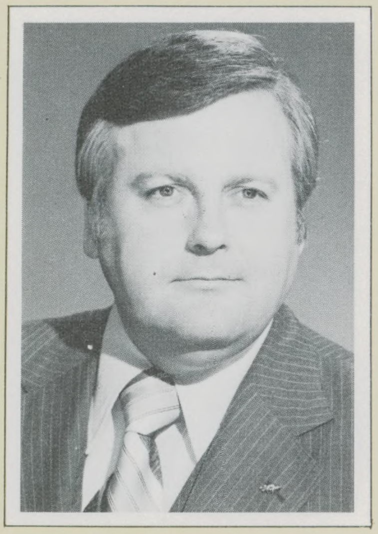
MID-CONTINENT BANKER

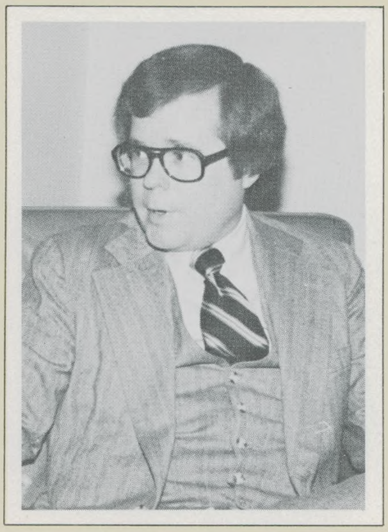
(ISSN 0026-296X)

FEBRUARY, 1979

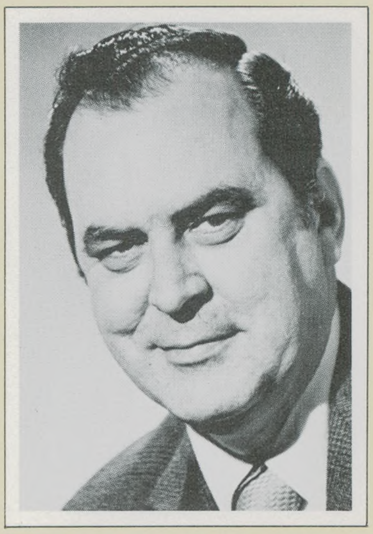
Installment Lending in '79



Small Banks Need Help
—Willard



Compliance Officer Needed
—Sumner



Consumer Debt Soars
—Matthews

INSTALLMENT LENDING

LeFebure Vault Door is first in world to pass U/L test.

A security door by LeFebure is the first to be awarded a rating by Underwriters Laboratories on the basis of new standards.

Up to now, the industry had no independent standards or formal testing procedures for vault doors. But as crimes continued to increase, the financial community requested Underwriters Laboratories to establish the standards.

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The LeFebure door was the first in the world to pass the U/L test.

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MID-CONTINENT BANKER

The Financial Magazine of the Mississippi Valley & Southwest

Vol. 75, No. 2 **February, 1979**

FEATURES

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Convention Calendar

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 14-16: BAI Check-Processing Conference, Chicago.
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 Bank Planning Workshop, Washington, D. C., Mayflower Hotel.
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 8-13: Robert Morris Associates Loan Management Seminar, Bloomington, Ind., Indiana University.
April 10-12: ABA Bank Security Seminar I&PD, Hershey, Pa., Hershey Motor Lodge and Convention Center.
April 15-26: ABA National Commercial Lending School, Norman, Okla., University of Oklahoma.
April 25-27: ABA Governing Council Meeting, White Sulphur Springs, W. Va., the Greenbrier.
April 29: ABA Certified Commercial Lender Examination, Chicago.
April 29: ABA Certified Commercial Lender Examination, Norman, Okla.
April 29-May 2: ABA Southern Regional Bank Card Conference, Washington, D. C., Capital Hilton.
April 29-May 3: Conference of State Bank Supervisors Annual Convention, Hot Springs, Va., the Homestead.
May 2-4: ABA Southern Trust Conference, Mobile, Ala., Sheraton Inn.
May 6-8: Texas Bankers Association Annual Convention, Fort Worth, Fort Worth Convention Center.
May 6-9: ABA National Marketing Conference, Atlanta, Hyatt Regency.
May 6-11: ABA National Commercial Lending Graduate School, Norman, Okla., University of Oklahoma.
May 9-11: Kansas Bankers Association Annual Convention, Wichita.

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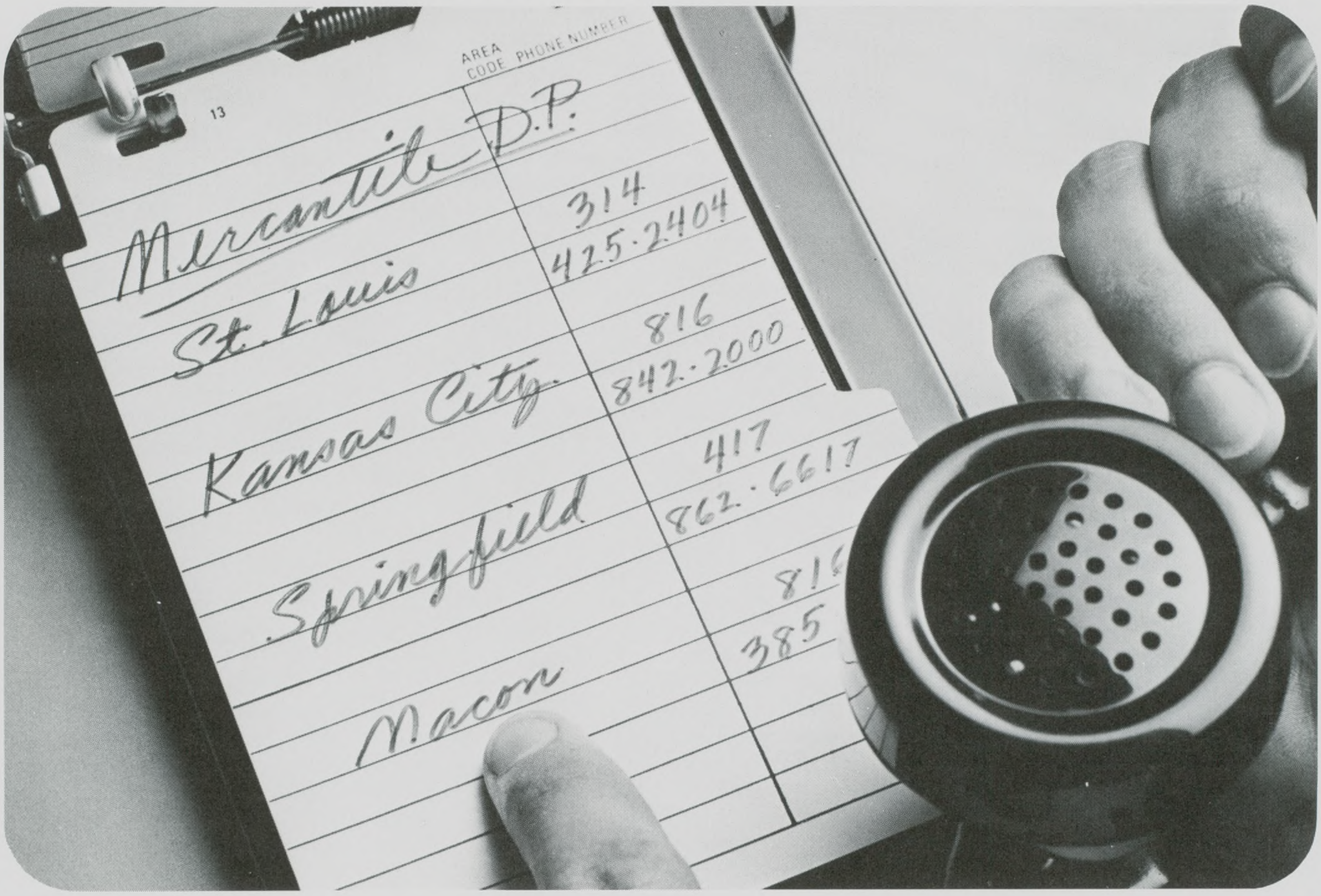

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Thanks to Proposition 13:

Bank Reinvests Tax Gains In Statewide Programs

Wells Fargo & Co., San Francisco, kept a pledge it made last June. It has returned to the community 1978 tax gains from Proposition 13 by giving $1.2 million in grants to three statewide programs.

The $1.2 million represents the net difference between what the company will pay in California property taxes during the last six months of 1978 and the amount paid in the same period in 1977.

Richard P. Colley, (l.), pres., Wells Fargo, presents checks to Anthony S. Tiano (c.), pres., KQED-TV, and Warren Widener, mayor of Berkeley and exec. sec., California Neighborhood Housing Services Foundation, as part of bank's program to channel its $1.2-million tax gain from Proposition 13 to communities.

The company will give $400,000 each to (1) public television stations in California to support their ongoing, in-class instructional programs; (2) the California Neighborhood Housing Services Foundation for high-risk loans for housing rehabilitation in deteriorating areas; and (3) United Way and similar organizations throughout California for emergency funds to handle crisis needs of member agencies.

Richard P. Cooley, president, says his company reviewed hundreds of proposals on how it could best return Proposition 13 benefits to California communities before determining areas for its support.

"We believe the three grants address themselves to important and diverse areas of need and opportunity in our communities," he says.

Concerning the grants, he says, "Instructional TV in the classroom now reaches more than a million California students and offers schools hope in a time of tight budgets. Housing-rehabilitation programs are a critical need if our deteriorating neighborhoods are to become revitalized and are a rightful concern of financial institutions. Agencies supported by United Way and similar community-support campaigns play vital roles in our communities and as a result of Proposition 13 face rising challenges. . . ."

Town Benefits:

Bank's Community Commitment Backed Up by Performance

The concept of community involvement includes making the community a better place to live. Banks have long been putting this concept into practice in their communities because bankers realize that a prosperous community means a prosperous and growing bank.

"Helping You Grow" is the community involvement theme at Citizens National, Bowling Green, Ky. For 77 years, the bank has been taking steps to improve the quality of life in its community.

Among its projects have been property improvement at the bank site, including a new building, a pedestrian park and a parking lot with a rest area. It sponsors a local youth symphony orchestra concert each year, contributes to a community center for women and supports a new county arts commission. It has financed planting of cherry trees in a park and dogwoods adjacent to a cemetery and has installed time-and-temperature signs at its four branches. It also provides a community-wide time-and-temperature service by telephone.

Two of the bank's branch offices have been awarded beautification certificates and the Main Office twice has received a five-year beautification award.

At Bank's Seminar:

Small Businessmen Learn To Cut Energy Costs, Bills

More than 50 small business representatives learned how to cut energy costs by 15% at an energy management seminar sponsored by Detroit Bank, principal subsidiary of Detroitbank Corp.

The Michigan Department of Commerce's Energy Extension Service cosponsored the seminar, and consultants of Arthur Young & Co., an accounting firm, provided technical information and conducted the meeting.

"American business people are, by necessity, becoming more and more concerned with rising energy costs, which can seriously cut into bottom-line profits," says Joseph W. Clark, a vice president in the bank's commercial loan department. "They recognize both the need to lower energy costs and to conserve our limited resources."

Seminar attendants were instructed how to conduct their own energy audits.

The energy seminars are part of a federally funded program to assist small business owners in effective energy usage.

Firemen Saluted:

Fire Prevention Stressed In Photography Exhibit

The 1978 award-winning photographs taken by members of the International Fire Photographers Association were part of an exhibit at Chicago City Bank honoring all firemen. Photos in black and white and color depicted human interest and the fire fighter's rescue role.

Experienced cameramen from the association answered questions about their photographing specialty, and the Fire Prevention Bureau of Chicago displayed fire fighting equipment. In addition, representatives from the mayor's fire prevention and awareness program distributed material on fire protection and safety.

"Salute to Fire Fighters" exhibit has held at Chicago City Bank to honor all firemen. Bank employees inspect Chicago Fire Department equipment in front of their building.

First Commerce Corporation and First National Bank of Commerce

AND SUBSIDIARIES. NEW ORLEANS/TWELVE MONTHS ENDED DEC. 31, 1978

FIRST COMMERCE CORPORATION
CONSOLIDATED STATEMENT OF INCOME (In Thousands)

	Year Ended December 31, 1978	1977
INTEREST INCOME		
Interest and fees on loans	**$ 51,052**	$ 44,197
Interest on obligations of states and political subdivisions	**2,381**	2,425
Interest on other investment securities	**4,356**	3,551
Other interest income	**7,153**	4,715
Total interest income	**64,942**	54,888
INTEREST EXPENSE		
Interest on deposits	**21,369**	18,112
Other interest expense	**9,466**	7,887
Total interest expense	**30,835**	25,999
NET INTEREST INCOME	**34,107**	28,889
PROVISION FOR LOAN LOSSES	**7,273**	3,749
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	**26,834**	25,140
OTHER INCOME		
Service charges, exchange and other fees	**5,867**	5,952
Trading account gains and losses	**176**	190
Gain on sale of finance company assets in 1978 and interest in real estate in 1977	**337**	971
Other operating revenue	**2,125**	2,844
Total other income	**8,505**	9,957
OPERATING INCOME	**35,339**	35,097
OTHER EXPENSE		
Salaries and employee benefits	**13,021**	13,115
Net occupancy expense	**3,050**	3,261
Equipment expense	**3,209**	3,460
Other operating expense	**10,526**	10,498
Total other expense	**29,806**	30,334
INCOME BEFORE INCOME TAX EXPENSE AND NET SECURITIES LOSSES	**5,533**	4,763
INCOME TAX EXPENSE	**1,511**	674
INCOME BEFORE NET SECURITIES LOSSES	**4,022**	4,089
NET INVESTMENT SECURITIES LOSSES	**(1,851)**	(47)
Related income tax effect	**889**	22
Net securities losses	**(962)**	(25)
NET INCOME	**$ 3,060**	$ 4,064
EARNINGS PER SHARE		
Primary		
Income before net securities losses	**$1.91**	$1.94
Net income	**$1.45**	$1.93
Fully diluted		
Income before net securities losses	**$1.70**	$1.72
Net income	**$1.35**	$1.71
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	**2,109,276**	2,107,111

FIRST COMMERCE CORPORATION
CONSOLIDATED STATEMENT OF CONDITION (In Thousands)

	December 31, 1978	1977
ASSETS		
Cash and due from banks	**$135,873**	$154,032
Due from banks — time	**37,000**	29,500
Investment securities:		
U.S. treasury securities	**27,302**	49,807
Obligations of U.S. agencies and corporations	**39,569**	1,785
Obligations of states and political subdivisions	**44,284**	41,089
Other bonds, notes, debentures and corporate stock	**1,643**	1,641
Total investment securities (market value $109,058,000 and $91,598,000, respectively)	**112,798**	94,322
Trading account securities	**45**	154
Other short-term investments	**247,290**	154,161
Loans — total	**423,022**	518,991
Allowance for loan losses	**(6,246)**	(4,408)
Unearned income	**(5,543)**	(6,949)
Net loans	**411,233**	507,634
Direct lease financing, net of unearned income of $1,063,000 in 1978	**3,614**	1,267
Bank premises and equipment	**14,588**	15,561
Due from customers on acceptances	**3,598**	5,186
Other real estate	**3,049**	4,938
Real estate subject to contracts of sale	**12,195**	12,170
Accrued interest on securities and loans	**8,342**	8,093
Other assets	**3,366**	5,109
Total assets	**$992,991**	$992,127
LIABILITIES		
Deposits in domestic banking offices:		
Demand deposits	**$357,606**	$356,347
Passbook savings deposits	**116,764**	120,153
Other consumer time deposits	**48,504**	37,766
Time deposits of $100,000 and over	**157,163**	179,474
	680,037	693,740
Deposits in foreign banking offices	**14,839**	22,874
Total deposits	**694,876**	716,614
Short-term borrowings	**200,451**	180,317
Bank acceptances outstanding	**3,598**	5,186
Accrued interest payable	**5,492**	6,011
Accounts payable and other accrued liabilities	**5,638**	4,449
Long-term debt	**24,453**	22,079
Total liabilities	**$934,508**	$934,656
STOCKHOLDERS' EQUITY		
Common stock, $5 par value Authorized — 10,000,000 shares Issued — 2,182,190 and 2,179,966 shares	**10,911**	10,900
Capital surplus	**25,401**	25,350
Retained earnings	**23,867**	22,917
	60,179	59,167
Less — 71,518 shares of common stock in treasury at cost	**(1,696)**	(1,696)
Total stockholders' equity	**58,483**	57,471
Total liabilities and stockholders' equity	**$992,991**	$992,127

These financial statements are preliminary unaudited figures, and are subject to adjustments which may or may not be material.

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Assistant to the President

* Officer of First National Bank of Commerce only.

The Banking Scene

Credit Scoring vs. Judgment Discrimination

By DR. LEWIS E. DAVIDS

Illinois Bankers Professor of Bank Management
Southern Illinois University, Carbondale

THOSE WHO have gray hair remember when the word "discrimination" could have a positive connotation. A person with discriminating taste was considered to possess good judgment. One looked up to an individual who had discriminating taste in clothing, music and the arts.

The connotation of discrimination has been reversed. Today the word is used to describe an individual with antisocial tendencies.

This new concept is a sensitive one for loan executives. They look in dismay at the incredible array of federal and state regulations in the discrimination area — the same area in which their skill lies for exercising appraisals as to the ability of a borrower to repay a loan. More and more loan officers are throwing up their hands, copping out and saying, "Let's use another system."

Just as auto insurance underwriters found that young males have more accidents than mature persons, lender statistical data revealed distinct payment differences between persons with varying characteristics.

Could that system be credit scoring?

With the advent of the computer and better-educated individuals involved with computer and related operations, a number of financial institutions have engaged in post-auditing loans. That is, they split loans into two classifications — good and bad.

Thus, a statistical profile of good loan borrowers was established, and a different statistical profile was established of bad-loan borrowers.

Exceptions exist in both profiles, but there was a tendency for certain characteristics to be evident in the good loans and certain other characteristics to be found in the poor loans.

Carrying this concept one step further, it was possible to assign relative weights of importance to the various attributes. Just as automobile insurance underwriters and actuaries have found that young males tend to have more accidents than mature persons of both sexes, statistical data of lenders revealed distinct payment differences between persons with varying characteristics. The successful installment loan officer may have incorporated this knowledge into his decision-making process.

Use of credit scoring formalizes this procedure. It's interesting to recall why top executives of financial institutions tended to move in the direction of credit scoring in the past. They did so because they realized that using probability theory applied to credit scoring meant that the delinquency rate on lending could be improved distinctly. That is, the judgment the loan officer had obtained over a period of many years could be refined and incorporated into a mathematical formula whereby equitable weights were assigned to various items of the loan application.

Thus, a bank wouldn't need as large a number of highly experienced loan officers in installment lending. It could have the applications processed on a computer.

Large retail merchants and consumer finance companies led the way in this area. To illustrate: Both merchants and finance companies learned that persons with telephones are good credit risks. The telephone company apparently does a good job of screening out bad credit risks. Those owning their homes tend to be more credit worthy than those who don't. People who have worked for a number of years at the same place tend to be more likely to make regular payments than those who change jobs frequently. Salaried white-collar workers tend to have better payment records than, say, bartenders and cocktail waitresses.

Framers of regulations, in their desire for social justice, force lenders to discriminate against truth. This results in less-reliable decisions that must affect bottom lines of bank statements.

There are exceptions to all these generalizations, of course.

However, some valid credit-scoring weights rely on criteria, such as the above, that now are illegal under Regulation B, the Equal Credit Opportunity Act.

Many reliable credit-scoring systems used by major retailers invoke "no-nos" such as marital status, age and gender. Though statistically valid, these practices come into conflict with Regulation B.

The paradox is that the Equal Credit Opportunity Agency states that credit scoring must be demonstrably and statistically sound, but it also must

(Continued on page 16)

Bank Displays Own Customer Rating Form

By *KAREN KUECK*
Assistant Editor

LIKE other national banks, American National, Chattanooga, is displaying the customer complaint forms the Comptroller of the Currency says must be in all national bank lobbies. However, the bank has turned a negative display into a positive one with the addition of its own "We're Listening" exhibit next to the other.

The program is the result of correspondence between John P. Wright, the bank's president, and the Comptroller's office concerning the complaint forms.

"I wanted to know why it seems we're always accentuating the negative rather than emphasizing the positive," he said. "The Comptroller's program allows a customer to register only complaints and is, in fact, a request by the customer for the OCC to investigate a specific claim. All comments are addressed to the Comptroller's office."

In reply to Mr. Wright's letter, the OCC suggested that a positive customer-communications program was a good idea, but should be implemented by individual banks.

"I felt a procedure should be established whereby our customers could speak directly to us . . . to tell us what we are doing right as well as what we could improve on," he said.

"We're Listening" free-standing displays with folded response forms are in each American Nat'l of Chattanooga branch.

American National's program works like this: Postage-paid customer response forms are displayed at each branch. Customers can rate the bank's personnel in efficiency, friendliness, helpfulness and promptness and its services, i.e., Teller 24, checking, savings, automatic savings, master charge, loans, safe deposit box, drive-in-tellers and bank-by-mail in five categories from excellent to poor, what he likes best and/or least about the bank and its services. Also, the customer may make subjective comments and ask questions he would like answered in detail by a bank officer.

The forms are addressed to Mr. Wright, who reads each customer's response, then forwards the form to the bank's marketing department, where the information is categorized by specific area of bank operations and type of comment or inquiry. Then, it's routed to the appropriate bank officer for a personal answer. Customers' comments and answers to them are tabulated and periodically evaluated for trends and corrective action taken by the appropriate division.

"We're Listening" is a two-way street. It gives the customer a way to ask specific questions directly of the bank's management about a service, policy or procedure. The bank officer's response to policy or procedure questions becomes a vehicle through which the bank helps its customers understand how a bank operates and helps customers better use its services.

"We believe our new program will be very constructive because it lets us see our customer's view of American National," Mr. Wright said. ● ●

American Nat'l of Chattanooga Pres. John P. Wright is shown with "We're Listening" display, bank's own consumer-response program.

Keep 'Em Sold Through Follow-Up

By JOHN R. GINSLER
President
Financial Training Resources
Glen Ellyn, Ill.

"THEY SURE LOVED ME during the romancing period — but, oh, how quickly they forgot me after the marriage!" This is a not uncommon criticism directed by many bank customers toward lack of follow-up attention by the banker who solicited and obtained their banking relationships. As such, it's a major cause of customer turnover.

Establishing lasting and profitable customer relationships is governed not only by how well you sell a customer to begin with, but, equally important, what you do to keep him sold through a crucial dimension of professional selling called *follow-up*.

As discussed in previous articles, professional selling is concerned with communicating a "promise of need-satisfaction" to your customers. If the promise is sufficiently relevant, attractive and believable, it will motivate your customers to initiate a relationship or to employ a particular service. While a promise of need-satisfaction will cause a customer to act or buy, it won't keep him sold. Lasting relationships depend on your ability to deliver on your promises — which is the essence of follow-up.

Properly executed, follow-up makes these important contributions to your customer relationships:

- It ensures proper implementation of what you've sold, both from the standpoint of what you must do and what the customer must do to produce promised need-satisfaction.
- It enhances and strengthens your continuing credibility and the credibility of the bank in your customers' eyes. In the final analysis, the customer judges the value of his bank relationship not by what you promise, but by what you deliver.
- It enables you to stay on top of changing customer conditions and related needs, so that you can tailor and tune what you've sold to changing requirements. Customer needs are seldom static. Only as you stay on top of the dynamics of change through follow-up, can you deliver satisfaction that's compatible with current customer needs and protect your customer relationships against your competitors' selling efforts.
- It will motivate customers to recommend you, your services and your bank to others as they experience the service quality and results that you do deliver. Word-of-mouth advertising, based on experienced satisfaction, can be one of your most productive sources of prospect referrals and new business.

> "Typically, most 'plus services' require no more than a few minutes of your time — a modest investment to make in loyal and lasting customer relationships."

Keeping your customers sold through follow-up involves the performance of five related activities:

1. *Perform as promised* in executing action details involved in implementing services you've sold.
2. *Monitor results* to determine if your customers are realizing promised need-satisfaction and what correction in performance may be needed.
3. *Provide plus service* beyond what was promised to add extra value to the relationship and to cement customer loyalty.
4. *Turn complaints into compliments* with proper corrective action when performance falls short of what was promised.
5. *Identify and sell additional needs* to deliver more complete and continuing satisfaction and to develop fully banked relationships.

Perform As Promised. Details involved in implementing action on a particular service will vary with the nature of the service and how far you've progressed in your selling strategy. Typically, however, you'll be concerned with implementing such details as analyzing financial statements to provide a tailored financing proposal, conducting a cash-management study to tailor a lock-box arrangement to a customer's needs, arranging a meeting with a trust officer to develop an improved investment program or estate plan, converting a payroll procedure to use of direct deposit, setting up phone transfer to implement business savings and checking accounts, installing a credit-card system for a merchant, etc. Only as such details are performed as promised can your customers realize the satisfaction that prompted their action on what you've proposed.

Performing as promised on details involved in implementing what you've sold involves consideration of the following:

1. *Keep promises within the limits of your capacity to perform.* Some salespeople operate on the premise of "promise them anything to get the business," whether or not they're capable of producing on their promises. The fallacy of such reasoning is that it produces exaggerated expectations and results in eventual customer disappointment, dissatisfaction and turnover. The key to lasting satisfaction is to play it honestly and conservatively by keeping what you propose to do well within the limits of what you know you can do. For example, if you've agreed to get back to a customer with a financing proposal within a specified time, allow several days leeway for the unanticipated so you can deliver as promised.

2. *Summarize promised action immediately after each call.* It's easy to forget or overlook important details of

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John H. Harland Co., Check Printers, Box 105250, Atlanta, Ga. 30348, (404) 981-9460 what you've promised unless, immediately after each call, you make a written summary of *what* is to be done, *how* it's to be done, *when* it's to be done and *who* is responsible for doing it. This enables you to control and check progress on what is performed compared to what you've promised, so corrective action can be applied as needed.

3. *Communicate promised performance to backup personnel.* Because of the practical limits of time and diversity of services you sell, you frequently must look to others to perform on the promises you make, be it a credit analyst, trust officer, customer service representative, teller, etc. Unfortunately, here's where a gap often will occur between what you promise and the performance that your backup people deliver. The primary cause is lack of clear and specific communication.

To bridge the gap between what you promise and what your backup people perform, there are several things you can do:

• Know what your backup people are capable of doing, so you don't promise more than they can deliver. Another cause of exaggerated promises is innocent ignorance of performance capacity. Only as you know what your backup people can do will you be able to communicate promises to your customers they can live with.

• Put instructions to your backup people in *writing*. While visualization of instructions will not eliminate communication errors, it does provide improved control and mutual understanding over the what, how, when and who of promised performance.

• Specify precisely *how* promised action is to be implemented. When this is left to the backup person's imagination, he'll do what he feels is best — which may bear no resemblance to what you promised.

• Indicate *why* action is to be implemented in a particular way. Only when the backup person understands the reasoning behind promised action will he give it the priority attention or quality performance promised to your customers.

Monitor Results. Effective follow-up is concerned with making sure your customers achieve the need-satisfaction that was promised when you sold them. Consequently, a second element of follow-up is to monitor results or level of satisfaction being realized by your customers to determine what improvements or corrective action, if any, may be needed.

This assures customers of your desire to deliver and maintain quality service. It also permits you to adjust and fine tune application of a service to changing conditions to ensure continuing satisfaction and to identify new customer needs that may call for additional services.

There are several ways to monitor performance results:

1. The *personal follow-up call* is the most effective way to monitor results because it enables you to determine firsthand the quality of service the customer is receiving and results he's achieving. As a result, you can immediately identify where and how corrective action is necessary to bring performance up to what was promised and to implement necessary improvements on the spot. While the personal follow-up call is the most effective way to monitor results, it does have one serious drawback — the time it takes.

"Effective follow-up is concerned with making sure your customers achieve the need-satisfaction that was promised when you sold them."

2. The *telephone follow-up* provides a practical method of overcoming the time limitations of personal follow-up since it enables you to multiply yourself in checking with your customers on the quality of service they're receiving, results they're experiencing and any complaints they may have. While somewhat less personalized than the face-to-face call, the phone contact is an effective way to monitor results, since follow-up is more concerned with maintaining satisfaction than it is with changing thinking or practices. For specific ideas on how to use the telephone in keeping customers sold, the Bell System has prepared an excellent series of self-study guides called "Phone Power." You can obtain a set by contacting your local Bell marketing or business representative.

3. *Bank records* such as the account analysis report provide another means of measuring results versus what was promised.

Provide Plus Service. A third important element in keeping customers sold through follow-up is providing "plus service" beyond what you promised when initiating the relationship. By "plus service" is meant the extra things that are done for a customer above and beyond the normal call of duty. Plus service is not necessary to get a customer's business initially, but enables him to derive maximum and

(Continued on page 90)

Bond Insurance Guarantees Payment

WHEN Proposition 13 was approved by California voters last June, many investors began to wonder how future state tax reforms would affect their municipal bond holdings. Many current bond issues are funded in large part by the type of property tax Californians voted to deny.

This situation has led many investors to investigate the advantages of insuring their municipal bond portfolios.

Municipal bond insurance guarantees the timely payment of principal and interest on municipal bonds should they default. It's used by individuals and institutions who manage municipal bond mutual funds and sponsor tax-exempt trusts.

The primary appeal of the insurance is twofold: It increases security and allows investors to buy higher-yielding bonds.

According to MGIC Indemnity Corp., Milwaukee, if an investor aggressively follows this approach, he usually can recoup the cost of the insurance premium and increase the net yield from his holdings. For example, backed by insurance, an investor could buy BBB or A rated bonds, rather than the higher rated AA or AAA bonds. As a result, he could increase the interest he receives by as much as 1%. This would amount to $1,000 on a $100,000 investment. The insurance premium would cost $250 or less, leaving a net gain of $750.

Before an investor can pursue this strategy, however, he must have a portfolio containing at least $50,000 par value of insurable bonds. MGIC Indemnity, which provides this service free of charge, evaluates the insurability of municipal bonds in portfolios.

For the individual who does not wish to invest $50,000 in municipal bonds, but who would like to earn tax-exempt income from insured securities, there are alternatives, says MGIC Indemnity. He can buy shares in an insured mutual fund or units in an insured investment trust, the portfolios of which are invested in municipal bonds. The major difference is that the fund is open-end and can grow in size, but a trust cannot. In either case, the investment permits individuals to earn tax-exempt income via pooled investments, insured as to payment. • •

Credit Scoring

(Continued from page 8)

exclude some of the validating factors of many of the credit-scoring systems due to prohibitions contained in Regulation B. This "Alice in Wonderland" dilemma creates a situation in which valid statistical applications that have proved themselves in practice had to be abandoned and less reliable systems adopted.

This dilemma forces management to ask itself if it wishes to buy a legal suit from the Justice Department and be confronted with soaring legal fees and the time and effort of top management necessary to mount an objection to a Justice Department suit. The sad fact is that, in more than a few instances, organizations are abandoning their valid credit-scoring systems because they believe their use will expose them to the contingent liabilities of expensive suits charging lending discrimination.

At the heart of the issue is the "effects" test. As applied in discrimination cases, this test holds that it's possible to discriminate against individuals covered under the Equal Credit Opportunity Act even though that isn't the intent of the lender's action.

Sometimes it's less controversial to examine a sensitive topic such as this by showing that discrimination can work both ways. For example: Do we discriminate against women in using their life expectancy as a criterion? If a life insurance policy is written on a woman at the same premium as a similarly aged man, the woman could be discriminated against in terms of the premium.

