MID-CONTINENT BANKER

(ISSN 0026-296X)

The Financial Magazine of the Mississippi Valley & Southwest

MAY 1, 1979

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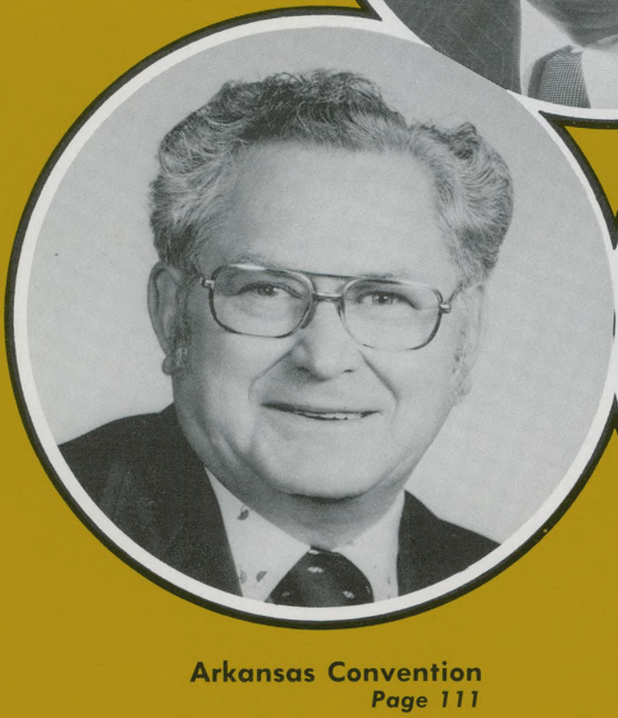

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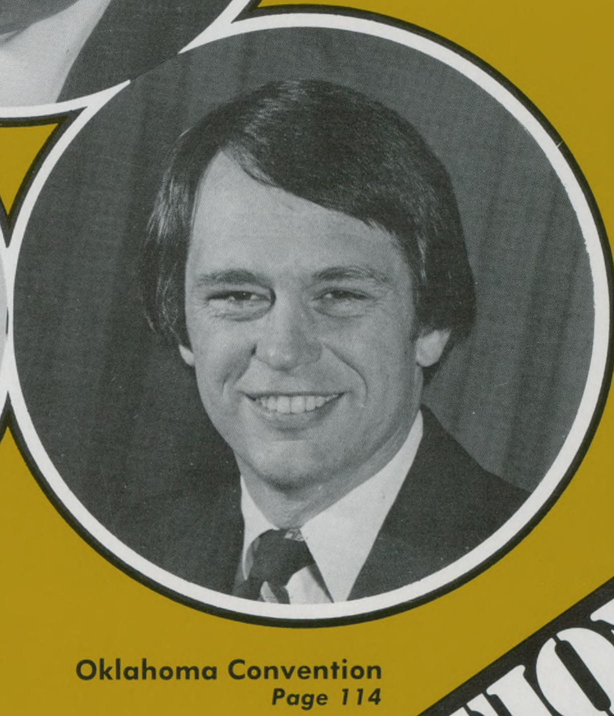

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CONVENTION ISSUE

First of Two Issues

The Resource That Can Broaden Your Banking Horizons – Liberty Professionals.

Last year, a customer of one of our correspondent banks had an opportunity to make a $14 million equipment sale to the Peoples' Republic of China. This was a big step up the ladder of expansion into foreign markets for the customer, but the problem was obtaining the necessary working capital.

Together with our correspondent, we arranged additional inventory and accounts receivables financing. As a result, the sale has been successfully concluded. The customer's 270 employees and their community have benefited, as well as the economy of Oklahoma.

We welcome opportunities to attempt to solve correspondent bank problems like this. We believe that problem-solving is the mark of the true professional. Why not let us give your bank the benefit of Liberty's billion (plus) resources and **the resource no other bank can give you — Liberty Professionals.**

James L. Kienholz
Senior Vice-President

Original pen and ink by Oklahoma City artist, J. Michael, commissioned by Liberty for the series, "Art in Business."

LIBERTY
THE BANK OF MID-AMERICA

The Liberty National Bank and Trust Company / P.O. Box 25848 / Oklahoma City, Oklahoma 73125 / 405/231-6164 / Member FDIC

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"Because of long-range plans, we wanted to recover our building investment. Our Diebold building fulfilled that objective."

Mr. Michael Fisher, President
American National Bank, Wichita Falls, TX

A Diebold Financial Building can help you keep your options open. That was one of the advantages that led American National Bank to buy a Diebold Financial Building. Mr. Michael Fisher explains: "Present plans call for the construction of a multi-story office building. For the present, our Diebold building meets all our needs. And it's good to know that we'll be able to recover a major portion of our original investment in the Diebold building when we're ready to begin construction of our office building."

Planning flexibility is only one of the advantages you can enjoy with Diebold Financial Buildings. You can also count on the kind of construction speed that lets you move quickly into a new market. Moreover, you work with firm costs: the day you sign the contract is the day you know what your building will cost. No extras . . . no over-runs.

Best of all, a Diebold Financial Building reflects the attributes that have made your bank successful: stability, strength, and serviceability.

Find out why astute bankers have purchased over 600 Diebold Financial Buildings in 46 states. Ask for additional information, detailed literature and case studies by calling Diebold, Incorporated (216) 489-4089 or by writing c/o Dept. E-79, Canton, OH 44711.

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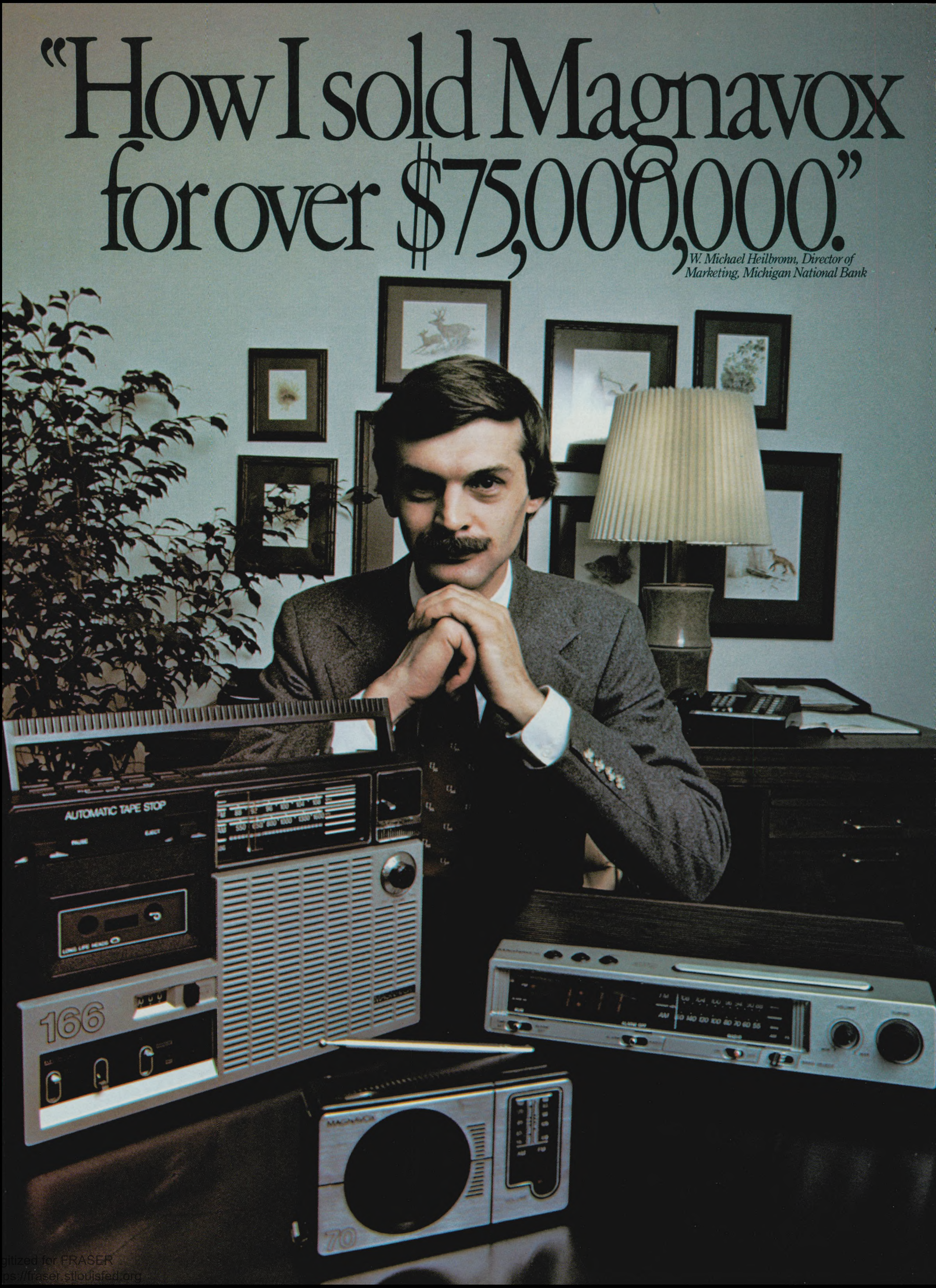
"How I sold Magnavox for over $75,000,000."
W. Michael Heilbronn, Director of Marketing, Michigan National Bank
AUTOMATIC TAPE STOP
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"Believe me, running a successful premium promotion for new bank deposits is no picnic. I should know, because at Michigan National we do it twice a year.

"We ran the Magnavox promotion in the Fall of 1978.

"That's the first key to succeeding in the premium business—timing.

"Ours was perfect—right in the heart of the Christmas buying season. The second key, and by far the most difficult, is to find a desirable premium.

"In the past, we've promoted a single item, like a calculator or a camera.

"This time, not only did we decide on a high-end/low-end three-product spread, we selected the Magnavox AM-FM/Cassette Recorder Model 166, for which our *lowest* price (with a $5,000 deposit) was $54.

"To our surprise, we sold out of them.

"Why?

"I think one reason is that you can always offer a great deal to your customers with a Magnavox premium, because Magnavox uses selective distribution. So your customer is less likely to pass up the price you're offering.

"And I think the Magnavox name inspires a lot of confidence, too."

Mike had other good things to say about Magnavox products, and Magnavox people. (Like the fact that we supplied their full color lobby posters.)

He also pointed out that his cost of acquisition for the whole $75,000,000 promotion, including products and advertising, was a miniscule 1/10th of 1%.

The percentage of new deposits was a very respectable 65%. And the *average* deposit was an eye-opening $6,200.

If these sound like the kind of results you'd give your eye teeth to get out of your next promotion, just mail the coupon.

Before you know it, you'll be talking with our Premium/Incentive Sales Manager, Bernie Susens.

He's the guy who helped Mike and Michigan National sell Magnavox for $75,000,000.

Who knows what kind of bucks you could make?

"This is one radio program you shouldn't miss."

I know how tough it is to run a successful premium promotion, too. Have Bernie get in touch with me. And send me complete Premium Incentives Catalogue.

NAME ____________________

TITLE ____________________

BANK ____________________

ADDRESS ____________ PHONE ________

CITY ________ STATE ______ ZIP ______

Magnavox Premium Incentives Sales Division, 1700 Magnavox Way, Fort Wayne, Indiana 46804.

The ABA's Controlled Group Bonding Plan

RECOGNIZING "the present and increasing difficulty of commercial banks in securing adequate and economical insurance coverage for director, officer and employee dishonesty losses," the ABA last year established the Controlled Group Bonding Plan.

"We believe this represents an important private-sector initiative in resolving an increasingly serious problem banks are facing," then ABA President A. A. Milligan said. "We believe the Controlled Group Bonding Plan will produce the desired results in reducing losses and, ultimately, fidelity bond premiums, in addition to creating a more stable bonding market." Mr. Milligan is president, Bank of A. Levy, Oxnard, Calif.

The reason for increasing bonding premiums, insurers maintain, "stems from the increased losses arising internally — primarily dishonest acts of bank officers, employees and directors."

Working together as an ABA task force, bankers, insurance officials and government regulators developed guidelines for internal operational controls and external review procedures. "These guidelines are designed to reduce the risk of bank losses arising from the dishonest acts of bank directors, officers and employees."

The guidelines also are the groundwork for the Controlled Group Bonding Plan, which "will provide the banker with adequate fidelity and surety coverage and will provide the insurer a reasonable return on his risk investment."

An external audit, the heart of the bonding plan, "will give assurance to the bonding companies that risk or significant potential loss has been minimized."

Participating banks, in signing the "memorandum of understanding," agree to hire an ABA-approved bank auditing firm to review internal controls. The bank also agrees to "implement any and all reasonable improvements in the internal controls that may be made by the bank examination firm." The examiner's fee "may be substantially offset by reduced premium cost arising from insurer confidence in operational controls and improved loss experience." In fact, the ABA said, a number of the 19 insurers in the Controlled Group Bonding Plan have decided to give a premium credit to banks they underwrite through the program.

The external auditor's report is submitted to the bank's board, which forwards it to the ABA and the Controlled Group Bonding Plan. Another copy is sent to participating insurers "for the purpose of permitting such insurers to determine whether and on what terms and conditions they may desire to underwrite a bond to protect against director, officer and employee dishonesty losses."

If the external auditor makes recommendations for improvement of internal controls, a follow-up examination is conducted at least six months later "to determine whether such improvements have been implemented by the bank." All examinations are unannounced.

The task force formulated a 32-page sample internal operations questionnaire that external auditors — and internal control officers — can adapt to the individual bank.

ABA-approved examiners must meet minimum training and experience requirements: a certified internal auditor, certified public accountant or chartered bank auditor with three years' general experience and 2,500 hours of specialized commercial bank audit experience; an individual with four years' general examiner experience with a regulatory agency and who conducted bank examinations as examiner-in-charge; a banker with three years' experience in operations and credit work plus two years in commercial bank examination. Although less experienced auditors may help in the bank examination, the entire procedure is "under the close and direct supervision of the lead examiner," the person meeting the ABA's minimum listing requirements.

The approved examination firm list is updated periodically. • •

Convertible Debt Security With Floating-Rate Note Offered by Continental

CHICAGO — Continental Illinois Corp. has announced a proposed public offering of $200 million of eight-year floating-rate notes, which may be converted into 8½% debentures at the holder's option.

The corporation, which has filed the offering with the Securities and Exchange Commission, said it believes this is the first time there has been a public offering in the U. S. market of a debt security, including a floating-rate note, which is convertible into another debt security. Debt offerings, if convertible, usually are convertible into equity issues.

Managing the underwriting group are Blyth Eastman Dillon & Co., Goldman, Sachs & Co. and Merrill Lynch White Weld Capital Markets Group.

Net proceeds from the sale of the proposed notes will be added to the corporation's general funds.

Interest on the notes, which mature on May 1, 1987, will be paid semiannually and will float above the then-current interest-yield equivalent of the market-discount rate for six-month U. S. treasury bills. Notes will be non-callable prior to May 1, 1986.

They will be convertible, at the holder's option any time prior to May 1, 1986, into an equivalent principal amount of 8½% debentures due the year 2004. The debentures will be non-callable prior to May 1, 1991, and will be entitled to a mandatory annual sinking fund beginning in 1991 to retire 91% of the issue prior to maturity.

Trustee for the notes and debentures will be Harris Trust, Chicago.

Continental Illinois Corp. has $31 billion in assets and is the parent of Continental Illinois National, Chicago.

Gets the Brush Off:

Beautification Program Aided By Bank's Financial Support

When citizens of Liberal, Kan., decided the town needed a fresh coat of paint, First National offered to buy the first can to motivate an overall beautification program in conjunction with efforts of Liberal Progress, Inc., and the Liberal Pride Committee.

The bank is offering a four-point financial support program to "get the ball rolling," according to president Deryl K. Schuster. Besides paying for the first can of paint on a multiple purchase or up to $10 on the cost of shrubbery (on issuance of a receipt or invoice), the bank has 1) allocated $500,000 to be loaned at 8% simple interest, as opposed to the current prime rate of 11.75%, to qualified applicants for the purchase of exterior beautification projects in the residential community; 2) offered $1,000, $2,000 and $3,000 prizes to organizations in the town that do the most to promote and implement beautification activity in the community; and 3) offered prizes of $300, $200 and $100 for essays in each of three school divisions: elementary, junior high and high school. The theme of the contest will pertain to the beautification program.

"We would like to see every citizen in the community working for the overall improvement of our area," Mr. Schuster said. By providing the financial momentum, the bank hopes to encourage other organizations to come up with improvement ideas.

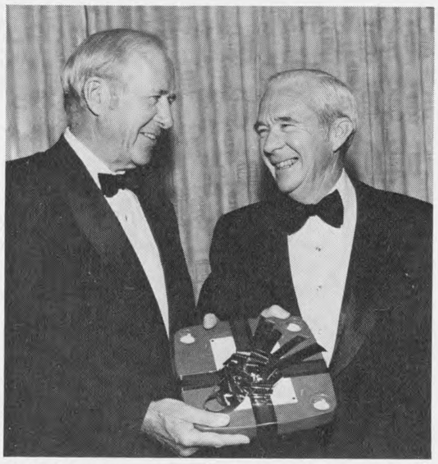
Anniversary Gift:

Bank Presents Loyal Tulsans With Documentary Film

Utica National, Tulsa, has presented a color documentary film on the city's life-style, people, buildings and beauty to Tulsa residents in observance of the bank's 25th anniversary.

The film, "Tulsa, Building a World Around You," was a year in the making and was written and produced by Tulsa Studios at the bank's request. It includes on-site coverage of more than 200 locations and more than 20,000 feet of film.

The gift was conceived by V. M. Thompson Jr., bank CEO, as a way to thank the residents and the responsive and healthy business community that have supported the bank consistently for the last 25 years.



V. M. Thompson Jr. (r.), ch. & CEO, Utica Nat'l, Tulsa, presents color documentary film on city to Robert E. Thomas, pres., Metropolitan Chamber of Commerce. Film is called "Tulsa, Building a World Around You."

The scope of the film covers the natural beauty of the parks, architectural achievements and grace of the residential areas. Mr. Thompson said he hopes the movie will be used by the convention and visitors division of the chamber of commerce. It also will be made available to the public, clubs and groups and special parties at the city-county library.

Chase Manhattan Program:

Exclusive Services Offered To N. Y. Senior Citizens

Financial guidance, seminars, free checking accounts and a "Looking Forward Book" are part of the special programs Chase Manhattan Bank, New York City, is offering exclusively to its customers 60 years or older.

The program is a direct outgrowth of the bank's philosophy that it "cannot be all things to all people," but must select market segments that it can best serve while receiving a reasonable return. The bank says it is the only one in the New York metropolitan area that offers such a comprehensive program for senior citizens.

Chase Center 60, as the program is called, was begun in February in the five boroughs of the city and in Nassau County. The bank plans to expand it to Suffolk and Westchester counties and through upstate New York.

The bank has had excellent response to the center. To prepare for the program, Chase officers had to take part in a special training session, which included current theory and research in gerontology and human relations.

$1,000 Fellowships:

Outstanding Career Teachers Win Educational Grants

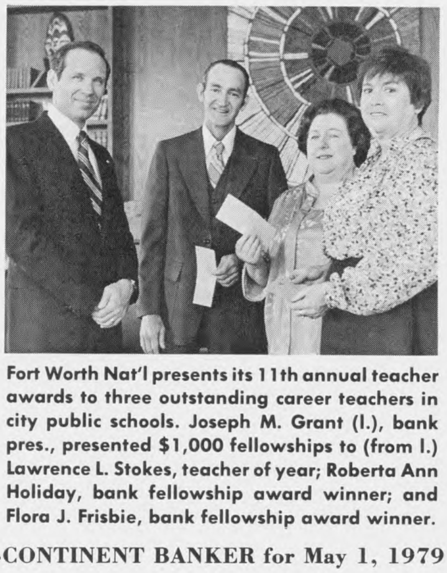
Fort Worth National has awarded two $1,000 fellowship grants to career teachers in the city's public schools to assist them in their advanced studies of specific educational fields. In addition, the bank presented a $1,000 cash award to a mathematics teacher who was named teacher of the year at the Fort Worth Classroom Teachers Association's annual public relations dinner.

This is the 11th year the bank has presented the awards. Winners are selected by a FWCTA committee.

Flora J. Frisbie, a sixth grade social studies teacher at J. P. Elder Middle School, plans to use the grant to complete work on her doctoral dissertation at North Texas State University.

Roberta Ann Holiday, a curriculum editor in the bilingual materials development center, will use her grant money to complete work toward a master's degree in education at Texas Christian University and to begin studies leading to a doctorate in education at North Texas State University.

Lawrence L. Stokes, mathematics teacher at O. D. Wyatt High School, was named FWCTA Teacher of the Year.



Fort Worth Nat'l presents its 11th annual teacher awards to three outstanding career teachers in city public schools. Joseph M. Grant (l.), bank pres., presented $1,000 fellowships to (from l.) Lawrence L. Stokes, teacher of year; Roberta Ann Holiday, bank fellowship award winner; and Flora J. Frisbie, bank fellowship award winner.

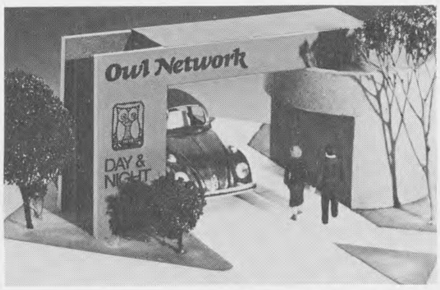
ATM Tested in Gas Station By Central of Cincinnati

INSTALLATION of a free-standing, modular ATM in a gas station at a major highway/city street intersection is the first of a number of "Day and Night" tellers to be located in high-traffic areas throughout greater Cincinnati by Central Trust.

"Quite simply, we are copying the strategy of the free-standing, drive-through Fotomat approach. We will use walk-up and drive-through models as they fit a specific location," says Robert Klingler, vice president/ marketing and electronic banking.

The ATM, located in a Texaco station, is available to customers of all Owl (ATM) Network financial institutions who use their Owl bank cards.

If the original prototype proves successful, the bank will expand the off-premises service to other areas in the seven-county Owl Network marketing area. Several sites currently are under consideration. Some sites would enable the bank to penetrate areas formerly not served; others would expand



Artist's sketch shows Central Trust of Cincinnati's free-standing, modular-unit ATM, expected to become increasingly prevalent among Owl Network's off-premises installations.

Central Trust's existing service in a given market.

The service-station ATM idea is the next step in the progression of off-premises banking developments. In 1975, Central Trust opened its first "mini-banks" inside two grocery stores, and other locations later included the Greater Cincinnati Airport, mall, utility company, hospital and university. ● ●

ATM Profitability Depends On Pricing, Transaction Mix, Says Research Company

New research indicates that pricing and transaction mix will be key elements in making automated teller machines (ATMs) profitable, according to Payment Systems, Inc., Atlanta.

New perspectives on the profitability of self-service banking services, based on nationwide consumer surveys and detailed studies of five cities, were presented at the eighth annual Payment Systems symposium by William O. Adcock Jr., group vice president, and Anne M. Moore, vice president.

Despite impressive growth trends, they noted, it is not yet clear that ATMs have resulted in either cost reduction or displacement of transactions. However, many institutions are forming new strategies to broaden usage and improve cost effectiveness.

Latest research findings indicate that where consumers choose to make cash withdrawals is not determined as much by demographic and attitude patterns as by such factors as location, convenience and ease of check-approval procedures in stores. From one-fourth to one-third of consumers surveyed said they usually cash checks in stores or other nonfinancial organizations.

Survey results show that the choice of a check-cashing location affects a consumer's total mix of financial transactions, including deposit procedures. While teller-service customers are more likely to be heavier users of ATMs and more frequent visitors to branches, those assisted by merchants are more apt to utilize direct deposit of payroll and other impersonal deposit procedures such as mail and night depository and are less likely to split deposits to obtain cash.

According to Mr. Adcock, "Since few consumers rely entirely on self-service banking, it is important for financial planners to examine the teller-assisted and merchant-assisted segments of their market. Displacement of teller transactions provides greater potential for cost savings. The best prospects for ATMs are customers who visit the branch, and also there are opportunities for intensifying usage among present ATM users."

Some displacement of cash for checks seems to be taking place on a limited basis, but ATM marketers need to develop new strategies to increase usage among existing ATM users as well as create programs to attract new users, he said.

"Pricing should be seriously considered for all ATM systems, in order to improve financial performance," Miss Moore said. "A recent company study of the Jacksonville, Fla., market, where ATMs are widely deployed in merchant locations, showed that few people discontinued use of the machines because of pricing."

They believe that the 1980s "should see improved performance and profitability for self-service with decreased costs resulting from transaction displacement and increased revenue from transaction fees."

Consumers Continue to Write Record Number of Checks Despite Use of EFT Systems

Despite the growing acceptance of a variety of EFT services, consumers continue to write checks in record numbers. In fact, people using these services write the most checks, according to research conducted by Payment Systems Inc., Atlanta, said Neil B. Murphy, the firm's senior vice president.

In reporting his company's findings at the eighth annual payment systems symposium held in Houston, Mr. Murphy said, "Future events can and probably will change this situation, but so far expectations for reducing the volume of check transactions have not materialized."

The company's studies show that:

• People use their credit cards as a substitute for cash transactions, but write more checks than those without credit cards.

• Direct deposit of payroll to employee bank accounts tends to increase the number of checks written for cash.

• Both pre-authorized charges to bank accounts and telephone bill payments tend to increase check usage.

• Automated teller machines have not yet affected check-writing behavior, except possibly at point of sale.

