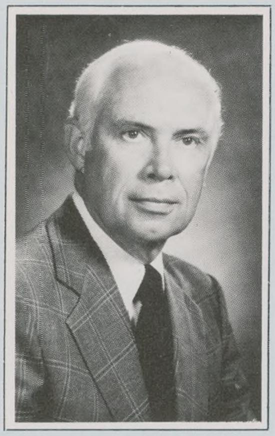
MID-CONTINENT BANKER

JANUARY, 1979

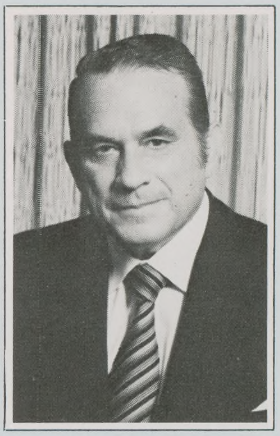
Bankers Forecast Midwest Economy—Page 26

Lower Loan Demand
—Barksdale



More Regulations
—Haines

No Credit Crunch
—Wells



Rates to Crest
—McLean

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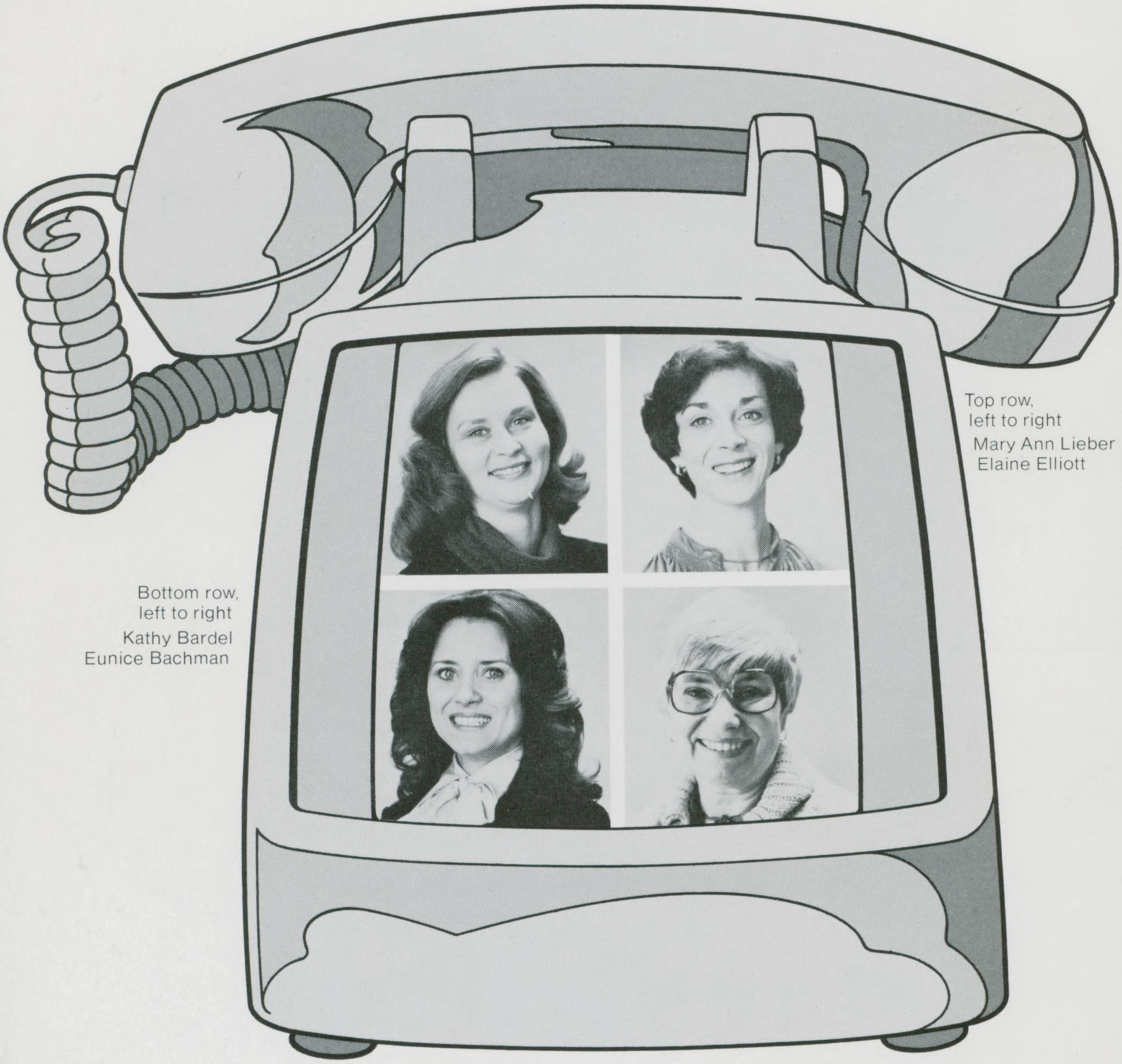

Top row,
left to right
Mary Ann Lieber
Elaine Elliott

Bottom row,
left to right
Kathy Bardel
Eunice Bachman

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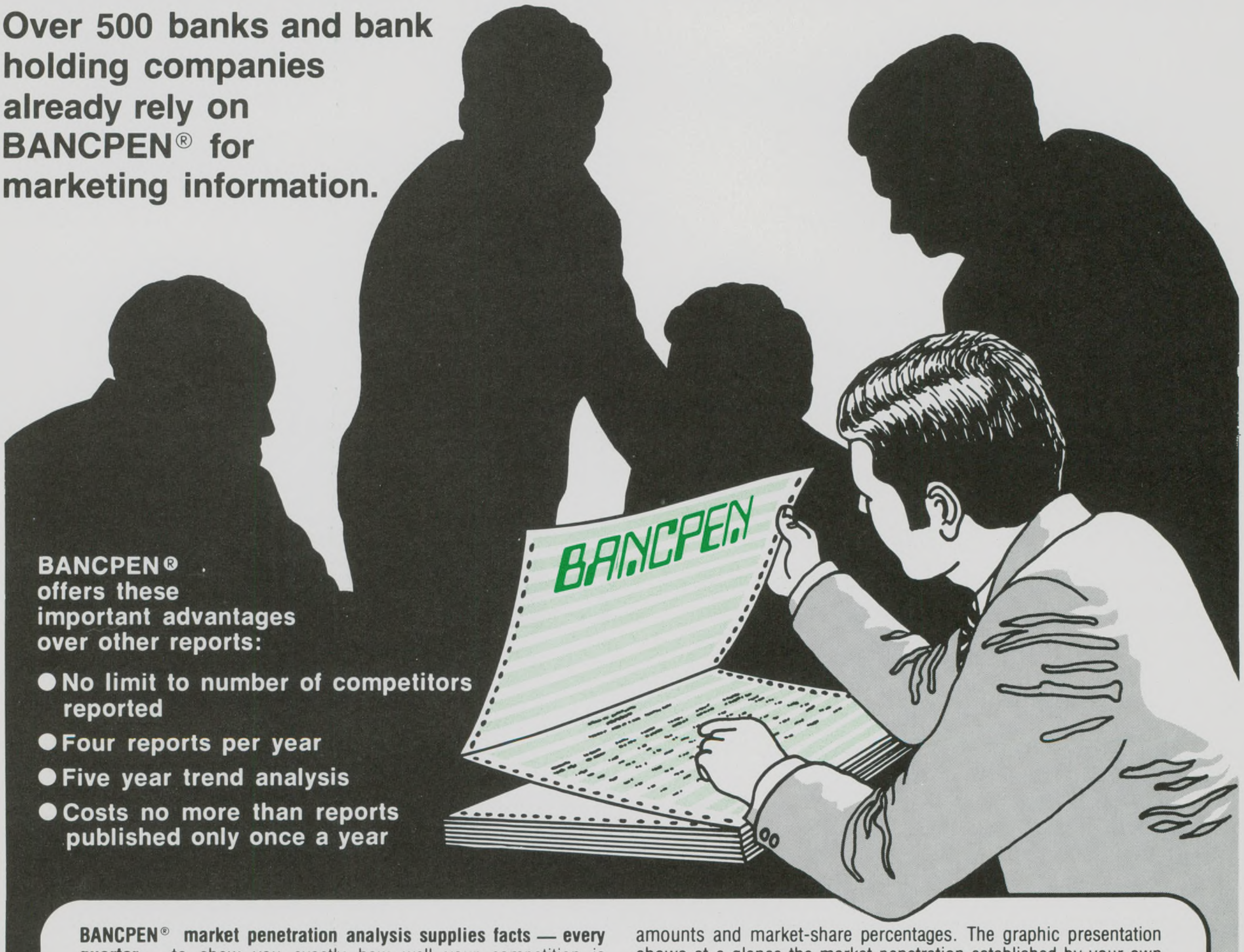

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MID-CONTINENT BANKER

The Financial Magazine of the Mississippi Valley & Southwest

Vol. 75, No. 1 **January, 1979**

FEATURES

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Convention Calendar

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. 28-31: Robert Morris Associates Commercial Loan Documentation Workshop, Kansas City, Crown Center Hotel.

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

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

Feb. 4-6: ABA Management Conference on Consumer Compliance, Miami, Omni International 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. 26-27: Bank Marketing Association Seminar on How to Compete With Other Financial Institutions, Atlanta, Omni International Hotel.

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 11-13: Bank Marketing Association Conference on Product Development/Product Management, Arlington, Va., Key Bridges Marriott.

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.

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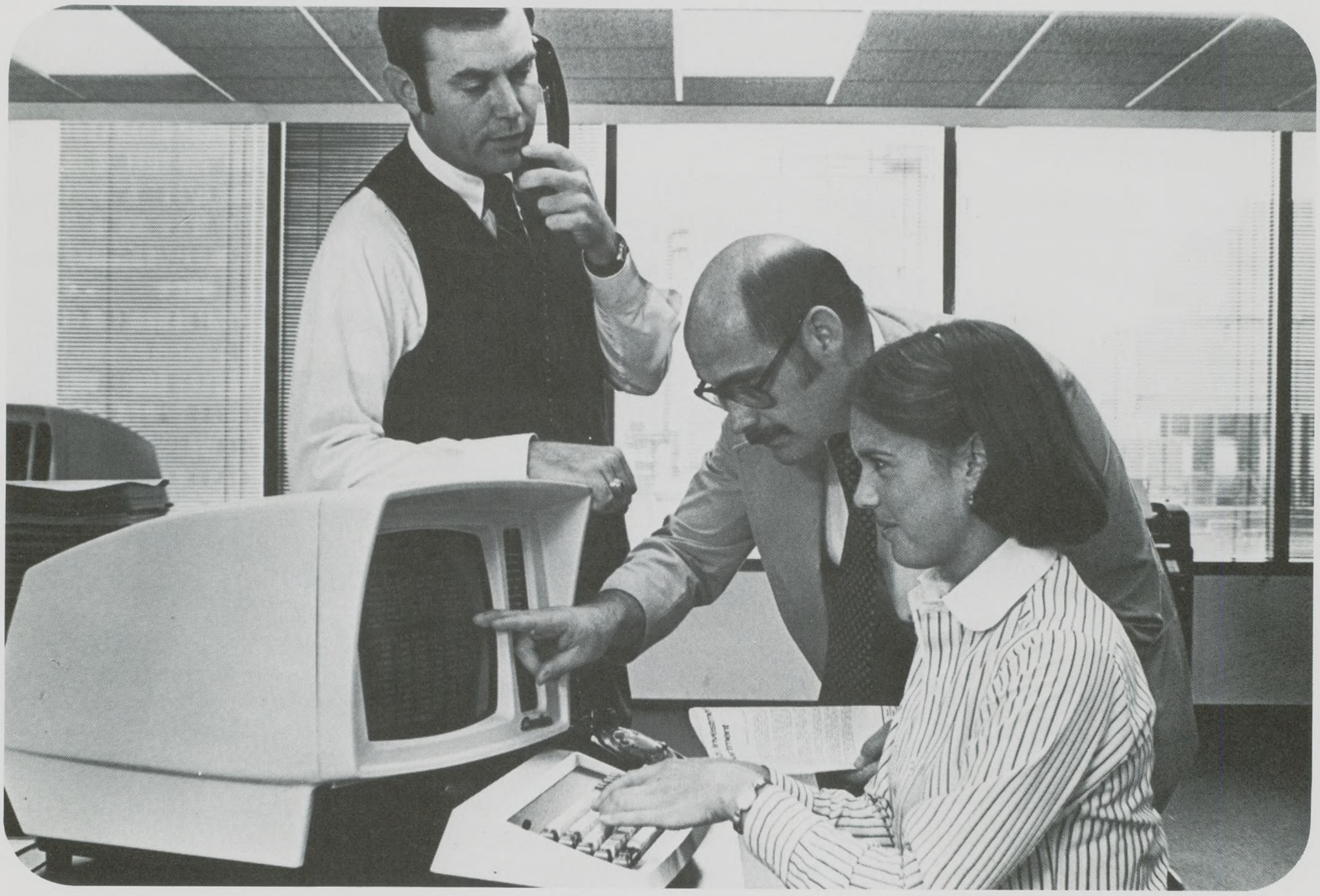

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Tool for Evaluating a Bank's Market

By DR. LEWIS E. DAVIDS

**Illinois Bankers Professor of Bank Management
Southern Illinois University, Carbondale**

ONE OF THE rewards of being a professor of bank management is meeting former students at meetings, conventions and banking schools. A great deal of pleasure results from discussing these students' careers and work.

Recently, I bumped into a former graduate student I taught at the University of Missouri/Columbia. His name is William J. Carner, and he is associated with Long, Carner & Associates, Springfield, Mo.

This column will discuss some of the interesting things this firm is doing to provide marketing services for financial institutions.

The typical bank or S&L doesn't have the manpower, time or patience to reprocess, in a meaningful way, the mountain of data available.

One of the secrets known to academicians is that there's a tremendous amount of information on economics, marketing and banking available to those with the patience, knowledge and perseverence to dig it out. Federal bank regulators provide valuable statistical data on banking and financial institutions.

The sad aspect is that the typical bank or S&L doesn't have the manpower, time or patience to reprocess the data in a meaningful way.

Most bankers are aware of firms that offer statistical information to bank controllers. Hardly a banking program is given without a presentation by one such firm. What these firms provide in the form of financial data for controllers, Long, Carner & Associates provides for those interested in bank marketing. Mr. Carner is taking statistical information appropriate to the marketing function from regulatory computer tapes.

Management of each subscribing bank or financial institution decides within certain parameters what type of marketing information it wants.

The program, trademarked BANCPEN, permits a financial institution's management to choose the competitors it perceives as being most strong. Then, BANCPEN provides comparable market performance data on these competitors. No limits or geographic boundaries are set, and competitors can be HCs or S&Ls.

Part of the strategy of this firm was development of the computer program needed to process the information. While this expertise is within the capabilities of the average bank that's on computer, the program can be handled more effectively on a repetitious basis. That is, instead of each bank rediscovering the wheel, Long, Carner & Associates provides the wheel — or the computer program. It then becomes relatively simple to extract and reconstruct marketing data of the subscribing institution and its competitors.

BANCPEN basically is a market-penetration analysis. The analysis is surprisingly timely because it is only one quarter late rather than six to eight months late, as is the typical computer analysis involving regulatory data on banks. BANCPEN provides a five-year history on each quarter for the bank and competitors enumerated by the bank.

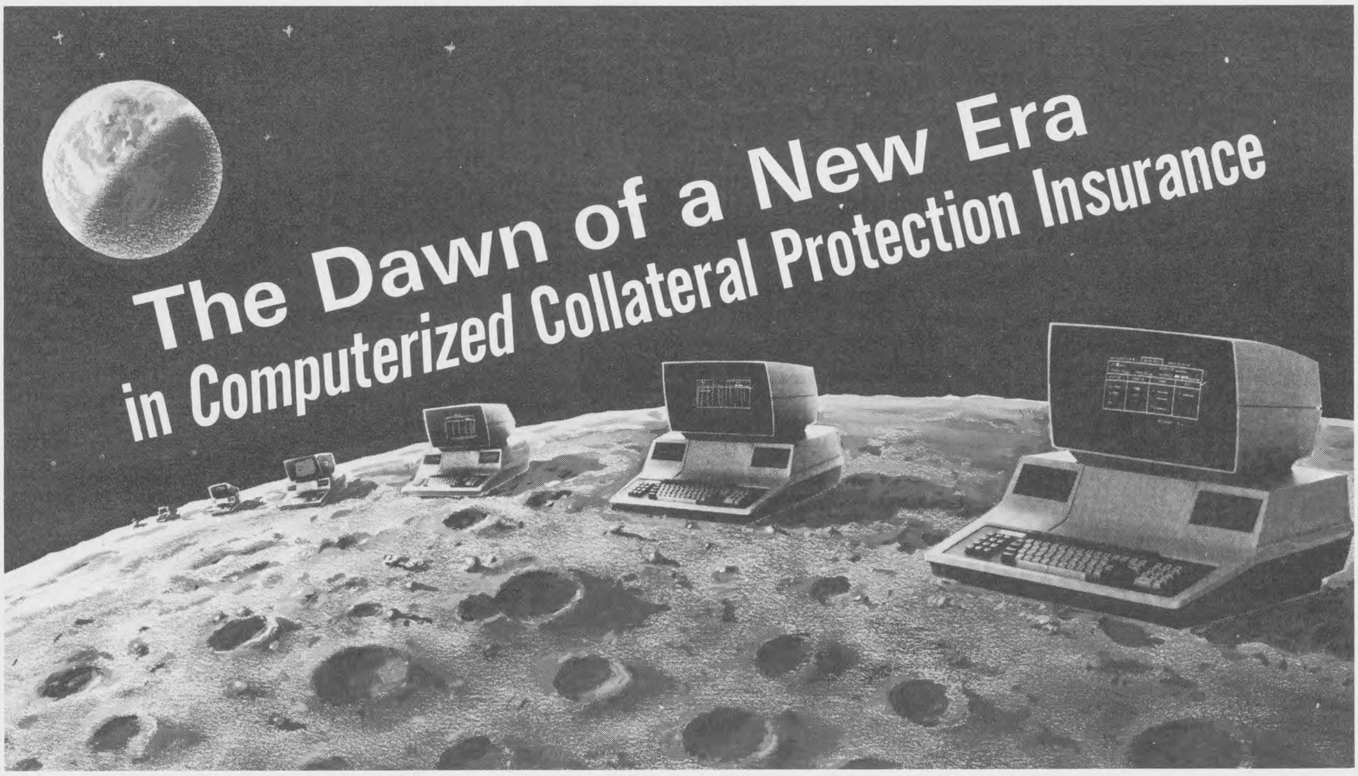
Naturally, those concerned with their financial institutions' marketing aspects have a direct interest in the computer printouts. However, I find that the market-penetration information has a significant value to board members. Directors can use BANCPEN as a tool to measure the performance of their institution and take the necessary steps to upgrade it. It hardly pays a financial institution to commit $70,000 of salary and computer time for something it can buy for about $300 a year.

There is a tremendous amount of information on economics, marketing and banking available to those with the patience to dig it out.

As mentioned, the bank's individualized market-penetration analysis report contains more than 40 different types of breakdowns of loan and deposit data. Most of the information is presented in graphic form depicting the subscribing bank in comparison with the total market and each competitor's share of the total market. BANCPEN reports also are available for HCs in a metro and statewide market.

With a five-year printout, the marketing officer and the board can track their bank's performance over a substantial period. From analysis of the data, they can determine whether the bank line improved, compared with

(Continued on page 40)



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That places the burden where it belongs. And thanks to our Annual Term Option, these policies can be written a year at a time, keeping premiums to a minimum. Even the borrower benefits, because coverage can be passed on to him, reducing repossessions by as much as 25%.

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Fed Issues Discussed by ABA Leaders

FEDERAL RESERVE pricing, reserve-setting authority and membership — issues that have come to the fore even before the start of the 96th Congress January 15 — were prime topics of debate during an early December meeting of the ABA's government relations council in Washington, D. C.

Even as the more than 90-member council met, newly elected and returning members of the House of Representatives were assembling for early organizing efforts in anticipation of the January 15th starting date for the 96th Congress. While the representatives considered committee appointments and various proposals for changes in House procedures, the leadership and staff of both the House and Senate Banking committees already were circulating new legislative proposals that would affect Fed membership and reserve-setting authority.

On a parallel track, the Fed released in mid-November a list of prices it proposes to charge for its services to financial institutions. However, the Fed said it would not begin charging for its services until its perceived membership problem has been resolved. The ABA's study of the impact of Fed pricing is expected to be completed by late January. At that time, it may be possible to begin factoring the study into consideration of other issues relating to the Fed.

As proposals dealing with issues of the Fed's membership and reserve-setting authority continue to proliferate, the key question still is whether solutions can be devised that will not, while perhaps solving present problems, generate new problems for one group of banks or another. Said one member of the government relations council: "The questions are clear. The answers are not."

Even the questions, however, are still evolving. Nearly a year ago, the question was how the Fed could lighten the burdens of membership

Pictured at Dec. 5th meeting of ABA's government relations council in nation's capital are council's ch., William H. Kennedy Jr. (l.), and its v. ch., John J. Cummings Jr. Mr. Kennedy is ch., Nat'l Bank of Commerce, Pine Bluff, Ark. Mr. Cummings is ch., Industrial Nat'l of Rhode Island, Providence.

(for example, by paying interest on required reserves it holds). By the time the 95th Congress adjourned last October, the question had become whether all banks over a certain deposit size ($100 million, $80 million or $50 million, depending on which proposal was under consideration) would be required to keep their required reserves with the Fed at levels set by the Fed.

The ABA has scheduled a series of meetings leading up to a mid-February banking leadership conference. At these meetings and the leadership conference, bankers will review new proposals on the Fed, hoping to reach a consensus on these issues.

Evolution of legislative proposals on these issues has continued even though Congress was not in session, although the concept of effectively mandatory Fed membership for banks over a certain size remains an element of the newer proposals. A factor that continues to limit debate on these issues and creation of new approaches to them is the Treasury's insistence that its revenues from Fed earnings not be diminished below a certain level.

One new proposal that was being discussed in Washington at the time the government relations council met would impose Fed-established uniform and universal reserve requirements only on deposits in transaction accounts at *all* depository institutions — banks, S&Ls, mutual savings banks, credit unions. The proposal defines "transaction accounts" as including checking, NOWs, NINOWs, share drafts, any savings accounts linked to conventional checking accounts by automatic transfer arrangements and any other third-party-payment accounts.

The proposal would set a 12-14% required reserve level on those transaction accounts, but would exempt the first $10-25 million of those deposits. The exact exemption level would be determined by its impact on Treasury revenues. If that impact were found to exceed $200-300 million, an additional reserve requirement of 6% would be imposed on time deposits of $100,000 or more whose maturity was less than 180 days.

To ensure that no opportunities for constructive change are lost and that the new proposals will be thoroughly analyzed and accurately understood, the ABA has scheduled a series of meetings leading up to a mid-February banking leadership conference in Washington. Bankers participating in those meetings and the leadership conference will review the new proposals having to do with the Fed with the goal of reaching a consensus on these issues. Joining the government relations council for that conference will be members of the ABA's governing council and leaders of state bankers associations and other national banking trade associations.

Few if any legislative proposals remain uncomplicated for long, and Washington observers already are suggesting that there's an increasing likelihood that action on issues associated with the Fed will be coupled to some form of restructuring of the federal bank regulatory agencies. Under one concept, for example, the Fed would be guaranteed a firm membership base and, in return, would

(*Continued on page 60*)

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

"THEM OLD COTTON FIELDS DOWN HOME"

are still going strong. So are Mississippi's efforts at industrial expansion and in state processing of our agricultural products and timber resources for increased sales on the international market. We'll bet you don't know all the facts about the good things we're doing in Mississippi.

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Community Involvement

For Economic Education:

Bank Gets Leadership Award; Teachers Get Cash Prizes

After accepting an award for the bank's outstanding leadership and service for the improvement of economic education, Willis Wheat, senior vice president, Liberty National, Oklahoma City, turned around and presented $2,000 in cash prizes to state school teachers whose entries won an economic-education competition.

The distinguished-service award was presented by the Oklahoma Council on Economic Education (CEE) at the organization's annual meeting. The bank was honored for being a leader in supporting free-enterprise education in schools and through publicity, including sponsoring a bicentennial "Second 200" essay contest on ways to preserve personal liberties, individual freedoms and independence in the United States.

The $2,000 cash prizes were awarded to teachers who entered the CEE-sponsored "Dollars for Oklahoma School Teachers" contest, which recognized outstanding economic-education programs created by kindergarten through 12th-grade teachers. The competition was an expanded version of the "Creativity in Economic Education" contest originated by Liberty National a few years ago.

At that time, the contest was part of the bank's "Let's Talk Business" program, a campaign to correct misconceptions about the free-enterprise system. The CEE said the contests significantly have expanded awareness of the need to increase economic education in schools.

Willis J. Wheat (l.), s.v.p., Liberty Nat'l, Oklahoma City, accepts award for bank's outstanding leadership and promotion of economic education. Honor was presented by Jim Lynn, Oklahoma Council for Economic Education. Bank also distributed $2,000 cash prizes to state teachers for projects on economic education they created for classrooms.

Liberty National's first prize of $1,000 went to a fourth-grade teacher who started a "Save-A-Tree Corporation" project conducted by her students. Second prize of $300 went to a second-grade teacher for an entry of a class project to produce and sell economic goods. Other prizes were a team prize of $250 for a project on international interdependence of nations, $200 for "Environmental Economics in Biology II," $125 for a class project of operating a school store and $125 for an entry called, "Goods and Services from City Government."

Another Oklahoma City firm matched Liberty's prize contribution with $2,000 of its own for a second series of winners in the contest.

For Good Neighbors:

Bank Honors Young Heroes For Foiling Purse Snatcher

Four young Chicago men were presented awards for bravery by Gladstone-Norwood Trust. Their awards were for catching two purse snatchers who had knocked a woman to the sidewalk and stolen her money.

They caught one attacker in the bank's parking lot and the other in nearby bushes.

"We are proud of these four young men who helped protect one of our good citizens and showed their concern for her safety and the protection of our neighborhood," said bank President Kenneth Fox. "As a member of this community, we salute these boys for their courage and interest in helping others." Mr. Fox and Vice President Vincent Barrett awarded them savings bonds.

For Russellville, Ala.:

Multimillion-Dollar Firm Is Recruited by Bank

The newly created industrial development department of First National, Russellville, Ala., has recruited a multimillion-dollar industry.

Celotex Roofing Division of Jim Walter Corp.'s move to Alabama represents the largest new industrial investment in the state during 1978. The plant, which will produce fiberglass roofing mats, is expected to have an annual payroll of about $1 million.

Wayne Malone, First National president, happy that the department helped recruit new industry, said, "This is just the beginning of many good things in Franklin County, and our bank is proud to be part of it."

The new department's head is David Walters, who works full time assisting county and city governments in Franklin County in soliciting new industry and preparing government-grant applications.

What's Up, Doc?

Free Blood Pressure Tests Offered by Two Banks

Two Tennessee banks are displaying a healthy attitude toward their customers by giving them free blood pressure tests.

Customers of two Tennessee banks can now check their financial and physical health at same time since banks have installed blood pressure testing machines as community service.

Blount National in Maryville and Citizens National in Sevierville have a fully automatic micro-computer, which measures a customer's blood pressure in 60 seconds without supervision or assistance from medical personnel. Blount National even supplies free personal record cards so visitors can record their blood pressure measurements for future reference.

"Over 5,000 cards were taken by our customers the first two weeks," reports Fred R. Lawson, president of Blount National. "After testing the (blood pressure) units in our main office and

eight branches, we find the comments from our customers are most favorable. We believe this is one of the better services we have had the opportunity to offer."

"We have been very pleased with the machine. Sometimes, there have been long lines for its use. And there's little, if any, maintenance."

Although this 35-pound, 12-inch-high micro-computer is reported to give accurate blood pressure readings, the manufacturer and MID/CONTINENT BANKER editors suggest that a customer see a doctor for a second opinion if his reading is high.