However, if a woman is applying for an annuity based on the same premium as a similarly aged man, the reverse occurs. That is, the woman will be receiving an advantage over the man because mortality rates show women live longer than men.

To state that this type of reasoning shouldn't be considered in credit scoring a long-term real estate mortgage loan application involving credit life insurance ignores the realities of the basic statistics of society.

Bankers appear to be abandoning good and valuable techniques, such as credit scoring, because of fear of Justice Department suits. They are electing to take a step backward in technology to avoid regulatory harassment.

The solution may begin with the realization that individual banks can't afford to engage in the statistical justification of the validation of a scoring technique. Even major financial institution trade associations probably don't have the time, effort, manpower or inclination to take on a thankless task that involves adverse publicity and much public misunderstanding.

However, an effort can and should be made to commission a nonpartisan study of the inconsistencies found in regulations such as "B." Framers of these regulations, in their desire for social justice, force lenders to discriminate against truth. The law of large numbers shows there are significant statistical differences among men and women, young and old. It also tells us that to ignore these differences is to make less-reliable decisions that must affect the bottom lines of our financial institutions' statement of condition.

• **Aetna Business Credit, Inc.** Michael A. Eberhardt has been appointed financial sales officer of the firm's corporate money center in East Hartford, Conn. He will be responsible for commercial paper sales and will assist in Midwest bank relations.

Quick, name four top investment firms in the midwest.

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Significant Banking Bills Before Congress

WHILE the complex of issues that make up the Fed question was the preeminent concern for bankers as the 96th Congress convened to begin its work last month, that question was only part of a substantial banking legislative and regulatory agenda on the national level for the coming two years.

Significant banking bills, including several having to do with the Fed issue, were among the several thousand measures introduced during the opening days of the Congress. As with past congresses, the cycle of congressional action this year will encompass a large number of bills, but the number of legislative proposals under active consideration will continue to shrink as the key issues become more clearly defined.

"Recent surveys suggest that the public is increasingly coming to believe that the time has come to reverse the decades-long trend toward increasing government interference in and over-regulation of the business community."

Beyond the Fed question, a series of other banking issues is emerging.

An Administration study of the McFadden Act and branching by financial institutions was mandated by the International Banking Act, which Congress enacted into law last year. Due later this year, that study could prompt new legislative initiatives having to do with financial institutions' branching powers.

While it has not yet become clear whether legislation on branching would receive significant support in Congress, the matter clearly is one bankers should monitor carefully.

A separate study by the Treasury Department of interest-rate ceilings currently imposed on financial institutions is thought to be nearing completion. That study also could lead to introduction of new bills, giving bankers an opportunity to renew their drive for an end to the current quarter-point interest-rate discrimination against banks and bank customers. In the last Congress, the ABA sponsored a bill that would have ended such interest-rate discrimination against bank savers on all types and classes of savings deposits. At the time, that proposal was linked to extension of NOW accounts nationwide for all types of financial institutions. Whether such a linkage of issues will continue to exist is an open question at present, but it's certain that bankers and the ABA will continue to push for abolition of the interest-rate differential.

Efforts are being renewed to build momentum for legislation allowing banks to underwrite all types of revenue bonds issued by state and local governments. The ABA has long sought such legislation on the grounds it would increase competition for revenue-bond-underwriting business, thereby reducing state and local governments' interest costs. Leadership of the House Financial Institutions Supervision Subcommittee has indicated hearings would be held on such legislation early this year.

Truth-in-Lending. A major legislative priority — simplification and improvement of the Truth-in-Lending Act — also is expected to receive early attention in the 96th Congress. In addition to exempting agricultural loans from disclosure and paperwork provisions of that law, the ABA is seeking, among other things, to limit material disclosures (omission of which could result in civil liability) to items such as: rescission rights in closed-end and open-end credit, amount financed, dollar finance charge, annual percentage rate, total of payments and schedule of payments.

In the last Congress, legislation that would have taken major steps towards simplifying the Truth-in-Lending Act was approved by the Senate, but did not achieve passage in the House.

Restructuring Regulators. It's widely expected that perennial efforts to restructure the federal banking regulatory agencies, or even to combine them into a single "super-agency," will be revived this year. Whether such legislation would generate any substantial support cannot be judged at present. In the past, the ABA and the agencies have successfully opposed sweeping proposals for change in this area, but attitudes of current regulators toward such change are not known.

Paperwork Tangle. The outlook in Washington is encouraging for unraveling at least some of the tangle of federal regulations and paperwork that has built up over the years. While all three federal banking agencies have initiated the process of reviewing their regulations with the goal of simplifying the rules themselves and cutting back as much as possible on paperwork requirements, the most hopeful such program is one recently proposed by the FDIC.

"It's widely expected that perennial efforts to restructure the federal banking regulatory agencies . . . will be revived this year. Whether such legislation would generate any substantial support cannot be judged at present."

The FDIC plans to require that all future proposed regulations be accompanied by staff reports on alternative approaches to, anticipated costs and benefits of and estimates of record-keeping or reporting requirements under the proposed rules. In addition, all existing FDIC rules will be subjected to the same analysis if the plan is adopted.

The ABA has written to the FDIC expressing its strong support of such a program or rigorous cost-benefit analysis of its present and future regu-

(Continued on page 28)

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

Regulatory News

Early-Withdrawal Penalties Lightened on Certain Types Of Time Deposits by Fed

The penalty has been lightened for early withdrawal of certain types of time deposits at Fed-member banks. The Board of Governors said this action was taken to benefit particularly time deposits in long-term individual retirement accounts (IRAs) and Keogh Plan retirement accounts, thus furthering the congressional aim of promoting retirement savings.

At the same time, the board adopted an interpretation of Regulation Q, permitting withdrawal without penalty of interest earned on time deposits at member banks.

This latter action would affect two types of time deposits:

Time deposit open account (TDOA), which is a type of deposit that may provide for subsequent deposits to the account that may be viewed either as (1) resetting the maturity of the entire amount on deposit or (2) as having a separate and distinct maturity (equal to the same maturity as the original deposit).

Notice accounts, which are accounts that don't have a specified maturity, but require the depositor to give notice (for instance, 90 days) of intent to withdraw all or part of the account.

The revised penalty rule requires that in the case of early withdrawal at a member bank from:

A notice account, that the minimum penalty apply on the amount withdrawn for a period of time no greater than the required notice period.

A TDOA, that the penalty on the amount withdrawn apply only to the length of the maturity period specified for the original deposit. The original maturity period for IRA and Keogh accounts must be at least three years if minimum interest is to be paid on such accounts.

The Reg Q interpretation adopted by the FRB provides that: A member bank may permit a depositor to withdraw interest earned on a time CD at any time before maturity without penalty, irrespective of the basis on which the member bank compounds or credits the interest to the depositor's account. Previously, member banks had been advised that interest became part of the underlying principal deposit and, thus, was subject to Reg Q early-withdrawal-penalty requirements when that interest was credited or posted to the depositor's account.

Revised Income Reports For Small Banks Announced By Regulatory Agencies

The FDIC has adopted reports of conditions and income for use by small state nonmember banks that will reduce the number of reported items by more than 40%. Small banks are defined as those with assets of $100 million or less and no foreign branches. About 8,400 (95%) of insured state nonmember banks are in this category.

The revised report forms also have been adopted by the Comptroller and the Fed for small banks within their respective jurisdictions. The forms were made available for the year-end 1978 call for financial data.

Forms adopted by all three agencies include the following revisions:

Elimination of numerous specific items from separate reporting, particularly in details as to loans and deposits.

Reduction of the frequency in reporting whole sections and certain items in the income report from semi-annually to annually.

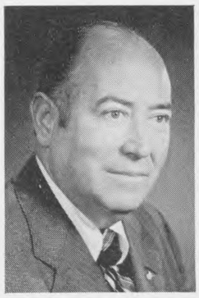
Addition of items for reporting on negotiable orders of withdrawal (NOW) accounts, automatic transfer accounts and money market CDs. (These items also have been added to the standard report forms.)

Besides these revisions, the report forms have a new schedule that requests data necessary primarily for the regulatory agencies' bank-monitoring systems.

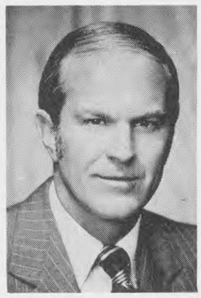
Barksdale and Berry Reappointed To Federal Advisory Council

Clarence C. Barksdale, chairman and CEO, First National, St. Louis, and James D. Berry, chairman and CEO, Republic of Texas Corp., Dallas, have been reappointed to the Federal Advisory Council. Mr. Barksdale represents the Eighth Federal Reserve District (St. Louis), and Mr. Berry represents the 11th (Dallas). Both originally were appointed to the council last year.

The council meets in Washington, D. C., at least four times a year and



BERRY



BARKSDALE

confers with the Fed's Board of Governors on economic and banking matters. It makes recommendations regarding Federal Reserve System activities.

Mr. Barksdale also is chairman and CEO, First Union Bancorp., St. Louis-based parent HC of First National.

SBA Development-Firm Loans To Be Checked by Congress

A congressional committee is being urged to investigate the Small Business Administration's activities in loans to development companies in the upcoming session.

The urging came from Ike Skelton (D.,Mo.) and was prompted by concern with "bureaucrats who tend to exceed their authority in issuing regulations beyond the intent of the laws under which they operate," according to Mr. Skelton.

The response came from a charge that the SBA has deprived Missouri firms of long-term credit authorized under Section 502 of the Small Business Investment Act. The section authorizes the SBA to make long-term loans to development companies to provide land, buildings and equipment to small firms that are not otherwise able to secure such assets.

Jerry Stegall, executive vice president, First Missouri Development Finance Corp., Jefferson City, said that recent proposals by the SBA will restrict the program to not-for-profit development companies that are funded under federal grants.

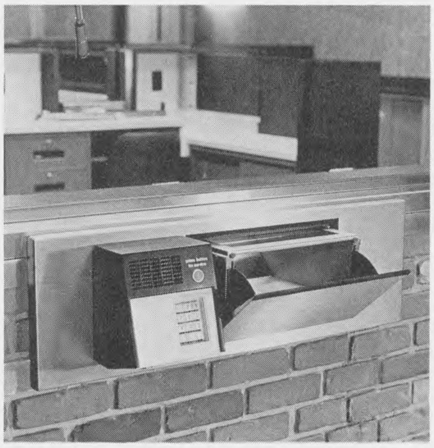
First Missouri Development Finance Corp. was formed 10 years ago with less than $500,000 in capital. It has authorized more than $20 million in term loans for Missouri business, creating and retaining more than 5,000 jobs. The corporation operates on a $11,000 per month budget with 37 loans outstanding and authorizations for 16 more loans. Since the first of this year, more than 140 firms seeking in excess of $36 million have contacted the agency and 24 loans exceeding $5 million have been authorized this year.

Speeding Customer Identification

A POSITIVE, quick way of identifying bank customers is being introduced by Mosler, Hamilton, O. Called Mosler Identikey®, the system speeds up transaction time by eliminating multiple identification requirements that have annoyed customers in the past. A Mosler spokesman says this system will help cut the rising rate of forgeries, especially at drive-ins.

Identikey works like this: Customers select their own Personal Identification Codes (PICs), which can be any number or name, or a combination of both, and which may be any length and known *only* by that customer. When cashing a check or making a withdrawal, the customer gives the teller his or her passbook or card and enters the PIC on the Identikey customer key-pad at the drive-in or teller station. (The keypad has a pushbutton arrangement similar to a telephone.) The teller, without seeing the PIC, enters the last four digits of the customer's account number into a keyboard. The Identikey system combines those two numbers to produce a third number displayed on the teller's LED display. Then, the teller compares that number to the customer's passbook/card or the computer file for positive, split-second identification.

Customers' personal codes cannot be derived from their account numbers by a formula or computer. Consequently, the system cannot be compromised, according to Mosler officials.


Identikey push-button PIC pad results in quick customer identification at drive-in window.

Identikey eliminates signature-card reference files, microfiche file expense, inter-branch telephone calls and officer approvals, speeding transactions and keeping both the customer and employee satisfied.

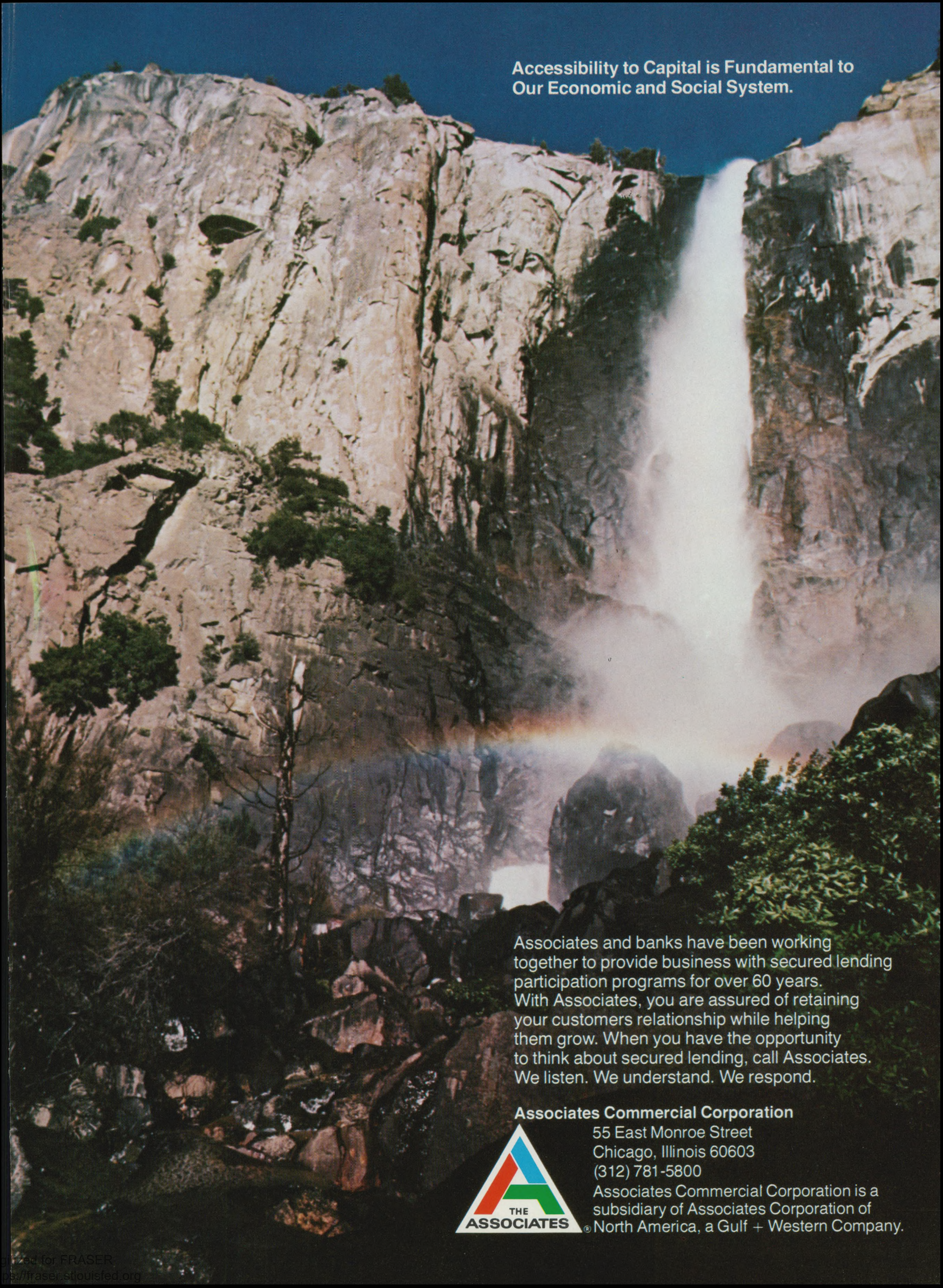
The drive-in Mosler Identikey Model 6250M has been developed for use with Mosler's window and pneumatic remote-transaction system Models Pneu-Vista® 800, Trans-Vista® II and Trans-Vista III.

Also, the system has a teller model and a portable unit available for use at a new accounts desk. The latter may be used to pre-identify customers in line and may be shared among personnel.

Identikey, now serving millions of bank customers, has proved to be secure, cost effective and easy to use, according to the firm. ● ●


This Identikey push-button PIC pad is mounted on pneumatic drive-in customer unit.


LEFT: Tellerline Identikey Model 6047 utilizes both customer PIC pad and teller key-pad in same unit. RIGHT: Remote-teller-line Identikey can be used at teller window. Customer's PIC pad is separated from unit by six-foot data cable.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Bankers Meet Farmers' Credit Needs

AGRICULTURAL bankers continue to meet the growing credit needs of their farm customers, supplying nearly one-third of the nation's total farm debt of approximately $114 billion, ABA figures show.

The ABA's agricultural credit survey for mid-year 1978 indicates that this achievement requires increasing effort on the part of country-bank management to secure funds and to finance large and complex farm businesses.

Loan-deposit ratios of agricultural banks are at an all-time high and will increase, the survey shows. Bankers report the highest number of instances since 1974 where the demand for funds exceeds available funds. The largest gains occurred for general operating and machinery loans, with smaller increases for storage, livestock and real estate loans.

The ABA survey was sent to banks that have a large amount of loan volume with farmers. To be included in the survey, a bank under $10 million in deposits had to have farm loans equal to 10% or more of its deposits; 5% or more for banks with $10-50 million in deposits, and 1% or more for banks with more than $50 million in deposits.

Some 1,350 responding bankers indicate that while loan funds available are decreasing, farm credit-worthiness is improving. Bankers indicate that improved farm prices and incomes appear to have more than offset the effects of tighter credit.

More than three-fifths of those surveyed report that they expect deposits of farm families to increase between mid-1978 and the middle of 1979.

Other survey results include the following:

- Nearly three-fourths of the bankers report increases in farm-loan volume between mid-1977 and mid-1978. More than 70% expect the dollar volume of farm loans to increase by mid-1979.
- Bankers report two to one that the quality of their farm loans improved from 1977.
- Farm loan interest rates, after being relatively stable for several years, increased about ½% between mid-1977 and mid-1978. About half the respondents expect farm loan interest rates to increase.
- In all regions of the country, more bankers expect loan demand to exceed available funds rather than to have a surplus of funds in mid-1979.
- More than 90% of all respondents indicate that farmers in their areas are receiving adequate credit from all sources.
- Bankers estimate that they will have to discontinue financing about 2% of current farm borrowers because of "poor farm management."
- Bankers estimate farm land values increased about 8% between mid-1977 and mid-1978 and project a slower rate of increase by mid-1979. More than 60% indicate that sales to foreigners had almost no impact in their trade areas, or that they could not determine the impact. Only 14% surveyed know of farm-land purchases by foreigners.
- More than 40% report increases in volume of credit provided by merchants, dealers and others for purchases of machinery, fertilizer, feed, petroleum and other operating expenses. • •

First of Dallas Promotes 14

First National, Dallas, elected 14 vice presidents. New vice presidents are Gaines P. Alexander and Charles R. Harbison, customer services; Robert C. Ammons, personnel; David A. Barrows, London branch; Robert M. Cramer, First International Services Corp.; Carol A. Denton, executive; Thomas D. Frayer, Timothy R. High and M. Andrew Noel, metroplex; John S. Frodsham, Americas; Gary D. Good, commercial finance; John H. Heberle and David Trinder, financial administration; and Gerard Roussel, Paris branch.

We do our corresponding in person.

H. O. Peet, Jane Hylton, Jim McKenzie, B. J. Hall and Murphy Brock.

Because it's a natural business communication tool, it's only natural for most bank's correspondent departments to assist their customers over the telephone.

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Contact Liberty National's correspondent department. You'll have to use the phone, but in the end, you'll deal with us person to person.

Jim McKenzie and Jane Hylton, Executive Vice President, Delta Natural Gas, discuss the projected needs that LNB can provide Delta's expanding operations.

Liberty National Bank

Louisville, Kentucky

Operations

Tips for Better Time Management

TIME. No one has enough of it, yet everyone has all there is. Whether life proves fruitful or frustrating ultimately depends on how we manage our time.

Whether planning your lifelong goals or trying to finish an important project by next week, a few essentials of time management can benefit us all, regardless of occupation or job level. As a matter of fact, time management is considered such an integral part of job effectiveness that Southwest Bancshares, Inc., Houston, will devote an entire course and handbook to it as part of the managerial-development program.

Experts agree that the first step toward successful time management is to get *control.* You should be the master of how your time is spent, not the prey to the whims and demands of others. Supervisors should respect an employee's attempt to manage his time effectively and be willing to help by setting priorities and deadlines.

The telephone is a gadget that once was considered an enormous time-saver, but has become a time-waster. Minimize the chitchat and get to the point of the call.

The major time "thieves" seem to be just about the same for all business people. By learning to reduce the amount of time wasted each day and setting goals and priorities, you should make better use of your work time. Listed below are some tips to help you get started.

• *Telephone calls.* A gadget once considered an enormous time-saver has become a time-waster. If you don't have anyone to answer and screen calls, you can take the call, but minimize the chitchat and wait politely for the caller to get to the point of the call. Another telephone time-waster is the call-back message. Rather than rushing to the phone to return each call one at a time, save all return calls for one regular time period (except in obvious crisis situations when a phone call must be made to complete business). When making a call, plan what you must accomplish and organize your thoughts *before* lifting the receiver. Keep note pad and pencil next to the phone. When calling someone notably long-winded, do so just before lunch or quitting time.

• *Visitors:* Of course, in a service-oriented business like banking, accessibility to customers and the public is important. If, however, your assigned job responsibilities do not require you to be accessible to the public, unscheduled drop-in visitors can mean unnecessary interruptions. If you have an office, you can always close the door. If not, continue working and don't look up every time someone walks by. If someone drops by to chat, let him/her know you have only a few minutes before you must return to a project. Keep standing during the visit, or retain your work posture. Reclining in your chair says that you have all the time in the world.

• *Meetings:* If you are in charge of organizing one, prepare an agenda and distribute it in advance. The agenda should state the purpose of the meeting, who should attend and what is hoped to be accomplished. (A good way to establish the purpose is to ask yourself, "What should be different after the meeting?") Set a time limit, also communicated in the agenda, and don't wait for latecomers. After the meeting, send a follow-up summary of conclusions, assignments made, those responsible for carrying them out and target dates for their completion. If you are called to a meeting, prepare your thoughts in advance, keeping in mind why you were invited and what you may be expected to contribute. Keep your remarks relevant to the established goals of the meeting.

• *Paperwork:* Reading material, reports, informational data, memos, correspondence. How can we keep from being buried? Probably the best solution for most paperwork is to make quick decisions about it. Handle correspondence only once — the first time you pick it up. If you receive similar requests over and over, draft form letters. If you perceive that something is completely irrelevant to your work and can't think of anyone who might use it, throw it away! File space is costly. Discontinue materials that never prove useful. Take reading material home and go through a few pieces a night with the evening paper. Or, carve out a few extra minutes for reading while commuting, traveling, waiting for an appointment or just before work begins in the morning. Read selectively, and read headlines first to determine if you need the details provided in the story.

• *Fighting Fires:* The only people successful at this are firemen. Yet, many workers find themselves spending great amounts of time solving situations that weren't approached correctly in the first place. One way to avoid "fighting fires" is to plan carefully. But over-planning can be as hazardous as the lack of it. Recognize that human errors and machine breakdowns *will* occur and allow a certain percentage of each day for the unexpected, based on the level of control you have over your job responsibilities. Then, after a crisis has been solved, review the situation. What caused it? Could any of the conditions be expected to occur again? What steps might be taken to prevent a similar crisis?

Learn to plan your time. Initially, this may seem to be a time-waster, but remember that this planning time is an investment in future efficiency and effectiveness.

• *Procrastination/indecision:* These two thieves are sly time-wasters and can be hard to pinpoint. Remember, whenever you put off a job, you're wasting the time it takes to think about it and put it aside, and you're risking its becoming a crisis later. Many people procrastinate because they are paralyzed by the fear of not doing something perfectly. Recognize that although we strive to do our best, mistakes will be made from time to time. Consider them part of the learning

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process. Don't be overwhelmed by the forbidding magnitude of a project. Force yourself to take that first step toward it, and it will get your momentum going.

Plan your time to accomplish your goals and responsibilities.

Finally, better time management involves learning to plan your time. While initially it may seem that planning itself is a time-waster, keep in mind that this time is an investment in future efficiency and effectiveness.

The time-planning process has several steps:

1. Set the objectives or goals you wish to accomplish.
2. Set priorities and timetables for attaining the objectives. Obviously, not all objectives will be of equal importance; so you, either on your own or with your supervisor, must decide which will be tackled first.
3. Plan the action and the time required to accomplish each objective.
4. Review the results.

You may want to go through this procedure for all the projects you hope to accomplish in a year, and then reduce it into quarters and months. Then, try planning the work you must accomplish each day. Experts suggest that at the end of each day, you fill out a list of things to be done the following day, again including some "dead" time or time for the unexpected. After each day, review your plan. Did it work? If things went wrong, why? If several days of frustrated plans go by, check to see if time thieves may be lurking about, or consider that perhaps you are setting unrealistic expectations and should allow more time for the more complex tasks. Don't give up if setbacks occur! Keep at it and you should find yourself more organized, more productive, more relaxed.

It's trite but true — time is like money: It can be spent, or it can be invested. • •

BAI Membership Post Goes To Gary J. Blanchard

PARK RIDGE, ILL. — Gary J. Blanchard has been elected vice president and director of membership and chapter services division, Bank Administration Institute.

As part of his new responsibilities, Mr. Blanchard works with the BAI district directors council in analyzing the institute's chapter network. He said results will lead to restructured system of programming, communications and banker activities.

Mr. Blanchard, who joined the same BAI division last year as an assistant director, succeeds Sam F. DiCara, who has been named senior adviser-membership programs.

Before joining the BAI, Mr. Blanchard was a vice president in operations, Howard Bank, Burlington, Vt. He is a former president of the BAI's Vermont Chapter.

Mr. DiCara, who has been with the BAI for more than 26 years, will be assessing special problems and programs relating to member services.

Banking Bills

(Continued from page 18)

lations. The FDIC's action is seen as a move toward regulation by policy rather than by prescription or proscription. In many instances, it will be possible for the agency to set goals in its regulations — goals that banks will adopt in their management policies and that can be enforced through the bank-examination mechanism.

"Policy regulation" could be both more effective and less costly than the traditional regulatory approach with its volumes of inordinately complex regulations and tons of documents banks must produce to satisfy current reporting requirements (and that, as often as not, finally serve no useful purpose).

In some cases, detailed, lengthy regulations in the traditional mold may be necessary to assure certainty of compliance. But in many cases, past overuse of excessively complex regulations and highly costly compliance or reporting procedures has produced severe misallocation of bank resources solely for the compliance effort, as well as needless litigation to resolve hairsplitting uncertainties. Worse, the current complexity and length of consumer disclosures often has engendered little more than widespread confusion.

Recent surveys suggest that the public increasingly is coming to believe that the time has come to reverse the decades-long trend toward increasing government interference in and over-regulation of the business community. Where the evidence warrants it, the public is willing to see unnecessary federal regulatory and paperwork requirements rolled back.

In this encouraging environment, the ABA has made its long-term battle against the tide of federal paperwork and regulatory complexity a top priority for the coming year. • •

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Handling Employee Terminations

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

NOT LONG AGO, the termination procedure for a nonunion employee and his or her employer was share and share alike. Neither party had an obligation to the other. "You can quit without notice; so I can fire you without notice."

The sign of termination often was nothing more than a pink slip attached to the last paycheck, greeted by the recipient with sobs, indifference or thoughts of revenge. A former bank officer could contact 10 of his old employer's best customers and comment that their line of credit was being re-evaluated, but that he could save them money at his new connection. The former boss slyly could say, "Watch out for that fellow" in such a tone of voice that a prospective employer would suspect the ex-employee of having committed nonprovable embezzlement or of being a "dangerous troublemaker."

What can a bank do about a "blackmailing" employee? That is, one who knows too much about what's going on at the bank and threatens to "tell all" if the bank doesn't pay him a certain amount? Fortunately, there are corporate blackmail/extortion statutes that carry both civil and criminal liabilities for the alleged blackmailer.

Now the situation has changed significantly. Although the employer's position has weakened, he's not completely without protection from acts of significant employees having a fiduciary capacity. Suppose Amos Sly, a significant vice president or member of the board of Fifth National, approaches 25 of this bank's best customers and informs them he's quitting Fifth National and going to work as president of the Bank of North Suburban (fictitious name), where he will get these good customers lines of credit a half percent to their advantage. Also, the sly one displays a comparison chart of trust department services giving a decidedly competitive advantage to the new bank he proposes to head.

What can Fifth National do? This institution has a good chance for a successful lawsuit not only against Amos Sly personally, but against the Bank of North Suburban, based on the doctrine of fiduciary responsibility, the obligation of a bank officer or director (an insider with responsibility and not merely one who bears a title for public relations).

Suppose the bank fires an overaggressive employee, Mr. Bold, who knows too much about business matters the bank would best leave unmentioned? Mr. Bold says, "I want $50,000 or else." This is not a situation where the bank's operations completely lack virtue. It's a cloudy situation where there can be an interpretation two ways on the facts. "Pay or I will tell," says Mr. Bold.

There are corporate blackmail or extortion statutes carrying both civil and criminal liabilities for Mr. Bold. Blackmail or extortion statutes can protect a bank from trouble from a Mr. Bold, whether the bank is guilty of evil deeds, possibly guilty or innocent.

Of course the bank always has had the theoretical right to recover funds from an embezzling employee or the person who makes fictitious loans and pockets most of the proceeds. In most instances, the employee is bonded.

Whether the bank recovers depends on the circumstances. In some instances, it will appear futile to spend time, effort and legal fees where the black deeds cannot really be proved or where threats and guile of the embezzler's lawyer put caution in the mind of the bank officials whose funds have been pilfered.

Bonding companies come up with surprising defenses. "The fictitious debtors are not fictitious. They are real live people who are completely judgment proof." "Your proof is inadequate to recover on your bond. I want this and I want that and I want something else." Is the bank going to spend six months in expensive time to prove a $30,000 claim with a $10,000 deductible? Does the bank want to spend the same effort in preparing a foolproof case for the grand jury when the misdeed consists of hundreds of partial payments filched in consumer loans? Off the record, a claims officer of one of the nation's largest bonding companies proudly told me, "You would be surprised what I get away with." She meant she was avoiding suits by the insured against her bonding company for proof requirements beyond the capacity of the financial institution to produce.

The cold-blooded, noncommunicative pink slip has given way to the post-termination interview. The bank can learn many things about its operation from a discussion with a departing employee. For instance, was there lack of rapport with his supervisor? Could the departing employee be used elsewhere in the bank?

Of course, not all financial officials lack courage. People do go to jail for embezzlement. Reimbursement occurs in many cases. Poor old people sell their homes to pay off the bank from whom their child has stolen or embezzled money.

The mechanics of employee termination appear to be changing from the cold-blooded, noncommunicative pink

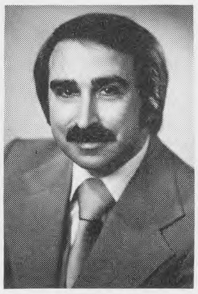
(Continued on page 92)


JOHN T. FOWLER

Corporate News Roundup

• **Bank Building Corp.** H. Bernhard Engel, senior vice president, has been appointed to the board and Leighton E. McCormick has joined Bank Building Corp.'s St. Louis headquarters as assistant communications director-financial market. Mr. McCormick will be responsible for developing internal communications programs, assisting BBC's eight financial divisions with communications programs and providing convention guidance. Previously, he was public relations supervisor for Southwestern Bell in Little Rock, and a marketing program director for Maritz, Inc., Fenton, Mo.