MID-CONTINENT BANKER

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FEATURES

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CONVENTIONS

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Convention Calendar

May 9-11: Kansas Bankers Association Annual Convention, Wichita.
May 10-11: Robert Morris Associates Domestic Loan Portfolio Management Workshop, Chicago, Continental Plaza Hotel.
May 13-15: Missouri Bankers Association Annual Convention, Kansas City, Crown Center.
May 13-16: ABA National Conference on Real Estate Finance, Phoenix, Hyatt Regency.
May 13-16: Arkansas Bankers Association Annual Convention, Hot Springs, Arlington Hotel.
May 13-16: Independent Bankers Association of America Seminar/Workshop on Bank Ownership, Minneapolis, Radisson Downtown.
May 13-17: Bankers Association for Foreign Trade Annual Meeting, Boca Raton, Fla., Boca Raton Hotel & Club.
May 13-19: ABA Executive Seminar on Retail Banking, Lake Bluff, Ill., Harrison Conference Center.
May 14-16: Oklahoma Bankers Association Annual Convention, Tulsa, Williams Plaza Hotel.
May 19-23: Mississippi Bankers Association Annual Convention, Biloxi, Broadwater Beach/Biloxi Hilton hotels.
May 20-22: Tennessee Bankers Association Annual Convention, Nashville, Opryland Hotel.
May 20-23: ABA National Operations/Automation Conference, Anaheim, Calif., Disneyland Hotel.
May 20-23: Bank Administration Institute Annual Bank Tax Conference, Dallas, Fairmont Hotel.
May 24-25: Robert Morris Associates Term Lending Workshop, New Orleans, Royal Orleans Hotel.
May 27-30: AIB Annual Convention, Philadelphia, Philadelphia Marriott.
May 27-June 8: Bank Marketing Association School of Bank Marketing, Boulder, Colo., University of Colorado.
May 28-31: Alabama Bankers Association Annual Convention, Hilton Head, S. C., Hyatt on Hilton Head.
May 30-June 2: ABA Trust Profitability Seminar, Atlanta, Omni International Hotel.
May 30-June 1: Bank Administration Institute Conference on Banking Issues, Dallas, Anatole Hotel.
May 31-June 1: Robert Morris Associates Managing Your International Loan Portfolio Workshop, Chicago, Watertower Hyatt.
June 3-5: ABA Bank Planning Workshop, St. Louis, Sheraton-St. Louis Hotel.
June 3-6: ABA Bank Trainers Workshop, Atlanta, Atlanta Marriott.
June 3-8: ABA National School of Bank Investments, Urbana-Champaign, Ill., University of Illinois.
June 6-8: ABA Trust Profitability Seminar, Chicago, Hyatt Regency O'Hare.
June 6-8: Illinois Bankers Association Annual Convention, Chicago, Chicago Marriott.
June 6-8: Association of Bank Holding Companies Annual Meeting, Milwaukee, Pfister Hotel.
June 7-10: 36th Assembly for Bank Directors, Toronto, Harbour Castle.
June 10-22: ABA's Stonier Graduate School of Banking, New Brunswick, N. J., Rutgers University.
June 12-14: Indiana Bankers Association Annual Convention, French Lick, French Lick-Sheraton Hotel.
June 13-15: Robert Morris Associates Officers' Planning Workshop, New Orleans, Royal Orleans Hotel.
June 14-16: New Mexico Bankers Association Annual Convention, Albuquerque, Hilton Inn.
June 18-19: Robert Morris Associates Foreign Credit Principles/Standards Workshop, New Orleans, Monteleone Hotel.
June 20-23: American Safe Deposit Association Annual Convention, Colorado Springs, Colo., Antlers Hotel.
June 24-30: ABA Essentials of Banking School, South Bend, Ind., Notre Dame University.
July 15-17: ABA Advanced Secondary Mortgage Market Workshop, Chicago, Drake Hotel.
July 15-19: ABA National Government Affairs Conference, Washington, D. C., Capital Hilton.
July 21: AIB District Leaders Conference, Merrillville, Ind., Merrillville Holiday Inn.
July 22-28: ABA Business of Banking School, Ithaca, N. Y., Cornell University.
July 29-Aug. 10: Bank Administration Institute/School for Bank Administration, Madison, Wis., University of Wisconsin.
July 29-Aug. 12: Consumer Bankers Association Graduate School of Consumer Banking, Charlottesville, Va.

Does your correspondent banker handle each loan request personally?

Ours do — start to finish.

How many times have you heard this? "Sorry, I'll have to refer you to our loan committee. Nothing personal, mind you."

Mercantile decided long ago our correspondent banks shouldn't have to put up with that. So we gave our account officers the authority to approve loans.

We found it saves a lot of running around and wasted time. Especially for you.

Not just on commercial loans, either. Each officer also takes care of personal and agricultural loans, plus loans for bank stock and mergers and acquisitions. He'll even help you form a syndicate, if needed.

As you might expect, this places a big responsibility on the shoulders of our account officers. So we try to make sure they stay at top form. Each officer attends seminars on credit and finance to keep him up-to-date on the latest trends.

Furthermore, each officer has 1600 Mercantile people backing him up all the way. But he knows the full responsibility for your satisfaction falls squarely on his shoulders.

So why not call a Mercantile Banker today? He's one guy who won't pass you on to some committee.

We're with you.

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Legislating Universal Reserves

By DR. LEWIS E. DAVIDS
Illinois Bankers Professor of Bank Management
Southern Illinois University, Carbondale

UNIVERSAL RESERVE requirements at the federal level are closer to legislation than many bankers realize. In the last decade, hundreds of commercial banks have given up their Fed membership because of its required reserves, one reason the Fed wants universal requirements. Usually, defecting banks contend Fed membership was too disadvantageous and expensive to maintain. By giving up Fed membership and taking a state charter, they typically would have lower reserve requirements.

Mutual savings banks, S&Ls and credit unions have efficient lobbyists, public empathy and identification that commercial banks do not have.

No one knows if the House and Senate Banking committees will get together this year to come up with uniform requirements for member and nonmember commercial banks. There are similarities between the House's proposal and the Senate's — both would include commercial member banks and nonmember banks under a uniform reserve requirement — but the Senate committee's proposal has some features that pose a quandary to some state-chartered banks, which are not under Fed requirements.

The Senate committee's proposal not only would include Fed-member and nonmember commercial banks, but also mutual savings banks, S&Ls and credit unions. In a theoretical sense, many commercial bankers would welcome their financial competitors being subjected to equivalent reserve requirements. On the other hand, universal reserve requirements enforced by the federal government are a strong strike against the basic concept of dual banking.

As of this writing, we are not sure just what and when the House and Senate Banking committees will bring before federal legislators. Neither do we know whether the federal government, through Congress, will accept such major changes in banking's structure and regulation. It does appear congressional leaders are concerned about giving this area high priority, especially since both House and Senate committees' leadership may be described as activist.

In my opinion, the Senate's proposal is less likely to be implemented because financial intermediaries have exceptionally efficient lobbyists. Furthermore, they have a public empathy and identification that commercial banks do not.

Extending universal reserve requirements to commercial banks, mutual savings banks, S&Ls and credit unions ignores some of today's dynamics. Nonfinancial intermediaries have been moving toward traditional banking services by offering the equivalent of checking accounts and fund remissions. Already, one major brokerage firm has expressed an interest in permitting drafts on its customers' credit balances. Thus, if the Senate Banking Committee is convinced we should have universal reserves and they should apply to all institutions, we may have a "wild-jack" amendment, which would include other institutions that assume many of banking's traditional functions.

The House and Senate Banking committees have recognized the political realities of passing this legislation. To make the proposal politically palatable to Congress, it probably will offer legislation that is attractive to Democrats, Republicans and a majority of the power structure in this country.

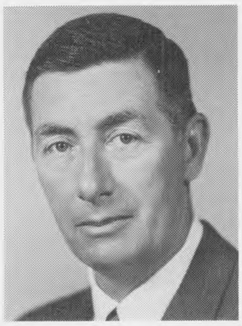
". . . Universal reserve requirements enforced by the federal government are a strong strike against the basic concept of dual banking."

A study by Carter H. Golembe Associates indicates only 1,117 banks would have to put up reserves under the Senate's bill. Of the approximately 15,000 commercial banks, more than 13,000 wouldn't come under universal reserve requirements because of their small size or because their vault-cash holdings would cover the proposed reserve requirements with the Fed. If only 1,000 or so commercial banks met the Fed's reserve requirements, and if an even more modest number of mutual savings banks, S&Ls and credit unions came under the reserve requirements, it's likely financial institutions simply would have little reason to object to implementing the Senate Banking Committee's proposal. In fact, a strong argument could be made that this would be beneficial legislation.

The general public fears big business and big banking, and their negative attitudes are being transferred to politicians. Exempting smaller banks,

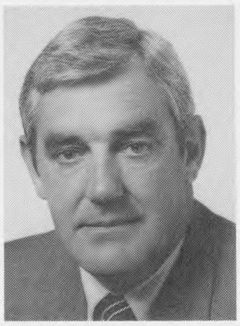
While you're at the convention...

James M. Kemper, Jr.



P. V. Miller, Jr.

David A. Rismiller



Fred N. Coulson, Jr.

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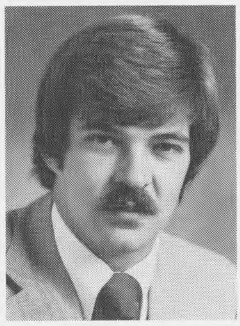

Stephen E. Erdel

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S&Ls, credit unions and mutual savings banks could strike a strong populist response.

For those with a sense of history, there may be other factors to consider. For example, once legislation is put into effect and the Fed finds it doesn't provide the degree of monetary control it wanted, the Fed may try to get the right to extend the basic bill to smaller institutions, subjecting them, also, to its reserve requirements.

If the economy continues to inflate, more institutions simply will be covered under the bill as inflation pushes up their assets. Yet, a typical small-unit bank would remain relatively free from control.

In all the discussions of universal reserve requirements and the requirement to maintain reserves with the Fed, one point tends to be overlooked. I remember talking about this with Watrus Irons, the late president of the Dallas Fed. It was his position that, under the U. S. Constitution, the right of "coining" money belongs to the federal government. The government has rationalized that since it has permitted multiple expansion of deposits by banks through its use of reserves, it can expand or restrict this right to financial institutions to create money. Dr. Irons' position was that the federal government had the right to coin money and to delegate this power, but this was not a right of the states.

Monetary systems in some other countries lack the concept of legal reserve requirements; yet these countries have operated successfully without them. This is not to say those bankers do not maintain reserves; the nature of their operations has made it necessary for them to maintain some, whether in the form of vault cash, correspondent accounts or with a central bank.

With the "universal-reserve-requirement" power as it currently is proposed, with banks of less than $100 million in deposits exempt, we may be removing a great number of banks from the discipline the reserve requirement previously had exercised. In this case, would not that power be like treating cancer with a Band Aid by covering the problem without taking the necessary curing steps? In this case, the cancer is inflation. By diverting attention from its real cause — over-expansion of the federal deficit — complacency about corrective action sets in. A universal reserve requirement, while welcomed by most bankers, would be treating the symptoms, not the cause. ● ●

Comptroller of Currency Approves:

Bank Corporation Formed To Promote Neighborhoods

First National, Chicago, has received approval from the Comptroller of the Currency to form a community development subsidiary, only the second time a national bank has been authorized to establish a local branch to promote revitalization of urban neighborhoods.

The subsidiary, First Chicago Neighborhood Development Corp., will support development of Chicago neighborhoods by participating in equity investments and loans in residential, commercial and industrial projects. It will be wholly owned by the bank and initially will be capitalized by a $1-million investment from the bank, which will authorize extensions of credit to the subsidiary as needed.

Investments by the subsidiary most likely will be made through partnerships between it and other for-profit corporations and community nonprofit corporations, using public program support where appropriate. The subsidiary staff believes that its financial role can create a leveraging effect by stimulating additional investment of private and public funds.

An additional role of the new corporation is to develop expertise in lending and investments the bank has not been active in traditionally.

Employees Ride Free:

Energy-Conservation Program Utilizes Public Transportation

Fourth National, Wichita, has taken positive steps to cut its employees' energy consumption, thereby relieving rush-hour traffic, assisting the community public transportation service and saving the bank and the employees on the costs of driving to and from work and paying for parking.

The plan is to have each employee pay for a $6 bus pass good for 20 rides. When the card is used up, the employee can exchange it for a new pass at no charge. Passes are valid for transportation only to and from work. Bus schedules are issued, pointing out that buses start and end their runs at the bank's location.

Those who live in outlying areas are encouraged to commute to an area where they can park and then utilize the free bus transportation to complete their trips.

The program was devised after a survey showed 70% of the bank's 650 employees drove to work.

Making the Most of Your Selling Time

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

"WITH all that I have to do, I just don't have enough time to plan or make sales calls!"

In conducting sales training for banks both large and small in all parts of the country, I have found this to be a common reason bankers state for not making sales calls. While I would not argue with the fact that most bankers are busy people, the fact is that many bankers do find the time to integrate the making of productive sales calls into their total job responsibility and are productive business developers for their respective banks. Their secret, if it can be called that, is not having any more time available to sell, but using what they have at their disposal with maximum effect.

"Experienced business developers make effective use of the telephone to increase time available for sales calls and to ensure more effective use of their time on sales calls."

Time is a unique resource. It's available to each of us in exactly equal amounts. How wisely or unwisely we use it is the primary difference between the success or failure of our endeavors. It can't be saved up like money or stored away for later use like natural resources. It is instant in its form, and we are forced to spend it, whether we choose to or not. It is this moving or mercurial nature of time that makes it extremely difficult to manage. In fact, in the strictest sense, time really can't be managed because it moves on relentlessly at a predetermined rate, no matter what we do or don't do. All we can hope to do with time is manage ourselves or what we do in using it.

There is no simple answer to managing selling time. However, observations of bankers who do find the time to sell and use their time productively suggest that it involves any or all of the following practices:

1. *Make a Specific Selling Time Commitment.* One reason many bankers can't seem to find the time to sell is they find it safer and less demanding to busy themselves with office detail than to make sales calls. Finding the time to sell starts with the view that selling is a high-priority responsibility and requires an up-front allocation of time, rather than treating it as an afterthought. Effective business developers find that an effective way to ensure availability of time for selling is to block out one or more days on their weekly calendar for making sales calls and not come into the office on those days. This enables them to avoid the distraction of in-office details and time demands of associates or subordinates.

2. *Invest Selling Time in Relation to Potential.* Many bankers waste considerable selling time and become discouraged with their selling results because they make sales calls without regard to the potential or profitability of the prospect or customer. The productive business developer recognizes the crucial character of his time investment by applying it selectively only after researching and rating his calling targets with respect to:

• Existing potential — amount of business that can be generated in the near term, as indicated by account size, functional need for banking services and prior use of banking services.

• Growth potential — amount of business that can be developed long term, as indicated by prior growth, industry growth trends and management capacity.

• Financial desirability — relative worth and profitability of the business that can be generated, as indicated by costs of obtaining the business, credit-worthiness of the business and reputation and character of the principals.

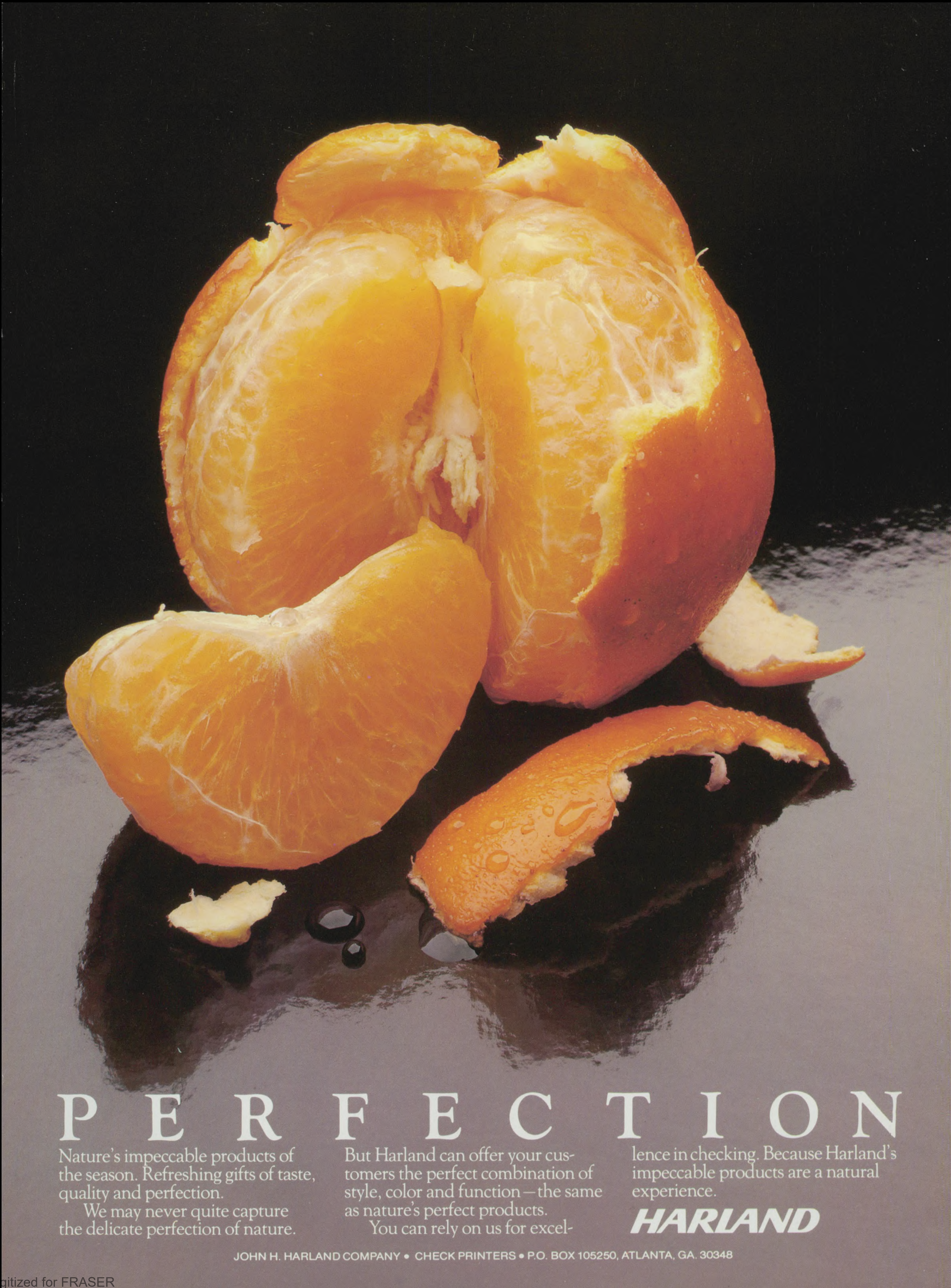
• Availability of the business — practicality of obtaining a relationship as indicated by the depth and breadth of competitor service and nature of relationships with the existing bank.

By rating calling targets with respect to these factors you can classify them as primary, secondary or marginal selling opportunities and invest your selling time in direct proportion to the relative worth of each target.

The banker who believes "If you want the job done right, do it yourself" is only kidding himself. There's not enough time to handle every detail related to his sales responsibility.

3. *Plan Sales Calls to Achieve Specific Results.* Another major cause of wasted selling time is the unplanned sales call, which frequently ends up as a "howdy-doody" visit that may make the caller feel good, but produces little in the way of results for the customer or the caller. Some bankers are reluctant to plan their calls because it requires the hardest of all activities — thinking.

Most of us would rather act than think. However, as Bernard Baruch so aptly put it: "Whatever failures I have known, whatever errors I have committed, whatever follies I have wit-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Making the Most Of Your Selling Time

nessed in private and public life have been the consequence of action without thought." More often than not, good results that are accomplished without planning are the result of good luck, not good selling. Some bankers resist sales planning because of the time it takes and the feeling that it restricts their flexibility and freedom of action on a sales call. However, effective business developers find that planning, rather than restricting their efforts, enhances their capacity to react to the give-and-take of the sales call by giving them a clearer sense of where they're headed, organizing the communication tactics needed to get there and anticipating difficulties that are likely to be encountered along the way so they can be dealt with confidently and competently. Furthermore, they find that while sales planning does require an investment of time, it pays itself back by shortening the time it takes to accomplish specific decisive action on each call and by reducing the number of calls it takes to move a customer or prospect from a point of limited or no interest to where a relationship is established or an additional service installed.

As discussed in prior "Let's Talk Selling" articles, planning a productive sales call involves these basic steps:

• Set maximum and minimum action goals for a sales call — to establish what you want to accomplish.

• Select communication tactics needed to accomplish the goals of the call — to determine what is required to move the customer to desired decisive action. This includes deciding on a beneficial reason to initiate communication, questions to define needs, an example to show the feasibility of satisfying needs, services and capacities that must be explained to secure understanding of how and why needs can be satisfied and decision questions to be asked to get decisive action.

• Anticipate resistance — to establish misunderstanding, doubts and indecision you're likely to encounter so you can be prepared to deal with it.

4. *Use Face-to-Face Time Efficiently*. Recognizing that time is elusive and can be frittered away unless applied with self-discipline, the productive business developer makes every minute of face-to-face selling count toward resultful accomplishment in the following ways:

• Limits "small talk" used to warm up a customer to no more than a few minutes, since it does little to change the customer's status quo thinking. To avoid getting off track and wasting time, the best warm-up topics are related to a customer's business and lead directly into discussion of his needs.

• Uses well-planned, simply phrased and logically sequenced questions that help the customer or prospect readily perceive the need to change status-quo thinking or practices.

• Listens carefully to customer comments and responses so he can tailor his explanations to the customer's needs with a minimum of wasted words and effort.

• Uses visual aids and literature to communicate explanations with greater impact and understanding and fewer words in a shorter span of time.

• Takes the initiative in seeking decisive action and is prepared to resolve indecision with relevant reasons to act to reduce the need for extra time-consuming calls to achieve desired action.

5. *Use the Telephone to Conserve Selling Time*. Experienced business developers make effective use of the telephone to increase time available for sales calls and to ensure more effective use of their time on sales calls. This is accomplished in the following ways:

• Make appointments. This conserves selling time in several ways — it ensures the customer will be there when the call is made; it enables the customer to prepare for the call and to make sufficient time available for effective communication; it helps avoid time-consuming interruptions, and it enables the caller to presell the customer on the beneficial purpose of the sales call so that he can move more quickly into the nitty-gritty of his call when it's made.

• Handle follow-up details involved in keeping customers sold. This includes checking on the performance of a service, determining the need for service improvements and identifying and resolving customer complaints. Frequently, this can be handled just as effectively over the phone, as in person, freeing up time that can be put to more productive sales use.

• Make survey contacts on marginal prospects to determine whether it's worth it to invest the time of a face-to-face sales call. This avoids spending time on unproductive missions.

6. *Use Waiting Time Productively*. Making appointments helps avoid a common cause of lost selling time — waiting to see the customer or prospect. However, even when appointments are made, you still are likely to experience some waiting time because of the customer's over-scheduling or ineffective time management. Experienced business developers put such time to productive use in the following ways:

• Research background facts about the customer by reading literature or the annual report available in the lobby, conversing with the receptionist or other sales personnel, observing facilities and product displays, talking with other sales people who also are waiting.

• Review your sales plan and organize sales tools and literature to be used on the sales call to be sure you're ready.

• Call ahead to confirm future sales calls.

• Prepare call reports and memos of previous sales calls.

• Read in-office correspondence.

7. *Reduce Travel Time*. Considerable time can be spent traveling between sales calls — time which is unproductive. Experienced business developers endeavor to keep such time to an absolute minimum in these ways:

• Make appointments at the bank, where practical, to avoid time consuming interruptions and to reduce travel time. This usually is most feasible with existing customers.

• Concentrate sales calls for a given time period in a specific geographic area to avoid backtracking or crisscross patterns of travel.

• Get precise directions when making prospect calls as to location of office and available parking to minimize time spent in locating the prospect.

• Schedule driving where practical during light traffic hours to avoid time lost in rush-hour congestion.

8. *Use Group Communication to Multiply Selling Impact*. One-on-one sales communication consumes a significant amount of time, since it is not unusual for a typical sales call to take 30

to 60 minutes or more. An approach some bankers have found effective to multiply the impact of their selling time is to use group communication. This is most effective in the following situations:

- Introduce service concepts to organizations where a number of departments may be affected by the service or can influence its use, such as payroll preparation, cash management, trust services, etc.
- Make proposal presentations to organizations where group judgment will govern the action decision.
- Present problem-solving capacities to professional groups who can provide customer referrals such as attorneys, accountants, business consultants, etc.

In-office visiting is a major cause of misused time — keep it to a minimum.

9. *Delegate Time-Consuming Routine Activities*. The banker who follows the philosophy "If you want the job done right, do it yourself" is only kidding himself, since there is just not enough time in each day to handle every detail related to his sales responsibility. Bankers who get maximum mileage out of their time do so by delegating many routine activities to a well-trained secretary. For example, they will have secretaries:

- Research customer files, Dun & Bradstreet reports and other data sources to collect facts needed for sales planning based on guidelines supplied to her.
- Set up appointments where practical through the customer's secretary.
- Prepare call reports from an outline or cassette recording supplied by the banker.
- Handle travel arrangements.
- Handle routine correspondence.
- Pre-screen mail and other reading matter to screen out junk mail and nonessential material.

10. *Speed Up Routine Activities That Can't Be Delegated*. There are some routine activities that are an important part of your total sales responsibility and can't be delegated. To keep such activities from consuming more time than they may be worth, there are a number of things that experienced business developers have done to improve their efficiency in handling them:

- Handle small details as they occur before they pile up and become a major chore.
- Boil internal memos and reports down to key facts. This saves your time in preparing them and your supervisor's time in reviewing them.
- Collect and reuse successful selling plans. You don't have to reinvent the wheel each time you make a sales call that parallels one previously made.
- Use a portable cassette recorder you can take along in your car to prepare call reports and correspondence. This permits you to verbalize reports while the facts are still fresh in your mind, which will save time, while increasing their accuracy.
- Learn speed-reading skills to increase your capacity to absorb the written material you must digest. There are a number of excellent programs available that can improve your reading speed three to five times or more without loss of comprehension.
- Keep in-office visiting to a minimum. While such socializing may be fun, it's a major cause of misused time that can never be reclaimed.

