secure adequate credit from any banks. As a result, the principals came to us. It's important to note here that we're not interested in outright "bootstrap" ventures. While it's true that we can use specialized techniques to provide financing when banks and other money sources cannot, we still prefer that new managers contribute some equity either from their own resources or by bringing in investors. Also, we usually expect them to support their commitment to the new business with personal guarantees, often limited in amount.

The simplified financial statements of the firm in this example looked like this:

Sales	$40.0	million
Receivables	7.0	million
Inventory	7.5	million
Fixed Assets, Net	3.0	million
Less: Current Liabilities		
Assumed	(3.0)	million
Net Book Value .	14.5	million
Purchase Price ..	7.5	million

Because evaluation of collateral and historic and projected earnings was favorable, we loaned $5,000,000 against the receivables with a two-year continuing contract to lend 80% of the value of acceptable receivables. Also, a five-year term loan of $1,500,000 was written against fixed assets (there also could have been a loan made against inventory that could have gone as high as two-thirds the cost of raw materials and finished goods, but it was not made in this case). The financing package was completed by a combination of the seller taking back a seven-year subordinated note for $1,300,000, secured by shares of the acquiring corporation and the new owners' equity fund contributions of $200,000. This financial package generated $500,000 over the purchase price, allowing for sufficient working capital.

Here's how a bank entered the picture: When we determined we could make a loan of $5,000,000 against receivables, we felt it best to bring in a bank on a 50-50 participation arrangement in that segment of the financing. We approached a bank we regularly deal with in that vicinity and presented the situation to it. The bank agreed the company had good potential and committed itself to the participation. (The bank also got the new company's deposits and additional service business.)

We handle all administrative functions on the loan, and we're paid at our normal rate on our portion of the loan. The bank receives interest at its normal rate. Therefore, the client pays a blended rate that's half way between the two. Interest is calculated on a daily basis of funds actually being used, so that the client never has excess funds accruing interest charges.

Our second case for presentation involves a situation a bank could not pursue because of lending policies. Yet it was an attractive proposition from all other banking-service standpoints and because a good customer was involved. The bank wanted to exert every effort to make the deal possible.

The situation was brought to us, and we took a perceptive look at the prospective buyers and their potential — the "assets" that don't appear on a balance sheet — in order to come up with a financial program that utilized their full borrowing potential.

To summarize the background, the company's three principals had been employees operating the U. S. importing subsidiary of a foreign food products company. This unit had annual sales of $15 million, but was doing business in an industry where volume is large and profit relatively small. The net worth of the subsidiary was $600,000, and it had $1,000,000 in unsecured credit from the bank, which referred the situation to us, but that line was guaranteed by the foreign parent.

Certain circumstances developed that made it favorable for the three employees to submit to the foreign owners a purchase offer amounting to $100,000 over book value. The owners agreed to sell for $900,000, and the prospective purchasers started their search for capital funds.

Personally, the three men were able to come up with only $100,000 without incurring unreasonable individual indebtedness. One arrangement that was offered to them would have provided the cash necessary for the purchase and working capital, but it was tied to the delivery of stock warrants amounting to 20% of the company. This was a rather distasteful prospect at the outset of the venture, and one that would have become even less palatable to the new owners as the company grew.

Specifically, we found that the key to making the deal possible would be the close and dependent relationships between the new company and its foreign suppliers: All of them were willing to extend terms of 90 days or more. Beyond that, the inventory would be highly salable and nonperishable and could be expected to turn six times a year. Much of it would be in public warehouses and controllable under warehouse receipts, against which 50% of cost could be loaned. Moreover, the subsidiary books showed that accounts receivable would be excellent with an average turn of 30-40 days, justifying an 85% loan advance.

The net result was that Heller gave the company a $1,500,000 line of credit — with the bank participating at 50% — which was enough to complete the acquisition, as well as provide a comfortable amount of working capital. The financing continued on a revolving basis as the firm developed its business. Additionally, suggestions by the Heller operating staff helped the company's management tighten up internally, bringing about better control of resources than had been achieved under former ownership.

The company progressed well. In just 20 months after the acquisition date, the new company became fully bankable. It was able to obtain unsecured credit from the participating bank. The amount was sufficient to pay off our portion of the loan and to leave adequate working funds for operations. The bank had a prospering new customer, and equally as important, the new venture's owners had retained 100% ownership of their company.

The leveraged acquisition does, indeed, present commercial finance companies and commercial banks with an exciting opportunity to profit, especially under profit-squeezing conditions. Faced today with the added burdens of service instruments like NOW and AFT, and narrowing spreads, banks can well use additional ways to bolster profits.

Besides, when you think about it, it seems that banks ought to be in the *vanguard* of acquisition activity. They're likely to be the first ones to know, well before distant money sources, possibly as early as the time when thoughts begin to dance in the heads of eventual buyers. If these financing opportunities go begging, banks shortchange themselves, the American entrepreneurial spirit and their communities. ● ●

To Promote Safety:

Free Money-Order Service Offered to Taxpayers

To help tax receivers minimize their handling of and security with money from real estate and school-tax collections, National Bank of North America, New York City, has started a free money-order service.

Residents may present their tax bills at local branches of National Bank with cash or checks for the amount, and clerks will issue money orders for the tax bills at no charge. Taxpayers do not have to be regular bank customers.

Bank officials hope the service primarily will aid senior citizens so they can avoid carrying large cash payments. Branch managers have been issued specific tax due dates of local communities and school districts. Tax receivers also have been notified of the free service.

Loan Participations:

A Way to Meet Competition—Safely

By HOWARD J. MULLIN
Vice President
Associates Commercial Corp.
Chicago

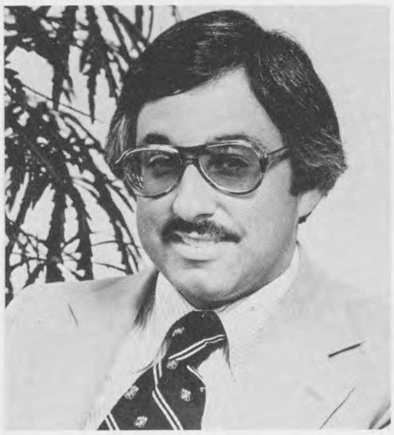
AS WE all know, consistency and dependability have been the mainstay of the client/lender relationship. However, since the later '60s, our business community has had to live with two facts of life: capital shortages and high inflation rate.

Suffice it to say, these two factors have caused numerous problems for both lender and borrower. Some of the more relevant are: 1. Narrowing profit margins due to rapidly rising material costs that cannot be passed on immediately to customers. 2. Increasing replacement costs of capital goods have made depreciation rates totally ineffectual. 3. Tremendous jumps in labor costs with no corresponding increase in productivity. 4. Uneven or negative earnings caused by rapid changes in economies of various industries. 5. Raw product shortages. 6. Inflation means more dollars are needed if a company is to maintain its production level.

Let's examine a situation that's becoming increasingly common in the banking industry. Your client is a well-managed but undercapitalized manufacturer that has gradually built sales volume to over $6 million as of last calendar year. Profits have been plowed back into the company each year, but, because of inflation and the development and marketing of a new product over the past 2½ years, the company's liquidity has suffered. However, because of an infusion of government funds in your client's market (which is related to mass transportation), sales seem to be taking off this year. The company's investment in current assets is rapidly outstripping its capital base with the inevitable effect of trade payables being stretched to the limit. Your client has a history of conservative and prudent expansion and feels that sales volume will continue to increase. Therefore, he wants to take advantage of further economies that can be had by the acquisition of a slitting line to handle coil steel. Capital expansion will cost approximately $350,000. Another $350,000 would be necessary to bring his payables back into line, but requirements in this area should increase if projections are accurate.

As this firm's lender, you are caught in a common quandry: You believe in the company's potential and management's ability to act in a prudent and profitable manner. Yet, increased leverage in light of uncertain general economic conditions pushes the risk inherent in this new loan request beyond the parameters acceptable to your bank.

At this point, let's examine your options. The situation requires two loans: 1. A term loan to handle the company's capital requirements. 2. A line of credit that will adequately meet fluctuations that undoubtedly will appear in the firm's current assets. The prime rate is getting closer to 12% everyday, and possibilities of a recession are becoming all too real. Therefore, it seems probable that payment may not come through normal cash flows, and the loan, therefore, should be tied to collateral. Certainly, well-monitored secured lending may provide a viable solution to this problem, but your bank's abilities do not extend to this area. You can either turn down the request or find a secured lender to participate in the loan and monitor the collateral.



At this juncture, selection of the right partner is a critical decision. Certainly, your risks may well be unacceptable if your partner's expertise in collateral control as well as liquidation are not of the highest quality. However, you hope this client eventually will become fully bankable. Therefore, it's imperative the secured lender have the requisite professionalism to understand the client's needs and be responsive to them. By the same token, it is important that he retire gracefully from the credit when you are able to handle the loan comfortably by yourself. If the job has been done correctly, you will have extended the bank's ability to maintain and expand a client relationship while, at the same time, reducing the bank's risk and keeping bank examiners happy. Finally, there should be a direct reduction in loan administration and an increase in deposits, payroll and, possibly, pension administration.

Large or small, banks of all sizes are using Associates and companies like it to meet the needs of the above-described client, as well as the promising prospect whose needs currently stretch beyond the bank's ability to meet them.

Financing the leveraged acquisition is a loan uncommon to most banks but, on the other hand, is a classic situation for Associates and other strong finance companies to provide a bank with the services that have been heretofore described. One such deal involved a midwestern bank that had been requested by a local company's treasurer to provide the money necessary for him and a management group to purchase the operation from its parent. The firm had been acquired five years earlier, but had not prospered under its new owners. The buying group, which was composed of four long-standing managers, knew the losses came as a result of the parent's misdirection and further felt that the company could be brought into a profitable basis in a short time. They specifically defined areas where costs could be cut and provided their banker with what appeared to be a very solid plan of reorganization. However, in light of the firm's past history and the great deal of new debt that would be incurred, the banker rightfully decided this deal was not the bank's cup of tea and called Associates. A prudent game plan, he reasoned, often will be changed when it's implemented. Therefore, until the buying group was able to prove its assertions, the bank would have to remain in the background. However, if Associates was willing to make the loan, the banker felt confident his participation in the loan would be safe even under the most adverse conditions.

With Associates' direction and advice, the buying group was able to negotiate an acquisition of the assets subject to few liabilities at a sizable discount from book value. Associates provided enough money to complete the acquisition and provide a good margin of working capital above and beyond the 30-day, open-credit terms negotiated with the company's suppliers. Both our firm and the banker felt the structure of the new loan would provide the new management team with more than enough time to reorganize the company and still keep the debt within comfortable limits. Certainly, through his participation in this deal, the banker was able to secure a new customer whose potential for success was, in his judgment, very high.

More importantly, use of Associates' expertise provided the bank with the best of all possible worlds for this situation. On the one hand, the new client would be a strong loyal customer if it proved successful, while, on the other hand, the bank's position would be secure if management's plan did not work out. Secured lending made it possible for the bank not only to be extremely competitive, but also safe. ● ●

Donahue Named NCFC Ch.

CHICAGO — Russell B. Donahue was elected chairman, National Commercial Finance Conference (NCFC), at the group's convention last month. Norris S. Griffin was elected president.

Mr. Donahue is executive vice president, Associates Commercial Corp., Chicago, and was formerly NCFC president. Mr. Griffin is president and CEO, Bank of Virginia Credit Corp., Richmond, Va.

DONAHUE

GRIFFIN

Stephen C. Diamond, senior vice president, Walter E. Heller & Co., Chicago, was elected a vice president of the conference.

Reelected vice presidents were: Barry I. Newman, senior vice president, Aetna Business Credit, Inc., Hartford, Conn.; John F. Nickoll, president, Foothill Group, Inc., Beverly Hills, Calif.; and Melvin E. Rubenstein, executive vice president, Rosenthal & Rosenthal, New York City.

NCFC is an association of commercial finance and factoring industry firms. The industry is expected to provide small- and medium-sized businesses with funds in excess of $75 billion this year.

NOW Accounts to Be Offered By Chase Manhattan Bank, But No Automatic Transfer

NEW YORK CITY — Chase Manhattan will begin offering negotiable-order-of-withdrawal (NOW) accounts January 2, but has decided against offering automatic-transfer accounts. As part of major banking legislation passed October 15 in the final hours of the 95th Congress, authorization was given all financial institutions in New York State to offer NOW accounts.

According to spokesmen for Chase Manhattan, the bank believes it's in consumers' best interests not to offer automatic-transfer service. By moving directly to NOW accounts, the bank hopes to avoid presenting its customers with a confusing array of product designs and pricing structures. This also will eliminate the need to change accounts when NOW becomes effective.

Chase Manhattan's NOW account will operate like a checking account except that a customer will earn interest at an annual 5% rate compounded and paid monthly. The bank's cash-reserve-overdraft protection, available to checking-account customers, also will be available in NOW accounts.

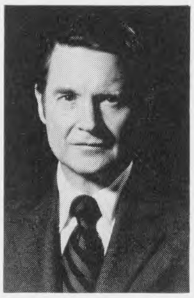
Charles Buchta, Chase vice president and product manager, says existing customers may convert their checking accounts, retaining their present account numbers and checks and receiving the same kind of statement.

"Although we now are reviewing the pricing of this new service," Mr. Buchta says, "we believe our customers will find it equitable and consistent with other consumer-banking products."

FBI Director William Webster To Speak at BAI Conference

FBI Director William Webster will be the keynote speaker at the BAI's 10th national conference on bank security. He is expected to discuss the department's role in bank crime, particularly as it relates to the GAO's recent effort to reduce the FBI's budget for bank investigation.

WEBSTER



The conference will be held April 1-4, 1979, at the Shoreham/Americana Hotel, Washington, D. C.

Study Results:

Bank Services Use Up By Christmas Clubbers

An increase in the value of Christmas club accounts as cross-selling devices is evident from findings of a recent research study made by Unidex Corp. for Christmas Club a Corp., Easton, Pa.

According to the study, which made comparisons with a similar study made two years ago, use of regular passbook savings grew from 85.7% to 89%, six percentage points higher than among non-users of Christmas clubs. Use of installment loans by club holders climbed to 51.5% from 39.3% in the two-year span between studies. Use of other types of savings clubs, such as vacation clubs, among Christmas club users nearly doubled — from 11% to 20.2%.

The length of time Christmas club accounts are active increased, too, with 9.8% of accounts being held less than one year in the new study (compared with 15.2% in 1976) and 26.8% being held 10 years or more (compared with 23.5% in 1976).

Female heads of households hold 50.3% of the total number of Christmas clubs in the study. Male heads of households hold 19% and 26.7% are jointly held.

While 73.3% of Christmas club funds are used strictly for Christmas-related purchases, 5.6% are used for tax payments. The latter figure has tripled over the past two years.

Commercial banks have been losing out to thrifts in the percentage of Christmas club activity. While commercial banks sold 78.3% of the Christmas club accounts in 1976, they sold only 71% this year. S&Ls club sales jumped to 13% from 9.7 % over the two years between studies.

It's estimated that 12.1% of all households in the country maintain Christmas club accounts, up from 11.8% two years ago.

	User	Non-user
Checking account	92.4%	92.9%
Regular passbook savings account	89.0%	83.0%
Certificate of deposit	41.9%	34.9%
Installment loan	51.5%	38.8%
Overdraft checking	22.7%	20.5%
Other types of savings club	20.2%	2.0%
Bank credit card	50.0%	55.7%
Other credit card	29.3%	30.0%

The above chart compares the use of other bank services by Christmas club account holders and non-holders.

Bank Buys EDP Firm

First National, St. Louis, has purchased Financial Computing Corp., formerly a subsidiary of TG Bancshares, St. Louis.

Financial Computing provides bank data processing services for about 80 banks in the northern half of Missouri and western Illinois. The firm is headquartered in St. Louis, but has operations in Columbia, which is near the geographic center of its customers.

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Deposit Guaranty Hosts Correspondent Conference

Speakers on banking, economics and tax planning highlighted the annual correspondent bank conference hosted recently by Deposit Guaranty National, Jackson, Miss. Speakers included William T. Dwyer, vice president, First National, Chicago, speaking on "Achieving High Performance for Your Bank"; Carter H. Golembe, chairman and CEO, Golembe Associates, Washington, D. C., who discussed "Challenges and Opportunities Ahead for Community Bankers"; and Donald C. Siekmann, Arthur Andersen & Co., Cincinnati, who spoke on personal tax strategies for bankers. Photo shows asset/liability management panel. At podium is moderator Robert C. Garraway, vice chairman-financial, Deposit Guaranty National. Also on platform are William R. Boone, E. B. Robinson Jr., William A. Whitney and Thomas M. Hontzas. All are host-bank executive vice presidents except Mr. Hontzas, who is a senior vice president.

Paper 'Blizzard'

(Continued from page 9)

fect, almost encouraged excessive demands by customers by its loss-producing actions.

More than a few country banks don't mail checks to all their customers. Rather, customers pick up their checks at their convenience. I have known some banks whose customers didn't pick up their checks for months at a time.

As a university professor, I observe that many students have become so enamored with check drawing that they pay small bills by check to avoid using cash. By the same token, I have talked with executives in banks patronized by students. These bankers note that the student accounts are unprofitable.