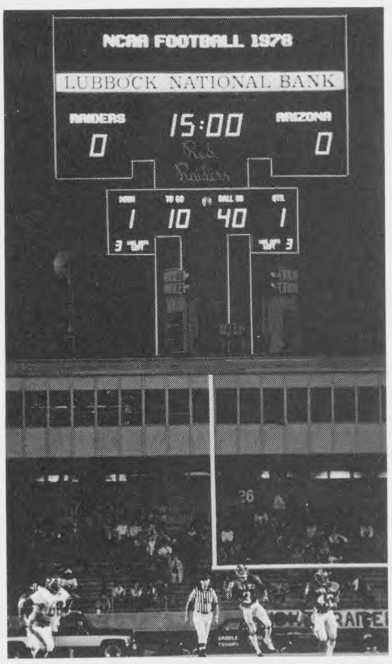
For College Students:

Lubbock National Donates Scoreboard to Texas Tech

A computer-controlled scoreboard and action message board has been donated by Lubbock (Tex.) National to Texas Tech University in Lubbock.

Lubbock National has been a strong supporter of Tech since its beginning when the bank's founder, the late C. E. Maedgen Sr., was active in the campaign to start the school. His son, Charles E. Maedgen Jr., a 1935 Tech graduate, succeeded his father as bank president and was chairman of the first stadium expansion financial drive. Wayne Finnell, the bank's president and CEO, also is an alumnus.

Many of the bank's employees are Tech graduates or former students.



Lubbock Nat'l, proud of its community involvement with Texas Tech, has given school computerized scoreboard for home football games.

Students Rehearse in Lobby

Music students from the Decatur, Ill., public schools held their classes in the lobby of Millikin Nat'l to demonstrate their talents and classroom procedures to bank customers and passersby. The program was part of the bank's community-involvement program.

At Free Clinics:

Bank Helps Its Employees Cut Back on Smoking

Smoking and nonsmoking employees of Chicago's Continental Bank are getting help.

As an aid to staffers who smoke, the bank — in cooperation with the American Cancer Society — offers free "stop-smoking" clinics during banking hours. The two-hour sessions are held weekly for four or five weeks, with about 120 employees enrolled in each clinic. As a result of the first series, 40 persons either quit smoking entirely or cut back on their smoking.

These clinics, conducted under Continental Bank's employee health services department, are continuing indefinitely.

Nonsmoking employees have the option of eating in a nonsmoking section of the employees' cafeteria.

Cultural Review:

TV Series Presentation Partially Financed by Bank

Manufacturers Hanover Trust, New York City, has been partially underwriting the production and presentation of a 39-week series that focuses on the cultural climate of the tri-state area of New York, New Jersey and Connecticut.

The first episode of "Skyline" examined Olympic figure skating gold medalist John Curry, who has been experimenting with a combination of ballet and ice skating. Another segment was titled, "In the Company of Alvin Ailey," with Harry Belafonte as host, which saluted the 20th anniversary of the world-famous dance company.

Other episodes include a tribute to the late Zero Mostel, an interview with Mexico's poet-philosopher Octavio Paz and a discussion of the influence of Henri Mattise on the works of contemporary artists.

The bank also has made an underwriting grant for a station presentation called, "Evening at Symphony."

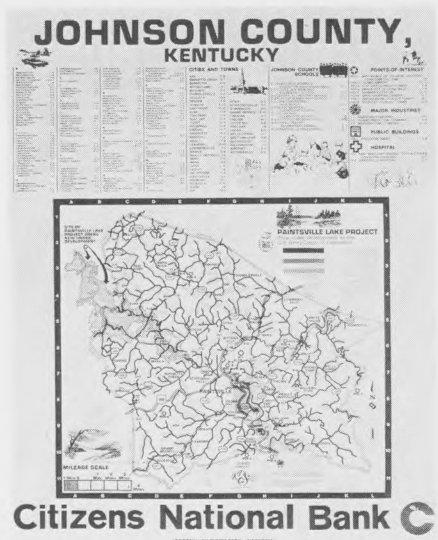
Obliging Area Requests:

City-County Map Produced By Bank in Kentucky

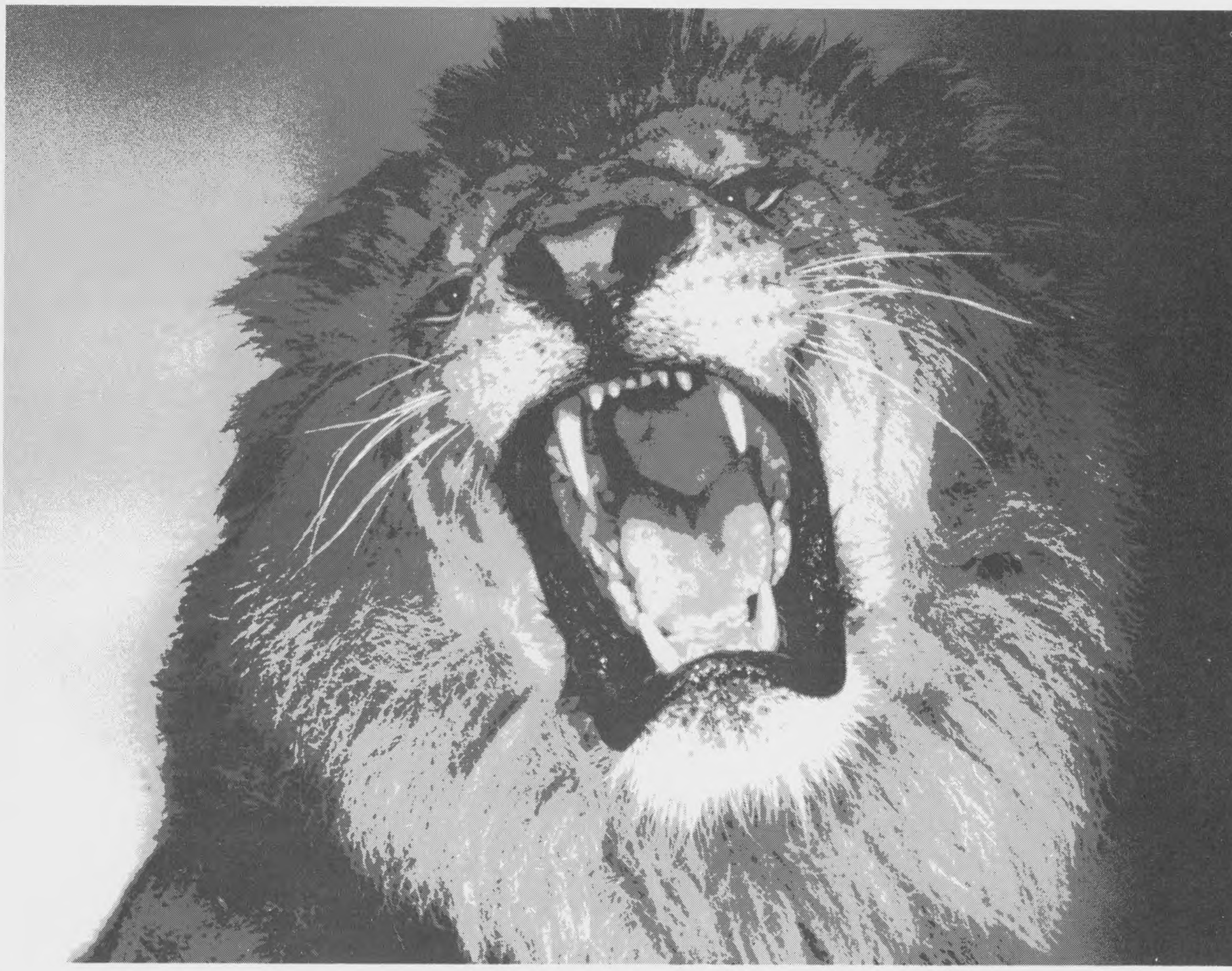
Responding to community-wide demand, Citizens National, Paintsville, Ky., recently printed a cadastral map — a city-county map that pinpoints major businesses, schools, hospitals, public buildings and bank locations.

In addition, the map features the future Paintsville Lake Project which is still in preliminary development stages. The U. S. Army Corps of Engineers was consulted about the lake's exact position and scale.

"The maps have had a very good reception. A sizable number of people have come to the bank to request copies," says O. T. Dorton, the bank's president and past president, Kentucky Bankers Association. "Since our name and various bank locations are featured prominently on the map, we find that it makes a good daily advertising piece."



Citizens Nat'l, Paintsville, Ky., produced this cadastral map. On reverse side is equally detailed map of Paintsville.



Football 'Fan-tasy':

NFL Memorabilia, Drawing Part of Bank's Game Display

Midwest football fans could view a customized exhibit when Chicago City Bank had its salute to pro football. The display gave special attention to NFL Central Division teams Minnesota, Green Bay, Detroit, Tampa Bay and Chicago Bears.

Teresa Wormack (r.), employee, Chicago (Ill.) City Bank, points out Greg Latta, Chicago Bear tight end, No. 88, on a full sheet of 1978 football trading cards, one of several items displayed in bank lobby. "Salute to Pro-Football" exhibit included random drawing for football prizes and 25-minute movie on 1977 Bears playoff team.

Authentic professional football equipment, individual player photos in color, game tickets and team pennants were assembled to bolster fans' spirit while they walked through the bank lobby. A special 25-minute color movie highlighting the 1977 Chicago Bears playoff team was shown each hour, and visitors were encouraged to enter a random drawing that could win them home game tickets, Wilson footballs, Bears posters and other football memorabilia.

For Bank in Houston:

Golden Eagle's Flight Brings Symbol to Life

To increase awareness of Capital National within the Houston business community, the bank lifted its logo from paper and sent it soaring through the city's skyline.

A Golden Eagle, picked as the bank's symbol because of its preference for winter lodging in the Houston climate, was filmed flying past dominant landmarks and on the roofs of several downtown garages during production of the bank's "Flight of the Eagle" advertising campaign.

Guiding the eagle, Duchess, was Dave Siddon, a nationally reputed wild bird trainer. The advertising effort will include TV and print ads.

Birds in the Hand:

Bank Displays Decoys Up to Century Old

Many sportsmen, collectors and professional carvers consider Michigan the decoy-carving capital of the world. To celebrate this and the 31st annual Midwest decoy contest, Detroit Bank in September displayed more than 100 decoys, some more than a century old. The exhibit was developed for the bank by the Michigan Waterfowl Decoy Association.

The display showed the transition in carving techniques and illustrated how decoy carving slowly evolved over 1,000 years from decoys used for hunting to use in national and international competition.

Master carver Jim Foote (l.) and Michigan Waterfowl Decoy Association President Len Carnaghi discuss technique differences used by carvers past and present.

At Kentucky Bank:

Specialized Seminars Held For Public, Professionals

Citizens National, Bowling Green, Ky., has hosted two seminars for area residents and professionals. An investment seminar, held in the bank's main office, was open to the public and was organized in conjunction with J. J. B. Hillard, W. L. Lyons, Inc. Corporate representatives discussed tax-free bonds and municipal, tax-free investments. About 50 persons attended.

A seminar on estate planning was held at a local country club for certified public accountants, attorneys and life underwriters. About 50 heard the two-hour program presented by Ewen, MacKenzie & Peden, PSC, Louisville, and the bank's senior trust officer, John D. Grider.

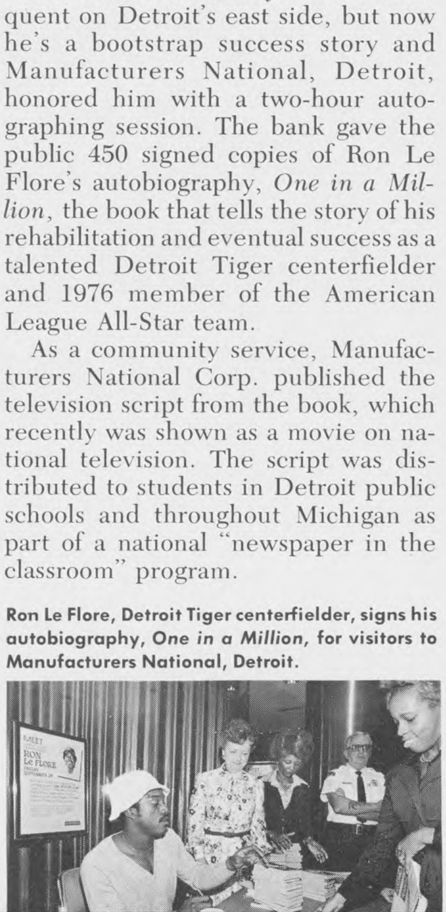
Bootstrap Success:

Bank Honors Baseball Star At Autographing Session

He started out as a juvenile delinquent on Detroit's east side, but now he's a bootstrap success story and Manufacturers National, Detroit, honored him with a two-hour autographing session. The bank gave the public 450 signed copies of Ron Le Flore's autobiography, *One in a Million*, the book that tells the story of his rehabilitation and eventual success as a talented Detroit Tiger centerfielder and 1976 member of the American League All-Star team.

As a community service, Manufacturers National Corp. published the television script from the book, which recently was shown as a movie on national television. The script was distributed to students in Detroit public schools and throughout Michigan as part of a national "newspaper in the classroom" program.

Ron Le Flore, Detroit Tiger centerfielder, signs his autobiography, *One in a Million*, for visitors to Manufacturers National, Detroit.



Corporate News Roundup

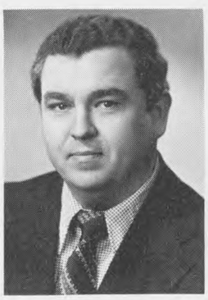
• **Mosler.** Floreal Lavin has been appointed export operations manager and will be responsible for worldwide marketing of physical and electronic security systems at this Hamilton, O.-based firm. Formerly, he was regional business manager for the Caribbean, Central and South American region. Before joining Mosler in 1969, he held positions in American Bank Note Co. and Fenchurch Corp.

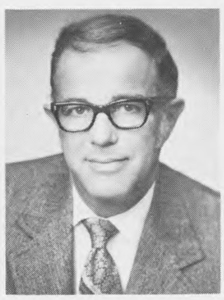

LAVIN


PELKA

• **Associates Commercial Corp.** Lawrence J. Pelka has been appointed senior vice president, industrial division, and will be responsible for field and marketing operations in the U. S. and Canada. Associates Commercial is headquartered in Chicago.

• **Bank Building Corp.** Allyn Raymond and John P. Mushill, both corporate vice presidents, have been appointed presidents of the northern division in Chicago and southwestern division in Dallas, respectively, at Bank Building Corp., St. Louis. Formerly, Mr. Raymond was the southwestern division's president. He has been with the company since 1971 in sales and management positions. Before joining Bank Building, he was manager, Manufacturers Association, St. Louis. Mr. Mushill formerly was president of the company's western division in California. He has held several managerial positions since joining BBC in 1956.


MUSHILL


RAYMOND


LIPOVSKY BOEHM DIETZ

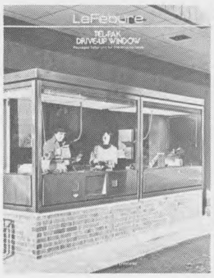
• **Doane Agricultural Service, Inc.** Peggy Boehm has been promoted to senior project analyst in the feed and animal health group; Ron P. Lipovsky and Scott B. Dietz have joined the marketing research division; and Gerald W. Regenstein has joined the real estate sales and investments department. In his new position as account supervisor, Mr. Lipovsky will be responsible for client sales and servicing in the pesticide industry. Mr. Dietz will be responsible for client sales and servicing in the feed and animal health industries. Mr. Regenstein, as a real estate broker, will be responsible for broadening sales investment programs in eastern Missouri. Doane is headquartered in St. Louis.

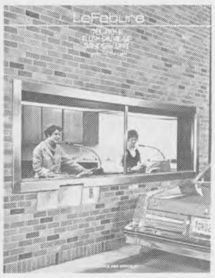
• **NCR.** This Dayton, Ohio-based supplier of computer systems data terminals and other business equipment and services has completed its acquisition of Quantor Corp., Mountain View, Calif. Quantor, a producer of computer output microfiche systems, will continue to operate under current management and will be the micrographics systems division within NCR's systemedia group.

New Products and Services

• **NCR Corp.** The company has expanded its line of interactive processors with a medium-sized, I-8410 processor. The system can be conditioned through firmware to operate batch and on-line multiprogramming. Other general-purpose peripherals it handles are line printers of up to 900 lines per minute, matrix printers, magnetic tape storage devices, flexible diskettes, card readers and visual display terminals. An integrated subsystem can handle up to 20 communication lines, and a free-standing multiplexor also is available. Write: NCR Corp., Dayton, OH 45479.

• **LeFebure.** Bay-window and flush-installation drive-up windows are being offered by LeFebure. They have bullet-resistant glass, formica countertops, two-way sound systems and electrically operated deal drawers.



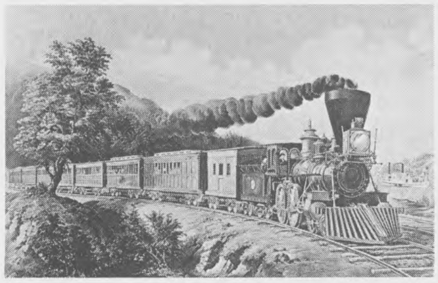


Both can use standard LeFebure cash-handling pedestals and are engineered to serve up to five traffic lanes when combined with Tel-Air motor banking systems. Write: LeFebure, P. O. Box 2028, Cedar Rapids, IA 52406.

• **Diebold.** An electric alarm system for protecting vaults, safes and premises has been introduced by Diebold.

It is suitable for medium and high-risk applications and has a timer that can schedule nighttime, weekend or holiday protection for up to 99.9 hours. Auxiliary controls permit the device to be controlled from outside the vault. The system also has a plug-in jack for listening inside the vault, and it meets current Underwriters' Laboratories standards for Grade "B" bank vault and safe alarm systems and Grade "A" mercantile alarm systems. Write: Diebold, Inc., Canton, OH 44711.

• **Christmas Club a Corp.** Vacation Club 1979, a profit-oriented program designed for integration into local



banking programs, is being offered by Christmas Club a Corp. The club is an additional service banks can offer and can counterbalance the outflow of cash at Christmas Club dispersal time. It ranges in size from $1 to $20 a week. To increase deposits and numbers of customers, the "American Express Train," by Currier & Ives lithographers, has become the club's theme. The bank-wide promotion package includes coupon books and jackets, passbooks, application folders, checks, statement enclosures, counter displays and theme prints. Write: Renee Brett, Christmas Club a Corp., P. O. Box 20, Easton, PA 18042.

• **Buddy's Promotional Advertising.** Denim, which now is popular in wearing apparel, also is being used in bank bags being offered by Buddy's Promotional Advertising. Real belt loops and back pockets mimic today's most functional wardrobe garment. On the front is advertising space in a variety of sizes. These zippered bank

bags are available in three sizes: 9x4 inches, 10½x5½ inches and 11x6 inches. The smallest bag has been popular as a pencil bag for students and cosmetic bag for women. The two larger sizes are used as regular bank-deposit bags. Also available are denim checkbook covers, accented, too, with real belt loops and pockets. Write: Buddy Promotional Advertising, 9542 Mammoth, Baton Rouge, LA 70814.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THE ASSOCIATES

Mortgage Marketing Corporation Formed

FORMATION of a new subsidiary known as MGIC Mortgage Marketing Corp. has been announced by MGIC Investment Corp., Milwaukee. The subsidiary is tagged "Maggie Mae" and is designed to expand the development of the mortgage-backed securities market, according to Max H. Karl, chairman, MGIC Investment Corp. Mr. Karl serves as chairman of the subsidiary, too.

Purpose of Maggie Mae is to help small- and medium-size lending institutions assemble locally originated mortgages into large pools for sale in the nation's capital markets, Mr. Karl said.

"MGIC Mortgage Marketing Corp. will enable these institutions to tap nontraditional sources of mortgage funds that have so far been accessible only to institutions that can accumulate large loan portfolios," he said.

The concept works this way, he said: MGIC will accept loans from selected sellers and pool them into a single, sizable offering. When market conditions are right, Maggie Mae will contact each seller to establish a purchase price. On agreement, Maggie Mae will issue the pass-through securities via its investment banking syndicate. At that time, sellers will transfer title to the mortgages to an independent trustee and Maggie Mae will pay the sellers from the proceeds of the issue.

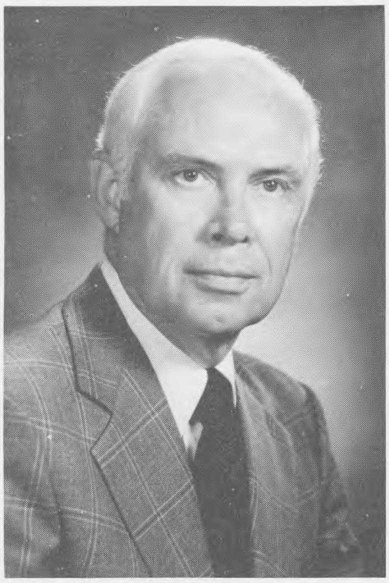
Loans received for Maggie Mae issues are on a consignment basis for purchase by investors, said Leon T. Kendall, MGIC president, who also serves as president of Maggie Mae.

"Maggie Mae will be capitalized at levels that we anticipate will gain a 'AA' rating from Standard & Poor's, the same rating given jumbo pass-through offerings such as Bank of America and Home Savings," he said.

The pools will include 80% loans only at first, but 90% loans are anticipated in the future. The geographic spread, with issuers from as many as 20 cities, should hold special appeal to investors, he added.

He said that Maggie Mae is ready to go and originators will be contacted as soon as an IRS tax ruling is received, along with word from Wall Street that market conditions are right.

The issues will be sold by a six-member underwriting group that will include First Boston Corp.; Goldman Sachs & Co.; Merrill Lynch, Pierce, Fenner & Smith, Inc.; Paine Webber, Jackson & Curtis, Inc.; Salomon Brothers; and Warburg Paribus Becker, Inc. ● ●



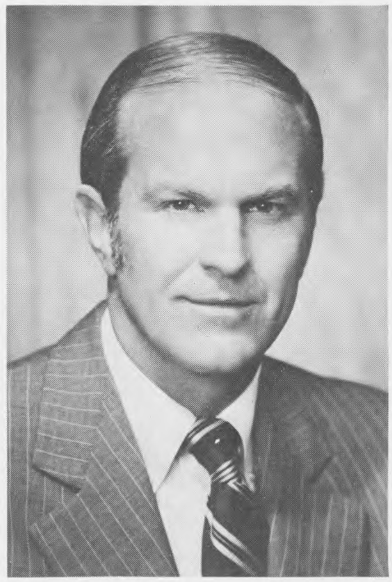
HAINES

". . . We are generally optimistic about the economy and confident of the banking industry's ability to accept the challenge of competition and changing times."

—Jordan L. Haines

"We see a slowing of loan demand, but still a healthy growth at somewhere around 10%, which is not bad considering the cost of money."

—Clarence C. Barksdale



BARKSDALE

The Outlook

Optimism Is Reflected In Wichita Area For Next 12 Months

By JORDAN L. HAINES
President
Fourth National Bank
& Trust Co.
Wichita

I AM PLEASED to participate in MID-CONTINENT BANKER'S 1979 outlook issue and, in so doing, recognize the danger inherent in any type of forecasting. Even when couched in terms of "outlook," the pitfalls are still there. One might observe that a simple transposition changes "outlook" to "look out!" and that should be fair warning for 1979.

Predicting the future is no sure science or favorites wouldn't falter on the way to the Super Bowl; a shoo-in wouldn't lose an election, and a sure bet wouldn't stumble in the straightaway. In current economic forecasting, we begin with an erratic dollar, a trade imbalance, the stock market on a rudderless course, inflation running rampant and politicians who are capricious at worst and cautious at best. Regardless of these uncertainties and negatives, we forecast a healthy 1979 economy for Kansas. This is not hedged by the potential of a recession or the risk of some dramatic policy change in Washington.

The current level of employment, business activity in our area and diversified economic strengths are indeed encouraging. The Wichita regional economy is a healthy mix of manufacturing, agribusiness, oil and gas and service industries. Each would reflect a measure of optimism in looking to the next 12 months. The aircraft industry is in a growth pattern. Other local industry is enjoying prosperity that should accelerate if the national economy stabilizes. Best estimates are that development of export markets at least will sustain farm prices. Livestock prices have been at the top of the cycle and will remain so with a reduced cattle population. The growing demand for energy should further extend exploration and development despite the frustration that persists over the workability of energy legislation, controls, and pricing.

Possible weaknesses might develop in labor supply and in moderately

(Continued on page 72)

Good Year Is Foreseen: Prime Rate Down to 10% And GNP to Grow 2%-3%

By CLARENCE C. BARKSDALE
Chairman
First National Bank
St. Louis

ON BALANCE, we see 1979 as a year that could go in a number of directions. Our planning forecast suggests it will be a relatively good year and that further skyrocketing of interest rates and/or a recession both can be avoided, if government applies sensible policies and the Fed regulates the money supply properly.

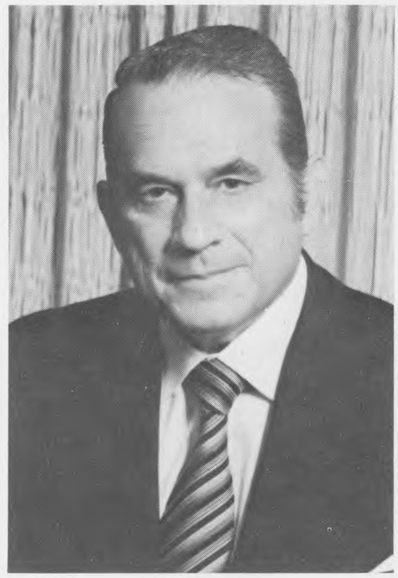
Our forecasts expect GNP to grow about 2% to 3%, with the upper end of this growth being limited by the capacity of the economy to produce more, considering the slow growth of investment spending. Also, increased regulation by governmental bodies such as OSHA, EPA and others contribute to the increased cost of doing

(Continued on page 70)

WELLS

"... Our analysts expect no significant slowdown through at least the first half of the year, although the rate of growth of the past three years will not be maintained."
—Gordon E. Wells

"Those banks that have learned to manage their interest margins should continue favorable earnings performance during 1979."
—J. W. McLean



McLEAN

for 1979

No Significant Slowdown Is Foreseen for 1979 Until Latter Half

By GORDON E. WELLS
Chairman
First National Bank
Kansas City

THE ECONOMY today presents an interesting contradiction for a banker attempting to be a prognosticator. On one hand, my associates are expecting another strong year for the economy and for our bank. But at the same time, I find myself in the front row leading the applause for the Administration and the Federal Reserve in their efforts to strengthen the dollar, reduce inflation and slow down the economy without bringing on recession.

After nearly four years of sustained economic growth, more forecasters are predicting a slowdown in economic activity this year, perhaps ending in recession. My crystal ball isn't that clear, but I am with those who believe the economy will not experience a significant slowdown until the latter half of 1979.

Analysts in our bank concentrate on what they consider to be crucial trends in the economy. They report that few of the excesses that become apparent when the economy enters into a period of slowdown have yet to be seen in the current economic cycle. In fact, they point out that throughout the last four years, most economists have underestimated both the strength of the economy and the impact of inflation.

Because of a continuing policy of relative ease on the part of the Fed and overall strength in the corporate sector, our analysts expect no significant slowdown through at least the first half of the year, although the rate of growth of the past three years will not be maintained. Since the current economic cycle began in March, 1975, we have experienced almost uninterrupted growth of over 4½%, which is well above the long-term growth rate of 3½% achieved since World War II.

As a result of this strong growth, we see some strains in the economy with regard to liquidity, inflation and interest rates. At present, liquidity in the corporate and consumer sectors has deteriorated to levels exceeded only in

(Continued on page 68)

First Half of Year To Be Relatively Strong In 10th Fed District

By J. W. McLEAN
Chairman
Liberty National Bank & Trust Co.
Oklahoma City

WHAT are the prospects for the economy in the year ahead?

A *general flattening of business activity* (if not a pronounced decline in some industries and regions) seems assured by the recently announced reduction in the nation's 1979 GNP growth target (from 3½% to 2½%) and an increasingly restrictive monetary policy. In fact, there already are signs of sluggishness in retail sales, manufacturing employment, consumer-credit quality and capital spending. But a cooler economy may prove to be timely, if we are to conquer a virulent and stubborn 8% rate of inflation.