ENGEL

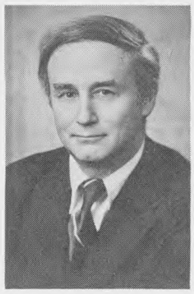


McCORMICK

• **Rand McNally.** Edward C. (Ted) McNally and David A. Brown have been elected vice presidents of the bank publications division and financial systems division, respectively, Rand McNally & Co., Chicago. Mr. McNally, who succeeds retiring divisional vice president Richard B. MacCarthy, joined the firm in 1971 and was named general manager, RandCard division, in 1974. Mr. Brown joined the firm in 1978 as financial systems general manager. Formerly, he was sales development manager, Burroughs Corp., Rochester, N. Y.

• **Hibbard, O'Connor & Weeks.** Rick E. Pierson has been elected senior vice president/general sales manager, and William A. Turner, senior vice president/sales, Hibbard, O'Connor & Weeks, Houston. Other newly elected vice presidents include Karen B. Turns and Andrew R. Moran, sales; Albert J. Johnson, training director; D. Ann Orr, compliance department; John A. Swinnea Jr., manager SBA/FmHA department; and Davis Wetmore, trader. Peter W. Badger and Sol Kirschner were elected assistant vice presidents/sales.

• **Heitner Corp.** William M. Wilcox, formerly vice president, St. Louis office, Harris Trust, Chicago, has joined the Heitner Corp., also in St. Louis, as vice president/general obligation municipal bond department. Mr. Wilcox began his career in 1961 with St. Louis' Mercantile Trust and went to Harris Trust in 1965.



WALKER

WILCOX

• **Stifel, Nicolaus & Co.** George H. Walker III has been elected president and CEO of the Midwest regional investment firm, which has its home office in St. Louis. George A. Newton, chairman, will continue in his post. Mr. Walker is a former executive vice president. Before joining the firm in 1976, he was senior vice president and director of White Weld, Inc.

New Products and Services

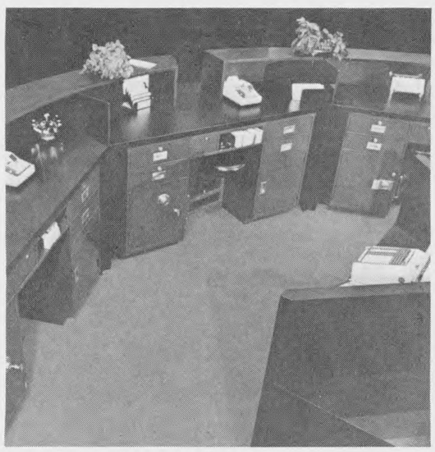
• **Harland Co.** The check-printing company has a leather checkbook cover, which can be monogrammed on a solid brass plate with customer's initials. The covers are available as clutch purses and include an ID window, credit card and pen holders, currency compartment, coin purse and snap closure. Write: John H. Harland Co., P. O. Box 105250, Atlanta, GA 30348.

• **Actron.** High-intensity drive-in signs specifying lanes for commercial transactions are available from Actron.

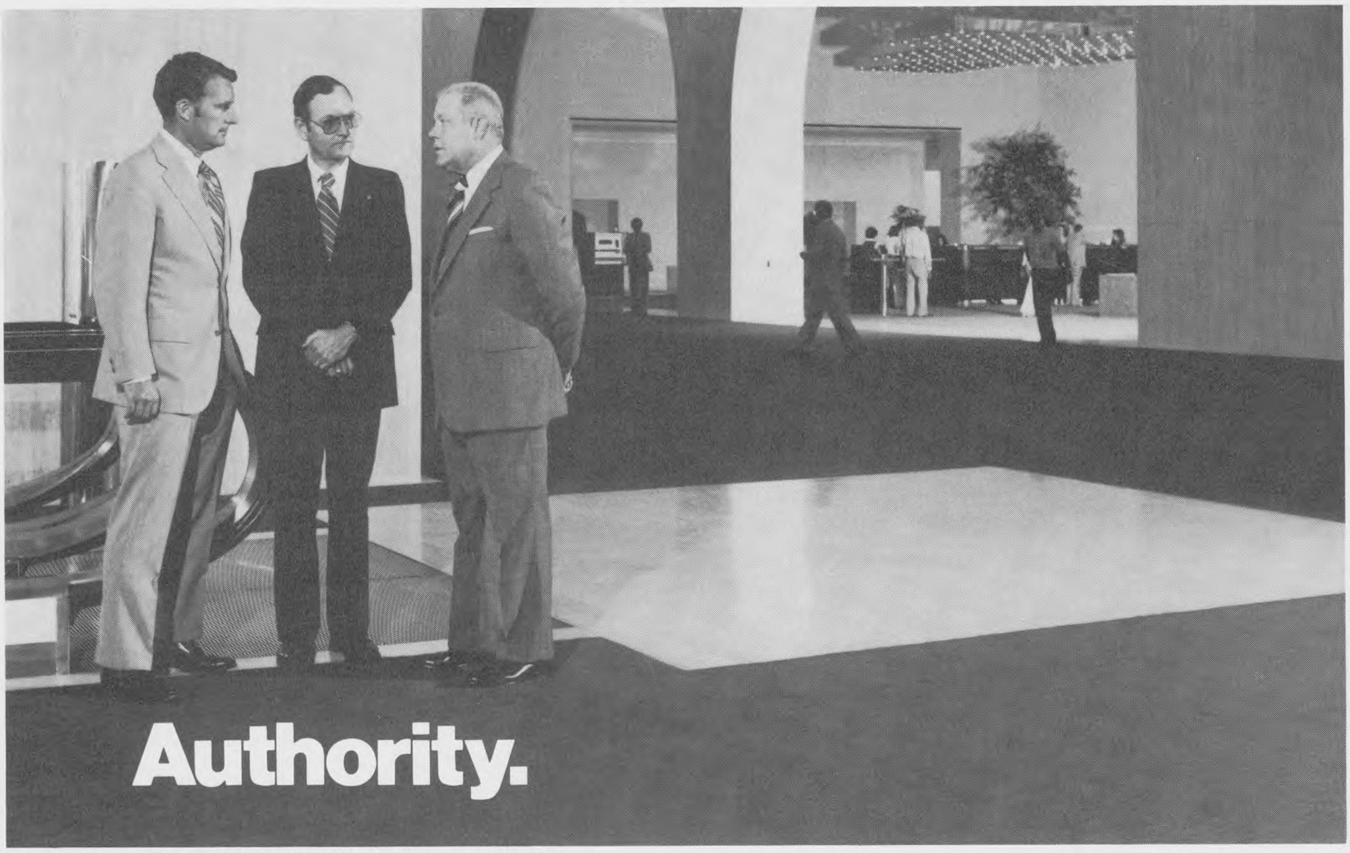
According to the manufacturer, the signs can be read in bright sunlight. The case is available in brushed stainless steel or dark bronze finishes. Write: Actron, 810 East Crabtree Drive, Arlington Heights, IL 60004.

• **Diebold.** A new software package makes it possible to provide a compatible operational environment. A 9510 controller can interconnect with TABS 910 systems to utilize the same host applications software. The new package enables institutions now using Docutel machines to integrate them into on-line networks rather than write off the units or the host software and build the network from scratch. Write: Diebold, Inc., Public Relations Department, Canton, OH 44711.

• **LeFebure.** A cash-handling brochure featuring unusual teller-counter layouts now is available from LeFebure. There are photos of actual installations of counter designs arranged in straight line, with returns and U-shaped. Write: LeFebure, P. O. Box 2028, Cedar Rapids, IA 52406.



Our Correspondent Bankers have one important asset in common.



Left to Right: Sam Hayes, Charles Rice and Marc Tower.

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In Face of Predicte

How Can Banks
In Their Installn

By ROSEMARY

INSTALLMENT LENDING departments always have been considered profit centers for banks. However, with an economic downturn being forecast for 1979, these departments — because of the nature of their business — could prove to be less profitable than in previous years. So, what can banks do to improve income and reduce expenses? A survey of banks around MID-CONTINENT BANKER's 13-state area shows that, generally, they are:

- Exercising tighter credit controls.
- Intensifying collection efforts.
- Using combined forms (although the unending stream of amendments and changes in regulations makes this difficult).
- Training installment lending personnel, especially in the area of consumer regulations, through seminars, meetings, one-to-one conferences.
- Reducing delinquency notices by eliminating the five-day notice and sending only the 10-day notice, thus cutting postage and printing costs.
- Automating installment-lending operations wherever and whenever possible.
- Reducing number of employees in the department through automation, combining duties, doing away with some jobs.
- Having top management and other upper-echelon personnel maintain greater supervision than formerly over the installment loan department.

Specifically, here is what some banks are doing in the installment-lending area:

Third National, Nashville (James R. Sartor Jr., senior vice president) — The bank is monitoring its salary-budget increases closely, concentrating more on telephone collections to cut down the cost and related expenses of outside collections, making a new effort throughout its direct-loan program to automatically debit a customer's account for his monthly payment and has turned to another company, which does all follow-up work on insurance policies needed in connection with secured loans. This latter has resulted in a reduction of the bank's staff and, in management's opinion, a cost savings.

All affected customer forms have been revised within the last few years to conform to various consumer regulations. In fact, the bank recently put together a joint form for installment loans combining into it the note, chattel and Truth-in-Lending disclosure. This has saved time for branch personnel.

The in-house legal staff conducts meetings for lending personnel to keep them current on all the regulations. The bank also supervises and monitors lending personnel more closely than it did formerly.

Third National has set a goal of eliminating small loans that are unprofitable and those loans that cause a large percentage of losses. In addition, a retail loan committee has been formed to approve small business loans and to supervise all retail loans. The bank also is working harder in the collection area by accelerating its first collection effort.

* * *

United Missouri, Kansas City (Robert W. Sears, senior vice president) — This bank is one of those that has eliminated a first notice, which used to be sent some five days after a due date. This was done in response to the rising cost of postage, and the bank reports, happily, the move has not been accompanied by an increase in delinquency ratios.

For some years, United Missouri operated with two full-time credit people. When one of them resigned, the replacement was a part-time high school student, who, according to the bank, is performing these duties satisfactorily, and there have been no complaints from other credit grantors about the slightly curtailed service. A credit-investigation person who resigned was not replaced because new-loan volume has decreased, and, with short-term rates at their present levels, the bank isn't aggressively seeking new installment loans.

United Missouri conducts many training sessions on Regs B and Z and the Fair Credit Reporting Act for all employees, including loan officers, credit investigators, credit reference

Economic Downturn —

Reduce Costs, Boost Profits ent Lending Departments?

McKELVEY • Editor

clerks, collectors and even tellers. The guide for these sessions primarily is the ABA's *Consumer-Compliance Manual.* Also, because of these regulations, the bank has revised practically every form used by its installment loan department.

United Missouri has been concerned for some months about the volume of consumer debt and the possibility of layoffs caused by a downturn in the economy. With that in mind, the bank has tightened up in approving new loan applications. Its outstandings have increased about 40% the past year, with most of this boost coming from indirect auto paper. The bank has hired an additional collector to help in this area, contacting delinquent accounts earlier and resolving problem accounts sooner. The bank also has arranged with a local garage for inside storage of repossessed cars, and this has eliminated theft and vandalism problems and has enabled the bank to keep these cars cleaner than if they had to sit outside, and thus the vehicles are more attractive to potential buyers.

* * *

First Security National, Lexington, Ky. (Stephen W. Johnson, vice president) — The bank believes a major consideration in controlling costs is to know what they are. It has a relatively sophisticated profit-planning system under which income and expenses are projected. This gives the bank the opportunity to know what each expense is, determine what the fixed costs will be and budget the variables.

First Security's philosophy is to involve its officers in efforts to control expenses in their respective areas of responsibility because if a number of persons are aware of expenses, the overall department is more successful in controlling them.

Because of the many regulations, the bank points out, employee training is complex. Generally, First Security has key management personnel attend applicable national or regional seminars. In addition, it holds internal seminars, which cover the new regulations, their impact and the bank's policy. Then, additions to or revisions of the bank's written policy/documentation manual are made. These manuals are updated continually and put in the hands of loan officers and secretaries.

First Security believes it's important to educate and train collectors, and so each of its collectors has been to a collection seminar. The officer in charge of that area also has been to a seminar and is scheduled to attend the same banking schools as do loan officers. Additionally, the officer in charge has met with the collection staff, explained 1979 predictions and stressed the importance of delinquency control. The bank says its reporting system will allow early recognition of any adverse trends so that prompt action can be taken as needed.

Besides all the above, First Security has stressed the importance of evaluating income versus debt in general discussions and meetings with installment officers. While the bank has not revised its credit policy, it does look closely at sizable consumer obligations and sources of funds for liquidating such debt. Finally, it says, an acceptable credit history is a prerequisite to granting a loan.

* * *

First National, Fort Worth (Tom F. Turner, senior vice president) — New and more efficient systems are being devised at this bank to hold down operating costs. Specifically, the bank is trying to take advantage of more automation and less manpower. First National is studying the possibility of obtaining new equipment that will replace people in the production end of the personal loan department. Steps also are being taken to see whether unnecessary procedures can be spotted and eliminated.

As is the case with many banks, First National has conducted in-house seminars for its loan personnel to help them understand and comply with Regs B and Z.

Although the bank believes the Fort Worth-Dallas trade area has a healthy economy and should keep it under normal recessionary circumstances, First National is becoming more selective than formerly in buying third-

60-Month Auto Loans? This Bank Tells How They Can Be Profitable

PRICES of 1979 cars are increasing continually, with no end in sight. Of course, 1980 models will not offer any relief from this price spiral. So, what can banks do to help consumers buy these expensive vehicles, and, at the same time, keep their installment lending departments profitable? Some banks have gone to 48-month auto loans, and 60-month loans are beginning to appear. In fact, one bank — Kanawha Valley Bank, Charleston, W. Va. — has been offering 60-month car loans since October, 1971, and, says Senior Vice President James L. Whytsell, the bank's experience has been excellent.

What has this bank done to produce a successful 60-month-auto-loan program? Here's what Mr. Whytsell says:

"1. All prudent criteria, such as income to debts, past repayment habits, etc., are used, of course. The only other restriction is that we will not go beyond 36 months for those vehicles used by traveling salesmen because these cars would have an excessive amount of mileage and for vehicles used for business purposes.

"2. We have three distinct categories of borrowers and relate our down-payment requirements to them: (a) Those borrowers who have been employed *less* than three years on the same job and who are *not* home owners. Our maximum advance to this group is 85% of net cost. (b) Those borrowers who *either* have been on their jobs three or more years or *are* home owners. In these cases, we advance a maximum of 90% of a car's net cost. (c) Those borrowers who have been on their jobs three or more years with their present employers *and* are home owners. On this class, we advance a maximum of 100% of a car's net cost.

"3. Extended terms apply only to new automobiles. Our interest rate charged for each term is as follows: (a) 12-36 months — 11% annual percentage rate. (b) 37-48 months — 11½% annual percentage rate. (c) 49-60 months — 12% annual percentage rate.

"4. We require all borrowers for new autos to maintain collision and comprehensive insurance as well as liability coverage. We allow an individual to choose his own company, but verify coverage on new borrowers or those with whom we may have had some problems in the past. Credit life and accident/sickness insurance are available to borrowers for an additional cost. Although it's optional, we do try to sell this coverage.

"5. Our standards are set for direct loans only because we don't have any indirect loans."

"6. We continually monitor our delinquencies and losses on all loan categories. When we went into this program in 1971, we decided to monitor it closely and have done so. Our experience has been that both delinquencies and losses have been under those losses on conventional-term new auto loans. We believe this is attributable to criteria built into the extended-term policies.

"7. On the contrary, we feel the credit risks in the program are better than normal.

"8. It's been our experience that there's been little reaction from our consumer loan customers to the additional interest for this additional term. The customer seems concerned about his monthly payment. The extended term provides our consumer customers with an opportunity to choose a payment that fits more readily into their budgets.

"9. For any bank considering going to extended-term auto loans, we believe the best advice is to build in set criteria that distinguish your different types of borrowers. If you have good, solid credit risks, your exposure really isn't much more even with extended terms."

party (dealer) paper. Other than that, the bank is taking the usual steps in trying to make sound loans.

* * *

Albuquerque National (Charles L. Jansen, vice president) — This bank has made an effort to encourage putting new installment loans on automatic charges to checking accounts instead of using payment coupons so as to reduce printing and postage costs.

Also, for a trial period, the bank is eliminating the five-day past-due notice to see if it has any effect on past-due collections. This also could reduce printing and postage costs. In another effort to cut down on postage, all mail leaving the installment loan department is pre-sorted by zip codes.

Over the past 1½ years, Albuquerque National's attorneys have reviewed all consumer forms, and this is a continuing effort. In fact, no form is reordered without checking with the attorneys to see whether a change is needed.

The bank's compliance officer has conducted workshops and seminars for its loan officers. A similar workshop was given by a member of the national bank examining staff for the bank's loan personnel, correspondent banks and holding company banks.

Albuquerque National has not gone to the extended maturity on auto loans or mobile homes and, because of this, has cut back on its dealer line. The bank requires 25% down payments on these loans.

* * *

Pioneer Bank, St. Louis (Richard Benack, assistant vice president) — This bank has cut costs through efficient training of new employees and periodic retraining of the present staff to minimize errors in performing time-consuming tasks, such as preparing loan documents. Another way it's reducing costs is through more efficient use of storage space, including a periodic housecleaning to rid areas of unneeded items and to just plain reorganize.

Pioneer Bank is improving efficiency by cross training; that is, training employees so that they can move around to fill vacancies created by illness, vacation, retirement or termination. The bank also makes maximum utilization of computer-generated reports and other output in lieu of manually prepared items.

Because the bank believes most collection accounts become losses because of incomplete loan applications, it makes sure that each such application is as complete as possible at the

(Continued on page 58)

Installment Lenders Can Look Forward To Healthy, Active Year in 1979

By JAMES A. MATTHEWS
Vice President/
Consumer Lending
Continental Illinois
National Bank
& Trust Co.
Chicago

INSTALLMENT LENDERS can look forward to a healthy and active year in 1979. Consumer debt is expected to reach a new record-high level by the end of the year, but probably won't grow at the same swift pace of 1978.

Interest rates are going to remain high and may edge even higher as the year progresses. Part of this rise is attributable directly to inflation and increased costs of doing business. On the other hand, increased costs for goods and services during the year will move the average loan size higher.

Installment lenders are learning about the inflation psychology that's sweeping the country. Continued growth of inflation over the years has conditioned consumers in such a way that they're more inclined to accept higher rates. The residential loan area is a good example.

In 1978, demand for residential-loan funds remained strong despite rising mortgage-loan interest rates. Even at 10%, demand for residential loans is strong, and we at Continental are calling for a fairly good year in terms of new housing starts during 1979. Current projections list 1.738 million new houses for construction during 1979, compared with 1.986 million recorded during 1978.

Projected auto sales also show promise. We are projecting sales of 10.7 million cars during 1979, down only slightly from the 11.3 million sold during 1978.

Car sales during the year will account for 35% to 40% of the installment loan business. Projected car sales also indicate a rather strong retail sales year.

Coupled with heavy consumer volume is the dual-income household, a relatively new economic phenomenon that the installment loan industry has yet to fully understand. One thing that's becoming clear is the realization that a number of installment loan standards no longer are valid. The traditional one-fourth-of-income rule for determining a borrower's ability to repay a mortgage is a good example.

According to the rule, a person earning $12,000 a year should allocate up to $3,000 or one-fourth of his income for housing expenses. The remaining $9,000 is discretionary income, which today is considered very little, especially if a person is supporting a spouse and two children. But let's assume the spouse goes to work and earns another $12,000. The couple easily can afford to increase its monthly housing payment from $250 to $500. What really is significant, however, is the increase in the amount of the couple's discretionary income — from $9,000 to $18,000.

The dual-income household controls more discretionary income than ever before, which in turn should produce a corresponding amount of installment loan business.

Although 15% of dual and individual income is being used to repay installment loan debt, it's not an excessive figure. In fact, the figure probably can go higher than postwar repayment levels of 13½% to 15 % because of the monumental rise in the amount of discretionary income. In the postwar years, most consumers managed to meet repayment obligations without the aid of dual incomes.

The single-income consumer in 1979 will not be as fortunate, however, as his postwar counterpart. Further rises in the cost of living during 1979 will force the single-income individual to postpone or cancel nonnecessity purchases. Emergency-necessity purchases will require individuals to seek installment loans in many cases.

The financial plight of the fixed-income individual will be intensified during the year as incomes fall further behind in the race against inflation. For the installment lender, this situation should be disturbing because the fixed-income individual is disappearing from the consumer market in greater numbers each year. In turn, this removes this person from the installment loan market.

Installment loan delinquencies are on the rise, but credit losses are not.

Ten years ago, all banks in the country reported an annual delinquency rate that averaged 1.58%, according to a recent ABA report. In 1973, the rate average increased to 2.07%. A sharp rise came the following year, when the rate average recorded was 2.64%, according to the report. The rate average was on the decline through 1977. In 1978, however, the rate average had begun to climb again and was reported at 2.38%.

Average bank installment-credit dollar losses listed as a percentage of gross outstandings display a steady decline from the .75% posted in 1975 to .50% posted in 1977, according to the same ABA report. Whether the decline will continue or reverse itself will not be known until the rapid rise in consumer debt slows to the expansion level of the 1975 base period.

Meanwhile, it's important to note that installment lenders today are more inclined than they were formerly to give customers the benefit of the doubt where delinquencies are concerned. For example, repossessions are not carried out as quickly as in years past. The same is true of lenders filing complaints with a delinquent customer's employer or in wage-garnishment cases.

Installment lenders also are learning

that today's consumers are quite sophisticated and informed about their rights. Many consumers know the "ins and outs" of avoiding payments for long as possible. As far as morality is concerned, there's little change. Those consumers who see debt as an obligation meet their obligations. Those who do not usually become another entry on a lender's loss report.

Bankruptcies, for the most part, remain unchanged. However, it's possible that bankruptcy may become more socially acceptable. Consumers will continue to view bankruptcy as a last resort. They will find that in the short term, bankruptcy is easier than repaying their debts. However, in the long term, they will learn that the price that must be paid — a severely blemished credit record — is far more difficult to live with.

Installment lenders will be the primary force that sets the standard for creating some of the long-lived, harsh realizations that bankruptcy promotes a continuing hardship.

No matter how socially acceptable bankruptcy may become, it still carries the stigma of an inability to handle personal finances and should be reviewed carefully when consideration to risk is made. ● ●

Reg B's Proposed Amendments Bring Comment From CBA

THE CONSUMER BANKERS Association has issued two comment letters to the Fed's Board of Governors: one dealing with several proposed amendments to Regulation B, based on a Federal Trade Commission staff petition; the other on Regulation Z Official Staff Interpretation FC-0155, to which the FTC objected. The CBA's comment letters took issue with the FTC positions.

Proposed Reg B Amendments. These amendments were based on a petition to the Board of Governors by the FTC staff. The CBA objected principally to those changes relating to credit arrangers and business-credit transactions.

The FTC staff proposed that the definition of "creditor" be revised to include "arrangers of credit," which would encompass those who refer applicants to a source of credit or select creditors to whom requests will be made.

In its comment letter, the CBA pointed out that the definition of creditor under Reg B is limited to those who participate in a credit decision. "If an arranger has sufficient influence to affect the outcome," said the CBA letter, "then it would appear to us that the arranger already is included under the definition of creditor. If the arranger does not participate in the credit decision, then the arranger should not be included."

The association also pointed out that the amendment would include auto dealers and loan brokers who refer applicants to a financial institution to seek credit. This inclusion could increase a bank's liability substantially, says the CBA, since it probably would have no knowledge of Reg B violations committed by a dealer in a direct-loan situation.

The comment letter noted that the FTC didn't present "substantial evidence" of any enforcement problems in the credit area, but, rather, its focus was on real property housing matters. Thus, the CBA recommended that the amendment be deferred. However, if the board wants to change the definition, the CBA said it should apply only to real estate transactions. However, if the coverage is broadened, continued the CBA, language in the amendment should indicate that "no liability will be imposed on the creditor unless the creditor knew or had reason to know of the discriminatory activities of the dealer."

The CBA objected, on numerous grounds, to the FTC's proposed amendment to eliminate the business-credit exemption for notification and record keeping in transactions involving direct loans under $100,000. The comment letter pointed out that there was no evidence of abuse presented, and the FTC's intended purpose of "raising consciousness among businesswomen and minority business owners" could be handled better by consumer education.

The CBA argued against the $100,000 figure, saying it doesn't relate to the degree of business sophistication since many business persons maintain loan accounts with several financial institutions. Also, with regard to notification, the informal, "shopping" nature of many commercial-loan applications makes it difficult to pinpoint when an application is made. Thus, "a bank would be in jeopardy if required to send out, on an automatic basis, the notification regarding adverse action."

FC-0155 Interpretation. In his comment letter to the Board of Governors, CBA President Charles F. Patterson Jr. (group vice president, Trust Co. Bank, Atlanta) supported FC-0155, which provided that where disclosures required by Section 226.8(c) of Reg Z (credit sales) are repetitive or inapplicable, disclosure of such terms may be combined or omitted. His letter also responded to major objections to the interpretation by the FTC's credit practices division.

The CBA letter said the FRB clearly has the authority — indeed the responsibility — to resolve uncertainties caused by inconsistent judicial interpretations of Reg Z's meaning.

In conclusion, the letter said: "FC-0155 is supportive of the purpose of the Truth-in-Lending Act, which . . . is to 'assure a meaningful disclosure of credit terms so that the consumer will be able to compare more readily the various credit terms available to him and avoid the uninformed use of credit. . . .'" The CBA pointed out that in this day of "information overload," consumers are best assisted in credit shopping by restricting disclosures provided to those that, at the very least, relate to the credit transaction at issue. ● ●

Credit-Life Controversy

On January 31, the Independent Bankers Association of America (IBAA) filed a brief appealing a federal court's dismissal late last year of its challenge to the Comptroller's credit-life ruling. The latter prohibits national bank officers, directors and principal stockholders from receiving credit-life-insurance commissions.

The Comptroller has 30 days from the filing to reply, but can request an extension of another 30 days, if he wishes. After that, the IBAA has 14 days to reply to the Comptroller.

Richard W. Peterson, IBAA legislative counsel, Washington, D. C., warns IBAA members that the controversy could go on for another two years, and, therefore, they should check with their individual bank counsels before allowing credit-life commissions to be paid their officers, directors and stockholders. In addition, the IBAA offers its members a model trust agreement — which must be tailored to each bank — in which income from credit-life sales is put in escrow until a final decision is handed down by the courts on how and to whom it can be paid.

Property-Improvement Loans:

An Important Profit Center for Banks

By R. D. "DICK" BEATTY
Vice President
Universal Assurors, Inc.
Omaha

CURRENT MORTGAGE RATES tend to make a prospective home buyer defer purchase and to remodel his present home instead. Thus, high prime rates can translate into higher installment loan profitability if more emphasis is placed on higher-yielding property-improvement business.

These high mortgage rates are among many reasons in today's lending market that indicate that an aggressive property-improvement-lending program can be a profitable part of a bank's installment loan portfolio.

In the past, banks have concentrated their installment lending activities in the auto-financing area, either on a direct or indirect basis. However, the sharply increased cost of a new car today has tended to limit that product's market base. As a result, many banks have found it necessary to examine, and usually diversify, their installment loan portfolios. One way such diversification can be realized is to solicit home-improvement loans aggressively. Many prospect sources are open to a bank's portfolio manager, among them his bank's depositors, mortgage loan customers and the untapped community at large, which is accessible via advertising media.

New bank customers attracted by such property-improvement merchandising are home owners, of course, and the cross-selling of other bank services — checking and savings accounts, safe deposit boxes, ready-reserve accounts — can be done after closing a home-improvement loan. It's this type of customer a bank wants in order to increase its deposit base.

Another way to attract this type of loan customer is by purchasing contracts from sound, reputable home-improvement contractors in a bank's service area. Remember that financing swimming pools, pole barns, tennis courts, sprinkler systems, etc., not only securely builds a bank's outstandings, but provides much larger-yielding loans than the formerly predominant automobile paper.

The increased cost of a new car has tended to limit that product's market base, and so many banks have found it necessary to examine, and usually diversify, their installment loan portfolios. One way to do this is to solicit home-improvement loans aggressively.

Because of the so-called "energy crunch," any energy-related improvements, such as fireplaces, new storm windows, insulation, siding, roofing, would be logical ideas to incorporate into the property-improvement advertising program. By concentrating a bank's advertising dollars in this direction, a bank is increasing its chances of obtaining those significant benefits — good, new bank customers and higher-yielding loans — and, indirectly, an improved bank image of community service.

Profit-Center Brochure

A new brochure, "An Important Profit Center for Your Bank," explains the advantages of a privately insured property-improvement loan portfolio. This booklet describes several ways a program can be tailored specifically for a bank. For further information, write: Universal Assurors, Inc., 365 North Saddle Creek Road, Omaha, NE 68131.

Banks that formerly used the FHA Title I program also have found that an insured property-improvement program can greatly increase credit-life penetration and income. As the various state insurance departments continue to lower credit-life rates that can be charged, the resultant lower commissions to banks can be increased if banks offer these insured property-improvement programs. Since most property-improvement loans are joint husband/wife ventures, protection of both family and portfolio is assured when joint life protection is offered applicants. It's a natural for all parties concerned.

Consider that a property-improvement loan is a much higher-yielding loan than most other types of loans in a bank's portfolio; that bank customers' homes increase in value, as opposed to automobiles' decreasing value; that a home owner, no doubt, is a higher-quality borrower than is a car buyer and that home-improvement loans can boost a bank's credit-life commissions. Thus, everything points to the property-improvement program as a means of overcoming market-connected discrepancies in the installment loan portfolio so that this portfolio becomes a more-than-ever important profit center for a bank. • •

Small Banks Get Help on Reg B With Nashville CityBank Seminars

CONSUMER REGULATIONS may be "dirty words" to bankers, but they're here, and they have to be followed. In fact, if a bank — either innocently or by design — doesn't obey these regulations, the U. S. Attorney General could bring civil action, or an individual or group could file a lawsuit. Either way, the bank could lose a lot of money and receive some bad publicity.

Of particular interest to banks in the installment-lending area is the Equal Credit Opportunity Act (ECOA), implemented by the Fed's Regulation B, which prohibits creditors from discriminating against credit applicants:

- Because of race, color, religion, national origin, sex, marital status, age (provided that the applicant has the capacity to enter into a binding contract).
- Because all or part of an applicant's income derives from any public-assistance programs.
- Because an applicant has, in good faith, exercised any right under the Consumer Credit Protection Act (CCPA).

It was under the CCPA, which became effective in 1969, that consumer regulations came into being. In the ensuing years, five major pieces of legislation, including the ECOA, have been incorporated into the CCPA.

Of course, no matter how hard a bank tries to follow these regulations, there's danger of misinterpreting them. Also, the regulations are being amended constantly so that it's difficult to keep in compliance.