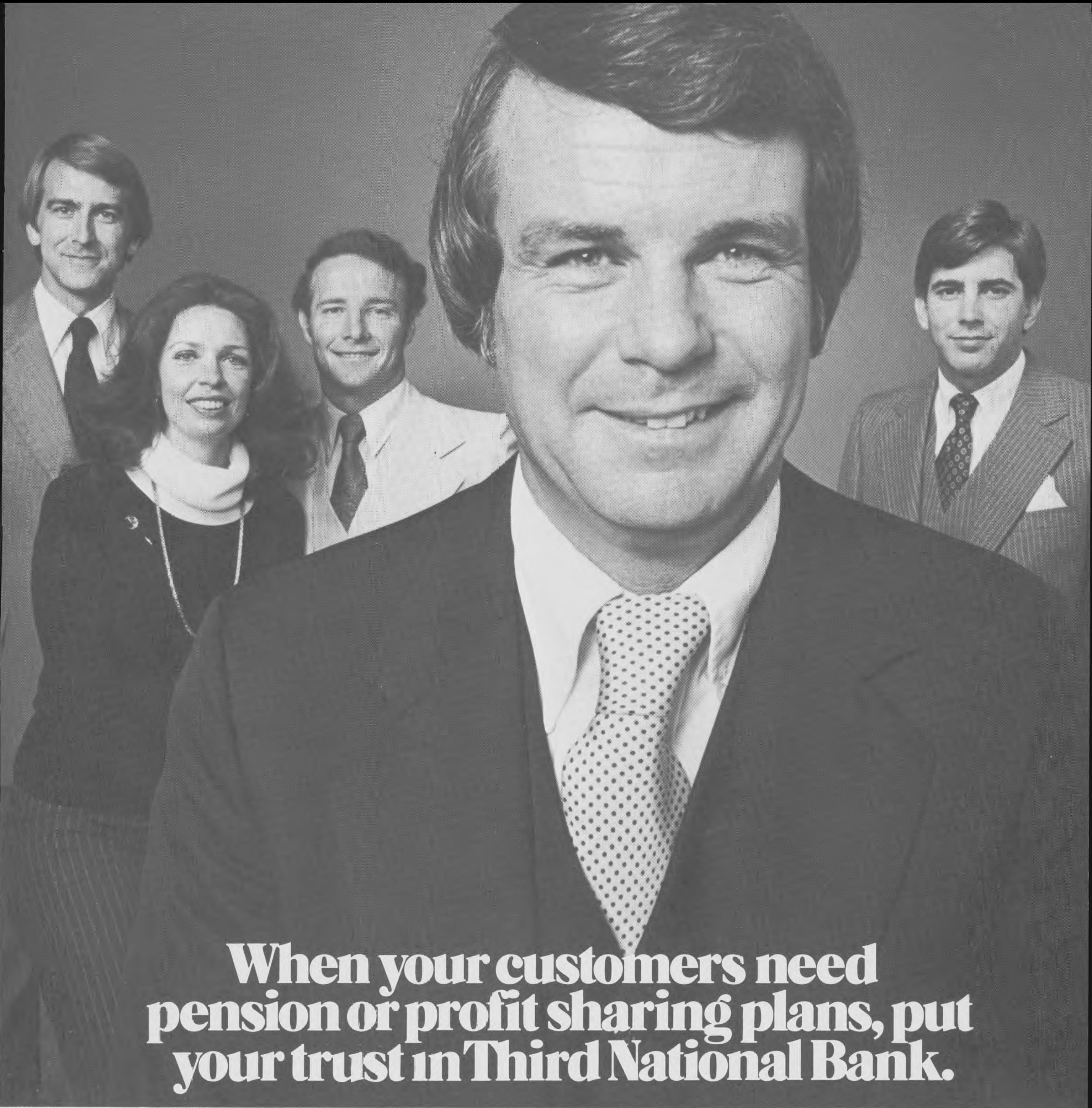
It may be an act of charity to accept such accounts, but those bankers apparently fail to recognize that subsidization of these low-balance, high-activity accounts actually is a form of discrimination against accounts that maintain sizable balances.

Some banks have reevaluated low-balance, high-activity accounts and have instituted charges of \$3 or more a month on low-balance accounts. Such fees result in loss of these low-balance accounts and, thus, the bank can eliminate some of its losses in this area.

The following figures, found in the Fed's functional-cost-analysis figures for banks in the \$50-million to \$200-million size, can be compared with your bank's figures. The figures show that the average size of a no-service-charge account is \$984. The conditional income account per month is 61¢, and the net earnings account per month is 28¢. A special checking account that had an average balance of \$397 resulted in a net loss of 58¢ per month.

Such figures clearly indicate the need on the part of many bankers to review the average size of their bank's checking accounts and establish new service fees in which low-earning or negative-earning accounts are converted to accounts that are profitable.

The effect of such a policy will not only help to reduce the number of unprofitable accounts a bank carries, but will tend to help reduce the paper blizzard that threatens to "snow" bank operations. • •



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THIRD NATIONAL BANK

In Nashville

ATMs, NOWs, Innovations, Attitudes Spotlighted at BMA Convention

BANKERS attending the recent Bank Marketing Association convention in Chicago were told that automatic transfer services (ATS) are likely to be dubbed the "Edsel" of the financial industry once bankers become aware of the lackluster performance such services are expected to chalk up in the future.

When compared to NOW accounts, ATS is "the biggest yawn consumers have had in years," said Edward Furash, a managing associate for Golembe Associates, Washington, D. C.

He predicted that S&Ls soon will give up their fight against nationwide NOWs, "and once that happens, the ball game is over." Few legislators will be able to resist consumer pressure to make NOWs available throughout the nation once consumers realize that NOWs amount to interest-paying checking accounts.

Legislation permitting NOW accounts in New York state was passed on the eve of the BMA convention, which made the topic a popular one at the meeting.

Mr. Furash, who is a veteran observer of NOW accounts, told his audience that one pitfall to be avoided in dealing with NOWs is pricing services on the basis of spread and money costs, when interest rates are too high or too low. "NOWs must be priced across the whole interest-rate cycle," he said.

Another speaker told bank marketers that consumers are becoming more sophisticated on managing their funds. The time is past, he said, when consumers put their funds in a bank and left them there irregardless of higher rates being paid by thrifts.

BMA 1979 officers installed at convention include (from l.) Treas. Barry I. Deutsch, Pres. Arthur B. Ziegler, 1st V. P. Norwood W. Pope and 2nd V. P. Ronald E. Hale.

Donald G. Long, finance industry consultant for IBM Corp., said bankers should no longer assume that their customers are "dummies" when it comes to earning the best interest on their funds.

He said bankers couldn't count on corporate accounts to supply the major portion of deposits. He predicted that two-thirds of bank funds will come from consumers by 1985.

He also warned that the rate of growth of expenses of the retail side is outpacing income so that the return relative to retail assets, equity and capital will be substantially down by 1985 unless banks stage a major repricing effort.

He said that opportunities for repricing services exist throughout the retail side of banking.

Speaking on the trend of bank regulators to foster deregulation and promote receptiveness to innovation, keynote speaker Muriel F. Siebert, New York State superintendent of banks, warned commercial bankers that "our frankness and receptivity can be a two-edged sword for you because we will take a good idea that seems to offer net benefits to the public from any source, even if that causes short-term dislocations for our bank or your industry.

"The onus is on you," she said, "to come up with innovations that benefit your own marketing position."

She predicted an era of greater freedom in which regulators will authorize the development of a wide range of new bank services.

Continental Bank, Chicago, took top honors in the Golden Coin Awards competition with its "Center for Economics and Business Studies" entry. The same entry won the top award in the public affairs category.

The bank's center teaches high school students economics, personal financial planning and business skills, familiarizes them with local business

BMA dirs. installed at convention were (from l.) Smith W. Brookhart III, pres., Peoples Bank, Branson, Mo.; William J. Jasset Jr., v.p., Worcester (Mass.) North Savings Bank; Robert T. Perdue, v.p., South Carolina Nat'l, Columbia; James H. Bowersox, v.p., California Canadian Bank, San Francisco; Kenneth J. Pennebaker, e.v.p., Twin City Bank, North Little Rock; and Barksdale F. Roberts, s.v.p., First Nat'l, Louisville.

and financial organizations, career opportunities and expands their attitudes toward business, labor and industry.

Films, role-playing exercises, financial publications, newspapers and printed materials furnished by participating firms were used to supplement textbooks and materials developed by the Chicago Public Schools department of curriculum.

First Mississippi National, Hattiesburg, won a trophy for outstanding achievement in its size categories for its minority assistance program.

A TV commercial for Manufacturers Hanover Trust, New York, received a "gold best" trophy in the "Best of TV" competition. Also honored for TV commercials were the following Mid-Continent area banks: Bank of New Orleans; First National, Dallas; Continental National, Fort Worth; Houston National; Harris Bank, Chicago; Texas Commerce Bancshares, Houston; First National, Birmingham, Ala.; First Tennessee, Memphis; and National Bank of Commerce, San Antonio.

The Indiana BMA chapter received the "Chapter of the Year" award, made annually to the chapter that has best demonstrated consistently superior performance in overall management. Receiving the award was H. Fred Miller, vice president-marketing, Citizens Bank, Michigan City, Ind.

Four BMA members were inducted into the BMA Presidents Club during the convention. They were honored for their efforts to secure more members for BMA. They are: Robert M. Maddox, president, Peoples Bank, Meridian, Miss.; D. J. White, vice president and director of marketing, Republic National, Dallas; Marshall C. Tyndall Jr., senior vice president and director of marketing, Texas Commerce Bancshares, Houston; and Paul F. Steen, president, Group Seven, Metairie, La.

Arthur B. Ziegler, executive vice president, Marine Midland Bank, Buffalo, N. Y., was installed as BMA president during the convention. Also installed were: Norwood W. Pope, vice president-marketing, Sun Banks, of Florida, Lake Buena Vista — first vice president; Ronald E. Hale, senior vice president, City National, Bryan, Tex. — second vice president; and Barry I. Deutsch, manager, information and planning, Mellon Bank, Pittsburgh — treasurer. • •

Gall Receives BMA Award

William R. Gall, senior vice president, Republic National, Dallas, was named "Trust Marketer of the Year" by the BMA during its annual trust marketing workshop, held in Boston recently.

The award is presented to an individual who has demonstrated leadership and made a significant contribution to the development and implementation of important marketing concepts, programs or cooperative efforts benefitting the entire trust industry, according to BMA.

Since 1975, Mr. Gall has served as chairman of the board of regents of the National Trust School, has written a chapter to be included in the new AIB textbook on trust services and recently served as leader of two panels concerned with the image of the trust industry.

Prime Rate of 16% Forecast for 1979 At Bank Conference

Delaware Governor Pierre S. Du Pont IV (c.), luncheon speaker at annual correspondent conference of First Nat'l, St. Louis, is shown with Clarence C. Barksdale (l.), ch./CEO of bank, and Richard F. Ford, pres./chief operating officer.

By ROSEMARY McKELVEY
Editor
And
LORI MANDLMAN
Editorial Assistant

A 16% PRIME RATE predicted for 1979 by Darryl R. Francis, retired St. Louis Fed president, brought gasps from his audience last month at First National in St. Louis' 32nd annual correspondent bank conference, held at St. Louis' Cervantes Convention Center.

Mr. Francis made the prediction as a member of the economics panel he shared with Murray L. Weidenbaum, director, Center for the Study of American Business, Washington University, St. Louis.

The former Fed officer said he doesn't foresee a recession next year, although there will be slower growth as a result of capacity restraints in the economic system, and pressure on prices will be even more severe than it is now.

In the latest recession — 1974 — Mr. Francis said that, on average, money grew 3.8%; in 1975, it grew 5.3%; in 1976, 6.4%, and in 1977, 7.7%. During the first quarter of this year, however, he said, it grew on an average of 9%, which demonstrates a beautiful pattern of an escalating monetary expansion.

On the other hand, Mr. Weidenbaum said the country is "looking down into the recessionary abyss during much of 1979," but added, "It is not written in the stars that we will fall in, but the odds now seem to favor it." However, he painted a brighter picture for the 1980s because he foresees a smaller public sector then and a new upsurge in private capital investment that should mean a resumption of greater economic growth on a healthier basis — smaller budget deficits, higher productivity, lower interest rates and less inflation. This optimistic scenario is not inevitable either, but the odds here, too, are higher than they were a year ago.

Mr. Weidenbaum based his forecast on four strengths and five weaknesses he believes now characterize the American economy.

He listed these plus factors: 1. Continued expansion of personal income. 2. The substantial amount of capital spending that's in the pipeline. 3. Cuts in taxes voted recently by Congress. 4. Reduction in this country's foreign-trade deficit.

Mr. Weidenbaum listed the following important negative factors: 1. The expected slowdown in monetary growth and a further rise in interest rates. 2. High level of consumer indebtedness, which may act as a brake on future purchases of consumer goods. 3. The tendency of high interest rates to curb new housing construction. 4. Slow growth in productivity. 5. The prospect of more "jawboning" and other federal intervention in wages and prices.

As to the latter, according to Mr. Weidenbaum, controls are not inevitable, but the Administration seems to be walking down that road, albeit hesitantly and with sincere protestations about not going all the way.

Thus, he believes the odds are increasing that there will be a recession next year. Although that's no occasion for jumping for joy, he continued, it does have an obvious positive side: A sustained slowdown in the pace of economic activity will help control the inflation that has become the most serious problem facing the nation.

"The future inflation rate," said Mr. Weidenbaum, "depends on how dumb or political the Federal Reserve System will be."

During the investments panel, Frank K. Spinner, the bank's senior

LEFT: Financial management panelists at First Nat'l in St. Louis' correspondent bank conference are (l. to r.) Alex J. Sheshunoff, pres., Sheshunoff & Co., Austin, Tex.; William J. Chapman, e.v.p. of bank, and Edgar H. Crist, Missouri finance commissioner. CENTER: These are members of "What's New in Banking?" panel (l. to r.) — Charles H. Eggleston, a.v.p., LeGrande W. Rives, v.p., and Clark M. Driemeyer, v.p./corporate finance, all of First Nat'l. RIGHT: Investment panelists are (l. to r.) John W. Fricke, a.v.p., Richard S. Zell, v.p., John W. Rowe, v.p., and Frank K. Spinner, s.v.p.

vice president, forecast "a very mild recession" during the first part of 1979. Unlike Mr. Francis, he believes the prime rate at the end of next year will be only 8.8%. He foresees fed funds at 7% at year-end 1979 and seven-year governments at 7%. He also expects interest rates to drop early.

Mr. Spinner characterized himself as bullish on stocks, bullish on bond prices and bullish on the dollar.

According to William J. Chapman, executive vice president of the bank, a bright future lies ahead because the United States is a "have" nation and can't fail to have a productive society. He added that it has abundant supplies and an aging population, and, thus, there will be plenty of jobs to go around as the number of young persons declines. He also believes there's a chance of getting the federal budget under control in the next decade. A long-term threat he sees is nationalization of businesses and interstate banking as a potential threat. There will be intense competition in banking, he continued, but it can be met if banks serve their customers well and know what they want and deserve, if they know how to help customers, if they know their markets and if they control the quality of their earning assets. Mr. Chapman was a member of the financial-management panel on "High-Performance Banking in the '80s."

On this same panel, Missouri Finance Commissioner Edgar H. Crist prefaced his talk by pointing out that his views are his own, that he was speaking as commissioner for the Missouri finance division and not for other state or federal regulators. Mr. Crist told his audience he believes "bank regulators and supervisors are not and should not hold themselves out in any manner as bank managers." He described his philosophy this way: "So long as the bank maintains adequate capital, adequate liquidity, sound assets, complies with all the laws, rules and regulations to which it is subject, has capable management and is fulfilling the purpose for which it was chartered, that of serving the needs and convenience of its community, it should be run by its own officers and directors without undue interference from people like me. The regulators should get involved only when one or more of these things get out of line."

Mr. Crist believes constant regulatory monitoring through various means is necessary, and if these monitoring efforts disclose adverse trends regulators believe may lead to serious problems, it's the statutory responsibility of regulators to bring these problems to bankers' attention and bring about the necessary correction.

The Missourian said it is the duty and responsibility of a bank's board to outline a bank's profit objectives because such objectives can lead to serious problems if they are not well founded on sound loan, investment and cash-management policies, with full recognition of management's capabilities.

In the "What's New in Banking?" panel, subjects of particular interest to bankers were spotlighted. For instance, Warren B. Wiethaupt, First National's vice president/marketing and planning, discussed the new automated-transfer system, which became effective November 1. He described pricing arrangements of various banks, what kinds of advertising banks were doing on ATS and the opportunities ATS offers banks.

TOP: Economics panel at First Nat'l in St. Louis' correspondent bank conference featured Darryl R. Francis (l.), retired pres., St. Louis Fed, and Murray L. Weidenbaum, dir., Center for Study of American Business, Washington University, St. Louis. BOTTOM: Two participants in "What's New in Banking?" panel are Warren B. Wiethaupt (l.), v.p./marketing and planning, and David M. Culver, s.v.p., who acted as moderator.

Assistant Vice President Charles H. Eggleston talked about pricing bank services and listed the following as fundamental cost aspects: cost of bank services, flow of costs, indirect service-department costs, general bank overhead and key to proper pricing.

"If nothing else," he said, "per-unit costs should represent the floor in establishing prices. At an absolute minimum, price must at least cover our variable costs."

Vice President LeGrande W. Rives spoke on technological change, legislative and regulatory change, competition, personnel and electronic banking.

Clark M. Driemeyer, vice president/corporate finance, also was a member of this panel and described additional sources of bank liquidity. For instance, he suggested the fully guaranteed portion of the Farmers Home Administration and Small Business Administration loans banks hold in their portfolios. Undoubtedly, he continued, many banks hold U. S. guaranteed loans that could be used to generate lendable funds.

The luncheon speaker was Delaware Governor Pierre S. DuPont IV, who also has been mentioned as a possible Presidential candidate in the 1980s. Governor DuPont said that, in the November 7th election, voters cast their lot for a lower rate of inflation and

A SMALL MAJORITY of bankers attending First National in St. Louis' correspondent bank conference last month predicted mandatory wage/price controls would be imposed in 1979. They were responding to a survey that has become a traditional part of the bank's conference each year. Nearly 600 bankers from throughout the Midwest took part, and 53% foresee wage/price controls.

Here are some other predictions made by survey respondents:

• Unemployment, currently a little below 6%, will increase to 7% in 1979.

• The Dow Jones Average will be in the 800-900 range a year from now. The DJ average closed at 797 November 16, the day of the conference.

• The prime rate, 10¾%-11% at the time of the survey, will be more than 9%, but less than 10% next year.