In the 10th Federal Reserve District, we have a generally tight labor market, with construction employ-

First Half of Year

(Continued)

ment particularly strong. Farm income is about 23% ahead on an annual basis with more cattle on feed than at any time in five years. Our 3.6% level of unemployment is well below the national 6% rate; credit demand is firm, and both demand and time deposits are in pronounced upward trends. All these elements portend a *relatively healthy first half of 1979 in Mid-America*, as distinguished from the nation as a whole.

What are the prospects for bank earnings?

Those banks that have learned to manage their interest margins should continue favorable earnings performance during 1979. However, since too many banks have not yet made a total commitment to spread management, bank earnings generally may soften as interest rates finally crest and decline during the year. Credit quality and resultant provisions for losses will play an increasingly important role in the bank-earnings equation over the next year or two.

In short, bank earnings performance during 1979 will be highly selective and, on the whole, *somewhat less impressive* than in 1978.

How can bank earnings be improved?

The first step toward improvement in bank earnings is the realization that *there are no quick fixes*. Instead, the keynote must be "sustainability." The second step is to *embrace the total planning process* and to understand exactly what it *can* and *cannot* do; i.e., that it must be based on realistic goals, which, in turn, must be derived from at least three kinds of research: economic, market and organizational. Rarely have we entered a new year in which prior planning will prove to be more beneficial; especially in view of the likelihood of volatile interest margins at least during the first six months and increased emphasis on realistic pricing of services throughout the industry.

In brief, Liberty is committed to maximum, *sustainable* long-range earning power through superior customer service, consistent with corporate citizenship and social responsibility. However platitudinous that may sound, this philosophy has helped us time and again to easily reach decisions, which otherwise might never have been so confidently resolved.

What is the reaction to automatic-transfer services?

In our region, the banking public has been slow to take the initiative required to begin to receive automatic-transfer services. However, it's inevitable that *the very nature of the money supply eventually will change* as a result of this long-awaited blending of demand and time deposits. Another consequence of ATS is an industry-wide awareness of the crucial importance of the realistic cost and pricing of bank services — and, more importantly, the responsibility to enlighten the customer.

In our own case, we actually are issuing a surgeon-general type caution to prospective ATS customers: "ATS may be dangerous to your financial health unless you expect to maintain a minimum balance of $1,500."

What are some banking problems and challenges?

After an adjustment period, I don't consider the Financial Institutions Reform Act to be a serious impediment over the years ahead. It is instead a livable fallout from the abuses of Bert Lance and others, at least much more so than its original version.

The Fed's so-called "membership problem" may turn out to be much more a problem of "costing and pricing Fed services." Uniformity of reserves, at least on transactional balances, would seem to be inevitable. But the strength of the Fed (as we know it), its membership, its services and the ultimate effectiveness of its monetary policy *may well depend on the willlingness — no, the determination — of bankers to compromise among themselves a number of long-established differences.*

What about interest rates?

I concur with the popular scenario for interest rates to crest in the first or second quarter of 1979 — as a result of either the long-awaited containment of the money supply or the onset of recessionary conditions (or both). The larger questions seem to be: From what level will rates finally decline? What impact will such a pattern have on the nation's economic health?

My own view is that the possibility of short-term rates well above present levels should not be ruled out, unless and until inflationary forces are soon contained and reversed. Also, the Administration's "acid test" will be at hand if and when two or more consecutive down quarters occur and the clamor begins to stimulate a halting economy. It appears we must learn all over again that *it is no easier to cool the economy without inducing deflation, than it is to heat it without producing inflation.*

What about monetary policy?

Ideally, *monetary discipline should not serve as the only weapon* against unrelenting inflation and the forces that have so seriously eroded the dollar's value in foreign currencies.

However, prospects for effective and timely aid from other sectors are disappointing. On the *fiscal* side, while there may be some reduction this year in the nation's mounting annual deficit, a true equilibrium between revenue and spending is, at best, too many years away. In the area of *prices and wages*, there already is great skepticism concerning the effectiveness of the announced voluntary standards. Moreover, many authorities are convinced that the nation's new *energy policy* — deficient in production incentives — actually will increase rather than decrease the importation of petroleum, at prices that are almost certain to escalate next year.

It's understandable that the Administration prefers a "soft landing" to "triggering" recessionary business conditions.

However, a continuing failure to curtail growth in the supply of money can only fuel inflation and further reduce confidence abroad. Although M_2 has remained within (barely) the upper limit of the target range of growth for the past 12 months, M_1 has soared to a 12-month rate of 8%, versus a target range of 4% to 6½%. Since M_1 and M_2 may become increasingly difficult to separate and measure reliably because of automatic transfers, the target ranges themselves must be re-examined, reduced and implemented at levels that will lead rather than follow the economy.

The very real and unpleasant risks of retarding business conditions inherent in this approach are regrettable, but not nearly as onerous as the consequences of further delay and the inevitable necessity of descending later from alarmingly higher levels. Increased monetary discipline, therefore, is imperative *until there are national policies that will induce genuine gains in productivity.* ••

The Outlook for Bank Stocks

By WILLIAM M. WEIANT
And
DAVID C. GARVIN
First Boston Corp.
New York City

BANK STOCKS generally have under-performed the market over the last several months. This reflects a divergence of opinion by investors as to whether interest rates and economic activity will peak early in 1979 or toward the end of the year, as well as some general concerns about bank liquidity this year should a "credit crunch" occur. Based on First Boston's scenario that interest rates will continue to rise this year and stay at high levels, bank stocks should outperform the market over the next several quarters.

Furthermore, our studies suggest that banks generally are in a good position to accommodate strong loan demand in 1979 and that balance-sheet pressures may not be as severe as was the case in 1974. Accordingly, the decline in bank stocks offers an attractive buying opportunity in both select regional and money-center banks on a near-term basis. In addition, current bank-stock prices don't reflect the improved profitability profiles select banks have generated over the last several years, and we believe there are attractive investment opportunities on a longer-term basis in select high-growth regional banks.

From a near-term standpoint, money-center banks continue to offer the most potential for above-average stock-price performance. Based on First Boston's economic scenario for this year, business-loan demand at money-center banks should be strong, increasing at least 15% on an annual basis from current levels. Therefore, earnings also could be toward the high end of the 10%-15% range we're using for bank earnings in general in 1979. Our recommendations in this group continue to be Citicorp, J. P. Morgan and Manufacturers Hanover. Although we recognize that investor interest in regional bank stocks tends to diminish toward the end of the economic cycle, there are several regional banks that offer attractive investment potential at current levels above and beyond their good earnings momentum and location in above-average growth areas of the country. First Bank System offers an attractive way of participating in the improved agricultural situation in the Midwest; Rainier Bancorp. offers an alternative way of participating in the increased economic activity that should result from the new Boeing programs; United Banks of Colorado offers an attractive means of participating in the improved energy fundamentals in the Rocky Mountain area, which has not been fully reflected in its price-earnings multiple; Western Bancorp. offers the opportunity of a significant multiple upgrading due to its relatively low price-earnings multiple at current levels, which does not reflect the significant improvement in its profitability profile as well as its location in 11 rapidly growing western states; and Barnett Banks offers an attractive way of participating in the regional turnaround of the Florida economy and its high degree of liquidity, which should lead to strong earnings gains this year.

According to First Boston's studies, banks generally are in a good position to accommodate strong loan demand in 1979, and balance-sheet pressures may not be as severe as was the case in 1974. Also, current bank-stock prices don't reflect the improved profitability profiles select banks have generated over the last several years. On a longer-term basis, there are attractive investment opportunities in select high-growth regional banks.

Although high-growth regional bank stocks have out-performed the market for several years in a row, the recent decline in stock prices offers an attractive investment opportunity for investors willing to look through the pending cyclical peak. Longer-term growth should be at least 10% under a number of different economic scenarios, which we believe is an attractive investment characteristic for investors with longer-term time horizons. Our recommendations in this group, which also would include the aforementioned regionals, would be First International, First City Bancorp., Mercantile Texas, Wachovia, U. S. Bancorp., BankAmerica and First Security. We especially would recommend that investors concentrate on these higher-quality, higher-growth banks as pressures on balance sheets and capital ratios may become more severe beyond 1979, in which case investors will place more of a premium on those banks with the best capital positions, highest internal growth rates of capital and locations in above-average growth areas of the country, which should lead to higher relative growth rates of core deposits.

Positive Factors. The recent under-performance in bank stocks does not take into account the improvement select banks have experienced in their profitability levels. There are a number of factors that would suggest bank stocks are attractive at current price levels, and they include the following:

1. *Good Near-Term Earnings Visibility.* Earnings momentum for both the fourth quarter and 1979 is excellent. Favorable loan demand trends and maintenance of net interest yields near or better than third-quarter levels suggest that fourth-quarter bank earnings will increase on average by at least 26% over 1977's fourth quarter, which should compare favorably with corporate profits in general. This momentum should carry over into 1979, leading to bank earnings gains of 10-15%. Given First Boston's scenario of higher interest-rate levels, high inflation rates and positive real economic growth, earnings gains could well be at the high end of the range as loan demand should continue to be strong.

Specifically, we would expect that domestic business-loan demand would increase by at least 15% in 1979. As far as regional banks are concerned, we would expect that consumer installment and real estate loans would show only moderate gains from year-end

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WILLIAM M. WEIANT is managing director, research department, and DAVID C. GARVIN is vice president, First Boston Corp., where both are bank specialists.

Profitability Profiles of Select Banks, 1973-1978:3

	Return on Assets				Leverage				Return on Equity				Internal Growth			
	1973	1974	1977	1978:3	1973	1974	1977	1978:3	1973	1974	1977	1978:3	1973	1974	1977	1978:3
Bankers Trust	0.42%	0.36%	0.26%	0.34%	28.30X	34.02X	31.30X	31.28X	11.85%	12.12%	8.26%	10.57%	6.36%	7.03%	3.42%	6.09%
Chase Manhattan	0.52	0.45	0.26	0.36	23.53	27.75	27.35	27.20	12.14	12.52	7.08	9.87	7.71	7.98	2.92	6.21
Chemical New York	0.43	0.45	0.37	0.40	23.36	27.17	29.88	29.67	10.03	12.17	11.07	11.82	4.37	6.89	6.60	7.71
Citicorp	0.54	0.51	0.56	0.59	21.37	25.07	24.48	26.33	11.58	12.75	13.63	15.51	7.99	9.15	9.31	11.53
Manufacturers Hanover	0.57	0.55	0.51	0.53	22.10	26.47	26.69	26.41	12.61	14.66	13.53	14.09	7.06	9.17	8.75	9.50
J. P. Morgan	0.86	0.81	0.75	0.84	18.04	21.18	19.13	19.54	15.48	17.11	14.34	16.43	10.07	11.68	9.26	11.73
First National Boston	0.72	0.65	0.48	0.57	16.98	18.38	17.98	19.56	12.17	11.89	8.71	11.08	7.86	7.45	4.51	7.02
First Chicago	0.67	0.60	0.53	0.65	19.21	22.45	21.08	20.48	12.98	13.52	11.12	13.22	8.82	9.34	7.50	9.30
Continental Illinois	0.60	0.51	0.62	0.60	21.45	25.98	23.88	22.96	12.87	13.24	14.92	13.87	8.17	8.29	10.84	9.55
First Bank System	0.91	0.85	0.88	0.92	15.05	15.74	15.03	16.11	13.71	13.42	13.31	14.79	8.90	8.83	9.36	10.59
Northwest Bancorp.	0.80	0.78	0.87	1.01	16.58	17.00	16.10	16.39	13.31	13.32	13.99	16.61	8.50	8.80	9.88	12.48
Wachovia	0.84	0.81	0.90	0.99	11.21	11.76	13.96	14.28	9.46	9.49	12.56	14.20	5.63	5.57	9.56	11.00
NCNB	0.76	0.44	0.55	0.77	19.38	20.47	19.70	19.59	14.83	9.07	10.81	15.04	10.79	4.68	7.09	11.40
Barnett Banks	1.07	0.80	0.61	0.89	15.18	14.41	14.94	15.87	16.22	11.59	9.06	14.13	12.99	8.08	5.50	10.63
First City Bancorp.	0.68	0.66	0.75	0.82	19.11	20.32	18.93	18.80	13.03	13.42	14.12	15.46	8.38	9.24	10.70	11.39
First International	0.90	0.89	0.87	0.93	16.63	17.63	18.42	18.37	15.04	15.67	15.94	17.05	11.04	11.19	11.85	12.51
Mercantile Texas	1.09	1.02	0.83	0.85	10.79	11.67	21.00	21.83	11.71	11.87	18.48	17.37	6.03	6.30	12.35	12.94
Southwest Bancshares	0.90	0.69	0.84	0.90	12.98	13.31	14.57	14.67	11.75	9.22	12.23	13.26	7.06	4.82	8.27	9.80
Texas Commerce	0.94	0.87	0.88	0.94	14.26	16.31	18.02	18.73	13.41	14.26	15.76	17.61	9.11	10.03	11.40	13.50
First Security	1.17	1.07	1.09	1.20	13.44	13.78	14.66	14.84	15.73	14.69	16.02	17.75	11.46	10.17	12.06	13.78
United Banks of Colorado	0.59	0.66	0.83	0.91	16.83	17.06	17.38	16.97	10.00	11.30	14.45	15.44	4.48	5.89	9.95	10.80
Valley National	0.57	0.59	0.66	0.92	20.58	20.59	20.15	18.84	11.73	12.15	13.30	17.33	6.46	7.08	9.10	13.48
BankAmerica	0.52	0.48	0.55	0.71	27.24	31.17	28.13	28.65	14.09	15.11	15.52	20.34	8.93	9.89	11.12	15.98
Security Pacific	0.48	0.39	0.58	0.69	21.79	23.57	23.44	24.29	10.57	9.22	13.52	16.64	5.92	4.50	9.63	12.75
Wells Fargo	0.43	0.43	0.62	0.75	24.75	26.27	22.67	23.74	10.58	11.20	14.10	17.72	6.51	7.20	10.72	14.28
Western Bancorporation	0.48	0.48	0.58	0.71	23.57	23.73	23.01	23.39	11.30	11.41	13.32	16.68	6.75	7.16	9.67	12.58
Rainier Bancorp.	0.55	0.56	0.79	0.95	18.45	19.96	18.21	17.05	10.13	11.25	14.34	16.17	7.78	8.88	11.60	13.47
Seafirst	0.72	0.71	0.76	0.91	18.11	19.77	19.28	17.83	13.06	14.11	14.61	16.18	8.86	10.31	11.28	12.97
U. S. Bancorp	0.85	0.90	1.11	1.27	16.92	16.82	14.71	13.94	14.46	15.23	16.36	17.74	9.92	10.55	12.95	14.72

Source: Company financial statements and First Boston calculations.

1978 to year-end 1979. Given the continued momentum in these areas, however, average loan growth in these accounts would be more on the order of 15%.

2. *Improved Profitability Profiles.* Aided by strong increases in net interest yields over the last several years, a number of banks have significantly improved their returns on assets, returns on equity and internal capital growth rates. Select banks now have internal growth rates in excess of 10%, which is higher than was the case in the early 1970s and compares favorably with the 8.5% internal growth rate for the S&P 500.

3. *Higher Quality of Earnings Gains.* Based on improvement in profitability profiles, banks are in a better position to increase profits at a 10%-15% rate without significantly stretching leverage ratios further. This would be in contrast to the 1974 experience in which similar earnings gains were accompanied by significant upward pressure on leverage ratios as net interest yields narrowed. Our projections suggest that many banks could increase loans by 20% this year without exceeding asset-to-equity ratios attained in 1974.

4. *Prospects for Sound Balance Sheets in 1979.* Although investors have been concerned somewhat about bank liquidity this year, our studies suggest that select banks will be able to support domestic-loan growth of up to 20% without seriously compromising bank balance sheets in 1979 as measured against the 1974 experience.

From a near-term standpoint, says First Boston, money-center banks continue to offer the most potential for above-average stock-price performance. Based on the firm's scenario for 1979, business-loan demand at money-center banks should be strong, increasing at least 15% on an annual basis from current levels. Therefore, earnings gains also could be toward the high end of the 10%-15% range being used for bank earnings in general in 1979.

5. *Attractive Price-Earnings Multiples.* Based on our 1978 earnings estimates, bank price-earnings multiples relative to the S&P indices are considerably lower than was the case in 1973 and 1974. On a near-term basis, this suggests that bank stocks would offer some down-side protection should the market continue to correct. On a longer-term basis, price-earnings multiples are cheap given the improvement in bank-profitability profiles that has occurred over the last several years as well as the prospects for above-average-earnings growth potential.

6. *Appropriate Phase in Bank-Stock Cycle.* Bank stocks in general have tended to out-perform the market toward the latter stages of the economic and interest-rate cycle. Given First Boston's scenario that interest rates and economic activity are not likely to reach a peak until the latter part of 1979, this would suggest that bank stocks should continue to out-perform the market over the next several quarters.

7. *Attractive Means of Hedging Against Risk of Not Being in Equities.* Given the current uncertainty and divergence of opinion about economic prospects this year as well as beyond, bank stocks would seem to offer one of the more attractive ways of participating in equities while offering the above-mentioned down-side protection. On the other hand, if the market were to rebound, bank stocks likely would participate to a certain extent. ● ●

The Outlook for Credit Demands And Interest Rates in 1979

By NICHOLAS J. DeLEONARDIS
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Chicago

WE HAVE MOVED into an era of tight money. However, this is a much more recent development, at least in the money markets, than might be supposed. Interest rates have not been a good indicator of credit tightness or looseness because of the rapid response to inflation expectations.

A year ago, consumers made saving and borrowing decisions on the presumption that prices 12 months later would be less than 6% higher. Today, their expectation is for a 10% rise. If a lender previously required a minimum of 6% to guarantee him that he could reasonably expect to maintain the purchasing power of his investment, today he requires at least 10%. Yet, until recently, the rise in interest rates had trailed the adjustment to these expectations. By stubbornly refusing to tighten monetary policies, the Fed succeeded in holding interest rates below equilibrium levels. In the long run, that policy merely leads to higher expected inflation, pressures for dollar depreciation, nervous capital and equity markets and probably even higher interest rates.

A slight letup is predicted for consumer short-term borrowing demands. Housing activity will start to slide in coming months. New issues of marketable Treasury securities will be relatively restrained through year-end.

Today's environment favors bank lending, since money rates closest to the Fed's policy guidepost, the federal funds rate, are likely to be most attractive. Total loans are up 16½% from last September — a 15½% annual rate in the latest six months. Large banks have seen the following gains as a group in the latest 12-month period for which data is available:

- One hundred thirty-two large banks reported a 9% gain in commitments, including a 13% increase in commitments to commercial/industrial customers.
- Three hundred forty large banks have noted a 16% jump in total loans. Consumer lending is up 23%, real estate, 21%, C&I, 13%, other loans, 10%, a 34% increase in the volume of large C/Ds.
- Twenty large HCs registered a 30% jump in earnings.

With this background, let's look for a moment at specific credit demands.

Over the past 12 months, corporate credit demands at major banks have increased more sharply than at any time since 1973. Surveys show that corporations plan to continue to expand credit demands over the coming 12 months, although the immediate pace may slow somewhat (private-placement activity is picking up now that it's clear that a true peak in interest rates still is some time in the future).

Nevertheless, corporations need the funds. Profit margins already are under pressure. For over a year now, prices that businesses have received for their products have been rising at a slower rate than unit labor costs. The Administration's program doesn't seek to change this picture, but merely put it in a holding pattern. Meanwhile, domestic corporate-liquidity positions have dropped steadily for 18 months and now are down to levels we last saw in early 1975.

In recent months, bank loans have been the favorite source of corporate external financing. This is not to say, however, that other sources have been spurned. In 1978, we estimate that net domestic nonfinancial corporate bond issues, including tax-exempt revenue bonds, will run at an annual rate of $18½-billion — down about 25% from the $24½-billion net issue for all of 1977. The surge in nonresidential building will propel commercial mortgage borrowing to $21 billion for 1978 — one-third more than 1977's full-year pace. We look for both these areas to decline somewhat in 1979 from their current pace. The difference won't be made up from equity issues. Bank lending also will be off almost 20% from this year's pace. That's because the overall gap between corporate investment (including inventory accumulation) and internally generated funds will narrow somewhat in 1979. This "gap" currently is running at over $50 billion — compared with less than

"Today's environment favors bank lending, since money rates closest to the Fed's policy guidepost, the federal funds rate, are likely to be most attractive. Total loans are up 16½% from last September — a 15½% annual rate in the latest six months."

This article is based on the talk Mr. DeLeonardis gave at First Nat'l of Chicago's conference of bank correspondents last November.

$30 billion for all of 1977. The "gap" will stay wide in 1979, however — nearly $45 billion.

There will be only a slight letup in consumer short-term borrowing demands. In the first half of 1978, personal income rose at an average annual rate of 11%. For every dollar increase in their personal incomes, consumers increased installment credit borrowing by 24¢. Those who say this can't continue should look at history. We have not yet reached that point where consumers are using installment credit as a substitute for income gains, in an attempt to temporarily maintain living standards. That point is marked by mushrooming nondiscretionary credit — bank cards, overdraft protection and the like.

In the mortgage markets, institutional changes designed to protect the housing sector from disintermediation have been a success — perhaps too much of a success. Some thrifts now are complaining loudly about the inversion in the yield curve — perhaps too loudly. At the present time, the six-month Treasury bill rate C/Ds account for less than 5% of thrift deposits, while the rise in mortgage rates has opened a considerably wider spread over costs of the other 95% of their portfolio.

What probably is equally costly to the thrifts — and this has to be a theory, because up-to-date statistics aren't available — are two related developments. With the rise in interest rates, a significant number of thrifts have raised their rates back to Regulation Q ceilings. The thought of doing *both* that and paying upward of 10% for six-month money can cause indigestion. Even more important are usury-rate ceilings that now are effective in a much greater number of states. In fact, it's perhaps surprising that housing has been as strong as it has.

Bearing in mind our economic forecast, housing activity will start to slide in coming months. This can take some pressure off the credit markets, but only in the sense that interest rates will not peak as high as they might otherwise — not in the sense that they won't go higher.

New issues of marketable Treasury securities, for example, will be relatively restrained through year-end. However, the deficit in the current fiscal year will be close to $40 billion, with a further $11 billion in Treasury off-budget financing. That's nearly $10 billion less than fiscal year 1978, but two key players will be taking much smaller pieces:

• The Treasury will be marketing new issues in an environment of much lower state and local surpluses. Operating surpluses reached $18 billion in the first half of 1978, but are to be cut to $5 billion by the second half of 1979.

• Foreign-government purchases will not reach the 1978 pace. Our best hope here is that tight-money policies encourage nonofficial foreigners to add to their dollar holdings. Foreign central banks, however, already find themselves with excess supplies of dollar reserves. Activation of the widely publicized swap lines is no substitute for the $22 billion central banks and official institutions in Europe and Japan bought between September, 1977, and March, 1978. Nor is the proposal to issue foreign-denominated Treasury securities a panacea. The projected issue size ($10 billion), while less than the quarterly Treasury issues frequently seen in our debt markets, would swamp the small debt markets of Europe.

We probably shall have to live with tight money for some time. There are no "quick" cures for inflation, and the current experiment with guidelines will only stretch out the adjustment. At the same time, the banking industry now faces a difficult environment for funding:

Small banks, for the most part, are loaned up. Loan/deposit ratios, estimated at 71½% — partly as a reflection of agricultural-loan renewals — are at record levels.

In mid-1974, less than one-third of Seventh-District (Chicago Fed) bankers reported their loan/deposit ratios were above desired levels. That degree of tightness was passed early in 1977. Today, over half the district bankers surveyed feel their loan/deposit ratios are above optimal levels — currently around 65.8%.

Conditions are somewhat easier among larger banks: From a purely domestic viewpoint, for instance, loan-to-capital ratios, as this relationship suggests, are well below the peak reached in 1973-74. However, large banks now are faced with an increase that tops 20 basis points in the price of large time deposits. Measures like these tend to affect all banks, however, to the extent that they are effective at all, by increasing competition for reserves. We all sink or swim together, although some of us may seem more buoyant.

• Inflation premiums will remain high. Foreign confidence in the dollar has been badly damaged, while domestic markets are equally cynical. In these circumstances, it's not surprising to find that proposals for guidelines have little sympathy.

• Quality spreads will start to widen. Technical conditions primarily have been responsible for the growing spread of other short-term rates over bills; in coming months, however, I would expect to see increased concern over credit quality. Unlike 1973-74, this concern is likely to manifest itself well before the peak in interest rates.

Current interest-rate levels now are beginning to bite. However, it still will be some time before the economy's momentum, which moves with all the grace of a giant supertanker, finally is stopped. We do have an inversion of the yield curve — which usually heralds the beginning of the end of an economic expansion. However, I would not look for a peak in interest rates in this environment before the end of the first quarter, and then only a gradual decline thereafter.

Money-market rates are likely to increase another 100 to 150 basis points. Federal funds, currently around 9¾%, could easily touch 11%. A three-month CD rate — 7% only last January —

(Continued on page 68)

How Bankers View Economy

The voluntary wage and price guidelines announced late last year by the Carter Administration will have little impact on the economy. So said 79% of bankers surveyed by Chicago's First National at its annual correspondent-bank conference in November.

However, 43% thought imposition of formal wage/price controls would increase inflation, while 27% thought formal controls would have no effect at all on the economy.

For the second year in a row, bankers gave the Carter Administration little praise for its economic performance. Ninety-five percent said the Administration rates "fair" or "poor" in the economic area, an increase over 1977's 88% rating. Only 5% of those surveyed in 1978 thought the Administration's performance was "good," and none thought it was "excellent."

The inflation rate this year will be in the 8% to 10% range, according to 62% of the bankers surveyed, and 23% think the prime rate will exceed 11% this year. Fifty percent expect the Dow Jones Industrial Index to be in the 800-900 range in 1979, and 15% expect it to be in the 900-1,000 range.

Sixty percent of respondents expect general business conditions to be worse in 1979 than they were in 1978.

The Agricultural Outlook for 1979

By EARL CROUSE
And
MARK TOWNSEND

WHAT KIND of performance can be expected from agriculture in 1979? Most certainly if the industry lives up to its renditions of the recent past, we can look forward to another commanding production exhibition. But whether it will be a stellar year for the agricultural theater is contingent on the play action of what can only be called a cast of questionable characters.

Roles that inflation, interest rates and a weak dollar have assumed in recent months threaten to inhibit supportive efforts of consumer demand, export markets and a viable agricultural policy. Based on their inconsistent performances in the past, the parts weather and disease choose to play can only be labeled unpredictable. Yet in any given annual production, these two characters alone can make or break a season's show.

How much the audience will profit from this year's performance will depend a great deal on where they're seated. Those in the livestock area should appreciate the exhibition more than those consigned to the feed-grain seats. Individuals who occupy the chairs with the cotton cushions in between should have a comfortable, if not pleasant, viewing position.

In any event, the stage has been set for the following commodities as the curtain goes up for the 1979 agricultural show:

Corn — prices for the remainder of the 1978-1979 marketing year are likely to average between \$1.95 and \$2.15 a bushel. In recent months, prices have maintained a relatively strong position despite record production and favorable harvest weather. Feed use may hit the four-billion-bushel mark as livestock and poultry producers take advantage of the best feed profit ratios in several years. Although the U. S. S. R. is not likely to buy as much feed grain as last year if their crop is as big as expected, larger exports to markets in the PRC (China), Japan, and Eastern Europe point to foreign sales of two billion bushels. If these figures hold true, carryover figures will be in the neighborhood of 1.35 to 1.4 billion. Of this amount, approximately 550 million are tied up in the reserve program. That leaves a free carryover of about 800 million bushels, which are too large to allow the price to run above the loan-redemption level.

Soybeans — exports and crushings should set new records this marketing year. Current export projections forecast foreign sales at 730 million bushels, compared with 700 million last year. Brazilian and Argentine soybeans and products will not reach world markets until May; therefore, domestic U. S. exports will face little competition during the first half of the year. Increased numbers of poultry, fed cattle and hogs will consume more soybean meal because of favorable feeding price ratios, pushing the crush up to a record 975 million bushels. A carryover of 159 billion and a crop of 1,810 billion equal 1,969 billion, up from 1,965 billion a year ago. This amount will permit a crush of 980 million (an increase of 5.7%) and an export of 746 million (or a 6.6% increase), without a reduction in carryover. In all likelihood, there will be an acreage increase over 1978 plantings.