Because smaller banks find it difficult to keep themselves current on these consumer laws and regulations, a number of city correspondent banks have held or are holding educational seminars to help these banks. Among sponsors of such seminars is Nashville CityBank, which gives ECOA and loan-documentation seminars to its correspondents in Tennessee. An ECOA seminar also is offered Nashville merchants because they, too, are required to comply with Regulation B. This seminar is tailored to retailers. By the way, Nashville CityBank has obtained several new merchant accounts as a result of offering these seminars.

All the seminars are under the direction of Arthur M. Willard, assistant vice president of the bank.

A set of fact sheets is prepared by the bank and distributed to participants of each seminar — one set for bankers, the other for retailers. Included are a concise definition of Reg B, revised forms to help lenders/retailers keep up with changes in the regulation and a revised financial statement, whose purpose also is to keep creditors in compliance.

The fact sheets list 55 items for bankers and 45 for retailers, and all of them are covered in the seminars. For instance, they tell which agency administers the reg, what happens when there's a violation and what the penalties/liabilities are. Under the latter for banks, Nashville CityBank says punitive damages to an individual are limited to $10,000, and class actions are limited to 1% of a bank's net worth or $500,000, whichever is less. If either is awarded, costs and/or attorney's fees also are awarded.

In addition, the sheets cover the meaning of "adverse action" ("any refusal to grant credit or where we condition the application, and the applicant turns us down"); "to discriminate" ("to treat one applicant less favorably than other applicants"); "elderly" ("age 62 or older"); and "unmarried" ("single, divorced and widowed"). In connection with this, the seminar emphasizes that marital status is to be discussed only in terms of married, unmarried or separated.

Arthur M. Willard, a.v.p., Nashville CityBank, conducts Equal Credit Opportunity Act and loan-documentation seminars described in accompanying article.

Both sets of fact sheets and seminars tell creditors what information they may or may not request of applicants. Here are some "no nos":

"You may not request an applicant's marital status if the application is for individual unsecured credit."

"A creditor shall not inquire whether any income is derived from alimony, child support or separate maintenance unless the applicant desires that this income be considered on the application."

"A creditor shall not inquire as to the sex of an applicant."

"A creditor shall not inquire as to the applicant's intent, control or capability of child bearing." But inquiry may be made as to present dependents.

"A creditor shall not inquire as to race, color, national origin or religion." Inquiry may be made as to permanent address or immigration status regarding rights and remedies in repayment.

"A creditor shall not prohibit an applicant from using a maiden name or surname."

"A creditor shall not require the signature of an applicant's spouse or other person if the applicant qualifies for the amount and terms requested:

"A. Unless we rely on their property to establish credit-worthiness.

"B. A creditor may consider state law, the form of ownership of the property and its susceptibility to attachment in the event of default."

The seminars spell out what to do after approving or disapproving an application, how to furnish credit information and how long to retain disapproved applications.

In addition, a written true/false Reg B quiz is given seminar participants. This test is designed as a further learning process for creditors. The 20-statement test includes the following: "A refusal to increase an amount of credit available to an applicant when

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an applicant requests said increase in accordance with normal guidelines is considered adverse action." "A creditor may require a re-application or change the terms on an open-end account if a person retires." "A creditor cannot deny a loan to an applicant on the basis that the applicant recently took bankruptcy." Each participant indicates with a check mark whether he believes the statements to be true or false.

Lenders are encouraged to use any of the forms in the seminar package if they find them satisfactory, says Mr. Willard. Thus, they can save themselves printing costs of revising their own forms. However, he doesn't recommend using the loan application because it's designed around the bank's computer.

For the loan-documentation seminars, a copy of the bank's loan-documentation manual is distributed and is put together so that, as changes are made, sheets can be pulled and new ones inserted. This manual includes a lending officer's work sheet, forms for personal-loan applications, collateral information, installment promissory note and security agreement, a disclosure statement for Truth-in-Lending and complete documentation for real estate loans.

"Preparation and completion of this manual have been critiqued by 20 loan-documentation seminars," says Mr. Willard. "As errors and omissions are brought up by class members, research has corrected the errors, causing the final draft to be up to date with current laws and regulations in concise documentation."

The manual is limited to consumer-type lending in Tennessee, but does include all documentation required by federal regulatory agencies. It also contains a considerable amount of bank policy on consumer lending.

Documentation seminars historically are considered somewhat dry and boring, Mr. Willard points out, and so he enlivens his with visual aids. He shows slides of documents from the manual and of autos, boats, airplanes and home improvements. The purpose is to teach lending officers the importance of inspecting collateral and/or improvements funded by various loans.

During the seminars, there's an additional series of slides on "Knowing Your Neighborhood." They point out the necessity of a loan officer's having a working knowledge of the quality of the neighborhood in which he's lending his bank's money and stress the importance of on-site visits to real estate used as collateral, even though an independent appraisal may be included in the loan package.

These loan-documentation seminars, which last about two hours, have been given not only for Nashville CityBank officers and correspondents, but there also has been a demand for them from the bank's law firm and from other Nashville banks. Mr. Willard says several of the latters' officers and auditors have attended some of the sessions.

From a practical standpoint, Mr. Willard continues, the documentation seminars, as presented, are restricted to Tennessee banks. He suggests that if a bank in another state wants to initiate a similar program, it could use the basic format, merely inserting forms used in that bank's state. Any banker interested in Nashville CityBank's loan-documentation manual should contact Mr. Willard.

The ECOA seminars, on the other hand, have been held as far away as Iowa because, of course, this is a federal regulation and applies to all banks.

Watch Delinquent Accounts!

Don't let overdue accounts cool off! This should be top priority in any installment lending department. Of course, each bank has its own schedule for following up on delinquencies. For instance, St. Louis' Mercantile Trust, on installment loans, sends a notice 10 days after the due date. Then, if there's no reponse within another 10 days, the bank follows up by telephone or by personal contact.

With credit-card delinquencies, the first statement Mercantile sends out following nonpayment carries a delinquent notation. Two more notices are sent, at 10-day intervals, if no payment is received. Then, the bank follows with a personal contact.

Some Reg B Requirements

In the accompanying article, the Equal Credit Opportunity Act (implemented by the Fed's Regulation B) is discussed in connection with ECOA seminars that are being given by Nashville CityBank. Seminar participants are shown what they can and cannot do under the regulation in granting credit.

The ABA has prepared a *Compliance Manual*, which also describes Reg B and alerts lending institutions on ways to conform to it. Following are just *some* of the regulation's requirements:

Treat all applicants the same, regardless of gender or marital status.

Allow all credit-worthy applicants to have separate accounts if they want them, whether or not they're married.

Allow women applicants to use their maiden names, married names or hyphenated surnames — whatever they choose.

In credit evaluations, consider reliable alimony, child support and separate-maintenance income in your credit evaluations.

Include both spouses' income as long as it appears likely to continue.

Be sure that both husband and wife are entitled to a credit history on user and joint accounts.

Retain all applications and credit-evaluation working papers for at least 25 months.

Notify applicants of your credit decisions, either orally or in writing.

Do not say anything that might discourage applicants, especially divorced or widowed persons, from asking for credit.

Do not ask about an applicant's spouse unless the applicant indicates the spouse will be using the account or will be contractually liable for it.

Do not use gender or marital status in credit-scoring systems.

Do not ask about childbearing intentions or capabilities.

Do not use statistics or assumptions based on the probability of childbearing in evaluating credit.

Do not arbitrarily require one spouse's signature on the other's account.

Do not discriminate against an applicant whose income entirely or in part is derived from any public-assistance program.

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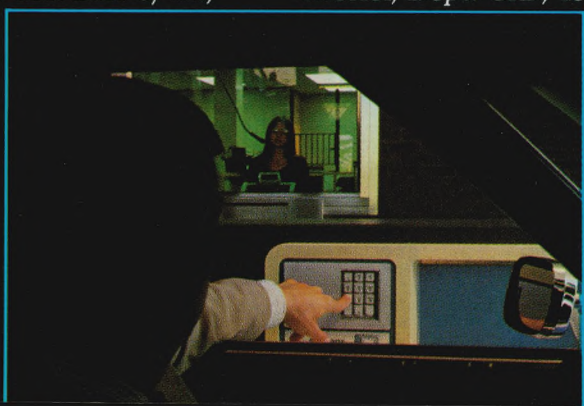

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Bank-Package Holders:

Prime Targets for Installment Loans

By WILLIAM B. KING JR.
Chairman
Madison Financial Corp.
Nashville

IT'S A STAMPEDE! A pricing expert finds that virtually every bank in the country either is re-examining its service-charge structure or is increasing service charges across the board. A bank in Pennsylvania comes off of free checking, not with a modest service charge, but with a whopping $400 minimum balance with a 15¢ item charge under that amount. A well-known marketing consultant writes an article, "If It Moves, Price It."

Everywhere, the rush is on to re-price bank services. "Stop subsidizing low-balance, high-usage customers." "Get rid of our low-balance depositors." The litany is the same; only the fervor differs.

It's an appealing logic, this return to charging for services rendered. Undeniably, bankers have been negligent in recent years in pricing their services.

Yet, if the pendulum swings too far in the present "If It Moves, Price It" mentality, someone may end up holding the bag. And that "someone" well may be the careless bank's installment loan department, which wakes up to find it has no market. For if pricing of the customer's primary bank relationship, the checking account, is carried out in a vacuum, you may be winning the battle, but losing the war. You may be getting rid of the customer who costs you a few cents each month in service charges, but you also may be losing the customer whose installment loan puts several dollars on your bottom line every month, year in and year out.

It really is no wonder that so many bank customers aren't crazy about their bankers. The latter are so inconsistent with customers. There's almost a love-hate relationship. Banks go through periods of wanting to be retail banks, wanting to be commercial banks. Wanting high-yield CDs, tolerating high-yield CDs. Wanting to serve the public on Saturdays, wanting to play golf on Saturdays.

It must be especially confusing to be an installment loan customer. One minute, the bank showers him with toasters, license plates, first-aid kits and other incentives to finance a car. The bank sponsors auto shows, puts a shiny new car in its lobby, takes a home owner's interest in urging the customer to paint up, patch up and fix up his home — and is willing to provide the money to do it. Then, just when the customer finally is ready to tackle the driveway or turn in the family dune buggy, money is tight and, so sorry, no prizes this month. No loans, either, unless, of course, the customer is an established one.

Strange behavior, but that was about it. When things loosened up, the bank typically welcomed back the installment loan customer, and the barrage of premiums began again.

However, this time, things may be different. When the installment loan officer is called on to deliver some loan volume, he may find his reliable body of customers just isn't there. While banks shaped up their depository accounts by a drastic re-pricing, they ran off their best loan customers.

We really shouldn't expect otherwise. Those in the banking business haven't been very nice recently to their installment loan prospects. It's a fact of life that the prime installment loan customer isn't the *high*-balance depositor. He's a relatively *low*-balance depositor. He's the guy, she's the gal whose checkbook runs close to zero every month before it's replenished. And because such people haven't been the best *checking* customers, and because often they aren't savers at all, banks recently have taken a tough attitude. It's the installment loan customer who, at about the time the President said, "No raises over 7%," the bank said, "Due to rising costs, we are doubling your service charges on checking." Now, that's hard to take!

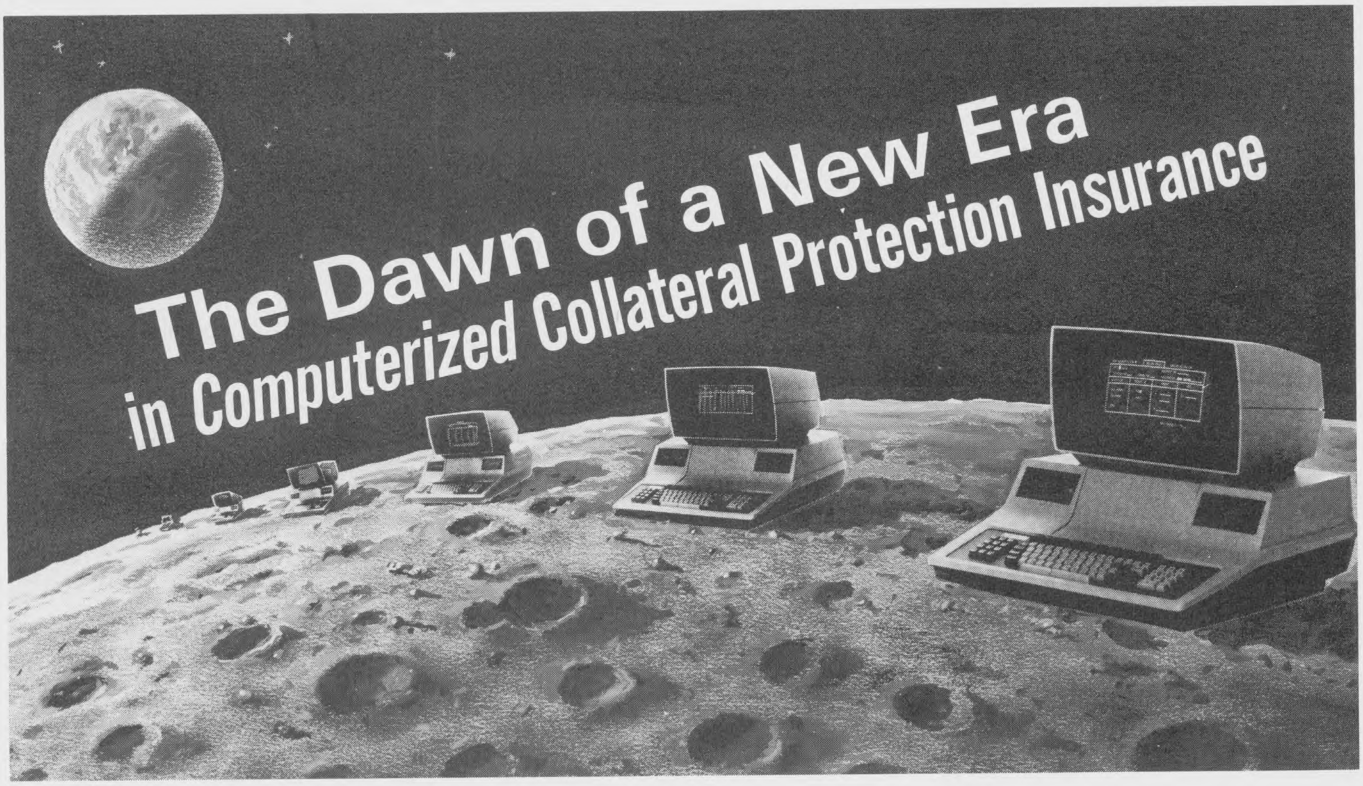
What can the installment loan officer do? For starters, he'd best realize his interest in protecting his market, which, for the most part, is the person who doesn't check for free with the bank. It's the customer who pays more dearly today for checking accounts and returned checks than he did the last time banks aggressively went after installment loans. It *may* be the customer a bank's operations man is trying to run off!

So how does a bank keep that customer? He needn't be a loss leader. An installment loan customer potentially is a profitable bank customer. Don't let that fact be lost on senior management.

Even now, when banks probably aren't promoting installment loans heavily, there are steps to take to protect this market:

First, aggressively cross-sell other services. Granted, it's tough to make a buck off a low-balance-checking customer. But that customer uses other *very* profitable services. For example, he's a prime user of lines of credit. He's a prime charge-card customer. If he has savings dollars, most likely they are in regular savings instead of in costly money-market certificates and CDs. And it's this customer's savings that probably are in *your bank* rather than

> "The holder of a checking-account package or club-type program is a prime installment loan customer. A few years ago, Wells Fargo Bank, San Francisco, did a study on its Gold Account package. Wells Fargo found that while 10% of its customers had installment loans with the bank, fully 17% of the bank's package holders had installment loans — nearly double. It's no wonder that Wells Fargo has promoted its package account consistently year after year."



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in an S&L. Because he needs to call on savings occasionally, his is not quite the rainy-day account in which the thrifts specialize.

Secondly, protect your installment loan customer by tying him into a package. The holder of a checking-account package or club-type program is a prime installment loan customer. A few years ago, Wells Fargo Bank, San Francisco, did a study on its Gold Account package. Wells Fargo found that

There's almost a love-hate relationship between a bank and its customers. Banks go through periods of wanting to be retail banks, wanting to be commercial banks. Wanting high-yield CDs, tolerating high-yield CDs. Wanting to serve the public on Saturdays, wanting to play golf on Saturdays.

while 10% of its customers had installment loans with the bank, fully *17%* of the bank's package holders had installment loans — nearly double. It's no wonder that Wells Fargo has promoted its package account consistently year after year. It's probably safe to assume the customer has appreciated Wells Fargo's consistent attitude toward him.

Conversely, the prime installment loan customer is a prime candidate for a package. A marketing-oriented installment loan officer might consider a club program that gives, say, a quarter percent off the annual rate to members. It's not a costly discount. It makes the installment loan customer feel like a preferred customer. Look what you accomplish: You automatically get the checking account of that installment loan customer. You have a vehicle with which to sell that customer other services as well.

Most importantly, you keep that installment loan customer at the bank so that he's a prime customer for the *next* installment loan he takes out. Retention studies show the customer with the multiple services of a package is only half or less as likely to leave that bank for reasons other than leaving town. Use a package to your advantage in building a stable base of future installment loan customers.

Finally, protect your installment loan base by showing the customer you care. As trite as it sounds, it's more important than ever. Because of the way the small depositor has been treated in the introduction of automatic transfer and other recent products geared to the high-balance depositor, now is the ideal time to make that installment loan customer feel wanted. You don't need to give him a set of vinyl luggage or a handyman drill. Just let him know you want his business.

What's the installment loan officer's market? For the most part, it's the person who doesn't check for free with the bank. He's the customer who pays more dearly today for checking accounts and returned checks than he did the last time you aggressively went after installment loans.

Take a leaf from the leading retail-oriented banks, like Bank of America, San Francisco, or Citibank, New York City. You'll never see these consistent money-makers running off the small depositors. And you'll never see the small depositor feel unwelcome at these market leaders. As a result, these banks will never lack for potential borrowers *or* depositors.

And neither should your bank. ● ●

Don't Ask "Wrong" Questions Of Applicants for Loans

Don't get "set up" by militant consumer groups by failing to conform to types of questions you now are "allowed" to ask a prospective installment borrower.

One banker (who wishes to remain unnamed) stated that his bank "paid off" two applicants when loan interviewers inadvertently asked several questions now on the "forbidden" list.

Shortly after the applicant was interviewed, an attorney appeared, notified the bank it had violated the "rights" of the applicant and intimated a lawsuit would be filed. Rather than go through the expense of a court case, the bank quietly "paid off" the applicant.

Examiners, of course, will be checking bank compliance with the new consumer regulations. But there can be other costly complications if the "sharpies" move into your community!

Uniform Guidelines Adopted For Truth-in-Lending

UNIFORM GUIDELINES for enforcement of the Truth-in-Lending law and its implementing regulations have been adopted by the five federal agencies that regulate federally insured commercial banks, mutual savings banks, S&Ls and credit unions. These agencies are: Comptroller of the Currency (national banks); FDIC (federally insured state-chartered nonmember banks and mutuals); the Fed (federally insured state-chartered member banks); Federal Home Loan Bank Board (federally insured S&Ls); and National Credit Union Administration (federally insured CUs).

The agencies adopted the enforcement guidelines after consideration of some 300 comments received following publication of proposed guidelines in 1977. The guidelines call for reimbursement to individuals for overcharges of $1 or more or for smaller overcharges that are part of a consistent pattern of violation or result from gross negligence or willful violations of the act.

Among the more significant aspects of the revised guidelines are the following:

1. A minimum standard is set for enforcement of the Truth-in-Lending Act. Each enforcing agency retains the option of taking alternative action where warranted and is in no way precluded from taking enforcement action for violations not covered by the guidelines.

2. Corrective action will be required for violations discovered on outstanding loans consummated after October 28, 1974, and on terminated loans originated no more than two years prior to date of examination in which the violation is discovered.

3. A creditor who understates the annual percentage rate will be required to adjust individual accounts to ensure that the customer pays no more than the disclosed annual percentage rate. A creditor understating the finance charge must reimburse customers for the difference between the actual and disclosed finance charge. Where the creditor fails to disclose an annual percentage rate as required, the customer's cost of credit must be adjusted to the amount of the rate shown on the note or contract. Where the annual percentage rate is undisclosed and no rate is shown on the note or contract, the creditor will be required to reduce the actual annual percentage rate by ¼% in first-lien mortgage transactions and 1% in other transactions.

4. A tolerance of ⅛% is provided in disclosure of an annual percentage rate, meaning that an annual percentage rate that understates the true cost of credit will be subject to corrective action only if the understatement is greater than ⅛%. A tolerance also is provided for finance-charge disclosures. If the disclosed finance charge understates the true finance charge by no more than $100 or 1% of the correct finance charge, whichever is lower, the understatement won't be subject to corrective action.

The guidelines, viewed by the agencies as minimum standards for enforcement, apply specifically to violations in other than open-end transactions.

5. Reimbursement will be required for a violation resulting in an overcharge of $1 or more for an individual account. Some form of corrective action also may be required for amounts under this level where the violations are part of a consistent pattern or are due to gross negligence or a willful violation of the act.

6. Once the overcharge amount is determined to be above tolerance levels for annual percentage rate and finance-charge disclosures, and thus subject to corrective action, the creditor also will be required to reimburse that portion of the overcharge representing the tolerance amount. The same principle will apply to the $1 minimum amount necessary to trigger reimbursement. Thus, these amounts will be included in computing the total required to be returned to the customer.

7. At his option, the creditor may use either the lump-sum method or the lump-sum/payment-reduction method to reimburse where overcharges are discovered. These methods are defined in the guidelines and will be set forth fully in examination procedures provided by each agency.

8. Corrective action will not be required for violations involving disclosures of property-insurance charges under section 226.4(a)(6) and charges listed in section 226.4(b).

9. Reimbursement will be required for certain violations not involving disclosure of the finance charge and annual percentage rate. These violations are related to disclosure of late-payment charges, prepayment penalties and the method of rebating unearned finance charges.

10. A customer whose transaction is subject to reimbursement must be told that the reimbursement is the result of the creditor's failure to properly disclose information required by the Truth-in-Lending Act.

11. While the guidelines don't apply specifically to open-end credit violations, it's understood by the agencies that such violations will be subject to general policies set forth in these guidelines and that reimbursement will be required in appropriate cases.

The guidelines, viewed by the agencies as minimum standards for enforcement, apply specifically to violations in other than open-end transactions. Violations of disclosure requirements in open-end transactions (such as use of a credit card) will be treated on a case-by-case basis, but will be subject to the same general treatment as provided by the guidelines. Where violations are discovered in loans purchased by one institution from another, the enforcing agency for the holder of the loan must notify the supervisor of the institution that originated the credit. Each enforcing agency retains authority to take appropriate alternative action consistent with the guidelines.

The five-agency policy statement doesn't preclude enforcement of provisions of the act not covered by the guidelines. ● ●

ECOA/Regulation B:

Are Banks Learning To Live With It?

EDITOR'S NOTE: Opinions expressed in this article by Randall C. Sumner do not necessarily reflect those of the St. Louis Federal Reserve Bank or of the Fed's Board of Governors. Mr. Sumner is an examiner in the St. Louis Fed's consumer affairs department.

* * *

CONSUMER REGULATIONS under which commercial banks now must operate have brought a flood of objections and comments from bankers, but they are learning to live with them and are trying hard to comply with them. In fact, says Randall C. Sumner, an examiner in the St. Louis Fed's consumer affairs department, he cannot name a state-member bank in the Eighth Federal Reserve District that has tried deliberately to flout these regulations.

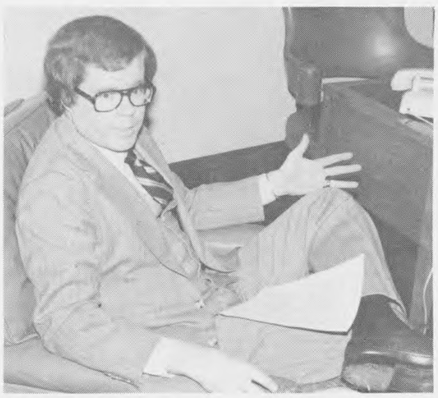
Specifically, in a MID-CONTINENT BANKER interview, Mr. Sumner discussed the Equal Credit Opportunity Act (ECOA), implemented by the Fed's Regulation B, which took effect March 23, 1977.

The ECOA prohibits creditors (including retailers) from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided that the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public-assistance program or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act.

Mr. Sumner believes most Reg B violations have occurred because of improper application forms, not because of overt discriminatory actions on the part of banks. According to Mr. Sumner, a lot of banks, particularly smaller ones, continued to use their old credit-application forms after the regulation took effect instead of designing new ones. Because the old forms asked for some information that now cannot be requested, banks using those forms would be cited for violations.

The Fed has model ECOA application forms, which *all* banks — whether members or nonmembers — are welcome to use in drawing up their own forms, says Mr. Sumner. Each form is designed for use in a particular type of consumer-credit transaction. One sample form is intended for use in open-end, unsecured transactions; the second, for closed-end, secured transactions; the third, for closed-end transactions, whether unsecured or secured; the fourth, for use in transactions involving community property or occurring in community-property states; and the fifth, for use in secured residential estate transactions. Bankers are advised to use the real estate form only when a lender's representative is available to help an applicant complete the form.

During interview with MID-CONTINENT BANKER, Randall C. Sumner, examiner in St. Louis Fed's consumer affairs dept., says banks must use credit-application forms that comply with consumer regulations. He points out that some information requested on forms that predate these regs cannot be asked for today.



All banks, no matter how small, should have someone on their staffs act as consumer compliance officer, advises Mr. Sumner. This person, he says, should be well versed in consumer regs and changes made in them so that he or she can answer all questions on them.

By the way, Mr. Sumner points out, it's only on *written* applications for residential real estate loans that regulators require certain information for purposes of monitoring compliance with Reg B. At the applicant's *option*, questions regarding race/national origin, sex, marital status and age may be listed either on the application form or on a separate form that refers to the application. The applicant must be told that this information is requested by the federal government for the purpose of monitoring compliance with federal and discrimination statutes and that those statutes prohibit creditors from discriminating against applicants on those bases. The applicant — and joint applicant — must be asked, *but not required*, to supply the requested information. If either does not want to provide that information or any part of it, that fact must be noted on the form on which the information is to be obtained. Mr. Sumner says the regulation requires that an objecting applicant initial the form to show that he or she has been asked, but had declined to give the information.

Mr. Sumner admits that redesigning forms is expensive, but it must be done. Also, he adds, banks had to review their lending policies in light of

Reg B to be sure they contained nothing that could be construed as being discriminatory in any way. The St. Louis Fed helps its member banks in this area by holding seminars for bank CEOs and middle-management personnel at its St. Louis headquarters and at its branches. In addition, the St. Louis Fed provides speakers on consumer regs for just one bank, groups of banks or groups of individuals.

In mid-1977, according to Mr. Sumner, the Fed began what it calls its Advisory Visitation Program, under which it sends consumer specialists to individual banks. They don't make formal examinations, but, rather, they give suggestions — on a one-to-one basis — as to how those banks can comply with consumer regulations. He says this program has been well received by banks.

Keeping up with consumer regs and their amendments and changes is a full-time educational process not only for bankers, but for those who examine their institutions as well. Mr. Sumner says all Fed examiners usually attend the Board of Governors' School for Consumer Compliance at FRB headquarters in the nation's capital. In addition, examiners take in-house training on these regs on a continuing basis.

Mr. Sumner says the regulatory agencies advise all banks to designate someone on their staffs as a compliance officer and to have this person act as a clearinghouse for all consumer-regulation matters. In large banks in metropolitan areas, being a compliance officer usually is a full-time job, and the person filling it probably is an attorney. In smaller banks, being a compliance officer on a full-time basis simply is not practical. However, someone in those banks should devote part of his or her time to consumer-regulation matters and should be so well versed in them that all questions on the subject can be taken to and answered by that one individual.

During their formal examinations, if Fed examiners find some violations, they discuss corrective actions thoroughly with officers and personnel involved at the bank being examined. These violations also are described in an examination report, copies of which are sent to the Board of Governors in Washington and to the bank involved. When the bank gets its copy, it must begin immediately to correct any violations cited in the report. In cases of numerous or serious violations, Fed examiners return to the banks to check on whether these violations are being taken care of. Mr. Sumner says that a majority of banks in his Fed district have had two consumer-compliance examinations and will undergo their third this year. Thus, many of the rough spots connected with consumer regs should be smoothed out by now. The complaining will continue, of course, especially when new amendments come out, but bankers have solved such problems successfully before, and they will survive the consumer-regulation challenge. • •

Diversify Portfolios

Until recently, Thomas F. Bussey was v.p., Riverdale (Ill.) Bank, where — during his two-year service — he was responsible for more than doubling consumer-loan outstandings. He recently joined Chicago's Lake View Trust as a.v.p. and asst. mgr./consumer credit.

At Riverdale Bank, Mr. Bussey says, he was able to double installment-loan outstandings by diversifying the bank's portfolio so that it was in a position to offer its customers virtually every type of financing they might request.

BUSSEY

This financing, he continues, included installment and three types of revolving credit. Additionally, the bank became active in offering second-mortgage financing on both a direct and broker basis.

Mr. Bussey's consumer-loan experience totals 20 years and includes 12 years with Chicago's Continental Illinois Nat'l, where he became 2nd v.p. and credit mgr. of the bank's \$130-million consumer credit division. At that bank, he was responsible for establishing credit policies and for staffing the department and training its personnel.

Mr. Bussey is immediate past pres., Installment Bankers Association/Chicago area, and is a director of that organization. He also has given a number of speeches to retail credit groups in recent years.

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Reduce Loan-Payment Cost With Preprinted Labels

A suggestion on how to reduce one cost connected with installment- and mortgage-lending operations is made by Besco, Hempstead, N. Y. It is to use envelope labels instead of envelopes.

Besco points out that most banks and S&Ls prefer to direct mortgage- or installment-loan payments to a special post office box or department for processing. As a consequence, it's been customary to supply a set of 12 preaddressed envelopes with each year's payment coupons. Besco says the cost of these envelopes and additional postage and handling is between 25¢ and 30¢ per account.

Besco claims it has reduced this cost, while maintaining all the positive features of this system, by 80% with its new mortgage/installment-loan envelope labels. Instead of supplying envelopes, a bank using Besco's system supplies a sheet of 12 preprinted pressure-sensitive labels (with an additional area for instructions) that measure 9¼ inches and fit into No. 10 envelopes.

According to Besco, a sheet of these labels costs a third less than envelopes, eliminates the added postage charges, reduces handling costs and enhances a bank's image.

For additional information, write: Besco, P. O. Box 395, Hempstead, NY 11550.

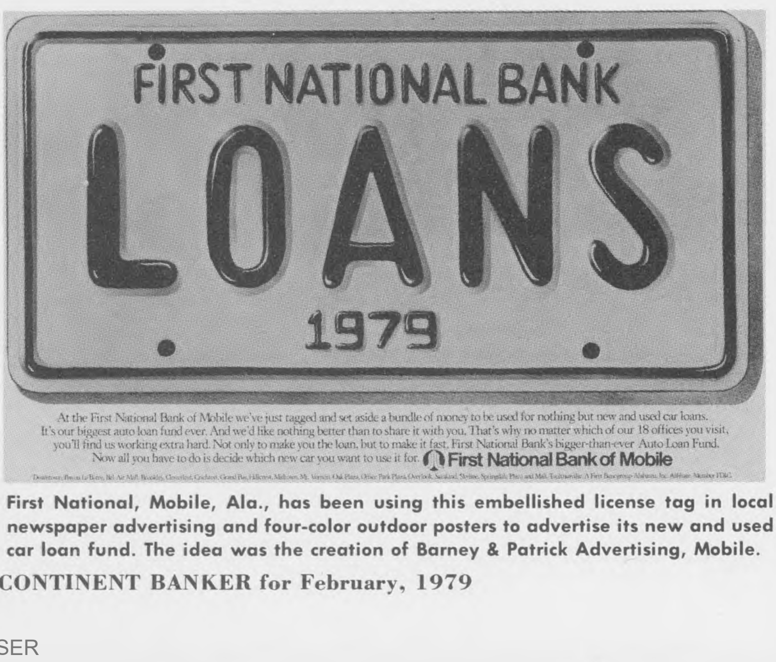
Proposed Rationing Plan To Include RV Owners

The Recreation Vehicle Industry Association, based in Chantilly, Va., has won a round in the Department of Energy's proposed standby gas-rationing plan. The DOE tentatively has decided to revise the plan to include allotments for RV owners.