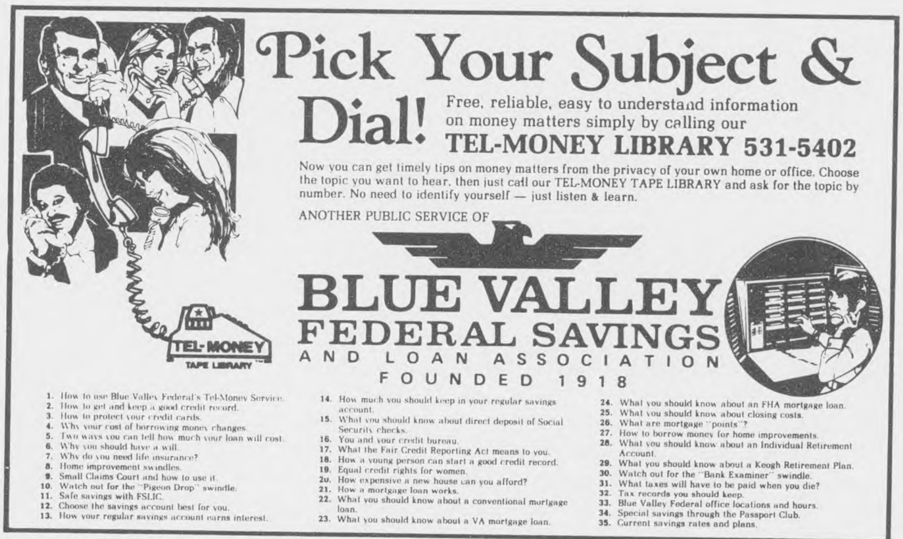
11. *Stretch the Selling Day*. While there are practical limits to the number of ways you can distribute your time to make time available for selling, some experienced business developers have found they can free up time by stretching the limits of their workdays in the following ways:

- Schedule early-morning calls before normal banking hours to reach prospects who are hard to contact during the day, such as doctors, retailers, contractors, farmers, etc.
- Schedule luncheon meetings with busy prospects to enable them and you to make such time do double duty.
- Schedule evening meetings with hard-to-reach prospects, where coordination with others may be necessary such as with trust services.

12. *Keep a Time Log*. Do you know where and how you're spending your time? Few of us do with any precision, which is why so much of our valuable time eludes our control and slips away from us. This is why an effective beginning point for finding time to sell is to maintain a time log or inventory in which you record how you use your time as each day progresses. Such a log enables you to compare actual time use against how you feel it should be spent, so you can adjust your distribution of time where needed, so you can identify activities that can be delegated to others and so you can control and plug any time leaks.

In our next "Let's Talk Selling" article, we'll examine when and how to make effective proposal presentations. ••

Tape-Recorded Messages Promote Services



This ad in Kansas City *Times* appeared on day Blue Valley Federal S&L initiated its Tel-Money tape library. Simply by dialing certain number, anyone can obtain information on variety of financial subjects. Latter are listed in this ad.

PUBLIC RESPONSE is keeping the telephone lines busy at the Tel-Money tape library of an Independence, Mo., S&L.

The series of 35 tape-recorded messages is designed "to acquaint the caller with some of the basic principles of money management," says Donald J. Slifer, assistant vice president, Blue Valley Federal S&L, which serves the Kansas City area. Topics range from branch locations and office hours to "How to get and keep a good credit record," "Why your cost of borrowing money changes," "Equal-credit rights for women," and "How to borrow money for home improvements" among others.

Introduced in late December, Tel-Money received 1,985 calls the first week, a period that included the New Year's weekend.

Radio spots announced the new service, and Blue Valley Federal bought a heavy concentration December 26 to December 30. A large advertisement in the Kansas City *Times* on December 27, the day service was initiated, also announced the Tel-Money library and listed the complete tape library. A brochure listing the library was sent to all customers.

Tel-Money radio spots currently run in rotation with the institution's other ads. A quarter-page ad in the Kansas City yellow pages catalogs the tape library. In addition, Blue Valley Federal devoted a whole page to Tel-Money in its quarterly "Passport Unique" magazine, which was distributed door-to-door and as a newspaper supplement.

The five most popular tapes are:

- How expensive a new house can you afford?
- How much you should keep in your regular savings account.
- Why you should have a will.
- What taxes will have to be paid when you die?
- What you should know about an individual-retirement account.

"We feel," Mr. Slifer says, "that Tel-Money helps give us a helpful image along with generating business through calls by users to a Blue Valley Federal office for further information on a topic." The service is available 24 hours a day, seven days a week.

Tel-Money is distributed by Tel-Americall, South Bend, Ind. • •

Friendly Advice:

Seminar Teaches Athletes To Play Ball With Finances

Approximately 25 professional athletes and their wives completed a three-session financial seminar provided by Mercantile Trust, St. Louis, to help them avoid getting no advice or bad advice about their finances in a city that may be unfamiliar to them.

Several active or former athletes were included on the panel of experts conducting the seminar. Ed Macauley, former St. Louis University all-American and former all-pro basketball player, who now is an investment adviser with Shearson Hayden Stone, was the panel's moderator. He said, "Athletes don't have a chance to get good financial advice from friends and long-time acquaintances because many of them are new to the city. The seminar also helped their wives understand more about what's happening to the players' money."

Members of the St. Louis Blues hockey team and the St. Louis Football Cardinals and their wives attended. Norman Nielsen, vice president/trust department, said, "We offered the seminar as an experiment and the response has been overwhelming." He said the seminar may become an annual event.

With BMA as Sponsor:

Business-Development Mtgs. Planned on Officer Calls

The Bank Marketing Association will hold a corporate marketing officer-call conference October 21-24 at the Omni International Hotel, Miami.

The three-day conference will have special sessions geared to small- and middle-market business development and will include discussions on segmentation by industry groups, new-product development for the corporate sector and corporate EFT. Also scheduled are a series of sessions on officer-call training and successful calling programs.

Gene Foncannon. Livestock loan specialist.

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Repeal of Carry-Over Tax Basis Sought

OUTRIGHT REPEAL of the carry-over-basis provisions of estate tax laws is a top-priority goal this year for the ABA. The carry-over basis, enacted into law as part of the Tax Reform Act of 1976, not only significantly increases heirs' taxes, but also makes executors' duties almost impossibly complicated. Executors are required to determine the value of inherited property at the time the decedent acquired it and then to make four different adjustments to determine what the basis of the property will be for income-tax purposes when the heir sells it.

As a result of the incredible complexities encountered by estate administrators during 1977 and 1978, a moratorium on the carry-over-tax basis currently is in effect. However, the moratorium runs only to the end of this year, and, in the interim, the ABA is urging Congress to repeal the carry-over basis rather than try to "clean it up" as the Administration proposes to do.

The carry-over basis presents almost insurmountable problems for bank trust officers.

A substantial degree of support for repeal of the carry-over basis has been generated in Congress, but, as of this writing, the Administration was threatening to veto any straight repeal. The question, then, was whether repeal of the carry-over basis could be attached to some other legislative measure the Administration would be reluctant to veto.

Under the carry-over basis, taxable capital gain on property that's inherited and subsequently sold is computed from the time the decedent acquired the property. For example, a person might buy shares of stock for $100,000. During the person's lifetime, the stock appreciates $50,000. The person's grandson inherits the stock and holds it for another 10 years, during which time the stock appreciates another $30,000. At the end of that 10-year period, the grandson sells the stock. Under the carry-over basis, the grandson would be taxable on the full $80,000 appreciation of the stock from the time the grandfather acquired the stock. Under previous law, the grandson would get a "stepped-up" basis and pay capital-gains tax only on the $30,000 appreciation of the stock from the time he inherited it.

Some view the "stepped-up" basis law, which was in effect prior to 1977 (and which now is in effect because of the moratorium on the carry-over basis), as a tax loophole; all one has to do is die to take advantage of the loophole! Carry-over-basis proponents argue that under the old law, the basis of an asset was stepped up to fair-market value at the time of the decedent's death even though the transfer was not taxed. However, this argument completely overlooks the important fact that the decedent's property is subject to an estate tax that ranges up to 70% on large estates.

Application of the carry-over tax basis may sound simple, but in real life the experiences of estate administrators in 1977 and 1978 showed that the carry-over basis is effectively unworkable. The fact is that for many types of inherited property, inadequate records exist to determine when the property was acquired and at what cost. Furthermore, it is unreasonable to expect that record-keeping by property owners would improve substantially because of the carryover basis. Poor health, frequent moves by families, gifts of properties — these and a host of other factors point to the conclusion that administration of the carry-over basis would remain a nightmare for executors for the foreseeable future.

No sensible course of action exists other than to repeal the carry-over basis, the ABA is arguing. Nevertheless, the U. S. Treasury Department states that record-keeping problems for "esoteric assets or careless taxpayers" cannot be used to justify repealing the carry-over basis and returning to prior law. Apparently without the benefit of having taken any sampling of the problems encountered by estate administrators while the carry-over basis was in effect during 1977 and most of 1978, the Treasury Department is asserting that "in the majority of cases (proof of basis) presents no or minor problems." These statements are at odds with the overwhelming weight of the evidence.

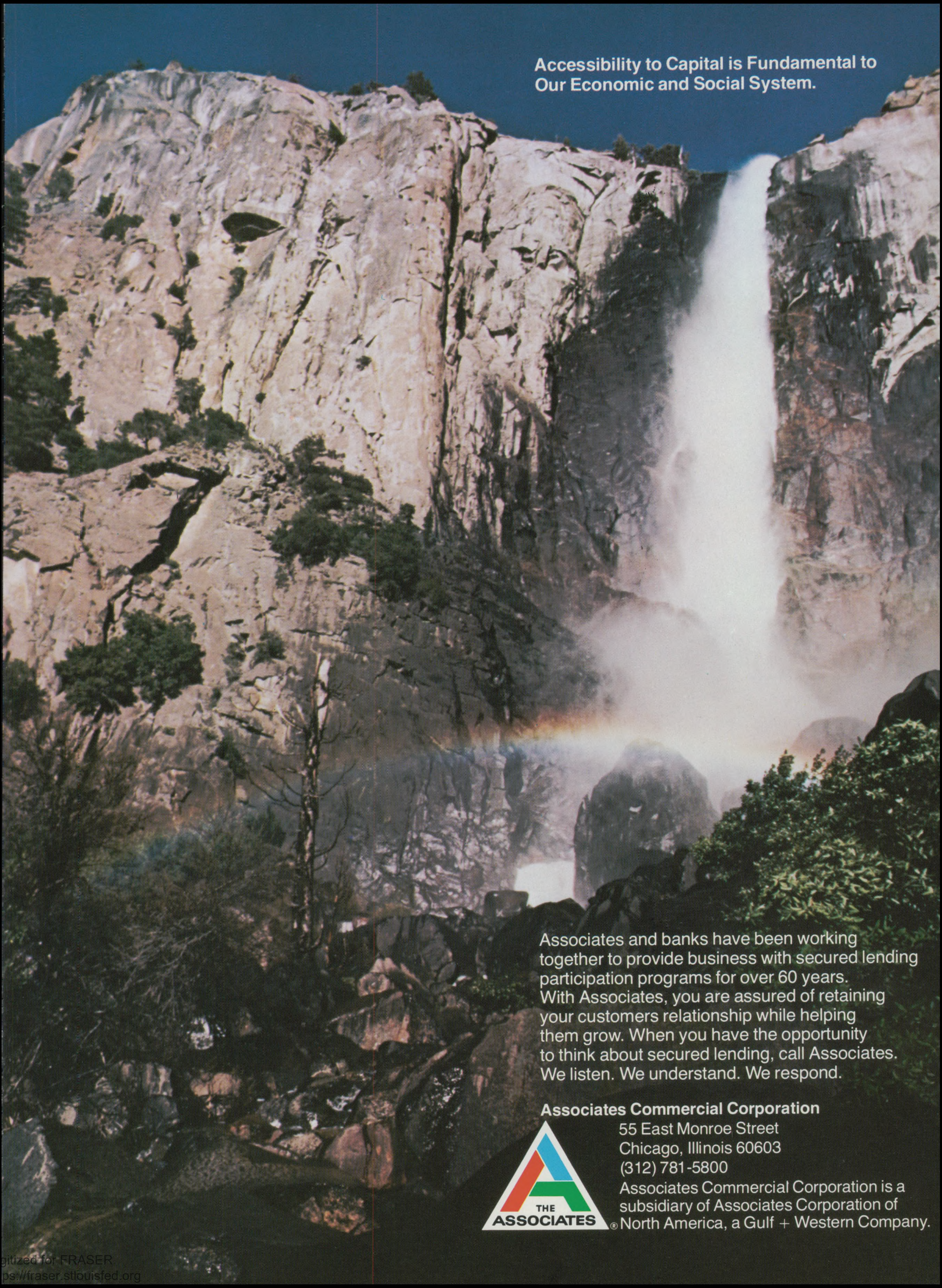
The carry-over basis has been clearly shown to present almost insurmountable problems not only for heirs, but also for bank trust officers, attorneys and accountants. An ABA survey of approximately 200 executors around the country, estimated to cover more than 5,000 estates, indicated there are many reasons for the existence of inadequate records that make the carry-over basis such a problem — reasons

The carry-over basis is unworkable and an unproductive paperwork nightmare for estate administrators.

that are not likely to go away. Some of the difficulties with proof of basis were peculiar to the type of asset involved, and some were the result of unavoidable events.

Checking-account records, as a source of information, usually were available only for a limited time. Because of advancing age and poor health, elderly or widowed persons frequently became tired and simply gave up keeping records of their transactions. For example, one bank reported the case of a decedent who kept meticulous records until they stopped abruptly five years before her death; simultaneous deaths of both spouses made it difficult, if not impossible, to determine the carry-over basis on certain assets in the estate. Records were lost in moves. Homes, and records,

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

were sometimes destroyed by fire. In one case, the decedent's "industrious cleaning lady had discarded his necessary records."

Property acquired through gifts or inheritance also created difficult problems because of the need and inability to establish the donor's tax basis on the property. Assets acquired in such ways frequently are not accompanied by cost data, particularly when a gift valued at less than $3,000 did not need to be reported for gift-tax purposes. Gifts by spouses to each other were not commercialized by inclusion of cost data. Clearly, etiquette precludes inquiry as to costs of gifts received at weddings, anniversaries and other nonbusiness occasions.

Even when it's possible to determine the carry-over basis of certain assets, experience has shown that the cost of conducting the necessary research may create additional unfairness for heirs by substantially reducing an estate's value. For example, a Newark law firm reported a case involving a stamp collection of 5,348 stamps appraised at $41,500 for a fee of $3,500.87. The firm estimated the cost of ascertaining the carry-over basis to be $18,000. While the Treasury Department persists in describing stamp collections and similar assets as "esoteric" exceptions from the norm, experience has shown that a large number of estates contain such assets, all of them extremely difficult to value in terms of the carry-over basis. The large number of such assets certainly brings into question the assertion they are exceptional or "esoteric."

To take another example that's far from unique: One farmer's estate included five different categories of hogs, three categories of cattle, four items of breeding stock, nine categories of grain and feed on hand, 52 different items of machinery that had significant value and at least 25 different items of small value that simply were grouped together. Livestock included in the estate numbered 517 head, each with a separate carry-over basis, according to law. In addition, the executor was faced with the questions: Which of the herd were purchased and which were bred on the farm? Which were in existence on December 31, 1976, for purposes of the fresh-start rule (an adjustment in the carry-over basis)? Only the farm's deceased owner could have supplied such information. Obviously, the owner was not available to answer the executor's questions.

Extent of the problems encountered in determining the carry-over basis of marketable securities was surprising. One bank reported, "It is our estimation that for approximately 50% of the marketable securities in our estates, there were no cost clues beyond the certificate date." Since the certificates for such securities could have been reissued for a number of reasons subsequent to acquisition of the securities, the certificate dates would not be conclusive proof of the acquisition date and, therefore, would not establish the carry-over basis. A Mississippi bank referred to an estate valued at approximately $216,000, of which $171,500 was attributable to 6,533 shares in a corporation. The decedent had inherited seven shares from her husband's estate, and 11 stock dividends, 11 sales, four stock splits and five mergers or acquisitions subsequently had taken place. The bank was unable to determine the cost basis of the stock.

Banks surveyed by the ABA also reported difficulties in establishing the carry-over basis of residences and other real estate — difficulties that are far from being novel or exceptional. In one situation, real estate had been given by a grandfather to a grandson. The bank reported: "When the family members were questioned about how and when the grandfather acquired the property, we were told 'he probably traded a mule for it,' ending our search (for information) since there was no way to establish the date of acquisition or cost basis of the mule."

The bottom line in the controversy over the carry-over basis is this: However well-intentioned its authors may have been, the carry-over basis is unworkable, unfair to heirs and an unproductive paperwork nightmare for estate administrators. The only solution to problems caused by the carry-over basis is repeal — at the earliest possible date.

But the fact that logic dictates repeal of the carry-over basis does not ensure by itself that repeal will occur. The issue is alive in Congress, and the possibility of repeal exists — but only if large numbers of bank trust officers, attorneys, accountants and heirs make their feelings known to their members of Congress. ● ●

Regulators to Process Reports Jointly

THE FDIC and the Comptroller of the Currency (OCC) have announced a new program to edit and process major banking reports to improve regulatory efficiency.

The FDIC board voted to authorize its chairman, Irvine H. Sprague, to enter into an agreement with John G. Heimann, Comptroller of the Currency and a member of the board, under which the FDIC will receive and process reports of income and reports of condition from 4,573 national banks and trust-asset survey reports from 1,962 national banks supervised by the OCC. The reports will be received, edited and processed at the FDIC to prepare information used by both agencies. The FDIC will continue to receive, edit and process equivalent reports from institutions it supervises, the 8,827 state banks that are not members of the Fed.

It is hoped major benefits of concurrent processing will be improved efficiency in printing and data processing and in consistent interpretation of bankers' inquiries on call-report instructions.

In addition, the FDIC has agreed to participate with the OCC in funding a contract with the firm of Deloitte, Haskins & Sells to study the feasibility of the FDIC's providing EDP services to the Comptroller. The contractor will evaluate alternative forms of managing such an effort. After the contractor's report is received, staffs of the two agencies will review the report and make recommendations.

The EDP study and merger of the report-processing function are part of a continuing effort by federal commercial-bank regulatory agencies to make certain areas more efficient and uniform. The FDIC, OCC and Fed have coordinated their efforts, which include adoption of uniform regulations to implement the Community Reinvestment Act and establishment of a uniform inter-agency bank-rating system.

Under merged-report processing, the OCC was responsible for mailing March call-report forms to all national banks. However, subsequent forms will be mailed from the FDIC. Banks will continue to make the same number of copies of the completed reports. Two will be sent to the FDIC for processing. National banks will not submit reports to the OCC, but will continue to send copies to the appropriate OCC regional office.

Mr. Heimann emphasized that because of the processing-procedure changes, the OCC no longer will handle disclosure of national-bank call-report data. Instead, all requests for such data should be referred to the FDIC's Data Request and Survey Section. • •

Higher Returns on Savings Possible for Individuals Under Regulators' Proposals

Federal regulators of financial institutions are receiving comment until May 4 on a proposed series of measures designed to help individuals obtain higher rates of return on their savings. Possible actions could be taken on individual proposals or in combination. The regulators emphasize that the following proposals are open to change on such specifics as maturity, rate, penalty or other terms on the basis of public comment received:

1. Creation of a five-year CD with a maximum interest rate based on, but below, the rate on U. S. Treasury securities of similar maturity.
2. Introduction of a bonus savings account that would pay an extra ½% on the minimum balance held in an account over a 12-month period.
3. Creation of a rising-rate certificate featuring higher quality and an interest-rate ceiling that increases during the term of the certificate.
4. Elimination of all minimum-deposit requirements on certificates of less than four years (required currently only at S&Ls) and reducing the minimum amount to $500 for other certificate accounts, except for the $10,000 minimum required for six-month (26-week) money market certificates.

These actions were proposed jointly by the Fed, FDIC and Federal Home Loan Bank Board.

The regulators noted that cost studies indicate the four proposed measures may have a greater financial impact on thrifts, because of their asset structure, than on commercial banks. By affecting deposit flows and cost of deposit funds, the proposals may impact somewhat on mortgage loans.

Final Rule Is Adopted by FDIC On Establishment Procedures For Remote-Service Facilities

The FDIC has adopted a final rule dealing with procedures for establishment of remote-service facilities by FDIC-regulated banks. Automated teller machines, cash-dispensing machines, point-of-sale terminals and other remote electronic facilities that receive deposits, pay checks or lend money are included within the definition of remote-service facilities.

The procedures were designed to be consistent with federal appellate court decisions defining the facilities and to lessen administrative burdens for banks and the FDIC.

Banks that will own or lease, not merely share, remote-service facilities must make an application to establish them and must publish notice of the application. Banks that enter into sharing arrangements will not have to obtain supervisory approval. To expedite the application process, authority to approve, but not to disapprove, facility applications will belong to the FDIC director of the division of bank supervision and to the FDIC regional directors. Once a bank has an approved remote-service facility, it may follow an abbreviated procedure to establish additional sites or relocate previously established facilities.

Banks will not be required to display the official FDIC sign at remote-


Bryan Stephenson
Bill Sewell
Tony Ford
Dan Shannon
Liz Catterton
Hallie Smith
Mark Schwartz

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service facilities, as is required for traditional teller windows, but they may do so as long as there is no confusion about which of the financial institutions sharing the facility are FDIC insured.

Regulation S Revocation Is Announced by Fed

The Fed revoked Regulation S effective March 10. This regulation governed the Fed's power to regulate and examine banking services performed for state-chartered banks by outsiders. It had been in effect since April 3, 1963, but a recent amendment to the Bank Service Corporation Act made the regulation unnecessary.

The Fed also adopted modified interpretations to simplify present interpretations and to conform them to the amended act. The act creates an exception to the general prohibition in federal banking laws against purchase of stock by member banks. The act allows two or more banks to engage in a joint venture by investing up to 10% of their capital and surplus in a "bank service corporation" that provides clerical services to banks.

Under the Regulatory Improvement Project, the Fed now has revoked two regulations; reviewed, updated and simplified a number of others; approved a plan for a Fed service to disseminate regulatory materials more widely than formerly and expand its rule-making procedures to improve the quality and public understanding of its regulations.

New Comptroller Appointments

Lewis G. Odom has been named statutory senior deputy comptroller, and Charles E. Lord has been made senior adviser to the Comptroller of the Currency. Both will take part in the policy group of the Comptroller's office.

The OCC policy group, established by Comptroller John G. Heimann to function like a board, meets regularly to determine general policies of the OCC and to address specific issues and cases before the agency.

In addition to Messrs. Odom and Lord, the group's members are the three statutory senior deputy comptrollers — Paul M. Homan, C. F. Muckenfuss III and H. Joe Selby — and John E. Shockey, chief counsel.

Mr. Odom, a lawyer, was chairman, Exchange National, Montgomery, Ala., from 1973 to 1977, when he joined the FDIC. Most recently, he was deputy to the FDIC chairman.

Mr. Lord formerly was a corporation officer (institutional relations and alumni programs) at Yale University, New Haven, Conn. However, he began his career as an examiner with the OCC and once was president/CEO, Hartford (Conn.) National.

Federal Examinations Council Formed Under Title X of FIRA

The Federal Financial Institutions Examination Council has been organized, with Comptroller John G. Heimann as chairman.

The council, created under Title X of the Financial Institutions Regulatory and Interest Rate Control Act of 1978 (FIRA), has as its purpose to "prescribe uniform principles and standards for the federal examination of financial institutions" and to "make recommendations to promote uniformity in the supervision of these financial institutions."

Other council members are: J. Charles Partee, Fed governor; Irvine H. Sprague, FDIC chairman; Robert H. McKinney, Federal Home Loan Bank Board chairman, and Lawrence Connell, National Credit Union Administration administrator.

In addition to electing Mr. Heimann chairman, actions taken by the council included election of Mr. Connell as council vice chairman and establishment of four standing task forces to implement and discharge the council's purpose. The four task forces, composed of agency personnel, are: 1. Supervision. 2. Consumer compliance. 3. Reports. 4. Examiner education. A special task force on uniform-surveillance systems also was created.

How MGIC can help

When it comes to the graduated payment mortgage, we give you a choice: the Flip plan, or our new Action! Mortgage.

Both plans increase the net yield obtained from mortgages. Both use pledged savings accounts to supplement lower payments in the early years. (The accounts, in fact, represent fixed term savings.) And both help you to help more customers buy homes now.

The sophisticated Flip plan.

The Flip plan is just for you if you want maximum flexibility. It uses a borrower's present and estimated income. And thus allows you to determine the maximum value of a house he can afford. Or maximum reduction in earlier payments.

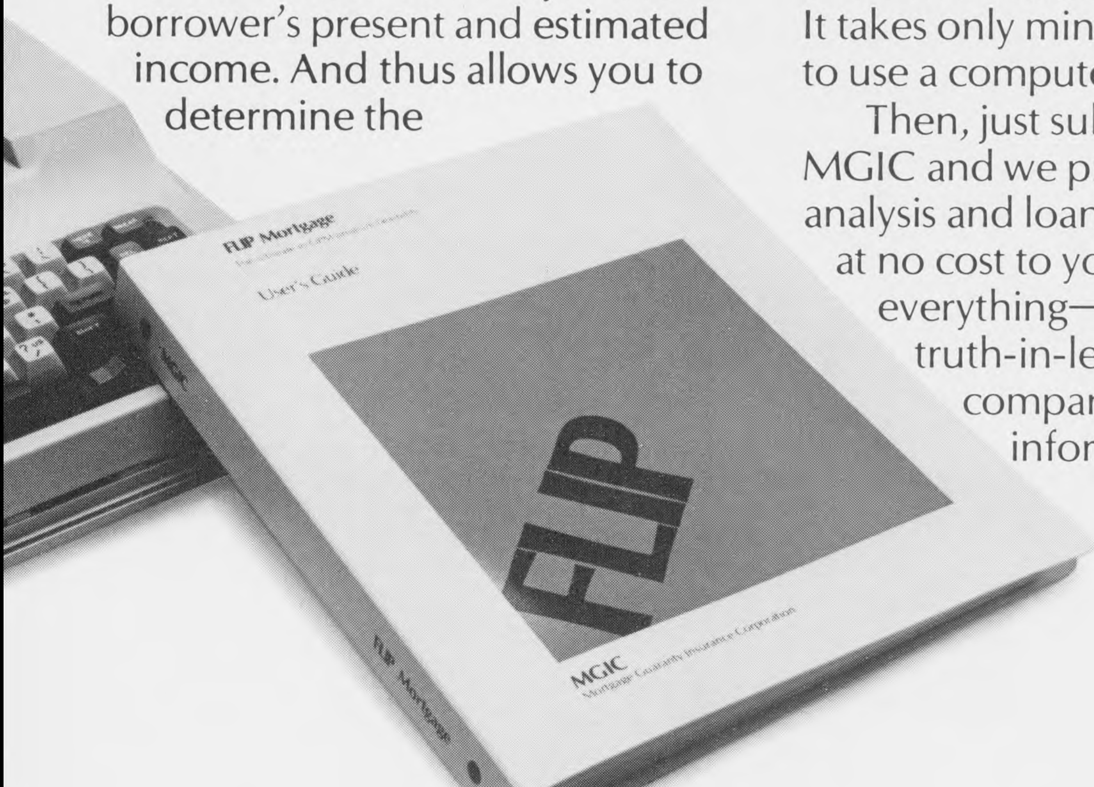
With a terminal in your office, you can access a computer to analyze variables and produce loan schedules. Quickly. Easily.