Wheat — the continuing strength exhibited in the market in recent months has been due to the extremely strong export demand fired up by a weak U. S. dollar. Exports now are projected to reach 1.15 billion bushels for the marketing year, compared to 1.12 for 1977-1978. The PRC, not ordinarily a purchaser of U. S. wheat, has bought three million tons for 1978-79 delivery. And Brazil, normally a customer of Canada and Australia, also has been in the market because of production shortcomings in these countries. However, world crop forecasts point to a slowing of this blistering export pace as southern hemisphere crops make their way to market in the coming months.

With the large exports and a smaller domestic crop, ending U. S. wheat

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Agricultural Outlook
(Continued)

stocks will drop for the first time in four years. Current projections call for a June 1, 1979, carryover of 1.03 billion bushels, down about 10% from last year's level. About 405 million bushels of the carryover will be in the farmer-owned reserve and another 50 million in a government-owned reserve. Therefore, about 43% of the estimated carryover would not be available to the market until farm prices advance beyond $3.29 per bushel. That leaves approximately 600 million bushels, or in effect 32%, of disappearance available for sale unless prices move above the release level. As a result of strengthening prices as compared to other feed grains, feed use will drop sharply. Present forecasts call for a consumption of only 125 million bushels, compared to almost 200 million in 1977-78.

While acreage planted to wheat for harvest in 1979 ultimately will depend on weather and participation of farmers in the set-aside program, higher market prices relative to the target price of $3.40 have diminished the incentive to participate in the set-aside program. The receipt of deficiency payment of 52¢ per bushel should take care of near-term cash-flow needs and allow for tight holding early this year. To date, most factors point to slightly larger acreage than the 56.6 million acres harvested this past year.

Hogs — perhaps the most surprising segment in terms of agricultural production the past year has been the hog industry. Pork production simply has not responded in traditional manner to the favorable feeding ratios enjoyed the past several months. Large capital outlays for confinement systems, health and environmental concerns and a continuing decline in number of hog-producing units have inhibited significant pork expansion. And to date, producer intentions do not suggest a rapid rise through 1979. Based on the September, 1978, intentions report, producers were planning to farrow only 3% more sows in both the September-November and December-February periods. While these intentions may appear conservative based on hog-feed price relationships, farrowings for the past year were thought to be of the same nature. Production for 1979 is expected to increase 4% to 6% above 1978. Yet even with increased expansion, rising consumer incomes and reduced beef supplies should hold average barrow and gilt prices near $50 per hundred through most of the year.

Cattle — prices are expected to move to a higher average in the low $60s for the year as numbers continue to decline. Still, significant price gains are likely to be limited by supplies of competing meats and consumer resistance to substantially higher prices. While fed-steer and heifer slaughter is anticipated to rise 2% to 4% over 1978, drastic reductions in cow and nonfed steer and heifer marketings should push total slaughter tonnage down 6% to 8%. Cow numbers are likely to be slashed another two million head in 1979, leaving the total inventory about 16% below the 1975 level of 56.9 million head. The smaller herd size suggests this year's calf crop could drop to 42 million head.

As herd rebuilding gets underway and more heifers are held back for replacements, available feeder-cattle supplies will be reduced even more. Ample supplies of low-priced feed grains have fueled the fire for replacement cattle, and prices for choice yearling feeder steers will strengthen throughout 1979. While these higher feeder-cattle prices are improving the financial condition of the cow-calf producer, lenders should guard against reduced profit margins for cattle feeders. Unless fed-cattle prices rise more than currently expected, bids must be carefully plotted against projected returns to keep buyers from bidding away all their operating margin.

Dairy — milk production in 1979 should run slightly ahead of last year's total of 122 billion pounds, but high slaughter-cow prices, expanded commercial usages, favorable feed-price ratios and relatively good support price levels should provide dairymen with another fairly decent year. After almost two years when the support price was the primary factor affecting farm milk prices, the previous combination of factors brought prices up rapidly in 1978. Producers received an average $11.20 per 100 pounds of milk near the last of the year, up more than 10% from both a year earlier and the seasonal low in June. These higher returns are likely to push total cash receipts from dairying past the $12½ billion mark in 1978, or up approximately 7% from 1977 despite slightly smaller marketings. Higher cull cow prices and improved off-farm-employment opportunities are credited with the 1% decline in cow numbers that occurred during the past year, although large numbers of replacement heifers moderated the total market impact. With comparatively younger milk strings and the most favorable feeding ratios since 1969, herds will be better fed and should increase their output of milk. However, low commercial storage stocks will need to be replenished, and expected consumer demand should push sales of retail dairy products past the 120-billion-pound mark for the year. If 1979 milk output and commercial use develop as anticipated, purchases under the price-support program could be fairly small and manufacturing grade milk could average somewhat above the support level. Farm prices of all milk should average 6% to 10% higher in 1979 than during 1978, and retail prices will reflect similar gains.

Higher prices for replacements have had some effect on the industry, because steer and heifer calves not intended for herd replacements have been held and sold as yearlings or feeders. In the past, a good number of dairy calves would find an outlet in the vealer category, but the latest federal inspected slaughter report indicated a 33% reduction in vealers. This trend will continue for the foreseeable future.

Cotton — to date, the 1978-79 season has been on the tightening supplies and strong prices. Acreage planted to cotton next spring will depend mainly on the price of cotton relative to those of competing crops, especially soybeans and grain sorghum. Prices for all three have increased since last spring, with cotton experiencing the sharpest rise. Assuming no acreage set-aside or diversion program, recent price relationships point toward nearly 14 million acres of cotton in 1979. Planted acreage in the Delta could range from three million to 3.4 million acres, 700,000 to 800,000 in the Southeast; 7.1 to 7.5 million in Texas and Oklahoma and 2.2 to 2.3 million in the far West. Anticipated low levels of foreign cotton stocks next August, coupled with larger U. S. exports, portend a good year for prices. However, a major factor affecting domestic producers will be the degree of expansion in foreign-cotton acreage this year in response to higher crop returns. Cotton producers also will be faced with higher production costs in the form of farm labor, fuels, utilities, seed, machinery, interest rates and real property taxes. In summary, market conditions indicate 1979 cotton production exceeding disappearance with prices trending lower. • •

As Result of Fed's Tightening Moves–

Dampening Influence Foreseen On Lenders and Borrowers

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FED POLICY currently is beginning to work — in contrast with arguments by many to the contrary — as an effective dampening influence on both lenders and borrowers. This financial bite, moreover, is likely to bring about a desired slowing in economic activity, perhaps sooner than many think.

In the current extremely volatile and unsettled money-market conditions, borrowers have attempted to turn to banks. But there's no guarantee funds will be forthcoming automatically from banks, since they have found increasing difficulty and cost in raising lendable funds in the CD market. It's precisely in such conditions that consumer and business borrowing decisions are altered and spending downgraded.

Since August, monetary authorities have shown how a determined series of tightening steps, paced to an ever-increasing extent ahead of market expectations, can promptly have dramatic financial effects.

The Fed initiated a series of sustained, but generally predictable, tightening actions last spring. Specifically, in response to accelerating inflationary pressures and related excesses in two-month monetary growth, the Fed raised its target for the weekly fed funds rate to 7⅞% in July from 6¾% in April. Over the same period, the Fed raised the discount rate to 7¼% from 6½%.

Unfortunately, these Fed tightening actions generally under-performed relative to market expectations. Moreover, the Fed's restrictive credibility was shaken severely by at least three widely publicized events. *First*, the Fed chairman voted against a discount rate hike to 7¼% from 7% in late June; he later recanted, but the damage was done. *Second*, monetary authorities at the July Federal Open Market Committee (FOMC) meeting faltered in considering (though not acting on) a proposal to increase in the upper limit of the Fed's 4%-6½% target range for annual M_1 growth. *Third*, the Fed chairman predicted repeatedly in the summer months a near-term peaking in interest rates, leaving the impression that credit would remain abundant to all who wanted it, regardless of inflationary implications.

Beginning in mid-August, however, monetary authorities suddenly have risen to the occasion. They have provided a remarkable demonstration of how a determined series of tightening steps, paced to an ever-increasing extent ahead of market expectations, can promptly have dramatic financial market effects. Over the relatively brief interval from August 15 to November 2, the Fed took no less than 11 identifiable firming steps. In line with its firming intentions, the Fed raised its target for the weekly funds rate to 9⅞% from 7⅞%. Adding visibility to its snugging actions, the Fed, over this same period, increased the discount rate to a record 9½% from 7¼%, with the last two increases (October 13 and November 1) carrying the most clout since they were largely unexpected.

On the heels of these recent breathtaking Fed tightening moves, money-market participants have become increasingly uncertain over the cost and availability of funds. This is where the real bite of monetary restraint first occurs — even though it may not be evident immediately in quantifiable measures such as M_1 (currency plus demand deposits). The real bite is psychological — it takes the form of an unsettled attitude of lenders and borrowers, as Fed actions exceed their expectations.

In such circumstances, borrowers typically turn increasingly to banks and away from disorderly money-market sources of funds such as commercial paper or Eurodollars. However, banks run immediately into difficulty in obtaining lendable funds to meet these unexpectedly stepped-up borrower demands. The CD market, in particular, recently has become increasingly unsettled (to the point of suddenly emerging fears of no funds availability whatsoever at the end of October) as dealers in these money-market instruments have sought to avoid taking positions out of fear of greater-than-expected interest-rate increases. Reflecting these fears, secondary market rates on six month CDs had surged to 10.5% by the end of October from 9.2% only a month earlier. Comparable increases have occurred in Eurodollar rates and in rates on other money-market instruments.

The fed funds rate should fall to perhaps 9% by mid-1979 and then, assuming the sluggishness in economic activity becomes more pronounced, drop to 7% or below by the end of this year.

Interest-Rate Outlook. Against this background, short-term interest rates were likely to edge higher over the near term and then remain on a high plateau through the end of 1978. In the likely event there are signs of a slowing in economic activity, possibly reflected in some letup in monetary aggregate growth, the Fed may respond with a slightly more accommodative policy stance in the early months of 1979. Accordingly, the fed funds rate should fall to perhaps 9% by mid-1979 and then, assuming the sluggishness in economic activity becomes more pro-

Mr. Jones' article is based on the talk he gave at the 64th annual fall conference of Robert Morris Associates early in November.

nounced, drop down to 7% or below by the end of this year. Similarly, the prime rate should ease back to 10% by mid-1979 and then fall to 8% or so by the end of 1979.

After a possible temporary dip in early 1979, longer-term rates should remain relatively high through a good portion of 1979 in the face of a continuing high base rate of inflation. The interest rate on 30-year Treasury bonds generally should hold in an 8.45-8.75% trading range, and the rate on corporate bonds (Aa utility new issues) in a 9.15-9.45% range. Some sustained easing in these longer-term rates, however, is possible in late 1979, depending on the extent of the expected slowing in economic activity and in related private credit demands. ● ●

RMA's Highest Honor Goes To Immediate Past Pres.; Other Awards Also Given

Willis F. Rich Jr., immediate past national president, Robert Morris Associates, received RMA's highest honor, the Distinguished Service Award, during its 64th annual fall conference in Dallas last November. Mr. Rich is executive vice president, Northwestern National, Minneapolis.

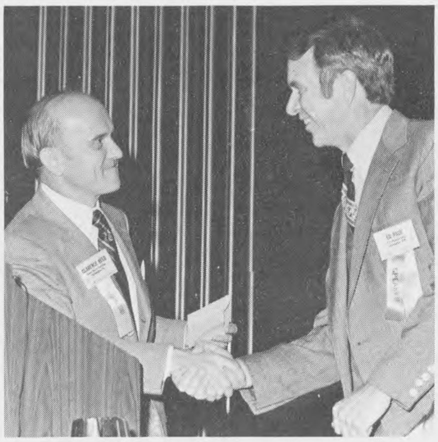
Also recognized for distinguished service was John W. Ingraham, vice president, Citibank, New York City.

The award is given for outstanding service to the association as a past member of the national board and as a constant participant in, and contributor to, RMA activities and projects at the national and local chapter levels. In addition to outgoing presidents, only 48 members previously have attained this honor since RMA was established 64 years ago.

During the conference, the following awards also were given:

Certificates of appreciation — George R. Baker, executive vice president, Continental Illinois National, Chicago; Paul G. Black, vice president, Malden (Mass.) Trust; Frank H. Odell, president, State Bank, Albany, N. Y.; Vincent Thompson, president, First National, Garland, Tex.; and Tom J. Vance, vice president, North Fort Worth Bank. The first three were outgoing RMA directors, and Messrs. Thompson and Vance were conference chairman and vice chairman, respectively.

Journalistic excellence — Edmond E. Pace, vice president, First National, Albuquerque. This award is given each year to the author of an article judged to be the best one written by a member and published in RMA's monthly *Journal of Commercial Bank Lending*. Mr. Pace actually wrote or collaborated on 12 articles in a series that covered a one-year, basic loan-training program for a bank.



Edmond E. Pace (r.), v.p., First Nat'l, Albuquerque, is congratulated by Clarence R. Reed, Robert Morris Associates e.v.p., for winning RMA's award for journalistic excellence during annual fall conference in Dallas.

These photos were taken at Robert Morris Associates' annual fall conference in Dallas last November:

TOP: Chicago Chapter officers and spouses (l. to r.) are pres., Herbert A. Dolowy, Lincoln Nat'l, and Mrs. Dolowy; 1st v.p., John L. Korun, Continental Illinois Nat'l, and Mrs. Korun; 2nd v.p., Rhea P. Moody, Lake View Trust, and her husband, RMA associate Phillip L. Bond, BancOhio Corp., Columbus; treas., Audrey G. Landerholm, First Nat'l; and sec., Curtis P. Goter, Harris Trust.

CENTER: Ohio Valley Chapter Officers and wives (l. to r.) are pres., James O. Timbrook, American Nat'l, Muncie, Ind., and Mrs. Timbrook; 1st v.p., Wesley F. Cleaves, Winters Nat'l, Dayton, O., and Mrs. Cleaves; and sec.-treas., Donald R. Lurding, Liberty Nat'l, Louisville.

BOTTOM: RMA's Texas Chapter was host for 1978 conference. L. to r. are: conf. ch., Vincent Thompson, First Nat'l, Garland, and committee ch.: James A. Donnell, Oak Cliff Bank, Dallas; J. Wayne Gaylord, Mercantile Nat'l, Dallas; C. A. Mitts, Continental Nat'l, Fort Worth; chapter pres., Richard J. Goebel, Texas Bank, Dallas; Allen Sanders, First Internat'l Bancshares, Dallas; A. James Grant, Texas American Bank, Dallas; and Allen W. Kimberly, Republic Nat'l, Dallas.

Writing competition — Roger K. Nordgren, assistant manager/credit department, First Security Bank of Utah, Salt Lake City, who received this cash award for his paper on "Lease Accounting and Financial Statements." It was chosen from among papers that had taken top honors in competitions held earlier last year by several RMA chapters around the country. Mr. Nordgren's paper was entered by RMA's Mountain States Chapter.

Second place in this competition went to James R. Reynolds, banking officer, Mercantile National, Dallas, for "Lending in a Troubled-Debt Situation," which was submitted by RMA's Texas Chapter.

Michael G. Sloan, assistant vice president, Bank of America, Long Beach, Calif., won third place for his paper on "Evaluating the Small-Equipment Lessor — an Approach to Bank Financing." The paper was entered by RMA's Southern California Chapter.

Coin/Currency Standards Dating Back to 1947 Are Modernized by ABA

WASHINGTON, D. C. — The ABA has modernized standards for packaging all U. S. coins and currency following a 2½-year review of the original 1947 standards. The ABA standards policy board approved the standards, which will become effective July 1.

All dollar coins will be packaged in \$25 amounts instead of the present \$20 rolls. In response to U. S. Treasury and Fed requests, the ABA will continue to use gray wrappers on all dollar coins, both the new and smaller "Susan B. Anthony" and the older and larger dollar coins.

Another major change will require that at least 51% of coin rolls' and currency straps' surface area be of the designated color.

A modernized coin and currency wrapping standards brochure, which will identify colors by the standardized Pantone Matching System (PMS) method widely used by the printing industry, is being developed by the ABA.

The Economy in 1979:

• Real Output/Corporate Profits to Decline
• Inflation: Double Digit by Mid-Year
• Consumer Price Index to Rise

By W. DAVID WOOLFORD
Assistant Vice President
First National Bank
Chicago

HOW DO WE see the consumer in 1979? Nothing revolutionary: The keys remain (1) employment and (2) inflation.

For the next few months, I would be surprised *not* to see reasonably firm employment gains. Manufacturers are optimistic. The surge in service-sector hiring is slowing, but I don't think we've seen the full adjustment to higher energy prices that has increased the economy's overall demand for labor and accelerated growth in labor-intensive sectors. These employment gains will be a plus for sales. However, I don't expect this will be reflected immediately in a strong Christmas season. Retail sales typically move in spurts, and gains in August and September had pushed savings rates well below trend. The consumer will take a breather — particularly since equity markets, which had sported a 6% gain in the three months ended in September, now are off by close to 10%.

I don't expect — though some of my colleagues do — that this breather will dip the economy into recession early this year. I expect consumer spending to come back in 1979's first half.

The second half looks more stormy, however. Those big pork supplies that were to offset higher beef prices haven't materialized, and while current feed-lot figures should take some pressure off for near-term beef-price increases, we can expect sizable price hikes by the second half of 1979. The second half also will be when the higher social security tax rates have their biggest bite. America's middle class may be vaguely aware that the customary upturn in aftertax paychecks in the fourth quarter, after social security taxes are paid up, is likely to be missing in 1979, but actually experiencing that reality can, nonetheless, be temporarily disconcerting. A higher social security tax bite, of course, is *supposed* to be offset by recent reductions in income-tax rates. However, that's true only on the lowest brackets and only if we ignore the fact that, simultaneously, inflation will be pushing people into higher brackets.

To what extent will firms follow the President's voluntary guidelines? Because enforcement efforts will emphasize the largest 400 corporations, there will be incentives for "cooperative avoidance," a polite euphemism for artificial invoices.

The potential for second-half employment gains is going to be dependent on businesses' attitude toward an economic environment that already has one foot in price controls. Hallmarks of business behavior in this expansion have been caution and balance. Their conservatism has paid off: After-tax profits in 1978 will show a gain of nearly 17% from 1977. Year-to-year production gains have been among the best of the past two years, and producers apparently have made the transition from a consumer orientation to business equipment while keeping inventories in balance. Backlogs have grown at 20% rates for several months, and their strength is reflected in improving business confidence. Gains also are impressively well balanced, with no evidence of the disproportionate run-up in raw-material backlogs that created the shortage phobias of 1973-74. Also visible are much lower consumer backlogs, a reflection of cautious-order behavior by both retailers and manufacturers.

These conditions are *not* the usual backdrop for recession. However, housing *will* weaken — to perhaps 1.5 million units by late this year — because at today's interest rates, builders are nervous. That merely might stimulate pressures for higher home prices and encourage further consumer borrowing, but my guess is that builders are right, and consumers are about to enjoy much smaller gains in housing values. Past price increases already have anticipated double-digit inflation rates in 1979. When housing appreciation slips below the inflation rate, consumers would feel less wealthy and their buying plans could be revised drastically. This has the *potential* to turn what should be only a small adjustment into a deep recession.

At the same time, the current environment is going to put businesses' commitment to caution and balance to a severe test. One open question is the extent to which companies will follow the President's 7%-5¾% voluntary guidelines. Since enforcement efforts will emphasize the largest 400 corporations, there will be incentives for "cooperative avoidance," a polite euphemism for artificial invoices. The 7% wage guideline is of particular interest to me, however. Current labor-market pressures are inconsist-

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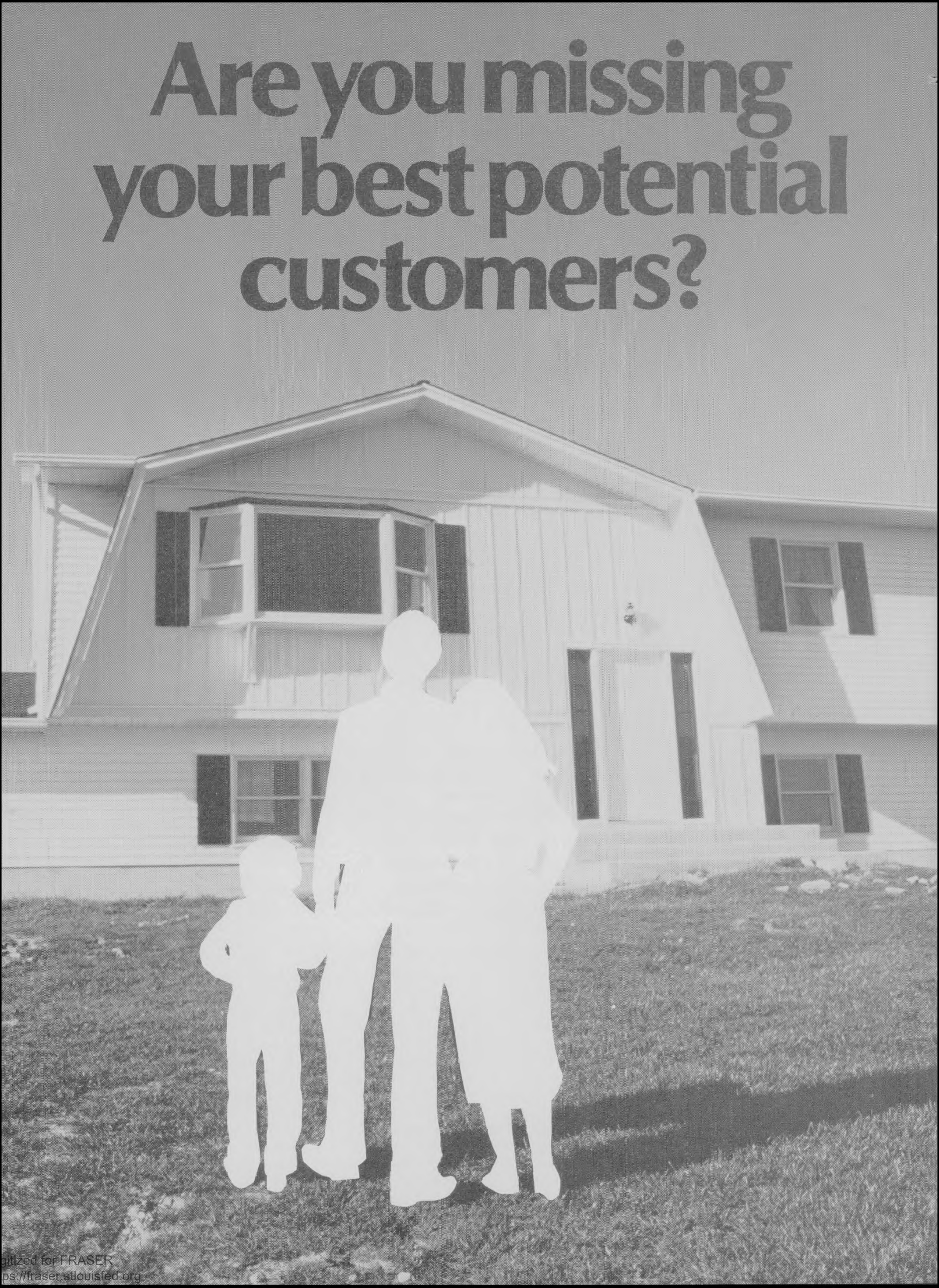
This article is based on talk given by Mr. Woolford at First Nat'l of Chicago's 32nd conference of bank correspondents last November.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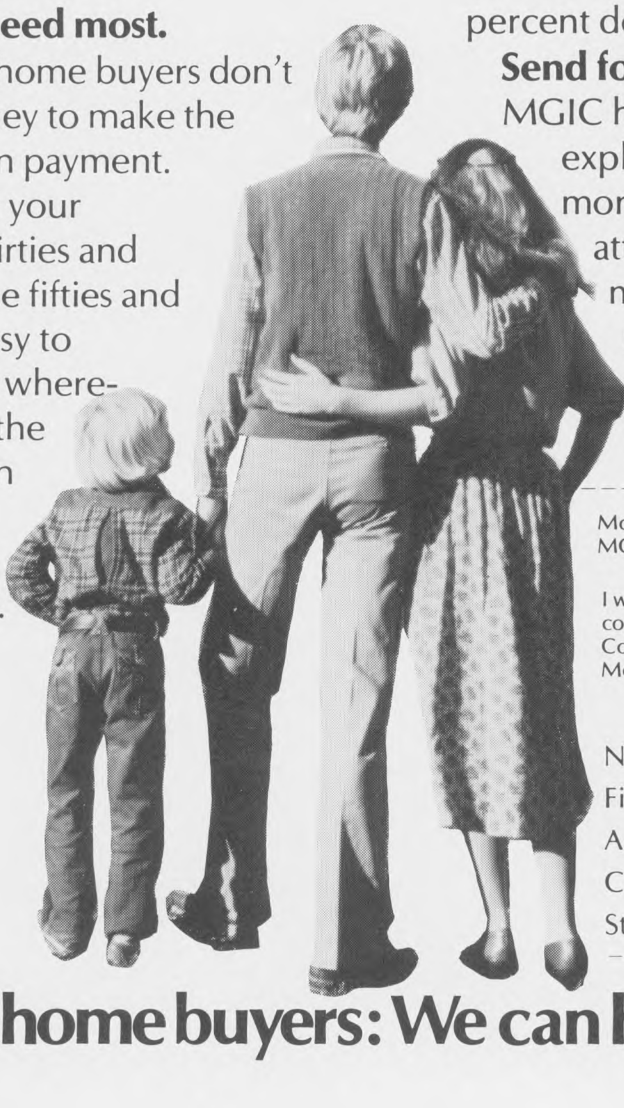

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ent with this goal, with non-union wage increases alone already registering 8%+ increases. Unions, whose wage increases often trail this average because they were negotiated in the looser labor markets of late 1975 and 1976, are unlikely to settle for less than parity.

How many companies will go along with the guidelines? One way to find out is to ask them. Another way, and one that suggests a somewhat different answer than do recent surveys, is to note that under these circumstances, guidelines heighten the probability of potentially crippling strikes. If management's determination for 7% were *that* strong, I would have expected evidence of precautionary inventorying by this point. After all, many raw materials are ordered out through February — cold rolled steel is out through January. Precautionary inventorying should have started. It may yet. If it does, you'll see it first — as higher credit demand.

Wage and price guidelines are a modest attempt to break into the cycle of price expectations and wage increases. But in the unfortunate aftermath of our previous experiments with controls, the atmosphere is totally cynical. Nor has the Administration helped its own case. If mandatory controls are to be the price for failure, where's the incentive for compliance?

The guidelines conceivably *could* act as a *supplement* to moderating monetary expansion and thus head off a confrontation between even higher inflationary expectations and the ultimate need to turn sharply restrictive — a confrontation that must end in recession. This should be accompanied by an additional tax cut to spur labor's acceptance of lower wage settlements and not an uncertain rebate that serves only to protect organized labor's share of national income. But there is little precedent for even such intermediate-term policymaking. Instead, independent of political stripe, our policy has been only to react to crises, not to anticipate them.

There has been one constant to all of this, however: Results of successively more accommodative monetary policies, over the past three years, can be seen in this table. Acceleration in inflation, from just under a 5% rate late in 1976 to a current rate of almost 8%, has come hand-in-glove with a comparable acceleration in monetary expansion. As long as money supplies rise faster than prices, there can be quite a party. The hangover comes when prices catch up and overrun the money stock — as they must eventually. There's no simple Alka-Seltzer for this hangover. Wage and price guidelines alone can't neutralize this pressure, and controls merely intensify it.

Personally, I would put the probability at under 50% that we can still combine a moderate shift to further restraint, a meaningful tax cut and deregulation to avoid recession in 1979. That's really too bad, because both business and the consumer actually have played by the rules: They've played a relatively cautious and balanced game to this point.

A weakening is foreseen in housing — to perhaps 1.5 million units by late this year — because at today's interest rates, builders are nervous. This may stimulate pressures for higher home prices . . . further consumer borrowing.

I think we must expect renewed assaults on the dollar: Our domestic cynicism over wage and price guidelines is more than matched by foreign sentiment.