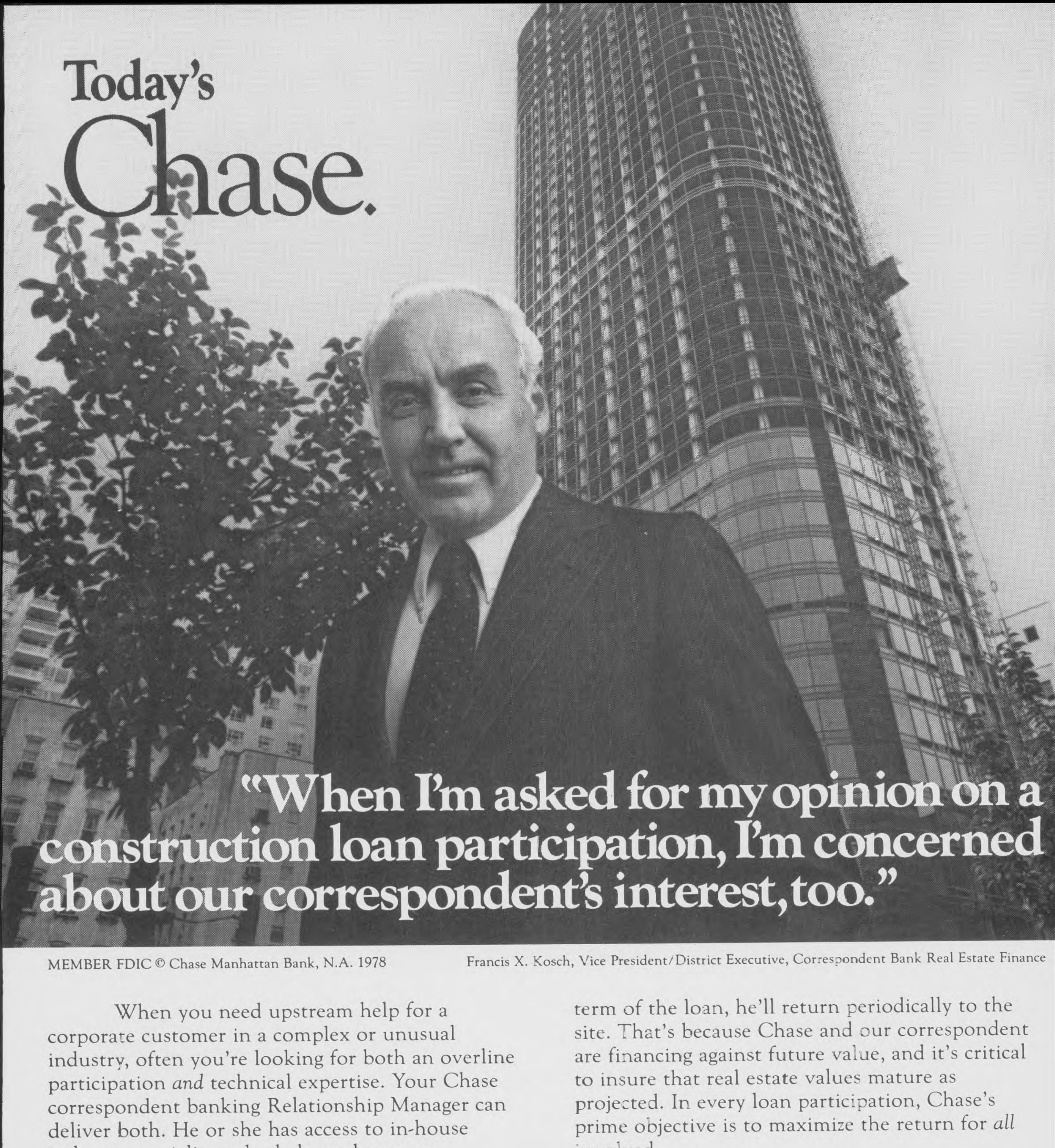
• G. William Miller, who succeeded Arthur F. Burns earlier this year as Fed chairman, is doing a good job.

• Bank earnings will continue to rise.

• The dollar will gain against foreign currencies.

• The Consumer Price Index will go up 8%.

Oh yes, on a lighter note, the bankers picked the Dallas Cowboys to repeat as winners of the Super Bowl in January.



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Francis X. Kosch, Vice President/District Executive, Correspondent Bank Real Estate Finance

When you need upstream help for a corporate customer in a complex or unusual industry, often you're looking for both an overline participation *and* technical expertise. Your Chase correspondent banking Relationship Manager can deliver both. He or she has access to in-house industry specialists who help analyze your participation proposal and create an effective credit that's in everyone's best interest.

One of the industry specialists frequently consulted by our Relationship Managers is Frank Kosch. Frank has spent the past 16 years in the complex world of real estate financing and knows it cold. So when he's asked to evaluate a real estate participation, you can expect a highly astute analysis.

Before he gives his recommendation, Frank always visits the construction site. But his involvement doesn't stop there. Throughout the term of the loan, he'll return periodically to the site. That's because Chase and our correspondent are financing against future value, and it's critical to insure that real estate values mature as projected. In every loan participation, Chase's prime objective is to maximize the return for *all* involved.

If you have a loan participation that involves a complex or unfamiliar industry, call your Chase correspondent banking Relationship Manager. He or she will respond promptly—and with the valued opinion of one of that industry's most knowledgeable specialists. That's the way it's done at Today's Chase.

CHASE

Spinner Switches Banks

ST. LOUIS — During First National's annual correspondent bank conference last month, it was announced that Frank K. Spinner, for many years an active participant in the conference, will leave the bank December 31 to join Tower Grove Bank here as president and CEO. His new appointment will take effect January 1.

Mr. Spinner joined First National in 1949 and now is senior vice president of the bank and of First Union Bancorp., the multi-bank HC of which First National is the principal subsidiary.

At Tower Grove Bank, John D. Weiss has been acting president since last January, when the former president, Robert M. Conway, resigned.

showed that the country's mood is conservative. He believes this message is getting through to Washington. He also applauds President Jimmy Carter's announcement November 1 that he's seeking voluntary cooperation of U. S. citizens in holding down wages and prices. However, the governor believes the President has committed himself mentally to mandatory wage and price controls early in 1979.

This would be bad, said Governor DuPont, because it would represent a step backward in the economy and freedom.

The 1978 election was the first since 1960 that focused on the economy, the governor continued. Also, he pointed out that the average age of those elected last month was younger than before; they are not products of the depression of the '30s and '40s and were extremely young during World War II. ● ●

Automated Banking Safer Than Paper Transactions, ABA Security Study Shows

WASHINGTON, D. C. — Results of an ABA automated teller security survey show ATMs offer customers a greater degree of safety than traditional, paper-based banking systems. Better than nine of 10 banks asked to compare ATM losses with paper-system losses responded that ATM losses were either less (78.6%) or nonexistent (8.9%). The survey was conducted last summer and had a more than 60% response rate. Respondents, nearly half of which were large institutions with deposits exceeding $1 billion and less than 6% of which have deposits under $100 million, operate about 20% of the ATMs in the country.

"Although there may be occasional losses through ATMs, as with any system," said Frank P. Curran, ABA director of retail banking services, "our survey shows definitively that the banking industry's customers are safer in the use of electronic banking than with the paper-based alternatives."

When giving descriptions of automated teller security, most banks said they had "no security problems at all or considered their security as extremely effective" (47%) or had "only minor problems with (automated teller) security" (43%). No respondent indicated any "major problems."

When losses did occur, consumer absorption averaged about $20. In 70% of these cases, the bank absorbed the entire loss.

The average bank responding had a system of 14 automated tellers that had been in operation about four years. Average monthly transactions were 3.760. One of 10 ATMs was located somewhere other than a bank, such as a department store or shopping center.

Computing Power Doubled At Third Nat'l, Nashville

NASHVILLE — Third National has doubled the computing power of its Nashville facility with the installation of what are said to be the first two IBM 3031 processors in the state.

The additional capacity is being used to process a new on-line credit card system, an advanced on-line commercial loan system and an expanded customer information system. The equipment makes it possible for tellers in the bank's 30 branches to respond faster to customer inquiries. It also enables area merchants to receive faster authorization service and enables the bank to offer expanded EFT services.

The service is available to the bank's correspondents and will enable them to process their own transactions instead of having to send bookkeeping records to the bank's processing center.

Pictured in EDP department at Third Nat'l, Nashville, are (from l.) Richard L. Good, 1st v.p.; A. L. Echols, IBM branch mgr.; and Charles J. Kane, ch. & pres., Third Nat'l Corp. New equipment is said to enable bank to double its computing power.

"First National is people you know and performance you can count on."

—Herbert M. Richardson, Jr., Senior Vice President, Regional Banking Division.

"In a word it's professionalism. The kind of involvement you'd expect from the bank that's grown to be the regional leader by helping you grow.

"And we're committed to continued growth by placing the emphasis where it belongs...with you. Right now, for example, we're involved in communities throughout the region with participation loans, with services, with whatever it takes to help you get the job done.

"With that kind of up-front investment, we're proud when our growth takes a healthy jump. But more important is the opportunity to serve old friends and make new ones.

"In a business of serving people, we're fortunate to work with the best."

Our wealth is good people.©

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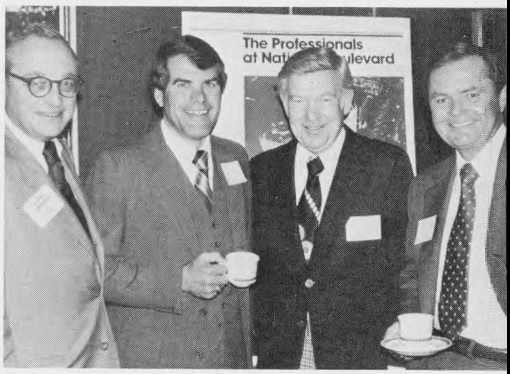
FIRST NATIONAL BANK OF LOUISVILLE

13-15% Prime Predicted By Eliot Janeway At Chicago Bank Meeting

By RALPH B. COX, Publisher



Coffee hour preceded National Boulevard conference. Here, Henry K. Gardner (l.), pres., and Daniel N. Quigley (r.), e.v.p. of host bank, chat with William Beohm, pres., Tama (Ia.) State; and Joe Connelly, pres., Westchester (Ill.) Trust.

Host bankers Henry K. Gardner (l.) and Daniel N. Quigley (2nd from r.) visit with congressional speakers Dan Rostenkowski (2nd from l.), member, House Ways and Means and Joint Committee on Internal Revenue Taxation; and William A. Steiger, member, House Ways and Means and also Social Security and Trade.

A PRIME RATE OF 13-15% by the end of the first quarter in 1979 was the viewpoint expressed in Chicago last month by Eliot Janeway, nationally known political economist and columnist.

Mr. Janeway expects long-term interest rates to "follow" rapidly behind rising short-term rates, but, in his opinion, long-term rates will not catch up. If they do, he warned, near panic conditions could exist.

Speaking to bankers attending a conference sponsored by Chicago's National Boulevard Bank, Mr. Janeway found little to be optimistic about. All institutions with investment maturities of more than two years will be in serious difficulty, he warned. Despite his pessimism, Mr. Janeway foresaw no early signs of a depression. A recession will be possible, he said, when short-term interest rates fall, when there is a distinct relaxation of new borrowing pressures and when there is what he termed a "rapid unwinding of debt."

Continuing his gloomy forecast, Mr. Janeway predicted the Dow Jones index will dip downward from its present high 700s to the low 600s. (A few of the less stouthearted in the audience moaned.)

Auto sales? Down 25% in unit sales next year, with the bulk of sales being lost in those markets where the "public is out of credit." But not a drop in luxury-car sales, he advised. Cadillacs, Lincolns and other high-priced autos will enjoy continued sales.

Foreign manufacturers will increase their penetration of the U. S. market by as much as 18%, replacing the higher-priced American cars.

The mortgage market? A disaster! There will be a brief flurry of building, however, as contractors race to complete all construction projects presently under commitment. Rents, said Mr. Janeway, "will go out of sight."

Mr. Janeway offered another warning to bankers: How many business (savings) accounts mature at year-end at 5% and will roll over to 9½% money-market instruments? Bank costs will "soar" at that time was his prediction.

Were there any bright spots on the horizon? None, really, according to Mr. Janeway. He was particularly strong in condemning further tightening of credit by the Fed. As the Fed pushes up interest rates, it also diminishes all hopes of cuts in government spending, since the government has to pay more for its borrowing.

We could, he said, see a pre-election rally (in the value of the dollar and the stock market).

Mr. Janeway also had a "formula" for strengthening the dollar: Buy all our foreign oil through the barter system, he advised. As the Arabs sell us their oil, our government should force them to take in exchange autos, steel, cement, etc., plus "a few billion" of long-term government bonds at a 4% rate. This, he said, will keep our dollars at home and begin to correct the Eurodollar market, which has been soaring at the rate of 20% per year. When we correct the Eurodollar market, he advised, we will correct our interest-rate problems at home.

National Boulevard's one-day conference also included talks by three U. S. congressmen, all of whom serve on important congressional committees: Dan Rostenkowski, Ways and Means; William A. Steiger, Ways and Means and also Social Security; and Henry J. Hyde, Banking and Currency.

Representative Rostenkowski told bankers that "Congress had received the voter's message" during the recent election. He predicted that all members of Congress will get home to their districts more often and "find out what the voter wants."

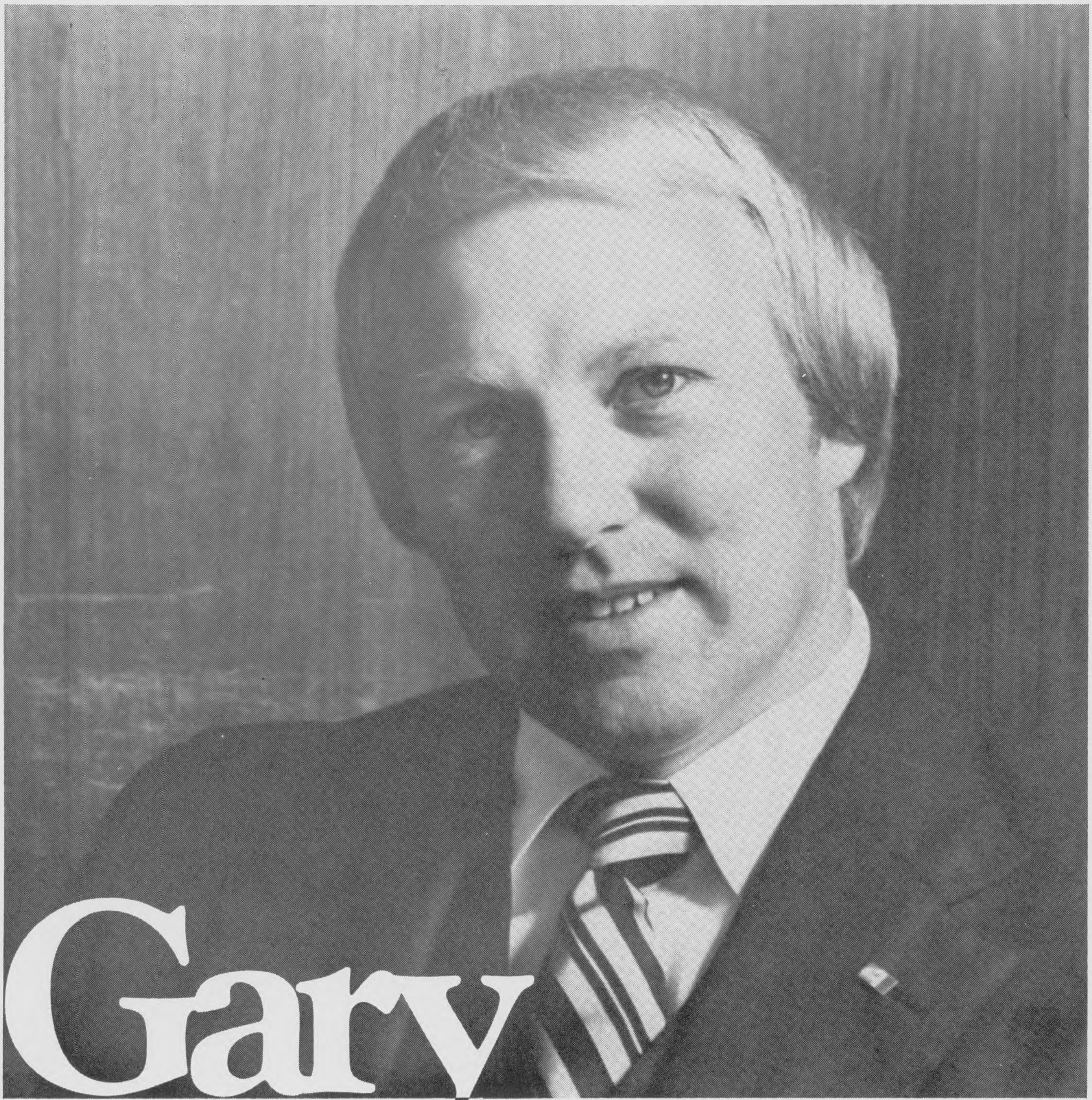
Representative Rostenkowski felt that Congress will watch future spendings in order to cut further into deficit spending. However, he said, a recession simply would increase "pressures" for spending to create new jobs.

Representative Steiger expressed the opinion that "we are headed for mandatory controls (wages and prices) unless business leaders come forward and say to government: 'We don't think your voluntary program will work — for these reasons — and here is what we would do to make a voluntary program work.'"

Representative Steiger said he would favor an increase in depreciation schedules for capital goods as well as a reduction of the double tax on dividends. He would favor cost-replacement accounting to help business modernize its plants. Broad public support, however, would be needed to make any changes in the present $100 exclusion on dividend income or any further easing of the capital-gains tax.

Representative Steiger also would favor a freeze on the minimum wage — scheduled to go into effect January 1, 1979 — as a means of combating inflation.

Representative Hyde expressed his viewpoints as a member of the Banking and Currency Committee. The No. 1 priority of his committee in 1979, he said, would be the question of mandatory membership in the Federal Reserve System. He was not optimistic


Gary

about "payment of interest on reserves," which has been offered as a trade-off. However, if interest is paid, he said, then, undoubtedly, the Fed also would begin charging for its various services.

The whole subject of Fed membership, he said, will be studied extensively before any action is taken.

Other banking legislation that undoubtedly will be considered in 1979: another try at simplification of Truth-in-Lending; consolidation of the federal banking agencies; and truth-in-savings probably will be considered for the first time, he said.

Representative Hyde also predicted that "credit-allocation pressures would mount," if not next year, then in the years ahead and eventually precipitate legislation.

An officer of National Boulevard Bank, Executive Vice President Daniel N. Quigley, spoke to bankers on the subject of EFTS and a new bill that will be introduced in the Illinois legislature in February, 1979. This bill, he said, will reflect the consensus of the 16-man Illinois EFTS Study Commission (which he headed as chairman) and will make it possible for Illinois banks to implement EFTS procedures consistent with federal legislation. Among the areas to be covered thoroughly in this bill, he said, would be consumer protection, privacy and security.