If simplicity is what you want, our new Action! Mortgage is just the thing.

The simple Action! Mortgage.

You qualify borrowers by using tables we provide. Tables that are customized to fit term, interest rate and other variables that you specify. It takes only minutes. No need to use a computer terminal, either.

Then, just submit the loan to MGIC and we provide a computer analysis and loan setup information at no cost to you. We give you everything—even the required truth-in-lending and loan comparison disclosure information. It's simple.



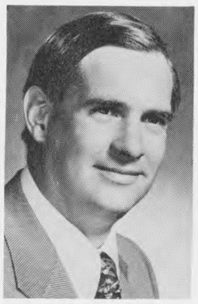
Corporate News Roundup

FOYS BERANEK HEUPEL

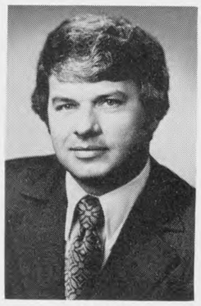
SNEAD MILLER CHOVANCAK

• **Scarborough & Co.** Six appointments have been announced by the Chicago-based company: Robert M. Foys has been made vice president/administration and will continue in his current duties as vice president/marketing; Frank A. Beranek has been named vice president/underwriting; John P. Heupel has been named assistant vice president/underwriting; and Michael Chovancak, Julie Miller and Paul Alexander Snead have joined the company as account executives.

• **Diebold, Inc.** Donald F. Bartoo has been named director of communications at this Canton, O.-based firm. Mr. Bartoo now has responsibility for directing all advertising and public relations activities of the bank/systems division. He joined Diebold in 1973 as manager, sales recruitment, a post he held along with other duties, including TABS (total automatic-banking systems) marketing, until 1977, when he became marketing services director.



BARTOO

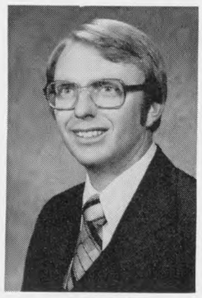


BRUCK

Before going to Diebold, Mr. Bartoo was with Burroughs Corp., Rochester, N. Y.

• **Bank Building Corp.** Peter J. Bruck has been appointed president of Financial Research Associates, an affiliate of the St. Louis corporation and of Marshall & Stevens. For the past five years, Mr. Bruck has been a consultant services manager for Bank Building Central, representing the company in metropolitan St. Louis and portions of Missouri and Illinois.

PEARCE



MODEN

• **Aetna Business Credit, Inc.** James T. Pearce, vice president, has been named head of the company's new Midwest marketing center in Chicago. The office will service business-development activities in Illinois, Indiana, Missouri, Kansas, Kentucky, Wisconsin, Michigan and western Ohio. ABCI is headquartered in East Hartford, Conn.

• **Doane Agricultural Service.** Lloyd D. Moden has joined this St. Louis-based firm as manager, Maryville, Mo., office. His initial responsibilities include managing some 30 grain and livestock farms consisting of 11,000 acres in northwestern Missouri and southwestern Iowa. Mr. Moden formerly was with Midwestern Nurseries Co. and Ozark Nurseries Co., both in Talequah, Okla., as a crop protection supervisor.

Here's the slow, old-fashioned, inaccurate and inefficient way to count currency. But...

NEWS OF THE BANKING WORLD

• **Darryl R. Francis,** retired president, St. Louis Fed, has joined Merchants National, Fort Smith, Ark., as chairman/president/CEO. He fills vacancies caused by the death of Chairman W. J. Echols and retirement of President Daman Bowersock. Mr. Francis joined the St. Louis Fed in

FRANCIS

1944 as an agricultural economist and retired as president in 1976. In the interim, he spent some time as vice president, National Bank of Commerce, Memphis, and vice president, Boatmen's National, St. Louis. During his career with the Fed, he headed the St. Louis bank's Memphis Branch.

• **Gabriel Hauge** has retired from New York City's Manufacturers Hanover, after two decades of service. He joined the bank in 1958 after six years as personal economic adviser to President Dwight Eisenhower. Mr. Hauge was a director and chairman of Manufacturers Trust's finance committee and when that institution merged in 1961 with Hanover Bank, he was named vice chairman, Manufacturers Hanover Trust Co. He became president two years later. When the bank established its HC in 1969, Mr. Hauge assumed its presidency and then became chairman of both organizations in 1971. During his tenure as president and then as chairman, the bank grew from a $6.5-billion trust company with 136 branches to a $40.6-billion corporation with subsidiaries operating in about 400 offices in 19 states domestically and 100 facilities in more than 40 countries. Mr. Hauge, who has eight academic degrees, recently spoke before the 1978 joint annual meeting of the World Bank and International Monetary Fund, which was attended by heads of central banks, ministers of finance and other government and business leaders from around the world. He will remain a director of the bank and the HC for two years.

John F. McGillicuddy (r.), pres., Manufacturers Hanover Trust, New York City, presents Gabriel Hauge with gift from board — Baccarat crystal orb with world map etched on it "in recognition of his global significance."

Donald B. Wehrmann Dies

Donald B. Wehrmann, 42, e.v.p. for commercial banking and chief credit officer, Mercantile Trust, St. Louis, died April 1 after a brief illness. He joined the bank in 1959 as a trainee in the credit department following graduation from Washington University, St. Louis. He moved up through various posts and became s.v.p. in 1973 and, in 1977, e.v.p., with responsibility for the regional banking department.

• **Bank of China,** Peoples Republic of China, has invited the board of the First Chicago Corp. to visit its country this month and while there, to hold a board meeting that would be the first ever held in China by an American corporation. The board will be in China from May 28 to June 6 as guests of the Bank of China, which is the country's foreign trade bank. The bank recently was designated manager of all foreign funds necessary to import the technology and capital equipment that will help China reach its goal of a modernized economy. William J. McDonough, executive vice president and head of the worldwide banking department, First National, Chicago, the HC's lead bank, said the HC also has received approval to establish a representative office in Peking and that Bank of China will accept First National's VISA travelers checks when they are issued in November. Since January, 1978, First of Chicago had been the only U. S. bank authorized by Bank of China to handle commercial letters of credit, payments, collections and foreign-exchange transactions for customers in the United States and worldwide. A bank spokesman said the liaison enabled American companies dealing with China to have transactions processed directly by an American bank.

Three Basic Reasons for Banks To Offer Mortgage Loans

1. To comply with legislation designed to encourage expansion of equal credit and housing for all citizens.
2. To negate some of the impact of thrift institutions possibly asking for and receiving permission to offer installment loans.
3. To take advantage of the balance mortgage lending can provide in overall loan portfolios of banks.

By GUS L. PETERSON
Vice President
Real Estate
Security Pacific
National Bank
Los Angeles

IT IS increasingly evident that more and more commercial banks are becoming aware of the significance of being involved in mortgage-lending activities. Although the motivating reasons may vary depending on a bank's location and size, there are three basic reasons why all commercial banks should give real-estate lending strong consideration.

One of the most important reasons is legislative acts passed in recent years, with new laws constantly being enacted and enforcement of existing acts being applied. The Fair Housing Act of 1968, the Equal Credit Opportunity Act, the Home Mortgage Disclosure Act, numerous state and local antidiscrimination acts and more particularly the Community Development Act of 1977 (which contains a Title VIII section designated "the Community Reinvestment Act of 1977") are all legislative acts designed to encourage expansion of equal credit and housing for all citizens. The original Housing and Community Development Act of 1974 was expanded October 12, 1977, and supplemented by the section designated "the Community Reinvestment Act."

Many of those who followed the legislation closely had no strong reaction since it did not appear to mandate any specific conduct on the part of the affected financial institution. A more in-depth review, however, brings forth the realization of the significance of the act. A brief glimpse at the salient portions of the act communicates the intended message to the institutions involved, which include both state-chartered banks and national banking associations. Findings are that: 1. Regulated financial institutions are required by law to demonstrate that their deposit facilities serve the convenience and needs of the communities in which they are chartered to do business. 2. Convenience and needs of communities include the need for credit services as well as deposit services. 3. Regulated financial institutions have continuing and affirmative obligations to help meet credit needs of the communities in which they are chartered. The specific purpose of the Title VIII section is to require each appropriate federal financial supervisory agency to use its authority when examining its respective institutions to encourage them to help meet credit needs of their local communities within the bounds of safe and sound operations. Additional language in the act unmistakably communicates the serious purpose of the act and further provided that: "In connection with its examination of a financial institution, the appropriate federal financial supervisory agency shall:

"(1) Assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operations; and

"(2) take such record into account in its evaluation of an application for a deposit facility by such an institution."

Each institution is to adopt a Community Reinvestment Act statement, which must include a list of specific types of credit within certain categories, which include the making of residential loans, housing-rehabilitation loans, home-improvement loans, community-development loans, etc.

The handwriting on the wall clearly is telling all commercial bankers to provide all phases of credit for overall community development. *It could well be that further mandates will be enacted making mortgage lending compulsory.* Therefore, it would appear to be prudent for each commercial bank to establish its own mortgage-lending program designed to properly balance its credit loans while, at the same time, servicing the needs of the community in which it operates.

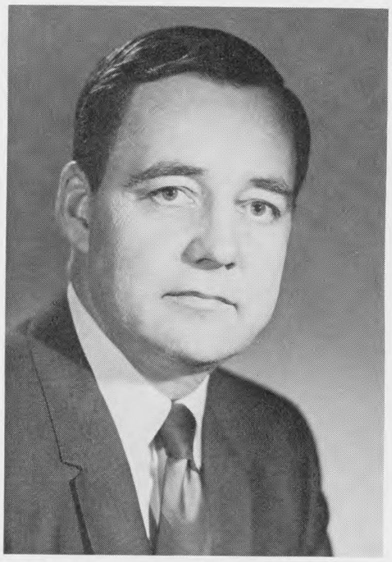
A second reason for giving strong consideration to mortgage lending is to negate some of the impact from thrift institutions we believe to be inevitable. There have been recent moves by some segments of the S&L industry to be granted authority to enter the consumer- and installment-lending field. Currently, the S&L industry is limited to mortgage lending, which is cyclical in nature. To provide mortgage credit in a perpetually smooth flow obviously has been a difficult task for S&Ls. There are those within that industry who feel other investment credits are vital and diversification can cure some of their present problems. If this eventually becomes a reality, they could become strong competitors to the commercial-banking industry as we now know it. If they are given authority to accommodate customers with many of their current banking needs, we might well see them securing a strong competitive foothold due primarily to their emphasis on existing home-lending programs.

A third reason to consider mortgage lending as an integral part of serving overall credit needs is to take advantage of the balance it can provide the overall loan portfolio. Banks that have been active in mortgage lending generally are found to be in areas of rapid growth and expansion. One such area is California, the state in which Security Pacific National operates on a statewide basis. Mortgage credits have been a part of our overall banking function for several decades and have been rapidly accelerated over the past 10 years due primarily to population growth, coupled with the fact that we are a branch-banking system with 554 offices located in communities where mortgage credits are in constant demand. When viewed in the long term, our mortgage portfolio has provided a good earning balance for the bank, both in interest earned and origination fees collected. Providing mortgage credits has been an aid to customer retention as well as being instrumental in acquisition of new accounts.

It is difficult to be competitive in origination of mortgage loans if there is not some consistency to the lending program. Many loans are acquired through borrower or broker referral, and loans generally are referred to those lenders who remain in the marketplace on a competitive and consistent basis. Obviously, this poses problems to many commercial banks since there are times when the size of their long-term, fixed-rate portfolios reaches a prudent maximum. When this occurs, one of two choices must be made: either to go out of the originating market or liquidate loans in the portfolio through the secondary market.

Security Pacific National elected to create a secondary-marketing operation in 1965. At that time, marketing activity was oriented heavily to FHA/VA loans since they were the only types of home loans that were universal in character and attracted the broadest scope of buyers. When the Federal National Mortgage Association (FNMA) and the newly created Federal Home Loan Mortgage Corp. (FHLMC) adopted a procedure to purchase conventional home loans in the early 1970s, the buying trend quickly changed to accept conventional loans, primarily because of the improved yields that could be obtained. Security Pacific Bank's first efforts were to generate conventional home loans to meet requirements of

(Continued on page 52)



Gus L. Peterson is v.p., loan originations/marketing, Security Pacific Nat'l, Los Angeles, which he joined in 1957 after a decade in the construction-contracting business. He started out in the bank's appraisal department, where his real estate and construction experience gave him the expertise to appraise major commercial/residential properties and evaluate construction costs. In 1970, he began his current assignment in the mortgage banking services group.

Mortgage Lending by Banks

On the rise in the years ahead?

WILL commercial banks accept the challenge to make more residential mortgage loans in the future? There is growing evidence they will. There was, for example, an interesting phenomenon last fall in Honolulu, where there was "standing room only" during one session of the 1978 convention of the American Bankers Association. Subject of the session: The Secondary Mortgage Market.

Banks ARE discovering the LIQUIDITY provided by this relatively new secondary mortgage market. Also, they are discovering the value of cross-selling that mortgage customer and the "thrill" of competing with the S&L in its own marketplace.

The bad news in recent months, of course, has been the sluggish mortgage market hit by skyrocketing interest rates. Yet, former Federal Reserve Governor Philip C. Jackson Jr. (see opposite page) concludes that the home buyer of today is tuned in to higher rates (but not quite as high as they have gone), as well as high prices for real estate. But, of course, changes in usury laws are needed in many states to facilitate mortgage lending by banks as well as S&Ls. (See page 43.)

Banks also are casting uneasy glances toward recently passed federal laws that seek to "encourage" them to serve the specific needs of the communities in which they are chartered. Many believe this "encouragement" also means serving the *mortgage needs* as well as the commercial needs of the community.

Banks surely cannot be stampeded into the mortgage market. Many, nonetheless, are considering the competitive advantage they would achieve through expanded real estate lending.

In this issue, the reader will find a series of articles designed to inform, to create interest in this subject. In our May 15 issue, we conclude the series with several additional articles, particularly ones on the new tax-exempt mortgage bonds, the secondary mortgage market (and how the service is being offered by a correspondent bank), as well as the story of a $27 million bank that services mortgage loans in excess of $45 million.

A great deal of information on the subject can be obtained, incidentally, by writing to: American Bankers Association, 1120 Connecticut Ave., N.W., Washington, DC 20036 — *The Editors.*

Home Buying Is Ruled By Inflation Psychology

Purchases based on expectation of future inflation

CHEAP HOUSING, like the American alligator or the Florida cougar, is an endangered species, a dying breed.

Philip C. Jackson Jr., an ex-Federal Reserve governor, told those attending an economic symposium sponsored by Deposit Guaranty National, Jackson, Miss., back in January that "it is no longer possible to get a house for 20% of your income.

"The cost of housing has risen faster than family incomes. This is as much true because of our changing attitudes about what constitutes adequate housing as it is the result of cost increases.

"Today each child must have a separate bedroom — maybe even a bath. Most of us grew up sharing a room with a brother or sister. Some have shared a bed as well. Housing markets are still adjusting to a more expensive product."

Mr. Jackson believes that the most important change is that an "'inflation psychology' has gripped the entire country. Every citizen is making his or her decision based on the expectation of future inflation. The real estate market has been one of the best examples of this attitude. He said:

"Housing no longer is purchased primarily as shelter. It is an investment in which you expect to make dollar profits at the same time you are enjoying the shelter. In the past, appraisers theoretically determined the market value of a home by computing the present value of the future stream of amenity benefits an owner would receive through living there. While this aspect of market value has not disappeared, it has been overpowered by the expectation of future increases in price."

Philip C. Jackson Jr. resigned from the Federal Reserve Board last November 17 after having served since July 14, 1975. On the FRB, he had special responsibilities for the Fed's consumer affairs operations, including the drafting of regulations under the Equal Credit Opportunity Act. Before going to Washington, D. C., he was an Alabama mortgage banker.

Home buyers have a new attitude toward debt, he says. "They are not afraid of debt and are committing higher proportions of their present incomes to debt service than before. They expect nominal incomes to continue to increase while their debt-service payments stay constant. Some families borrow on the assumption they can maintain more than one job in the family. The long-term loss of a job seems remote. A few go so far as to expect to repay by selling their house later at a higher price."

The public does not appear to be deterred by double-digit interest rates, he says. "Prior to 1974, rates at these levels were an emotional barrier to many prospective borrowers. They would not borrow at those prices even though they could afford the payments. But that is not true today. Perhaps one reason behind this change is the Truth-in-Lending law, which has required disclosure of credit costs in annual percentage terms. The public has learned that other forms of consumer credit cost 10%, 12%, 15%, even 18%. Cost of mortgage credit still is below the cost of credit for cars, boats or clothes.

"Inflation has created some purely speculative consumer buying of homes as well as of farms and recreational properties. These speculative buyers have added a new dimension to the market.

"In this business cycle, mortgage lenders have not been caught with large amounts of forward loan commitments to fund from a diminishing cash flow. The mortgage market has not had the whiplash effect it earlier experienced when lenders slammed the door on loans at any price. While the principal mortgage lenders now have substantial forward commitments outstanding, the amount is in reasonable balance with their cash flows."

Mr. Jackson believes that two developments contributed to this situation. They are: 1. Mortgage demand in the valleys of 1975 was so strong that mortgage rates did not decline dramatically from levels reached in 1974. So lenders have not expected proportionately higher rates on loans, to the extent that they could stop lending now while hoping to get the better yield later. 2. Federal regulatory agencies have relaxed price ceilings on large six-month deposits, permitting both banks and S&Ls to compete for the saver's money. This new type of deposit has more than offset the out-

(Continued on page 61)

'Back-to-Basics' Approach Urged In Real Estate Lending Field

A "BACK-TO-BASICS" approach is a must today in the real estate lending field, says Joseph Garafolo, director, consulting services department, Baird & Warner, Chicago-based full-service real estate firm. He warns that high standards of lending, investment and development must be established and maintained to avoid a repetition of the 1973-74 real estate crunch that resulted in overbuilding and virtual market collapse.

The approaching period of uncertainty that follows an excellent year for real estate, he goes on, suggests that the time may be right to revive and review basic guidelines for successful real estate investment and development.

"This means," says Mr. Garafolo, "that lending institutions may have to accept lower returns on alternative investments if a real estate project appears even slightly questionable. And it will mean that only credit-worthy developers should even consider undertaking a project that involves the need for a real estate loan. This does not disregard the fact that many problem projects have been cured by better markets over time, but the cost of the holding period in between must be weighed against the prudence of the initial investment."

Before a developer requests a loan and a lender grants it, Mr. Garafolo suggests these following "basics" be noted:

"*First*, determine that there is a market for the proposed development. This means getting a professional, impartial market analysis to show there's a demand for the proposed use, whether it be a residential development, office building, warehouse, hotel, shopping center or any other form of development.

"*Second*, give some idea of what the development will be like. Submit detailed information about the concept, land use, density factors, circulation patterns and impact on surrounding land uses. Prepare preliminary architectural plans and engineering studies. Final drawings aren't necessary at this stage, but preliminary layouts are helpful.

"*Third*, demonstrate that the development is economically feasible. Show what the project will cost and what the return will be. Allow for inflation between submission of the proposal, expected start and completion of the project. Include a cash-flow analysis, coverage ratios, return on investment and other financial indicators.

"For example, a market analysis should include: a demographic analysis of the area's current and projected population; an assessment of local area and site conditions based on such factors as location, accessibility, environment, zoning, road networks, transportation, security, local taxes, etc.; trends in local business and industry; supply and demand conditions in the local area, their balance, projected trends and competitive sales and rent structures; primary origins of demand — not just qualitative support, but quantitative backup; marketability of the proposed concept on the particular site within parameters of market findings.

"*Fourth*, obtain a professional appraisal from an appraiser in whom the lender has confidence. An appraisal is essential since lenders work on a loan-to-value ratio in determining how much to lend."

Mr. Garafolo points out that all these are fundamental in determining whether a project is a worthwhile investment. However, he continues, it's amazing how many otherwise astute lenders fell prey to enthusiastic developers and ignored these fundamentals in granting loans that led to the workouts and foreclosures of 1974 and 1975.

"Lenders must insist on proposals measuring up on all these factors; they can't be deluded into thinking that enthusiasm and promises will make a success of a project," he concludes. "Conversely, developers now suffer as much as lenders when a project goes bad." ● ●

Usury Ceilings Under Attack

Opposed by Lenders, Builders

STATE usury ceilings on home mortgages are coming under increasing attack from lenders, home builders and, in at least one case, borrowers.

"A usury ceiling is not supposed to be a form of price control," said Comptroller of the Currency John G. Heimann in joining the fight against interest ceilings. Delegates to the Mortgage Bankers Association's national meeting in Los Angeles agreed usury laws "seriously hamper" availability of home-mortgage money.

Since late February, seven states have passed legislation raising the usury ceiling on home mortgages above the 10% level, but 11 states, including Alabama, Arkansas, Louisiana, Mississippi, Missouri, New Mexico, Tennessee and Texas, still limit mortgage rates to 10% or less. One savings industry study reports these 10% usury ceilings will cost the U. S. economy up to 150,000 in lost housing starts and $3.4 billion in lost construction and related spending.

Usury laws originally were passed "to protect the financially weak or unwary borrower from paying an exorbitant rate of interest; that is, to prevent what amounts to extortion, or cupidity," said Comptroller Heimann. "To use it to control interest rates in free capital markets is only to guarantee that money will not be generally available."

Adds Philip C. Jackson Jr., former Fed governor: "To the extent that we need laws in any state to control moral abuse, they should be so drawn. But don't hide price-control foolishness under the cloak of moral rectitude."

"It is a strange phenomenon of public reaction," he continues, "that we now reject federal wage and price controls as being unworkable and disruptive. Yet we have price controls on some commodities, like milk, and on the most transportable and fungible commodity of all — money. We don't call such laws 'price controls' when they apply to money; it's called 'usury.' Call it what you will, the laws don't work and they hurt most those whom the laws were designed to help.

Since late February, seven states have passed legislation raising the usury ceiling on home mortgages above the 10% level, but 11 states, including Alabama, Arkansas, Louisiana, Mississippi, Missouri, New Mexico, Tennessee and Texas, still limit mortgage rates to 10% or less.

"Mississippi, like my own state of Alabama, is growing faster than its ability to accumulate savings. So its people and institutions import borrowed capital from those areas of the country which are saving more than they are growing. To make it illegal to pay the national market price for money makes about as much sense as requiring that no one pay over $4,000 for a pickup truck in Mississippi. That would mean that everyone who now owned a pickup would sell it out of state and the buyers would have nothing to buy, even though the price looked cheap."

This drain of mortgage funds out of low-usury-ceiling states, such as Arkansas and Texas, especially hurts first-time buyers with low down payments. When national interest rates climb above the state's usury ceiling, lenders restrict loans to that category of borrowers, according to a study by the U. S. League of Savings Associations. If a 20% down payment is required, researchers found, nearly 80% of first-time buyers would be unable to make the purchase. Even 40% of first-time buyers over age 30 make down payments of less than 20%.

"The ability to acquire a mortgage with a low down payment is the key to home ownership for the majority of American households who have low to moderate incomes, who are young and who are making their first home purchase," write Thomas J. Parliment, assistant economist, U. S. League of Savings Associations, and James S. Kaden, research assistant. "Population statistics show that the number of these households is going to increase substantially through the next decade. Yet these are the first people who are harmed when usury ceilings close off the supply of mortgage credit."

"Never before in the nation's history have would-be borrowers been in such a desperate plight in so many states," says Preston Martin, chairman and chief executive of PMI Mortgage Insurance Co., San Francisco. "If we are to sustain continued growth and prosperity in 1981 and 1982, we must see state usury-rate laws modified to take full advantage of this potential."

Legislation already is under consideration to lift usury ceilings in the 11 states restricting interest rates to 10% or less. In Texas, two bills raising the ceiling to 12% from 10% are stalled in committee and awaiting word on whether Governor William P. Clements Jr. intends to support the move. And in Missouri, two bills have died in committee while two others that would

(Continued on page 91)

AN IMPORTANT MESSAGE TO ABA MEMBER BANKS

The ad on the opposite page will appear in May or June issues of:

National Geographic, Time, Newsweek, U.S. News & World Report, Sports Illustrated, Money, Scientific American. Also in Airline In-Flight magazines on: American, Allegheny, Continental, Eastern, PSA, Delta, Hughes Airwest, Ozark, Pan Am, Southern, Texas International, United, Northwest, Frontier, National.

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The ads kick off ABA's new advertising campaign. This program is designed to help member banks compete against our aggressive competition—savings banks, savings and loans, credit unions and the growing list of other competitors offering "bank-like" services.

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Dramatized in the commercials will be typical confusing questions customers ask of financial institutions and friends. We encourage people to bring such questions to A FULL SERVICE BANK because "We've Got The Answers." This selling theme was selected rather than presenting individual services because it universally applies to all member banks, whereas services vary from bank to bank and state to state. Its appeal taps the well-established public belief in the commercial banker's expertise and integrity.