The current expansion should easily reach its fourth birthday (March, 1979). In this environment, however, it won't live to see five. Nor do I think it will be *that* easy a recession. These are the figures I'm using:

• Real output, currently almost 4% above 1977, will grow through the first half of 1979. It will be the second half of 1980, however, before output is back to that peak.

• Corporate profits are higher than anyone expected. By early 1980, however, they'll be off roughly 20% from today's levels.

• Inflation will hit double-digit rates in mid-1979. Over the next 12 months, the Consumer Price Index will rise 9%.

I'm afraid that may err toward optimism. • •

Bank's Market

(Continued from page 10)

the institutions listed as competitors.

Mr. Carner points out this information is useful not only for the marketing department, but for corporate and top management planning. One of the important things, from top management's viewpoint, is whether a trend or development was seen as bad for all banks or just its own bank.

In addition, as one notes the continuation of the bank HC movement, BANCPEN can provide those interested in constructing a bank HC network with information about the banks the HC might become affiliated with. The bank can make a comparison with the total market. Client banks also are able to see whether they would be breaching any state regulations on bank concentration. For example: if they were to acquire a candidate for their HC.

It's interesting to note that the market for BANCPEN is in the Midwest, specifically in those states that don't have actual branch banking. This is because branch banks tend to reduce the total number of banks operating within each state. Furthermore, the Fed, in compiling the data, prepares it in a form that doesn't break out branches from aggregate data.

There is enjoyment in seeing one's students innovate and make contributions to banking. I believe this new firm has provided a service that's of special help to modest-size banks, especially those located in unit-banking states. The typical unit bank can't afford the time, money and effort to put into a computer program such as Mr. Carner sells.

Every bank should have complete information on a five-year penetration of its market in various categories. These include total deposits of individual partnerships and corporations, time and savings deposits, analysis of market penetration stated in percentages and a breakout of time and savings deposits in denominations under $100,000.

I wish I had had such information at my fingertips when I was working in a bank so that I could have seen how it was performing in comparison with its competitors! • •

Republican-Backed VISA Card

NEW YORK CITY — Manufacturers Hanover Trust is offering Republican-sponsored VISA cards to registered Republican city voters. The bank will pay the party's national committee a standard one-time finder's fee of $2.50 for each Republican-sponsored card accepted. The plan is limited to New York State.

The bank has conducted similar new-account-acquisition programs and currently operates a private-label program.

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Investment and Profit Growth Foreseen In 1979 by Commercial Finance Industry

INTEREST RATES SOAR. Inflation spirals upward. Cost of living index doubles. Credit allocations feared. Recession looms.

In recent weeks and months, such headlines have been splashed across the pages of newspapers and flashed across our TV screens. Scrutiny of the economy has become the order of the day. By the Administration. By economists. By Wall Street. By banks. Virtually everyone has — or should have — a real concern about the uncertain state of our economy.

We in the commercial finance and factoring industry are no different. The secured lender surely does not operate in a vacuum. Naturally, we and our customers are vitally affected by the level of interest rates, inflation and availability of money. Yet, perhaps surprisingly to those unfamiliar with our industry, the commercial finance business is ideally positioned to cope with and benefit from an uncertain economy.

This year should see more situations where commercial finance companies and banks will work together in more than a normal number of situations that call for participating loans.

Soaring costs and flying inflation certainly pose a loaded double-barreled threat to business. There are many differing views on interest rates, inflation and whether there will be a recession or the effect on business of such a downturn in the economy. The commercial finance and factoring industry has a mixed view on the year ahead, but there's a general feeling that, while the present environment can pose potentially serious problems to business, there likewise is a cautious optimism on the industry's part that we should be able to adjust readily to the events that might come.

By RUSSELL B. DONAHUE
Chairman
National Commercial Finance Conference

Russell B. Donahue is e.v.p., Associates Commercial Corp., Chicago. Nat'l Commercial Finance Conference is association of commercial finance and factoring industry firms.

Our type of lending is geared to less-than-giant businesses that frequently are undercapitalized. In a cloudy economic climate, many such companies will be hard pressed to obtain adequate financing from their traditional lending sources. Still others that are presently commercial finance users and that are being battered by rising costs will turn to our industry for ever-increasing amounts of funds.

We share the concern of small and medium-size businesses as to the effect of prime rates approaching 12% to 13%. Likewise, we're concerned with the attendant problems that come in a period of rapidly rising costs, a slowdown in turn of receivables and unbalanced inventories. Our industry, however, does have a track record for providing money to businesses in their times of need, and 1979 is likely to qualify as a needy financing year. It's important to say that the commercial finance industry can, by discriminate lending, help many businesses through such a year as we would see ahead and, therefore, continue to be a consistent support to small and medium-size businesses.

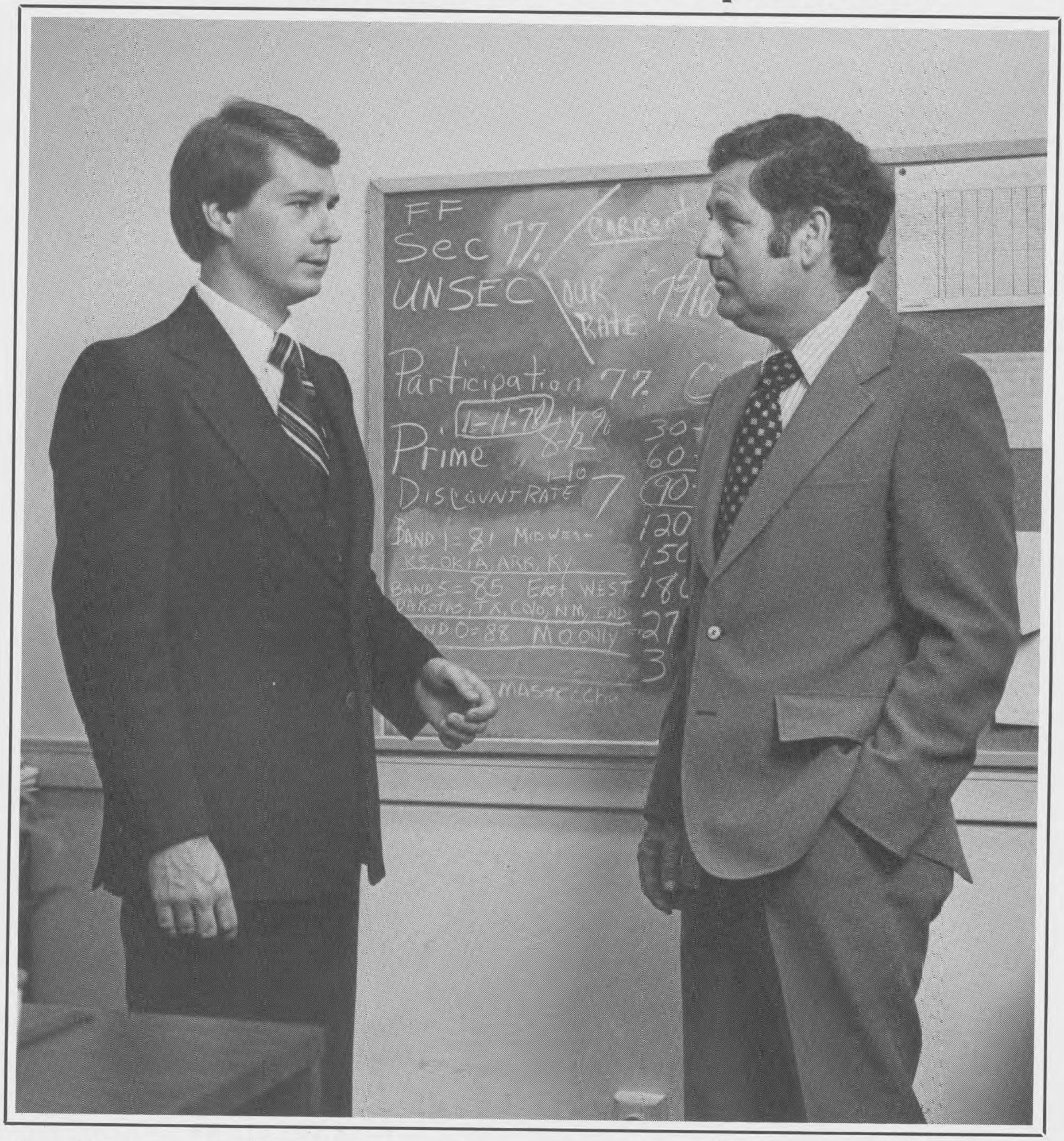
Our ability to manage our resources well in a troubled business climate is predicated on the inherent nature of secured lending. Fundamentally, the commercial finance industry's discipline in policing its collateral paves the way for larger credit extensions. As secured lenders, we keep an ever-vigilant eye on the make-up of our collateral. Our ability to monitor collateral regularly and to stick to basic secured-lending fundamentals enables us to minimize risk both for our clients and ourselves and to maximize our opportunities.

Typically, in times of rapidly rising interest rates, there's a definite money shortage, because high rates and short supply usually go hand in hand. For the immediate future, despite rising rates, there should be an availability of funds for worthy borrowers and for constructive purposes. Therefore, we do enter the year as an industry optimistic that there will be expanded opportunities for lending and more situations where commercial finance companies and banks will work together in more than a normal number of situations that call for participating loans.

The commercial finance industry has a track record for providing money to businesses in their times of need, and 1979 is likely to qualify as a needy financing year.

It's important to repeat that if we stay with the fundamentals of secured lending and do that which we know best, 1979 can be another year of growth in investment and profit. The commercial finance industry in 1979 will, in all likelihood, advance funds in excess of $90 billion to American industry. This should be some 12% or so higher than our loan volume for 1978. ••

Greg Wartman.
Overnight investment specialist.



Greg Wartman, on the left, confers daily with Charlie Greenway, who is in charge of wire transfer and overnight investment functions.

Greg, Charlie, or any one of the correspondent officers is always available for assistance in these matters. Charlie is one of the best in the field and is continually available to help you.

Other specialists in the Correspondent Division are George Dudley, Gene Foncannon, Bill Dexter, John Fowler, John O'Connor, Bill Weis, Dean Howard, Don LacKamp, Bob Shultz and Paul Ward.

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What Lies Ahead in 1979 For Banking Associations?

Top Officers of Six Organizations Give Viewpoints on Major Issues

Thousands of Women Seek Professional Development And Management Training

By ESTHER H. SMITH
President
National Association
Of Bank Women

ALTHOUGH 1979 will be a year of more and greater challenge and competition for the banking industry, I foresee a year of marked, long-term progress. The drastic industry changes to take place this year will begin the realignment of the uneven flow of management talent. Left unchecked, the banking industry's current prob-

(Continued on page 48)

Esther H. Smith is v.p., Commerce Union Bank, Lebanon, Tenn.

ESTHER H. SMITH

Three Priority Issues Face Banking in 1979; All Are Interrelated

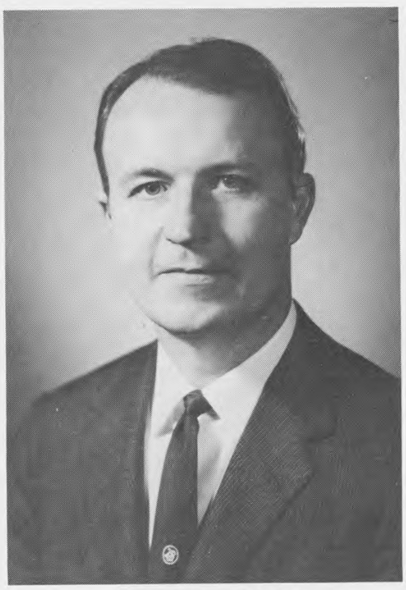
By ARTHUR B. ZIEGLER
President
Bank Marketing Association

BANKING in 1979 faces three priority issues: 1. Pricing. 2. Spread management. 3. Human-resource development. They're interrelated, and all have a major effect on the marketing posture of a bank. Of the three, pricing is by far No. 1.

Complicating the matter somewhat will be the direction of the economy,

(Continued on page 71)

Arthur B. Ziegler is e.v.p., Marine Midland Banks, Inc., Buffalo, N. Y.



ARTHUR B. ZIEGLER

Higher Borrowing Costs Could Bring Problems To Consumer Lending

By CHARLES F. PATTERSON JR.
President
Consumer Bankers Association

TO SAY that 1979 will be a year of problems as well as opportunities probably is a gross understatement. As this article is being written, the prime lending rate had passed 11½% and is headed higher. Continuing increases in this cost of borrowing could bring us many problems in the consumer-lending area.

(Continued on page 52)

Charles F. "Pat" Patterson Jr. is group v.p., Trust Co. Bank, Atlanta.

CHARLES F. "PAT" PATTERSON JR.

IVAN D. FUGATE

1979 Recession Possible, But Impact Won't Be Felt In Agricultural Areas

By IVAN D. FUGATE
President
Independent Bankers Association of America

PIONEER FINNS — when logging Colorado mountain slopes — followed an old country custom of splattering molten lead on icy cold water in a tub on the eve of the new year to get some idea of what the future has in store. They read the random shapes as a portent, just as the English, Irish and Canadians read tea leaves.

That method of prognostication might be just as dependable as this venture into a look down the 1979 road at the nation's economy, but others offering prophecy have varied widely in what they expect. For instance, a Fed spokesman was predicting a growth in the nation's economy of less than 4% in 1979, while a former Fed spokesman from west of the Mississippi was saying a 16% prime rate would not surprise him.

Optimism should characterize our view of the economy during the 1979 year despite dour signals amid the economic life signs. We do not look for a recession, but we could see a dip, call

(Continued on page 51)

Ivan D. Fugate is pres., Western Nat'l, Denver.

EDWIN A. SCHOENBORN

Tighter Credit Ahead, But No Squeeze Foreseen; Loan Demand to Hold Up

By EDWIN A. SCHOENBORN
President
Robert Morris Associates

WHAT'S THE OUTLOOK for commercial lending in 1979?

Let's start with the outlook for the economy. We expect real growth in the Gross National Product to amount to 3.5% to 4%, only a little less than what we think the final figure will be for 1978. This is another way of saying we don't expect any real slowdown in the economy before late 1979 and possibly 1980.

Inflation probably will run at about an 8.5% level, a percentage point or more below the 9.5% to 10% rate that probably will prove out for 1978. But don't be deceived by the drop. It will be more seeming than real. The figure for 1978 was inflated by the unusual strength of the second quarter.

Naturally, inflation will fuel demand for commercial loans. So will capital spending for plants and equipment, which increased about 16% in 1978. We expect its rate of growth to increase slightly in 1979 to 18.5%.

On top of this, inventory accumula-

(Continued on page 50)

Edwin A. Schoenborn is e.v.p., Irving Trust, New York City.

GEORGE EHRHARDT JR.

Most Important Problem Facing Banks in 1979 Is Regulation Paperwork

By GEORGE EHRHARDT JR.
Chairman
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A REPORT by the Washington University Center for Study of American Business, St. Louis, estimates that consumers are paying $66 billion annually in higher prices because of government regulations. Government studies show that federal rules are adding nearly one percentage point yearly to the nation's inflation rate.

A recent BAI survey of bank presidents indicates they are being hindered by regulation paperwork. The survey revealed that government regulations and paperwork are the most important problem area confronting the banking industry. One hundred bank presidents were asked the open-ended question, "To what banking problem would you most like to see BAI address itself in 1979?" The highest number of responses related to the difficult burdens of new regulations and resultant paperwork.

To address itself effectively to this industry problem, the BAI maintains contact with the three federal bank

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regulatory agencies. This rapport enables the BAI to monitor the thinking of the regulatory agencies, thus preparing the banking industry for new regulatory procedures or changes.

Programs dealing with the Community Reinvestment Act, compliance with consumer regulations, call-report preparation and EDP regulatory examinations were presented by the BAI to almost 3,000 bankers in 1978. Plans for this year include these topics, as well as help with other regulatory issues.

Some topics at the Community Reinvestment Act programs are aimed at the vague regulations of the new law. Key questions are confronted at these seminars, such as: What constitutes the community? What sort of record keeping will be adequate to enable the regulatory agencies to make a proper review? How can bankers comply with other important criteria related to a financial institution's obligations toward community investments?

New consumer regulations concerning lending, for example, now require banks to provide their customers with additional forms to fill out. The BAI's educational programs on compliance have helped bankers develop new presentations for customers, utilizing the new consumer-regulation requirements.

In cooperation with the regulatory agencies, the BAI continues to hold regional call-report clinics. These clinics help bankers minimize the risk of call-report errors and possible fines from the regulators. In the past, these particular educational meetings have been helpful in reducing call-report errors by 80%.

New EDP-examination procedures, including the handbook and report form, now are being implemented by the Comptroller of the Currency. Data processing centers serving federally insured institutions now are being examined by a joint regulatory agency examination team. Unified action by the office of the Comptroller of the Currency, FDIC and Fed will eliminate duplicative, costly and time-consuming EDP examinations by more than one regulatory agency. To help bankers interpret and familiarize themselves with what the regulatory agencies expect from these unified examinations, the BAI has scheduled EDP exam clinics to provide concrete and specific answers.

Compliance concerns are commented on regularly in the BAI's quarterly journal, *Issues in Bank Regulation*, and in the monthly *Magazine of Bank Administration*. These articles are authored by leading bankers and the regulators themselves.

While it's true that the amount of federal regulation pertaining to banks and other financial institutions is expensive and in some cases burdensome, there are steps the banking industry can take to alleviate this problem. In a recent speech, BAI President Ronald G. Burke emphasized banking's increasing need for more self-regulation. "If the banking industry creates a vacuum because of neglect, lack of self education or internal discipline," he said, "this void inevitably will be set on by groups that will begin a movement for the government to step in with new regulations."

Perhaps the time has come to take a fresh look at our industry with an eye toward anticipating the regulatory agencies, instead of reacting to them. Increasing competition from savings associations, credit unions, securities firms and other financial organizations has meant an increased competitive environment. Excessive regulation is a cost bankers cannot afford. We must develop more efficiencies with regard to regulation. ••

Thousands of Women

(Continued from page 46)

lem of tapping middle management-level employees will cause headaches for decades to come. Rather than try to locate bodies to fill our management needs, it's time for the industry to reassess its current management structure — the bureaucratic pyramid — and type of employee recruiting, training and development it traps us into.

The pyramid organizational form has been much criticized by management consultants in all fields. Now the era has arrived during which bank management will realize the need to break away from the past and to hook up with a more efficient structure.

The banking industry's move away from the bureaucratic pyramid style of management in favor of the highly successful team concept was predicted by Hank E. Koehn, vice president, Futures Research Unit, Security Pacific National, Los Angeles, at NABW's 56th annual convention last September. Futurists have said pyramid management is doomed because it cannot adapt with the speed necessary in our rapidly changing social and technical environments.

This outmoded style of management has been a contributing factor to our industry's crying demand for senior-management talent. Arch Patton of McKinsey & Co., the international management consulting firm, estimates that from 1985 to 1995, 45- to 65-year-olds will comprise only 11% to 18% of senior management. That's an alarming statistic when compared to figures that indicate that traditionally this age bracket held 60% to 70% of those executive posts.

These projections intimate that the banking industry is in for a severe senior-management drought, similar to the one we're now experiencing at the middle-management level. The industry is faced with the prospect of waking up to find a work force that's overrun with line employees and low-level management, while the ranks of middle- and upper-level management are sparsely populated. That's quite a dangerous spot for us to be in.

This shortage of management talent also offers us tremendous opportunity. The increased need for executive-level bankers affords more women the opportunity to move into higher management posts. As NABW leaders have said before, it's time for banks to tap the talents of one of their greatest assets — women. Because options within the industry increasingly have opened up for women, more and more of them are making long-term and highly motivated career commitments. They are vocal on the subject of their goals for themselves and their banks. As never before, both women bankers and their banks are sharing the responsibility for making the plans of women bankers a reality.

That many women in banking are grouped at middle-management levels is not news, but it does cause futurists to ponder women's role in the banking industry of the future. For example, Mr. Koehn sees the role of middle managers as changing in years to come. As group leaders, these professionals will work in unstructured positions and will link groups with specialists and their skills. I find it particularly interesting that his prophecy for the management structure of the future says women will be faring exceptionally well. He believes women managers adjust to new organizational needs with more ease than men, citing their flexibility as well as their ability to grab hold of the new human concept, with its less rigid role definitions, as prime reasons. As a matter of fact, one of the authorities on women in the organization has about the same estimation of how women succeed in a group structure. Radcliffe College President

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Matina Horner's research indicates that although, on the whole, men tend to feel powerless and react by becoming authoritarian when involved with cooperative work projects, women work effectively under such conditions.

However, predictions and research are not alone in foretelling that women will climb higher up the corporate ladder in the year — and years — to come. The NABW Educational Foundation's experience has proved that thousands of women are stepping forward and reaching out for the management training and professional development that are vital as they move ahead in their careers. As the forerunner in professional-development programs for women in the banking industry, NABW continually is monitoring the needs and desires of this portion of the bank-management work force. Through the NABW Educational Foundation's bachelor's degree program in management, career management seminar, managing executive priorities seminar, management series, seminar on "Women in Management: A Perspective for Male Executives and Management Skills Study Modules," NABW is working to ensure that women are ready to assume greater leadership in the banking industry of the future. • •

Tighter Credit Ahead

(Continued from page 47)

tions are likely to grow at least moderately. So are corporate profits, although at a slower pace than in 1978.

The upshot is that business will need more external financing. Whatever role commercial paper and other markets will play in fulfilling this need, banks will help meet it, too.

Although these trends will have a positive impact on commercial lending next year, negative factors will provide something of a counterweight. For example, assuming the Federal Reserve Board is as aggressive in combating inflation as the government's November 1st dollar-support program suggests it will be, we expect the prime rate to rise to 13%-14%. This trend will discourage some borrowers.

On balance, nonetheless, demand for bank loans should hold up reasonably well. Partly as a result, the credit picture will be much tighter than it has been recently. Yet there won't be a credit squeeze, if by that one means no credit will be available at any price.

Several factors are working to prevent such a squeeze. Regional banks are still making loans. Only in recent weeks has loan demand increased markedly at New York City banks. Furthermore, many large corporations are awash in money, some of which they undoubtedly will continue to advance to the commercial-paper market. Possibly most important of all, the huge Eurodollar market, amounting to an estimated $400-$500 billion, now is much more available for domestic lending.

Foreign banks in this country will continue to have a growing impact on commercial lending, particularly as they expand into states other than New York, Illinois and California. The volume of their loans is sizable. And their aggressive, narrow-margined pricing will have a continuing effect on domestic pricing practices, making spreads on loans much slimmer and further eroding compensating balances. We also can expect continuing, aggressive competition from finance and insurance companies in the lending market.

Because of the strong competition for commercial loans among so many different lenders, we can expect larger banks to pursue their efforts to penetrate the so-called middle market in areas far from their home bases.

The large corporate borrower will turn to banks somewhat more in 1979 for commitments and lines of credit to relieve its anxieties regarding availability of credit and possible credit-rationing schemes. There also will be some corporate borrowing to avoid the high long-term rates now prevailing in the public markets. This temporary return of the corporate borrower will add fuel to demands for credit whenever we reach peak demand during the year, but will abate just as sharply as the corporate borrower's anxieties are relieved, and long-term market rates appear more acceptable.

So far as legislation goes, recent enactment of the bill governing operations of foreign banks in this country is not likely to have a negative impact on domestic commercial lending and may do some good. Among other things, the new law subjects foreign banks to the same branching requirements as U. S. Edge-Act corporations and imposes the same reserve requirements on them as are imposed on U. S. banks. *Ultimately, the new law may foster national bank branching.*

The Community Reinvestment Act also recently went into effect. As you know, it compels banks to do a better job of meeting credit needs of their communities, including neighborhoods where incomes are low or moderate. It may make commercial lending slightly more difficult than in the past and represent a significant step by government toward credit allocation.

New federal law also has made it possible for banks to pay interest on demand deposits. However, it's probably too early to foretell the impact of this development on bank earnings.

Further legislation affecting the nation's banking laws is almost certain to be considered this year. Among other things, the proposed legislation would reduce reserve requirements, encourage membership in the Fed and probably improve the Fed's control over the money supply.

All in all, 1979 looks like an active year for commercial lending. As a result, earnings should continue to grow, although probably at not quite the pace they did in 1978. • •

Recession Possible

(Continued from page 47)

it recession, during the latter part of 1979.

However, the agricultural areas in which a majority of independent banks are located will not feel the impact of a recession. This expectation is based on the fact that rural banks did not take a hard blow during the 1974-75 recession.

A slowing of the economic growth in 1979 is what we reasonably can expect as the attack on inflation takes hold. If the government can reduce budget deficits and hold down the growth of the money supply, 1979 could turn into a good year.

Several factors that contribute to recession are missing, such as excessive inventory growth and capital spending on manufacturing capacity to excessive extent. Money-center banks have been lending money at considerably less than their capacity. As is their custom, rural banks have maintained an admirable liquidity.

Careful observers don't believe there will be a credit crunch, either. No big banks have collapsed, and the long-expected loan defaults by the lesser-developed countries have not materialized.

The bond market has remained stable, unlike the 1974-75 recession, when doubts about the viability of secondary companies raised their interest costs to impossible levels.

As the president of a large New York bank quipped in addressing a Midwest luncheon, bankers are the only businessmen able to raise their prices and claim this helps fight inflation.

A creature just arriving from another small planet could be greeted thus on arrival on our planet earth: Welcome to the war on inflation!

Bankers and businessmen should forthrightly support effective anti-inflation measures, many of which we have been advocating. Public belief in the inevitability of a recession could cause one, and bankers should use their best skills in dispelling this ungrounded fear.

Our prediction is a slower growth rate, not a recession. Such a slowing probably would entail some increase in unemployment, but subsequently lead to a growth in total employment and gradual lowering of the rate of inflation.

We hope that wage and price standards do not become the center ring in the fight against inflation. To control inflation, we must cope with both supply and demand imbalances in our domestic economy. Excessive growth of demand in the U. S. economy has been fueled by government spending and monetary policies that have been too expansive.

Our primary objective must be to reduce substantially and eventually eliminate our federal-budget deficit and slow the growth of government spending. It's true the reduced federal deficit for fiscal 1979, down to $39 billion from $50 billion, is aiming in the right direction, but still much excess spending remains to be whittled in the years ahead.

Such deficits heavily strain the Fed because they represent large additional credit demands that must be met. The central bank has the tough task then of controlling tendencies toward excessive growth of the money supply, which fuel inflation, while at the same time avoiding extremely tight credit and high interest rates that might drive the economy into a recession.

While all of us wish that further increases in interest rates could be avoided, further tightening of monetary policy might be necessary to control the growth of the money supply.

Concentration of consumption in the private sector is a factor contributing to excessive demand. Our nation has too long encouraged consumption at the expense of savings and investment, and inflation is the consequent crop.

The proportion of income that a people saves is important because those savings are available for investment. A big element in our widespread and deep-seated inflation is inadequate investment caused by insufficient incentives for savers and investors.

The tax bill recently approved by Congress is a sign of progress, but much more still must be done to inspire capital investment and business confidence.

We endorse the objectives for controlling costs of government set by President Jimmy Carter in his effort to control inflation and believe key elements in the President's program deserve support of Congress and cooperation of all elements of the private sector.

Voluntary wage and price standards are ephemeral and difficult to implement, but in the face of the enormous inflation problem, this effort also deserves conscientious cooperation of business, labor and the public. ••

Bank Creates Growth Fund For Mid-Sized Companies That Pay Dividends

HOUSTON — Bank of the Southwest has created the Southwest Regional Growth Fund, which will be invested in area growth companies that pay dividends.

This fund was created for qualified pension, profit-sharing and thrift plans and will be managed by the bank's trust division. Primary assets will be equities and securities convertible into equities along with cash reserves.

Designed to complement existing portfolios, the fund will be used to help mid-sized companies that bank investment specialists feel are frequently overlooked.

Portfolio decisions will be based principally on bank trust specialists' original research analysis.

Borrowing Costs

(Continued from page 46)

The consumer's pocketbook is being squeezed by high inflation, with little evidence of abatement. Wholesale prices, which eventually will be reflected in the retail-consumer market, continue to rise. The Revenue Act of 1978 signed by President Jimmy Carter will have little real effect on disposable dollars available to the consumer. What this means is that prices will continue to increase and the consumer will have fewer real dollars with which to make purchases.