The association's president, David J. Humphreys, wrote a letter last November 29 to Energy Secretary James R. Schlesinger in which Mr. Humphreys complained about the DOE's general attitude that recreation isn't essential to Americans' life-styles and, therefore, is expendable. The RVIA officer also chastised the government agency for its lack of concern for the hundreds of thousands of Americans whose jobs directly depend on the travel/recreation industries.

Last August 22 at a hearing in Washington, D. C., Warren F. Jones, RVIA past chairman, testified on behalf of his industry, saying the proposed plan would cripple the RV industry while not significantly improving gasoline supplies in this country. If it's the DOE's intent to discourage recreational driving and if the "basic premise" of the proposed plan is that "all segments of the economy should share equitably in the shortage," Mr. Jones testified, then golf courses should be shut down, attendance prohibited at all professional sporting events and movie houses be closed down.

Auto Loans Spotlighted



First National, Mobile, Ala., has been using this embellished license tag in local newspaper advertising and four-color outdoor posters to advertise its new and used car loan fund. The idea was the creation of Barney & Patrick Advertising, Mobile.

Installment Lending Aided By Software Programs

Electronic data processing has become an invaluable aid in the installment-lending area of banking just as it has in other banking operations.

For instance, there now are available to banks an installment loan system that provides daily updating or updating on any other cycle desired and a dealer-floor-plan system that generates a complete set of management and control reports. They are offered by Tymshare Banking Systems, Birmingham, Ala., under the firm's integrated banking systems (IBS). These systems, says the firm, process all current bank applications and provide complete on-line inquiry/CIS-system capability. They can operate independently or can be installed for a completely integrated banking system.

The installment-loan system automates all bookkeeping, interest computation, accruals and notices and furnishes all reports needed by management. The system provides four accrual or rebate methods: actuarial method, 78ths method, amortized loans with 30-day/360-day interest and interest on unpaid balance, and interest can be calculated on loans with split rates.

The system maintains information on indirect dealer loans and loans bought from other banks, and it supplies comprehensive data reporting on those loans.

A complete account history card is generated on loans past due a given number of days (set by bank).

The dealer-floor-plan system maintains a dealer master and unit master file, The dealer remains on file after reaching zero balance, until manually deleted; whereas, a unit will be dropped when it reaches a zero balance and a unit paid-out report requested. Each unit carries its own interest rate — fixed or flexible. Principal-payment frequency and interest-payment frequency are set individually and need not be the same. Frequencies may be monthly, quarterly, semiannually, annually and at maturity. The first curtailment due date, curtailment amount and interest due date are entered for a new unit and are computed automatically thereafter.

Write: Tymshare Banking Systems, 11 West Oxmoor Road, Birmingham, AL 35209.

Credit-Protection Handbook Available From Fed Banks

The Fed has made available for public distribution a "Consumer Handbook to Credit-Protection Laws," which is the latest in a series of consumer-education publications.

The handbook explains consumer rights under the major credit-protection laws and how borrowers can use them to shop for credit, apply for it, keep up credit standings and complain about possible abuses. The booklet also points out the laws' solutions to credit practices that have been used in the past to discriminate against women and minorities.

Copies of this handbook may be obtained singly or in bulk free from the Board of Governors in Washington, D. C., or from any of the 12 Federal Reserve banks. Requests should be addressed to the FRB's publications services or publication departments at the Fed banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas or San Francisco.

Consumer Banking Publication

The Consumer Bankers Association (CBA) is organizing a quarterly publication called the *Journal of Retail Banking,* which it is sponsoring in cooperation with the McIntire School of Commerce, University of Virginia, and which it hopes to have published by June.

The *Journal* has been designed to provide in-depth information about the rapidly changing retail banking field. Its target audience will be banking industry leaders, state and federal regulatory agency officials and members of the academic community. Articles will emphasize practical methods, innovative concepts, current issues and trends in retail banking functions, such as consumer credit, residential mortgage lending, consumer deposits, EFTS, branch administration and marketing. Other articles will encompass consumer behavior, legislation and regulation, consumerism, economic trends and developments and competitive influences.

Frances B. Smith has been appointed the *Journal's* editor. She is CBA director of communications and formerly was assistant director of publications for the ABA. She recently has served as director of publications for the American Anthropological Association and is the author of "Style Guide for Authors and Editors" (ABA, 1977).

Automated Systems Offered As Installment-Lending Aids

An installment lending department is one of the biggest profit centers in commercial banks, and so it behooves those banks to keep up to date on ways to improve their consumer-lending operations. An Orlando-based firm, Florida Software Services, believes its automated installment loan system and automated dealer floor plan can help banks achieve this objective.

Florida Softwares' installment loan system called IL IV is a multi-bank, multi-branch system that, says the firm, provides the necessary programs and procedures to account for installment loans by account, loan type, branch and bank. Rebates and accruals can be calculated by either the 78ths or straight-line method, with current payoff and next payoff listed on the trial balance along with rebate amounts. Simple-interest rebate and accrual methods can be calculated on interest paid with the payment or in advance. Accruals may be on daily or monthly bases. There are five rebatable amounts and three accrual rates. The system accepts partial payments, handles extension fees, balloon payments and acquisition fees and carries a complete loan history. It's available for on-line use with separate name and address file and CIF number. Complete and in-depth reports are provided for management daily, monthly and as required, including all information necessary for "redlining" and call-report analyses. Provisions also have been made to handle all known requirements of the Equal Credit Opportunity Act (Reg B), including tape interface with major credit bureaus.

Automated dealer floor plan. This system is available for IBM, NCR, Burroughs and Honeywell installations. Each bank may assign each loan to one of the five loan classes: new, used, demonstrators, leased and other. Florida Softwares says tremendous loan flexibility is achieved through use of 100 reduction (payment) plans for each of the five loan classes. Each plan may contain from one to five payment schedules, with each schedule containing these variables: increment of months up to 999; number of payments up to 999; reduction amount derived by applying a percentage figure to the original loan amount. Reduction plans are updated automatically as payments are received, and so a dealer is assured of accurate payment calculation, the firm points out.

The system offers automatic average daily-balance calculation and variable processing cycles. Florida Softwares says a special feature is delayed interest for those dealers who require delayed-interest loans. In addition, according to Florida Softwares, it provides banks with delinquency control, comprehensive reporting, profit-producing marketing tools and increased communication.

Write: Florida Software Services, Inc., P. O. Box 2269, Orlando, FL 32802.

Reduce Costs

(Continued from page 36)

time it's taken. The bank also has instituted a more timely follow-up schedule for obtaining and confirming payment promises.

Pioneer Bank has improved its loan volume by introducing new programs, including check credit, leasing and purchases of retail contracts (auto and FHA Title I); through improved cross-selling by other bank departments and by making sure customers are made aware of the various loan programs the bank offers.

In the credit-life area, the bank is increasing sales in the following ways: 1. Seeing that employees have a thorough knowledge of the product. 2. Making sure they are able to communicate that knowledge to consumers in terms of how the latter may benefit from purchasing the product. 3. Not using the term "insurance." Calling it "payment protection" or anything else, but not insurance. 4. Emphasizing that this insurance is optional. As the bank points out, if a customer insures his loan because he thought he had to and finds out later that the coverage is optional, the bank could lose a good loan customer.

Pioneer Bank tries to improve its pricing policies through periodic consultation with other banks in its immediate trade area, development of preferred rates for bank customers and periodic consultation with others within the bank who may have more experience in the pricing area. The bank works on complying with consumer regulations by re-reading them from time to time and by attending seminars on them whenever possible.

* * *

Bank of the Southwest, Houston (Norman R. Smart, vice president and manager/personal banking center) — To combat increasing operating costs, this bank utilizes its methods department and continues its thrust toward automation. Among recent additions to its automated operations are minicomputers for loan processing, a new computer system for more rapid availability of relative information and automated teller machines that can receive loan payments. The bank believes its new line-of-credit program should provide greater customer convenience and eliminate the processing expense on small loans to qualified applicants.

As a member of Southwest Bancshares HC, the bank is moving toward greater uniformity of forms and use of "simple-language" contracts.

The HC's compliance officer helps train employees to comply with regulations by providing interpretations and written material on specific regs. Regular in-department training is conducted to assure employee knowledge of the new laws.

The bank's loan department has taken several steps to guard against potential losses by tightening credit controls, with emphasis on quality credit and a more comprehensive review of procedures and documentation. Larger down payments are required for some loans, and the collection staff has been enlarged.

* * *

Boatmen's National, St. Louis (John M. Brennan, chairman, executive committee) — The subject of consumer regulations has been approached both from a holding-company and individual-bank standpoint. Because each of the 14 banks belonging to Boatmen's Bancshares is subject to the same federal and state regulations, the HC has standardized all loan documentation, including applications, note forms, security agreements and disclosure statements. An HC officer is responsible for compliance with the regulations, and an individual compliance officer has been designated for each bank. Frequent meetings are conducted on regional bases to keep the appropriate staff members of each bank current on all consumer regulations. The HC staff conducts periodic loan audits in each of the affiliate banks and reviews compliance with the regs as part of the audit routine. The HC staff also reviews consumer-reg changes as well as changes in interpretations of those regs that are made by the regulatory agencies and keeps the individual banks advised of the changes.

As far as the possibility of banks experiencing installment-loan losses because of a future economic downturn, Boatmen's says its experience in this area compares favorably with the industry and with local competitors and that this reflects favorably on the bank's credit criteria, the markets in which it operates and on its collection staff. The bank gives its charge-card operation as an example, saying its losses there traditionally have been much below national averages. Because of

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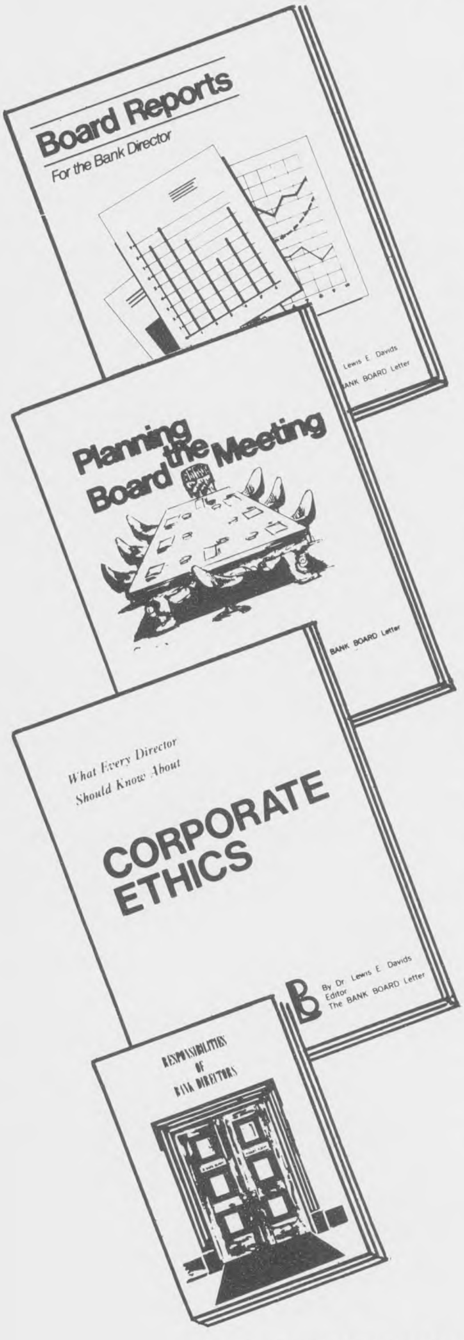

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Society is demanding more disclosure from all businesses, including banking. Thus, bankers literally are forced to re-examine policies on types of information that can be disclosed publicly. The board's disclosure policy can be a major factor in the public's judgment of a bank. The fact that a bank is willing to discuss. . . or make public. . . any of its actions will encourage high standards of conduct by the bank staff. This manual (over 200 pages) will help directors probe "grey" areas of business conduct so that directors can establish written codes for their own bank. Author: Dr. Lewis E. Davids.

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aggressive marketing programs by out-of-town banks, Boatmen's has some concern about multi-cards being offered its customers. As the bank explains, a customer who formerly had one card with a $500 limit now may have three or four cards, each with a limit of $500 or more. To measure the significance of this development, Boatmen's is reviewing a sample of its long-time charge-card customers to identify changes in their credit standings on a continuing basis.

In the area of extended terms on auto loans, Boatmen's again is watching closely and is operating on the assumption that extended terms are an exception to its lending policy and are warranted only when a borrower's credit standing justifies.

* * *

Bank of St. Ann, Mo. (Robert W. Partney, vice president) — This bank says its installment loan department operates with what it believes are fewer employees than the national average. Through efficient use of its staff, the bank has been able to maintain this situation and, thus, keep its costs down.

The bank has combined as many forms as possible so that some of them can be used for loans other than in the installment-lending category. The greatest problem the bank sees on revision of forms, and this opinion is shared by most bankers, is the numerous changes being made in regulations. Therefore, the bank tries to delay any revisions as long as possible since there might be still another revision that would require further change.

Bank of St. Ann believes it does a good job of training personnel. Employees are required to attend certain classes, and weekly meetings are held with the loan department staff. Also, all personnel are made aware of all consumer-compliance regs, which, along with other loan activities, are discussed at instructional sessions.

For the immediate future, the bank will look closer at the amount of indebtedness, value of collateral and credit performance of prospective customers. The bank is not a proponent of extended auto-loan terms. It held the limit at 36 months for many years, but recently went to 42 months. However, it doesn't intend to go beyond these terms although it says its competition offers 48-month auto loans.

* * *

American Bank, Baton Rouge (Charles E. Bradley Jr., vice president) — Because this bank's monthly reports began reflecting a notable increase in operating costs, it began looking for practical ways to reduce expenses. As a result, it has been looking for ways to improve department procedures and utilize personnel more advantageously. In addition, American Bank is converting to a microfiche system, which should produce a more methodical, less costly operation, alleviate space problems and boost employee morale — all of which should be conducive to reducing expenses.

American Bank's senior management, internal audit and attorney help installment loan personnel keep up to date on consumer regs and revisions, and new loans are watched closely by management. If any infractions are noted, the loan officer is asked to make immediate corrections. Personnel training is done through seminars, monthly meetings and memorandums when the need arises.

The bank's objectives this year include reducing loan-loss risk by improving the quality of the installment loan portfolio and minimizing losses by more positive collection practices on delinquent accounts. To attain this goal, American Bank has asked officers making loans to upgrade their evaluation standards and adhere strictly to collection-policy instructions. Manuals of recommended procedures are being provided for guidance in judging low-risk loans, equating collateral value to the amount loaned and collection policies.

* * *

Harris Bank, Chicago (Richard J. Wholey, vice president and head/installment finance division) — Two years ago, after this bank found itself caught in a profit squeeze of rising costs and restrictive rate ceilings, it redirected its efforts to the more profitable business-lending areas such as machinery, corporate aircraft, computers, trucks and trailers. This emphasis on larger-ticket items has brought Harris Bank to the point where its current average receivable in business installment lending is $75,000, with an average yield return of more than 10%. In contrast, the average outstanding in consumer installment loans is $6,000, with a return of about 9.5%.

Most importantly, the bank points out, its experience is that the same standard costs apply to collecting a $75,000 loan as to a $6,000 auto loan, and so the implications of this for cost

Kentucky Bank Sued Over ECOA

Up to now, bankers have been looking at various consumer regulations as just "a pain in the neck." However, a Kentucky bank has found that these regulations are to be obeyed to the letter.

It was involved in the first lawsuit ever filed by the Justice Department against a bank to enforce a federal equal credit law. Although the bank didn't admit to violating the law, it agreed to a consent decree to conform to the Equal Credit Opportunity Act (ECOA).

Specifically, the bank has agreed to consider alimony, child-support payments and public assistance as income in evaluating credit applications. The bank also agreed to rectify past actions. The decree was filed in the U. S. District Court, Eastern District of Kentucky.

The Justice Department did not reveal what prompted the suit.

The suit accused the $3.5-million bank of violating the law by not considering married women's income in loan applications, giving preference to men as cosigners of notes, failing to give credit applicants notice of loan terms and withholding denial notices and reasons for these denials from rejected applicants.

Also, the bank agreed to give Justice attorneys, on request, any future credit-decision records. To conform to the ECOA, the bank must keep copies of all credit applications and supporting documents for a minimum of 25 months after an applicant is notified.

Also, under the ECOA, it must maintain a written record of all credit applications made in person.

The decree is effective for 31 months and may be extended by a Justice Department request.

Fed Consumer Affairs Director Janet O. Hart says the action may make it easier for regulators to encourage lending institutions to comply with consumer regulations.

savings are clear. At present, outstandings in Harris Bank's installment finance division are 75% business and 25% consumer, compared with the reverse proportion three years ago. Overall in this period, says the bank, outstandings have more than doubled, and the bank is operating with 20% fewer employees.

Harris Bank says one of the reasons for going in this direction is Illinois' anti-branching laws. The bank believes that without branching, expansion of consumer lending is difficult.

The bank took another step to hold down costs after studying its delinquent-notice procedure. It used to issue the first such notice on the fifth day after the due date and the second notice on the 10th day. However, a survey of the U. S. mail system showed that slowness in deliveries often meant that the first reminders and customers' payments were crossing in the mail. Therefore, the bank cut out the first notice and kept the 10th-day notice. Not only has this streamlining had no adverse effect on delinquencies, but the savings have been sizable in postage, staff time and forms.

As with most banks, Harris Bank believes it's changing forms monthly. Its training and development division helps with formal classes for collection/lending people. These monthly classes, supplemented by review classes, focus on Reg B and all other federal and state regs.

Lending personnel have been instructed to tighten up on marginal risks. In consumer loans, overbuying is discouraged for the customer who should be purchasing a Pinto, not a Cadillac. The bank points out there's a lot of hidden charge-card debt and so is urging its lending personnel to be more careful in direct/indirect screening. Younger buyers, especially, says the bank, must be watched because they haven't gone through a recession. In its floor-plan financing, Harris Bank watches car-dealer inventories closely because they're a good warning sign of a downturn.

* * *

Indiana National, Indianapolis (Percy N. Clark, senior vice president)—This bank, over the past three years, has reduced installment lending personnel by approximately 20% as the result of several improvements:

Automation of many customer-service functions, such as year-end interest notification and coupon-book preparations; placing all new loan documentation on microfilm; preparation of output reports on microfiche, thereby substantially reducing cost of reports; automating the installment-loan-accounting function by interfacing it with the general ledger (financial control system); automating, reviewing and improving management and analysis reporting and eliminating some existing reports.

Cross-training of most regular job functions and a consolidation of those functions whenever possible; re-evaluation of operating procedures, terminating several historical functions that provided no benefits; upgrading equipment to improve speed and efficiency, reducing telephone expense by completely evaluating usage of each phone assigned and removing costly phone options that were not being utilized or were not essential.

Combining computer applications into one operating system, thereby reducing multiple-control functions, and centralizing compatible functions and eliminating duplicate functions (for example, transferring the inquiry system from the installment area to the bank's central inquiry system.)

To guard against potentially large loan losses, Indiana National is very selective in choosing loan customers, both direct and indirect. Its installment loan headquarters reviews each direct or indirect loan made for quality and adherence to its basic loan policy. Moderate-risk loans are emphasized, and loans are being liquidated in categories termed undesirable and high risk. The bank has become more stringent about requiring financial statements on unsecured borrowing. Loan authority at Indiana National is granted by position. The installment loan headquarters provides review and approval of large loans that are over the lending authority of branch personnel involved. The headquarters also published a direct-loan manual, which is available at every branch and which establishes loan policy and procedures for all types of consumer-loan requests. An indirect-loan manual also is available.

The bank's indirect (dealer) area has analyzed the profitability of each dealer with which it does business to control or potentially limit high-risk loans. More stringent repossession controls have been developed to make sure all refunds and credits are made to accounts. Additionally, the bank limits advances on autos, links terms to a unit's economic life and looks continually for equity. ● ●

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SPEAKER David C. Rockefeller (r.) poses with host bankers J. H. Hines (l.), ch., Deposit Guaranty, Jackson; and John P. Maloney, pres., Deposit Guaranty Nat'l Corp. Mr. Rockefeller is ch., Chase Manhattan, New York City.

Recession in 1979? No, Says Rockefeller At Jackson Meeting

By RALPH B. COX, Publisher

WILL THE NATION have a recession in 1979? No, was the opinion expressed by Chase Manhattan's David Rockefeller at an annual economic symposium sponsored last month by Deposit Guaranty, Jackson, Miss.

Mr. Rockefeller, chairman of the New York City bank, stated that the economy should grow "on average during the year in the area of 2%." He was expressing the judgment of economic research performed by analysts at Chase Manhattan as he spoke to more than 1,400 businessmen and bankers assembled in Jackson.

The prediction, he said, actually was a conservative one, compared to other forecasts. "The Business Council, for example, recently predicted growth of 2-3%. In any event," said Mr. Rockefeller, "if there were to be a recession this year, it would likely be shallow and of short duration."

Inflation, said the New York banker, is still the most serious economic problem faced by the nation. But he was convinced that the Administration recognizes this and will address itself forcefully to the problem.

He was encouraged by the Fed's recent posture and willingness to accept the economic implications of higher interest rates and slower growth in the money supply as the "unavoidable prices we must pay for a stronger dollar and an eventual reduction in the rate of inflation."

For the near term, however, he reported that Chase economists see the recent OPEC oil-price increase adding to consumer prices and pushing inflation to around the 8% level this year.

"In real terms," he continued, "we expect to see slower growth in consumer spending because of this continued price inflation. Auto sales will drop, and volumes in other durable goods will be lower. Higher interest rates also will continue to slow housing starts, with most of the decline in single-family units.

"As to business capital spending, this is likely to increase by only a few percentage points this year." Capital spending, he explained, already is at low levels and is less vulnerable to a business downturn than other sectors of the economy.

U. S. exports could receive a boost from our newest trading partner, the Peoples Republic of China. Mr. Rockefeller pointed out that in 1978 our trade with China topped the $1-billion mark, with more than half that amount coming from agricultural exports. That figure should be topped easily in 1979 and continue upward in the years to come, he said.

Mr. Rockefeller concluded with comments on U. S. capital needs. Several years ago, he said, Chase estimated the nation's capital needs at about $4 trillion through the decade ending in 1985. As we enter 1979, he said, we have made little progress toward this goal.

One factor undermining business investment, he said, is excessive government regulation. Business spends some $85 billion each year — nearly

SENATORS Thad Cochran (l.) and James O. Eastland (retired) are pictured at bank's luncheon session, where Senator Cochran expressed his philosophy as a "new" senator for Mississippi. In background: John P. Maloney.

BELOW: "Cast" of speakers for Deposit Guaranty's annual economic symposium: G. C. Cortright, Mississippi farmer; Philip C. Jackson Jr., former Federal Reserve governor; Mr. Rockefeller; Mr. Hines; John H. Holloman III, Jackson attorney and former member, Federal Power Commission.

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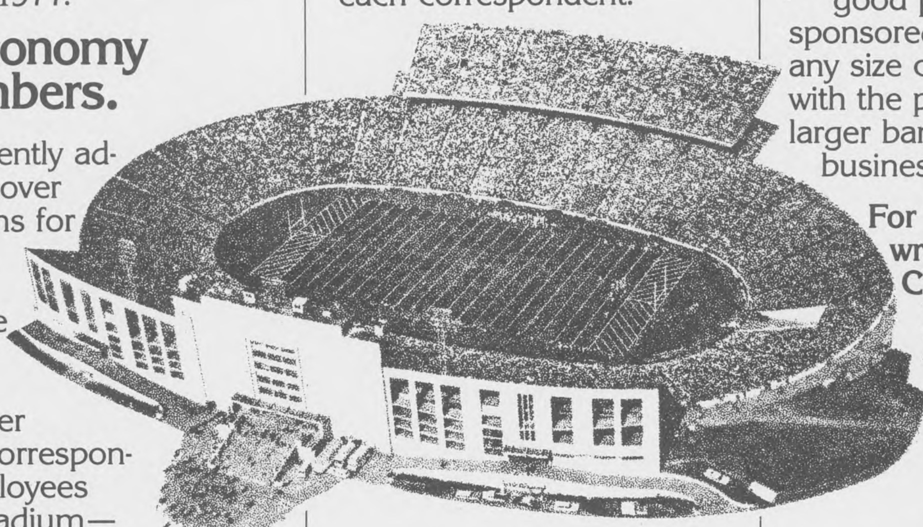

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three-quarters of total private investment in plant and equipment — complying with government regulation.

Some government regulation, he admitted, was necessary and proper. But the unchecked growth of regulation (of over-regulation) poses a danger to free enterprise and "our system of capitalism."

He urged all businessmen to advance the message of free enterprise by enhancing public understanding of the dynamics of the economy, the importance of investment to promoting growth and prosperity and the inevitable relationship between spending and inflation.

Mr. Rockefeller noted that the current economic situation and current mood of the people have presented businessmen with a unique opportunity. "The interest of business, taxpayers, working people, average citizens — all are becoming more and more convergent."

Other speakers followed Mr. Rockefeller and discussed the real estate market, agriculture and outlook for energy.

In discussing real estate, former Fed Governor Philip C. Jackson Jr. pointed out that housing no longer is purchased primarily as shelter. It's an investment, he said, in which the buyer expects to make dollar profits at the same time he enjoys the shelter. The new home buyer is not afraid of debt, he said, and will commit a higher proportion of income to debt service. Mr. Jackson resigned the Fed post November 17.

In this market, said Mr. Jackson, who was an Alabama mortgage banker before being appointed to the Board of Governors in 1975, the public does not appear to be deterred by double-digit interest rates.

The market also is affected, he said, by some purely speculative buying of homes, farms and recreational properties. These buyers, he said, have added a new dimension to the market.

But despite this new "attitude" toward home buying, inflation will be the key to the housing market in 1979, said Mr. Jackson, and he anticipated a national decline in housing starts of about 15-20%. "Multifamily starts should be off a higher percentage." Reason: "Rents have not kept up with costs."

Existing home sales, he said, would go down less proportionately than new housing starts to a pace of some 3½ million units. This compares with approximately four-million units sold in 1978.

Profits on commercial properties, he said, have been cut by higher costs for land, construction, operations and capital. But owners have learned that these investments have been good hedges against inflation in the past. So now they are willing to take a lower current profit in hope of recovering through higher prices later.

Speaking on the agricultural outlook, Mississippi farmer G. C. Cortright told Mississippi businessmen and bankers that the current decline in the value of the dollar made U. S. agricultural products extremely attractive to foreign buyers. The export market in 1978 amounted to $27.3 billion, and exports are projected at $29 billion in 1979, according to Mr. Cortright, who operates large farming interests in the state.

The importance of the export market was noted by Mr. Cortright. Total farm receipts in 1978 were slightly over $100 billion and are projected to $110-125 billion in 1979. With some 30% of this market coming from exports, the value of the dollar and pricing of farm products are extremely important, he said. For that reason, he said, exports are heavily dependent on government "intervention and leadership." Otherwise, he said, a greater instability of prices would be experienced.

On the subject of energy, businessmen heard a scholarly and historical presentation of the nation's present pricing dilemma on oil and gas and "how we got there."

John H. Holloman III, a local attorney and former member of the Federal Power Commission, established fairly good evidence that what once was cheap foreign oil effectively displaced our own development of energy resources — coal, oil and gas. Now that we are so dependent on foreign oil, he said, price increases by OPEC, plus the current situation in Iran and the Persian Gulf demonstrate our vulnerability to this supply.

The morning conference concluded with a luncheon session highlighted by presentations from retired Senator James O. Eastland and Mississippi's newly elected senator, J. Thad Cochran. ● ●

New Coupon-Payment System Introduced by Burroughs

Burroughs Corp. has introduced a new installment loan coupon system that permits a bank to encode and assemble a book "within minutes" after a loan is approved.

The company calls its new program "Profit Plus." It enables a bank to create a custom package for each loan. Information encoded includes name, address, descending balance, irregular final payment and year-to-date interest charges or just account number, amount and date.

The firm claims cost benefits from the system with elimination of postage, correspondence and accounts-payable expense when dealing with an outside supplier.

For further information, write: Burroughs Business Forms Division, 1150 University Avenue, Rochester, NY 14607.

What Guidelines Should Banks Follow Under Community Reinvestment Act?

by GERALD L. BUSBY
Vice President
First National Bank
Of Tuskaloosa
Tuscaloosa, Ala.

GROWTH POTENTIAL for a bank today is tied closely to its interest in its community. A bank is chartered to serve all aspects of the community — the wage earner, small-business man, professional and the corporation. The public expects, and rightly so, that bankers today undertake a new dimension of community leadership.

As a rule, banks always have been "involved" in the civic life in their communities. Being on the board of the boys' club or president of the United Way are certainly worthwhile, but that's not the kind of involvement required of bankers today. We must involve ourselves in the business of solving the *real* problems facing our communities. By *real* problems, I mean deterioration of neighborhoods, decline of central business districts and other related situations with which we should deal.

In the Community Reinvestment Act, there's no definition of "community," but regulators give specific dos and don'ts for banks to follow in developing their own definitions.

The Community Reinvestment Act, or CRA, is the part of the 1977 Housing and Community Development Act that deals with banks' community involvement, or lack of it, in these critical areas. In passing this law, Congress was concerned that people who live in certain communities (particularly in poorer neighborhoods in metropolitan areas) may have difficulty obtaining mortgage loans, home improvement loans, consumer loans or other types of loans. Congress concluded that, in such cases, local communities can run short of needed capital for investment, that an already existing adverse condition can be made worse and that a grave social problem can be created or aggravated.

The intended purpose of this act is to halt the practice of "disinvestment." Basically, disinvestment means lending institutions, believing that certain neighborhoods will deteriorate, cease to extend housing, small business, personal and other types of loans in those neighborhoods.

Congress found that regulated financial institutions are required by existing laws to demonstrate that deposit facilities serve the convenience and needs of communities. The convenience and needs of communities include the need for credit services as well as deposit services. Regulated financial institutions have a continuing and affirmative obligation to help meet the credit needs of the local communities in which they are chartered. *Affirmative* is a word that has become quite familiar to all of us. In this context, it refers to a "positive program of action."

The mandate this act gives regulators differs somewhat from their traditional duties. Regulators we are talking about here include the Fed, FDIC, Federal Home Loan Bank Board and Comptroller of the Currency. In the past, these regulators have been responsible for assuring the financial soundness of the banking system. Now, however, they are being given the responsibility to see that banks comply with consumer laws and the Community Reinvestment Act.