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A window decal featuring the registered trademark, A FULL SERVICE BANK, is available to member banks exclusively. In addition, offered to member banks only, are a host of tie-in materials including lobby displays, advertising material for print and radio, mailing stuffers, premiums, plus selling and training programs and more. These materials are offered by Full Service Bank Productions, Inc., a division of Christmas Club, a corporation.

For immediate information or orders, call Ms. Renee Brett: toll-free number for Delaware, Maryland, New Jersey and New York (except area code 716), 800-523-9334; all other states (except Pennsylvania), toll-free 800-523-9440. In Pennsylvania, call 215-258-6101.

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AMERICA'S FULL SERVICE BANKERS

The Changing Home-Mortgage Instrument

Newly emerging trends bear watching

By HENRY J. CASSIDY
Director
General Research Division
Office of Economic Research
Federal Home Loan Bank Board
Washington, D. C.

CONTRARY to popular belief, the single, predominant form of the home-mortgage instrument in the late 1920s and early 1930s is the same form that is most prevalent in the United States today — the fully amortized, level-payment, fixed-term mortgage, called the SFPM for the standard fixed-payment mortgage.

Although a variety of short-term, partially amortized or non-amortized rollover types of mortgages constituted more than half of all institutional home mortgages in the late 1920s, the SFPM constituted 47% of the total.

The big shift to longer term, fully amortized mortgages, particularly among commercial banks, took place primarily because of the introduction of the FHA-insured mortgage in 1934, but this shift was not as dramatic as it might have been had the SFPM not been so predominant.

In fact, before 1934, 95% of all mortgages issued by S&Ls were SFPMs, while short-term rollovers were the predominant vehicles for commercial banks and life insurance companies.

Since the 1930s, the fully amortized mortgage has become completely entrenched for all types of mortgage lenders, and alternative mortgage instruments (AMIs) appearing recently are characterized by fluctuating payment streams, either scheduled, as with the graduated payment mortgage (GPM), or unscheduled, as with the variable rate mortgage (VRM). (The price-level-adjusted mortgage also has fluctuating payments, but is not issued in the U. S. by institutional lenders. The reverse-annuity mortgage (RAM), in which periodic payments are made by the lender to the home owner based on the home owner's equity, is not popular yet. The RAM actually can be classified as an SFPM, with payment events completely reversed.)

Today's rollover mortgage usually carries a guarantee of refinancing, so it simply is another type of VRM, not to be confused with rollovers of the 1920s and early 1930s. While the GPM and the VRM appear to be growing increasingly popular, they have yet to gain the nationwide importance attained by the short-term rollover in the

Table 1.—Estimated Pre-1950 Percentage Distribution of Home Mortgage Originations of Institutional Lenders according to Degree of Amortization

Institution	Fully amortized	Partially amortized	Non-amortized
Savings and loan associations			
1920-29	94.9	....	5.1
1930-34	93.3	....	6.7
1935-41	99.7	....	0.3
1942-45	99.8	....	0.2
1946-47	99.2	....	0.8
Life insurance companies			
1920-24	9.0	68.4	22.3
1925-29	9.5	63.0	27.5
1930-34	16.8	53.0	29.7
1935-39	41.6	51.5	2.3
1940-46	71.0	27.0	1.7
Mutual savings banks			
1918-31	....	15.0	85.0
1932-39	13.8	12.1	74.0
Commercial banks			
1920-24	14.7	43.5	40.5
1925-29	10.2	38.3	50.4
1930-34	13.5	35.3	50.2
1935-39	68.9	20.7	10.3
1940-44	72.9	23.3	3.7
1945-47	68.5	27.1	3.7

Sources: Savings and Loan Associations, Edwards (1950), table 17, p. III-6; (See References, page 17.) Life Insurance Companies, Saulnier (1951), table 10, p. 44; Mutual Savings Banks, Lintner (1948), table 52, p. 413 and Appendix table XIV-28, p. 532 (assumes all amortizing loans were only partially amortizing and that during the period 1932-39, all "New Form and FHA" and none of the "Old Form" mortgages were fully amortizing, and 15 percent of the "Old Form" mortgages were partially amortizing; Commercial Banks, Behrens (1952), table 14, p. 50.

Editor's Note: This article is reprinted from the December, 1978, issue of the *Federal Home Loan Bank Board Journal.* Charts and tables used in the article also are from that publication.

late 1920s.

Thus, there have been two major changes in the mortgage instrument over the last 50 years — one starting in 1934 with increased use of the longer-term, fully amortized SFPM, and the other starting around 1975 with the introduction of the GPM and the VRM. This article discusses these developments, trends in degree of amortization and trends in contractual term-to-maturity and loan-to-value ratios. (Unfortunately, information on mortgage forms is scant, and nonexistent for noninstitutional investors. It has been estimated that individuals and others held about 40% of home mortgages in 1925 and about 11% in 1977.)

Degree of Amortization. Virtually all institutional first-trust home mortgages today, including AMIs, are fully amortizing. In the 1920s, however, partially amortized and non-amortized mortgages together were slightly more predominant than fully amortized mortgages. As inferred from tables 1 and 2, roughly 47% of all mortgages were fully amortized during 1925-29; 31% were non-amortized, and 22% were partially amortized. Thus, (1) the single, most predominant type of mortgage was the fully amortized type; (2) non-amortized mortgages constituted only 31% of the institutional total; and (3) non-amortized and partially amortized mortgages, characterized as roll-overs, together accounted for 53% of all home mortgages made in the late 1920s.

By the late 1930s there was a marked shift toward full amortization. Over the period 1936-40, 62% of home mortgages were fully amortized, 21% partially amortized, and only 7% non-amortized. As already noted, the primary cause of this dramatic increase was the introduction of the FHA-insured mortgage, which was fully amortized.

Not only did commercial banks and life insurance companies use FHA mortgages to a great extent, but the FHA mortgage set a precedent for conventional mortgages.

Apparently, lenders generally believed that default and foreclosure problems would be ameliorated by full amortization and, given the rather high default rates of the early and mid-1930s, commercial banks and life insurance companies switched to this feature en masse. But as Edward E. Edwards pointed out in a 1950 study, the evidence is not clear whether, in fact, default and foreclosure are less likely on fully amortized loans.

Nevertheless, the switch was complete by the mid-1940s. S&Ls always have had fully amortizing mortgages, although the first S&L loan in 1831 was non-amortizing. (Not only was it non-amortizing, but it suffered a shaky history, with a series of late fines being assessed. Such a loan today would be classified as a "slow loan" or a "scheduled item.") Table 1 shows that more than 93% of all S&L loans on home mortgages were fully amortizing over the entire 1920-47 period. Life

Table 2.—Estimated Net Home Mortgage Flows for Institutional Lenders in the late 1920's and 1930's

[1-to-4 family nonfarm homes]

	Item	Savings and loan associations	Life insurance companies	Mutual savings banks	Commercial banks	Total
1926-30	billions......	$2.09	$0.90	$0.79	$0.82	$4.60
	percent......	45.4	19.6	17.2	17.8	100
1936-40	billions......	$0.79	$0.52	$0.07	$0.82	$2.21
	percent......	35.9	23.6	3.3	37.2	100

Source: Federal Home Loan Bank Board news releases, various issues (see, e.g., December 31, 1970 release). The figures are the changes in the stock of mortgages outstanding at the end of 1925 and 1930, and 1935 and 1940. Excludes mortgages made by individuals and others.

Table 3.—Average Contractual Maturity of Nonfarm Home Mortgages, Various Lenders and Various Years

[in years]

Year	Savings and loan associations	Commercial banks	Life insurance companies
1920	11.3	2.9	6.0
1934	11.7	2.9	7.9
1935	11.9	9.8	13.0
1940	14.6	16.0	19.9
1947	15.2	14.8	19.5
			Mutual savings banks
June 1978	27.2	22.2	26.5

Source: 1978 from Federal Home Loan Bank Board (for previously occupied homes), the rest is from Morton (1956), table C-6, p. 174.

Table 4.—Average Loan-to-Value Ratios of Nonfarm Home Mortgages, Various Lenders and Various Years

[in percent]

Year	Associations	Commercial banks	Life insurance companies
1920	59	48	46
1934	61	50	53
1935	60	60	53
1940	68	72	73
1947	74	69	69
			Mutual savings banks
June 1978	76.7	67.0	69.5

Sources: 1978 from Federal Home Loan Bank Board (for previously occupied homes), the rest is from Morton (1956), table C-7, p. 175.

Table 5.—VRM's Closed as a Percent of Home Mortgage Lending by California S&L's, Various Months

Month	VRM lenders	All California-chartered S&L's	All California S&L's
April 1975	28	12	8
May 1975	55	23	15
Dec. 1975	62	28	18
Dec. 1976	74	38	24
Dec. 1977	65	39	24
June 1978	46	27	17

Source: Federal Home Loan Bank of San Francisco and Federal Home Loan Bank Board.

Chart 1. Percentage Change in the Consumer Price Index, 1920–36 and 1961–77

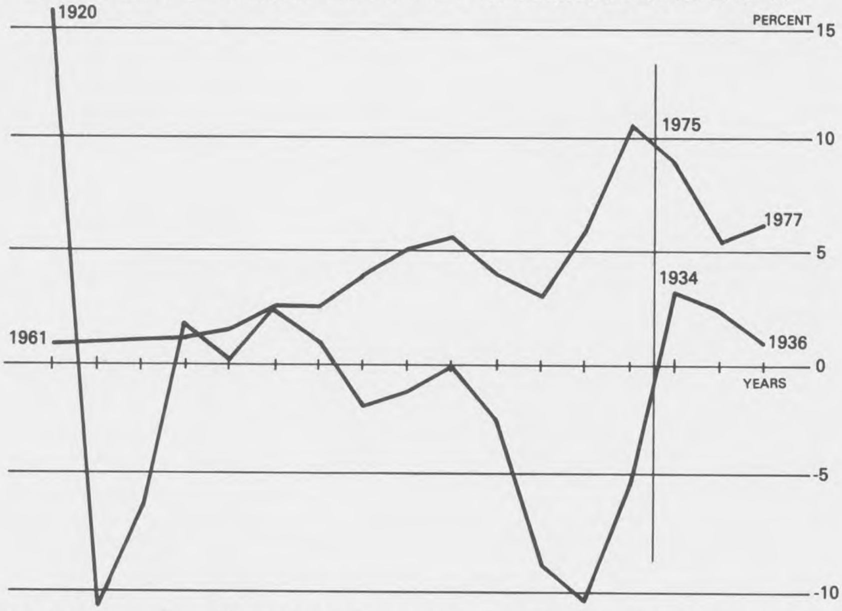
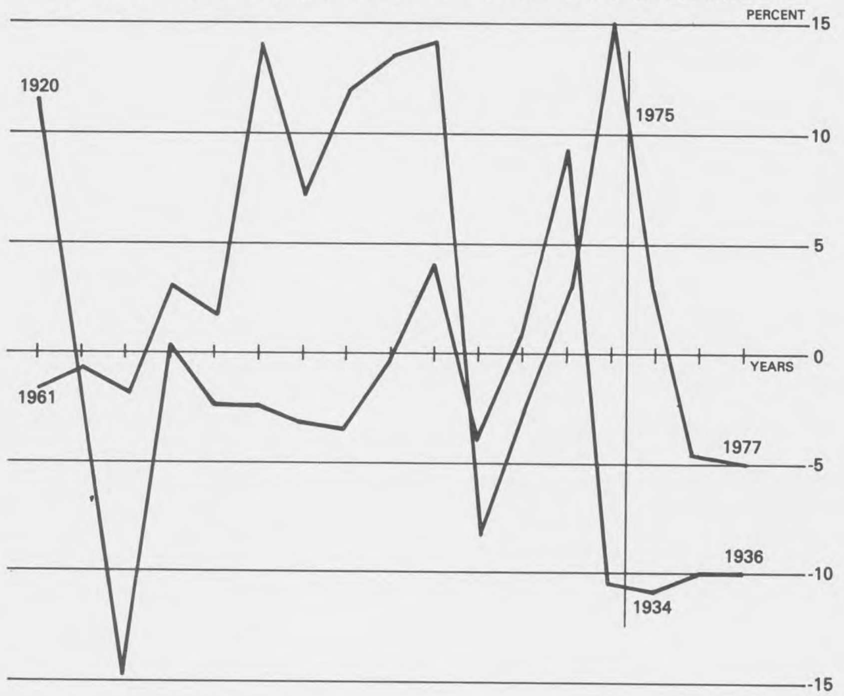


Chart 2. Percentage Change in the Corporate Bond Rate, 1920–36 and 1961–77



insurance companies, mutual savings banks and commercial banks had a low volume of fully amortized loans before 1934, even though most of their loans were partially amortizing, except in the case of mutual savings banks. Had it not been for the severe financial conditions of the Great Depression, their short-term, partially amortized mortgages might have remained their predominant type of home-mortgage instrument.

But the experience of many home owners who were not able to renew their mortgages had put an end to the partially amortizing mortgage. Many rollovers of today, while a throwback to this early type of mortgage, have guarantees of refinancing and are scheduled as fully amortizing. The rollover period today usually is employed just for the period of interest-rate adjustment, not for mortgage renewal.

Table 2 shows relative estimated net mortgage flows for 1926-30 and 1936-40 by the four institutional lenders. Net flows were estimated as changes in estimated outstanding home mortgage debt held by the institutions as of the end of the years 1925 and 1930 and 1936 and 1940, respectively. Data on amount of mortgages originated over this period — the desired data set — are not available.

The intervening years 1931-1935 are omitted because it would be misleading to compute the net mortgage flow as a proxy for the gross flow over the period 1931-35, since, starting in 1933, the Home Owners Loan Corporation (HOLC) purchased a significant amount of defaulted mortgages.

By 1935, the HOLC held about 26% of all institutional mortgages in the U. S. Data are not available on institutional distribution of those purchases.

By March, 1935, over 70% of the HOLC's total lending was complete, so net flows after that date may be accurate enough proxies, representing gross flows.

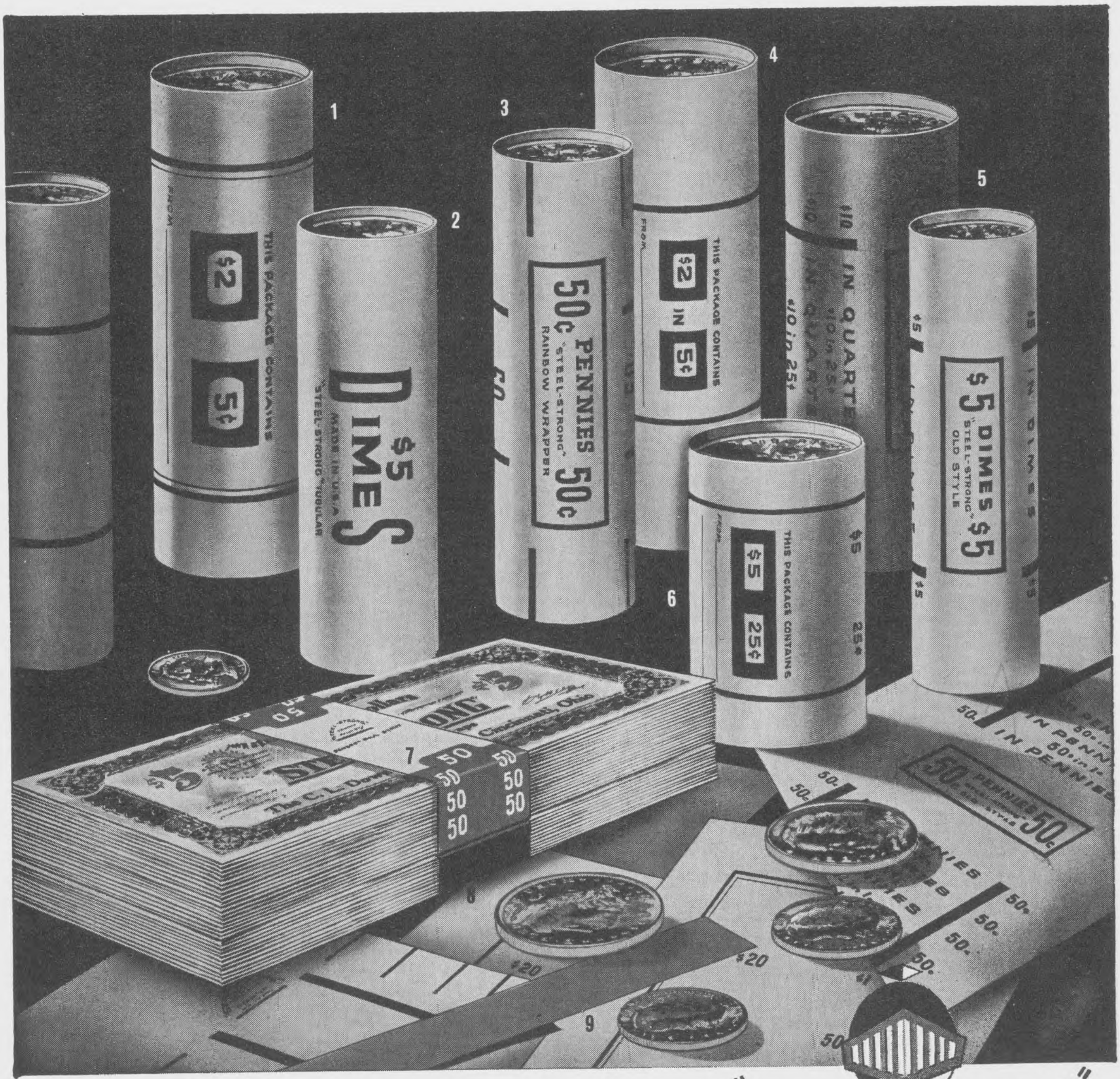
Percentage distribution of net home-mortgage flows among the institutional lenders in table 2 was used, together with amortization percentages of table 1, to derive estimates of aggregate percentages of mortgages that were fully and partially amortized. Thus, these aggregate estimates are to be considered only rough approximations of actual percentages.

Contractual maturities quite naturally correspond to the degree of amortization, full amortization requiring a longer maturity to reduce the periodic payment burden. Table 3 shows that, before 1935, commercial banks and life insurance companies, which had comparatively few amortized mortgages, issued mortgages with relatively short maturities in contrast to S&Ls, which issued mortgages with an average maturity of more than 11 years.

The abrupt increase in maturity in 1935 for commercial banks and life insurance companies represents their shift into FHA-insured mortgages. FHA mortgages allowed a term of up to 20 years, which was quite liberal even by S&L standards. Associations did not exhibit a large increase because they did not switch to FHA financing to any great extent.

Since 1940, there has been a gradually rising trend toward longer maturities. S&Ls and mutual savings banks today issue mortgages with average maturities of about 27 years, while commercial banks have lower maturities of about 22 years. (Life insurance companies withdrew from the home-mortgage market in the mid-1960s.)

Table 4 presents data on loan-to-value ratios. In the 1920s, S&Ls had higher loan-to-value ratios than commercial banks and life insurance companies. There was an abrupt upward



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shift for commercial banks in 1935, since FHA mortgages could be issued at up to 80% of appraised value of the property. By 1940, all three institutions were issuing mortgages for about 70% of appraised value. Today, the average loan-to-value ratio for commercial banks and mutual savings banks is less than 70% and, for S&Ls, 77% — up from the 68% of 1940, but at nearly the same level as in 1947.

Recent AMIs. Throughout the last 50 years, individuals and various mortgage lenders have experimented with alternative mortgage forms, but since 1947 dollar volume of such activity has been small. Unfortunately, there has been a paucity of data on this subject. A special survey (Rochester and Marcis, 1977) showed that by year-end 1976, about 2.5% of home mortgages held by S&Ls and mutual savings banks was in VRMs and only about 0.4% was held as non-VRM AMIs.

Federally chartered S&Ls had been precluded from issuing anything but the SFPM until 1974. Then a two-step graduated-payment mortgage, called the flexible-payment mortgage, was allowed. This called for interest-only payments for the first five years of the mortgage and full amortizing, level payments thereafter. State-chartered S&Ls and all other state-chartered financial institutions have been and continue to be bound by state laws and regulations regarding issuance of AMIs. The evolution of the mortgage instrument thus is slow nationwide, because changes since 1934 have come piecemeal, state by state.

However, the FHA may be playing a role now similar to the role it played in 1934 when it caused the quantum jump in trends discussed above. Starting in 1974 on an experimental basis and in 1977 on a permanent basis, FHA-insured mortgages could be of the GPM type. Since the beginning of 1977, when GPMs were less than 1% of FHA volume, GPM activity has increased dramatically. By July, 1978, GPMs constituted over 20% of FHA commitment activity.

The FHA's role, however, is more limited today than it was in the 1930s when it accounted for a large share of home mortgages. Now, only about 9% of mortgage lending is FHA-insured, whereas FHA lending constituted almost 50% of commercial bank home mortgage lending and almost 20% of life insurance company lending during the 1935-39 period. Conventional mortgages today can meet the increasing demand for GPMs.

It is likely that, when federally chartered institutions are allowed to issue conventional GPMs, there will be a federal override of any state laws regarding payment of interest on interest, which effectively prohibits the standard form of the GPM in which there is negative amortization. (There was a federal override for FHA GPMs.)

Today, only 11 states allow GPMs, and in 19 states their legal status is uncertain, so without a federal override, market penetration of the GPM could be limited.

Variable-rate mortgages, including rollovers, are the other main type of AMI becoming increasingly popular today. There are 21 states in which state-chartered institutions could offer VRMs and another 22 where the legal status of VRMs is unclear. Actual VRM activity, however, has been limited to a few states, more than 70% of it taking place in New England, Ohio, Wisconsin and California.

The most complete data on VRM activity is for S&Ls in California. Table 5 shows the proportion of VRM loans closed as a percentage of loans closed for (a) those California-chartered S&Ls issuing VRMs; (b) all California-chartered S&Ls, all of which are eligible to issue them; and (c) all California S&Ls, both state and federally chartered.

Significant VRM activity in California started in April, 1975, and by December of that year, VRM-issuing associations were making 62% of their home mortgages in that form.

This amounted to only 28% of loans issued by all those eligible to issue them and 18% of all home mortgages issued by California S&Ls. These percentages increased steadily over 1976, when 74% of mortgages originated by VRM-issuers were VRMs. After 1976, new VRM lending decreased to 46% in June, 1978. However, percentages issued for all California and for all California-chartered S&Ls stayed the same, because more S&Ls were issuing them. (There were six S&Ls in 1976 and 10 in 1977 and 1978.)

As of August, 1978, VRM loans closed for VRM issuers were 40% of the total, and their mortgage portfolios at the end of August were 41% VRM. VRM commitments for the month were 36% of the total. Therefore, at least for this phase of the interest-rate cycle, further buildup of VRM portfolios in California does not seem likely.

Summary of Trends. The major difference between today's AMIs and those of the 1920s and early 1930s is that current mortgages all are fully amortizing.

Even though about 47% of home mortgages made in the late 1920s were fully amortizing — a considerably higher figure than is generally supposed — this contrasts with the predominance of the fully amortizing mortgage now. Many rollover mortgages in the 1930s were not renewed, and this was a sufficiently powerful force to eliminate the partially amortized and non-amortized mortgage.

Accompanying the trend toward full amortization was a lengthening of contractual maturity, in order to lessen the payment burden relative to income. The loan-to-value ratio also increased during this period, thereby reducing the need for shorter-term second and third trusts.

Currently, use of GPMs and VRMs is increasing. In an inflationary environment, within the framework of full amortization, initial negative amortization is a reasonable solution to the high initial payment burden of the SFPM. However, just as the 1920s inflation gave way to the 1930s depression and deflation, it is possible that a downturn will occur again.

But GPMs contain protection against the end of inflation. Types of GPMs issued today limit the degree of negative amortization based on initial value of the house. Payment graduation is fairly modest and is limited to the first five or 10 years of the life of the mortgage.

Correlation With Economic Trends. It is interesting to do a little armchair

(Continued on page 60)

Interest-Bearing FNMA Notes

WASHINGTON, D. C. — Effective April 9, the Federal National Mortgage Association's (FNMA) short-term notes became available in both discount and interest-bearing forms. The notes previously were sold only in discount form. Both note forms will provide investors with the same effective yield.

The new interest-bearing notes are being offered to broaden the range of investment securities offered by the FNMA. Six months ago, the corporation increased the maximum maturity of its short-term notes from 270 to 360 days.

The FNMA — the nation's largest single supplier of home-mortgage funds — buys mortgage loans from local lenders, thereby replenishing those institutions' supply of mortgage money, according to an FNMA spokesman. Its stock, with about 55 million shares outstanding, is traded publicly on the New York Stock Exchange and other stock exchanges.

Three Basic Reasons

(Continued from page 40)

these two agencies. We soon discovered the vital importance of standardizing our documentation in order to comply with both FNMA's and FHLMC's seller's guides. Use of standard uniform documents was adopted as overall bank policy to give some assurance to management that future loans may have some degree of liquidity in the secondary market, at least to the extent that these two agencies would remain viable purchasers.

The S&L industry, mutual savings banks and a few pension funds soon joined the trend of the two agencies in purchasing conventional home loans. Although each buyer has his own criteria for the quality of loan he is seeking, they all have expressed their willingness and desire to accept loans that utilize the standard uniform documents. We cannot over-stress the importance of loan documentation if any bank is to be active in the secondary market. Security Pacific Bank has over 554 banking offices, each with the responsibility of generating loans in accordance with the bank's policy dictated by management through a central real estate finance department. As the volume of loans increased, we became keenly aware of our marketability fallout rate due to errors in documentation. This was inevitable when dealing with the number of offices and as large a staff as necessary to perform this task. Therefore, by 1974 we elected to centralize all our loan documentation with automated equipment. This eliminated numerous problems. However, we still witness lack of control in quality underwriting with proper credit verification.

Therefore, we are now creating a central loan-processing division that will undertake all loan functions, including quality control. Each banking office will be responsible for submitting applications only, with all underwriting, verification and documentation being performed centrally. Lending officers still have the prerogative of making exceptions to the general policy with such directives made to the loan-processing center in writing by the officer designated as the proper authority to do so. Our bank makes every effort to leave the credit decision with the banking office originating the loan. However, the central loan-processing system provides an early tally of the exceptions so that corrective measures can be readily implemented.