The bank's day-long program was presided over by Henry K. Gardner, president. • •

Mental Roadblocks

(Continued from page 15)

kind and quality of companies that have been using our business savings account with telephone transfer to improve their cash management."

"You would be welcome to talk to Harvey Jordan at Medico Distribution Co. about the financial planning assistance we provided his firm in implementing its growth program."

4. *Restate action.* This involves determining the customer's readiness to proceed by checking his readiness with a test question and restating the "next-step" action you're seeking. For example: "Do you have any further questions about the service and our capacity to implement it at this time?"

Give Reasons to Act Now. In addition to lingering uncertainty, another common cause of indecision and procrastination is the customer's inability to see or feel the need for immediate action. He can't perceive any particular advantage in making an immediate decision, nor does he see any risk in delay. So, he does what comes naturally — he procrastinates.

Many years ago, Ben Franklin gave us a guide to good living, which went: "Don't put off until tomorrow that which you should do today!" In today's fun and leisure society we've turned Old Ben's maxim totally around, which is why a more popular philosophy in this age is: "Tomorrow we get organized!"

While a customer's limited sense of urgency may be at the root of his indecision, another cause can be what he perceives to be valid reasons for delay, such as the need to consult with others, to get more facts to make his decision or higher priorities he's attached to other activities.

Resistance is to be welcomed rather than feared because it indicates the customer is hearing you and testing your proposal. Resistance is a normal part of human communication.

When any of these conditions exist, giving the customer reasons to act now is an effective means of securing action because:

- It motivates decisiveness by instilling a sense of urgency in the customer's mind.
- It puts any reasons a customer may have for delaying action in proper perspective by supplying him with appropriate reasons for adjusting or modifying his viewpoint.

Applying this method for converting customer indecision into decisive action involves the following procedure:

1. *Acknowledge and clarify indecision*, as described with the previous method.

2. *Suggest disadvantages of delay* by indicating possible loss, risk or hazard incurred by inaction. This appeals to a customer's basic desire for self-preservation and security — to protect what he has and to avoid possible loss. Since this form of motivation is somewhat negative in character and appeals to our fear instincts, it should be used with a delicate touch. When used in a heavy-handed way, as when an insurance salesman or trust officer figuratively "drives the hearse up to your door," it can produce strong negative reactions. Reasons used should be ones the customer can associate with and relate to. Relevant negative reasons you can employ include "loss of flexibility and appropriate timing," "possible loss of key people," "loss of cost savings that can be realized," "higher interest costs that can be incurred," "tax vulnerability of existing estate plan," "loss of personal time with existing methods and practices," etc.

For example: "Each day of delay would shorten the lead time needed to set up your practice and get your equipment ordered in, Doctor."

"By delaying installation of the direct-deposit pay system, you would be putting off the $50 a week you could be saving in reduced payroll-preparation costs."

3. *Suggest advantages of action* by indicating what the customer can gain by immediate action. This balances the negative implications of the disadvantages of delay by supplying the customer with positive motivation and logic for proceeding now, rather than later.

Effective reasons that can be used to encourage immediate action include "achieve time and cost savings now," "have adequate lead time to set up program and get it working right," "get facts needed to make appropriate decision," "get facts needed to discuss with board, attorney, partner, etc.," "free people up for more productive work at busy year-end," etc.

For example: "By moving ahead now, you would have one major requirement resolved, and you would be able to proceed with confidence in ordering your equipment."

"By moving ahead now, you would free part of your payroll clerk's time for more productive accounting work, and you would have the system up and running by the start of your next quarter."

4. *Restate action* by testing the customer's readiness to proceed and restating the "next-step action" as described previously.

As we've determined, resistance is a natural and normal part of human communication. It's to be welcomed rather than feared, because it does indicate the customer is hearing you and testing your proposals. If you respond positively to his tests by clarifying his viewpoint when it's unclearly or incompletely stated, and by transmitting relevant facts, logic, and reasons through the methods we've examined, you can expect to significantly improve your ability to achieve the understanding, acceptance and action you seek.

During our next "Let's Talk Selling" article, we'll examine what is involved in keeping your customers sold once you've sold them through effective follow-up. • •

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At First City National Bank of Houston, we know the value of a good customer.

That's why we offer correspondent banking services to financial institutions throughout the Southwest. Services that help you help your customers.

At First City National, we believe in you.

If your customers need to borrow amounts that exceed your legal lending limits, talk to us. We're the largest bank in Houston and the lead bank in a financial institution with over $6 billion in assets.

With our international connections, we can extend your financing capabilities to almost any place in the world.

And if you need corporate trust services, we can perform them efficiently and economically.

When you need correspondent banking services, work with a bank that offers strength. First City National. We believe in helping good customers.

FIRST CITY NATIONAL BANK OF HOUSTON

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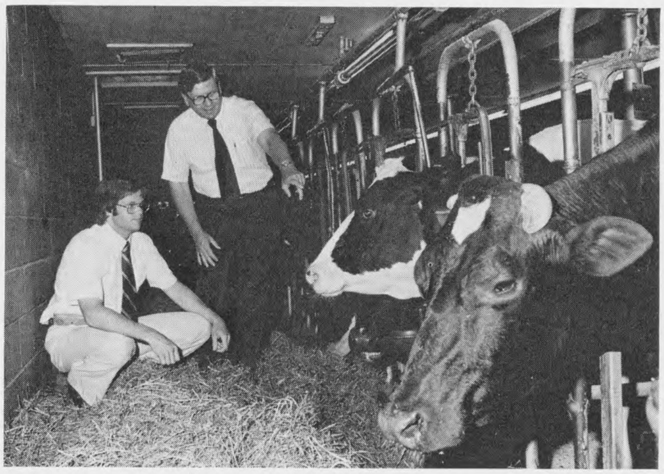
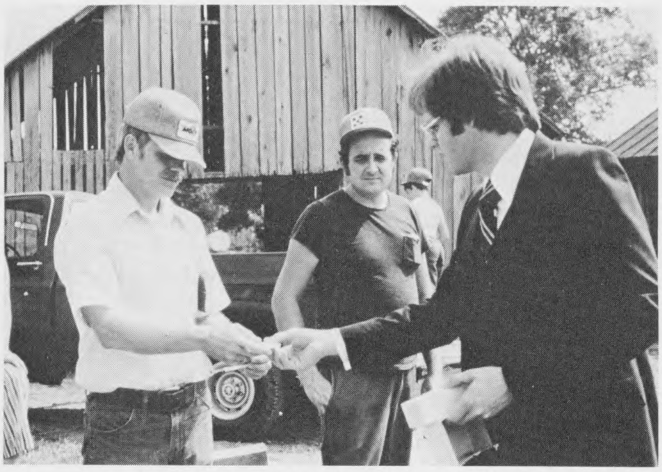
We believe in you.





LEFT: Douglas Hawkins (l.), v.p., BancOhio Leasing, and Robert Conklin, Conklin Farm dairy cattle sales, Plain City, O., look over possible leasing material for HC's cow-leasing program. RIGHT: Mr. Hawkins (r.) hands information on leasing program to Robert W. Frey (l.), Waverly, O., second customer to lease dairy cattle from BancOhio Leasing. Looking on is Ron Merricks, herdsman on Mr. Frey's farm and farm mgr.

Lease Dairy Cattle?

It Can Be Done Through Program Sponsored by Ohio Bank HC

By ROSEMARY McKELVEY
Editor

RENT A COW? It's being done in Ohio, where BancOhio Leasing Co. has started a dairy-cattle leasing program. The firm is a subsidiary of BancOhio Corp., a multi-bank HC headquartered in Columbus.

To qualify, a farmer must have a good management record, a herd of at least 20 dairy cattle, room to take care of additional cattle, be on a sound financial footing and be active in his farm's day-to-day management.

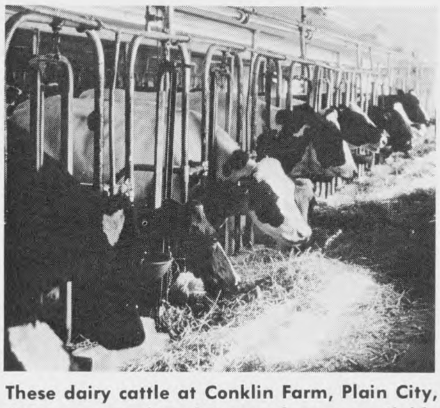
Advantages of leasing, according to BancOhio Leasing, are:

- *Larger herds instantly.* A farmer can increase his herd size without delay whenever the opportunity suits him.
- *Minimal cash outlay.* There's no need for a lot of money up front, money that can be put to profitable uses in other parts of a dairy operation. Regular payments are made from the increased milk receipts provided by leased cows.
- *Better production.* Because the initial investment is lower with leasing, a farmer can afford to select higher-quality cows.
- *Tax savings.* Lease payments are fully deductible on a pay-as-you-go basis. There's no complicated depreciation schedule to calculate.
- *Option to buy.* At the end of the lease period, a farmer may purchase the cows he has leased.

A 10% down payment is required instead of the 25% to 30% needed on an installment loan. The down payment represents the first three months' payments, and payments for the next 33 months are $34.44, based on a 36-month lease and $1,000 per cow.

In all, the agreement's annual interest rate is 14.5% over the life of the lease.

Once a farmer is approved to enter into a leasing contract, he's authorized to obtain a maximum number of cattle, but he must be willing to take at least 10 cows, and he cannot take more than 50% of his present herd size. There's no requirement to lease "in lots."



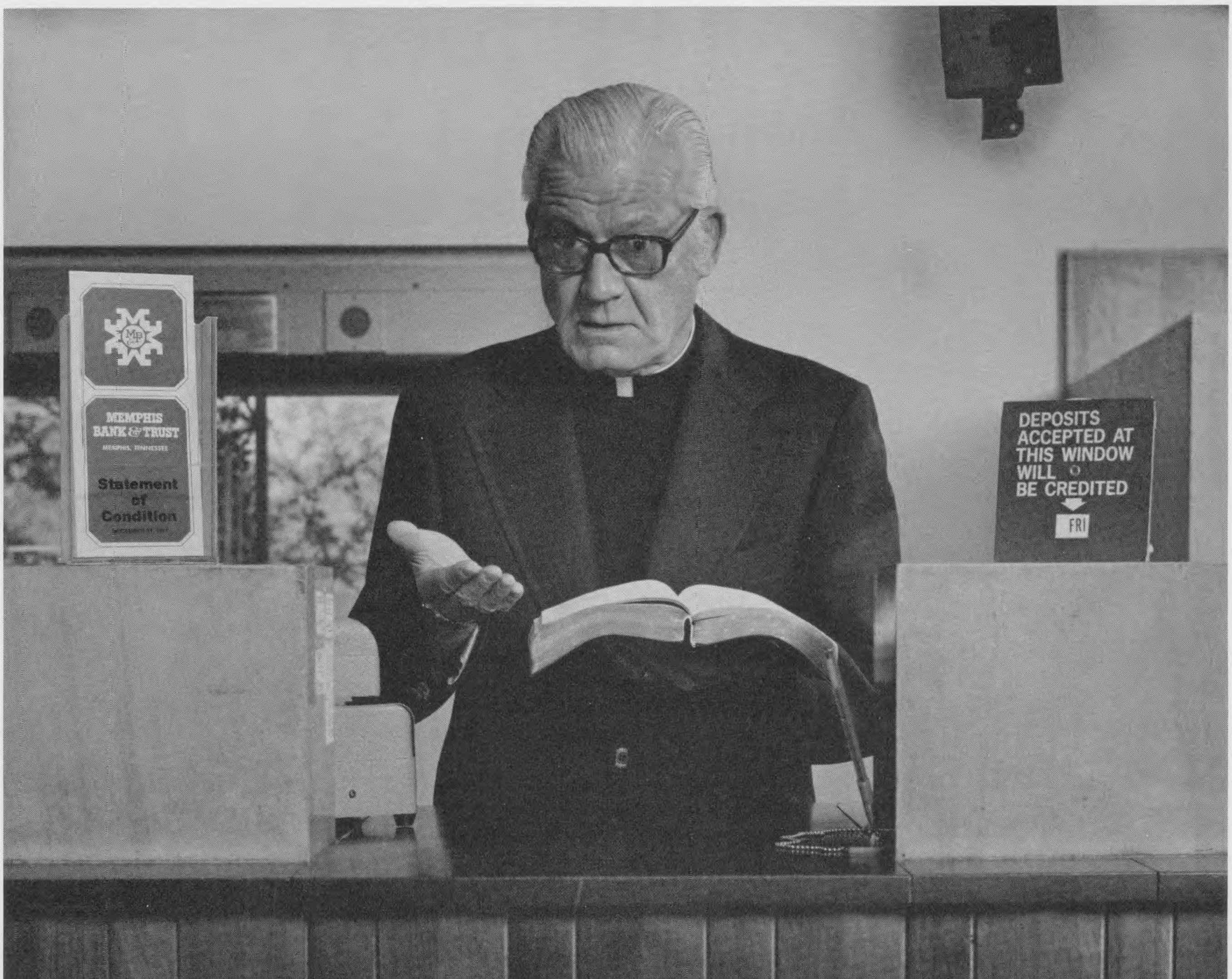
These dairy cattle at Conklin Farm, Plain City, O., are examples of types of cows available through BancOhio Leasing's cow-leasing program.

The farmer may select and purchase his cattle from Robert Conklin Cattle Sales, Inc., which has exclusive advertising rights (other than the bank HC) to the leasing arrangement for one year. According to the HC, the Conklin family is recognized by the dairy industry throughout the East and Midwest as one of the most reputable cattle-sales operations, maintaining high degrees of quality and expertise. Because Conklin handles most of the advertising, the firm also acts as a screening agent for most of the inquiries from farmers.

The farmer may select and purchase his cattle from Conklin via auction or straight sale, whichever way he believes he will receive a better price.

Cattle leased by BancOhio must conform to high standards of: (1) health; (2) soundness of udder; and (3) laboratory inspection and testing by state authorities. Only two- to five-year-old cattle are leased, ensuring many years of excellent milk production.

As the HC explains it, two-year-old cattle produce an average of 13,000 pounds of milk a year, while good-producing five-year-olds give an average of 18,000 pounds of milk. Most cattle produce milk for approximately 300 days a year. Milk yields decline rapidly when cattle are about eight



A Bank Married Us For Life

If the number one major bank in service, solidarity and growth in its market wanted to affiliate with a life insurance company... can you imagine how solid and dependable that life insurance company has to be?

That's us, Central Guardian Life. As an affiliate of Memphis Bank & Trust, we're proud to keep up the family tradition of personal service and solidarity, but the similarity ends there.

There's a full-service bank in the family, but we're a full-service life insurance company in our own right.

Central Guardian Life is licensed and doing business in your state and eight others in the South-Central United States. We offer all products of permanent and term insurance. We specialize in credit insurance and other bank-related policies. And we back every policy with the kind of professionalism and performance that might even make our affiliate the bank a little envious.

Call us, toll-free, for your bank life insurance needs. We'll treat you like family.

CENTRAL GUARDIAN LIFE

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years old. (One gallon equals eight pounds of milk.)

The customer is free to make all management decisions concerning his herd, although BancOhio Leasing holds title to the animals. For example, a farmer may cull a leased cow and replace it with another of equal value. The lease also provides for certain offspring allowances. All calves born to a leased cow must remain with the leased herd. However, a farmer may sell the calf, but he must apply the proceeds to lease payments. He may keep or sell bull calves without applying proceeds to the lease.

The program was started last June 1 on a pilot basis, and, within about four months, 250 dairy cows had been leased, says Douglas R. Hawkins, the leasing firm's vice president, who initiated the project. The program is being funded with $1 million through next June. Evaluations will be conducted through next June, when a decision will be made whether to expand or cancel the project.

If the program is expanded, representatives of BancOhio Leasing, led by Mr. Hawkins, and of the Conklin firm will conduct herd inspections four times a year. All cattle will have three means of identification — ear tags, ear tattoos and profile photographs. Mr. Hawkins foresees, with expansion of the program, accommodating 50% to 60% of all inquiries, with an average farmer leasing 20 cows.

BancOhio Leasing, in business since 1972, also leases farm equipment such as tractors, Harvestore silos, combines and milking parlors. In addition, the firm leases equipment for various industries: medical, restaurant, mining, office, printing, communications, recreation, retail and computer.

BancOhio Leasing believes its cattle-leasing program is attractive because it allows the lessee to remain his own boss while increasing his herd size and improving his cash flow. • •

Election '78

(Continued from page 16)

with more specifics on its pricing proposals.

Issues that will remain very much on the minds of members of Congress are the nation's economy and the battle against inflation. Bankers and other financial experts may be called on in coming months to play a growing public role in helping define the battle against inflation as a matter of economics as well as of politics.

Looking beyond specific bills or legislative proposals, members of the 96th Congress will find themselves increasingly concerned with issues of the next decade. Decisions of the next Congress will set the stage for the 1980s. The 96th Congress will complete its term in 1980. In that context, bankers will be interested in such issues as whether the fledgling trend toward deregulation and elimination of federal paperwork can be strengthened; whether Congress can accelerate its movement toward greater fiscal self-discipline; whether consumer protection laws, starting with the Truth-in-Lending Act, will be re-examined by Congress and simplified wherever possible to improve their consumer benefits and to cut costs they impose on banking and business.

Also in the context of looking forward to the next decade and the 1980 congressional and Presidential elections, it's expected that the White House will focus increasingly on the larger political and economic issues, rather than on matters such as consolidation of the federal bank regulatory agencies, changes in the McFadden Act and solutions to the Fed membership "problem," which have generated only modest public interest. • •

Agencies Adopt Rating System For Data Processing Centers

A joint system for rating data processing centers has been announced by the Fed, FDIC, Comptroller of the Currency and the Federal Home Loan Bank Board.

Under the new rating system, the agencies will apply uniform standards to in-house data centers operated by banks or thrifts supervised by one of the agencies and to independent data processing centers serving banks and thrifts.

The uniform rating system follows adoption by regulators earlier this year of a joint policy for the examination of data processing centers operated by or serving financial institutions they supervise.

The joint rating system provides for a performance rating system based on the evaluation of four critical functions: audit, management, systems development and programming and computer operations.

Ratings of these functions are combined into a composite rating for each center.

What a Bank Should Know Before Going Into Leasing

By THOMAS J. TUCKER
President
Alabanc Financial Corp.
Birmingham, Ala.