Each of the regulators has its own way of dealing with this mandate. For example, the Office of Customer and Community Programs was created within the Comptroller's Office, and one of its aims is to stimulate national banks to become involved in local redevelopment efforts. Responsibilities of this new office will include 1. Putting into effect and coordinating activities of the Community Reinvestment Act. 2. Recommending legislative proposals. 3. Helping train bank examiners in civil rights and consumer law compliance. 4. Liaison work with banks, governmental, institutional and public-interest and community groups concerned with redevelopment.

CRA regulations took effect November 6, and there are some things which each of us must have completed by this month.

Let's take a look at what will be required. Financial regulators say that it's more likely that community credit needs "will be met when members of the community are aware of the availability of credit; lending institutions are well informed about community credit needs, and such institutions make a sincere effort to meet those needs."

The first part of the proposed regulations focuses on the responsibility of lenders (1) to define the entire community they serve and (2) to adopt a CRA statement that describes types of credit being offered to credit-worthy members of that community.

The regulators offer no definition of "community." They do, however, give specific "dos and don'ts" for banks to go

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Bankers are warned not to take CRA regulations casually. They won't be used only in the event of a branch application or charter request, but as a matter of course in routine examinations.

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by in developing their own definitions. There are many factors that should be considered in this definition such as size of a bank, its geographic area and local tradition. The local community is considered the area that surrounds the office, or offices, of the bank, including any low- and moderate-income neighborhoods in that area. Also to be considered are existing boundaries such as county lines and SMSAs and the effective lending territory of the bank. Each definition will be examined for "reasonableness."

The board of every bank is required to adopt a CRA statement within 90 days after the regulations take effect. The statement must be posted at all offices and must include the address of the appropriate regulator to whom the public may send written comments

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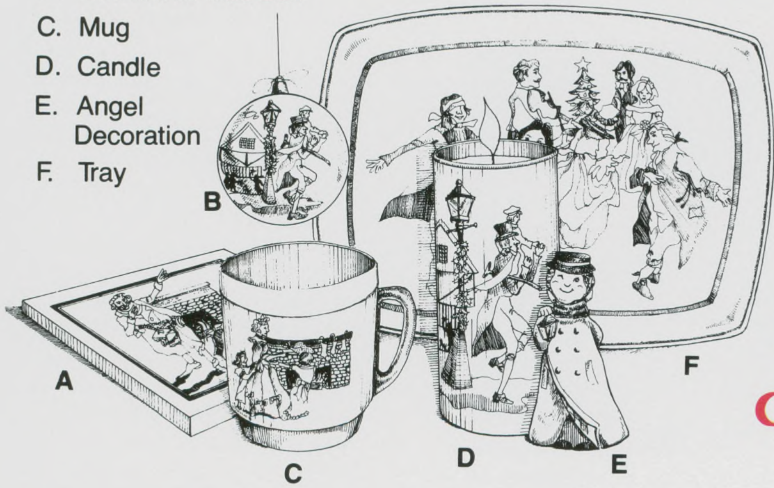

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concerning the statement. The statement must include the bank's delineation of its entire community and local communities and types of credit being extended. Types of credit cover mortgages, consumer loans or loans for small businesses, community development or commercial development. Also to be included is a copy of the bank's Community Reinvestment notice. Each bank is encouraged to provide a periodic accounting of its record in meeting its specified community-credit needs. The board is required to review the statement at least annually and to approve any material changes. The bank also must maintain, for at least two calendar years, a public file of all CRA comments received.

Bank examiners will review the CRA statement and the bank's marketing and lending policies and practices in assessing a bank's record in helping meet its community's credit needs. The following are factors that will be considered in evaluating a bank's performance:

A. Activities conducted by the bank to ascertain its community's credit needs, including extent of the bank's efforts to communicate with members of the community regarding credit services the bank provides.

B. Extent of the bank's marketing and special credit-related programs to make members of the community aware of credit services offered by the bank.

C. Extent of participation by the bank's board in formulating the bank's policies and reviewing its performance with respect to the CRA's purposes.

D. Any practices intended to discourage applications for types of credit set forth in the bank's CRA statement(s).

E. Geographic distribution of the bank's credit extensions, credit applications and credit denials.

F. Evidence of prohibited discriminatory or other illegal credit practices.

G. The bank's record of opening and closing offices and providing services at offices.

H. The bank's participation, including investments, in local community development and redevelopment projects or programs.

I. The bank's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans and small business or small farm loans within its community, or the purchase of such loans originated in its community.

J. The bank's participation in governmentally insured, guaranteed or subsidized loan programs for housing, small business or small farms.

K. The bank's ability to meet various community credit needs based on its financial condition and size and legal impediments, local economic conditions and other factors.

L. Other factors that, in the Comptroller's judgment, reasonably bear on the extent to which a national bank is helping meet credit needs of its entire community.

Please do not treat these regulations casually. There was some talk that the CRA would be important only in the event of a branch application or charter request. But as it stands now, the examiners will be looking at our CRA statements and performances as a matter of course in routine examinations. Most of the documentation required for compliance with the CRA is included under the reporting requirements of the Equal Credit Opportunity and Home Mortgage Disclosure acts. I personally do not think the CRA will present any problem to those banks that are sincere about meeting the *real* needs of their communities. In fact, used correctly, it can give us another opportunity to explain to the people who live in our communities just what a full-service bank does. ••

Mid-South Bankers Attend CRA Seminar

ABOUT 300 Mid-South bankers attended a seminar hosted by Memphis Bank on the Community Reinvestment Act and the Financial Institutions Regulatory and Interest Rate Control Act of 1978.

Speakers included representatives of major regulatory agencies, who tried to explain the two bills' meaning. They said the exact regulations would be formulated by government agencies and will have an impact on the way banks operate and how they treat customers.

The seminar's host was Earl Triplett, chairman of Memphis Trust Co., Memphis Bank's parent HC.

Comments from Mr. Triplett and audience members indicated they believed the new laws were an unnecessary burden. Most bankers believed they already had enough regulations and paperwork to deal with.

Among speakers at Memphis Bank's CRA seminar were (from l.) Bruce Heitz, Comptroller of Currency regional counsel, Scott Lawyer, FDIC regional counsel, and Gary Jewel, Memphis Bank staff counsel.

Speakers included Scott Lawyer, FDIC regional counsel; John Rosbrugh, consumer affairs examiner, St. Louis Fed; Joe H. Hemphill, Tennessee commissioner of banking and a former Memphis Bank officer; Henry Beaty, general counsel, Memphis Bank; Bruce Heitz, regional counsel, Comptroller of the Currency, Memphis; and Gary Jewel, staff counsel, Memphis Bank.

The CRA places "an affirmative obligation on banks — to help meet the credit needs of their communities," said Mr. Lawyer. And he predicts more rigid legislation if banks do not comply.

How a bank observes the law may influence regulators' approval or disapproval of its applications to open branches, merge, relocate offices and other matters, said Mr. Rosbrugh.

He said examiners will assess a bank's adherence to CRA policy by reviewing the public file, lending activi-

ties, loan distribution, advertising and board participation in decisions.

The move toward uniform banking regulations was attacked by Mr. Hemphill. He fears the power that the council of the five agencies regulating financial institutions could wield and added that they could prevent some businesses from obtaining loans from any regulated institution.

Mr. Beaty questioned the constitutionality of the new laws because they do not include due process or equal protection. Also, they conflict with privacy laws at the Tennessee and national levels.

Defending the new laws, Mr. Heitz disputed many of Mr. Beaty's points about excessive regulation and possibility of unfair enforcement.

"Penalties will not be assessed in an arbitrary, capricious manner," he said.

Mr. Jewel complained about the provision that requires insiders to report loans from banks with correspondent accounts at their own banks. Even if the loans were made on a nonpreferential basis, the new law makes them a matter of public record.

The speakers fear that local ownership of banks will decline because of the new law. Bankers said the provision that requires a detailed audit submitted 60 days in advance of acquiring more than a 25% interest in a bank is almost impossible for most individuals. They feel this provision will make it easier for large holding companies with their own legal and audit staffs to acquire small-town banks. ● ●

Cost of Making Loan

What does it cost to make an installment loan?

According to the Fed's 1977 functional cost analysis, these costs were: $41.35 for banks with deposits up to $50 million; $43.21 for banks with deposits between $50 million and $200 million; and $44.48 for banks with deposits of more than $200 million.

The Fed's study shows that costs to collect payments were, respectively, $2.91, $2.77 and $3.48.

Product Development/Management To Be BMA Conference Subject

WASHINGTON, D. C. — The Bank Marketing Association will hold its first national conference on product development/product management here March 11-13.

According to the BMA, product-line segmentation rapidly is becoming one of the most popular and effective methods of improving not only customer-need satisfaction, but bottom-line profitability as well. Because reorganizing along product lines is a relatively new concept in banking, the BMA has responded by developing this conference.

For early birds, there will be a tour of the National Gallery of Arts, with a reception and banquet, featuring Representative Frank Annunzio (D.,Ill.).

Community Reinvestment Act Notice

Here is the kind of CRA statement banks must post at all their offices. This statement must include the address of the appropriate regulator to whom the public may send written comments concerning the statement.

"The Federal Community Reinvestment Act (CRA) requires the Comptroller of the Currency to evaluate our performance in helping to meet the credit needs of this community and to take this evaluation into account when the Comptroller decides on certain applications submitted by us. Your involvement is encouraged.

"You should know that:

"You may obtain our current CRA statement for this community in this office. (Current CRA statements for other communities served by us are available at our head office, located at ____________.)

"You may send signed, written comments about our CRA statement(s) or our performance in helping to meet community-credit needs to (title and address of bank official) and to the Regional Administrator of National Banks (address). Your letter, together with any response by us, may be made public.

"You may look at a file of all signed, written comments received by us within the past two years, any responses we have made to the comments and all CRA statements in effect during the past two years at our office located at (address). You also may look at the file about this community at (same name and address of designated)."

Get to know your Commerce banker.

Frampton Rowland joined Commerce in 1963 after studying at Indiana University, Oklahoma and K-State, and stints with the U.S. Army Medical Corps and a large finance company. Now he's an experienced Calling Officer for our Correspondent Department. Whatever your needs, Frampton Rowland can help.

Michael Brixey of our Correspondent Department worked as an FDIC Senior Bank Examiner before joining the Commerce system in 1977. Michael relaxes with golf, fishing, hunting and archery. He knows all phases of banking—loans, operations and investments. When it comes to correspondent banking, Michael Brixey can do the most for you.

H.C. Bauman went to William Jewell College. Before joining Commerce in 1975, he was chief executive officer of a Kansas City area bank. Today, he's Manager of our Kansas and Oklahoma Groups. This former Air Force captain enjoys racquetball and tennis, as well as helping you with all your correspondent requirements. Look for him soon.

We're the leading correspondent bank in the Midwest.
What can we do for you?

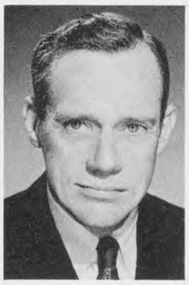
Commerce Bank of Kansas City NA

10th & Walnut 816/234-2000 MEMBER FDIC

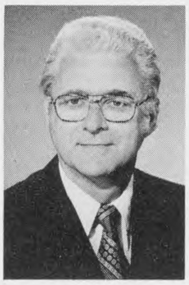
Boardroom News

Promotions • Appointments • Retirements

COOK



HARRISON



SOUTHWOOD

DeLACEY

Senior-Management Changes Made at 3rd Nat'l Bank, HC; To Be Effective April 18

NASHVILLE — Charles W. Cook Jr. has been named president of Third National, and John E. Southwood has been named president of the bank's holding company and bank vice chairman. Both promotions will become effective April 18 at the HC's annual stockholders' meeting.

J. G. (Gib) DeLacey, executive vice president of both organizations, will become vice chairman of the bank and HC. Clifford J. Harrison Jr., executive vice president, will become a bank vice chairman.

Mr. Cook, who started working part-time at the bank at age 15, joined it full time in 1959. He was promoted to vice president, banking division, in 1969 and senior vice president, commercial loan division, in 1972. He was elected executive vice president in 1976.

Mr. Southwood joined the bank in 1952 and became a vice president in 1968. He was named senior vice president, commercial loan division, in 1972 and executive vice president in 1976.

Mr. DeLacey joined the HC in 1977 as executive vice president and in 1978 was made an executive vice president and cashier of the bank. A certified public accountant, he came to the bank from Federated Department Stores, Cincinnati, where he was treasurer from 1971-76.

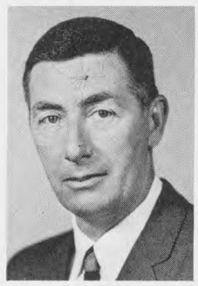
Mr. Harrison is responsible for the trust, retail, services and operations and human resources divisions. He began working for the bank in 1950. He became vice president and trust officer in 1970, senior vice president in 1971 and executive vice president/ trust division in 1973.

Rismiller Named President Of Commerce Bank of KC; Miller Is Vice Chairman

KANSAS CITY — David A. Rismiller, formerly executive vice president, has moved up to president of Commerce Bank. He succeeds P. V. Miller Jr., who was elected vice chairman.

Mr. Rismiller joined the bank in February, 1974, as senior vice president/metropolitan division. Subsequently, he worked in the retail, na-

RISMILLER



MILLER

tional and correspondent divisions. In December, 1974, he was elected executive vice president and, the following October, was made a director. Before going to Commerce Bank, Mr. Rismiller was with National Bank of Columbus, O.

Mr. Miller, with Commerce Bank since 1947, became vice president in 1954, senior vice president in 1964 and president in 1966.

Leslie Elected President At Union of Montgomery

MONTGOMERY, ALA. — Henry A. Leslie has become president and chief executive officer, Union Bank. He replaces John Maples Jr., who retired in December. Robbins Taylor has become chairman of the board.

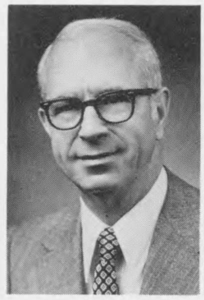
Mr. Leslie was on the faculty of the

University of Alabama for more than 10 years, beginning in the College of Commerce, later as professor of law and assistant dean of the Law School.

Mr. Taylor has been a director since 1966 and has served as vice chairman since 1974. He is chairman and president, Standard-Taylor Industries, Inc., Montgomery.

Mr. Maples, after a banking career of 44 years, joined the bank in 1964 as executive vice president. He became


TAYLOR


LESLIE

director in 1966 and will continue as such. Prior to joining Union Bank, he was senior vice president, Birmingham Trust National.

CONSOLIDATED STATEMENT OF CONDITION

MERCHANTS NATIONAL BANK OF MOBILE, ALABAMA

AND THE MERCHANTS NATIONAL BUILDING CORPORATION

At the Close of Business December 31, 1978

ASSETS

Cash and Due From Banks	$ 80,524,909
U. S. Treasury Securities	61,878,408
Securities of Other U. S. Government Agencies and Corporations	8,199,006
Obligations of States and Political Subdivisions	31,700,605
Other Securities	2,788,472
Federal Funds Sold	8,750,000
Loans	364,099,317
Less: Reserve for Possible Loan Losses	(4,550,000)
Unearned Interest on Loans	(9,052,456)
Net Loans	350,496,861
Bank Premises and Equipment	13,744,810
Customers' Acceptance Liability	1,467,864
Income Earned But Not Collected	6,925,213
Other Assets	2,097,814
TOTAL ASSETS	$568,573,962

LIABILITIES

Deposits	$502,100,738
Federal Funds Purchased and Securities Sold Under Agreement to Repurchase	15,700,000
Liabilities for Borrowed Money	5,577,211
Mortgage Payable (Merchants National Building Corp.)	125,000
Bank's Acceptances Outstanding	1,467,864
Reserves for Accrued Taxes, Unearned Income, Interest and Expenses	3,752,152
TOTAL LIABILITIES	$528,722,965
SUBORDINATED CAPITAL NOTES	10,000,000
CAPITAL ACCOUNTS	
EQUITY CAPITAL	
Common Stock	3,500,000
Surplus	16,500,000
Undivided Profits	9,850,997
TOTAL EQUITY CAPITAL ACCOUNTS	$ 29,850,997
TOTAL LIABILITIES, RESERVES AND CAPITAL ACCOUNTS	$568,573,962
Contingent Liability on Letters of Credit Issued But Not Drawn Against	$ 9,073,448

MEMBER FEDERAL DEPOSIT INSURANCE CORPORATION

Clarke Elected Chairman, CEO; Jones Elected President Of Fidelity Bank of OC

OKLAHOMA CITY — Wilfred A. Clarke, president, Fidelity of Oklahoma, Inc., has become chairman and chief executive officer, Fidelity Bank, and chief executive officer of the HC. Jack T. Conn continues as chairman of the HC and is now vice chairman of the bank.

Forrest D. Jones, executive vice president, has been elected president and chief administrative officer of the bank.

Mr. Clarke, a native of Ontario, Canada, joined Fidelity in 1974. He was president of Springer Corp., a New Mexico conglomerate, for two years. During his 10 years at Bank of New Mexico, Albuquerque, he was CEO, president and chairman. Also, he has been vice president, United California Bank, San Francisco, and worked in a variety of management positions at Royal Bank of Canada from 1950-60.

Mr. Jones joined Fidelity in 1964 as vice president, consumer lending. Prior to joining the bank, he had been with a commercial finance company for 25 years. He was promoted to senior vice president in 1966 and to executive vice president in 1974. He has served on the bank's board and executive committee since 1970 and on the HC's board since its formation in 1974.


CONN JONES CLARKE

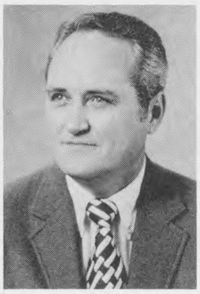
Louis H. Brigham has been elected senior vice president/division administrator of marketing of the bank. He joined the bank in 1968 and was appointed vice president in 1972.

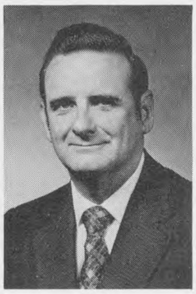
New vice presidents are Vernon Bowen, manager, consumer loans/retail banking; Ron Bowles, trust officer and director/trust operations; Karen Carter, administrative director/support division; and Dan Love, manager, automated loan control/credit administration department.

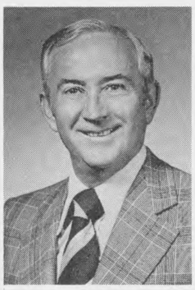
Hobson, Morris and Newman Promoted at Memphis Bank

MEMPHIS — Lynn Hobson, C. G. "Gus" Hobson and James M. Newman Jr., all of whom head Memphis Bank's correspondent bank department, have been promoted to senior vice presidents.

Mr. Hobson, who has been at the bank 14 years, has been in its branch system and in the public affairs and correspondent bank departments.


HOBSON


MORRIS


NEWMAN

Before joining Memphis Bank in 1976, Messrs. Morris and Newman were managers of Union Planters National of Memphis' correspondent bank department. They have been trust vice presidents since 1976 at Memphis Bank.

J. M. Hirs Elected President Of American of Mobile

MOBILE, ALA. — James M. Hirs has been named president and a director of American National. C. M. A. Rogers III has retained his position as chairman and CEO of the bank.

Mr. Hirs previously was executive

vice president and senior vice president/asset management.

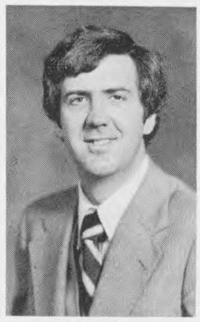
Also promoted were L. Duane Lane to vice president/trust officer and Harrison Galloway and Ronald M. Moore to assistant cashiers. Mr. Lane joined American National in 1961; Mr. Galloway, in February, 1978; and Mr. Moore, this past summer.

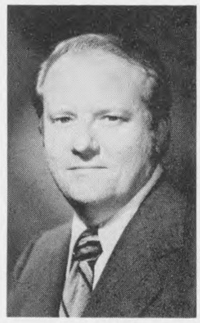
First of Fort Worth Adds Operations Services Unit

FORT WORTH — B. J. Crow, senior vice president and trust officer, has been named head of the new operations services unit in the investment management group (trust services) of First National. The unit is responsible for the following services: asset management, corporate and professional services, operations and personal financial.

In other action, G. L. Weaver, vice president and trust officer and a petroleum engineer, has assumed additional responsibility of managing asset management services, including securities, oil and gas property and urban, suburban and agricultural real estate.

Don Jancosek, vice president and trust officer, has been named manager, securities management area.


KING


CROW

King Named Vice Chairman, United Mo. Bank of KC

KANSAS CITY — Richard C. King has been elected vice chairman of the board and chief administrative officer of United Missouri. He joined the bank from Planters State, Salina, Kan., where he served as president. Mr. King fills a newly created position on the bank's executive committee reporting to the chairman for the operations and retail customer services departments of the bank.

Mr. King also is president and a director of United Bancshares, Inc., Salina, the one-bank HC of Planters State. In addition, he is a director of the Exchange Bank of Schmidt & Koester, Marysville, Kan.

Seventeen Promotions Announced At Liberty Nat'l of Louisville

LOUISVILLE — Liberty National has announced the following officer promotions: Oscar S. Bryant Jr. to executive vice president; Malcolm B. Chancey Jr. to executive vice president, cashier and member of the executive committee; Vincent Welch to executive vice president/bank policy and planning; Hugh M. Shwab III to executive vice president/leasing group; and R. K. Guillaume to executive vice president/corporate group.

Newly elected senior vice presidents of the corporate group are J. K.

Volkerding and C. Louis Edmondson, commercial division, and John L. G. Richards, national banking division.

In the retail group, J. H. Shipman has been named executive vice president. John P. Knight Jr. has been named senior vice president/branch banking.

Robert G. Scherer, head of Liberty's trust group, has been appointed executive vice president. Named senior vice presidents in that group were H. Scott Davis, William G. Duncan Jr. and Benjamin F. Few Jr.

Ted R. Frith has been appointed senior vice president/marketing.

In the mortgage loan group, John Y. Van Bibber has been elected executive vice president, and William J. Bremner has been promoted to senior vice president/money management.

Smith to Take New Post At Northern Trust HC; Other Changes Announced

CHICAGO — The board of Northern Trust Corp., parent company of Northern Trust Bank, has accepted Edward B. Smith's plan to resign as chairman of the corporation and become chairman of its executive committee following the annual stockholders' meeting in March.

E. Norman Staub will continue as chairman and CEO of the bank and in March will become chairman and CEO of the parent company.

Philip W. K. Sweet Jr. continues as president of Northern Trust Corp. and Northern Trust Co.

In other action, the board named five senior vice presidents. They are Harold E. Hindsley, metropolitan; Perry R. Pero, financial services; Curtis E. Skinner, Mid-Continent; and Stephen B. White, national, all of the banking group; and James N. von Germeten, trust department. Richard W. Resseguie, senior vice president, became deputy department head, banking department.

Named vice presidents were: John A. Camphouse, administration; Glen T. Rey and Richard D. Schonhoff, banking; Sibrand S. Jurriaans, Robert S. Phillips and Norman A. Plagge, international; Richard A. Arndt, Bruce W. Burnham, John J. Borland, Gifford H. Hampton III and J. Terrence Murray, trust.

Northern Trust Corp., parent HC of Security Trust, Miami, opened a trust company in Naples, Fla., in mid-January.

Robert T. Morse Jr. is president, Security Trust, Naples. He had been vice president, Security Trust, Miami.

HEFNER SCHROEDER GRIFFITHS

National Boulevard, Chicago, has named several top-management personnel: **Richard T. Schroeder, Edward G. Griffiths** and **Robert G. Hefner,** all senior vice presidents, and **David M. Ransford,** vice president.

New senior vice presidents at Harris Bank, Chicago are: *Rolland S. Carlson,* operations; *F. Wendell Gooch,* trust; and *John L. Stephens,* public/employee relations. *Michael M. Karnes,* group executive in charge of money market/investment portfolio group, was elected senior vice president.

CARLSON GOOCH STEPHENS

John D. Lewis has been named vice president, controller department, Detroitbank Corp. In action at Detroit Bank, **Donald E. Draper** and **Robert W. Reas** were made vice presidents, personal trust and trust real estate, respectively.

St. Louis' Mercantile Trust has promoted *Robert I. Bean, Leslie M. Boll* and *Glennon C. Reitz* to vice presidents and *Richard M. Cox, Gene E. Gillespie, Walter W. Granneman* and *N. Randall Phillips* to assistant vice presidents. Mr. Reitz also assumed additional responsibilities as senior officer, trust probate.

First National, Oklahoma City, has announced several promotions: *Edward G. Alexander* and *Sam C. Gilmore,* senior vice presidents; *William B. Strecker* and *Herman L. Windsor,* vice presidents; and *Dan L. Graham,* assistant vice president.

D. Phillip Setterlund was elected vice president/operations division, Boatmen's National, St. Louis.

New appointees at Fourth National, Wichita, are: *Robert W. Asmann,* executive vice president; *Kay Walton, Shari Bevan, William E. Akers, Martha Butler, Edwin T. Coons* and *David Strohm,* all assistant vice presidents.

Jesse Q. Ozbolt has joined First City National, Houston, as vice president/chief petroleum engineer, petroleum and minerals department. Previously, he was manager of engineering, Texas Eastern Transmission Corp.

New appointees at First American National, Nashville, are: *Roy W. Calvert, Larry B. Eley* and *Mark D. Linville,* all vice presidents and trust officers.

You can tell a lot about a corporation by the way it grows.

- Our lead bank, National Bank of Detroit, is the largest in Michigan and eighteenth in the United States.
- Six other subsidiary banks strategically located throughout the state of Michigan bring the total number of retail banking offices to 133.
- Full-service offices in London, Frankfurt and Tokyo, plus financial affiliates in Europe and Asia.
- Additional domestic subsidiaries engaged in mortgage banking, consumer finance and insurance.

Our growth is made all the more significant to investors because of consistent profitability. In the last ten years, for example, earnings have grown at a compound annual rate of 10% and the dividend rate has increased at a compound annual rate of 8%. This earnings growth over the past decade compares favorably with that of the banking industry and the Standard & Poor's 500 (Composite) stock index.

National Detroit Corporation is listed on the New York Stock Exchange and our latest financial reports are available by writing to our Financial Communications Department.

CONSOLIDATED BALANCE SHEET—December 31, 1978

(dollars in thousands)

ASSETS

Cash and Due from Banks (including Foreign Office Time Deposits of $836,173)		$2,314,887
Money Market Investments:		
Federal Funds Sold		1,139,600
Other Investments		36,532
		1,176,132
Trading Account Securities—At Lower of Cost or Market		42,814
Investment Securities—At Amortized Cost:		
U.S. Treasury		512,615
States and Political Subdivisions		771,569
Federal Agencies and Other		41,239
		1,325,423
Loans:		
Commercial		2,214,950
Real Estate Mortgage		940,860
Consumer		546,801
Foreign Office		417,994
		4,120,605
Less Reserve for Possible Loan Losses		54,090
		4,066,515
Bank Premises and Equipment (at cost less accumulated depreciation of $58,250)		78,214
Other Assets		316,963
Total Assets		$9,320,948

LIABILITIES AND SHAREHOLDERS' EQUITY

Deposits:		
Demand		$2,321,745
Certified and Other Official Checks		431,775
Individual Savings		1,370,714
Individual Time		974,365
Certificates of Deposits		883,740
Other Savings and Time		136,860
Foreign Office		1,066,141
		7,185,340
Other Liabilities:		
Short-Term Funds Borrowed	$1,147,040	
Capital Notes	74,246	
Sundry Liabilities	361,565	1,582,851
Total Liabilities		8,768,191
Shareholders' Equity		
Preferred Stock—No Par Value	—	
No. of Shares		
Authorized 1,000,000		
Issued —		
Common Stock—Par Value $6.25	75,953	
No. of Shares		
Authorized 20,000,000		
Issued 12,152,465		
Capital Surplus	180,121	
Retained Earnings	300,019	
Less: Treasury Stock—119,139 Common Shares, at cost	(3,336)	552,757
Total Liabilities and Shareholders' Equity		$9,320,948

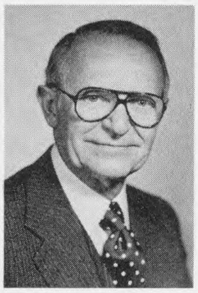
Assets carried at approximately $542,000,000 (including U.S. Treasury Securities carried at $19,000,000) were pledged at December 31, 1978, to secure public deposits (including deposits of $47,064,038 of the Treasurer, State of Michigan) and for other purposes required by law.

Outstanding standby letters of credit at December 31, 1978 totaled approximately $28,000,000.

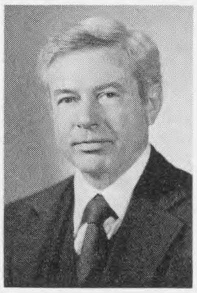
NBD

NATIONAL DETROIT CORPORATION
National Bank of Detroit
611 Woodward Avenue, Detroit, Michigan 48226

DOMESTIC SUBSIDIARIES: First State Bank of Saginaw; Grand Valley National Bank, Grandville; National Bank of Dearborn; National Bank of Detroit; NBD Commerce Bank, Lansing; NBD Insurance Company, Detroit; NBD Mortgage Company, Detroit; NBD Port Huron Bank, N.A.; NBD Troy Bank, N.A.; Instaloan Financial Services, Inc.

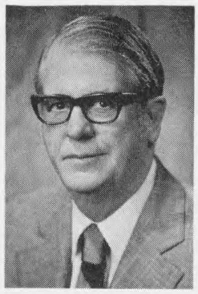


VINSON



CRAVENS

KANE



CHAPMAN

Top-Management Changes Made at First Nat'l, LR; Kane Is Elected CEO

LITTLE ROCK — First National has elected Edwin C. Kane chairman and CEO and William L. Cravens president. B. Finley Vinson, chairman since 1967, will serve the board as vice chairman and as chairman of the trust committee.

Mr. Kane, who was elected bank president in 1970, is a former head of the correspondent banking department.

Mr. Cravens joined First National in 1976 after 14 years with an Arkansas CPA firm.

Mr. Vinson joined the bank in 1954, was elected its president in 1964 and chairman in 1967. He is a past president of the Arkansas Bankers Association and is on the board of the Little Rock Branch of the St. Louis Fed.

Chapman Elected Advisory Director; St. Louis Bank Opens London Branch

ST. LOUIS — First National has elected William J. Chapman, executive vice president, an advisory director and has opened its new full-service branch-banking operation in London.

Mr. Chapman joined First National in 1964 as a vice president. In 1967, he was elected senior vice president and senior loan officer. He was elected executive vice president in 1972.

Mr. Chapman is chairman of the loan policy committee and is responsible for credit and loan services, auditing, operations improvement and economics departments.

The new London branch offers deposit and loan services as well as a variety of other foreign investment services except foreign exchange trading. Permission to begin foreign exchange trading is expected soon.

The London branch's staff of six officers from the U. S. and three from England is headed by Richard Al Murray, vice president.

Internat'l Banking Office Is Opened by Continental

CHICAGO — Continental Illinois National appointed Vice President Robert B. Tankersley general manager of its new international banking subsidiary, Continental Bank International, Miami, which opened in early 1979.

Approved by the Fed, the new subsidiary will be responsible for Continental's international customers in the Caribbean basin.