Centralizing the loan-processing system with complete and uniform documentation appears to be a vitally important consideration to be given by any bank that wishes to become active in generating real estate loans. Complete loan-data information should be captured at the application and appraisal stage. A system of cataloging these loans by type, rate, dollar size, quality, etc., is important when attempting to project quality and marketability of loans being processed. With regard to all of our real estate loans, our computer data system keeps us informed daily on such vital information, as follows:

> "The handwriting on the wall clearly is telling all commercial bankers to provide all phases of credit for overall community development. *It could well be that further mandates will be enacted making mortgage lending compulsory . . .* it would appear to be prudent for each commercial bank to establish its own mortgage-lending program."

1. Loans with a ratio of 75% or less since these are marketable to institutions that are precluded from exceeding that amount.
2. Loans with a standard ratio of 80% or less that have the highest degree of marketability, ranging generally up to $100,000-$125,000.
3. Loans with high dollar amounts that generally possess a limited marketability.
4. Loans on condominiums or planned unit developments (PUDs), which have varying degrees of acceptance in the secondary marketplace.
5. Loans with a ratio of over 80% that require private mortgage insurance in order to meet secondary marketing acceptance.
6. Loans that basically are considered the least desirable in the secondary market, such as older properties, loans with second trust deeds created at the time of property sale, loans on properties in remote locations, loans to secondary home buyers and to non-owner occupants.

There are numerous variations to statistical data that can be kept. Exposure to the secondary market soon dictates type and quality of loans that should be generated and determines type of information needed. A sale of uniform, high-quality loans to a first-time buyer generally establishes a good buyer-seller relationship that often will remain ongoing. The secondary market bears a high degree of personal credibility and integrity, especially to thrift institutions. Sales of loans to FNMA or FHLMC are much more standardized and uniform and, of course, require a portfolio of loans limited to their guidelines.

Selling loans to institutional buyers on a whole-loan or participation-sale basis is an ideal way to enter the secondary market. Each buyer will have a different set of criteria, and many variations of loan type and size can be considered as long as they are priced for that type in accordance with the marketplace. As experience is gained from these buyers, consideration should then be given to the future trend of creating mortgage-backed securities, either private placements or public offering. Creation of Government National Mortgage Association (GNMA) securities began in the early 1970s, and three to four years of experience had been obtained before the securities market became commonplace. We are confident that securities backed by conventional home loans will follow the same trends. All commercial banks that originate home mortgages should be aware of underwriting criteria generally demanded for security placement.

Although most of the above comments are in reference to a single-family mortgage-lending program, the same considerations can be given to production of income-property loans. Large commercial-property loans require much more expertise and awareness of secondary-marketing demands. Each property and subsequent loan characteristics are different and must be reviewed and documented accordingly. Also, the market for these types of loans is more limited, and our own bank's experience has indicated that these are accomplished most successfully when obtaining a pre-commitment to purchase. In this way, the loan can be tailored specifically to the buying institution. ● ●

The Graduated-Payment Mortgage

What Is It? What Is Its Future?

Editor's Note: Information given in this article was obtained from a brochure published by the Mortgage Bankers Association of America, Washington, D. C. The MBA's brochure contains this disclaimer: "The information contained herein has been obtained from sources we believe to be reliable, but is not guaranteed as to accuracy or completeness. This brochure is neither an offer to sell, nor a solicitation of an offer to buy the securities. The offer is made only by the prospectus."

FIRST ISSUES of a new mortgage-backed security called GPM-GNMA are expected to reach the market this spring. A GPM is a single-family, graduated-payment mortgage insured by the Federal Housing Administration (FHA) under Section 245 of the National Housing Act. GNMA, of course, is the Government National Mortgage Association.

This program has been designed to enable families — particularly young ones buying their first homes — to make lower monthly payments in early years of loans than would be required under traditional mortgages. For example, a standard FHA-insured home mortgage of $50,000 at 9.5% interest over 30 years would call for $420 monthly payments. Under the most popular GPM program (Plan III), payments would be $318 a month the first year and rise by 7.5% each year until, after five years, they reach $457 a month. Then, they would remain at $457 for the remaining life of a loan.

Because payments in the first years are insufficient to cover the full interest owed on loans, the monthly shortfall is added to loan balances in the form of deferred interest. The difference is illustrated using the previous example and comparing the GPM to the traditional fixed-payment loan as shown in Table I below.

The FHA-GPM offers the following options:

Plan I. Payments rise by 2.5% a year for five years.

Plan II. Payments rise by 5% a year for five years.

Plan III. Payments rise by 7.5% a year for five years.

Plan IV. Payments rise by 2.5% a year for 10 years.

Plan V. Payments rise by 3% a year for 10 years.

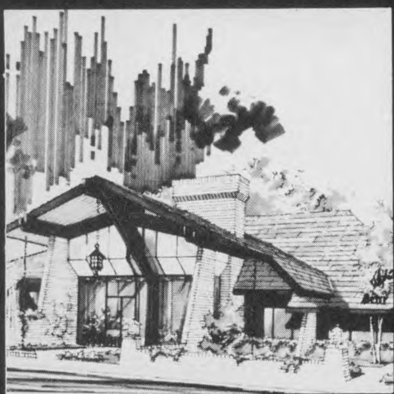
Only Plan I, II and III mortgages (those reaching a constant payment level after five years) are eligible for inclusion in the GPM-GNMA pools. To date, Plan III has proved to be the most popular, and GPM-GNMA pools, therefore, are likely to consist largely or even entirely of Plan III loans. The yield table is based on the assumption that all loans are Plan III. Inclusion of some Plan I or Plan II mortgages will result in yields slightly higher than stated. Except for the difference in payments during the first few years and the resulting effect on amortization, the FHA-GPM is similar to the FHA 203(b) mortgages, which have been used in existing GNMA single-family pools.

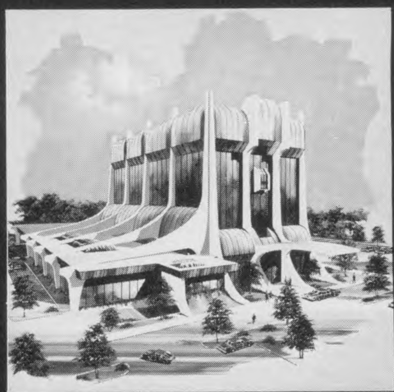
	Monthly Payment (P & I only)		Loan Balance (end of year)	
Year	**Standard**	**GPM**	**Standard**	**GPM**
1	$420.50	$318.60	$49,700	$50,968
2	420.50	342.50	49,350	51,733
3	420.50	368.19	49,000	52,252
4	420.50	395.79	48,550	52,476
5	420.50	425.48	48,100	52,350
6	420.50	457.38	47,650	51,812
and thereafter			*continues to decline reaching 0 after 30 years.*	

The formal structure of the GPM-GNMA mortgage-backed security virtually is identical to that of the existing GNMA-SF single-family fixed-payment security. Pools of at least $1 million are issued by mortgage bankers or other lenders and are guaranteed by the GNMA. The minimum security denomination is $25,000, and a round lot is $1 million. Maturity normally is 30 years, and securities are traded — using a special yield book — on the standard 12-year prepayment assumption. Investors receive monthly checks reflecting payments due from individual borrowers plus unscheduled recoveries as under the present program. Chemical Bank, New York City, serves as transfer agent.

Special cash-flow characteristics of the underlying FHA-GPM mortgages are fully reflected in the GPM-GNMA. In the absence of prepayments, an investor will receive monthly remittances below the face rate in the earlier years. This shortfall constitutes deferred interest and, as it's added to the mortgagor's remaining principal balance, it is, in effect, reinvested automatically for the investor at the coupon rate. Tax consequences of deferred earnings may vary depending on whether the investor operates on an accrual or cash tax basis.

However, since yield books already assume reinvestment of earnings, this phenomenon will *not* affect the yield of a GPM-GNMA bought *at par*. For a security purchased at par, the only





difference will be in the slower return of principal under the GPM-GNMA. There's a difference of one basis point or less in yield between the GPM-GNMA and fixed-payment mortgage (FPA) GNMA when priced at par.

When GNMAs are traded at a discount or at a premium, however, the differences become more pronounced. This is because a portion of an investor's earnings actually are being reinvested at the coupon rate. For example, an investor requiring a 9.5% yield would pay 96.25 for a 9% FPM-GNMA, but only 96 for a 9% GPM-GNMA. Conversely, at a premium price of 105, the GPM-GNMA yields 8.31, while the FPM-GNMA yields 8.26 (if prepaid in 12 years).

The validity of the assumption that interim funds can be reinvested at a particular rate obviously varies, and price spreads between FPM-GNMAs and GPM-GNMAs may change to reflect this. However, the important point to remember is that the GPM-GNMA yield table already has taken into account the fact that for any prepayment assumption, principal will be returned more slowly and that, initially, a portion of the interest rate is deferred and reinvested at the coupon rate.

Monthly Constants. Since individual mortgage balances in the pool will be increasing during the first years, it follows that, in the absence of prepayments, the security balance also will increase. In other words, factors will be greater than 1,000.

The following table illustrates how factors for standard FPM and GPM 9% GNMA securities will differ even if prepayment experience is identical. The table assumes a $2-million pool consisting of 50 mortgages, originally $40,000 each, and uses recent FHA 203(b) prepayment experience for both.

Illustrative Factors for Same Prepayment

End of Yr.	Loans Remaining	Factor GNMA-FPM	Factor GNMA-GPM
0	50	1.0000	1.0000
1	50	.9940	1.0194
2	49	.9673	1.0140
3	47	.9212	.9823
4	44	.8545	.9236
5	40	.7696	.8376

During the first five years, monthly "constants" will vary in several ways. Each year, a mortgagor's payment will rise, causing the "constant" to increase. However, if loans in the pool have different first-payment dates, this change will take place over several months. A pool with a few Plan I and Plan II mortgages will have a different constant than one with only Plan III mortgages. Finally, whereas standard mortgage pools have continuously rising marginal changes from month to month, the GPM-GNMA constants will decrease slightly each month until the loan balance peaks (at the end of the fourth year for Plan III) and then increase somewhat more rapidly for the balance of the life of the pool.

What About Prepayments? The program is too new to draw even tentative conclusions as to whether GPM-GNMA pools will prepay any differently than existing fixed-payment GNMA pools. Some argue that borrowers will have purchased a house suitable to their long-term needs and, hence, will be less likely to move. Others point out that the criterion of potential for income growth may bring into the program upwardly mobile borrowers who are transferred or trade up to larger houses at above-average rates. Technically, higher loan balances should facilitate assumptions, but higher monthly payments in later years will create a counterbalancing incentive to refinance.

"This program has been designed to enable families — particularly young ones buying their first homes — to make lower monthly payments in early years of loans than would be required under traditional mortgages."

The investor should draw his own conclusions on this point, keeping in mind that more general considerations — such as economic conditions and relative interest rates that impact equally on all mortgages — may well be more significant.

Growth Prospects. After a testing period, the FHA-GPM program received its full-scale launching early in 1978, along with an extensive promotional campaign aimed at prospective borrowers. During 1978, the FHA received 67,000 applications for about $2.7 billion in mortgages. During the early part of this year, GPM applications were constituting nearly a quarter of all FHA single-family business. The FHA expects this share to continue growing, perhaps reaching 50% by the end of 1980.

Until now, the only large market for GPM loans has been the Federal National Mortgage Association (FNMA), and many issuers have created substantial production pipelines in preparation for the GPM-GNMA program. Exactly how much existing and new GPM production will be packaged and sold as GPM-GNMAs will depend on market conditions, but the Mortgage Bankers Association of America believes it's likely that at least $1 billion and perhaps as much as $2 billion to $3 billion in GPM-GNMAs will be issued in 1979.

Within a few years, one out of four new GNMA pools is likely to be a GPM-GNMA. The proportion would increase substantially if the FHA-GPM program were altered to appeal more to VA borrowers or, if the VA program itself were to introduce a GPM option. All major GNMA dealers are expected to make a market in the GPM-GNMA, and the prognosis is excellent for quick market acceptance and rapid buildup of secondary trading. ● ●

GPM Home Loans Offered By Wells Fargo Bank

SAN FRANCISCO — Wells Fargo Bank has introduced a 30-year, fixed-rate, graduated-payment-mortgage (GMP) loan, called "Homestarter." With such a loan, home buyers' monthly payments are lower than on a comparable conventional mortgage during the first five years, during which time they increase yearly to a fixed amount for the remainder of the loan term.

"We're offering Homestarter for home buyers with good earning potential," says Robert L. Altick Jr., executive vice president and manager, retail banking, "but whose savings and current incomes are too low to qualify them for a conventional 80% or 90% mortgage on the home they want. This loan should help buyers purchase homes with affordable payments more closely in line with their anticipated income growth over several years."

Wells Fargo's Homestarter is a graduated-payment approach that lends a buyer money to buy a home *and* an extra amount to help with payments during the first five years. The Homestarter loan provides up to 90% financing for home purchase plus an additional 5% of that amount set aside for the borrower to draw on to supplement monthly payments during the first five years. The loan cannot exceed $100,000, and the house must be a single-family, owner-occupied residence.

To bolster its program of helping potential buyers own homes, Wells Fargo also offers 95% conventional mortgages up to $100,000.

GPM Program Offered by Mortgage-Insurance Firm

THERE ARE two firsts connected with a graduated-payment-mortgage (GPM) program introduced recently by Mortgage Guaranty Insurance Corp. (MGIC), Milwaukee.

It is the first entry of a private mortgage insurer into the GPM field and is the first customized GPM program available for which the lender does not have to rely on a machine for its operation.

Known as ACTION! Mortgage, the program initially was developed by Cheshire County Savings Bank, Keene, N. H. The plan enables mortgage lenders to schedule reduced monthly payments for a borrower during the early years of a mortgage.

According to MGIC President Leon Kendall, the program is simple because his firm has eliminated the need for an on-line computer/terminal or a specially trained service staff by creating and customizing individual-loan schedules tailored to each lender's needs.

"One of the most important ACTION! elements to be considered by mortgage lenders," says Mr. Kendall, "is that the program is offered free, as a service of MGIC. The lender need no longer be burdened with the expense or complexity of computer-based GPM systems."

Under the ACTION! plan, MGIC mortgage-guaranty insurance is used, allowing a home buyer to purchase a house with as little as 10% down payment. Then, a graduated-payment-mortgage schedule is constructed that allows for a percentage of the down payment to be applied directly to the purchase price of the house.

With ACTION!, the balance of the down payment is placed in a pledged savings account. Principal and interest then are used to supplement monthly mortgage payments. As the savings account is slowly depleted, the borrower's out-of-pocket expense increases at a fixed yearly amount. This increase is based on the best possible estimate of the borrower's potential annual-income increase. In about the sixth year, mortgage payments level off and remain unchanged for the duration of the loan.

According to Mr. Kendall, the pledged savings account benefits both the borrower and lender since "(it) is beneficial for the borrower because it allows for a reduction of the mortgage payment early in the life of a loan," and, "as for the lender, the pledged savings account represents a deposit base that will grow with use of the plan."

To allow each ACTION! plan to be tailored individually to lending situations, MGIC asks the lender to specify beforehand such information as mortgage-interest rates, savings-account-interest rates, percentage of down payment and lending terms.

After approving the loan, MGIC returns a commitment certificate, along with a customized printout and loan-amortization schedule for the borrower, based on the lender's specifications. The program also can be given to local realtors and builders so they can pre-qualify customers for mortgage financing.

"Actuarial studies have demonstrated the predictability of income growth," Mr. Kendall points out, "But underwriting a loan based on such growth does introduce a new risk. By insuring loans made under the ACTION! graduated-payment system, MGIC hopes to make better housing available for more people at all income levels." • •

Home-Mortgage

(Continued from page 50)

theorizing about the two major changes in the home mortgage instrument; i.e., the move toward the SFPM starting in 1934 and, second, the slight but apparently increasing trend toward VRMs and GPMs starting around 1975.

Chart 1 shows the rate of inflation as measured by the Consumer Price Index for those two epochs. Up to 1934, except for the post-World War I period, falling prices were most prevalent, with only a small amount of inflation in the mid-1920s.

But in the 15 years before 1975, steady and increasing inflation was the rule. Thus, the move to the longer-term SFPM from the short-term rollover in the 1930s was a reasonable response because the initial payment burden was not as much of a consideration as in an inflationary environment. The GPM, on the other hand, is an AMI whose initial payments are lower than the SFPM. Its introduction in the 1970s is a rational response to inflation regarded to be permanent.

Chart 2 shows percentage changes in the corporate bond rate (Moody's Aaa) for these two periods. The bond rate is used as a proxy for the long-term mortgage rate. It showed considerable variance prior to 1934, but generally went down. Thus, when rollover mortgages were renewed, lenders would have to lower their rates. This probably is another reason for the switch to the SFPM.

Conversely, long-term rate fluctuations were quite large from 1961 to 1975, and most of the changes were on the up side. Lenders, in this milieu, favor the VRM over the SFPM, if they expect this pattern to continue, although it has not done so in the last few years. Of course, initial VRM interest rates should be lower than SFPM rates to equate expected risk-adjusted yields on the VRM and the SFPM, but in a transitory period clouded with uncertainty, such initial pricing may not occur.

In addition, it may take some time before lenders realize that VRMs may have to be priced lower initially than standard, fixed-rate mortgages and before they therefore decide not to switch to the VRM. As recent statistics from California indicate, such a realization already may be taking place, and significant market penetration of VRMs may not materialize.

Summing up, both this new era and the old may be viewed as natural market consequences of responses to the economic climate. The next several years promise to be a period of lively innovation in home-mortgage financing, and newly emerging trends bear watching as time goes on. • •

Inflation Psychology

(Continued from page 41)

flow from other types of savings and time deposits.

He makes the following predictions for the real estate industry in 1979:

• Inflation will remain the country's No. 1 economic problem. The problem is fueled by food and energy prices, which are expected to increase. Spiraling beef costs will increase food prices, and 1978 energy legislation, OPEC oil prices and unrest in Iran will affect energy prices.

• Inflation psychology will rule the real estate market, meaning that interest rates will not decline significantly even if there is a mild recession later this year.

• Commercial banks and S&Ls will be pinched for liquidity, but continue to make real estate loans unless local price controls force them out of the market. Availability of funds from money-market sources, such as the new consumer six-month certificate, mortgage-backed securities, sales to secondary markets and government advances have stabilized availability of mortgage money.

• Price-control laws don't work and they hurt most those whom the laws were designed to help.

• Consumer income will continue to rise, but discretionary spending will be squeezed by present debts and rising cost of living. This squeeze could put a damper on families' abilities to upgrade their housing by moving to bigger, better houses. This will encourage the home-improvement market.

• Housing starts for new units should decrease about 15-20% to a level of 1.6 million to 1.7 million. Multifamily starts should increase. Widespread confiscation of apartment values through rent control has become a real threat. More new multifamily units are now condominiums.

• Existing house sales will decrease less proportionately than new housing starts. The pace should fall to 3.5 million. Existing home markets should outperform new home construction because of availability of existing loans to be assumed, along with the seller's capacity to adjust prices or discounts or take back mortgages.

• Demand for all types of commercial properties should stay strong.

"The condition of the local bank is a vital factor in the future of the local housing and real estate market," Mr. Jackson says. "Although local banks seldom are primary sources of mortgage money, they supply the housing industry with other forms of credit, i.e., construction and land-development loans to builders, home-improvement loans and business loans to suppliers and subcontractors.

"Banks help finance city and state governments and utility companies on which the housing industry is dependent. Also, banks finance the trade and commerce that produce jobs in every community. Without jobs, there would be no income with which to buy housing."

In addition to being shelter, a home has become a large, profitable investment. "It has been one of the new hedges against inflation," Mr. Jackson says. "As a result, the question for many families has changed from 'Can we afford it?' to 'Can we afford to be without one?'" ••

The Case For High-Ratio Mortgage Lending

Higher profits, plus cross-selling opportunities

HIGH-RATIO home-mortgage lending can be profitable, primarily through increased contract rates and higher origination fees, according to a report by Mortgage Guaranty Insurance Corp. (MGIC) of Milwaukee.

"Low down-payment mortgages (any over 80% loan-to-value ratio) usually command higher interest rates," the company writes in its 16-page brochure, *Insured Conventional High-Ratio Mortgages*. "An insured 90% loan, for example, usually is ¼ of 1% higher than an 80% loan, and 95% loans are frequently an additional ½% higher than 80s."

Higher origination fees, use of funds held in escrow for taxes and sales to the secondary mortgage market can increase yields on mortgages, MGIC reports.

High-ratio mortgages, MGIC claims, add more to a bank's net income than conventional 80% loans. "Some lenders state that more mortgage loans can be made at 80% than at 90% or 95%; so they restrict their lending policies believing they can serve more customers that way.

"However, that logic fails to take into account the source of the larger down payment required. In most cases, the down payment comes from the borrower's savings and demand-deposit accounts. And once those funds are withdrawn, the lender no longer has that money available to make other mortgage loans."

Thus, a high-ratio mortgage lender benefits not only from increased contract rates, but also by maintaining borrowers' deposit balances.

MGIC constructs an example of a banker with $1 million committed to home mortgages. "If the institution makes 20 loans on homes selling for $50,000 each and restricts the loans to 80% LTV, it will pay out $800,000 in loaned funds. The other $200,000 — the combined down payments on the 20 loans — actually represents lost deposits."

Making 95% mortgages, the same lender's lost deposits would total only $50,000, with $950,000 loaned out at a higher contract rate. In MGIC's example, the increased loan portfolio and higher rate yields net earnings of $32,540, or 58% more than the $20,560 earned with an 80% loan policy. (See chart.)

"Even when the larger down payment is made from equity on a previous home, it may represent a lost opportunity for demand or savings deposits," according to MGIC. "Therefore, the lender's loan officers should look at the entire picture and treat the down payment as a cost/benefit opportunity."

High-ratio lending also presents a cross-selling opportunity, says the writer of mortgage guaranty insurance. With house-price inflation outpacing the savings program of first-time home buyers, "a low-down-payment mortgage allows them to buy their first

(Continued on page 80)

	80% & Under	90%	95%
Loaned Funds	$800,000	$900,000	$950,000
Deposits Lost	$200,000	$100,000	$ 50,000
Note Rate	9.50%	9.75%	10.00%
Gross Earnings	$ 76,000	$ 87,750	$ 95,000
Less:			
Cost of Loaned Funds*	($ 51,840)	($ 58,320)	($ 61,560)
Opportunity Cost of Lost Deposits*	($ 3,600)	($ 1,800)	($ 900)
Net Earnings	$ 20,560	$ 27,630	$ 32,540
Increased Net Earnings from High Ratio Lending			
Dollars	---	$ 7,070	$ 11,980
Percent	---	34.39%	58.27%
Ratio: Net Earnings to Loaned Funds	2.57%	3.07%	3.43%

Following assumptions are made in above chart: (1) prime single-family loan rate of 9.5%. (2) ¼% differential in loan rates between 80% and 90-95% loans. * Also, cost data based on 1978 Federal Home Loan Bank Journal: average earnings on deposits, 8.28%; average cost of deposits, 6.48%; differential, 1.8%.

A Case for Variable-Rate Mortgages

By JOHN P. DANFORTH
Assistant Vice President
Research Department
Federal Reserve Bank
Minneapolis

MORTGAGES with interest rates that can change over the life of the loan — variable-rate mortgages (VRMs) — have been prohibited in most of the United States since the 1930s (we are not using *prohibited* in a strict sense here; VRMs rarely are explicitly prohibited. But many states effectively prohibit them by outlawing increases in interest rates and/or payments over lives of mortgage contracts).

This prohibition is counterproductive and unnecessary. Rather than encouraging home ownership, one of its main purposes, it discourages it by denying borrowers features many would prefer to those of the traditional fixed-rate mortgages (FRMs) — including lower interest rates. And the prohibition isn't needed to accomplish anything else; borrowers still could get benefits of FRMs without it. To really encourage home ownership, therefore (and to reduce taxes, too), mortgage lenders throughout the U. S. should be authorized to offer VRMs.

Dropping the counter-productive prohibition on VRMs nationwide would not cost borrowers anything, and it could benefit nearly everybody. FRM borrowers still could get them and at no higher price.

A Housing Goal. Banning VRMs is one of many governmental actions aimed, at least in part, at the same goal: to assure adequate housing, particularly the opportunity for every American family to own a home. It's impossible to say just when housing opportunities achieved the status of a national goal. But that status was implied in both the Housing Act of 1949 and the Housing and Urban Development Act of 1968.

These acts and much other legislation reflect the view that our housing goal will not be achieved without active government involvement in the housing market. There's good economic justification for such involvement if we assume that society as a whole benefits when individuals own their homes. Each individual's decision to buy a house is based on purely individual benefits, and costs of home ownership undoubtedly will exceed the benefits for some people. If the gains to society from having one more home owner would more than make up the difference, government should intervene to encourage home purchases.

Policymakers may or may not have been motivated by this theoretical argument, but they have chosen to encourage individual home ownership and to do it by participating actively in the mortgage market. Perhaps, they chose to help the mortgage market because it seemed to need help; half of all mortgage borrowers had to default during the Great Depression. Whatever the reason, policymakers created a host of regulations and agencies aimed at improving borrowers' credit terms — especially interest rates. (Credit terms include a long list of mortgage-contract attributes such as interest charge, down payment and contract length. This article concentrates on the magnitude and variability of interest charges over the life of the mortgage contract.)