ANY CONSIDERATION of leasing in the banking environment, whether through a bank holding company or a bank, requires knowledge of Federal Reserve Regulation Y and rulings by the Comptroller of the Currency on leasing and leasing activities.

The emphasis of this article, however, is on communication. One hears the generalization that bankers tend to view loans as essentially the same commodity capable of being packaged many different ways. On the other hand, leasing is regarded as a product by many practitioners in the industry. Usually, it must be sold. Before it can be sold, specific attributes must be identified and various peculiarities recognized.

To illustrate this diversity and the attendant communication problem, let's start by making some hypothetical definitions of leasing. Among other things, it can be:

1. A highly efficient utilization of payment streams.
2. A method of meeting specialized industry needs.
3. A technique to shift obsolescence risks.
4. A time-sales purchase.
5. A simplification of budgeting or cost-center analysis.
6. A strong selling tool.
7. A code word for minimal equity and extended terms.

The lending officer's responsibility is to sift through these definitions as he talks to his customer or prospect and to identify the need. Some rules have been developed to help in this sifting process.

Rule No. 1. *Don't sell against the lease concept until you have all the facts.*

Joe Doakes, one of my favorite bankers, had an interesting experience in this regard. The president of a major customer of the bank came in when all senior officers were unavailable. Therefore, this man approached Joe and told him he wanted to lease some equipment. Joe immediately answered that a lease was ridiculous; the bank would lend him the money on the same terms at a much lower rate and was perfectly prepared to make any accommodation he wanted. The customer responded that he desired 20-year financing for a $140,000,000 drill platform to be utilized in his offshore oil and gas activities. Joe's lending limit was $100,000, and the bank's total capital was $5,000,000. Joe could have been more helpful by waiting until he had the full story on the proposal.

Rule No. 2. *Get all the facts.*

Our friend Joe Doakes had an opportunity to investigate leasing with another good customer. The customer visited Joe to discuss acquisition of a new Graza. A lease salesman had called on this customer, and they had reviewed various aspects of the Graza. The salesman had talked about tax opinions, rental puts, placing the debt side at a low rate and a nominal interest rate of zero and many other things the customer couldn't remember. However, Joe was asked if the bank would consider doing a comparable lease. Joe thanked the customer and told him he would be back in touch.

Joe then went to the bank president and said the customer wished to lease a Graza. The president asked Joe what a Graza was. Joe didn't know. In fact, Joe had hardly any facts to make an intelligent decision about what kind of lease the customer desired. Making a leasing decision may require many more facts than normally anticipated for a loan application.

Rule No. 3. *Keep the discussion simple, but never think your customer/prospect is simple because he inquires about leasing.*

It's not an admission of weakness nor of naivete for someone to desire to lease. However, the subject can be complicated. Let the technicians handle the technical aspects. Your responsibility as a lending officer is to ascertain the basic thrust of the transaction.

Rule No. 4. *Give informed, straightforward advice.*

Make certain your customer understands the degree of the bank's in-

In the accompanying article, the author discusses rules for a banker to follow in determining whether to enter into a leasing agreement:

1. **Don't sell against the lease concept until you have all the facts.**
2. **Get all the facts.**
3. **Keep the discussion simple, but never think your customer/prospect is simple because he inquires about leasing.**
4. **Give informed, straightforward advice.**
5. **Never sell beyond the strength of the bank's lease documentation and organizational lease-knowledge base.**
6. **Always remember a lease is a long-term transaction with significant differences from a short-term, working-capital loan or an intermediate-term installment loan.**

volvement in leasing and precisely what the bank's capabilities are. This rule doesn't mean that you, individually, have to be a leasing authority, but you do have to know where to get expert guidance. You also must know your bank's comfort level with the concept of leasing.

Rule No. 5. *Never sell beyond the strength of the bank's lease documentation and organizational lease-knowledge base.*

This point is critical. It has been alleged that violation of this rule has caused more grief for banks than any other aspect of leasing.

Rule No. 6. *Always remember a lease is a long-term transaction with significant differences from a short-term, working-capital loan or an intermediate-term installment loan.*

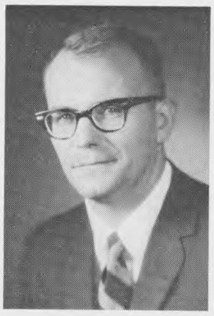
With these rules in mind, let's go back to the hypothetical definitions and amplify them.

1. *A highly efficient utilization of payment streams.* This definition refers to tax-oriented leasing where some portion of the tax benefits are passed along to the lessee by the lessor to permit leasing at a lower cost than a comparable loan. This type of leasing is complicated and is not something to be entered into lightly.

Your bank must have a good tax plan to avoid unfortunate consequences — not just for one year, but for several years. Actually, a more accurate phrase would be a long-term tax strategy. Internal Revenue Service rulings may be required. The bank's tax rate is involved. Technical advice is necessary. Knowledge of Financial Accounting Standard (FAS) No. 13 is important, but not for taxes. There may be a requirement for computer analysis and internal coordination in your bank.

The party who structures the lease must be well known. For example, if a broker or a packager — that is, a firm that bids for leases and comes to you with a total worked-up program asking you to invest as an equity participant — puts together a lease deal, you must know whether the lease documentation will be skewered in favor of the lessee. This could put you at a sharp disadvantage in the event of default. The analytical work must be done independently of any program brought to you by a lessee, broker or packager. The lessee's credit must be good enough not only to pay, but to "make you whole" in the event the IRS disallows tax benefits.

Remember always in these transactions you are a partner in the deal whether it is a leverage lease or a single-investor lease. There's a need for trust between the lessee and lessor because no one can consistently foresee every single problem that may arise.



Thomas J. Tucker is pres., CEO and a director, Alabanc Financial Corp., which he joined in 1972, when it was organized as an affiliate of Alabama Bancorp., Birmingham-based multi-bank HC. He previously was with a major national financial institution, specializing in heavy-equipment leasing, sales financing and commercial finance. His last position there was officer in charge of credit and operations for the Atlanta office.

An important aspect of this type of leasing for a bank to keep in mind is that it can be illiquid. If you put leases in your portfolio that rely on tax benefits for part of the return, the equipment cannot be sold if there's a risk of recapture because the rate in the transactions may collapse. Terms and types of leases may be unattractive to prospective portfolio buyers. Therefore, the decision to enter this type of leasing is a major policy decision by a bank and involves a multiple-year time horizon.

2. *A method of meeting specialized industry needs.* This definition refers to situations where lease payments will be reimbursed, but capital costs may not be. This problem is encountered in the construction field or sometimes where work is done for the government or in the medical field. Leasing frequently is utilized in a joint venture because it simplifies the problems of dividing costs among the venturers.

3. *A technique to shift obsolescence risk.* This definition is an interesting subject. It involves equipment knowledge, timing luck and hardheaded, common sense. There's the fundamental requirement that the lessor know when to stop in the negotiations for a deal. Many of you have seen the article in a national magazine referring to another billion-dollar lesson. The article related how lessors in the computer field may get caught with having to charge off unrealized residual values because of the introduction of new models by IBM. A couple of sea stories can illustrate the problems of residual valuation.

Many years ago, a leasing firm decided to lease electronic test equipment with rather large residual-value estimates. Others in the industry felt this decision was foolish. However, the leasing company made an arrangement with a firm dedicated exclusively to renting, leasing and selling this type of equipment as it came off lease at the end of the term. The firm had repair facilities and was able to do the maintenance and calibration required. Therefore, the leasing company was able to successfully handle a product that most companies would not lease on a comparable basis.

The second story involves a leasing company that leased a standard item of equipment produced by a reputable manufacturer. At the end of the lease, the lessee was contacted to ascertain the interest in buying the equipment. The lessee's answer was startling. While the rental payments were made promptly, the equipment had been warehoused for two years. Now that the lease was over, the lessee was assessing storage rental on a per-diem basis that roughly equaled the monthly rental payments previously collected from the lessee. The equipment not only had become obsolete; the manufacturing company had sold the division that produced it. This standard item had no value.

Even though a leasing entity has made safe assumptions about the value of the collateral at the end of the lease, you must remember they are assumptions. At the present time, for example, jumbo tankers have limited resale value. Boeing 707 airplanes with noisy engines have an interesting residual question. Residual values can go up, and they can come down. There is a risk inherent in leasing where estimates of residual value have entered into the pricing by the lessor.

4. *A time-sales purchase.* Where leasing is used in this context, basic documents should contain the normal verbiage of a security agreement and usually have a dollar or nominal purchase option. In most cases, the documents are generated by a vendor. The bank needs to make a normal analysis of the vendor for warranties. Dealer agreements and assignments are standard to any installment loan officer and should be obtained. There are no tax consequences, and Uniform Commercial Code procedures must be followed, particularly filing. It's critical that no tax advice be given to the lessee under any circumstances. Even in a time-sales situation, there's the risk of misunderstanding with the Internal Revenue Service or a bankruptcy court in the event of default on a lease of any sort.

Another situation encountered by the banker in this type of leasing is to

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15 years


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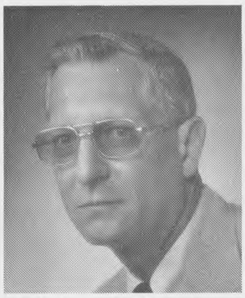
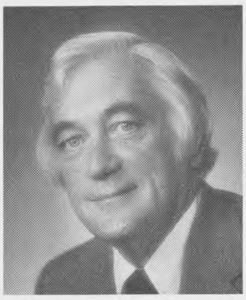
6 years


Richard Fletcher
25 years

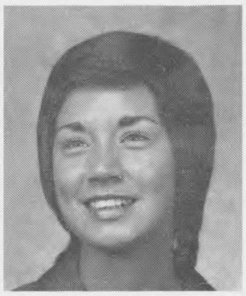

Stuart McCown
21 years

BANK ON INVESTMENT OPERATIONS


Margaret Colucci
12 years


Oral Kee
10 years

BANK ON FEDERAL FUNDS


Pam Nelson
3 years


Debbie Totty
6 years

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be asked to lend money on a wholesale basis to a vendor that carries its own portfolio of lease paper. These accommodations are considered risky by the industry. There's a need for careful analysis of vendor procedures and documents in these loans. Moreover, representations made to the vendor's lessee customer have to be monitored. Vendor records should be audited. The equipment should be commodity checked, and there should be periodic direct verification with lessees. There are other controls that should be followed scrupulously.

Under the Uniform Commercial Code, as you know, rental equipment is considered inventory, and you don't have the 10-day protection. You must be sure of your legal position if you lend against a block of lease documents. You also should be sure the vendor gives you a security interest in the equipment leased. Leasing has the interesting attribute of a split between the payment stream and the underlying collateral. You have to have both to be safe.

5. *Simplification of budgeting or cost-center analysis.* Frequently, a major company or division thereof will decide it's cheaper to lease an item of equipment rather than go through the control and accounting procedures to acquire a capital asset. The usual case is where the asset being acquired represents a nominal amount in relation to the value of the company's total assets. Typically, these transactions are created by a vendor. Among motives for leasing are type of equipment and the fact the vendor may provide a unique service. Therefore, one could say this type of leasing is service sensitive rather than price sensitive.

The bank must exercise care that the person signing the lease is authorized to commit the corporation. A board of directors' resolution can accomplish this, but it's somewhat fancy and perhaps impractical. Many leasing companies are willing to accept a letter from a senior corporate officer stating that the party signing the lease is authorized to commit the company.

An interesting sidelight on this type of leasing is its utilization as a method of cost control by the lessee, particularly for truck- and auto-fleet situations. Some lessees find it simpler to turn the total operation over to a full-service leasing company rather than attempt to manage its own fleet control. It's a competitive business. Because of maintenance, accounting and control among other features, it's emphatically not banking business.

6. *A strong selling tool.* There's no question that leasing is a strong selling tool. It's important to realize many prospects are pre-sold on leasing. Each year, more firms do facility-usage analysis, comparing the cost of an operation to the cash flow generated. Ownership is irrelevant in this analysis. Leasing also represents a capability to overcome a price barrier to equipment purchases. Many skillful salesmen never quote an equipment price, just a monthly rental. If tax benefits are passed on in the lease quotation, costs can be reduced further.

One sees rental costs analyzed in relation to employee costs. Another comparison is rental cost to items processed, which provides interesting ratios. Leasing provides a fixed cost for a specific time, and this has an attraction in an inflationary period. Leasing also is sold on the basis of being a "self-liquidating" debt in which incremental income from equipment usage amortizes lease payments while providing an operating profit.

While not a rational, quantifiable aspect, leasing many times is the thing to do. We are all familiar with the capability of a manufacturer to capitalize on this psychology to extend its market by renting a product rather than selling it.

Thus, your customer/prospect may be signaling a change in marketing strategy when discussing leasing. You must ascertain, as this article indicates, exactly what type program is being considered, how it will be implemented and what's expected of the bank.

7. *A code word for minimal equity and extended terms.* Using leasing as a code word probably is one of the most frequent situations an installment loan officer will encounter. The customer wants to talk leasing, and he's not interested in discussing borrowing. He's also not willing to admit he may be capital short and usually is fully aware of the normal terms of a bank loan. The customer may need a longer period of repayment than a bank loan will provide to justify the payoff on the equipment acquisition. It's also possible the cash flow generated by the equipment will more nearly match extended terms than those the bank normally offers. The customer may have other uses for current funds that he does not want to reveal to the bank.

This is a high-frustration situation for both sides of the encounter. Rather than argue with the customer or try to down-sell or sell against the lease, it's better to keep the fictional aspect in place and — by gentle questioning and prodding — get at the real financial problem. It may be that a lease makes the most practical sense in this situation.

All these varied definitions and many more come under the generic term "leasing." There's little wonder the term generates confusion. It's also important that loan officers ascertain which of these factors is the one that needs to be examined. To enable them to provide full-service banking to their customers, they have to keep an open mind about leasing and remember that it's different from a bank loan or time-sales financing.

Now that we have talked about what leasing is, let's consider for a moment how it's doing. One of the fun aspects of being in the leasing business is the capability of tossing around great figures. It was recently described as a \$100-billion industry. I heard another figure of \$10 billion per year in volume. These are handsome numbers. Interestingly enough, the industry still remains in the shadows. There are few hard numbers available to those in or out of the leasing business. This factor may change as FAS 13 is implemented.

There's justification for the tremendous enthusiasm of those in leasing. For example, a study of leasing utilized a sample of eight major, active banks. These banks had outstandings of \$527 million in direct-lease financing in 1973. Through 1976, this figure had increased to a little over \$3 billion. That's almost a 500% increase. It may surprise you to learn that, during the same period of time, banks reported that yields in 1973 ranged from 5.6% to 14.9%, and the 1976 range was from 10.4% to 19.9%. Those in the banking business may look at those yields and say "WOW!" Those of us in the leasing industry would say, "I wonder if they've got all their costs covered."

What frequently gets lost in all the excitement about the reported yields on leasing transactions is that they inherently are more expensive than loans. There are more risks. There not only is a credit risk, but a money-market risk. A lease is a fixed-rate transaction for an extended term. If the bank's liquidity turns against it and money costs accelerate, the lease portfolio could run at a loss for a period of time. There are the problems of rights in the event of default, problems of liability insurance, risk of product liability, changes in tax laws, residual-evaluation changes and all the other items that enter into an analysis of a lease that must be kept in mind. The portfolio administration is much more expensive than for installment loans. A banker cannot afford to look at leasing as one does bank lending in regard to pricing. Do not be misled by reported yields unless you have all the facts.

To sum up, leasing is a significant factor in the economy with a product that becomes more important each year. Despite modifications in the tax law, the Financial Accounting Standards Board approach, the SEC, Congress, the legal environment and all the other myriad factors that impact the industry, we will, I believe, see continued growth.

Bankers need to be conversant with this product. To reiterate what has been said previously, it's crucial to keep in mind the differences between lending and leasing with all its variations. An executive decision to lease made without prior clearance with at least the tax, controller, legal and accounting functions almost guarantees confusion and unfortunate results. Above all, there must be precise, lucid communication at all levels of a bank when a decision is being made to offer leasing as an additional service to its customer base. ••

HC Registration Procedures Changed by Federal Reserve

Several technical changes affecting registration of bank HCs or applications for expansion have been approved by the Fed.

The agency revised its rules of procedures for handling requests for reconsideration of Fed decisions and for the handling of requests for hearings and comments on applications.

The agency also eliminated the requirement for new bank HCs to register with the Fed within 180 days by use of certain forms. The Fed will collect essential data for registration purposes by means of six questions about the firm's financial organizational structure that will be asked in a letter sent to all bank HCs whose formation the Fed has newly approved.

Bank HCs must receive prior Fed approval of their organizational structure before beginning operations. The registration process will be completed in the annual report that must be filed with the Fed by all bank HCs.

Benefits of Tax-Oriented Leasing For Both Lessor and Lessee

By DWIGHT ANDERSON
Senior Vice President
First National Bank
Minneapolis

LEASING has become an ever more attractive alternative to traditional methods of acquiring and financing equipment.

Leasing can be looked at from three perspectives:

- How is leasing preferable to purchase with long-term financing?
- What kinds of businesses are prospective lessees?
- What roles do banks play in leasing arrangements?

Tax-oriented leasing in particular offers advantages to both lessor and lessee. A tax-oriented lease must qualify as a true lease for tax purposes under Internal Revenue Service (IRS) rules and procedures, which require the owner of the equipment to retain the risk of ownership and to lease the equipment to a user for specific periods at specific rentals. The lessee merely makes the rental payments as he uses the equipment during the agreed lease term. He makes no initial investment in the equipment.

As an equipment owner, the financial institution is selling its tax benefits at a discount to someone with little or no taxable income who can't use tax benefits that may be developed within his own business.

The more important IRS guidelines require that the lease term:

- Not exceed 80% of the estimated useful life of the equipment;
- That the estimated fair market value of the equipment at the end of the lease term not be less than 20% of the original cost of the property;
- If the lessee has an option to purchase the property at the end of the lease term or at any other time, or the right to renew the lease, the renewal rent or the purchase price must not be less than fair market value.

Two major benefits accrue to the lessor — tax benefits and the value of the equipment at the end of the lease. Even though the lessor doesn't use the equipment in its primary business, the lessor can, by virtue of owning the equipment, depreciate it for tax purposes, take an investment tax credit against his income taxes and deduct whatever interest is due on the debt obligation as part of the lease transaction.