Also, four new division heads have been named in Continental's general

CONDENSED STATEMENT OF CONDITION

AS OF DECEMBER 31, 1978

RESOURCES

Cash and Due from Banks	$ 208,405,899.26
U. S. Treasury Securities	397,495,679.53
U. S. Government Guaranteed Securities	10,001,007.73
Obligations of States and Political Subdivisions	66,334,332.52
Stock in Federal Reserve Bank	1,500,000.00
Federal Funds Sold and Securities Purchased Under Agreements to Resell	17,200,000.00
Loans	875,426,487.22
Less: Valuation Portion of the Reserve For Possible Loan Losses	7,482,097.12
	867,944,390.10
Bank Premises and Equipment	11,237,161.46
Other Real Estate	28,895.15
Customers' Acceptance Liability	1,679,145.73
Accrued Income Receivable	18,120,241.18
Other Assets	7,126,018.23
TOTAL	$ 1,607,072,770.89

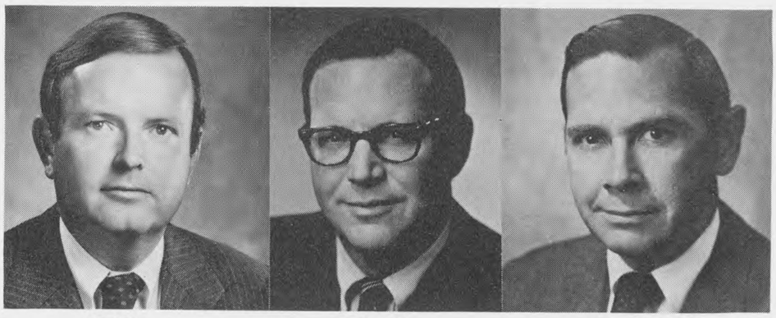
LIABILITIES

Deposits	$ 1,255,864,659.34
Federal Funds Purchased, Securities Sold Under Agreements to Repurchase and Note Option Account	193,937,359.10
Acceptances Outstanding	1,679,145.73
Dividend Payable January 2, 1979	1,873,725.34
Special Dividends Payable	2,381,734.94
Accrued Taxes, Interest and Expenses	19,824,360.84
Deferred Income Tax Portion of the Reserve For Possible Loan Losses	1,692,027.20
TOTAL LIABILITIES	$ 1,477,253,012.49

CAPITAL ACCOUNTS

Capital Stock	$ 2,800,000.00
Surplus	47,200,000.00
Undivided Profits	77,123,720.98
Capital Portion of Loan Loss and Securities Reserves	2,696,037.42
TOTAL CAPITAL ACCOUNTS	$ 129,819,758.40
TOTAL	$ 1,607,072,770.89

Whitney
NATIONAL BANK OF NEW ORLEANS
Established 1883

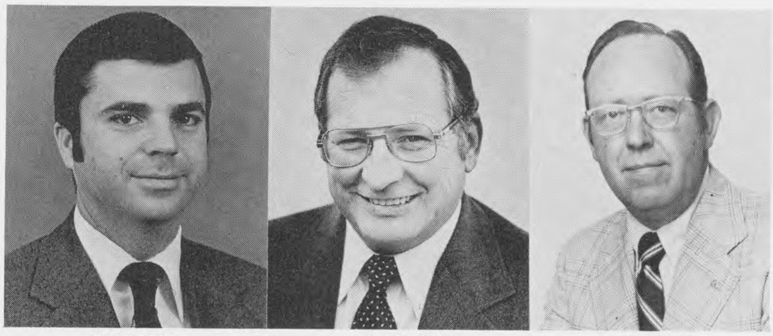


CRAIN SMITH MacCARTHY

James T. Crain Jr., senior vice president and senior trust officer, has been named head of Louisville Trust Bank's trust group. He succeeds **Thomas E. Pfau,** who died in November. Also, **John W. Compton** has been elected vice president/installment loan division.

James A. Smith has been elected president and a director of Manufacturers Bank, St. Louis. He had been executive vice president since joining the bank in 1976. For 22 years he was with St. Louis' Mercantile Trust.

Eugene F. Williams Jr., chairman and CEO, St. Louis Union Trust, plans to recommend that **John Peters MacCarthy** be elected CEO at the directors' annual meeting in April. Mr. MacCarthy is president and chief operating officer. Mr. Williams will continue to serve as chairman.



MALONE MADIGAN MADDEN

Harold Madigan has been promoted to senior vice president/loan administration, Bank of Oklahoma, Tulsa. Promoted to vice presidents were *Joan Halfbreed*, bookkeeping, and *Steve Britland*, pension and profit sharing.

Bank of the Southwest, Houston, has appointed two officers: **William L. Madden,** senior vice president/bank investments department, and **John A. Rossitto,** vice president/Southwest corporate department.

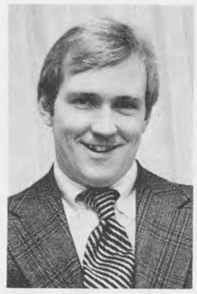
Robert J. Malone has been elected senior vice president and head of the Chicago corporate service office, Bank of America, Los Angeles. He is succeeding Senior Vice President *Jerry Thompson*, who will become the bank's representative for Australia, New Zealand and Papua New Guinea.

Bobby R. Pennington has been named senior vice president and head of First National of Arizona's retail banking group. He will be based in Tucson.

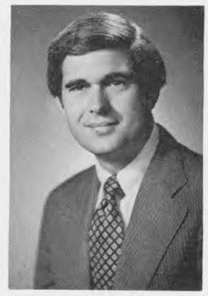
Carol B. Claypool has been appointed vice president/data processing and data systems support departments at the St. Louis Fed. She joined the Fed in 1970 and was named assistant vice president in 1974.

banking services department. They are William L. Gunlicks, vice president, Africa/Middle East division, international banking; William L. Staples, vice president, multinational banking, New York City; Garry J. Scheuring, vice president, multinational banking, Chicago; and Roger H. Sherman, vice president, western states group of the national division.

Robert F. Edmonds, who calls on Missouri customers, has been named a second vice president. He joined the bank in 1977 and was named a banking officer later that year.



EDMONDS



FARISS

Three Promotions Announced At Bank of Oklahoma, Tulsa

TULSA — Three new department managers have been named vice presidents of Bank of Oklahoma: John Edward Fariss, national; Gary M. Hurley, small business and banking center; and Thomas H. Graham, personnel.

Don Townsen has joined BancOklahoma Agri-Service Corp., a subsidiary of the holding company. Formerly, he was with First National, Perryton, Tex. He will be in charge of AgBanc of Oklahoma, Guymon.

Mr. Fariss had been senior vice president, commercial group at Union Planters National, Memphis. He also has six years' previous experience with North Carolina National, Charlotte.

Daniel Keating, who had headed a combined national/international department, will concentrate on the bank's expanding international services and on industrial development efforts statewide.

Mr. Hurley is responsible for a combined department that serves small businesses and executive financial needs. He was with First City Bancorp., Houston, for 10 years.

Mr. Graham will serve as director of human resources and was in a similar position at First Amtenn Corp., Nashville. He succeeds Francis J. P. Carey, who had transferred to the trust division.

Bill Webber 'Semi-Retires' From Security of KCK, But Will Stay Active There

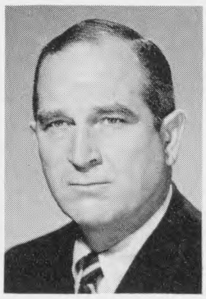
KANSAS CITY, KAN. — Bill Webber, dean of Kansas bankers and chairman, Security National, has entered what he calls "semi-retirement."

Mr. Webber, who has been with Security National 35 years, will retain the title of chairman, but will cut back on daily activity at the bank. He will concentrate on the bank's correspondent activities, as well as new business and customer liaison.

Mr. Webber began his banking career in 1925, when he became cashier of Bush City (Kan.) State. He was a state banking examiner from 1931-33 and a national bank receiver from 1934-36. In 1937, he was named assistant bank commissioner for the Kansas banking department. He became a senior examiner for the FDIC's 10th district in 1939. He then joined Security National in 1943 and started its correspondent banking department.

In other action at Security National, four have received promotions. They are Ted Fields, second vice president; Barbara Rohrbach, Pam Grisnik and Rick Switala, assistant vice presidents.

WEBBER



CLAY

Clay Retires After 41 Years At Third National, Nashville

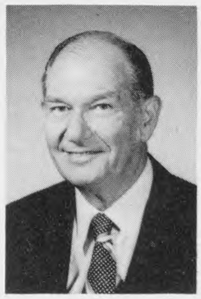
NASHVILLE — John W. Clay retired as senior chairman, Third National, in December after a banking career that spanned more than 41 years. He reached the bank's mandatory retirement age of 65 December 4.

Mr. Clay will continue to serve as president of the $1.5-billion Third National Corp. until the annual shareholders' meeting in April. He continues to serve as a director of both the bank and HC and as chairman of the bank's executive committee.

He joined Third National in 1937. He became president in 1970, board chairman in 1972 and senior chairman in 1974.

New Chairman, President At 1st Bancgroup-Alabama, Inc.

MOBILE, ALA — H. Taylor Morrissette has been named chairman and Clarence E. Davis has been elected president of First Bancgroup-Alabama, Inc., an HC whose lead bank



DAVIS

MORRISSETTE

is First National. James S. Crow has resigned from those positions.

Two new board members also were elected. They are Alto V. Lee III and Martha H. Simms. In addition, Bobby L. Trawick was promoted to assistant auditor and Lavern R. Schuerman was promoted to trust real estate officer.

Mr. Morrissette recently was elected chairman of the bank. Mr. Davis, prior to being named president, served as senior executive vice president and administrative officer for the HC in addition to serving as a director of Eastern Shore National, Daphne, Ala.

Hegarty Elected President Of First Midwest Bancorp.

ST. JOSEPH, MO. — Roger Hegarty has been elected president of First Midwest Bancorp., Inc. Formerly, J. M. Ford II held the joint title of board chairman and president.

Mr. Hegarty, who has been president of First National, St. Joseph, since 1972, will continue as its president. First National is the holding company's lead bank. Mr. Ford will serve as board chairman of both the HC and bank.

HEGARTY O'NEAL MAUDLIN

FRICK BOOS DUDLEY

Benton O'Neal, formerly senior vice president of the holding company, has been elected its executive vice president. In his new capacity, he will work with Messrs. Ford and Hegarty in the formulation and implementation of holding company policy. Mr. O'Neal remains a senior vice president of First National and will continue to supervise the agricultural and correspondent departments.

Dale Maudlin was elected executive vice president of the bank, which he joined in 1957. Currently, he is responsible for the commercial, real estate and investment departments. In his new position, he will assume additional responsibilities as a member of the bank's executive management committee. Mr. Maudlin will continue as HC senior vice president.

Macon Dudley and Lyman Frick were elected senior vice presidents of the bank. Mr. Frick, who has been with the bank since 1970, was elected senior trust officer.

New vice presidents are Robert Sanders, commercial; Edward Boos, agricultural and correspondent bank departments; and Bartlett Ford, trust department.

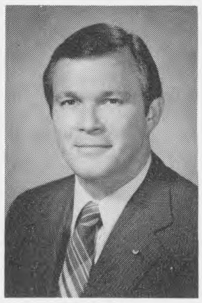
Louisiana National Elects President, Board Members

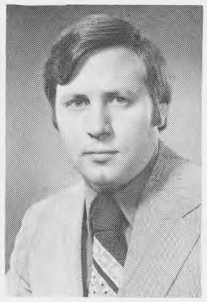
BATON ROUGE — G. Lee Griffin has been elected president and Lynn B. Gueymard has been elected a director of Louisiana National.

Mr. Griffin succeeds Charles W.

McCoy, who was reelected board chairman and given the additional title of chief executive officer. Mr. Griffin was a senior vice president and cashier before being elected president and was elected a director in 1976.

Mrs. Gueymard, the first woman on the board in the bank's 97-year history, has been with the bank since 1958. She retired in 1978 as vice president/controller, but continues as a bank consultant.


GRIFFIN


LacKAMP

First National, K. C., Promotes Vice Presidents, Asst. Cashiers

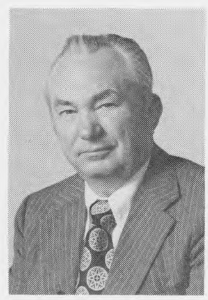
KANSAS CITY — First National has announced the following promotions: Donald R. LacKamp to vice president from assistant vice president; Barret S. Heddens III and Philip T. Rogers to assistant vice presidents from assistant cashiers; and Paul G. Ward, a correspondent banking officer, to assistant cashier.

Mr. LacKamp has responsibilities in the correspondent banking and livestock loan divisions. Mr. Heddens has commercial lending duties, and Mr. Rogers has been associated with the bank since 1974.

Deposit Guaranty Bank and HC Announce Planned Changes In Top Management for 1979

JACKSON, MISS. — Herman Hines, chairman and CEO of Deposit Guaranty Corp., has announced his official retirement as of December 31, 1979. He will remain CEO of Deposit Guaranty National, the HC's lead bank, until June 30.

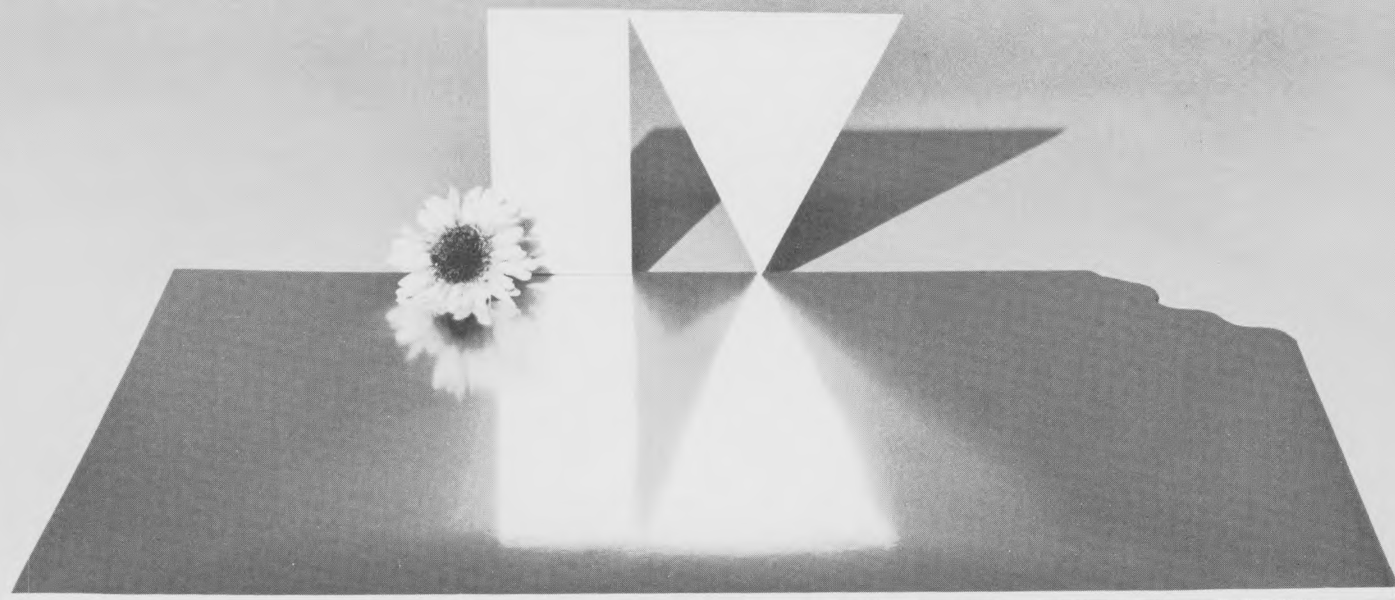

HINES


HOOD


MALONEY

Warren A. Hood has been named to succeed him as chairman and CEO of the HC effective January 1, 1980, and John P. Maloney will succeed Mr. Hines as chairman and CEO of the bank on July 1, 1979. Mr. Maloney also will continue in his present position as HC president.

Our 1978 Statement Is a Nice Reflection on Kansas



The progress of The Fourth and the prosperity of Kansas have always gone hand-in-hand. And 1978 was no exception.

Kansas had a great year.

And so did The Fourth.

Assets approached $700,000,000, with deposits reaching an all-time high. And The Fourth committed this added financial strength right back into the state to support our manufacturing, agricultural and energy industries.

Customers had good reason to invest their dollars at The Fourth in 1978.

Six Month Money Market Certificates provided the same U.S. Treasury Bill rates that larger investors enjoyed, and The Fourth's exclusive Money Manager Program offered overdraft check protection and more from savings and checking account dollars.

And the future looks even brighter Our new Operations Center and expanded Towne East Facility will add a new level of service for all our customers, and provide the capacity for continued growth of The Kansas BankCard Center and Via 24-hour statewide banking.

Statement of Condition...December 31,

Assets	1978	1977
Cash and due from banks	$144,390,000	$122,874,000
Investment securities:		
U.S. Government obligations	23,744,000	21,510,000
Federal agency securities	6,997,000	6,997,000
Obligations of states and political subdivisions	58,655,000	55,489,000
Other	1,205,000	1,183,000
Total investment securities	90,601,000	85,179,000
Trading account securities	3,769,000	14,034,000
Federal funds sold	33,075,000	28,325,000
Securities purchased under agreements to resell	41,550,000	59,000,000
Loans	**345,802,000**	321,778,000
Bank premises and equipment	27,656,000	25,311,000
Income receivable and other assets	8,926,000	7,906,000
	$695,769,000	$664,407,000

Liabilities and Stockholders' Equity	1978	1977
Deposits	**$528,380,000**	$503,242,000
Federal funds purchased	31,495,000	47,885,000
Securities sold under agreements to repurchase	43,893,000	52,465,000
Other borrowings	27,204,000	-0-
Accrued interest, taxes and other liabilities	7,174,000	6,606,000
Capital note	10,000,000	10,000,000
	648,146,000	620,198,000
Stockholders' equity	47,623,000	44,209,000
	$695,769,000	$664,407,000

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A neighborhood bank as big as Kansas itself.

TheFourth

The Fourth National Bank & Trust Company, Wichita, Ks 67202

Comptroller, Fed Chairman, Connally to Be on Program During IBAA Convention

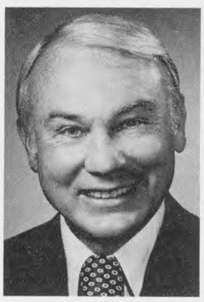
NEW ORLEANS — Comptroller John G. Heimann and Fed Chairman G. William Miller are among those scheduled to speak at the Independent Bankers Association of America's 49th annual convention March 11-15 at the New Orleans Hilton. Other speakers will be John B. Connally, former Texas governor and former Secretary of the Treasury, and IBAA President Ivan D. Fugate, president, Western National, Denver.

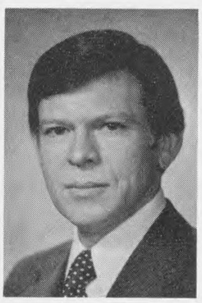
A panel discussion, "Trends in Banking," will be moderated by Richard W. Peterson, IBAA chief legislative counsel, Washington, D. C. Participants will be representatives of the Fed and the Comptroller's office and Edward A. Trautz, immediate past president of the IBAA and president, East Lansing (Mich.) State. Following this panel, Representative Henry Reuss (D.,Wis.) tentatively is scheduled to speak.

Another panel will be held on "Prospect That Congressionally Mandated Study of the McFadden Act May Bring Recommendation for Interstate Branch Banking," with Terrence G. Klasky, IBAA legislative counsel, Washington, as moderator.

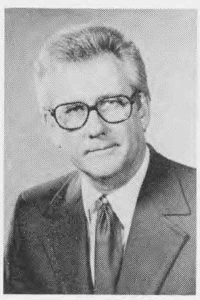
Various IBAA committee reports will be given during the convention.

The spouses' program will feature a panel discussion, "the Banking Couple — a Partnership," with Mrs. Ivan D. Fugate presiding.


MILLER


HEIMANN


CONNALLY


FUGATE

Nondiscriminatory Policy Notice Issued by Banking School

The Mid South School of Banking (formerly the Memphis School of Banking) admits students of any race, color, national and ethnic origin to all the rights, privileges, programs, and activities generally accorded or made available to students at the school. It does not discriminate on the basis of race, color, national and ethnic origin in administration of its educational policies, admissions policies, scholarship and loan programs and athletic and other school-administered programs.

Split-Lending Rate Offered By Another Major Bank

DENVER — First National has joined the small business prime rate bandwagon. Certain small business loans will be based on a lending rate that is 1% lower than the bank's prevailing prime rate.

Using a two-tiered structure, the bank will make available short-term working capital loans based on the "lower prime" to commercial, industrial, retail or agricultural businesses with assets of less than $1 million and total borrowings of less than $350,000 exclusive of long-term real estate mortgages.

Rates for other borrowers will continue on the bank's "upper prime," now 11¾%.

The floor of the lower prime is 10½%.

Bruce D. Alexander, president, says his bank offered a split-prime schedule during the tight-money market of 1974-75. The main reason he gave for the new rate structure is to help small business borrowers in meeting increasing operating costs caused by inflation.

Keep 'Em Sold

(Continued from page 14)

continuing benefit from the relationship once it's established.

The willingness to "go the extra mile" in servicing customers contributes to lasting customer relationships in several ways:

- It differentiates you and your bank from competition. While there's a relative sameness about many bank services, the primary difference is the quality of service provided by the individual banker as reflected in his interest, integrity and initiative in putting himself out to serve his customers.
- It builds a barrier against intensive selling efforts of competition by supplying the customers with special extra values that competition can't duplicate, since they're not you.
- It cements customer loyalty by demonstrating the value you place on your relationship and by recognizing his worth and importance as an individual, not just another piece of business.

Plus services bankers have used to build loyal and lasting relationships with their customers include the following:

1. Keep up to date on trends in economy, market, pricing, etc.
2. Advise on changes and effects of government regulations.
3. Provide ideas and information on what's happening in the customer's industry and related industries.
4. Provide leads and introductions for delivering new business.
5. Help obtain new personnel.
6. Help train personnel.
7. Provide information on new equipment, new methods, sources of supply, etc.
8. Provide help in buying or selling businesses or acquiring merger partners.
9. Provide referrals for obtaining attorney, accountant, business consultant or other sources of professional help.
10. Speak to or help locate speakers for company meetings and seminars.
11. Help obtain memberships in professional, service, social, civic and charitable organizations.
12. Provide counsel or contacts within your bank for handling personal or family financial needs.
13. Obtain tickets for sports events, plays and other events.
14. Invite participation in golf, tennis or other social events.
15. Invite customers to have lunch at your bank with key management personnel.
16. Send clippings from newspaper or trade journals on personal accomplishments or achievements of company, personnel or family to the people involved.

Typically, most "plus services" require no more than a few minutes of your time — a modest investment to make in loyal and lasting customer relationships.

In our next "Let's Talk Selling" article, we'll examine the last two elements of effective follow-up — how to convert complaints to compliments and how to identify and sell additional needs. • •

Oklahoma's First Family of Correspondent Banking

Jim Burgar, Vice President and Division Manager	272-4098
Kendall Hert, Vice President	272-4094
Jerry Hudson, Assistant Vice President	272-4095
Steve Porter, Assistant Vice President	272-4087
Richard Pralle, Assistant Vice President	272-4121
Tom Sherman, Assistant Vice President	272-4096
Edna Blunk, Banking Officer	272-4091
Steve Sims	272-4048
Joan Zubik	272-4092
Susan Ferstl	272-4097

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THE FIRST NATIONAL BANK AND TRUST COMPANY OF OKLAHOMA CITY

Employee Terminations

(Continued from page 30)

slip to the post-termination interview. The bank can learn many things about its operation from a discussion with a departing employee. It's productive to know:

- Attitudes of the employee toward his supervisor. Why was there lack of rapport?
- Could the departing employee be used elsewhere in the bank?
- Could the bank help its terminated employee get a job elsewhere?

Listening to the terminated employee talk not only can be productive for the bank's own operation in the future — because it may turn out someone else at the bank was in the wrong — but an atmosphere of courtesy at departure often can release some of the employee's surging hostility. If the bank can help the employee get a job elsewhere, this action can help hold down state unemployment taxes. Also, gainful employment often will reduce the number of post-employment claims and lawsuits now available.

In certain touchy situations such as those described below, careful notes of what the employee states are the real reasons for termination should be transcribed as well as what the bank's representative said at the termination interview. Such notes are a valuable backup in a possible future discrimination lawsuit such as:

- A black employee is replaced by a white.
- A person between 40 and 70 and reasonably efficient is fired.
- A male is replaced by a woman at less pay.

When the basis for defense in later lawsuits is that the discharge was for business necessity, it's more valuable to have termination notes with statements, questions and answers with dates at the time of termination than it is to trust employee memories two years later when a money-hungry civil rights lawyer strikes. Often at the time of a civil-rights-violation lawsuit, the bank's supervisory employee — as well as the disgruntled worker — is long departed.

Generally, the bank's obligations to a departing nonunion employee are based on uniformity. If every terminated employee gets vacation pay or termination pay, the bank is obligated to do the same for the insolent person whose departure is a relief. There's no obligation to make such termination payments under state laws.

If the bank is going to have a policy on termination pay or vacation pay at departure, its best protection is to put the rules down in black and white and distribute copies to all employees. If employees are not entitled to such payments when they're discharged for "cause," then cause should be defined in bank regulations. A carefully drawn list of reasons for discharge without termination pay or vacation pay signed by the employee at the beginning of employment will put the employee on notice of what he must not do. For example:

- A rule that all vacations must be taken in the applicable year and will not be carried over or accrued.
- The necessity of a driver's license if the employee's job involves driving an auto on bank business.
- On what the petty-cash fund can be expended.
- Actions away from work that reflect on the bank's public image.

A bank cannot be required to give a letter of reference, but it's better for the bank to keep silent and face the consequences when there are bad stories to tell about a departing employee's activities. A bank for the public means money, and the bank is financially vulnerable to charges of libel and slander. There's an endorsement to the bank's liability insurance policy titled the personal injury endorsement. This covers libel, slander and invasion of privacy. For any banking operation these days this endorsement is valuable, but there's a joker. If the endorsement excludes employees, it affords no protection in the event of lawsuits concerned with termination. So you should check your personal-injury clause to determine whether you should get this clause changed to include employees.

Policies on termination/vacation pay should be put in writing and copies distributed to all employees.

Someone asked me what to say about a former employee, explaining, "I must say something. If I keep my mouth shut, prospective employers will think the ex-employee was involved in certain practices for which our organization has been criticized."

I told him what an Equal Employment Opportunity Commission (EEOC) person told me privately at the time of settlement of a discrimination case to keep my client out of trouble, "Give the dates of employment and the nature of the job. Do not say anything about why she was terminated or that she filed a claim with the EEOC."

Generally, the employer can save himself a peck of trouble by refusing to talk at all in a touchy situation, but this is not completely true. In one case after an employee theft, the prospective new employer inquired about the ex-employee's record. Although his financial institution had been embezzled, the former employer said nothing at all about his ex-employee's defalcations. This employee had a tremendous ability in the field of white-collar crime so that within a few months, he also had appropriated many thousands of dollars of his new employer's money.

When the new employer filed the bonding claim, the adjuster boldly suggested that the new employer file a suit for misrepresentation against employer No. 1 for not revealing the first defalcation. I don't believe such a requirement by the bonding company will hold up. There are many defenses for employer No. 1, such as, "At the time of inquiry, I had not established the embezzlement."

It's best not to comment about the banking career of the questionable employee. It's always best for the employer to be pleasant and helpful at termination. An abusive termination is an expensive luxury these days. For most terminated employees, the ex-boss can think of something nice to say. No ex-employee completely lacks some good qualities. ● ●

Retail Banking Services Focus of New ABA Unit

WASHINGTON, D. C. — The ABA's government relations group has organized a specialized support unit for "retail banking services." For the first time, the new unit will combine both the federal legislative and regulatory support functions for the areas of consumer credit, privacy and electronic banking.

"This new unit — headed by Frank P. Curran — reflects the growing interdependency of these issues within the banking industry," said Gerald M. Lowrie, ABA government relations executive director.

Mr. Curran has been director of payments system planning since 1974.

1979 Agri-Bankers' School Is Accepting Enrollment; Seminars Begin in June

MANHATTAN, KAN. — The Kansas School of Agricultural Banking has announced its 1979 school program. Bankers in Kansas and surrounding states can attend classes June 3-9 to learn about topics such as banking legalities and making farm visits.

Enrollment in the school, which is assisted by the Kansas Bankers Association, among other sponsors, is up to $170 per person, including meals and lodging. The program is limited to 60 persons in the first-year courses and 50 in the second year.

During the same week, the commercial and agricultural loan secretaries' seminar will be held at Great Bend. Normally this session is held in conjunction with the banking school here, but it was set up this year to reduce travel requirements. The one-day seminar costs $25 a person and includes meals and materials.

First-year students can look forward to presentations on agricultural lending, updating the Uniform Commercial Code, farm case-history discussions and several financing topics.

Second-year students will attend some joint sessions with first-year students, but will attend some of these seminars exclusively: fundamentals of bank ownership, financing swine and swine facilities and standardization of loan documentation.

For more information write: T. Roy Bogle, Department of Economics, Waters Hall, Kansas State University, Manhattan, KS 66506.

Automatic Teller Machines In Kansas Are Hooked Up To United Missouri of KC

United Missouri Bank customers who live in Kansas and work in Missouri, or vice versa, now have the opportunity to complete personal-banking transactions at the bank's Ultra automatic tellers on both sides of the state line.

The Ultra system became the first such network to serve both sides of the state line in the Kansas City area, according to a bank spokesman, with the addition of two on-line automatic tellers at Overland Park (Kan.) State in December. These are the first ATMs United Missouri has installed at an institution other than one of its affiliate banks.

Overland Park State is United Missouri's first correspondent bank to join the system.

Now there are 14 automatic teller machines in the regional system, all open 24 hours a day, seven days a week. The new machines are located at the bank's office at 80th and Metcalf and at Santa Fe and Nieman Road. Another Ultra location is planned for the bank's third facility, currently under construction at 111th and Roe, scheduled to open next spring.

Ultra customers from United Missouri Bank may withdraw cash from a checking account; transfer money between checking and savings accounts; request account balances; obtain Master Charge cash advances; and transfer money from a Master Charge to a checking account. By law, customers can make checking and savings account deposits only at their own banks.

The ATM network is connected directly to the bank's downtown computer center. The machines are activated by the customer inserting a plastic Ultra card and punching in his personal identification number.

Banking experts predict that Ultra's success, and that of more than 8,000 electronic bank teller machines in operation throughout the country, eventually will lead to a reduction of paper checks. ABA estimates show that Americans write about 30 billion checks a year and that they cost from 30 to 40 cents each to process.

The Ultra system was created in May, 1977, when nine machines were installed at bank locations in Kansas City and St. Joseph, Mo.

Business Credit Exchange Subject of Guidelines Issued by Robert Morris

Two sets of guidelines to assist banks in the exchange of business credit information have been released by Robert Morris Associates (RMA). "Statement of Principles for the Exchange of Credit Information Between Banks and Business Credit Grantors" applies to nonbanks also. It was developed with the National Association of Credit Management (NACM), which is made up of nonbank credit executives. The other publication is "Guidelines for the Exchange of Foreign Credit Information."

"Statement of Principles" is a revised version of the 1955 edition, emphasizing the need for free and responsible flow of commercial credit information to support the credit-based economic system. It complements RMA's "Code of Ethics for the Exchange of Credit Information," guidelines for commercial credit exchange between banks. The guidelines cover the importance of confidentiality when exchanging credit information, of basing inquiries and responses on fact, of stating the purpose of the inquiry and the amount involved, of providing proper identification of inquirers and responding promptly and accurately to inquiries. Information on inquiry involving actual or contemplated litigation was added.