Most of these regulations and agencies were meant to keep interest rates low. Many state governments acted directly and placed ceilings on rates lenders could charge on their home-mortgage loans. The federal government took a more indirect route. Since rates mortgage borrowers must pay are determined to some extent by what lenders must pay to get funds to lend, policymakers tried to reduce costs of these funds and then let competition among lenders pass the reductions on to borrowers. The federal government thus set ceilings, too, but on interest banks and S&Ls could pay on their deposit liabilities (Regulation Q). It also established a complicated maze of agencies to help move non-deposit funds from the national money markets to the mortgage market. The Federal Home Loan Bank System, for instance, sells investors government-agency bonds, which get tax breaks, then lends the proceeds to S&Ls, usually at below-market rates. The Federal Housing Administration (FHA) insures lenders against loss on home-mortgage loans. And the Federal National Mortgage Association (FNMA), Government National Mortgage Association (GNMA) and Federal Home Loan Mortgage Corp. (FHLMC) provide lenders with a secondary market for insured mortgage loans where they can get money quickly.

While keeping interest rates low obviously was a primary concern of policymakers trying to encourage home ownership, it wasn't the only one. They believed that borrowers also would find mortgages more attractive if rates they had to pay for them could not be changed. So both the federal government and most state governments effectively prohibited many of the financial firms they chartered from offering mortgages with variable-interest charges.

Probably, the most attractive feature of VRMs is the level of their interest rates compared to FRMs': They'd be lower. This is because making loans at fixed rates is much riskier for mortgage lenders.

Counterproductive Prohibition. Unfortunately, however, this prohibition works against the nation's housing goal instead of for it, mainly because it makes home ownership less attractive for many people. Of course, some borrowers prefer paying a fixed rate of interest on their mortgage loans, but others prefer the advantages they could get by accepting changeable rates — and those advantages are considerable.

The most obvious advantage stems from the fact that rates that vary can move down as well as up, while fixed rates are just that — fixed. For exam-

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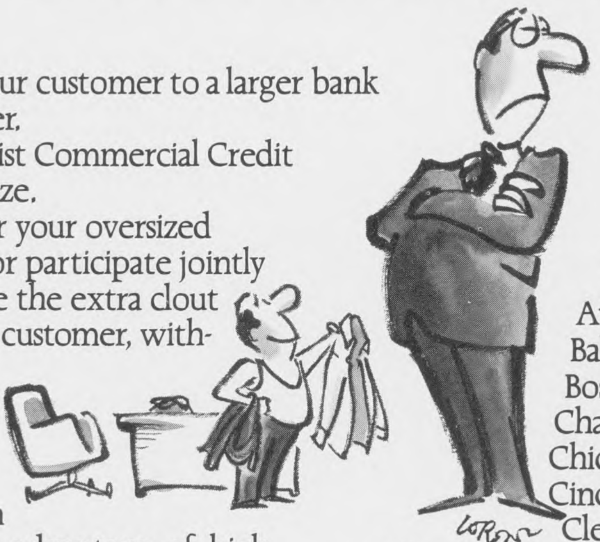

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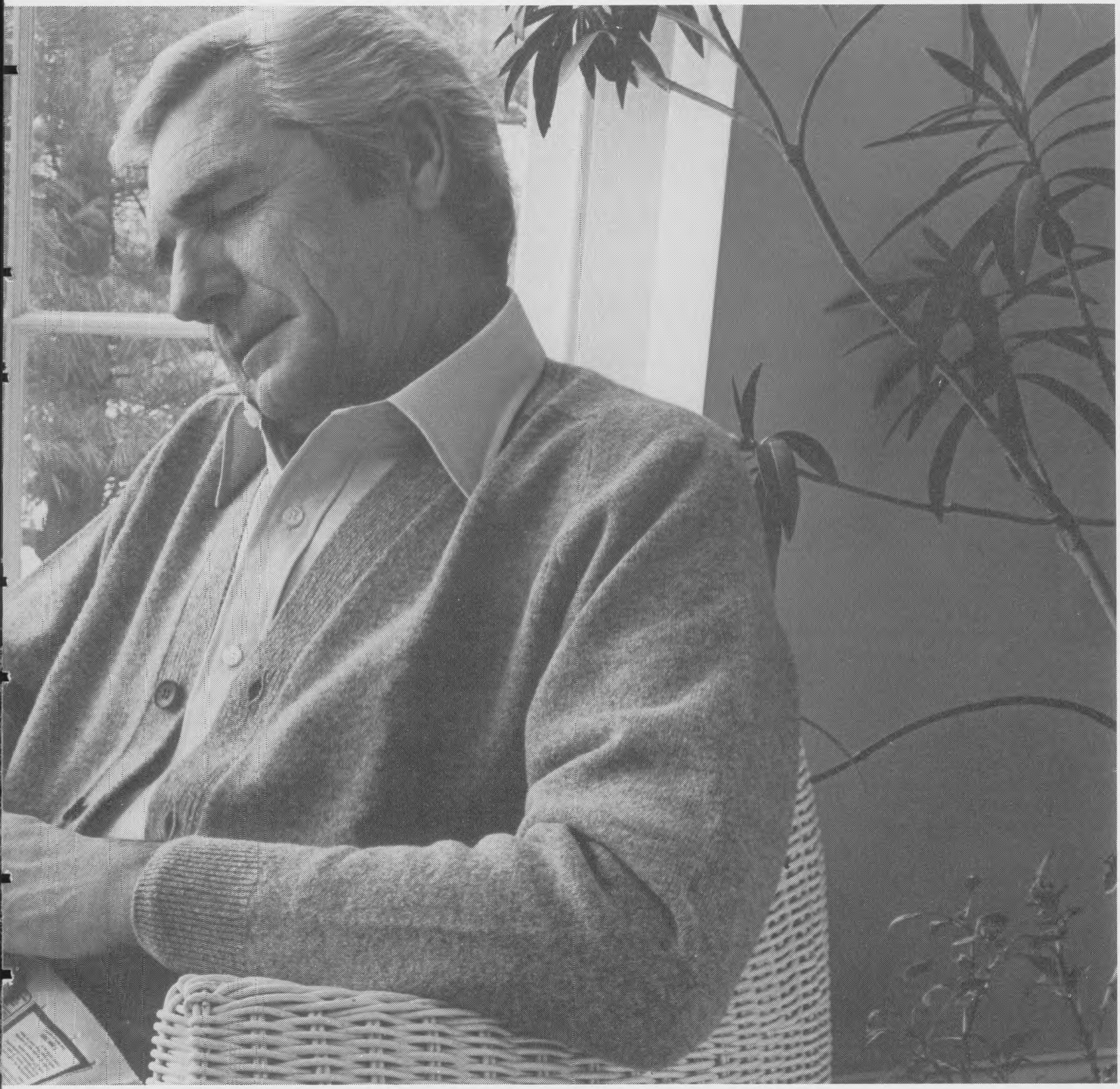

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ple, if costs of funds to lenders fell unexpectedly, VRM holders would benefit: Their interest rates would be reduced automatically. FRM holders, however, could not take advantage of those lower rates without paying closing costs on new mortgages and possibly prepayment penalties on current ones.

This advantage of VRMs is greater than it may seem, for the need to pay the extra costs of refinancing a fixed-rate mortgage would come at a bad time for most people. This is because changes in interest rates are linked to changes in inflation and income growth.

Both lenders and borrowers make some predictions of inflation when they make mortgage contracts. Lenders set the interest rate based on what they think inflation will be over the life of the loan so that they'll be sure to get some real return for use of their funds. Borrowers are willing to accept these interest rates because they expect inflation not only to reduce the real value of their mortgage payments, but also to boost their incomes over the life of the loan so that they'll pay a shrinking share of their income for the mortgage.

If inflation slowed unexpectedly, eventually pulling down interest rates, lenders obviously wouldn't suffer from their wrong prediction, but some borrowers would. Growth in their inflation-tied income would slow, too, making them less able than they expected to afford anything with a fixed price — including a mortgage. Ability to change the interest rate on a mortgage thus would be a great advantage. While people with VRMs would be able to pay less for their mortgages when they could afford less, people with FRMs would have to either pay more of their incomes than they expected for their mortgages or else pay extra refinancing costs when they could least afford them.

One reason many have not recognized this advantage of VRMs is that since the mid-1960s, lenders seem to have consistently underestimated inflation when they set FRM rates, which has, of course, given FRM borrowers the advantages. It is hard to believe lenders will make such mistakes much longer, but even if they make them occasionally, VRM borrowers would not be as bad off as some may think. For if inflation rose faster than expected, pushing variable and new mortgage rates above those on old fixed-rate loans, income would rise faster than expected, too. People with VRMs, therefore, would be paying higher rates when they were best able to afford them.

VRM Rates Lower. Over the life of the loan, VRM borrowers would come out ahead. For probably the most attractive feature of VRMs is the level of their interest rates compared to FRMs': They'd be lower. This is because making loans at fixed rates is much riskier for mortgage lenders.

The increased risk comes from not being able to adjust loan rates to match changes in costs of funds. Mortgage lenders rely mostly on short-term-deposit liabilities, and the interest rate they must pay for them varies quite a bit. By definition, however, the rate they charge on FRMs cannot change at all. While lenders try to predict what short-term rates will be over the life of the loan when they set fixed mortgage rates, chances of being wrong are great. Thus, lenders' profit — the margin between cost of liabilities and return on assets — can vary unpredictably.

Of course, it is the possibility of sharp drops in income resulting from unexpected jumps in short-term interest rates that poses the greatest threat to mortgage lenders. Consider the implications of an unexpected two-percentage-point rise in short-term rates (not an unheard-of jump) for an S&L holding $100 million in FRMs. If the rate paid on that firm's liabilities rose by the same amount, its profit for the year would suffer an unpredicted $2-million decline, most likely pushing it well into the red for the year and possibly into bankruptcy.

But don't Regulation Q ceilings protect lenders from such dramatic shifts in the cost of funds? To some extent, yes, but that protection is mostly illusory. When interest rates on nondeposit short-term liabilities such as commercial paper and U. S. Treasury securities rise above the ceiling for deposits, savers begin shifting funds out of deposits and into more profitable investments. This process, called *disintermediation*, forces mortgage lenders to acquire liabilities not covered by interest-rate ceilings; that is, to pay the higher costs of funds despite Reg Q. For instance, banks and S&Ls can offer six-month, $10,000-plus savings certificates with interest rates tied to Treasury bill rates (first allowed in June, 1978, as a result of disintermediation pressures) and $100,000-plus CDs at rates they are free to choose. Furthermore, federally chartered thrifts, which specialize almost completely in long-term mortgage lending and thus are especially vulnerable to unexpected jumps in short-term interest rates, can borrow from the Federal Home Loan Bank at rates typically

below their market alternatives, but which may be far above Reg Q ceilings. So even with government agencies' help, Reg Q does not shield mortgage lenders effectively from upward swings in short-term rates and the resulting plunge in earnings.

The increased risk of such plunges ultimately makes borrowers pay more for FRMs than they would have to for VRMs. That's because managers and resource owners typically are risk avoiders. An increase in the riskiness of mortgage lending leads them to shift resources out of mortgage loans and into less risky investments. As this occurs, potential borrowers must compete for the dwindling supply of mortgage credit, and they do so by bidding up credit terms. In the end, rates on FRMs rise to a point where payments borrowers are willing to make — and so the expected return from mortgage lending — are high enough to compensate managers and resource owners for the added risk. Obviously, lenders wouldn't need this kind of compensation on VRMs. In fact, if they were allowed, lenders would encourage borrowers to choose VRMs by offering lower average charges on them over the life of the mortgage contract.

Don't Prohibit VRMs. Attractive as these features are, some say, prohibiting VRNs is warranted to assure borrowers of FRM benefits. But this simply is not true. The prohibition not only is counterproductive, it's unnecessary. It does not give borrowers any benefits they would not be able to get without it.

If VRMs were allowed, certainly FRMs still would be available to those who prefer fixed rates, and they would have to pay no more than if VRMs still were prohibited. There's no reason for lenders to offer VRMs exclusively if the return on FRMs is high enough to make them take the risk. And current FRM interest rates obviously are already high enough to do that, or mortgage money would be draining into less risky activities.

A few policymakers seem to think that prohibiting VRMs is necessary to protect consumers from big business; indeed, some say this was a main reason for the prohibition. They argue that borrowers can't assess the likely course of interest rates as well as lenders, and lenders would take advantage of that if VRMs were allowed.

We see at least three flaws in that line of reasoning. First, if borrowers have less information than lenders, that disadvantage exists when they're taking out FRMs, too; prohibiting VRMs doesn't protect borrowers from lenders. Second, that protection isn't necessary anyway. While some borrowers may know less than lenders about future interest-rate developments, individual lenders are unlikely to know more than other lenders. Competition for customers, therefore, would prevent lenders from taking advantage of their informational edge over borrowers in setting VRM terms just as it does now with FRM terms. And third, if VRMs were allowed, any borrowers who nevertheless felt at an informational disadvantage and that the disadvantage was, in some sense, more severe with VRMs could choose to take out FRMs. Of course, borrowers could underestimate their relative lack of information and take the wrong type of mortgage, but to prohibit what often may be the right choice because it isn't always the right choice seems a rather extreme application of consumer protectionism.

Drop It – for Everybody's Sake. The experience in California, one of the few states where VRMs have been explicitly authorized, supports this analysis. (California's state-chartered S&Ls have been offering VRMs since 1975. Effective January, 1979, the Federal Home Loan Bank Board authorized the state's federally chartered S&Ls to offer VRMs, too.) Many borrowers there obviously find VRMs attractive. As of June, 1978, they had taken $15 billion worth of them, about 40% of all mortgages held by lenders offering VRMs. And borrowers who prefer FRMs are not suffering as a result. While initial rates on all types of mortgages have risen nationwide since VRMs were allowed in California, rates on FRMs have not risen any more in that state than elsewhere. As expected, though, in California, average rates on VRMs have been lower than those on FRMs.

Dropping this counterproductive prohibition on VRMs nationwide thus would not cost borrowers anything, and it could benefit nearly everybody. Those people now happy with FRMs would lose nothing; they still would be able to get them and at no higher price. But people now accepting FRMs unhappily or completely discouraged from home buying by them would be able to get the kind of mortgages they'd prefer. If VRMs were allowed, therefore, more mortgages would be made; the government's housing goal would be promoted, and society as a whole would benefit, too. If lenders could vary some mortgage rates to match the cost of funds more closely, their dependence on government agencies would be reduced — and so could taxes that support these agencies. • •

• **Harris Bankcorp, Inc.,** Chicago, plans to establish a new Arizona-based corporation, Harris Trust Co. of Arizona, expanding its representative office already located in Scottsdale, which was formed to solicit and service regional trust and investment management business. Plans for the office, which has been in Scottsdale since mid-1976, call for enlarging office space and staff and moving some Chicago-based officers to Arizona.

VRMs in Public's, Lenders' Interests, Says Retired Professor of Finance

CONGRESS should encourage use of variable rate mortgages (VRMs) or require savings associations and the Federal Home Loan Bank Board (FHLBB) to develop some other protection against interest-rate risk. That's the opinion of Edward E. Edwards, professor emeritus of finance at Indiana University.

Writing in a recent issue of the *MGIC Newsletter*, Professor Edwards says Congress presently does not favor use of VRMs by federal savings associations because "the question as to whether use of VRMs would be in the public interest has not yet been answered."

MGIC Newsletter Consulting Editor Don Sauer agrees with Professor Edwards and suggests that "it is quite possible that Congress does not like variable rates because it has not yet seen any plan for variation that it either likes or thinks is in the public interest."

Pointing out that "the prohibition (against VRMs) came about by accident, without any consideration of its probable effects and . . . without any realization there was such a prohibition," the professor asserts that the "burden of proof is on those who want VRMs and that the issue is largely a congressional one."

To answer the public-interest question, he believes Congress must consider two things: whether the rate of saving is adequate to meet additions to capital and whether housing has unwarranted advantages over business enterprise and state and local governments in competition for funds.

Suggestions that "savings being channeled into housing should not be monetized" or that "savings associations need to develop a genuinely long-term obligation for the assembly of funds," Professor Edwards advises that "to authorize variable rates before developing any arrangement for controlling expansion of association assets and liabilities might prove to be a serious mistake."

To support his argument, he notes that "liabilities of saving associations now constitute such a large portion of broadly defined money (M3) that they make the formulation and carrying out of monetary policy difficult."

Professor Edwards holds up the British experience with VRMs as an example of how variable rates have "served savers exceedingly well, served housing markets well and kept the building societies solvent." Britain has had VRMs about 20 years.

However, he points out that use of VRMs "has given British building societies an immunity from national monetary and credit policies," making it necessary for the British government to participate in decisions to change interest rates, but also set quotas for lending volume.

This, according to Professor Edwards, should not disturb Congress since federal agencies long have had and used their authority to set maximum interest rates and regulate lending volume by setting liquidity requirements and controlling terms and lending volume by Federal Home Loan banks and other federal agencies.

"The only problem here," he warns, "would seem to be within the government itself in coordinating credit policy; and based on current experience, that might be difficult."

The *MGIC Newsletter* is published by Mortgage Guaranty Insurance Corp., Milwaukee, the nation's oldest and largest private insurer of conventional low-down-payment loans. MGIC is the principal subsidiary of MGIC Investment Corp, also in Milwaukee. ● ●

First City Nat'l to Build Tower

FIRST CITY NATIONAL, Houston, plans to add a 49-story, 1.4-million-square-foot addition to the Houston skyline with its First City Tower. Construction began in March and is expected to be completed by late 1980.

The tower will occupy the full block directly east of First City National bank's main building and its East building.

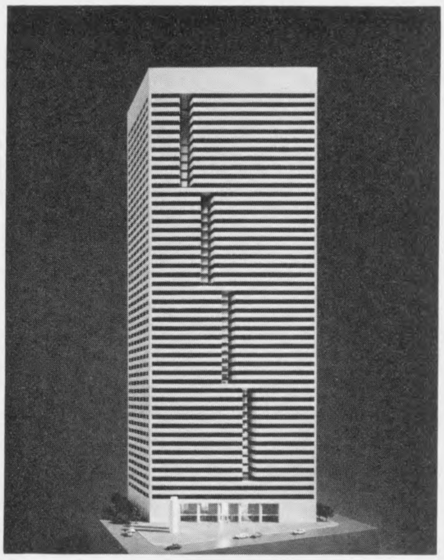
The bank will occupy six floors of the $100-million-plus tower. Major tenants will include Vinson & Elkins, a law firm, and the Superior Oil Co. Almost 50% of the new building has been pre-leased.

Urban Investment & Development Co., a real-estate subsidiary of Aetna Life & Casualty headquartered in Chicago, will develop and operate the new skyscraper with the bank. Also the real-estate company will develop a 10-story parking garage diagonally across from the new building's site.

Aetna Life Insurance Co. is providing financing for the building.

J. A. Elkins Jr., chairman of First City Bancorp., says the building will be unique because it will be in the shape of a parallelogram. It will be positioned almost diagonally across its block. The shape and position will set the tower apart from neighboring buildings and provide exceptional views, Mr. Elkins says.

Houston's skyline will soon include proposed tower (c.) of First City Nat'l. At left of tower is bank's east annex and behind it is main bank building.



This angle of First City Nat'l of Houston's tower shows unique vision strips.

Also, the tower will have four 11-story-high notches, or vision strips, rising in staggered formation the height of the building on two street sides.

The vision strips will provide a dramatic view from elevator lobbies because they penetrate from the structure's exterior to the elevator lobbies.

The materials of the building's facade are insulating, fluoropolymer-coated aluminum panels and double-thick insulating glass.

Inside, the building will have a dual lobby — one side facing McKinney and the other facing Lamar streets — separated by four elevator banks containing 27 passenger elevators. Escalators in the lobby will lead down to the concourse level, which will house a restaurant.

Access to the tower from the parking garage will be through an air-conditioned underground mall leading directly into the concourse level. The concourse level also will connect to the main bank building to the west and the Houston Center complex to the north. The tower will be linked to the central business district underground mall system through both buildings.

The building will be completely accessible to handicapped persons because it will feature barrier-free design and special facilities.

Built-in security and life-support systems are incorporated into the tower's design. These features include fire, smoke and motion detectors, surveillance systems, two-way communications equipment, emergency power sources, elevator control overrides and other advanced security devices. • •

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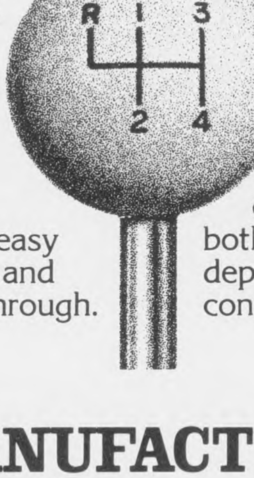

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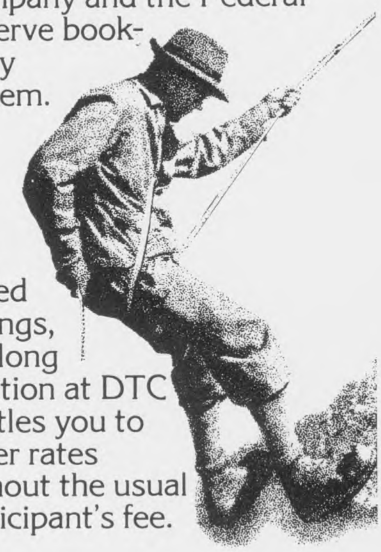

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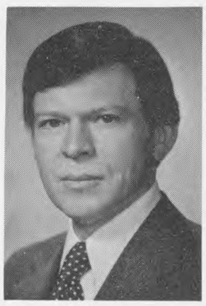
MANUFACTURERS HANOVER

To Compete With Other Institutions:

Banks Must Have Fewer Regulatory Restraints

By JOHN G. HEIMANN
Comptroller
Of the Currency
Washington, D. C.



SINCE the Great Depression, the financial-services industry has undergone substantial change at both the national and international level. No longer are markets for financial services segmented and identified with a specific type of financial institution.

Commercial banks and thrift institutions are in head-to-head competition in many areas. Commercial banks and thrifts have entered markets of nondepository institutions and vice versa. The gulf between large and small institutions has widened considerably. Domestic and international geographical barriers to competition have eroded, and substantial changes have occurred in the legal and regulatory environment.

Whether bureaucrat or banker, there are two general responses to such change. One can hold fast to what is known while watching it erode slowly, or one can work constructively to address the new reality.

The former course seems to hold sway. Bankers — commercial bankers, mutual savings bankers, S&L officials — are locked in a fratricidal battle. Large banks are battling small banks; thrifts are battling credit unions and commercial banks, and all are looking warily or greedily at the markets of nondeposit-taking institutions.

Take a random sample of the people who lead these institutions. Ask them if they believe in competition. Ask them if they believe in equality of regulation and taxation. Ask them if they believe in the discipline of the free market. Ask them if they would agree that governmental regulation has gotten out of hand. Almost to a person they would answer with a resounding "yes." Under cross-examination, however, this resounding affirmation of traditional capitalistic principles becomes less clear. In fact, what often is affirmed is not a belief in the free market, but a belief in a governmental system that seems to preserve institutional interests and markets.

Certainly, the existing institutional, statutory and regulatory framework serves more to protect competitors than to promote competition. Consider, for example, Regulation Q ceilings and the interest-rate differential, restrictive branching laws, the Douglas Amendment and the McFadden Act, prohibition of payment of interest on demand deposits and inability to resolve the problem of central-bank-reserve policy.

Though the subject would seem arcane to some, lack of a uniform central-bank-reserve policy for deposit-taking institutions is posing serious difficulties. No one seriously challenges the proposition that the current increase in withdrawals from the Fed flows primarily from the fact that the cost of maintaining sterile reserves outweighs the benefits for a vast majority of institutions. Failure to redress the inequitable burden of system membership will, in all likelihood, lead to further withdrawals from membership. This would erode the role of the Federal Reserve as central bank and eventually would result in serious adverse consequences for the nation's banking system.

Attempting to right this situation, the chairman of the Senate Banking Committee, William Proxmire, and the chairman of the House Banking Committee, Henry Reuss, submitted bills for consideration and resolution of this problem. However, the deposit-taking industry, including commercial banks, S&Ls and mutual savings banks — focusing on their own concerns — have opposed these bills. In the face of such opposition, further discussion of the issue has been shelved, at least for the time being.

If we fail to deal with the membership issue, the reserve-management capacity of the Fed will continue to

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In the accompanying article, Comptroller John G. Heimann lists five goals he says are common to him and to the Independent Bankers Association of America. He delivered the talk on which this article is based at the IBAA's 1979 convention. Here are the goals, as outlined by Mr. Heimann:

1. Maintenance of a safe and sound banking system.

2. A banking system that is efficient and relies to the maximum degree possible on private decision making in the marketplace.

3. Maintenance of an environment in which small institutions can survive and prosper.

4. Maintenance of a system that is genuinely open to new entrants.

5. A serious program of deregulation and regulatory simplification.


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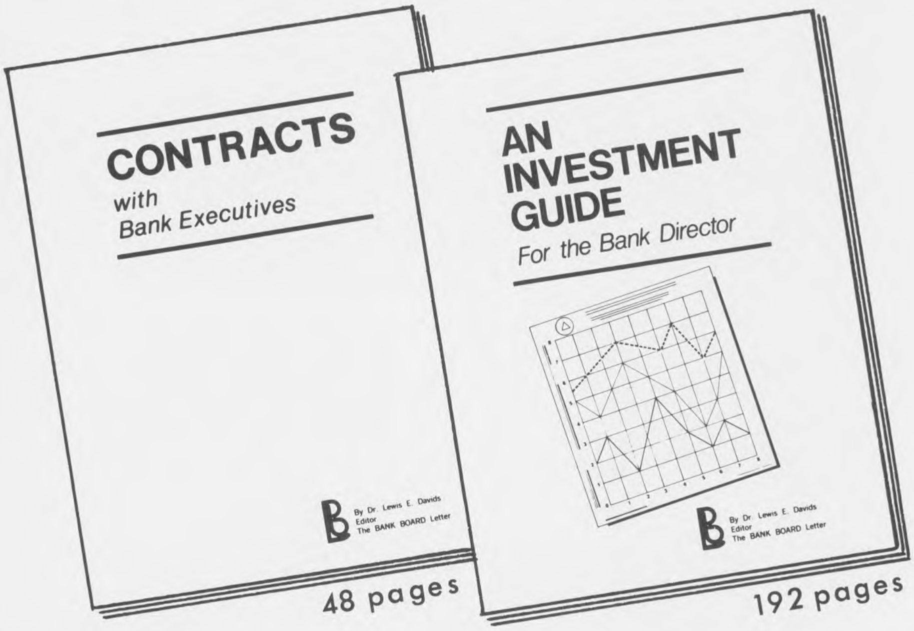

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In this 192-page manual, the author discusses the merits of directors paying closer attention to the investment policies of their bank.