The advantages offered by becoming an equipment owner for lease purposes make doing so especially suitable for a business, such as a commercial bank, which has a high taxable income and isn't capital-equipment intensive. Of course, other financial intermediaries, and some commercial and industrial companies, can also benefit. Essentially, such businesses aren't eligible for large amounts of depreciation and investment tax credits, so leasing gives them benefits they can pass on through a lease transaction.

As an equipment owner, the financial institution is, in effect, selling its tax benefits at a discount to someone with little or no taxable income who can't use tax benefits that may be developed within his own business as an equipment owner.

The outcome is that by discounting the tax benefits, the lessee's cost of financing the equipment is substantially less than the cost of borrowing to purchase the equipment. The saving is the spread between the implicit cost of the lease to the lessee and the rate of interest the lessee would have to pay to finance the purchase of the equipment.

The amount of saving obviously varies, but the implied cost of financing the equipment during the term of the lease is always less than other types of financing. For example, computer leasing transactions have been priced at a zero or slightly negative cost of financing. Some income-producing or capital-equipment leases have been priced at a cost of financing of 1% to 5%. Compare those costs to long-term debt costs, which range currently from 9¼% to 12%, and it's clear why tax-oriented leases are attractive to the lessee.

There may be disadvantages to the lessee, depending on the value of the equipment at the end of the lease term. This value can't be ascertained at the beginning of the lease. If the residual value of the equipment is substantially greater than the savings obtained during the lease term, the lessee may not have had an advantage in leasing the equipment. Conversely, if the owner makes an unrealistically high residual assumption, he could find he has leased the equipment for a long time for little or no return.

Beyond the tax advantages to both parties in a lease agreement, there is favorable fallout to the economy when some firms sell tax benefits to others. This advantage is in the form of a business stimulator. Businesses with available cash are able to invest it in capital-equipment-intensive businesses that would find it difficult to operate without this additional capital — coal mining companies, airlines, railroads, oil refining and distribution, electricity producers and the like.

The advantages offered by becoming an equipment owner for lease purposes make doing so especially suitable for a commercial bank, which has a high taxable income and isn't capital-equipment intensive.

Generally speaking, tax-oriented leases are made only in amounts over a million dollars. Most of our firm's leases, for example, are from $5 million to $50 million. Our largest was for $180 million on a fleet of tankers.

The reason for the $1 million minimum is merely transaction costs. Some customizing is required in all transactions, resulting in direct outside expenses for legal fees, printing, tax counsel and trustee fees anywhere from $20,000 to well over $1 million, depending on the size and complexity of the lease.

Banks and other lessors ordinarily don't invest millions of dollars for

periods of 25 to 30 years. Leases up to $5 million for terms of 8-10 years are sometimes done on a single investor basis. The investor actually invests the full $5 million in equipment costing that much and recovers the investment and profit over the lease term. The owner's principal is returned, along with a small amount of profit computed similar to an interest factor. Additional income flows from tax benefits and from the sale or the leasing of the asset at the end of the lease term.

Larger and longer term transactions are leveraged by the owner, who invests from 20-50% of the equipment cost and mortgages the equipment for the balance. The mortgages are made by typical long-term lenders — insurance firms and pension funds.

On the leveraged transaction, the interest cost paid to the long-term lender is a deductible expense to the owner, and therefore enhances the yield on the transaction. The other advantage to the owner in leveraging is in recovering the investment in a shorter period than the lease term.

On a typical 15-year railroad transaction, for instance, the owner recovers his investment in about 30 months, but must wait until the end of the lease term to obtain the bulk of the profit that will be derived from the sale of the equipment. • •

Bank's Relocation Appeal From Wellston to Clayton Denied by Commissioner

WELLSTON — Landmark Central Bank appealed — on November 13 — Missouri Finance Commissioner Edgar Crist's denial of its request to move to Clayton, which, like Wellston, is a St. Louis suburb. Also appealed was Mr. Crist's denial of the bank's request to open a new bank here. Both denials were issued November 3. Both appeals were filed November 13 with Mr. Crist as representative of the state banking board.

According to Thomas Lewin, attorney handling the bank's appeal, the board has 90 days within which to hold a hearing and reach a decision on the future of the two banks. At the hearing, which will be held at a location to be designated by the banking board, all interested parties can be heard.

Landmark Central wants to move to Clayton, said Ralph G. Broeker, its senior vice president, because its customer base is there, with 67% of the bank's deposits coming from that area. The bank believes it can serve a large metropolitan area better from Clayton, the county seat, than it can from Wellston, which is only four-tenths of a square mile in area.

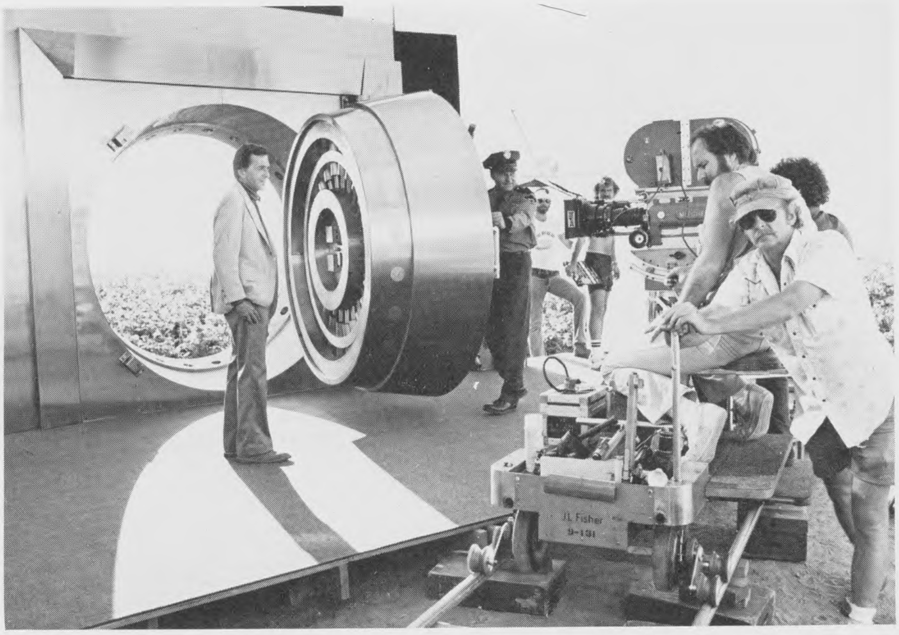
In the opinion Mr. Crist issued denying the two requests, he said his department's investigation disclosed no threat to existing Clayton banks if Landmark Central were to move there. However, he continued, he does perceive a threat to Ladue-Innerbelt Bank, which is located about a half mile northwest of the proposed relocation site. Ladue-Innerbelt Bank formerly was located in Pine Lawn, where it was known as Pine Lawn Bank, but has operated in Clayton since July 7, 1975. Since that time, said Mr. Crist, the bank has suffered continuous and substantial losses and is not yet operating profitably.

Admittedly, he continued, not all the bank's problems the last three years can be attributed to the nature of the Clayton-Ladue banking market. However, he pointed out, the bank now is controlled by a new majority shareholder; it has a new managing officer, and it is in the early stages of erecting a new building, which will replace its presently inadequate quarters. As a result of these recent actions, said Mr. Crist, Ladue-Innerbelt Bank should be able to resolve its problems in a reasonable time if its competitive environment is not altered significantly.

The relocated Wellston bank, said Mr. Crist, would become the lead bank of a "well-known St. Louis County-based bank holding company and not only would restrict the ability of Ladue-Innerbelt Bank to attract additional deposits — it would threaten its existing deposits."

Mr. Crist also pointed out that the other banks in the Clayton-Ladue area are affiliated with well-known bank HCs or chain-banking organizations and, therefore, could increase their marketing operations if a new bank appears on the scene. Again, he described Ladue-Innerbelt Bank as being unable to meet the increased competition because of its small size and its independent status.

Mr. Crist based his denial of a charter for a new bank in Wellston on the fact that it would be located on the premises to be vacated by the present bank, and many Wellston residents, several of its elected representatives and a number of public and private organizations there and in St. Louis County have expressed spirited opposition to Landmark Central's relocation application. Even if the application to relocate had been approved, according to Mr. Crist, the ability of the proposed Landmark Bank of Wellston to garner sufficient deposits to operate profitably and to maintain capital adequacy in the face of such strong public opposition would be highly questionable.



Charles Aidman (l.), veteran actor, is 1978-79 ABA Full Service Bank spokesman for advertising program. Television debut was aired during weekend professional football on CBS and NBC affiliate stations and concentrated on successful environmental alteration of San Joaquin Valley in California.

Fruits of Success:

ABA Commercial Praises Bank-Backed Desert Farming

A half century ago, the desert would have been fit only for "horned toads and lizards," but today California's San Joaquin Valley produces 4% of America's total farm crops. The story of the valley's environmental alteration with the help of Full Service Bank financing is being told on the ABA's newest TV commercial.

Commercial's Objectives

The ABA's new commercial reflects its 1978-79 advertising theme — to enhance public understanding of how America's bankers enrich customers' lives.

In addition to a complete range of consumer and commercial banking services, the commercial stresses community interaction. Banks reinvest customer's savings into community business loans. The loans help the community which eventually helps improve the customer's environment.

A new animated trademark ending — a blue "Full Service Bank" circle logo — is featured through the familiar bank vault door.

"We're not shutting the (bank vault) door any more," said Sam McHose, chairman of ABA's communications council's advertising task force, "because we feel the open door conveys more accurately the attitude of America's bankers toward their customers."

The commercial stars veteran actor, Charles Aidman, who received an Emmy nomination for the television version of the "Spoon River" anthology and who has appeared in more than 200 TV shows. Mr. Aidman appears in the commercial with a ton-and-a-half bank vault door, which, when opened, revealed the lush fields of the California valley.

One of the valley's early pioneers, Giuseppe Giumarra, is the subject of the ABA commercial. With the help of his local banker, Mr. Giumarra began transforming one ranch at a time in the Bakersfield area. Deep wells for irrigation had to be drilled, sometimes more than 2,000 feet down. The cost for one well often amounted to $75,000 in 1920s and 1930s dollars. Today, the Giumarra vineyards farm 11,000 acres and are the largest producer of table grapes in the country.

How Are We Doing?

Customer Survey Helped One Bank Find Answer to This Question

By STEPHEN R. WILLSON and DAVID R. RINK

WHEN BANKERS want to know what kind of job they're doing, they look at profits. The bigger the profits — the better they're doing. The only problem with this approach is that it won't tell *why* a bank's performance is as it is. If a banker wants to increase his profits, he needs to know what he's doing right (and wrong!).

Every businessman knows there are only two ways to improve profits — cut costs or sell more. Bankers always have kept a wary eye on costs. After all, a penny saved is half a penny earned (after taxes). However, costs can be cut only so far. What can be done to sell more?

This question has become more important with the rise of powerful nonbank competition: S&Ls, credit unions and now even brokerage houses. Banks have answered this question in a variety of ways. Some give away free gifts with every new account and every deposit. Others spend heavily on television and newspaper advertising. Many banks install the latest hardware. All this effort may be wasted unless bankers find out *how* their customers are responding.

How One Bank Found Out. First National, Rochelle, Ill., found out how its customers were responding to its marketing efforts. First National is a bank that's doing well. With assets of $54 million, it consistently has earned better than 1.2% on its assets. Yet it gives away no premiums, nor does it spend heavily on advertising. How does the bank do it?

According to President Mark E. Tilton, First National always has stressed customer service.

"We have grown tremendously for several years, but have always tried to keep our business on a 'first-name' basis, just as we did when we were smaller," he says.

The bank trains its tellers to know their customers and to call them by name. It staffs 14 lobby windows and has eight drive-up windows. Customers deal with one loan officer for all their loans, rather than with the agricultural loan officer for operating loans, the installment loan officer for auto loans, etc. Recently, it created a new customer service department to deal with all customer questions and problems. First National believes its customers prefer to know they won't be shuffled from department to department when they need help.

First National decided it could do a better job servicing its customers if it knew how they were responding to the bank's efforts. It decided to undertake some in-house market research to find out.

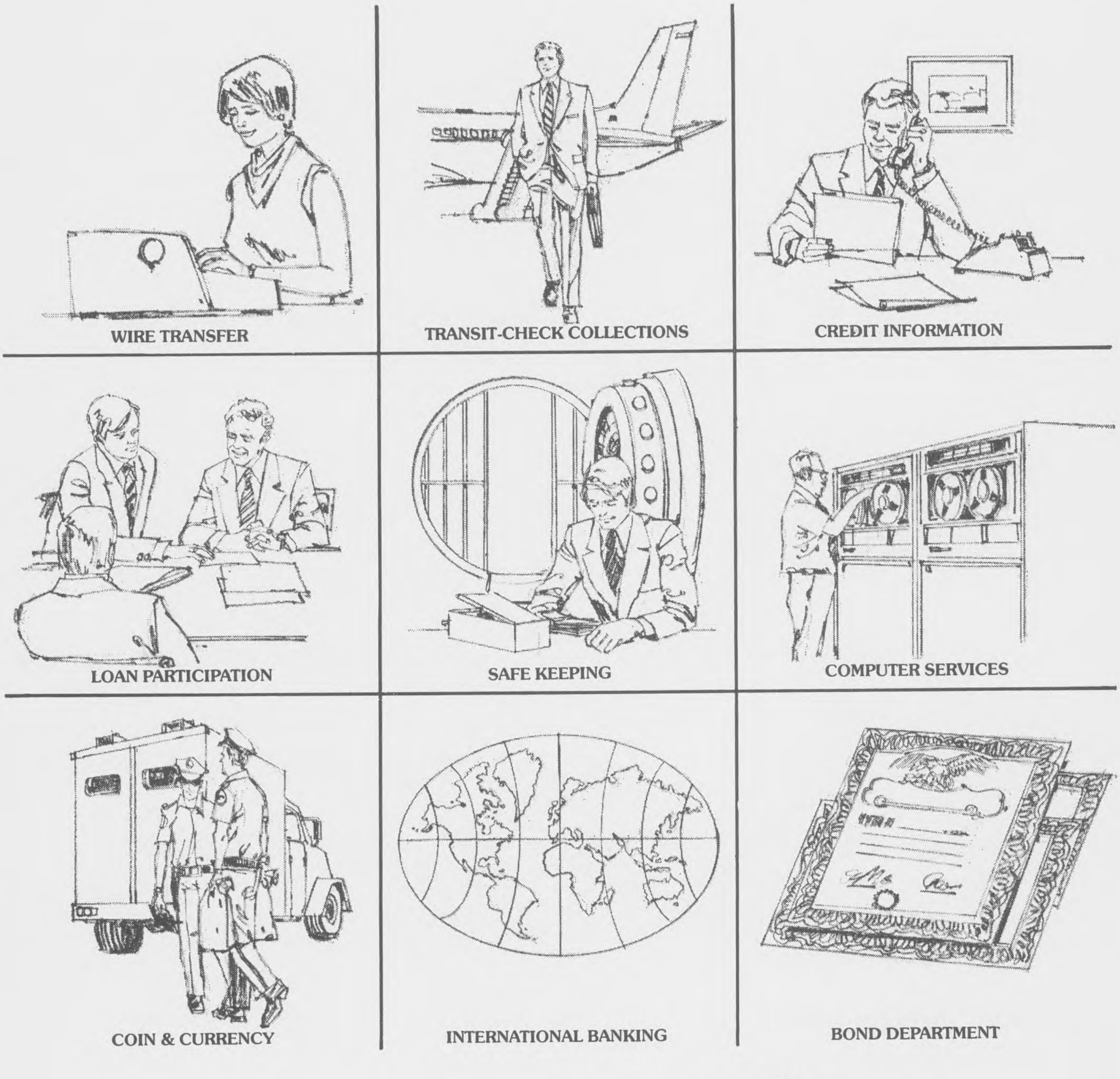
The first step was to define the market of interest. It was decided to limit the study to existing bank customers, rather than the geographic area in general. First, more information could be conveniently gathered on customers of the bank. Second, the bank was interested specifically in its customers' views. Third, it was physically easier to choose randomly and survey a sample of customers than a combined sample of customers and non-customers.

The second step was the survey design. A mail survey was chosen because it required less time to administer than a telephone survey or personal interview. Additionally, First National didn't want to limit its survey to persons with telephones or listed telephone numbers. It also was felt that customers would regard a mail survey as less intrusive than a telephone survey. The survey itself was limited to one page. Management decided that a longer instrument might discourage customers from filling it out and returning it.

Choosing the questions required great care. Certain factors that have been found to be important to customers in previous bank-marketing studies were included, such as convenience of hours, ease of check-cashing, reputation and friendliness of personnel. The bank's top management became involved in formulating questions to include these

Stephen R. Willson is assistant auditor, First National, Rochelle, Ill., and David R. Rink, B.S., M.B.A., Ph.D., is in the marketing department, Northern Illinois University, DeKalb.

Put our staff on your staff.



Sometimes it takes more than one to reach a goal. That is where the Whitney comes in. For over 90 years, the Whitney reputation for sound banking knowledge and reliability has been a strong factor for success in correspondent banking.

The Whitney would welcome the opportunity to join with your organization to achieve mutual goals.

Whitney

NATIONAL BANK OF NEW ORLEANS

Reliability in banking since 1883

concepts. Customers were asked to rate their responses to the attitude questions on a six-point scale from "strongly agree" to "strongly disagree." Customers also were asked to comment on any answers and to make suggestions.

Results. The first step in evaluating survey results was to compare sample respondents to the bank's customers. Comparisons were made between the bank's customers as a group and respondents on the basis of service usage, deposit balance and age of accounts. Those who returned the survey were found to be representative of the bank's customers.

Survey results overwhelmingly affirmed First National's policies: Customers like the emphasis on service. Over 90% of respondents felt that check cashing is easy for customers of First National. Ninety-three per cent were in the "agree" or "strongly agree" categories regarding friendliness of bank personnel. Eighty-eight per cent felt the staff does a good job of recognizing their customers. Ninety per cent felt the bank has a good reputation in the community. (As a standard of

The survey described in the accompanying article had 13 questions or statements, beside each of which respondents could check one of six categories: "strongly agree," "agree," "slightly agree," "slightly disagree," "disagree" and "strongly disagree."