Data Resources, Inc., Lexington, Mass., has estimated what it terms "average discretionary income in constant dollars per family." This is money a family has left after paying taxes and buying necessities such as food, clothing, housing, medical care and transportation. This discretionary income has shrunk in constant dollars from $4,700 in 1972 to about $3,400 by the end of 1977. That shrinkage has applied to all levels of income, and the trend is continuing.

As the consumer struggles to make ends meet and as industry faces higher interest costs as well as increased personnel expenses, continuation of the economic recovery is in jeopardy. If consumers decrease their buying, which has been at a record pace, it could send our economy into recession. Most economists agree that we will have a recession; they disagree only on the severity and timing — 1979 or 1980.

According to economist Milton Friedman, "We are going to have a recession, and it could come as early as the first quarter of 1979." If Mr. Friedman is correct, it will mean layoffs and increased unemployment. Young adults who normally are big users of consumer credit may find that where they used to have two wage earners, they may have only one and possibly none. If they have committed themselves to monthly payments based on these joint incomes and one income is eliminated, then credit and collection problems will most certainly occur. As consumer bankers, we will be faced with more delinquent accounts and eventually more credit losses.

We have an obligation to our borrowers to counsel with them and advise them against taking any undue financial risk. Too often, we have been accused of trying to increase the volume of outstanding loans and resulting profits with little if no concern for the borrower. The opportunity to render valuable financial advice and assistance may present itself all too soon. We must be prepared to rework loans and accept lower payments until our customers can get back on their feet. The only other alternative is to force them into an untenable situation and possible bankruptcy.

Latest delinquency figures published by the ABA indicate that after three consecutive years of declining delinquency rates, this indicator now has turned upward.

Anyone who has attempted to collect delinquent loans knows that it gets more difficult every year. Federal legislation, such as the 1978 Fair Debt Collection Practices Act as well as rules generated by various state governments, have tightened methods used in collecting debts. Connecticut, for one, has instituted strict guidelines on methods creditors may use to collect debt. For instance, creditors may not mail bills on postcards (I agree with this) and may contact a debtor only between the hours of 8 a. m. and 9 p. m. This time period may not be overly restrictive, but it points out that creditors are going to have to change collection procedures.

Some banks have adopted the new telephone collection service being promoted and sold by several companies. This allows one person to contact up to 70 customers per hour using a taped message over the telephone. Banks that can justify this type of collection system have reported good results. So much for a problem. Let us now look at an opportunity.

The largest volume of loans in a consumer-loan portfolio normally is generated from the sale and financing of automobiles. Last year was the best overall sales year for the U. S. auto industry in its history. Detroit, as usual, is optimistic that 1979 will be another banner year — one that hopefully will match 1978.

Frankly, I have serious doubts. The cost of automobiles, both domestic and particularly foreign, continues to rise. Due to increased interest rates, the cost of financing is going up while purchasing power of the dollar available to purchase the car continues to decline. This combination could lead to a severe decrease in sales. According to several analysts, General Motors' announcement last November of a 54% decrease in its dividend indicates that the normally optimistic GM management feels that sales may not measure up to predictions.

As cars get more expensive, monthly payments increase and create a strain on borrowers' budgets. Consequently, it has become necessary for lenders to extend terms. In many banks, the 48-month auto loan has become the norm rather than the exception and now 60 months' financing is beginning to appear more frequently.

Banks see an opportunity to assist their good customers in purchasing automobiles with monthly payments they can afford. By extending terms to 60 months, it takes a customer a great deal longer to get an equity position in the car, which could be harmful in the case of an early trade-in. However, customers indicate they are willing to face that problem in the future to be able to enjoy a new car today.

Sixty-month automobile financing is not as new to consumer lending as many people think. In October, 1971, Kanawha Valley Bank, Charleston, W. Va., initiated a 60-month program. According to James Whytsell, senior vice president, the bank's experience has been excellent. The borrower is required to be a homeowner with some equity and to be employed with the same employer for three consecutive years. The past-due ratio has been consistently under 1% since the program's inception.

Admittedly, this program is not for everyone, nor is it for all banks. However, 1979 may be a year when we have to look for opportunities to assist our customers, and 60-month automobile financing may well prove to be one of the methods. • •

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Broad Spectrum of Legislation Facing States in New Year

By ROSEMARY McKELVEY
Editor

USURY-LIMIT INCREASES, banking-structure changes, EFTS and off-premises tellers will be spotlighted on the state-legislative front in 1979.

Both the *Mississippi* Bankers Association and the financial industry in *Missouri* hope to raise interest-rate ceilings in their respective states. In Mississippi, those ceilings now are 10% for individuals and 15% for corporations. The Mississippi bankers want the corporate-loan definition broadened so that *any* loan of $25,000 or more to individuals or to corporations would come under the 15% ceiling.

In Missouri, the ceiling currently is 10%, and an increase to 12% has been recommended. The increase has the support of Missouri banks, S&Ls and representatives of the small-loan industry.

Also in Mississippi, in the bank-capital area, the MBA wants par value of state-bank stocks reduced from $5 to $1 and state banks to be able to have authorized, but unissued, stock, just like nationally chartered banks. Other possible legislation in Mississippi will be in areas of public funds and foreign-bank branches.

In Tennessee, interest rates also figure in legislation. The constitution there recently was amended to remove the 10% interest limitation. The new constitution language requires the legislature to define interest and to set maximum effective interest rates. Therefore, in the next session, major banking legislation will be the definition of interest and passing of new interest-rate legislation. The constitution also provides that if the legislature fails to do this within the next two sessions, all interest rates will revert to 10% simple.

Banking structure again will be the focus of legislation in *Illinois*, where the Association for Modern Banking in Illinois (AMBI) will propose regional multi-bank HCs and three additional limited-service facilities. The proposal on branching/limited-service facilities calls for abandoning traditional branching concepts in favor of a small number of limited-service facilities as follows:

1. Banks would be authorized to establish only one additional limited-service facility per year in each of three years, for a total of five limited-service facilities per bank.
2. Present limited-service-facility statutory home-office protection, which prohibits a bank from establishing a limited-service facility within 600 feet of another bank, would remain in force.
3. The three additional limited-service facilities may be located anywhere within the county or 10 miles from the bank, whichever is greater.

The regional multi-bank-HC proposal would permit 101 of the 107 Illinois banking chains AMBI has identified to put their banks together in regional multi-bank HCs as follows:

1. Five banking regions would be established within the state.
2. Regional multi-bank HCs would be authorized to operate in any two contiguous regions, one of which must be the region in which their home offices are located.
3. HCs would be permitted to acquire existing banks within their areas of permissible operation. The Fed and Justice Department now must provide advance approval of applications for bank HCs to acquire affiliates.
4. Bank HCs would be authorized to establish only five newly chartered (de novo) bank affiliates, with a limit of one per county. All newly chartered banks must be within the permissible geographical area of operation.
5. After date of enactment, newly chartered banks could not be acquired until they have been in existence five years.

According to William D. Olson, AMBI's director of government relations, this legislative package was developed over many months, and its development included a survey of attitudes of all banks in Illinois on multi-office banking, establishment of an AMBI structure committee to develop the proposal, a series of meetings held throughout Illinois soliciting input from individual bankers and a preliminary proposal that was mailed to all bankers in the state asking for their further comments and recommendations.

The proposal was adopted by AMBI's full membership at its annual convention last September.

In Indiana, a variety of legislative items — also including banking structure — may greet the General Assembly this year. In a state that restricts branching to county lines and doesn't permit multi-bank HCs, it's always safe to say there will be bills put in the

Multi-Bank HCs Sought in Oklahoma

A change in Oklahoma's laws to allow multi-bank HCs is the goal of Oklahoma City's First National, according to Dale Mitchell, the bank's president. He appeared before the Dallas Stockbrokers Society late last year and reviewed the current Oklahoma bank structure and what he described as the limitations of this structure compared to the surrounding states of Colorado, Texas, Arkansas and Missouri.

Mr. Mitchell further reviewed recent events in Oklahoma banking that have highlighted what he says is the need for liberalization in the current structure. He said these events include the Comptroller's approval of a branch for a national bank in Okmulgee, an expansion of loan-production facilities in Seminole and recent passage of the Safe-Banking Act.

According to Mr. Mitchell, First National will be working through public education and with the state legislature to bring about a change in the state's laws to allow multi-bank HCs. He explained that this change would increase banking services for the entire state while providing banks with a more liquid market for their stock.

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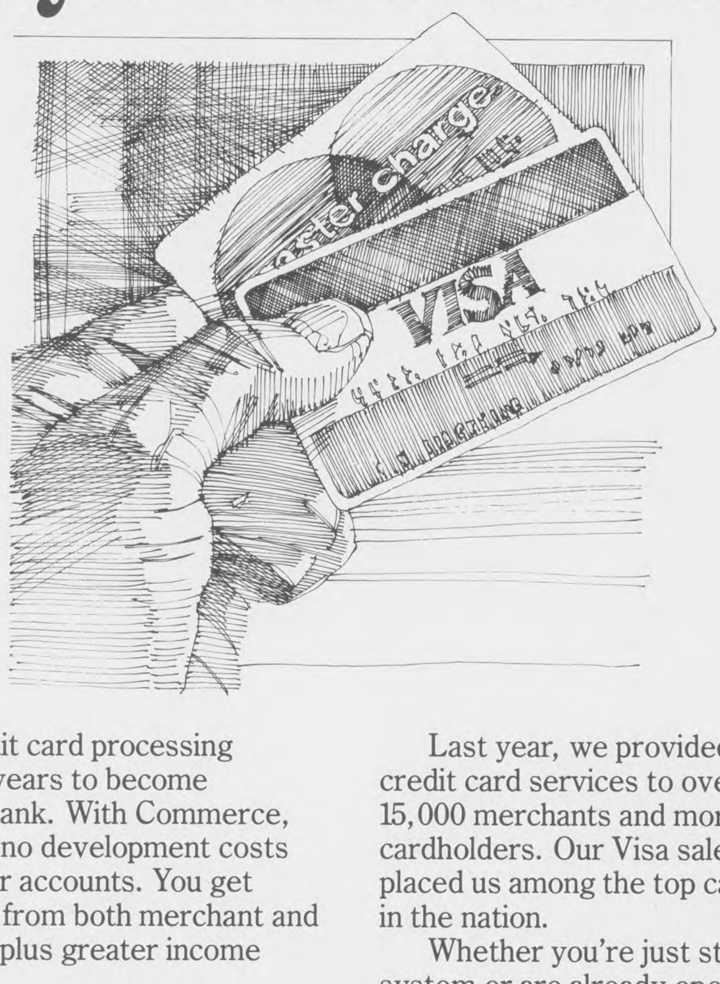

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hopper on these general subjects, says Jan Zigler, secretary, Indiana Bankers Association. The IBA will remain neutral on proposed legislation relating to banking structure, but believes there will be bills seeking privileges to branch on either a regional or contiguous-county basis. The Independent Bankers Association of Indiana will lead the opposition to this type of expansion, and a group of banks known as the League for Economic Development will be supporting more liberal branching.

In the EFTS area, an EFT bill is being drafted by the department of financial institutions, and, says the department's director, James Faris, this bill will be the department's No. 1 priority. Although details of the bill were not known at press time, it was learned that it will provide for statewide EFT terminals (Indiana doesn't have any EFT laws now).

The IBA will propose legislation to permit variable-rate and variable-length mortgage loans. This is an area of some controversy among bankers and consumer groups, says Mr. Zigler, but the IBA takes the position that banks should be given the opportunity to offer their customers more options as the cost of home financing climbs higher and higher.

In possible other areas in Indiana, the IBA is reliably informed that credit unions will have an omnibus bill asking for many new powers, but details are not known. The IBA will oppose any legislation allowing S&Ls to take public funds — for years, S&Ls in Indiana have sought legislation to permit them to be depositories.

At the 1978 session, a bill was introduced that would have established a state investment board composed of five members, including the state treasurer. It also provided for a pooled investment fund. The bill's advocates claimed that an additional $70 million could be earned through pooled investments. There was considerable support for this type of legislation, and the IBA believes it's possible it will be presented again to legislators. In 1978, the bill was defeated in the Senate by a vote of 23-25. The IBA opposed the bill and will do so again this year.

The IBA will introduce a bill on federal inheritance taxes on farm properties. Under a federal law, if a person inherits a farm and continues to farm the land, the federal inheritance tax will be deferred for 15 years. After that time, there will be an inheritance tax due, but at a reduced rate. In the meantime, there's a lien filed against the property for the amount of the tax. Present Indiana law provides that a bank cannot make a loan on property when there's a lien on it. The IBA will introduce a bill to exempt the federal inheritance-tax lien from the law's provisions.

In Indiana, there's a problem concerning multiple taxation. Under the definition of the inheritance tax and estate tax, it would seem, says the IBA, that the reciprocity statute doesn't apply to the estate tax. Indiana has taken the position that where an out-of-state resident has a trust account at an Indiana bank, the trust's assets become subject to the Indiana estate tax at the settler's death although he's an out-of-state resident. The IBA will sponsor legislation to clarify the situation and state that such property would not be taxable for Indiana inheritance-tax purposes or Indiana estate-tax purposes.

The IBA also will propose legislation to amend the Indiana Probate Code so that the state would permit fiduciaries in other states to act in that capacity in Indiana if the other state has reciprocal laws.

In Alabama, the most important work to be done by the Alabama Bankers Association is revision of state banking laws. Ala.BA President William H. Mitchell (president, First National, Florence) has named a blue-ribbon committee composed of 10 top banking lawyers in the state, 10 bankers, association officers and association Counsel Robert E. Steiner III. The committee is working under the direction of the Alabama Law Institute, which will supervise the revision for presentation to the legislature for enactment. The association is confident this legislation will be passed in the 1979 regular session.

In Kansas, legislation allowing payable-on-death CDs and direct deposit of state payrolls heads a list of legislative priorities for the Kansas Bankers Association this year. The KBA points out that new committee leadership in the Kansas House of Representatives, owing to the Republican Party's gaining control of the House in 1978, and a party change in the governor's office should make the session particularly interesting and active.

Also in 1979, there will be legislation proposed to allow CDs to be payable on death, with the KBA's state affairs commission supporting it. Such CDs are not clearly authorized for banks at this time, although such an arrangement can be made with certain U. S. government obligations.

Legislation authorizing electronic deposits of state payrolls will be resubmitted by the KBA, which also will support a bill requiring lien holders' permission before making changes on motor vehicle titles. In addition, legislation dealing with unclaimed personal property in other states, maximum interest rates on first-mortgage real estate loans and simple-interest legislation will be closely monitored. Other issues that may come up this year will deal with local public funds, state public funds, credit life insurance premiums and Kansas garnishment laws.

In Texas, efforts to exempt bank deposits and perhaps other intangible property from taxation probably will be supported by the Texas Bankers Association. This exemption was in HJR-1, which was approved by the state's voters November 7. HJR-1 removes the constitutional mandate that intangible property, such as bank deposits, be taxed.

The TBA staff is working with other groups in re-drafting the Texas Consumer Code for submission to the state legislature. Purpose of the re-draft is to eliminate all disclosure requirements that conflict with or are similar to disclosure requirements of Truth-in-Lending.

The TBA also is working with the state banking department to draft and seek passage of legislation to authorize state banks to have stock-option plans that don't "qualify" under IRS laws and regulations. The Banking Code now permits only "qualified" plans.

Another Texas constitutional amendment approved November 7 would authorize banks to establish and operate off-premises, full-service teller machines. Now, the state legislature will be asked to pass enabling legislation putting that amendment into effect. The amendment is important in two respects: 1. It's *not* proposed that the teller machines have EFT capabilities, but only that bank customers may enter into transactions directly with their respective banks by utilizing such machines. 2. Use of such machines shall be available to all interested banks on a fair and equitable basis, and such machines will not be manned or attended by bank or other personnel. Therefore, deployment and use thereof will not constitute branching in the customary sense where a particular bank may have an exclusive and proprietary interest in a particular off-premises location. ● ●

James Baker Leaves OC Bank To Start Advisory Firm

OKLAHOMA CITY — James V. Baker started an investment banking and investment advisory firm, James V. Baker & Co., here December 1. He formerly was an officer of Fidelity Bank, also located here.

BAKER

Mr. Baker joined Fidelity Bank in 1972 as senior vice president and member of the board and executive committee. He was promoted to executive vice president in January, 1978, and held the latter two posts until his resignation. He said he left "on friendly terms."

Also at Fidelity Bank, Mr. Baker was in charge of the investment and marketing divisions and economic analysis; chairman, asset/liability management committee, and president, Fidelity Advisory Services.

Mr. Baker was chairman of the ABA National Commercial Lending Schools' board of regents and had served on the faculties of those schools. He is nationally known as a speaker and writer on banking subjects.

Before going to Fidelity Bank, Mr. Baker was professor of finance and banking, University of Oklahoma in Norman.

San Francisco Office Opened By Continental of Chicago

CHICAGO — Continental Illinois Corp.'s principal subsidiary, Continental Illinois National, opened a new representative office in San Francisco and new offices of its energy division in Denver and London to meet expanding customer needs.

Roger E. Anderson, chairman of the corporation and bank, said the bank may also expand its representation into South America.

Community Reinvestment Act:

Asset or Liability for Banks?

By RICHARD C. BUDLONG JR.

WHEN THE Community Reinvestment Act (CRA) went into effect last November 6, the entire financial industry was presented with an issue immense in scope, universal in coverage, critical in timing and with the potential to become a significant asset or a burdensome liability. Fortunately, it seems, the industry still has the option to choose which it will be.

Under the CRA, the entire financial community has the opportunity to establish guidelines for reporting in such a way as to meet or exceed all requirements of the law, both stated and implied, and — in so doing — to provide reporting institutions with a great deal of information about themselves that can have profitable application to other areas of their operations. It will be interesting to see how banks and S&Ls respond to the CRA's challenge; whether they seize the opportunity and act or sit back and react; whether they will set high standards or allow standards to be set for them.

What is the CRA's purpose? Its stated purpose is to assess, annually, how federally regulated financial institutions are demonstrating that they are serving the credit needs of communities they serve and the neighborhoods within those communities — including both low- and moderate-income areas. The law itself gives little guidance as to *how* to report, but it's specific in some areas as to *what* information the regulatory agencies are to have access to.

Some features of the act and regulations that are stated or implied are:

1. CRA statements must be available February 4, 1979.
2. Maps are required to delineate service communities.
3. Reports must show geographic distribution of eight different loan categories.
4. Regulatory agencies will assess the performance record of an institution from its CRA statement in a completely subjective manner. No fixed guidelines or standards are specified.
5. A negative assessment can be the basis for denying applications an institution needs or wants in order to operate.
6. The regulation intends to encourage imaginative and innovative responses that ultimately help upgrade community services provided by financial institutions.

In reality, each financial institution has only two options open in regard to CRA statements:

1. CRA statements can be prepared in a passive, nonconstructive, reactive manner that meets the letter of the law, but adds nothing to the law's real purpose, which is to upgrade the community service an institution provides. Such statements may never be questioned. However, such statements, if examined by an agency, could require extensive defense if the agency examiner is not convinced that the institution has done a good job of meeting its community's credit needs.
2. CRA statements can be prepared in an active, innovative manner that supports the real purpose of the law and that explains and illustrates the true meaning of credit activity. Such a report answers an examiner's questions *before he thinks of them* and will provide a management tool that will have other uses in marketing and management roles and that will reduce the annual preparation of statements to a routine, automated and easily accomplished task.

CRA statements' actual requirements are simple. They consist only of a map delineating an institution's local community (geographic distribution of its loan portfolio), a list, by categories, of loans the institution is prepared to extend within its community and a copy of the CRA notice. As a hint that more may be required, paragraph 563.7(e) of the regulation states that the geographic distribution of an institution's credit extensions, credit applications and credit denials will be a factor in the assessment of an institution's performance record.

> RICHARD C. BUDLONG JR. is vice president/director, Marketscope, Dallas, Southwest representative of Continental Financial Corp., Edina, Minn. The latter firm is described as the leader in the field of computer mapping.
>
> Mr. Budlong has consulted with numerous banks and S&Ls on the use of computer mapping of credit data in preparation of Community Reinvestment Act statements.

The previous Home Loan Disclosure Act required that home loans be reported by census tract. As a result of this regulation, the mechanism of using address coding guides to assign a census tract number to an address at the point of loan application was developed for the financial industry. Extending the census-tract-number designation system to the application procedure for all loans allows data accumulation, at no cost, that results in the ability to easily measure, monitor, report and standardize every institution's performance record of credit applications, denials and extensions. Acquisition of this ability to accumulate data geographically offers many other opportunities to the financial industry.

Responsive CRA statements that not only report credit activity, but explain why such activity constitutes a good record provide regulatory agencies with exactly what they want, make everyone aware the industry realizes the real public concern behind the CRA itself and that reporting institutions are doing something to meet that concern.

On the other hand, a non-responsive attitude on the part of the industry could result in further regulations *requiring* adoption of a reporting method that allows the regulatory agency to measure, monitor and establish limits on the ratio of denials to applications that would apply to all members of the financial community. What an onerous development that would be!

A truly complete, valuable and versatile CRA statement can be achieved by combining the required map delineating the local community served by each institution, with additional data maps prepared in an identical manner, displaying a simple ratio of credit extensions to credit applications for each of the eight categories of loans, along with a similar data map that explains what the ratio means. The maps need to be supplemented by a narrative description of the institution's efforts concerning the other items to be

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assessed. Actual credit data tabulated by geographic breakdown also should be included.

The technology, mechanism for data collection and processing and service capability necessary to complete everything except the narrative description of CRA statements are available. Proper utilization of this technology reduces the tasks involved in preparing CRA statements from an undefined and seemingly complex problem to a simple, easy-to-implement, routine and automated procedure. ● ●

Banking Regulations, Interest Rates Discussed at First Alabama Forum

KEEPING the lid on more regulations was urged by Frank A. Plummer, chairman, First Alabama Bancshares, Montgomery, at the recent 32nd annual bank forum given by the HC's major subsidiary, First Alabama Bank, Montgomery. More than 500 bankers and their spouses heard about banking regulations, interest rates, portfolios, lending policies and improved computer services.

Commenting on banking regulations' changes, Mr. Plummer said, "We don't need new laws. We can work with what we have. I think both the banking industry and the regulators have to keep us from further controls, and this can be done if we all move together."

Mr. Plummer believes that interest rates will increase unless "Congress takes positive fiscal action and shows the central banks of the world that we mean business. . . .

"The Federal Reserve has taken the most restrictive action in the monetary field that it has taken in the last 30 years, but you do need that other shoe — a fiscal policy that makes sense," he said.

Portfolio management must be flexible, said James S. Gaskell Jr., chairman and president, First Alabama Bank, Montgomery. "Knowledge of costs that is current, the proper pricing of all services and plain common sense is important, too."

Banking must be able to adjust quickly to today's rapidly changing environment, said Edward Herbert, first senior vice president, First Alabama Bank.

He told the bankers, "Banking must structure its loan portfolios to permit rapid transferral of increased costs to the borrower. Competition is becoming more intense, and we must be ready to accept the challenge. We should be the leaders in the field of finance."

Jack Eley, senior vice president, First Alabama Bank, speaking to the bankers about increasing their loan portfolios through participation in loans predicted, "Interest rates for construction mortgage loans probably will stay at their present levels until mid-1979."

Shown between sessions of bank forum held by First Alabama Bancshares, Montgomery, are (l. to r.): Lynn H. Mosley, pres., First Alabama Bancshares; Annie Laurie Gunter, Alabama state treasurer; and James S. Gaskell Jr., ch. and pres., First Alabama Bank, Montgomery.

Paul Norris, the bank's senior vice president, gave bankers an update on some new banking regulations. Concerning the Community Reinvestment Act, he said, "This act brings us one step closer to credit allocation. Social benefits, as well as practical business decisions, loom as a deciding factor in determining whether a bank should be permitted to expand its services or service area."

Johnny Butler, the HC's regional data processing manager, outlined steps being taken to improve service.

"First Alabama currently is involved in the most significant computer expansion project in its history. At least four separate pilot projects are underway to evaluate available servicing options for correspondent banks." ● ●

Fed Issues

(Continued from page 12)

give up at least a part of its role as a regulator to the other two agencies. The ABA and previous regulators have opposed efforts to restructure the agencies in the past, but the attitude that the current regulators would have toward such proposals is not known.

Members of the government relations council voted to continue their vigorous opposition to payment-order accounts recently proposed by the Federal Home Loan Bank Board for federal S&Ls. Payment orders (check-like third-party-payment instruments) theoretically are non-negotiable and nontransferable, as applicable statutes require. That is, the person to whom a payment order is written could cash or deposit the payment order only at the S&L on which the order is drawn. Interest-rate ceiling on funds in payment order accounts would be 5%.

Chairman G. William Miller of the Fed has said the Fed may treat S&Ls' payment orders as cash items and permit them to be processed through its payments system just as checks are processed, if they meet certain conditions that he suggested. In other words, federal S&L customers, in effect, could write checks on their 5% savings accounts — the equivalent of nationwide NOW accounts at federal S&Ls only.

The ABA is challenging the Fed's ruling on payment-order accounts.

Among broader concerns that will face the 96th Congress, the nation's economy and the fight against inflation are expected to become increasingly dominant.

Following discussion of these issues by the government relations council and the ABA's board, the ABA submitted a statement to the council on wage and price stability, expressing support for President Jimmy Carter's voluntary anti-inflation program.

The ABA also suggested changes in the profit-margin standard the Administration had planned initially to apply to banks. The profit-margin test calls for companies to use the best two out of three years in the 1975-77 period to determine the base standard for judging price increases. The association said that the new profit margin for banking during that base period was at its lowest point in recent years and thus would provide an inequitable standard for judging future bank profit margins. It suggested use of a more representative profit margin test for banks. ● ●

Modestly Good Year Forecast for Banking At St. Louis Conference

By ROSEMARY McKELVEY
Editor

Top officers of Boatmen's Nat'l, St. Louis, are pictured at bank's sixth annual business forecast conference. L. to r., they are: John M. Brennan, ch., exec. comm.; Donald N. Brandin, ch. of bank and of Boatmen's Bancshares; and William H. T. Bush, pres. Mr. Bush recently joined bank from Hartford (Conn.) Nat'l, where he was e.v.p.

A MODESTLY GOOD YEAR was forecast for banking in 1979 by Donald N. Brandin, chairman, Boatmen's Bancshares and Boatmen's National, St. Louis. He made this prediction November 30 at the bank's sixth annual business forecast conference.

Besides Mr. Brandin, top officers of industries in five different categories gave forecasts for their fields and for the economy in general. The conference traditionally is attended by St. Louis-area business leaders.

According to Mr. Brandin, banking will have perhaps a 10%-12% increase in earnings, with this increase including 8%-plus inflation.

Mr. Brandin opened his talk by discussing interest rates because, as he put it, the first question a banker gets these days is, "What's going to happen to interest rates?" His reply was that interest rates would have to go to whatever level it takes to put a brake on inflation. He added he hoped the country would be spared the 16% prime rate, which had been predicted earlier that month by Darryl R. Francis, retired St. Louis Fed president. The challenge, of course, added Mr. Brandin, is to put on the brakes without precipitating a serious recession.

"If in the process of slowing down the economy," continued Mr. Brandin, "interest rates increase significantly in the next few months, loan demand should fall sharply and, in some areas, funds will be scarce, if not unavailable, for housing, certain consumer loans, real estate development loans, etc. In some states, rates already are at or exceed maximum limits or are bumping usury ceilings."

Mr. Brandin told his mostly nonbanking audience that changes in interest rates don't have as much impact on bank earnings as many assume. Whether it's a city, suburban or country bank, he pointed out, there are compensating or cushioning factors that tend to level out earnings, assuming there's not a deep, prolonged recession. He thinks there's a good chance of an adjustment this year, hopefully moderate. The sheer momentum of the economy, according to Mr. Brandin, suggests, however, that such an adjustment, if it comes at all, probably will not materialize until the latter half of 1979. It was on this reasoning that he based his forecast of a modestly good year for banking.

Mr. Brandin also discussed automatic transfers, describing the Fed regulation allowing them as a "major surprise to the banking industry in 1978." He believes the long-run implication of this regulation is that it evidences a willingness on the part of Congress, the Administration and regulatory authorities to go back to payment of interest on all deposits, a practice outlawed in 1933.