"Foreign Credit Information" is designed to assist credit investigators in responding to credit inquiries on foreign accounts relationships. The guidelines are an extension of and an adaption to an international context of RMA's Code of Ethics, particularly articles three and seven.

To Teach Customers:

Bank Sponsors Series Of Economic Seminars

In the extremely independent American culture, there are only two things a person *has* to do — die and pay taxes. The latter was the topic of mini-business seminars that were sponsored last fall by Albany Bank of Chicago.

Tax shelters were discussed at one of the seminars by Jacob R. Brandzel and Kenneth I. Solomon of Laventhol & Horwath's Chicago branch. Laventhol & Horwath is a national accounting firm. "Tax Credits for Part-Time Help" was the first seminar's topic discussed by Alexander Grant & Co. employees.

Another seminar featured Harold Finley, a Chicago *Tribune* business columnist, who spoke on "Prospects for the Stock Market."

Average attendance is about 75 prospective and current bank customers, who are invited by direct mail. However, "word-of-mouth" advertising is beginning to account for some who attend, according to a bank spokesman.

Another series of seminars is scheduled for spring.

Commercial Lending Bibliography

The ABA library staff has prepared an annotated bibliography on commercial lending, which is available free of charge. The 21-page publication is a list of information available at the ABA library on the subject with subtitles such as asset and liability management, credit analysis, policies and small business. A supplemental list of information sources on educational and training materials also is included.

Going Our Way?

If you're headed for Tulsa, Oklahoma, head for the Best Western Roadside Inn. We're just one mile from the airport and minutes away from the city center. Business travelers like our excellent location and meeting facilities; vacationers enjoy rodeos, museums, fishing, theaters and our beautiful state parks - all nearby.

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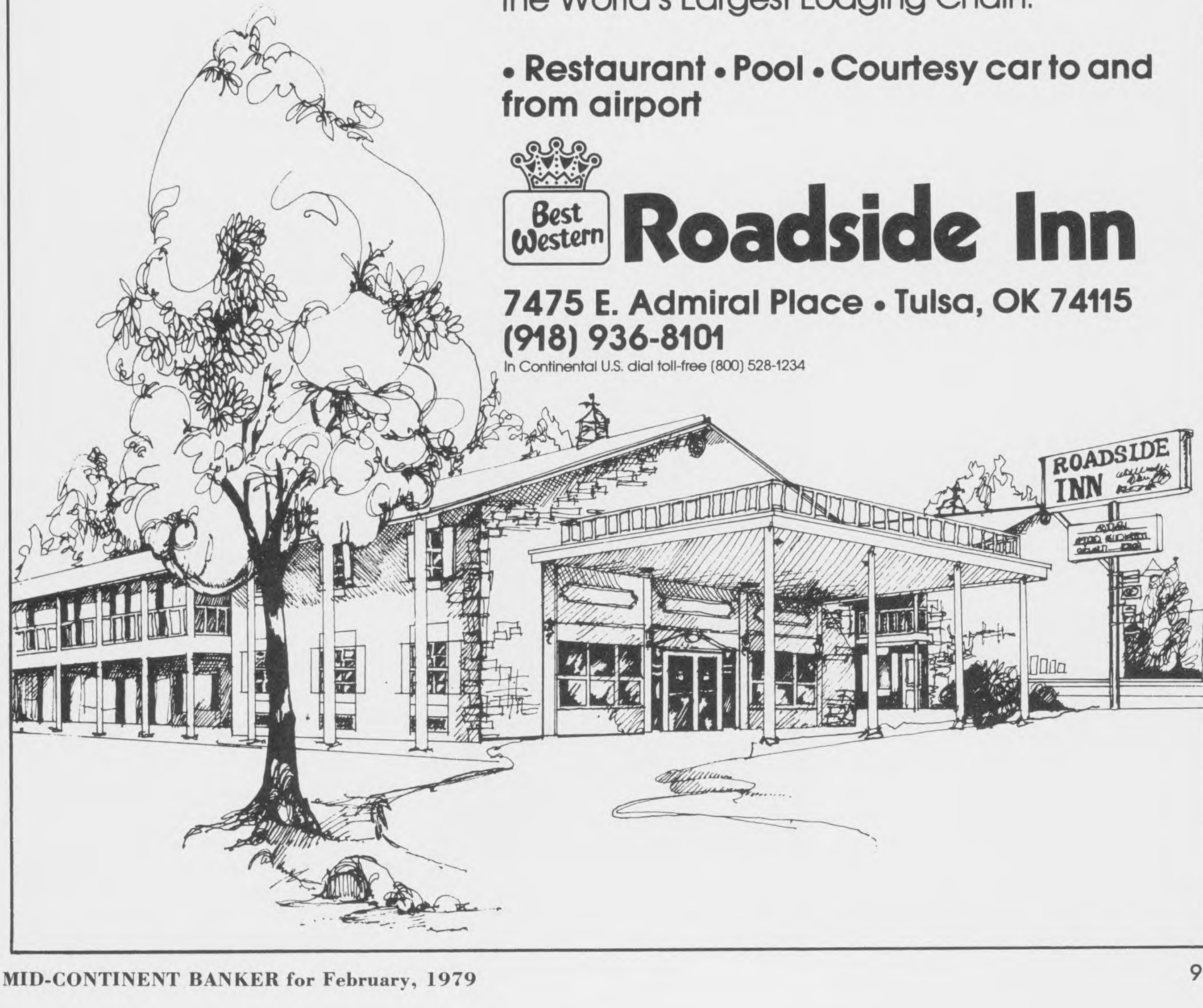


How Can Community Bankers Compete in Future Marketplace?

By JACK O. WEATHERFORD

WHAT is a community bank? A good definition would be "that bank that closely identifies with the community it serves." It may be a small bank, or it could be a bank that encompasses a large trade area and represents many depositors. The key is that management is community minded and relates closely to its market.

Let's take a look at the marketplace for all of us in the future. For the banking industry as a whole, I see the following:

- More electronic locations.
- Fewer full-service institutions. Financial transactions will be in places removed from brick and mortar, and many banks of today will be used as places of counsel, advice and negotiation.
- Onrush of removal of Regulation Q. Competition for the consumer savings dollar will be more avid as ceilings are lifted from savings interest.
- Onrush of paying interest on demand deposits, especially in view of the automatic transfer provision that took effect November 1.
- More institutions competing for the same dollar. A 10-year comparison shows total deposits of financial institutions growing faster overall for mutual savings banks, S&Ls and credit unions than in commercial banking. In 1977, thrifts outgrew our industry some 10%.
- A stricter enforcement of regulations. Hopefully, the pendulum now is beginning to swing the other way for this fast enactment of regulations. But I believe that whatever is enacted will be enforced with more knowledge and in a stricter manner by the regulators than in the past few years.
- The trend toward a federalized banking system.

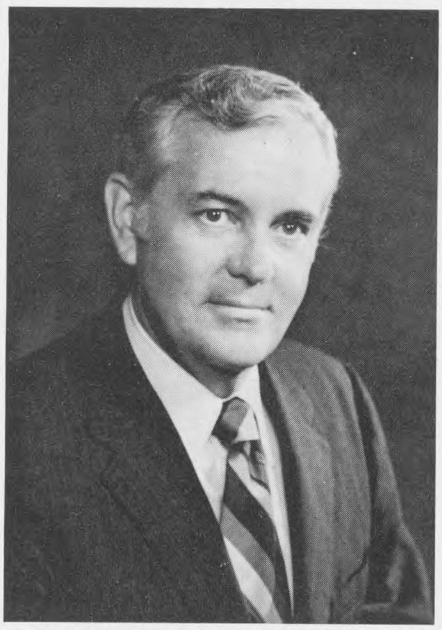
Now, let's look at the community bank and see how it will perform in the marketplace in the future.

In our smaller communities, we find the consumer is aware of prime rate, market trends, negotiable CDs and other more sophisticated money instruments that a few years ago really did not hit the smaller markets for a year or two after they began in the money-market centers.

The community banker will have to be more professional because if he isn't, someone down the street or in the next community will be, and he will continue to lose his share of the market.

How will the community banker compete?

- He must set specific objectives for his bank and review them periodically. Looking at the liability side of the ledger, he should consider deposit growth; how much does he want to grow, how is he going to get those funds, what mix does he want — that is, how much is he willing to have in savings in relation to checking accounts; is he willing to pay for it to get it?
- He should be profit oriented. Banks have been remiss in planning for profits, and I think this has become more evident in recent years as banks have grown. So many have not been prepared with the proper capital for that growth. So, I would say, at least annually, he should have a profit objective for his bank and decide how he's going to get it. This requires tax planning; it also requires him to look at his costs, to price his loans and to know his spread. Then, as he is making those plans, he should consider capital adequacy. There is only one of two ways to have adequate capital — the first, and most desirable, is through profits. The second is through selling additional stock or debentures or some other capital instruments that can be used to increase a bank's capital. If a bank consistently is earning under 1% on daily average assets, it will be difficult to build capital through earnings.



Jack O. Weatherford is vice chairman, ABA community bankers division executive committee, and chairman and CEO, Murfreesboro (Tenn.) Bank.

On the asset side, the banker has to continually assess his loans, considering service to the community as far as loan types and where they are committed. Government credit allocation is a poor substitute for the banker serving his community. We should not be told to put depositors' money in areas where we know a loan loss will result. The banker should allocate credit for the good of the community and the bank.

The banker must determine how he's going to maintain a reasonable liquidity. In planning, he will need to look specifically at consumer loans because that is where there's an opportunity to serve his public, to be profitable in the bank and to build the bank on the basis of direct lending to consumers.

He must consider the investment portfolio. It will be imperative that this portfolio be handled professionally. If a banker does not know bonds, he must know his bond man, be it a correspondent banker or a professional investment person who deals totally in this area.

Quality must be considered here, and the community banker traditionally has had a fixed-investment philosophy in mind based somewhat on what other people do. However, I feel he's going to have to tailor this more to his own bank and to market conditions than perhaps has been done in the past.

We must look at fixed assets. We need a certain amount of brick and mortar to operate, but each banker needs to assess his own situation and have attractive, adequate quarters, but

not try to build monuments.

Let's look at reasons the community banker will not compete:

Government Regulations. They're costly, and our consumers have had to pay. We have these regulations — all of us should speak out against the burden they are creating — but we'll have to live with some of them. We will deal with them by assessing them as soon as they're received and by finding out how we are going to operate best under them. The community banker should keep a total book of all regulations affecting the bank and have some person, himself or someone else in the bank, be directly responsible for compliance with all regulations.

Complacency. If a community banker is complacent and decides he's going to sit back and one of these days respond to something if he has to — that something being competition, regulation or any number of things — he will find himself behind and not competing and not maintaining his portion of that banking market.

Negativeness. How many times have we had some creative idea presented to us and received the old answer, "We've never done it that way before," or "I don't think there's any way that will work," or "If it works, I'm not going to like it."

Anything that's been done for five years in the bank should be changed or an explanation given as to why it's not being changed. Not everything should be changed, but everything at least should be reviewed.

Preferential Treatment. This is treatment that gives an unfair or undeserved interest rate or a loan that's weak or deviating from normal bank policy just because of personal relationships.

Management Succession. Although it's unpleasant in many cases, the banker should pick the next boss — both the immediate and long range — because it's important. If we don't deal, properly with it, a bank can find itself in a lurch without leadership. This can do long-term damage to the posture and profits of a bank.

Let's look at reasons we will compete:

We will compete if we commit ourselves heartily to developing our people and if we resolve to be good managers and to be people-oriented. First of all, we should give employees every opportunity to use ABA material. The ABA's community bank division has a tremendous amount of educational material that can be helpful to the community banker. Our state associations have seminars and other materials that will assist in developing people. So often, there is a Junior Banker or Young Banker School, and there are AIB courses available in each state. We will grow and become more sophisticated in our service because we allow our people to develop. There also are localized opportunities through universities, extension courses, etc. I'm a great believer that if people are motivated to participate in continuing education, and they're willing to give their time, the bank should pay the tuition and encourage them to go. I don't believe in requiring anyone to go because a person not properly motivated will waste his time and the bank's money.

"We should not seek perfection, but something that will work. All of us must try harder, work smarter, and know our marketplace better than others."

We will compete because we are determined to be *good managers.* This does take a positive attitude. We must consider why we are in the bank and what our purpose is.

Another way to be good managers is to have *specific objectives*, to know what we want to do within our own lives as far as the bank is concerned and know what we want the bank to do. The more specific we can be in these objectives, the more helpful they will be. Once again, the ABA's community bank division has some great helps and some management tapes, "Managing by Objectives," "Time Management," "Decision Making," "Communicating" and others that will be helpful and worth the small cost.

We will be determined to be good managers, and we will achieve this by committing ourselves to being managers people are glad to follow. They want to see stability, integrity and dedication, and it takes this personal commitment to be the kind of leader with whom people are glad to be associated.

We will compete because we will be *people oriented.* We are living in the day of the consumer, and in these days if we're not people oriented, we will not achieve much as bankers.

In looking at service for our customers, we should consider three groups and try to have a balance in consideration for them and in what we do for them. First, the *customer.* Without him, we're not there; there's no reason for us to be there. That person must be given good service; we must have genuine interest in the customer, and it should be our desire to be of real assistance to him.

Secondly, we should consider the *stockholder*, the owner of our bank. It's only reasonable that the stockholder would be entitled to a fair return on his investment and that it would come into our profit planning.

Thirdly, the *employee* should be considered with good fringe benefits, good salary, good working conditions. At the same time, we, as managers, can expect from that employee good production and good care for the customer.

If a community banker always will keep in mind those three — customer, stockholder, employee — and give proper attention to all three, he will have a well-balanced, ongoing bank.

We will compete if we take advantage of being a full-service financial institution. We have the right to use the full-service emblem, and surveys show that people relate positively to full-service banking.

To market our services, CEOs of community banks must learn more about market research and professional pricing. Specifically, they should learn why they have the customers they have and how the beliefs, values and wants of those customers are changing. In the past, market research rarely was sought by the community banker, but today I feel it's imperative for him to know more about his marketplace.

We will see even more drastic change in the next five to 10 years in banking than we've seen in the last five and probably more drastic change than we've ever seen before.

What should we be doing to attract more liabilities — deposits — and to come out with a profit that is reasonable and desirable? Here are 12 suggestions we should consider in marketing, especially as we look toward electronic fund transfers and other types of electronic banking:

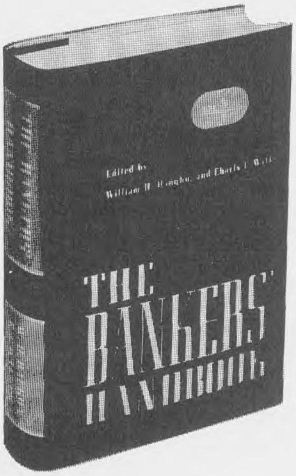
1. Understand requirements of packaged goods in marketing, i.e., a listing and understanding of all your services so that you might display them and that you might have them as you make a sales pitch to your customers and to prospective clients.
2. Find out how your bank stands in the minds of your customers. This again alludes to market research.
3. Determine whom you must outgun. You can know your competition today through information from private sources and through regulators' reports.
4. Unify all outward communication signals. It's bad to have two officers giving different signals about the same bank.
5. Use your name on all services. If you have BanClub, which we have, it should be MBT BanClub or First National BanClub, or whatever it happens to be, to let your customers know it's from your bank.
6. This is most important: Learn how to price your services. We bankers have been lax in this area, and it takes courage sometimes to price your services.
7. Study buyer behavior. Know what people like. Try to fit your service into that buyer behavior.
8. Beef up consumer-lending activities. There are great opportunities in that area for home improvement, automobiles, many personal goods that people require today.
9. Become skilled with direct-mail techniques. It's amazing how many people we reach if we handle direct mail properly.
10. Cross-sell like crazy.
11. Assign one service to a person so that person can keep up with all the trends and know the specifics about that one service. Of course, in a community bank, one person may be handling several services, but at least have every service in the bank assigned to someone to monitor and to teach to the rest of the staff.
12. Be sure to have operating and marketing people intermingle and communicate with one another.

"If a community banker gives his customer, stockholder and employee proper attention, he will have a well-balanced bank."

After considering those marketing techniques, let me list a few *management* characteristics of a good community bank that will enable you to provide outstanding services to your customers. The more efficient banks adhere to cost control and pricing, but also have a management philosophy.

Foremost in good management is: 1. Tight-fisted expense control. 2. Knowing which fees can be pushed to the maximum and which fees should be competitive. 3. Focusing on your natural strengths (you cannot be something you're not). 4. Ability to select and stick to a well-thought-out game

(Continued on page 104)



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NEWS
From the Mid-Continent Area

Alabama

■ MARY JANE BULTER and Kathy Reed have been appointed assistant cashiers, Exchange Bank, Attalla. Mrs. Bulter previously was in charge of the bookkeeping department, and Mrs. Reed joined the bank in 1973 as a secretary.

■ BEN WILDER has been named manager and Phyllis Reaves has been named assistant manager, Sixth Avenue office, First National, Decatur.

Arkansas


ELLIS

■ RICHARD J. ELLIS has been appointed sales engineer, LeFebure, Cedar Rapids, Ia. Mr. Ellis will operate from the Memphis branch and will concentrate on central and south central Arkansas markets.

Illinois

■ JAMES E. BRISTOW has been elected vice president/personnel, Elmhurst National. Mr. Bristow is a former vice president/personnel, Sears Bank, Chicago.

■ RICHARD D. MINICK has been promoted to assistant vice president, Soy Capital Bank, Decatur. He joined the bank in 1975 as an administrative assistant.

Record for DuQuoin State

DuQUOIN — DuQuoin State reports a record year in 1978, increasing earnings, deposits and capital structure. At year-end, the bank declared a two-for-one stock dividend, boosting capital and surplus to $1.5 million each.

During the year, the bank completed an expansion and remodeling project, adding a four-lane drive-up installation and increasing parking space.

North Point State Closed

ARLINGTON HEIGHTS — Deposit liabilities of North Point State — closed by William C. Harris, Illinois bank commissioner, December 16 — have been assumed by Bank & Trust, also located here. The former North Point State's sole office opened December 18 as a facility of Bank & Trust, with all depositors of the closed bank automatically becoming Bank & Trust depositors.

The latter bank assumed approximately $20.8 million in deposits plus other liabilities and agreed to pay a purchase premium of $2.3 million, the highest among eight bids submitted for the transaction. The FDIC aided Bank & Trust in the purchase. The assuming bank is buying, at market value, most of the closed bank's securities portfolio of about $3.6 million and other assets totaling $1.9 million. To facilitate the transaction, the FDIC advanced cash amounting to approximately $15.7 million and retained the failed bank's book assets of around $20.1 million. The FDIC says it expects to recover a substantial portion of its outlay as payments are realized on assets not transferred to the assuming bank.

Indiana

■ DAVID H. RUNYON has been named executive vice president, and Bill J. Garringer has been named assistant vice president, First National, Richmond. Mr. Runyon is a former senior vice president, and Mr. Garringer is a former loan officer.

■ DONALD L. FELTEN has been appointed vice president and Lawrence O. Moeller has been appointed trust officer, Lincoln National, Fort Wayne. Mr. Felten is a former trust officer and Mr. Moeller is a former assistant trust officer.

■ FIRST BANK, Indianapolis, has named President Robert C. Laue its chief executive officer; Don A. Wirick, executive vice president; William G. Batt, executive vice president; and Mark S. Weller, vice president. Mr. Wirick was senior vice president; Mr. Batt, vice president; and Mr. Weller, assistant vice president. He continues as a commercial loan officer.

Kansas

■ FIRST NATIONAL, CHANUTE, has announced the following promotions: David Bixby, from vice president to senior vice president; Mark Eldridge, from assistant vice president to vice president; Marcia Eldridge, from assistant cashier to assistant vice president/marketing; Marie Miller, from teller to assistant cashier/CD officer; Evelyn Grogan, from assistant cashier to assistant cashier/operations officer; Kathy Hanna, from customer service officer to assistant cashier/customer service; and Diane Myers, from customer service officer to assistant cashier/customer service.

Awards Program Begun

GREAT BEND — To express its appreciation for a total of more than 200 years of employee loyalty, Security State has begun an awards program to recognize employee service on the basis of years of employment.

J. A. Mermis Jr., Betty J. Sloan and G. E. Alban were cited for more than 25 years of service; Dale Engleman received a 20-year service award; and Dale Oliver, Edith Bollig and Earlene Nairn were honored for more than 15 years' service. Velda Gilliland was given a 10-year award. A total of 29 employees and officers received awards in the program, which is hoped to be held annually.

In other action, G. E. Alban, senior vice president of the bank, has retired after 42 years in banking and finance, 26 of those years with Security State. Assuming his position is Stephan J. Mermis, a former vice president, who joined the bank recently after six years as a state bank examiner.

■ TOM SWANSON has been promoted to assistant cashier, First National, Coffeyville. Before joining the bank 2½ years ago, Mr. Swanson was with First National, Kansas City, Mo.

■ LELAND E. WHITE has been named senior vice president, and Fred L. Shaw has been named assistant vice president and cashier, Tower State, Kansas City.

■ TERRY J. SUTCLIFFE has been elected president, City Bank, Wichita. He formerly had been vice president, Tower State, Kansas City.

■ PAUL R. "SKIP" SCHOLZ has been appointed assistant vice president, First National, Newton. He will be in the loan division and assist with public relations and business development.

■ CAPITAL CITY BANK, Topeka, has announced three promotions: Bruce G. Erickson to vice president and trust officer, Jerry Kent to assistant vice president/consumer loans, and Jane S. Jung to assistant vice president/customer service.

■ JANET I. OBERG, a retired U. S. Navy lieutenant-commander, has joined Union State, Clay Center, as assistant to the president. Her duties include personnel management and marketing. Miss Oberg, a fourth-generation family member associated with the bank, worked at Union State about two years before joining the Navy in 1957.

■ WESLEY C. HESS, vice chairman, National Bank, Pittsburg, has retired but will remain on the board. Mr. Hess served the bank and the community for more than 50 years.

■ LARRY D. McCURLEY has been appointed vice president/commercial loan department and bank personnel officer, Rosedale State, Kansas City. He is a former FDIC bank examiner.

Kentucky

■ JOHN K. ROWLISON has retired as vice president-auditor, Citizens National, Bowling Green. His banking career lasted more than 41 years and was interrupted briefly by service in the Navy during World War II.

■ WILLIAM B. BECHANAN has been appointed a director of First Security National, Lexington. He is president and CEO, Kentucky Utilities Co.

■ THE ST. LOUIS FED has approved the application of Magnolia Bancshares to become an HC through acquisition of Bank of Magnolia.

Louisiana

■ SHERYL DEFFEZ has been promoted to manager, Plank Plaza Branch, Baton Rouge Bank. She has been with the bank since it opened in 1967.

Mississippi

■ D. RICHARD GEORGE has been elected trust officer and will manage the trust department, First United Bank of Mississippi, Meridian. He formerly was with the trust department, First Mississippi National, Hattiesburg.

Missouri

■ JAMES NICOL, a Kansas City-area banker for 44 years, has taken an early retirement from his post as chairman, First National, Independence. Mr. Nicol has been with the bank 37 years. Before that, he was with Commerce Trust, Kansas City (now Commerce Bank, Kansas City), for 2½ years and with Clay County State, Excelsior Springs (now Commerce Bank, Excelsior Springs), for five years.

■ SOUTH SIDE NATIONAL, St. Louis, has promoted Leon A. Breunig from assistant vice president to vice president and Joseph E. Mager from personal loan officer to vice president. The bank also elected James Koehler assistant vice president.

■ COMMERCE BANK, St. Joseph, has announced the following officer promotions: Jack O'Rourke to senior vice president/operations and personnel departments, John B. Rost to assistant vice president/installment loan department and Emil Sechter to vice president/commercial loan department.

■ THOMAS B. FITZSIMMONS has been named executive vice president and member of the board, First Bank of Commerce, Columbia. In his new position, Mr. Fitzsimmons will assist the CEO in implementation of board policies and management of all bank activities. In related action, Don Rowland has been promoted from assistant vice president to vice president and manager, mortgage loan department. Prior to this, he served as manager, First Bank East.

■ DENNIS H. BOWERSON has been elected assistant vice president, Southern Commercial, St. Louis. He has been with the bank since 1971.

New Mexico

■ EL PUEBLO STATE, Espanola, reported plans to remodel and expand facilities. The expansion program includes a third drive-in motor bank, new loan department, more lobby teller windows and bigger bookkeeping and record storage area.

■ J. W. SMITH has been elected president, Liberty National, Lovington. Mr. Smith, who was associated with three banks in Dallas, was head of Liberty in 1955, when it was Lovington National. He left Lovington after five years to join Citizens National, Lubbock, Tex.

■ FIDELITY NATIONAL, Albuquerque, has named Richard Grimes and Donald J. Needham vice presidents. Mr. Grimes formerly was with American Bank of Commerce, Albuquerque, and once was a vice president, Santa Fe National. Mr. Needham formerly was with Mercantile National, Dallas.

■ FIRST NATIONAL of Lea County, Hobbs, has promoted the following officers: James D. Renfrow to executive vice president from senior vice president, Orville T. Brey to vice president and real estate officer, Lucille Dailey to trust administration officer and Martha Harris to assistant cashier and executive secretary.

Oklahoma

■ FIRST NATIONAL, Texhoma, has announced plans to construct a new building to replace the original building the bank has occupied since 1908. The new location will be at Third and Main, one block west of the present location. The new quarters, scheduled for completion in August, will have a drive-up facility, night depository, modern vault and additional safe deposit space.

■ FIRST NATIONAL, Bartlesville, has announced promotions of John Spangenburg Jr. to vice president and Cecil Epperley to assistant vice president. Mr. Spangenburg is a former assistant vice president and Mr. Epperley is a former assistant cashier.

Tennessee

■ RONALD A. SCOTT has purchased controlling interest of Hamilton First Bank of Clinton, Oak Ridge. He is the newly elected chairman and CEO, succeeding William C. Greer. Mr. Scott previously was executive vice president, United American, Knoxville; chairman and CEO, United American, Dixon; and vice chairman, First & Farmers National, Somerset, Ky. Ben C. Plant will continue as president and chief operating officer, Hamilton First.

■ PARK NATIONAL, Knoxville, has elected the following vice presidents: James S. Patteson, J. Finbarr Saunders Jr. and Warner M. Sells. New assistant cashiers are Jean Baird, Nancy Beatty, Ernest Cates, Wanda Henderlight, Gertrude Johnson, Norma Mikels, Lea Reagan and James R. Smith.

Texas

■ BEN T. HEAD, former president and CEO, United Virginia Bank, Newport News and Hampton, Va., has been elected president and CEO, Texas State, Austin. He also will assume responsibility and coordinate activities of Republic of Texas Corp. in Austin, now that Texas State has become affiliated with the company.

■ THOMAS R. CORKRAN has been elected an assistant cashier, Plaza Del Oro Commerce, Houston. He joined the bank in 1975 after gaining three years' banking experience with banks in Houston and Port Arthur.

■ ROBERT L. ROSS has been named senior vice president and investment officer and Don D. Roberts has been named assistant vice president, Capital National, Houston. Mr. Ross's duties include investment portfolio management. Mr. Roberts serves in the credit division.

■ SOUTHERN NATIONAL, Houston, has named the following officer changes: Donald E. Blair, executive vice president; Jack Charles Ford, vice president; Rockleigh S. Dawson Jr., executive vice president, was named head of the banking group; and Ford Hubbard Jr., executive vice president, will continue to serve as head of the trust group.

Community Bankers

(Continued from page 99)

plan regardless of your competitor's foolish endeavors. 5. Monitoring results (follow-up). 6. Sound investment advice from outside — dealers and/or correspondents. 7. Ability to repent fast when a bad decision has been made and adjust accordingly. 8. Having courage to fire people when necessary (first determine if they could be utilized properly in another part of the bank). 9. Close attention to people problems. 10. Using sound consulting advice when it comes to building facilities, design and decor. 11. Determining how much taxes you want to pay. This requires tax planning and is developed through your investment portfolio. 12. Realizing loans outside your own market increases risks dramatically with the exception of good A-rated loan participations. 13. Knowing when to lead with a product and not being too concerned if you follow later. 14. Keeping directors fully informed and educated (this permits the bank to take advantage quickly of opportunity without delay for debate and controversy). 15. Learning how to develop direct installment-lending markets. 16. Knowing what to do when your spread narrows.

We should not seek perfection; we should seek something that will work. All of us must try harder, work smarter, know our marketplace better than others and take a personal-banker approach. ● ●

● Index to Advertisers ●

Oscar E. Berninghaus

Bouncing, rocking and creaking along, the Overland stage wound its way across the prairies westward. This painting, by Oscar E. Berninghaus, was commissioned by The Boatmen's National Bank of St. Louis and is one of many paintings that comprise the Boatmen's Fine Arts Collection, one of the largest in the United States.

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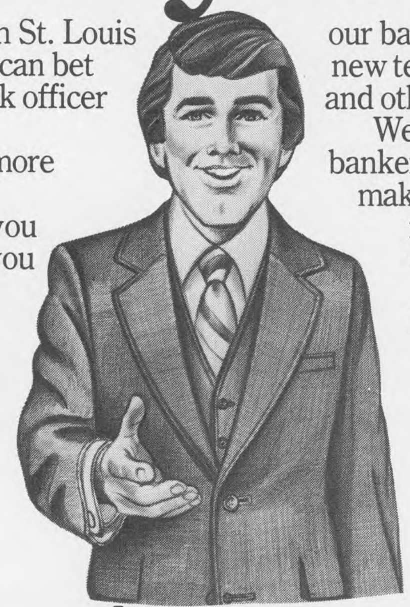


When First National Bank in St. Louis is your correspondent bank, you can bet you'll see your own personal bank officer on a regular basis.

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

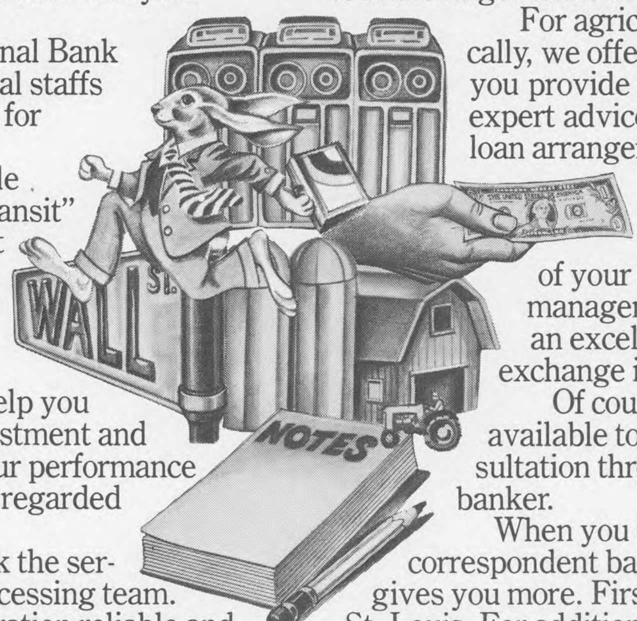
Of course, he's available to you by phone almost every day. So, you can get fast, on-the-spot service whenever you need it.

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

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

If you're not already seeing a First National Bank in St. Louis correspondent banker, you should call Bart French today at (314) 342-6967. He'll make sure you see one soon.

What you get.



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

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

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

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

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

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

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

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

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

When you want to get more from a correspondent bank, get with the bank that gives you more. First National Bank in St. Louis. For additional information or an appointment with a correspondent banker, call Bart French at (314) 342-6967.

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