The 13 questions or statements were as follows:

1. Cashing a check is never easy. We try to make it as uncomplicated as possible at the First National Bank. Are you satisfied with our check-cashing procedure?
2. The staff at the First National Bank is courteous and friendly.
3. We know we cannot always recognize each and every one of our customers, but we try to know as many of them as we can. Are you satisfied with our efforts in this area?
4. The First National Bank has a good reputation in our community.
5. The First National Bank's hours are convenient for me.
6. Personnel at the First National Bank serve their customers promptly and efficiently.
7. If I have ever had a disagreement with the First National Bank, its representative has always been fair and willing to listen.
8. When I want to borrow money, I go to the First National Bank.
9. The staff at the First National Bank tries to be helpful.
10. The people at the First National Bank treat you like an individual.
11. I am satisfied with the First National Bank's service.
12. There are services I would like to see the First National Bank offer.
13. There are services the First National Bank offers I would like to know more about.

At the end of the survey, respondents were invited to tell the bank what services they would be interested in by listing them on the reverse side of the survey sheet.

comparison, Robert J. Pearson, in a 1975 study, found that fewer than one-half of bank customers were "very happy" or "generally favorable" toward their banks.) Fewer than one-fourth of the respondents indicated they would like to see new services offered.

Concerning bank hours, 71% supported the current schedule. There was no consensus among those who wanted longer hours on when to extend them. Therefore, management decided not to expand hours.

The bank's lobby hours are: 9 a.m.-3. p.m., Monday through Wednesday; 9 a.m.-noon, Thursday; 9 a.m.-7 p.m., Friday, and 9 a.m.-noon, Saturday. Drive-up window hours are: 8:30 a.m.-5 p.m., Monday through Wednesday; 8:30 a.m.-noon, Thursday; 8:30 a.m.-7 p.m., Friday, and 8:30 a.m.-noon, Saturday. In addition, there's 24-hour depository service.

Next, customers' attitudes were evaluated against checking-account balances, savings-account balances, loan balances, length of relation and service usage. All groups responded favorably, indicating First National is doing a good job appealing to all customer segments.

Some evidence was found that customers who used more services were happier with the bank, but not enough to draw a firm conclusion. Equally interesting, no evidence was found that customers who are happier with the bank maintain larger balances or borrow more heavily. If this conclusion applies exclusively to First National of Rochelle, it indicates the bank is doing an excellent job of appealing to a broad group of customers. If this conclusion applies to other banks, it has strong implications about the efficacy of cross-selling to increased profits.

Conclusions. Marketing of bank services probably is more important now than at any time in banking history, but banks cannot make the right decision on marketing policies if they don't know how their customers will respond. Any bank can benefit by doing in-house market research on customer satisfaction with bank policies. Banks that don't have anyone on their staffs capable of doing such research should investigate the possibility of hiring professional market researchers to determine this vital information for them. ● ●

Olympic Scoreboard Contract Awarded to Daktronics

Daktronics, Inc., Brookings, S. D., has been awarded the contract to supply scoreboards for the 1980 Winter Olympics at Lake Placid, N. Y. The displays, including ski jump, speed skating, cross country, biathion, alpine, bobsled and luge, will be installed now through April, 1979, for pre-Olympic trials.

The firm markets time-and-temperature and message-center systems and scoreboards, in addition to electronic informational displays, such as voting systems and special projects.

Daktronics, Inc., Brookings, S. D., has accepted 1980 Winter Olympics, Lake Placid, N. Y., scoreboard contract. From l.: Aelred Kurtenbach, firm pres.; Arch Swinyer, deputy director, marketing, Lake Placid Olympic Organizing Committee (LPOOC); Ronald MacKenzie, pres., LPOOC; and Alex Cheng, pres., Seagull, Inc.

NEWS
From the Mid-Continent Area

Alabama

■ CHARLES E. REID has been promoted to data processing officer, First National, Mobile. He has been with the bank since 1977 as a systems analyst and has more than seven years' experience in programming.

■ SOUTHERN BANCORP. of Alabama, Birmingham, has announced new board members: Elmer J. Bissell, president, Air Engineers, Inc., Thomas Construction and Erection and Thomas Electric Co.; Richard J. Comer, owner, Glennville Plantation, Pittsview; Emory Cunningham, president, Progressive Farmer Co., Birmingham; John S. Jemison Jr., chairman, president and treasurer, Jemison Investment Co., Inc.; and B. A. Monaghan, chairman, executive committee, Vulcan Materials Co. In action at the HC's subsidiary, Birmingham Trust National, Emmet O'Neal, president, O'Neal Steel, Inc., has been elected to the board.

John H. Neill Dies

John H. Neill, 62, ch. and CEO, Union Bank, Montgomery, died November 8. He was a former pres., Alabama Bankers Association. Mr. Neill moved up from bank pres. to ch. and CEO in the middle of 1976. He had been an officer of Union Bank since 1949.

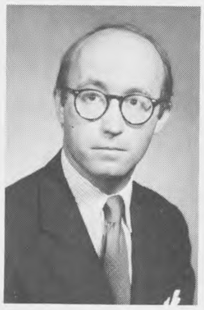
Arkansas

■ WILLIAM H. BOWEN, president and CEO, Commercial National, Little Rock, has been elected vice chairman, Arkansas Industrial Development Commission. He was appointed to the commission in 1973 and was reappointed to a 10-year term in 1976. Elected chairman of the commission was John E. Coffey, Conway mobile home manufacturer.

■ JIM WATTS has been promoted to vice president for advertising and public relations at Union National, Little Rock. He joined the bank in 1967 and has been in the marketing division seven years. He was formerly an assistant vice president and has supervised the bank's advertising and public relations since 1974.

Illinois

■ WILLARD BUNN III has been appointed executive vice president and has been elected to the board, Springfield Marine Bank. He previously was with Chemical Bank, New York City, in the corporate banking division. Mr. Bunn is responsible for the correspondent division in his new position.



BUNN

■ THOMAS R. HACKETT has joined Harris Trust, Chicago, as an assistant vice president. He is a staff member of the trust department representative office in Scottsdale, Ariz. Mr. Hackett formerly was president of his own investment advisory firm in Burlington, Vt., and now is responsible for trust development and portfolio management services in Scottsdale.

■ NEIL R. GUNN has been elected vice president, multinational banking services department, Continental Bank, Chicago. Based in Chicago, Mr. Gunn calls on corporate customers in the Southeast, Mid-South, Northeast and Midwest.

■ BROADWAY BANK, Chicago, has received a charter from the Illinois commissioner of banks and trust companies. The bank, which is still in or-

William C. Harris, commissioner of banks and trust companies, is shown granting charter for Broadway Bank, Chicago, to Alexis Giannoulias, bank ch., at ceremony attended by bank's directors.

ganization, is located at 5960 North Broadway and will be capitalized at $2 million. Alexis A. Giannoulias is chairman, and Robert H. Brown is president.

■ CENTRAL NATIONAL, Sterling, has appointed Willard C. Brenner to assistant real estate loan officer, Stephen M. Bryan to trust administration officer and Robert D. Eversman to investment and financial planning officer. The bank has begun sponsoring a 24-hour time-and-temperature telephone service.

■ NORTHERN TRUST, Chicago, has announced the following vice presidents, trust department: James R. Haring, Richard W. Heiden and Robert F. Tanner.

■ ROSELLE STATE has opened a new facility in Schaumburg. This is the bank's third location, which offers most banking services available at the main office, including ATMs. During the grand-opening celebration prizes of one $500 bill and five $100 bills were given away to registered lobby customers. Helene J. Wanat has been appointed manager of the new office.

■ FRED O. SACK has been elected president, Manufacturers Bank, Chicago, succeeding Samuel F. Hillman, chairman, as chief executive officer. Mr. Sack retired November 1 as senior vice president, Harris Bank, Chicago.

Otto Heads IBA Ag Div.

Myron Otto, vice president, Bank of Pontiac, has been elected president of the Illinois Bankers Association's agricultural credit division. Also elected were Howard Walker, vice president, First National, Metamore — first vice president; Lonnie G. Doan, vice president, Olney Trust — second vice president; and Larry Beaty, vice president, First National, DeKalb, and John Shover, executive vice president, First National, Barry — executive committee members.

Awarded ag scholarships at the division's recent conference were Gregory D. Carroll and Larry J. Schmidt, students at Western Illinois University and the University of Illinois, respectively. Each award was for $1,000.

Indiana

■ LINCOLN NATIONAL, Fort Wayne, has announced the opening of its 11th office at 5903 Bluffton Road. Betty Blain is the Waynedale Office branch manager and John McArdle is the assistant branch manager.

Robert A. Morrow (l.), ch. and ceo, Lincoln Financial Corp. and Lincoln National, Fort Wayne, hands new charter, Waynedale Office, to Betty Blain, branch manager. From his l. are: John McArdle, assistant branch manager, and Carl A. Gunkler, pres.

■ MERCHANTS NATIONAL, Indianapolis, has promoted Michael J. Huser to assistant vice president from assistant cashier, and Robert D. Kivett, director of management development and training, to officer status. Mr. Huser is manager, Shadeland Square Office, and Mr. Kivett is responsible for design and implementation of management development and employee training.

■ LAFAYETTE NATIONAL has announced the following promotions: James E. May, head of consumer loan department, vice president; James A. Dykhuizen, manager, Stadium Square Office, assistant vice president; and Larry E. Suter, manager, Sagamore Parkway Office, assistant vice president.

Kansas

■ CARL W. SEBITS has been appointed advisory director at Security State, Great Bend. Mr. Sebits is a partner in Pickrell Drilling Co., Pickrell Oil Co., Mobile Drilling Co. and Central Dirt Service. He is president

YBOK Elects New Officers

Murray D. Lull, vice president, Smith County State, Smith Center, was elected president of the Young Bank Officers of Kansas at the organization's recent convention. Other officers include Joseph H. Stout, vice president, Fourth National, Wichita — vice president; Steve Colliatie, installment loan officer, Union National, Manhattan — secretary; and Dean Thibault, correspondent banking officer, Hutchinson National — treasurer. Immediate past president is Ray Makalous, vice president, First National, Topeka.

Elected directors were Randy Schmidtberger, vice president, Farmers National, Victoria; E. Dwayne Walls, vice president, Bennington State; Leon Flax, assistant vice president, Fidelity State, Dodge City; Sam Campbell, assistant vice president, First National, Lawrence; and Charles E. Gerety, senior vice president, Arkansas Valley State, Valley Center.

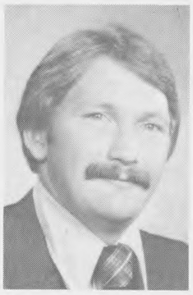
of Pickrell Acquisitions, vice president of Geosearch Seismograph Corp. and a director of Central Bank, Wichita.

■ CHRIS W. LEAR has been named vice president at Northgate National, Hutchinson. He succeeds Larry Nowlin, vice president, who has joined a bank in Enid, Okla. Mr. Lear was formerly with Farmers State, Hays, and National Bank, North Kansas City, Mo.

■ WICHITA STATE has promoted Lois Clary to assistant vice president and branch manager and Betty J. McLaughlin to assistant cashier and assistant branch manager. Both are assigned to the bank's new Westway Shopping Center Branch, which opened in mid-October.

Kentucky

■ L. WAYNE WHISMAN has been promoted to assistant treasurer in the correspondent banking division at Louisville Trust. He has been with the bank since September, 1977.



WHISMAN

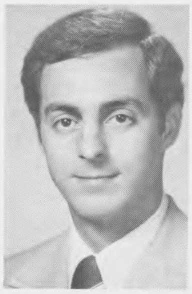
■ FIRST NATIONAL, Louisville, has promoted Randolph T. Goode from international operations officer to senior international banking officer, Roger L. Ohlman and William T. Shain from operations officers to senior operations officers, Donna E. Hume from assistant accounting officer to accounting officer, George L. Schuh Jr. from assistant operations officer to operations officer and Joseph W. Varner from assistant banking officer to banking officer. Jeffrey A. Brill and Juanita M. Duncan were elected assistant banking officers, Theodore C. Franzman was elected assistant loan services officer, Terry S. Hooker was made assistant operations officer and Thomas B. Lawrence was elected associate commercial loan officer. First Kentucky Trust promoted Donald R. Wood from financial planning officer to senior financial planning officer, Linda K. Amos to associate corporate trust officer and Frank W. Owens III to associate real estate officer.

■ DEBBIE GOINS has been elected assistant vice president at Citizens National, Bowling Green. She has been named manager of the bookkeeping department, succeeding Dan Sharer, assistant vice president, who recently transferred to the real estate department.

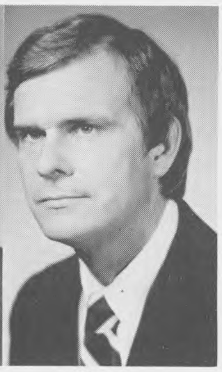
■ CITIZENS NATIONAL, Somerset, has been acquired by Citizens Bancshares, Inc., a new bank HC that recently received Fed approval to make the acquisition.

Louisiana

■ RUSSELL R. MARINO has been named vice president and head of the operations division at American Bank, Baton Rouge. He joined the bank in 1972 as a management trainee.



MARINO



ARANT HALL

■ HIBERNIA NATIONAL, New Orleans, has elected Williams E. Arant Jr. executive vice president and banking group executive and Robert R. Hall senior vice president and chief loan officer responsible for loan policy and administration. Mr. Arant is new to the bank and Mr. Hall has been with Hibernia since 1974.

■ LIBERTY BANK, New Orleans, has appointed Lloyd Hoffmann vice president and Gerald Schwankhart assistant vice president. Both are new to the bank.

Mississippi

Wade Hollowell Dies

GREENVILLE — Wade Ward Hollowell, ch., First Nat'l, died recently at 68. He served as pres., Mississippi Bankers Association, from 1954-55.

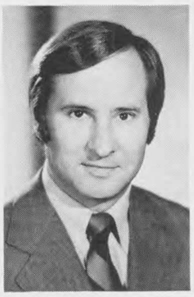
He was named pres. of First Nat'l in 1946 and was elevated to ch. in 1972. He was a former director, Memphis Branch, St. Louis Fed.

Missouri

St. Louis Municipal Dealers Elect 1979 Officers

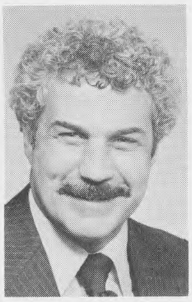
ST. LOUIS — William T. Springer, senior vice president, Boatmen's National, has been elected chairman of the St. Louis Municipal Dealers Group. Mr. Springer heads the bond and correspondent departments at Boatmen's National.

Also elected at the group's fall meeting were Don Weber, Stifel Nicolaus — vice chairman; Norman E. Heitner Jr., Heitner Corp. — secretary; James R. Lanigan Jr., bond investment officer, First National — treasurer; Floyd Beatty, A. G. Edwards, and Harry N. Schweppe Jr., vice president, Mercantile Trust — directors.


GUDINAS


SPRINGER

■ RICHARD J. GUDINAS has been named president, MDS Financial Services, Inc., an equipment financing/leasing company. He formerly was executive vice president, Boatmen's National, St. Louis, and senior vice president/operations, Boatmen's Bancshares, Inc.


FOGARTY


CARR

Carr, Halbrook Promoted At St. Louis Fed Reserve

The St. Louis Fed has appointed A. Melvin Carr vice president in the bank supervision and regulation department. Charles R. Halbrook has been named assistant vice president in the same department. Mr. Carr joined the bank in 1952. Mr. Halbrook has been with the St. Louis Fed since 1956.

Armand C. Stalnaker and William B. Walton have been redesignated chairman and deputy chairman. Mr. Stalnaker is chairman and president, General American Life Insurance Co., St. Louis, and Mr. Walton is vice chairman, Holiday Inns, Memphis.

George M. Ryrie, president and CEO, First National, Alton, Ill., has been elected to the board as a class A director.

■ E. J. (NED) FOGARTY JR. has joined St. Louis County Bank, Clayton, as vice president and personnel director. He was formerly with FBT Bancorp, Inc., South Bend, Ind.

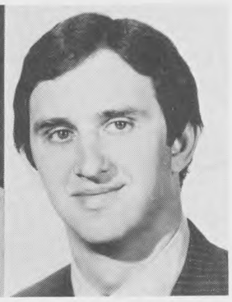
■ MERCANTILE TRUST, St. Louis, has promoted Robert J. Mathias to assistant vice president and Jane D. Brown to trust officer. Mr. Mathias joined the bank's operating department in 1974 and transferred into the management development program and was promoted to banking representative in the central group the following year. He was promoted to banking officer in 1976. Miss Brown joined the bank's trust department in 1973 and was named an assistant trust officer in 1975. Barbara S. Uehling, chancellor of the University of Missouri-Columbia, has been elected to the bank's board. In other action, the bank elected Clarence A. Sehrt cashier and Francis W. Jutz Jr. vice president. Matthew A. Favazza was promoted to assistant vice president.

Kent Ravenscroft Dies

CLAYTON — Kent Ravenscroft, 72, retired v.p., St. Louis County Bank, died of leukemia November 7. Before his retirement in 1971, Mr. Ravenscroft spent 15 years at the bank, where he was in charge of business development and public relations.

Mr. Ravenscroft previously was pres., First National, Clayton, and, before that, v.p. of the old Security National, St. Louis. He was a former pres., Associate Bankers of St. Louis and St. Louis County.


UEHLING


MATHIAS

■ FIRST MIDWEST BANK, Maryville, opened its new facility recently at First and Main in Maryville. Bill Whited, executive vice president, is manager of the facility.

■ UNITED MISSOURI, Kansas City, has promoted Ralph J. Schramp and Richard W. Brooks to vice presidents and elected Moni Mayer a commercial banking officer and Winifred Spradling an assistant cashier.

■ FIRST NATIONAL, Neosho, has promoted Robert Rader from vice president to senior vice president, Scott Grigsby from assistant cashier to assistant vice president and Jerold D. Cox from assistant cashier to cashier.

■ MARGUERITE PLASSMEYER has been appointed assistant treasurer at Oakville Bank. She joined the bank when it opened in 1975 and had been operations officer since that time.

New Mexico

■ MARIE MARTINEZ has been promoted from assistant cashier to assistant vice president and loan officer at El Pueblo State, Espanola. She has been with the bank since its opening in 1973.