Changes in interest rates don't have as much impact on bank earnings as many assume, according to Boatmen's Donald N. Brandin. There are compensating or cushioning factors that tend to level out earnings, assuming there's not a deep, prolonged recession.

The reserve-requirement question, centralization of regulation of banks and bank HCs into one agency and a possible change in the McFadden Act also were discussed by Mr. Brandin. Congress, he said, has commissioned the President to look at the McFadden Act to see whether there should be legislation permitting banking across state lines. Of course, he said, such legislation would have major long-term implications for the industry, depending on how broad the authority would be. Under certain circumstances, he pointed out, it could trigger a wave of mergers of regional HCs into multistate banking groups to compete more effectively with the Citicorps of the world.

The most serious problem facing banking and other industries, Mr. Brandin told his audience, is regulation. In his opinion, excessive and unnecessary regulation is killing this country, and it doesn't seem to make any difference who's elected to Congress.

Agriculture. William L. Brown came from Des Moines, Ia., where he is president and CEO, Pioneer Hi-Bred International, Inc., to discuss the agricultural outlook. He said the recent USDA outlook conference painted a fairly bright picture for agriculture in the coming year: Net farm income should be $26 billion, similar to the estimated 1978 income. Higher production costs are expected to be balanced by stronger grain prices, which hinge primarily on exports expected to be 6% higher or about $29 billion. Agricultural exports, he continued, thus would contribute a net of nearly $15 billion to offset nonagricultural imports. Land values are expected to rise 10%, despite the fact that land prices have tripled in the past 12 years. That means another sizable boost in farm assets.

At that point, Mr. Brown cautioned his listeners that it's perhaps more dangerous to look at agriculture in terms of gross statistics than is the case in most industries. First, there are wide variations in production caused by weather. Second, the U. S. agricultural outlook is tied closely to exports — 60% of our wheat, 40% of our soybeans and 30% of our corn go overseas, and these markets are not as predictable as is domestic usage. Third, unless one is careful, certain statistics, such as total assets or gross income, can easily mislead one into believing that all farmers have benefited equally from

the rise in commodity prices that has taken place since 1972.

The latter point, Mr. Brown emphasized, is related to the heterogeneous nature of agriculture — its lack of uniformity. For this reason, neither means nor medians tell the story of how individual farmers are being affected by today's events.

Getting into the forecasting part of his talk, Mr. Brown said corn acreage in 1979 may not change much from that of 1978, with the relationship of soybean and corn prices probably being a more important factor in determining corn acreage than will the 1979 farm program for seed grains. Supplies of red meat may expand only slightly, primarily because of more hogs being marketed. Prices of raw farm products are not expected to keep up with the general level of inflation.

"This may be good news for consumers," concluded Mr. Brown, "yet they may not see much benefit of stable farm prices due to increasing processing, transportation and marketing costs. For agriculture, it means a year of little, if any, improvement in cash flow compared to 1977-78 and continued financial pressure on cash feed grain producers and cattle feeders."

Retailing. The retailing industry is having its best year in 1978, said Julian I. Edison, chairman, Edison Brothers Stores, Inc., St. Louis. He foresees a good overall economic climate in 1979, and total disposable, albeit inflated, dollars should expand again in 1979, although the rate of increase probably will lessen. Although economists have been predicting lower auto and home sales this year, with higher interest rates dampening such big-ticket items, Mr. Edison believes there will be more dollars in consumers' hands, a broader range of goods to entice them and profound fashion changes that will affect everybody. Thus, with the exception of new home and auto sales, he looks forward with optimism for the economy generally and for the large retailing segment in particular in 1979.

Diversified Industry. The outlook for 1979 is affirmative, said William B. Johnson, chairman and CEO, IC Industries, Inc., Chicago, whose holdings include the recently acquired St. Louis-based firm, Pet, Inc. However, he continued, this outlook needs further evaluation in the next 60 days in light of the wage and price guidelines and higher interest rates. Some degree of national economic slowdown clearly should be expected, said Mr. Johnson, and actually would be helpful in the fight against inflation, our No. 1 long-range threat. According to Mr. Johnson, we must watch labor negotiations and the Carter fight to reduce federal deficits. Inside his own firm, he will watch margins and liquidity, but believes the hard evidence is more optimistic than pessimistic.

Boatmen's Reaches Milestone

Boatmen's Nat'l, St. Louis, celebrated the first anniversary of its acquisition of the correspondent bank division of the former Nat'l Stock Yards Nat'l, Nat'l City, Ill., with an evening party in Boatmen's lobby Dec. 5. Hosts included Donald N. Brandin, ch./CEO; William H. T. Bush, pres./ch. operating off., and William T. Springer, s.v.p. and head of the correspondent banking div. and bond dept. The above photos (all of Missouri bankers) were taken during the party, which was attended by correspondent-bank customers of Boatmen's. TOP (l. to r.): Mr. Bush; Mrs. Matthew Toczylowski; Mr. Toczylowski, v.p. aud., Boatmen's; Rodney F. Hill, s.v.p., St. Louis County Bank, Clayton; and Mrs. Bush. CENTER (l. to r.): Robert E. Finley, e.v.p., Colonial Bank, Des Peres; Sylvester F. Witte, ch., St. Johns Bank, St. John; Richard J. Pfleging, ch./pres., Bank of St. Ann; and Mr. Brandin. BOTTOM (l. to r.): Mr. Springer; Carol Crosbie, Boatmen's marketing dept., who handed Christmas corsages to women guests; Paul H. Knoblauch, pres., First Nat'l, St. Charles; Mrs. Knoblauch; and Mrs. Springer.

Coal Industry. By almost any standard, said Robert H. Quenon, president and CEO, Peabody Coal Co., St. Louis, prospects for his industry in 1979 should be brighter than for 1978, during which the industry suffered a costly United Mine Workers strike, which shut down union mines for almost the entire first calendar quarter. His firm believes total 1979 consumption will be about 692 million tons, or about 4% ahead of 1978. With actual industry production capacity close to the 800-million-ton level, this is a 110-million-ton surplus capacity, which is in existence today.

At present, he continued, roughly 80% of U. S. coal is sold under long-term contracts, most of which have fixed annual amounts, and so it will be producers in the spot coal market who will bear the brunt of 1979's soft market. He pointed out that such producers will be hit from both sides as they are squeezed between lower market prices and sharply higher production costs brought on by compliance with the Surface Mining Control and Reclamation Act, the 1978 UMW wage agreement and the Abandoned Mine Reclamation and Black Lung Trust funds and Federal Mine Safety and Health Act. However, he believes the worst is over for a while and that future increases will come at a somewhat reduced pace.

Paper/Packaging. The paper and paperboard packaging industry expects some continued increase in demand for its products in 1979, said Edwin J. Spiegel Jr., chairman and president, Alton (Ill.) Box Board Co. How much growth will depend on the consumer and how the general economy will respond to the Administration's programs to try to curb inflation. Mr. Spiegel believes there will be a development of tight market conditions for some of his products, and Alton Box Board expects continuing upward pressure on some major cost elements — labor, fiber, energy and transportation. If ways can be found to improve productivity, he said, it's hoped unit costs will not rise dramatically. Profit margins must be improved, he continued, either through increasing sales prices to offset cost increases or through refinement of product mix. Profit margins must be restored to acceptable levels, he concluded, if his firm hopes to be able to provide the productive capacities that will be needed to serve its future customers. ● ●

'Prime Rate' for Small Businesses Unveiled at Commerce Bank Meeting

By KAREN KUECK
Assistant Editor

COMMERCE BANK of Kansas City and all Commerce banks throughout Missouri put a ceiling on interest rates they charge small-business customers effective December 1. This announcement came from Commerce of KC's chairman, James M. Kemper Jr., at the bank's annual economic meeting in November.

The rate is 1½% under the prime rate charged large business borrowers. A floor of 9¾% also was set.

Mr. Kemper said this policy was being initiated because ". . .Commerce Bank feels that the present prime rate of 11½%, with many indications that rates will go even higher, may be detrimental to the well-being of the many small businesses that are so essential to their communities. . . .

"Small businesses are defined as those companies with a net worth of not more than $1 million whose total liabilities do not exceed $1 million and are borrowing for short-term working capital purposes."

Commenting on Commerce Bank's merger with Manchester Financial, St. Louis, Mr. Kemper said, "We are now the fourth-largest banking group in St. Louis and that is after starting about 10 years ago from scratch. So we're very pleased by that record. We think it's just the beginning because we're still very small potatoes in the St. Louis market, and that's the biggest market in the state. Our best market is in Kansas City. . . ."

Keynote speaker C. Jackson Grayson Jr., chairman of the American Productivity Center in Houston, said that curbs to inflation must come from private industry and not the federal government.

Mr. Grayson believes "that unless we change the direction in which we are headed, we're going to lose the character of the private-enterprise system as we have known it and we're going to lose some degree of personal freedom. And both of those I value extremely highly."

He shudders because he believes most people expect the federal government to solve our current economic problems by setting up new laws, creating new taxes and fixing the monetary system.

"I think that to rely on that (Washington) to get us out is going to create further instability in the economic system," he said. "I think we ought to look in the private sector for the answers. . . . In a way (California's) Proposition 13 was that message — it said, 'Look, that's enough.'

"The private sector can have an impact. Look what two men with a piece of paper and pencil going around to other people did — it had a national impact! Now, we can do the same thing collectively by saying we don't like the way things are going."

The first administrator of a peacetime price-control program, the U. S. Price Commission, believes that "the best long-range answer to try to turn things around (curb inflation) is increased productivity."

Controls are not the answer, although they may keep the lid on profits and real wages temporarily, he said. They fluctuate according to the laws of supply and demand.

Mr. Grayson believes that "the only way you can get price reductions if your costs are rising is through productivity. This is because the formula 'cost minus productivity equals prices' is basic . . . and drives any economy."

Productivity is better ways at working smarter, not harder.

"Productivity affects inflation, money and our standard of living," he said. "Everything in life is influenced by how well we do with what we have."

Several factors have influenced the economy to drop from a 3% to 1.5% productivity growth rate during the past several years. As listed by Mr. Grayson, they include reduced investments in capital and research and development, a larger service sector, government regulations, investing in the environment, labor restrictions, work disincentives caused by taxation and welfare programs that make it more attractive *not* to work.

Because he felt that these factors and their relation to productivity needed more study, Mr. Grayson established the American Productivity Center last year. Its purpose is to improve the quality of work life and preserve and strengthen the U. S. private-enterprise system. To do this, Mr. Grayson believes in a diet of increasing economic education, encouraging political involvement and promoting productivity.

Economics should be taught to everyone, he said, and the sooner, the better.

"We should start teaching economics in kindergarten. Give them (children) 'lemonade-stand' economics. And we should start teaching the employees of our own firms."

A 10% 'Prime Rate'

DALLAS — Republic National, like the Commerce banks of Missouri, has established a small-business prime rate. Beginning last December 1, the bank began charging 10% interest on new and renewal loans to corporations with $1.5 million or less in assets.

Also, Republic placed a 10% interest-rate ceiling on short-term loans of $50,000 or less to individuals. Previously, the bank could charge 10½% under a banking law that permits national banks' maximum rates on short-term loans of 1% over prime commercial paper rate within their Fed districts.

"We plan to keep the two-tier prime-rate structure in effect until interest rates moderate and no longer place severe hardships on small-business borrowers," says Charles H. Pistor, president. The same reason applies to capping rates charged to individuals. Usual credit criteria must be met.

The center provides seminars, conferences, courses, tapes, films, books, pamphlets and consultants to industry on a cost basis. Some 22 executives from private industry are on loan to the center while still on their company's payroll.

Mr. Grayson firmly believes that "an uncontrolled marketplace is the only way to stop inflation and increase productivity." ● ●

Manchester Financial Corp. And Commerce Bancshares Complete Their Merger

James M. Kemper Jr. (c.), pres. and ch., Commerce Bancshares, Kansas City, talks with B. M. Lamberson (l.), v. ch., Commerce Bancshares, and George H. Pfister, ch. and CEO, Manchester Bank, St. Louis. Three men were attending dinner celebrating merger of Manchester Financial Corp., St. Louis, with Commerce Bancshares.

Efforts that began in May, 1977, were culminated in November with the merger of the St. Louis-based bank HC, Manchester Financial Corp., with Commerce Bancshares, Kansas City.

As a result of the merger, the three banks belonging to Manchester Financial have undergone name changes. The lead bank, Manchester Bank, St. Louis, now is Commerce-Manchester Bank; National Bank of Affton is Commerce Bank South, and Manchester Bank West County is Commerce Bank West.

A dinner was held November 30 in St. Louis to celebrate the merger, and guests included representatives of St. Louis-area Commerce banks, the three former Manchester banks, top officers of both HCs and their two lead banks and St. Louis civic leaders. Speakers included James M. Kemper Jr., president and chairman, Commerce Bancshares; George H. Pfister, chairman and CEO, Manchester Bank, and George H. Guernsey III, executive vice president of the latter bank.

The proposed merger was announced in May, 1977, and an application seeking Fed approval was filed the following August. Several parties made formal objections to the Fed's Board of Governors, and as a result of passage of the Community Reinvestment Act (CRA) — which didn't become effective until last November — the board held a public hearing on the application in St. Louis last March. On June 16, the FRB approved the affiliation, which was approved by Manchester Bank's shareholders November 20.

Pictured at dinner celebrating merger of Manchester Financial Corp., St. Louis, with Kansas City-based Commerce Bancshares are (l. to r.): George H. Pfister, ch. and CEO, Manchester Bank; James M. Kemper Jr., pres. and ch., Commerce Bancshares; P. V. Miller Jr., pres., Commerce Bank, Kansas City; and Hord Hardin II, pres. and ch. operating off., Manchester Bank.

The former Manchester Bank and the two other banking subsidiaries of Manchester Financial have aggregate assets of about $195 million. Commerce Bancshares' assets totaled approximately $2 billion before the merger. With the three additional banking affiliates, Commerce Bancshares has 36 banks in Missouri.

Life Insurance Program For Correspondent Banks Reaches 30th Birthday

NEW YORK CITY — Manufacturers Hanover Trust, the nation's largest correspondent bank, observed the 30th anniversary late in 1978 of a life insurance program that — according to the bank — affords coverage to more correspondent bank employees than programs offered by any other bank in the U. S.

The bank's correspondent life and accidental death and dismemberment insurance program has paid more than $14 million in life claims since its inception. The program is issued jointly through Metropolitan Life and Equitable Assurance Society.

When it was introduced, the program had about 1,000 lives insured for a little more than $1.4 million in life insurance volume and a total annual premium of $68,600. (Disability protection was added to the original life coverage in 1956.)

Today, the program insures approximately 29,000 persons. Total life insurance in force exceeds $673 million, and the combined premium for life and disability is in excess of $4 million.

The program consists of several different plans, which provide coverage on a multiple of earnings. Flexibility in the program's design allows each correspondent bank to select the plan that best meets its insurance requirements, with an insurance maximum of $250,000.

Last February, says Assistant Vice President Charles R. Burrows, the bank introduced the new, noncontributory outside directors' life insurance plans. Depending on their basic plans, correspondent banks now have the opportunity to provide their outside directors with either $25,000 or $50,000 of group life insurance. Mr. Burrows points out that this protection, coupled with low group insurance cost (the 1977 net rate was 27¢ per $1,000 for life and 3.9¢ per $1,000 for accidental death/dismemberment), has generated a great deal of enthusiasm for this new benefit.

Also last year, Manufacturers Hanover made available group dental insurance and today writes more than 1,200 plans for over 800 banks across the U. S., covering 45,000 employees.

Harris Bank Announces Reorganization of Corporate Domestic Lending Units

CHICAGO — Harris Bank has reorganized its corporate domestic lending units. Four major lending groups have been consolidated into three to concentrate the bank's services on specific markets.

The three reorganized groups and their executives are:

Chicago group, John A. Sivright, senior vice president. Added to this will be a new division serving Chicago-area multinational corporations. Bruce F. Osborne, vice president, will head the new division, which serves Chicago-area multinational corporations. Two other divisions will concentrate on service to privately held companies.

U. S. group, H. Charles Becker, senior vice president. This group is responsible for the dissolved Midwest group responsibilities.

Financial group, Philip A. Delaney, senior vice president. This will continue to serve Chicago-area banks, finance companies, real estate companies and other financial and building companies. Added to it will be the former Midwest group division, headed by Wallace G. Weisenborn, vice president. This group serves the commodities, agricultural, food processing and related industries.

Credit Demands

(Continued from page 32)

likely will reach nearly 12% by early 1979. Our prime rate is expected to rise by 100 basis points to 12% in the next four to six months. That increase, however, compares with a rise of nearly 300 basis points over the past six months. Long-term rates are going to rise by much less — 25 to 50 basis points from current levels for taxable issues — suggesting that AAA corporate bonds now yielding around 9% should move toward 9¼% to 9½%. Municipal markets, however, could trend toward the 7% level on the Bond Buyer Index before all this is over.

Finally, a note of caution. The past 12 months have brought us close to precipitating the kind of catastrophic events we all thought we had consigned to history. The longer we, as a nation, procrastinate over coming to grips with our current problems, the more severe and bitter the repercussions are going to be for all of us. • •

No Slowdown

(Continued from page 27)

1974. If the economy continues to show strength, pressures on both the consumer and corporate sectors could become fairly severe by next year. This lack of liquidity is beginning to show up in the banking sector as well.

First National of Kansas City, throughout its history, always has kept a close watch on its liquidity position. Despite today's pressures, our bank maintains a comfortable liquidity ratio.

Inflation seems to be among the most frequently discussed subjects these days. As 1978 ended, the rate of inflation in this country was approaching 10%, nearly twice as high as it was toward the end of 1976. The impact on the overall health of the economy is severe, and the problem must be solved. Therefore, we believe the Administration's actions last November to strengthen the dollar and fight inflation were badly needed. However, intentions are one thing. Standing fast in the face of pressure in the months ahead will be the real test.

One reason we view the economy with a degree of optimism is the fact that we see it from a different vantage point in Kansas City, the "Heart of America." We have a diversified economy, and the great region we serve always has been less susceptible to wide economic swings than many other parts of the nation. We have the built-in stability of a strong agribusiness segment, which supplies one out of five jobs in our area. This solid base is supplemented by a wide variety of other important business activity.

We look for another good year in our trade area, and there are several reasons. Kansas City has one of the lowest unemployment rates among the nation's major metropolitan areas. Fall rains throughout the territory have brightened the farm-crop outlook considerably, and this comes on the heels of a big crop in 1978.

Other segments of business also are looking good in our city and trade area. For instance, in the third quarter of 1978, Kansas City was ranked first among 22 principal metropolitan markets in per capita retail sales ($4,154), a statistic usually considered a reliable barometer of an area's economic health.

Coupled with this is an overall cost of living that rates about average in comparison with other metropolitan areas. Utility costs are below average; housing is above average, and food, transportation and miscellaneous costs are all either slightly above or slightly below average.

Other healthy signs include the fact that airline traffic has increased significantly; convention activity is showing strong growth, and total value of residential and commercial construction has risen substantially. Effective buying income in Kansas City is well ahead of the national average.

Kansas City-area banks recorded another year of good growth and are faced with relatively few serious problems. First National of Kansas City, for instance, has successfully avoided problems with real estate investment trusts (REITs), tanker loans and other ventures that have created concern for others.

When we look at our assets today, therefore, we see a look of quality. We like that, and we also like our liquidity position.

We see earnings continuing at a strong pace in our bank and the other 19 affiliates of First National Charter Corp. throughout Missouri. Barring an economic disaster, we can handle a large loan demand, and we expect no credit crunch in our area this year.

But overriding all this is a conviction that our nation needs to dampen inflation as a means of offsetting past excesses. Unfortunately, with such factors as rising social security costs, devaluation of the dollar and high unit labor costs combined with low productivity, we do not foresee any significant easing in the next year.

Like many bankers, we think the program to control inflation as outlined by Fed Governor Philip Coldwell makes good sense. He listed six steps including: 1. Temporarily slow the growth rate of the economy to 2½%, which should be enough to sustain current employment levels. 2. Encourage savings and investment with more attractive interest rates. 3. Limit the role of the federal government by deregulation and economizing. 4. Have the courage to support monetary and fiscal restraint over the long pull. 5. Bring together business, labor, consumers and government in a coordinated program of voluntary wage/price controls. 6. Use the revenue from spending cuts to provide tax reductions to keep real personal income growing.

Turning to interest rates, it seems we must expect continuing pressures on both short- and long-term rates, with no quick peak over the next six months.

Perhaps the major area of concern in the current economic cycle is the heavy buildup of consumer debt. High employment rates and the growing feeling of "buy now and pay later" in cheaper dollars have resulted in debt reaching record levels in the consumer sector. Since personal consumption makes up nearly two-thirds of Gross National Product, a loss of consumer confidence, when combined with tremendous debt accumulation, could have a severe impact on the economy late in 1979 or early 1980.

As we look ahead to the remainder of this year, one of the top priorities in our bank will be a continuing analysis of our pricing policy. First National takes pride in the quality of service it provides to banks, business and individuals. We are convinced that proper pricing is essential to the maintenance of quality banking services and acceptable profit levels.

Automatic transfer service is one of the new regulatory creations. While there's no question about automatic transfer being a convenience for some customers, our pre-introduction analysis told us the demand probably would be limited, and this has been our experience since November 1, 1978, when the program became effective. With a majority of all banks offering the same service, the opportunity for any one bank to increase market share with a properly priced product is relatively limited. Our bank is opening a number of these accounts, including some new accounts, with significant balances, but the big re-

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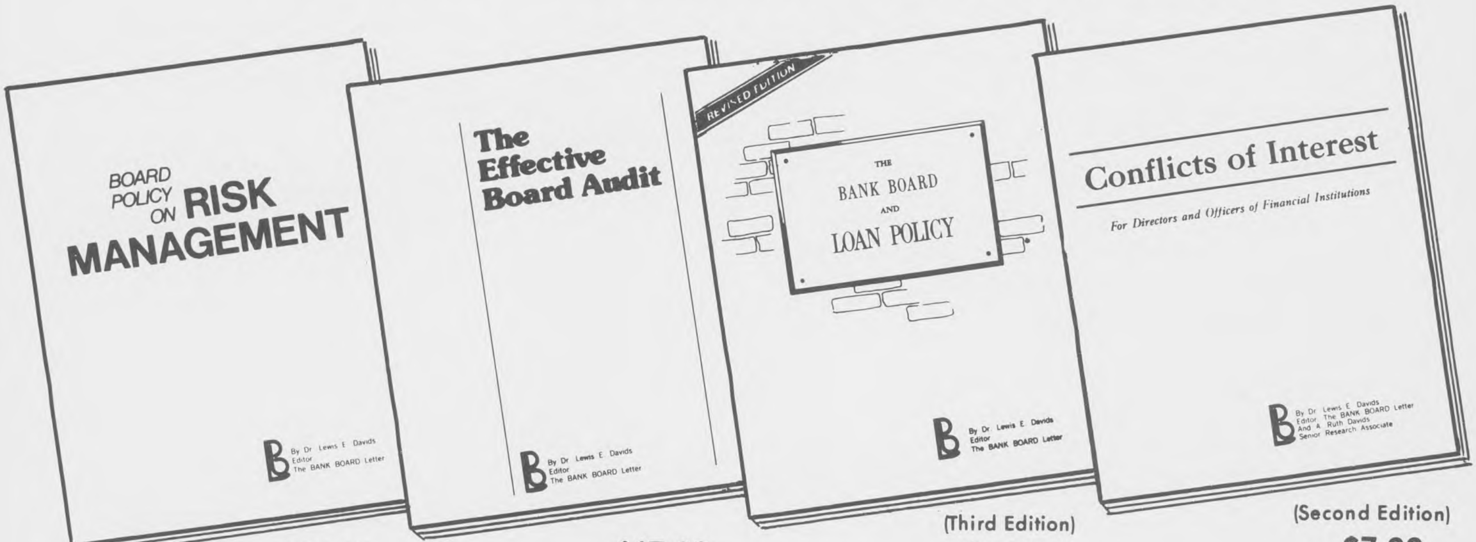

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sponse is from our existing customers. Substantial dollars formerly kept in checking accounts have moved to savings through the automatic-transfer route, where they will earn 5% interest. It's too early to tell whether there will be a negative impact on bank earnings.

However, we look forward to 1979, hopefully, as a year in which the new financial services we offer can be of our creation. This would be a change from the recent past, which has seen a rather steady stream of new bank services resulting primarily from regulatory action rather than from public demand or banking necessity. • •

Good Year Foreseen

(Continued from page 26)

business, but do not add significantly to the measurable GNP output.

We see interest rates at or near their peak now, with a gradual decline to the end of the year, at which time the prime rate will be somewhere around 10%. Similarly, we see fed funds at or near their peak, gradually declining to the end of the year and finishing the year near 9%.

We see a slowing of loan demand, but still a healthy growth at somewhere around 10%, which is not bad considering the cost of money. The decline in loan demand in the middle of the year will be led by a decline in demand for home mortgages — not so much because of rates, since consumers have indicated a continued desire to purchase new homes, but because of restraints of usury laws in many states.

Consumer spending, which has carried the recovery for these past four years, likely will slow but not stop in 1979. Consumer debt in relation to income is at an all-time high, but we believe consumers are accepting more debt as an offset so that at a later date they can retire their debt with cheaper dollars because of inflation. Also, the increasing sophistication of consumers is causing them to purchase assets with a built-in inflation hedge, such as homes, automobiles and other consumer durables that retain their value (unlike the dollar). And, of course, this contributes to inflation.

Investment spending continues to be the laggard that could, indeed, create cause for concern in the long term if we don't encourage the private sector to begin investing in plant and equipment. We believe the rate of inflation will remain near its current levels, although some tail-off in the final part of the year may be possible. This, of course, depends to some extent on the success of the voluntary wage and price controls and on the Fed's monetary policy influencing the size of growth in money supply. We are pessimistic that Mr. Carter's voluntary wage and price controls will work; although we are seeing some signs that a number of companies are cooperating. At our bank, we, too, plan to cooperate with the President's program. However, it would not be surprising if, by the beginning of the fourth-quarter 1979, we will see mandatory wage and price controls — a disastrous situation for the economy in the future. If history is any lesson, we would see a temporary drop in the rate of inflation if mandatory wage and price controls were enacted. But, we would see a skyrocketing inflation rate as soon as they were lifted. We hope the Administration understands that.

With the advent of the automatic transfer service and likely enactment of permissive legislation to allow NOW accounts nationwide, we see signs that the day of "free money" is gone. Since this will cause a continuing increase in cost of funds, we all need to be better pricers and accelerate our mode to charging fees for "value received" by our customers. We think the traditional commercial and individual DDA accounts will continue to be difficult to obtain.

We have virtually full employment now and even some signs of labor shortage in select industries. On balance, we think the economy is sound, and 1979 should be a good year for banking. • •

First Oklahoma Bancorp. Builds Financial Base For Industrial Subsidiary

OKLAHOMA CITY — First Oklahoma Bancorp. added $20 million of long-term debt and $10-15 million of commercial paper to support the industrial finance subsidiary it created in 1978.

James R. Claborn, assistant secretary of the holding company, said First Oklahoma gradually is transferring customers of First National Bank, its major subsidiary, to the new subsidiary.

The HC will promote collateralized

installment loans on industrial equipment, competing directly with commercial finance companies.

To build a financial base for the subsidiary, First Oklahoma privately placed $10 million of six-year 8⅝% notes with the Alabama retirement system and arranged a $10-million, eight-year term loan with Morgan Guaranty Trust, New York City. Interest on the term loan was set at 108% of prime, with no compensating balances.

The HC obtained an AA rating on its notes and an A-1 rating on its commercial paper from Standard & Poor's.

Because of high interest rates and reluctance of lenders to provide longer-term, fixed-rate money, Mr. Claborn said the HC expects to issue more paper.

A main reason for First Oklahoma's decision to sell paper nationally was to lengthen its maturity, he said. Most regional customers buy their paper for periods of a couple of days.

Proceeds from these financings will be earmarked for industrial leasing and finance use, Mr. Claborn said, but the primary purpose is to arrange funds for the industrial finance subsidiary.