■ LILLIAN DOLDE has retired as vice president and director/marketing, Albuquerque National, ending a 45-year career. She will continue as a board member, First New Mexico Bankshare Corp.

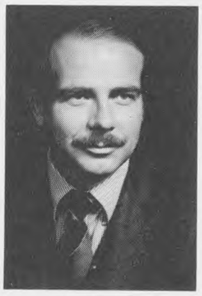
■ BILL WILLEY JR. has been appointed assistant cashier and field collections officer, First National of Lea County, Hobbs. Prior to joining the bank, he served as credit manager, finance company manager and assistant insurance manager, McMahon Chevrolet, Houston.

■ COLLEEN STOWE has been appointed bank officer and branch manager, Hagerman/Dexter facility, Roswell State. She has more than 16 years' experience in banking and has worked in several area banks.

Oklahoma

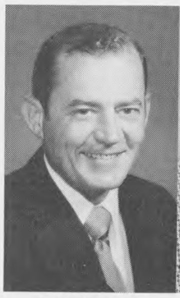
■ HARRY E. LEONARD has resigned as Oklahoma banking commissioner to join First National, Muskogee, as president and CEO. William Kaad, who was in those posts, has been named vice chairman. Mr. Leonard, president, Oklahoma Bankers Association, 1972-73, was president-elect, Conference of State Bank Supervisors, when he joined the Muskogee bank. He entered banking in 1940 as a messenger with Stock Yards Bank, Oklahoma City. After being an agent for Mid-Continent Life Insurance Co., Oklahoma City, 1945-47, he joined Bank of Elgin as vice president in 1947, advanced to president in 1955 and chairman in 1967. In 1973, he became banking commissioner.


LEONARD

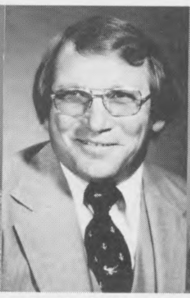

KENDALL

■ RAYMOND H. KENDALL has been named vice president/support division director, computer services department, Fidelity Bank, Oklahoma City. He joined the bank October 16 from National Sharedata Corp., where he served as vice president and area manager, Oklahoma City office.

■ LIBERTY NATIONAL, Oklahoma City, has announced the following promotions: H. Dale Schroeder, executive vice president; G. G. Atkinson, Harold A. Bowers, James L. Kienholz and Ron G. Leavell, senior vice presidents; and James T. Talkington, vice president. Mr. Kienholz and Mr. Leavell have joined the correspondent banking department.


SCHROEDER


KIENHOLZ


LEAVELL


ATKINSON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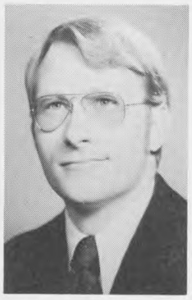

OSWALT

■ DENZIL E. OSWALT, vice president, has been appointed head, regional/correspondent banking department, First National, Tulsa. He is replacing Mike Leonard, who has been elected senior executive vice president, First National, Muskogee.

■ BANK OF OKLAHOMA, Tulsa, Senior Vice Presidents Gregory J. Flanagan and Lemuel C. Cragholm Jr. have charge of commercial lending activities, following the promotion of Samuel B. Hayes, executive vice president, to president November 1. Mr. Flanagan and Mr. Cragholm are responsible for most of what was one division under Mr. Hayes.


CRAGHOLM


FLANAGAN

■ VIRGINIA K. BROWN has been named assistant vice president, Liberty Financial Corp., and its subsidiary, Liberty National, Oklahoma City. Gary E. Meek has been named assistant vice president and tax officer, Liberty National Corp., and will hold the same title in the bank. The bank also has elected six assistant vice presidents: Lonnie D. Campbell, auditing; Norma Judkins, personal banking; Shirley Pullin, personal banking; Paul R. Robertson, auditing; Alison E. Taylor, commercial banking; and Alan Gary Frederick, operations.

■ C. RANDOLPH EVEREST was named advisory director, First National, Oklahoma City. He is an executive vice president and senior trust officer responsible for the trust division.

■ JAMES R. POOLE has joined First State, Guthrie, as vice president/commercial lending. He formerly was a vice president, Exchange National, Ardmore.

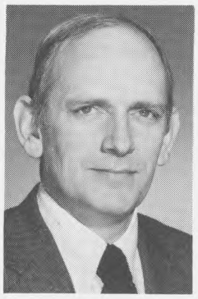
■ HENRY CROAK, chairman and CEO, First National, Midwest City, observed his 50th anniversary in banking recently. An open house was held in his honor and Oklahoma Governor David L. Boren declared the anniversary day "Henry Croak Day." Mr. Croak joined Liberty National, Oklahoma City, as a messenger in 1928. He joined his present bank in 1954, when it was known as American State. It became First National in 1962.

Tennessee

■ FIRST AMERICAN NATIONAL, Nashville, has elected Robert L. Van Doren Jr. a vice president. He was formerly with Planters National, Rocky Mount, N. C. In other action, Fred H. White, executive vice president, has shifted from managing the Main Office to calling on customers as part of the bank's new marketing and sales program. New Main Office manager is Tom A. Wright, vice president, who is also branch division manager.

Died. Sylvester Killibrew, president and chairman, Bank of Huntingdon. He joined the bank in 1958 as assistant vice president, was elected cashier in 1964, president and CEO in 1967 and president and chairman in 1975.

■ THIRD NATIONAL, Nashville, has promoted Leonard N. Wood to vice president and trust officer and Thomas C. Pollock to trust officer. Mr. Wood joined the bank in 1957 and Mr. Pollock, who was formerly an assistant trust officer, has been with the bank since March, 1977.

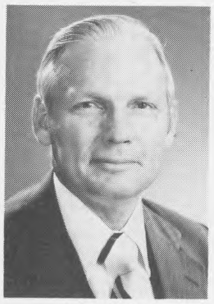


WOOD

■ BANK OF HUNTINGDON has named William L. Smothers president and CEO, succeeding the late Sylvester Killibrew. Ray Smith was promoted to chairman and senior vice president and Troy Smothers was named executive vice president and branch manager.

Texas

■ E. FRANK LAWSON JR. has been elected vice president and trust officer, and Gary L. Moore has been elected assistant vice president, First National, Fort Worth. Mr. Lawson has been assigned to the investment management group, mineral property management trust services, and Mr. Moore is a member of the real estate banking team.



LAWSON

HENDRICK

■ WALTER B. HENDRICK, manager, real estate department, has been named senior vice president, Bank of the Southwest, Houston. Named vice presidents were: Charles Kingswell-Smith, Carlos R. Ortiz, Michael E. Simpson and Weldon G. Slaughter. New assistant vice presidents are: Murray E. Brasseux, Randy A. Graham, H. Pressley Jones III, Linda Masera and Ann H. Sager.

Taking part at ribbon-cutting at Century Bank, Garland, were (from l.) Roy Mathis, pres., Garland Chamber of Commerce; Woodrow O. Brownlee, bank pres.; Dan Flynn, deputy commissioner of banking; Jim Toler, bank ch.; and Charles Clack, Garland mayor. Mr. Flynn snipped 30-foot ribbon of money to open bank.

■ CENTURY BANK, Garland, formally opened its $1.5 million facility in north Garland recently after operating out of temporary quarters for 45 months. A ribbon-cutting ceremony was held in the bank's lobby in front of a 75-year-old vault door, a seven-ton antique showpiece purchased by the bank and reconditioned by Diebold, Canton, O.

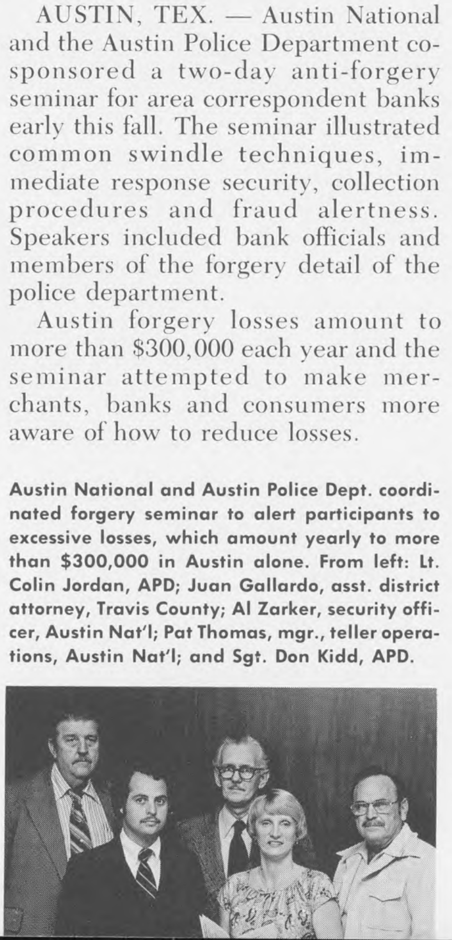
■ BOBBY E. SMITH has been elected to the board of First State, Bedford. Mr. Smith is a physician.

Speakers Teach Protection From Forgery Swindles

AUSTIN, TEX. — Austin National and the Austin Police Department cosponsored a two-day anti-forgery seminar for area correspondent banks early this fall. The seminar illustrated common swindle techniques, immediate response security, collection procedures and fraud alertness. Speakers included bank officials and members of the forgery detail of the police department.

Austin forgery losses amount to more than $300,000 each year and the seminar attempted to make merchants, banks and consumers more aware of how to reduce losses.

Austin National and Austin Police Dept. coordinated forgery seminar to alert participants to excessive losses, which amount yearly to more than $300,000 in Austin alone. From left: Lt. Colin Jordan, APD; Juan Gallardo, asst. district attorney, Travis County; Al Zarker, security officer, Austin Nat'l; Pat Thomas, mgr., teller operations, Austin Nat'l; and Sgt. Don Kidd, APD.



■ GEORGE L. STOCKWELL has been elected senior vice president and general counsel and member of the executive committee, Republic National, Dallas. He is an attorney who has served as president of a suburban bank since 1975.

■ NORA P. GILLESPIE has been named vice president and Thomas J. Franckowiak has been named assistant vice president, First City National, Houston. She is manager, executive and professional lending group, and he is assistant manager, custody services department.

■ TIMOTHY P. BOOKER has been promoted to assistant vice president/item processing, Frost National, San Antonio. He has been with the bank since 1976 and served in the transit and central adjustments department before being assigned as an administration officer in 1977.

■ GRADY E. RAY has been named assistant cashier/manager, indirect consumer lending department, First City National, El Paso. He joined the bank in 1974 as a part-time collector, installment loans.

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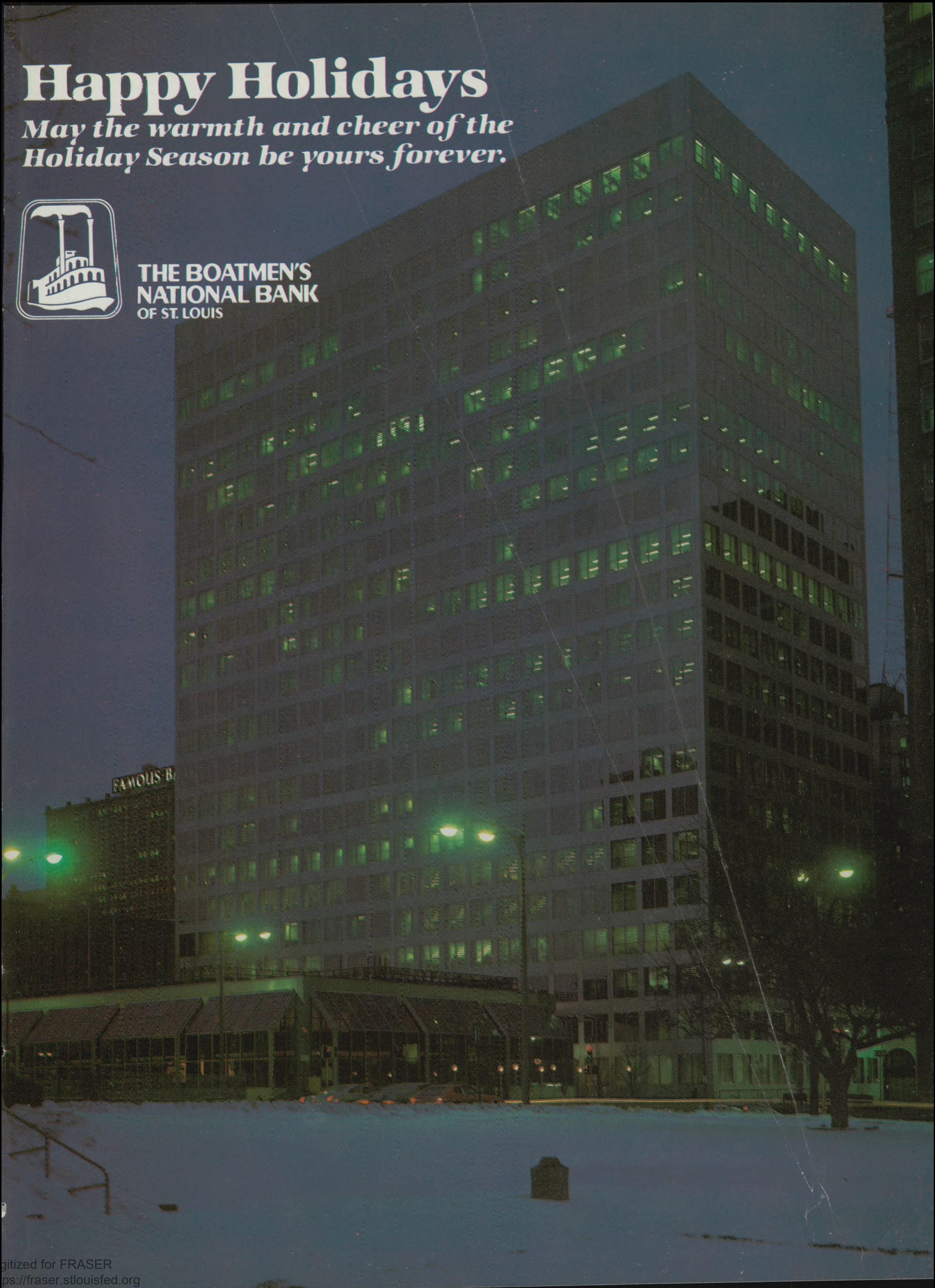
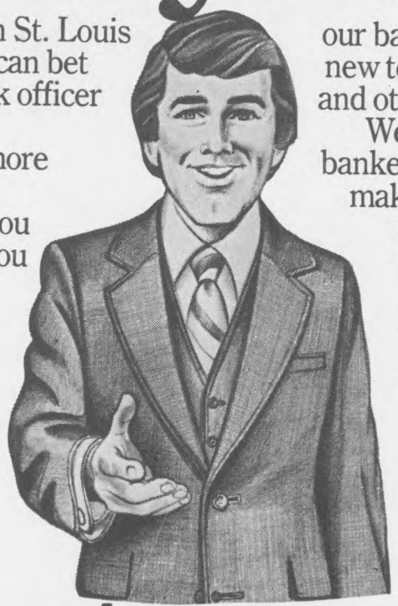

Happy Holidays
May the warmth and cheer of the
Holiday Season be yours forever.
THE BOATMEN'S
NATIONAL BANK
OF ST. LOUIS

What you see.



When First National Bank in St. Louis is your correspondent bank, you can bet you'll see your own personal bank officer on a regular basis.

And if you need to see him more frequently, you will.

Of course, he's available to you by phone almost every day. So, you can get fast, on-the-spot service whenever you need it.

Your First National Banker really knows his business—and how it can help your business. He'll keep you up-to-date on all our bank's services, on recent legislation, new technology, competitive practices and other developments.

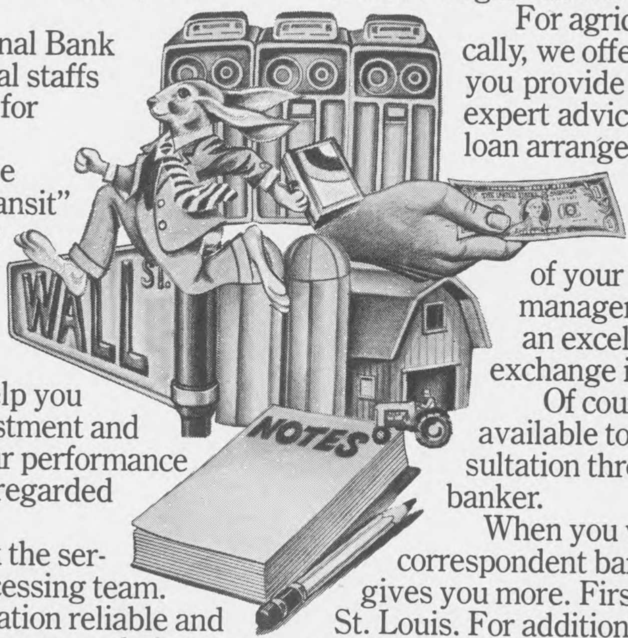
We put a lot of faith in our correspondent bankers. We give them the authority to make decisions for us and to make loans in our behalf. You can put your faith in them, too.

If you're not already seeing a First National Bank in St. Louis correspondent banker, you should call Chuck Betz today at (314) 342-6386. He'll make sure you see one soon.

What you get.

Good as he is, your correspondent banker cannot do all the work connected with your bank's account.

That's why First National Bank in St. Louis maintains special staffs to give you daily assistance for daily needs.



For example, our people have developed "Rabbit Transit" check-clearing systems that can improve your earnings, because your transit items become collected balances rapidly.

Another way we can help you is with our Fed Funds, investment and safekeeping capabilities. Our performance record in this area is highly regarded throughout our industry.

We also offer your bank the services of our skilled data processing team. They can bring to your operation reliable and sensible systems for getting your work done.

Our capacity for overline lending, based on our sizable assets, allows you the opportunity to make larger loans than you otherwise might.

For agricultural loans specifically, we offer specialists who can help you provide your customers with expert advice as well as flexible loan arrangements.

We sponsor timely seminars where you and other top management of your bank meet with the top management of our bank. This is an excellent opportunity for us to exchange ideas and share expertise.

Of course, we are always available to you for individual consultation through your correspondent banker.

When you want to get more from a correspondent bank, get with the bank that gives you more. First National Bank in St. Louis. For additional information or an appointment with a correspondent banker, call Chuck Betz at (314) 342-6386.

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