Priority Issues

(Continued from page 46)

double-digit inflation, soaring interest rates, increasing likelihood of mandatory wage and price controls and, ultimately, perhaps even a recession.

This is a rich diet of change for the banking industry to digest, and it calls for a cautious and watchful approach. On the other hand, innovative marketers cannot always be cautious, and they must move ahead in the uncertain environment.

Sadly, the complexity of things today may strain some marketers almost beyond their abilities — particularly as to pricing — because banks historically have done their pricing much as they have done their marketing budgets.

In putting together marketing budgets, too often, they say how much did we spend last year and let's change it for next year. For pricing, they simply add or subtract from whatever they charged in the past.

That's an outmoded style of marketing that's inappropriate for today's environment. Pricing ought to be based on both profit needs and customer-mix objectives. The banker who prices alone for larger market share is likely to be eaten alive by high volume and low margin.

Take automatic transfer, for example. There have been literally hundreds of approaches taken to implement what on the face of it is a simple concept — that a bank can enter into an agreement with its customers to transfer funds automatically from savings accounts to checking accounts.

Yet that simple authorization has led to a proliferation of some rather complicated packages of banking services with varying minimum balances, different combinations of services into retail banking packages and a variety of fee schedules.

ATS is further complicated in New York, where NOW accounts are available and banks again are pricing all over the lot.

Now let's take a look at spread management.

Once upon a time, asset management was the name of the game — everyone looked at the left side of the balance sheet. Then the emphasis moved to the liability composition on the right side of the balance sheet. Now it's spread management. This is particularly a problem with double-digit interest rates and can give banking a massive indigestion.

Tied tightly to pricing and dollar-resource decisions are human resource development and allocation. It's essential that we select quality staff and train them to do their job well and to do their selling well. It's essential, furthermore, that they have a service-minded attitude and that they're well motivated to capitalize on our best marketing target — our present customers. To the extent that our staff turns off customers, we're smashing that golden egg.

Banking services are in a state of flux, perhaps to a greater extent than they have been in recent years. Add to this the likelihood of a slowdown in the economy and additional competition from savings banks and S&Ls.

The upshot of it is that the wise marketing manager will track his own developments and those of his competition closely, to make the products offered by his bank meet the changing financial styles of the customers in his market at a price that's profitable to the bank and that attracts the right mix of customers. ● ●

Optimism Reflected

(Continued from page 26)

priced housing necessary to attract workers. We acknowledge that a recession would impact the area economy, but it's our conviction that Wichita's regional economy will out perform the national economy.

If we assume a favorable economic climate, bank earnings should exceed current levels. Recognizing there are some competitive factors in anticipated expansion of other financial institutions, I believe our industry is positioned favorably to compete successfully.

Improvement of earnings will not be attained without a dedication to change. We must strive not only toward offering improved services, but also to price intelligently those services we historically have given away. It's imperative that we offer quality service at a fair price. Failure to do so will affect earnings adversely. Maintenance of adequate interest margins is a requisite in light of our money costs and customers' full utilization of their funds.

The ability to act — not react — and to plan not only for the inevitable, but also for the unexpected will be a quality existent in tomorrow's successful banks. Advent of automatic transfers, extension of automatic funds transfer services and increased competition from other financial institutions will be but a few of the near-term challenges to which we must respond. Regulations permitting automatic transfer from savings to checking accounts are only the forerunner to nationwide NOW accounts. Consumers today are interest conscious and — although automatic transfers have garnered only modest acceptance — the simpler NOW account will have a significant impact on consumer/bank relationships.

Although automatic transfer services are in their infancy, it's apparent that in the next few years, we will see major expansions as local networks interface with regional networks to expand the geographic influence of participating banks. Customers like to use 24-hour automated teller machines — machines that ask no questions and perform without impunity. The recent linking of the automated clearing houses throughout the country now makes it feasible for timely distribution of payrolls through direct deposit.

Of great concern is the erosion of banking business to competing financial institutions. Whereas in the past the third-party-payment function was unique to commercial banks, S&Ls and credit unions now are beginning to issue this type of instrument. As S&Ls continue to branch and credit unions obviate the common bond, competitive differences will disappear. Bankers must recognize these facts and respond with innovative services.

Perhaps the most important and unanswered question is where are interest rates headed. Many think the top of the interest-rate cycle is at hand or close. We hope they're right, but we would guess we may see somewhat higher rates. Rates on unregulated time deposits should be expected to increase — likewise, the prime. Long-term rates during this cycle have lagged behind short term, and we might expect that gap to close a bit.

It's possible that rates and not availability of money ultimately will apply the brakes to housing development, as well as other business activity. This would suggest a slowdown and recession somewhere in the future. One of the great questions, of course, then, would be the character of the recession that we feel is lurking out there somewhere. Will it be a soft landing? What can we expect in the way of recovery on the other side of the valley? Will we enter a period of genuine disinflation, or are we to forever witness only "pauses," which are followed by accelerating inflation?

All our comments and questions concerning the national economy and interest-rate movements run the risk of monetary- and fiscal-policy action, which is most difficult to predict, particularly from a timing standpoint.

For the first time in our memory, we saw, during 1978, specific actions due solely to international rather than domestic considerations. Be that as it may, at this writing the monetary base continues to expand at a rapid pace. This simply implies to us that business activity will remain relatively strong through most, if not all, of 1979.

After taking a look at the new year, we are generally optimistic about the economy and confident of the banking industry's ability to accept the challenge of competition and changing times. Our greatest concern, and it is a constant preoccupation, is the burden and threat of increasing regulation. We question whether the burdens and cost of regulation and compliance are in the best interests of those we serve. A conservative estimate would indicate that we are controlled by or reporting to at least 19 agencies or commissions. The larger bank may be equipped with in-house counsel, professional expertise, a law library and research people, but there's no possible way the smaller bank can meet these demands adequately and safely.

The more recent concern will be implementation of the Community Reinvestment Act. However noble the intention, a great deal of time will be required when, in fact, it's step one in the direction of credit allocation. Regulation in some form is required but over-regulation is undesirable both in philosophical and practical terms. Our individual and industry focus should be to reduce the burden of regulation and, instead, to perpetuate free-enterprise banking. After all, it is that free, unfettered, competitive system that has brought the greatest credit opportunities to the most people.

We can take pride that we have surmounted obstacles and the vagaries of providing financial services in a complex society. And we shall continue to do so. Mark "Outlook, 1979" *positive.* ● ●

NEWS From the Mid-Continent Area

Alabama

■ MERCHANTS NATIONAL, Mobile, has promoted six officers and elected three others to new officer status. Elected senior vice president was Sam L. Armistead, manager, Loop Branch. Promoted to assistant vice presidents were: Russell E. Allman, Bonnie S. Helton, Joseph L. Miller and Daniel C. Thomas. Bob W. Johnson was promoted to assistant cashier from assistant comptroller. Newly elected assistant cashiers are David Campbell, John C. Fogarty and Henry C. Gewin.

WAITE

ARMISTEAD

■ MARY GEORGE JORDAN WAITE, chairman and president, Farmers & Merchants Bank, Centre, has been appointed chairperson, Region IV, Birmingham Advisory Council. The council, part of the U. S. Small Business Administration, was created to assist small business and relies on volunteers from its regional advisory councils. Mrs. Waite has been chairman and president of her bank since 1957.

■ FIRST NATIONAL, Birmingham, recently held a ribbon-cutting ceremony to open its new operations center at 720 39th Street North in U. S. Steel's Industrial Park. Participating in the ceremony were Birmingham Mayor David J. Vann; Newton H. DeBardeleben, chairman and CEO, for whom the center was named; James D. Shi, senior vice president; and members of the City Council and County Commission. The new facility, which includes a 150-seat cafeteria, 90-seat auditorium, personnel training facilities, conference rooms and employee lounge, is the result of a 1977 tax-abatement-incentive program to encourage construction of new business in existing commercial districts.

Two Ala. Bankers Judge

Two judges of the 1978 Future Farmers of America (FFA) Agricultural Sales and/or Service Proficiency Award Program were Alabama bankers Mary George Waite (center row, r.), ch. and pres., Farmers & Merchants Bank, Centre, and Kay Ivey (center row, middle), a.v.p., Merchants Nat'l, Mobile. The program was sponsored by Allis-Chalmers Corp. Winners are in the front row, and other judges are in the second and third rows.

■ WILLIAM F. STAFFORD, petroleum engineer, has been named head, petroleum division, First Alabama Bancshares, Inc. The new division is located at the HC's downtown Mobile office. Mr. Stafford is a former petroleum engineer for Allied Bank of Texas, Houston.

■ CLIFTON C. INGE has been elected a director, First National, Mobile. Mr. Inge is president of a Mobile insurance firm. The following additional new officers were elected: Robert C. DeMeester and Alfred K. Seibt, senior vice presidents; and Thomas H. Gause, vice president.

■ CENTRAL BANCSHARES of the South, Inc., Birmingham, has announced plans to expand its investment division to include a municipal investment or public finance area, which will provide investment banking service for tax-free bond issues.

Arkansas

■ T. LADD JAMESON has been named executive vice president and member of the board, Merchants & Planters Bank, Camden. Mr. Jameson has been in banking nearly 30 years, including service as president, Citizens National, Jacksonville. At Union National, Little Rock, he began as assistant cashier and became vice president in 1971. During his 13 years with that bank, Mr. Jameson worked with the correspondent banking department.

JAMESON

■ PULASKI BANK, Little Rock, has made the following officer changes: Thomas Purifoy has been elected to the newly created position of executive vice president, in which post he is chief operations officer of the bank and its subsidiaries; Jim Brantley has been made vice president/lending activities and loan servicing; and Ken G. McRae IV has been made vice president/operations and controller.

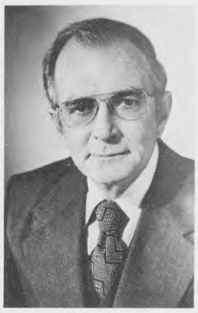
Illinois

LAYMAN

■ N. HALL LAYMAN, vice president/banking department, Northern Trust, Chicago, has retired after nearly 40 years of service. In his duties at the bank, Mr. Layman acted as a loan officer and correspondent banker. More recently, he served in the executive division of the banking department and was responsible for professional development activities.

■ MICHAEL E. TOBIN, president, has been elected chairman, and Keene H. Addington, executive vice president, has been elected president and member of the board, American National, Chicago. Allen P. Stults, former chairman, who retired, will continue as board member and chairman of the executive committee. At the same meeting, Rex A. Sinquefield, head of the trust department, was elected executive vice president, and the following senior vice presidents were named: Robert F. Sherman, bank operations; Edward D. Matz Jr., trust development group; John F. Reuss, trust administrative services group; and Norman R. Bobins and John Q. McKinnon, commercial loan division. Richard H. Stogdill was elected vice president.


ADDINGTON


TOBIN

■ CONTINENTAL ILLINOIS NATIONAL, Chicago, has elected 15 vice presidents: Stephen A. Barry, bond and money market services; Gary A. Breidenbach, Albert S. Brown, G. Robert Muehlhauser, Jon E. Vance and Albert E. Weiss, commercial banking services; John L. Fogle, vice president and associate corporate counsel; Mel A. Schumacher, Arthur J. MacBride III and Harry S. Precourt, multinational banking services; Thomas A. Hannagan, operations and management services; and James C. Lentgis, Anthony P. Wilson, Arthur W. Murray II and Robert J. Schwenk, trust and investment services. Dennis J. Ziengs was named second vice president.

■ HARRIS BANK, Chicago, has named seven new vice presidents. Named in the banking department were Philip J. Baratta, J. William Gimbel III, James W. Hill, James W. Schnatterly and W. Alfred Washington. Cornelia L. Brooks, personal trust development division, and Max M. Jacobson, bank building services division, also were elected vice presidents.

Continental Partially Relocates

CHICAGO — Continental Illinois National has leased several floors of the Bankers Building, 105 West Adams Street, and will relocate some operations there this year.

In addition to the executive financial center and the automatic banking center on the first floor, Continental will lease 100,000 square feet of space for four divisions, including commercial loan and residential loan divisions.

The Chicago City Council has granted permission to build a walkway over Quincy Court to connect the fourth floor of the adjacent main bank building with the fifth floor of the Bankers Building.

■ FARMER CITY STATE has promoted three officers. Vice Presidents F. Dick Maxwell and Dennis E. Johnson were named senior vice presidents, a newly created position. William A. Rutledge moved up to vice president and farm manager from assistant vice president.

Indiana

■ JOHN L. BLACK, president, was elected chairman, and Scott D. Skoglund, former executive vice president, Burbank (Ill.) State, was appointed president and a director, South Lake National, Lowell.

■ ST. JOSEPH VALLEY BANK, Elkhart, has promoted Richard D. Mackey to senior vice president and controller and Sandra L. Snoke to assistant vice president.

■ NORTHERN INDIANA BANK, Valparaiso, has opened a new office, Heritage Valley, south of the city on U. S. 30 and Thornapple Way. A ribbon-cutting ceremony December 16 marked the official opening of the office, where Barbara Copper is manager.

William P. Flynn Dies

INDIANAPOLIS — William P. Flynn, 79, who started as a messenger at Indiana National in 1915 and became chairman in 1957, died November 28.

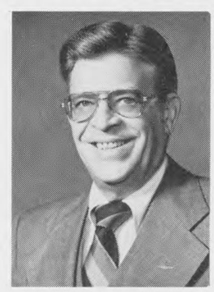
Mr. Flynn started working at the bank at 16 and at 19 became one of the youngest men appointed assistant national bank examiner with the Seventh Federal Reserve District, Chicago. After that, Mr. Flynn served as bank examiner for the Indianapolis Clearinghouse Association.

He returned to Indiana National in 1930 as vice president/credit department and 10 years later was elected to the board. In 1944, he became an executive vice president; in 1952 he became president and in 1957 he was elected chairman.

Mr. Flynn was named an honorary director of Indiana National in 1968, a position he held at the time of his death.

Kansas

■ LeFEBURE, Cedar Rapids, Ia., has appointed David L. White sales engineer operating out of the Kansas City branch. He will concentrate on a 25-county market area in eastern Kansas. Mr. White is a Kansas City (Mo.)


WHITE

resident who has been active in the banking equipment field.

■ LARRY J. STUTZ has joined First National, Alma, as cashier. He formerly was a national bank examiner, stationed out of Hays.

■ LELAND R. CHAPIN, executive vice president, First National, Glasco, has retired because of ill health. He has been with the bank 38 years and remains a director.

■ PHYLLIS R. SMITH has been promoted to assistant vice president, United American Bank, Wichita. She has had 14 years' banking experience and joined United American in 1973. In 1976 she was promoted to manager, south Wichita facility.

■ STEVEN L. ADEN has joined Rosedale State, Kansas City, as a vice president/installment loan department. He has been in banking and finance in the Midwest for 10 years.

■ FIRST NATIONAL, Hutchinson, has promoted the following to senior vice presidents: Stephen F. McCammon, loan department; Larry L. Jordan, cashier/operations; Donald D. Adams, trust officer; and W. D. Kimmel, farm manager. Also promoted were James S. Russell, to vice president and manager/investment portfolio and commercial loan officer and Gregory V. Binns, to assistant cashier.

■ BOB ELDER has been promoted to auditor, Hutchinson National. He joined the bank as assistant to the auditor in 1977.

White House Treasure

Nearly 20 hours of construction went into assembling a White House model, which was built with crisp new $1 to $100 bills supplied by Home State, McPherson, of which Dick Nichols (r.) is pres. The replica was used for a special promotion of a new city gift store, which is owned by Mrs. Charles Miskimen (l.) and her husband. After the promotion, the "White House" treasure was displayed at the bank.

■ CLYDE W. WALLACE has been appointed consumer loan officer, Commercial National, Kansas City. He joined the consumer loan division in 1976 as collections manager.

Kentucky

■ FIRST NATIONAL, Louisville, has announced the promotions of Robert E. Hawkins from vice president to senior vice president/real estate industries; Alex B. Schaad from vice president to senior vice president/branch operations; Davis R. Bonner to vice president/national banking; Michael W. Mathes to vice president/operations; and David D. York to vice president/regional banking.

■ RONALD W. LAUTER has been named assistant cashier/installment loan division, Liberty National, Louisville. He previously was project administrator and financial control manager, General Electric Co.

■ CURTIS M. HASTINGS JR. has joined First Security National, Lexington, as assistant vice president/new bank services. Prior to this, Mr. Hastings was with Liberty National, Louisville, eight years.

■ CITIZENS NATIONAL, Bowling Green, has announced the following new officers: Jean S. Tuttle, Charles S. Sublett and Robert W. Wood, vice presidents; and Hattie Page and Teresa Cassady, assistant cashiers.

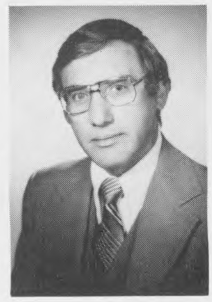
■ THE ST. LOUIS FED has approved the application of Ohio County Bancshares, Inc., Beaver Dam, to become an HC through acquisition of Beaver Dam Deposit Bank.

■ WILLIAM H. HANLEY has joined Citizens Bank, Morehead, from Peoples Bank, Flemingsburg, where he was assistant cashier, installment loan officer and branch manager for seven years.

Louisiana

■ KARL D. ZOLLINGER has joined Continental Bank, Metairie, as vice president. Prior to this, Mr. Zollinger had been an assistant vice president, First National Bank of Commerce, New Orleans, for four years.

■ ROYCE R. MOORE has been appointed chief executive officer, Homer National. Prior to this, Mr. Moore was serving as senior vice president and cashier. He joined the bank in 1946, but his 32 years of service were interrupted for Army duty during the Korean War.



CARRERA

■ JOSEPH A. CARRERA has joined Bank of New Orleans as vice president, and Wayne J. Borne has joined it as assistant vice president. In addition, Charles C. King has been promoted to assistant vice president and Gail Fayard to installment loan officer.

Mississippi

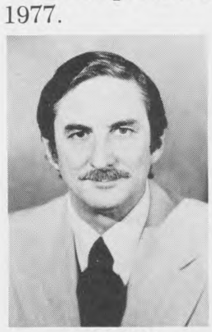
■ DEPOSIT GUARANTY NATIONAL, Jackson, has promoted Eldon C. Davis to senior vice president and trust investment officer and Tommy L. Breazeale, Mary George Gates and Edwin M. Keeton Jr. to vice presidents.

■ BROOKHAVEN BANK has promoted Sue Laird and Bob Bullock to assistant cashiers and Gary Nix to loan officer. Mrs. Laird is manager, drive-in branch, and Mr. Bullock is manager, Bogue Chitto Branch.

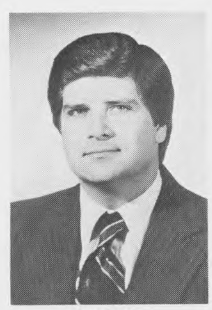
■ J. M. "BUCK" SPEED has left Carthage Bank, where he was president, to join Quitman Banking System as vice chairman. He has moved to the Meridian Branch, Bank of Quitman.

Missouri

■ WILBUR C. ANDREWS JR. and Larry Young were elected vice presidents and Richard E. Callahan was promoted to an assistant vice president, Mercantile Trust, St. Louis. Both vice presidents joined the bank in 1977.



ANDREWS



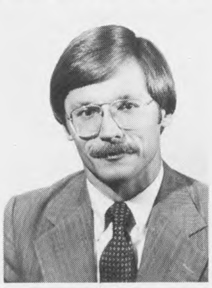
YOUNG

■ ANN GARDNER has been promoted to assistant vice president/personal banking division, United Missouri Bank, Kansas City. She joined the bank in 1974.

■ COMMERCE BANK, Kansas City, has promoted the following officers: William C. Imming, president, Compac Services, Inc., a nonbank subsidiary of the bank's HC, to senior vice president; Ernest A. Yake to vice president/metropolitan administration division; and J. Hugh Shields, HC vice president/loan administration department, to vice president. John H. Kreamer, managing partner of a Kansas City law firm, was elected a bank director. In other action, John J. Hanby Jr. has been named vice president/loan review department, Commerce Bancshares.

■ THE DEFINITIVE MERGER AGREEMENT between County National Bancorp., Clayton, and TG Bancshares Co., St. Louis, was signed in November. Preliminary agreement was announced June 28. The merger is subject to further approval of regulatory authorities and TG stockholders.

■ WILLIAM F. ENRIGHT JR. has been elected chairman, Ameribanc, Inc., a St. Joseph HC that consists of 15 affiliate Missouri banks. He also serves as chairman, executive committee, American National, St. Joseph, lead bank of the Ameribanc group.


SMITH


OBERMANN

■ MERCANTILE COMMERCE TRUST, St. Louis, has elected Ronald C. Smith president and chief administrative officer, succeeding John H. Obermann, who will remain CEO. Mr. Obermann was elected bank chairman and senior vice president, Mercantile Bancorp., Mercantile Commerce Trust's HC. Mr. Smith formerly was executive vice president.

■ J. BOB WELLS has joined Doane Agricultural Service, Inc., St. Louis, as a farm and ranch manager in the firm's Mexico, Mo., office. He is responsible for managing approximately 20,000 acres of farmland in and around the city.

First National Names French New Correspondent Head, Realigns Commercial Lending

ST. LOUIS — First National has given Senior Vice President T. Barton French responsibilities for correspondent banking operations in addition to his post of head of the real estate and mortgage loan department.


SCHMITZ CULVER FRENCH


ROWE WHITELAW PRASSE

In other action, the bank named John W. Rowe manager, bond/investment department, and made a major realignment in its commercial lending operations. William J. Barnett Jr. was promoted from assistant vice president to vice president.

Mr. French, who has been with the bank 15 years, was elected vice president in 1967, named head of real estate and mortgage operations in 1969 and was named senior vice president in 1976. He is a member of the Missouri and Texas Bar associations and the Missouri Association of Realtors.

Mr. Rowe replaces Frank K. Spinner, who resigned to become president of Tower Grove Bank, St. Louis. Mr. Rowe joined the bank in 1967, and was elected a vice president and named assistant head of the bond department in 1971.

The bank has created a special industries group, headed by Ronald D. Prasse, senior vice president, to serve the following industries: energy, transportation, agriculture, corporate finance, brokers and finance companies. Assisting Mr. Prasse will be Raymond B. Johnson Jr., senior vice president.

Also, a new national group under the direction of David M. Culver, senior vice president, will call on all major U. S. corporations, including the largest *Fortune* 500 companies in the St. Louis area. This group has three divisions: national division east headed by Keith R. Krieg, vice president; national division west, under David A. Dierks, vice president; and cash management, supervised by G. Jeffrey Jones, assistant vice president.

Responsibilities of the bank's metropolitan group, headed by E. Randolph Whitelaw, senior vice president, have been expanded. The staff will call on corporations with annual sales of up to $325 million located in the greater St. Louis area.

Also, Walter D. Schmitz, senior vice president, has been named senior lending officer, reporting to William J. Chapman, executive vice president and chairman of the loan committee.

New Mexico

■ PAUL L. FOLLMER has been made vice president/consumer finance division, New Mexico Bancorp., HC for First National, Santa Fe, of which Mr. Follmer has been a vice president since 1976.

■ LaDONNA SAWYER has been promoted to assistant branch manager from secretary, Capital Bank, Santa Fe. She will manage the bank's new South Branch, which is scheduled to open early this year.

■ JACK COWEN, Santa Fe lawyer, has been named vice president, Santa Fe National. He will work as a real estate and commercial lending officer and as house counsel.

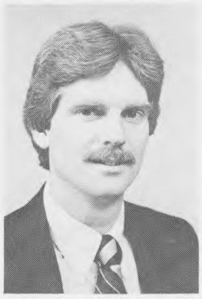
■ JOSE GONZALES has been named senior vice president, El Pueblo State, Espanola. He will assume administrative duties and work with consumer lending. He also will be active in advertising and public relations.

Oklahoma

■ JOHN D. HASTIE, an attorney, has been elected to the board of First Oklahoma Bancorp., Oklahoma City.

■ JOHN M. PARRISH III has been appointed vice president and commercial loan officer, Central National, Enid. Before joining the bank, Mr. Parrish was president and CEO, Bank of Kiowa, Kan., and cashier and CEO, Farmers State, Hazelton, Kan.

■ RON KING has been promoted to



QUILLIN

vice president/management services and C. L. Rogers to vice president/ energy, Bank of Oklahoma, Tulsa. Thomas A. Quillin Jr. was appointed assistant vice president/correspondent banking. He formerly was a national bank examiner.

Tennessee

Trust Div. Officers

NASHVILLE — New officers of the trust division of the Tennessee Bankers Association were elected at the division's annual meeting.

They are: president, Ken C. Coker, vice president and trust officer, Third National, Nashville; first vice president, E. Kelton Morris, vice president and trust department manager, First Tennessee, Memphis; second vice president, A. H. Thompson, senior vice president and trust officer, Valley Fidelity, Knoxville; secretary, Fred Newman, vice president and senior trust officer, American National, Chattanooga; and treasurer, John Sparks, vice president and trust officer, First American National, Nashville.

Robert R. Neyland Jr., vice president and trust officer, First National, Sullivan County, Kingsport, and immediate past president of the trust division, serves on its executive committee.

■ WILLIAM H. EASON, former assistant manager, Woodbine Office, First American National, Nashville, has been transferred to the Harding Mall Office as assistant manager. Gloria R. Ford has been named assistant manager, Woodbine, to replace him.

Texas

■ DR. DON TEEL CURTIS, an Amarillo oral and maxillofacial surgeon, has been appointed to First National of Amarillo's board.

■ FROST NATIONAL, San Antonio, has elected Norton Hargis Jr. vice president and auditor and promoted Catherine G. Wright to assistant vice president/audit. Mr. Hargis is manager of the bank's internal audit department. Miss Wright joined the bank in 1968. She was a systems programmer and analyst and a financial systems analyst before transferring to the audit department in early 1978.

■ KENNETH E. WHITE has been elected vice president and petroleum engineer in the energy division, Bank of the Southwest, Houston. His duties will involve oil and gas properties evaluation.

■ W. F. PALMER, a Marshall attorney, has been elected a director of Peoples State, Marshall.

■ REPUBLIC NATIONAL, Dallas, has promoted 11 officers and elected 13 others to official positions. Thomas M. Covert was promoted to senior vice president, real estate department, and will serve on the bank's executive committee. Promoted to vice presidential positions were: Olin C. Lancaster Jr., executive and professional division, and Curtis Hawley, real estate department. Promoted to assistant vice presidents were: Randall D. Levy, corporate planning division; Merle H. McGinnes Jr., commodity division; Virginia K. Perego, executive and professional division; Robert D. Sanders, banking services division; and Maxie Delon Saxon, time credit division. Trust and investment department promotions include Joe R. Arnett, trust operations division, and William F. Ellis, trust administration division, to assistant vice presidents and trust officers. Jessica S. Gallia was promoted to trust officer. New assistant vice presidents are H. Keith Kaelber, petroleum department, and Henri G. Townsend, banking services division. Robert E. Scifres has been elected to the bank's board. He is chairman and chief executive officer of National Gypsum Co., Dallas. Republic of Texas Corp., the bank's holding company, elected Paul R. Seegers to its board. Mr. Seegers is vice chairman and co-chief executive officer of Centex Corp., Dallas.

■ FIRST CITY NATIONAL, Houston, has elected Jerrel D. Branson, Gary E. King, Harry F. Koolen Jr., J. Pat Parsons and Rudolph F. Zepeda Jr., vice presidents. All but Mr. King, who is in the investment division, are employed in the international division. New assistant vice presidents are H. Ray Adams, credit; Robert T. Curry, metropolitan; Hazel L. McKee, retail banking; Richard B. Whitaker, credit; and B. Kent Woodard, international. Johnnie Janicki was elected assistant vice president and trust officer. Dan R. Owen Jr. has been elected vice president, First City Bancorp., Houston. In his new position, Mr. Owen will serve as a liaison with Houston-area HC member banks.

Ft. Worth National Opens Minibank

Ribbon cutters, from l., Joseph M. Grant, pres., Ft. Worth Nat'l; B. Faye Lewis, a.v.p. and mgr., Tandy Center facility; Bayard H. Friedman, ch., Ft. Worth Nat'l; and Phil R. North, ch. and pres., Tandy Corp., officially opened the bank's first minibank in the Tandy Center.

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