It is normal, says the author, for the board to more closely scrutinize loan transactions since these occur more frequently and represent the bank's primary earning power.

Yet poorly thought out and executed investment policies often can place a bank's capital in jeopardy, particularly when the bank is forced to liquidate investments during a period of rapidly rising interest rates. The alternative, of course, is to "ride out" such periods, making few if any new loans in the community.

Should the board "intrude" upon the management perogatives of the CEO in the administration of the investment portfolio? Not at all, says the author. However, a written policy, carefully structured around the bank's deposit structure and loan demand, can be comforting during rising (or falling) interest rates. This becomes increasingly evident, says the author, when such a policy not only is followed but is carefully "fine tuned" as liquidity and investment yields are related to economic swings.

As an aid to management and the board in reviewing present investment policies — and perhaps establishing more formal guidelines — the author presents numerous investment and portfolio management policy statements presently in use by recognized well-run banks.

Also presented: a bibliography of recommended reading on the subject, plus excerpts from the Comptroller's manual on regulations and rulings in regard to bank investments. These interpretations (also valuable to state banks), while available elsewhere, are placed together in this same volume for handy reference by the director as he peruses the intricacies of bank investment policies.

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diminish, and no one can forecast accurately the effect that will have on our monetary and economic system and on our society. While it is difficult to look beyond one's own immediate interests and concerns, it frequently is in the larger interest to set such concerns aside and work with others to achieve a solution that is best for all. This is equally true with respect to understanding, accepting and responding positively to the reality of changes that are taking place.

The relationship between the Comptroller's office and the Independent Bankers Association of America often has been perceived as an adversary one. However, I do not believe that we have fully recognized and adequately sought to attain the goals common among us. For my own part, I am certain that we share at least five common goals:

- First, we believe in maintenance of a safe and sound banking system.
- Second, we believe in a banking system that is efficient and relies to the maximum degree possible on private decision making in the marketplace.

"Our most obvious philosophical conflict, of course, has arisen in the area of branching. The OCC has long believed that geographical restraints on bank expansion are anti-competitive and impede the effectiveness and efficiency of the banking system."

- Third, we believe in maintenance of an environment in which small institutions can survive and prosper.
- Fourth, we believe in maintenance of a system that is genuinely open to new entrants.
- Fifth, we believe in a serious program of deregulation and regulatory simplification.

The IBAA clearly is concerned about what seems to be the increasing intrusions of government in private decision making and about the long-run viability of the independent bank in our financial system. These are concerns we share.

Given our common goals, it seems to me that it is possible, in effect, to agree to disagree about certain matters while pursuing vigorously those matters on which we do agree. Fruits of such an approach are substantial.

Our most obvious philosophical conflict, of course, has arisen in the area of branching. The OCC has long believed that geographical restraints on bank expansion are anti-competitive and impede the effectiveness and efficiency of the banking system. This view perhaps is best reflected in the words of former Comptroller William B. Ridgely in a 1902 address to the 28th annual convention of the ABA:

"I believe in branch banking. Theoretically, it is the best system, as it is more economical, more efficient, will serve its customers better and the organization can be such as to secure in most respects better management. Owing to cooperation between its branches, it can be made safer than any system of independent banks. If I were outlining a new system for a country in which there was none, I would adopt this system; and I regret that it was not adopted or permitted in the beginning of the national banking system. I believe the national banks would be stronger and better today if branches had been permitted and the system had been developed with the branch feature an essential part of it."

The IBAA, on the other hand, has long believed that the best way to assure the system of independent community banks lies in maintenance of restrictions on geographical expansion.

This difference of opinion, at least during my tenure as Comptroller, does not reflect a difference in objective. As I have indicated, I firmly believe in the need for small independent banks; indeed, I am convinced that the small firm is the backbone of our free-enterprise system. Where we differ is not in our goal, but in the means of attaining that goal.

My judgment that geographical barriers to competition in banking should be eliminated gradually is based on my belief that governmental intervention in the marketplace should be tolerated only where clearly warranted. Moreover, as I already have indicated, existence of such barriers simply does not restrain competition. Notwithstanding the existence of the McFadden Act, in a very real sense, we already have a nationwide, not to mention a worldwide, banking system. The question before us is whether we will recognize it and move to eliminate remaining geographical restrictions in an orderly and equitable fashion or whether we will let them whither away, as they are sure to do, in an uncontrolled fashion that would cause substantial disruptions.

Although I appreciate the fears that branching will destroy the viability of small banks, the evidence that I am aware of does not support this conclusion. For example, in California, which has had statewide branching for a long time, 100 of the 235 commercial banks had less than $25 million in assets at the end of 1977, and 148 had less than $50 million in assets. There were 77 unit banks among the 235. In North Carolina, which also has statewide branching, 37 of the 90 commercial banks had less than $25 million in assets, and 59 had less than $50 million in assets.

Even though branching leads to fewer banks in a state, the preponderance of the evidence compiled in a number of studies shows that the entry of new banks and branches in a market generally leads to greater competition and improved services to the public throughout the market without a significant impact on bank profitability. In fact, the small independent bank generally does quite well competing alongside large banking organizations. In short, while I agree on the need to maintain a strong, viable system of independent community banks, I cannot conclude that we either should or really need to do so by maintaining geographical restrictions on competition.

"My judgment that geographical barriers to competition in banking should be eliminated gradually is based on my belief that governmental intervention in the marketplace should be tolerated only where clearly warranted. . . . Existence of such barriers simply does not restrain competition."

While I do not expect our differences on this matter will be reconciled quickly, I think we should recognize our substantial agreement with respect to two fundamental matters: concern with respect to entry barriers into the system and need for substantial regulatory reform, particularly insofar as regulation imposes unwarranted burdens and costs on small banks.

In the IBAA's discussions with us regarding the change of control provisions of the Financial Institutions Regulatory and Interest Rate Control Act of 1978 (FIRA), the association expressed special concern with the problem of entry by those interested in owning and running independent institutions. We share that concern and are in the process of taking steps that will ease the barriers to entry. These steps will take two forms:

First, we have instructed our staff to reassess our standards for evaluating the granting of new charters. Historically, we have placed emphasis on our appraisal of economic factors in the market to assure a bank's success. Often, when faced with a good, but not expanding, market in which there were a number of existing banks in operation, we would deny a new charter, especially if the bank were not affiliated with another financial institution.

We are reassessing these policies with the object of providing greater freedom of entry. This should not mean a policy of "unrestricted entry." To charter an institution destined for certain failure would be irresponsible, and certainly we will not relax our focus on the honesty, integrity and capacity of new owners and management.

I would note that, to a certain extent, easing barriers to entry may increase the rate of exit voluntarily through merger or involuntarily. This will place a premium on effective management by both newcomers and existing banks. I doubt, however, that it would lead to a significant increase in failures, especially since the great bulk of failures since 1960 has been the result of mismanagement, insider abuse and fraud and not economic factors. Even if this rate of exit should increase, the past decade indicates that the FDIC provides an effective mechanism within which to handle any disruptive consequences. On balance, I believe the benefits of freer entry to those wishing to establish independent institutions far outweigh the chance that the rate of bank failure may increase.

Second, we hope to ease the burdens of entry and decrease burdens on existing financial institutions in another way. We have concluded that our procedures and practices dealing with bank chartering, branching and mergers are too burdensome and too time consuming. We intend to remedy this situation. I am pleased to report that we are committed to overhauling the operations of our bank organization and structure division.

Furthermore, we know that certain steps in the application process that now are occurring serially could occur simultaneously, and we suspect that hearings with respect to applications often merely serve to delay and increase costs, while shedding little light on the application in question. In short, we intend to improve this process substantially.

In conclusion, I hope this project and others like it will prove to be models for further regulatory reform. Such projects will move us toward our common goals. ● ●

The Case

(Continued from page 62)

home. The institution that makes their first mortgage creates loyal customers who will use many of the lender's services for years to come."

Cross-selling, MGIC notes, can extend to selling a package of financial services to builders and developers.

Low-down-payment mortgages, the company writes, also help lenders "meet their community needs as well as receive recognition for their positive contributions."

Sales to the secondary-mortgage market provide the institution with flexibility. Besides replenishing the lender's supply of loanable funds, secondary-market investors pay a service fee to the lender, who retains origination fees and management of escrow funds. ● ●

Mid-Year Interest-Rate Peak Is Predicted by FHLMC

THE FEDERAL Home Loan Mortgage Corp. (FHLMC) has predicted interest rates will continue to rise through most of the first half of this year. The corporation expects rates to peak by mid-year and credit demand to dampen as the yield curve returns to normal.

At the beginning of 1979, 11 states had 10% usury ceilings, which threatened to restrict mortgage lending and housing and economic activity, said Delores Lynn, mortgage corporation economist. She added most of these states were in the faster-growing areas of the Southeast, Southwest and Midwest, where the strength of housing demand and increases in sales prices of homes tended to support higher mortgage rates.

These findings were published in the corporation's quarterly report, *Mortgage Finance Review*, a publication operating as a service to the mortgage-lending industry.

The FHLMC was chartered by Congress in 1970 to increase availability of residential-mortgage financing in the private sector by developing and supporting a strong secondary market in conventional residential mortgages. ● ●

36th Bank Director Assembly June 7-10 in Toronto At Harbor Castle Hotel

The 36th Assembly for Bank Directors will be held June 7-10 at the Harbor Castle Hotel, Toronto. Keynote speakers will be Robert P. Mayo, president, Chicago Fed, and Stanley M. Davison, vice president, Canadian Bankers Association, and executive vice president and chief general manager, Bank of Montreal.

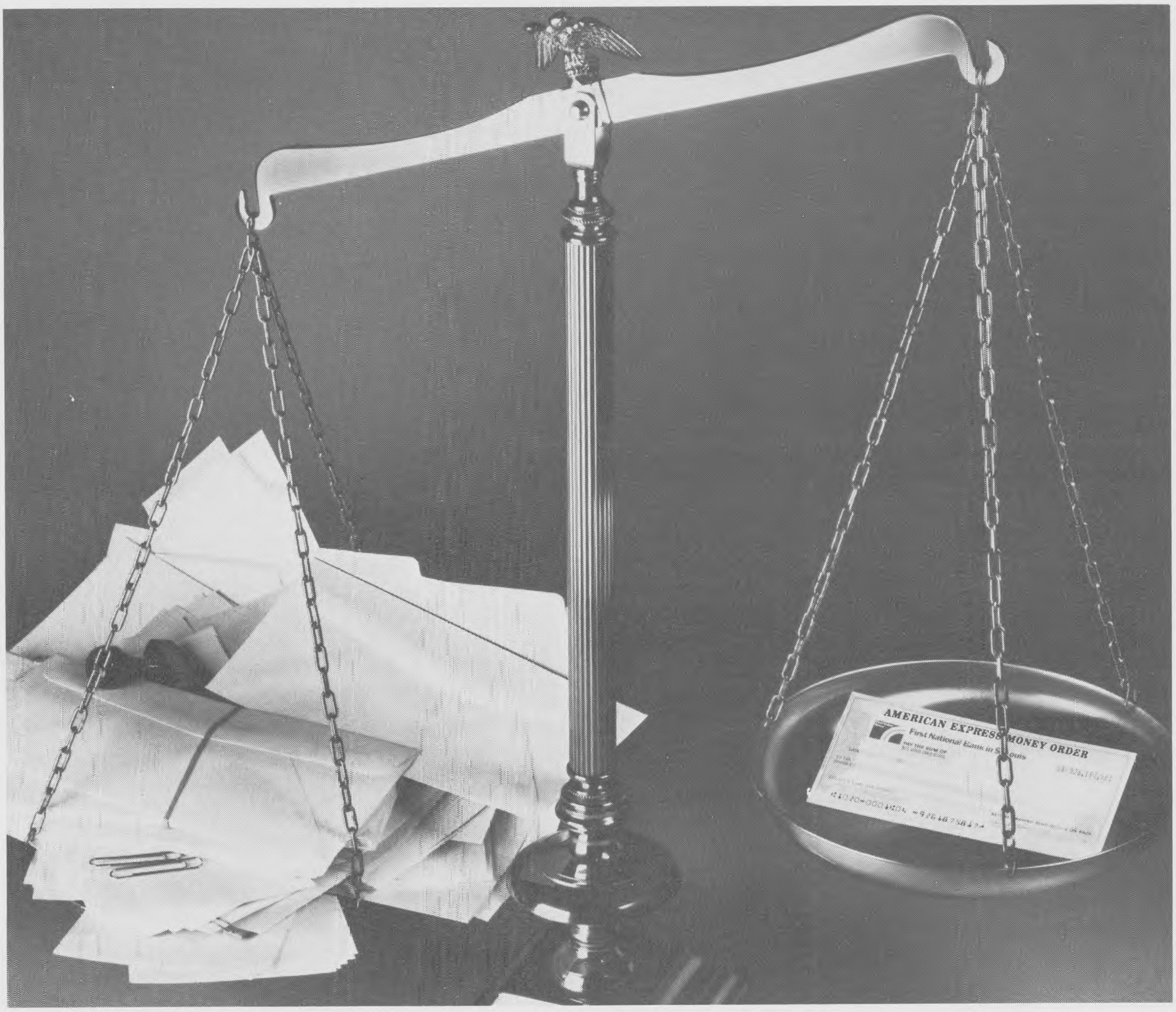
Other speakers will be Ivan D. Fugate, immediate past president, Independent Bankers Association, and chairman and president, Western National, Denver, and J. Rex Duwe, ABA past president, who will lead group discussions with Mr. Fugate on small banks' problems. Mr. Duwe is chairman, Farmers State, Lucas, Kan.

The assembly will focus on new responsibilities for bank directors, what the outside director can do for his bank, management selection, one-bank holding companies and valuation of banks, director audits, community involvement, director-management relations and trust problems and opportunities of small banks.

Special activities during the assembly will be a garden party at the Royal Canadian Yacht Club and a program for spouses on money matters, banking and use of trusts and a tour of Toronto.

More than 200 directors and spouses are expected to attend, many from banks, accounting and legal professions and from banking associations, government agencies and universities.

The assembly program will be sponsored by the Foundation of the Southwestern Graduate School of Banking and co-directed by Lee E. Gunderson, president, Bank of Osceola, Wis., and B. Finley Vinson, trustee of the foundation and vice chairman, First National, Little Rock.



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This view of Hot Springs Village Branch of First Nat'l, Hot Springs, Ark., shows drive-up area (l.) and entrance to lobby (r.). Latter contains two teller stations and vault. There also is Diebold Securomatic® after-hour depository. Structure is example of Diebold financial building.

Hot Springs Village Branch drive-in has two Diebold Visual Auto Teller® IV remote-banking systems and Diebold Counterette drive-in window.

By using Diebold financial building (this is lobby view) to house its Hot Springs Village Branch, First Nat'l, Hot Springs, was able to get office into operation in hurry, yet have structure conform to styling requirements of surrounding architecture.

Styling Requirements, Timetable Are Met In Pre-Engineered Bldg.

THE WIDELY KNOWN and respected resort area of Hot Springs, Ark., has enjoyed particularly dynamic growth in recent years. Typical of that growth is Hot Springs Village, a residential area in which property owners have joined together to maintain an attractively uniform architectural style that combines a feeling of distinctiveness with the hospitable warmth characteristic of the Hot Springs tradition.

To serve its many customers who are residents of Hot Springs Village, First National of Hot Springs received the necessary approval for establishing an office within the village. Village zoning regulations, however, made it mandatory that the bank building conform strictly to the architectural treatment of its neighbors.

First National was more than willing to meet this requirement. It was concerned, however, with being able to develop the required architectural treatment within its time frame for opening the new office. The ultimate answer to both requirements was a Diebold financial building. It was in this structure that First National's Hot Springs Village Branch became operational in July, 1978, at Balleric Road and Ponderosa Way.

"We were aware that a Diebold financial building represented the logical way to get our new office in business in a hurry. But the problem of conforming to styling requirements of the village troubled us. This is a resort community, and we wanted our building to complement the architecture of our neighbors. We're pleased with the way our Diebold building fits in," explains James Jett, president of the bank.

Styling is one of the advantages a bank can count on with Diebold financial buildings. Other important advantages are the speed with which a Diebold financial building can position a bank in a new market, ease with which it can be expanded and the business economy of having Diebold take charge, so a bank's staff can concentrate on banking instead of building.

The Diebold financial building, however, was customized to match the architecture of Hot Springs Village and was completed within the timetable bank management had specified. Of

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equal importance to the bank, the Diebold financial building enabled it to provide a broad scope of customer services. Included when the building was erected were two teller stations inside the bank as well as a vault. Drive-in banking service was accommodated with two Diebold Visual Auto Teller® IV remote-banking systems and a Diebold Counterette drive-in window. Bank customers also are served by a Diebold Securomatic® after-hours depository.

"Our Diebold financial building let us get into a new market early within challenging styling requirements. Its expandability also means that we'll be able to minimize our investment as this market grows," Gary Burgess, vice president, says. "For us, the building has represented a great combination of capabilities." ● ●

LPO Ruling Made

Loan production offices (LPOs) can be operated by a national bank in those states where state banks are authorized to operate them, according to a ruling made last month by a U. S. District Court in Washington, D. C.

Judge June L. Green ordered the Comptroller of the Currency to rescind a 1966 interpretative ruling that permitted a national bank's LPO to operate exempt from state and federal branching restrictions and to notify all national banks of the recission.

As of press time, the Comptroller had not announced whether he will appeal the decision.

Kentucky's First Solar Bank Under Construction in Louisville

WHAT IS REPORTED to be Kentucky's first solar-heated bank building is under construction by Liberty National, Louisville, in the Westport Plaza Shopping Center. It will serve as permanent home of the bank's 39th full-service branch and is expected to open this month.

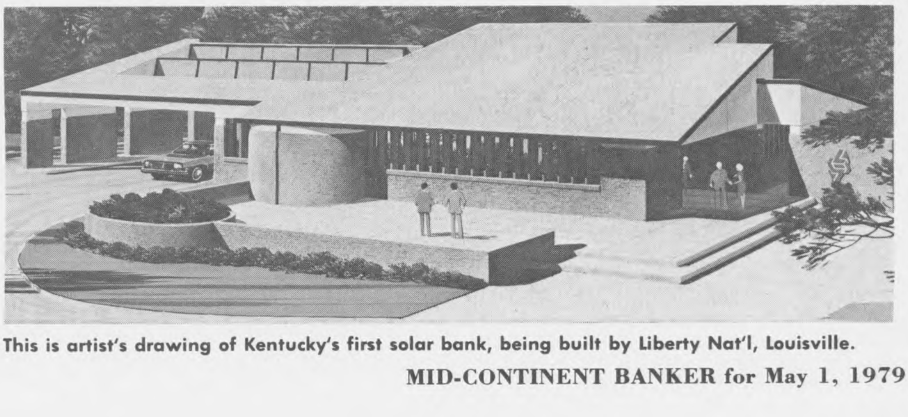
The contemporary brick and glass building, with a copper roof, will have 2,400 square feet of interior space. It will feature a large lobby skylight, brick masonry walls, oak ceiling and trim. In addition to the lobby area, there will be five teller stations and a desk area for branch management. Also, the branch will have three drive-in lanes.

The solar system is composed of 12 flat-plate collectors measuring 18 square feet each, augmented by reflectors. The collectors are made of copper and a low-iron glass glazing to assure maximum transfer of the sun's energy. The copper surface will have a black chrome coating, the most efficient selective surface for collectors, according to the U. S. Department of Energy.

Collectors will be on the roof over the drive-in area. They will be facing south and mounted at a 53-degree angle to allow for maximum efficiency for winter heating.

The bank expects the solar unit to provide about 30% of the branch's total heating needs. Solar panels will assist a heat-pump system that provides additional heat as needed and all the building's cooling needs.

A solar-system display in the lobby will demonstrate how the heat generated by the sun is passed through a heat exchanger in the 560-gallon water tank, then through a water coil in the air duct to heat the branch's interior. ● ●



This is artist's drawing of Kentucky's first solar bank, being built by Liberty Nat'l, Louisville.

Incoming IBAA Pres. Raymond D. Campbell (c.) and immediate past Pres. Ivan D. Fugate (2nd from r.) are shown with other newly elected IBAA officers: 1st v.p., Thomas F. Bolger (l.), 2nd v.p., W. C. Bennett (2nd from l.), and treas., Robert H. Fearon (r.).

Universal Reserves, Exemptions for Small Banks Advocated by Independents at Their Convention

MEMBERS of the Independent Bankers Association of America — at their 1979 convention in New Orleans — voted to support the concept of universal reserves coupled with exemptions from reserves for smaller banks as a means of stemming the outflow of Fed-member banks from the system. IBAA officers estimate that as high as 98% of IBAA-member banks would be benefited by pending bills in Congress.

The IBAA vote followed a statement at the convention by Fed Chairman G. William Miller urging such action. During a question-and-answer period, Mr. Miller recognized the problem of transferability of small banks and invited the IBAA's suggestions for Fed assistance in helping preserve such banks.

At the same time, he emphasized the need for maintaining a strong central bank in America's financial system.

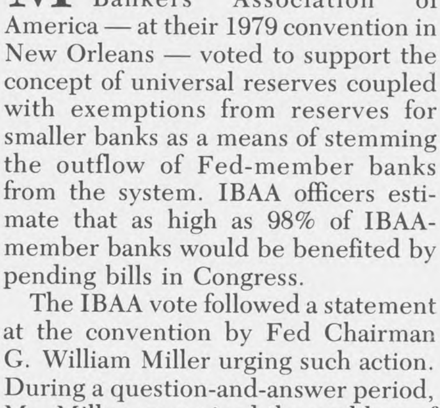
Over the past several years, the Fed has been plagued with an increasing number of defections owing to financial burdens associated with membership — an attrition rate that, the central bank maintains, has seriously impaired its effectiveness. Recent reports suggest that as many as 300 additional banks will pull out of the Fed if legislation to sweeten the central bank package is not enacted this year. House Banking Committee Chairman Henry Reuss (D.,Wis.) tabled action on such legislation before the IBAA convention after the committee failed to arrive at a consensus on the issue.

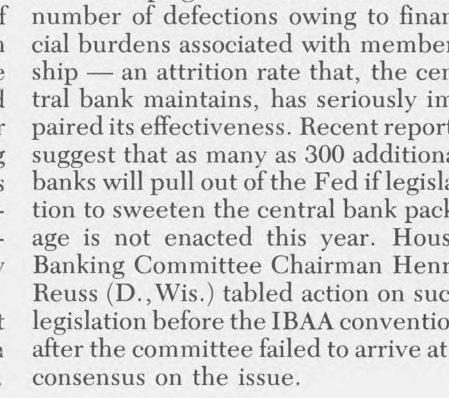
The IBAA action was intended as guidance for the group's leadership in working with congressional and Federal Reserve Board officials on a solution and rekindled the hopes of Chairman Miller that legislation revising the membership package can be approved this year.

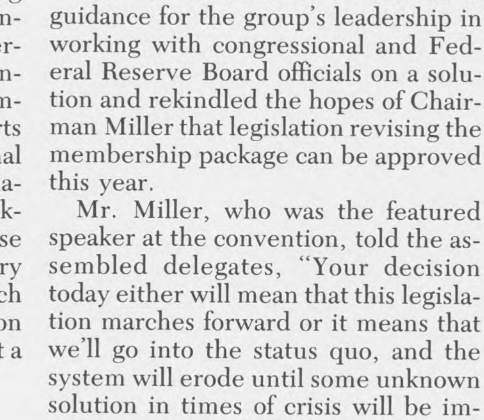
Mr. Miller, who was the featured speaker at the convention, told the assembled delegates, "Your decision today either will mean that this legislation marches forward or it means that we'll go into the status quo, and the system will erode until some unknown solution in times of crisis will be imposed, and I don't guarantee that you get good results in times of crisis."

Responding to Chairman Miller's request for suggestions, incoming IBAA President Raymond D. Campbell told a final convention banquet audience that a number of recommendations would be promptly submitted to the board for administra-

LEFT: Enjoying breakfast at IBAA convention are Mr. and Mrs. Robert Oleen of Farmers State, Dwight, Kan. CENTER: Also pictured at IBAA breakfast are Mr. and Mrs. Harold Nye of First State, Round Lake, Ill. RIGHT: Shown at IBAA breakfast are Mr. and Mrs. John Phillips of Citizens State, Owensboro, Ky.







IBAA buffet breakfast was attended by (l. to r.): Mr. and Mrs. John Karn of First Stockyards Bank, St. Joseph, Mo.; Mr. and Mrs. Virgil Parker of West Side Bank, San Antonio, Tex.; and Mr. and Mrs. Abe Turner of Haskell (Tex.) Nat'l.

tion action. These include the following:

• To acknowledge that effective March 10, 1979, Title VIII of the Financial Institutions Regulatory Act (FIRA) calls for a comparability test for bank-stock loans. Under present Fed guidelines, a bank-stock loan cannot exceed 75% of the purchase price of the bank, and the loan must be repaid in 12 years. This requirement makes it impossible in many cases for worthy and experienced individuals to become owners of banks. The comparability test would put bank-stock loans on a par with commercial loans.

• To abide by the decision of the primary regulator as to the capital adequacy of the bank involved in the formation of a one-bank holding company. The Fed, under its present rules, frequently overrules the primary regulator.

• To streamline access to the discount window and to consider IBAA recommendations on this subject to the Fed task force.

President Campbell said the IBAA will press for the following in connection with pending legislation on Federal Reserve requirements:

• An exemption on the first $100 million of time and demand deposits.

• Some form of indexation of the exemption.

• Access to the discount window and other Fed services on a fee basis by all banks, whether Fed members or not.

• A 10-year phase-in period for nonmember banks of more than $100-million deposits.

Common Goals. Comptroller of the Currency John G. Heimann also urged bankers to deal with the Fed-membership issue.

"No one seriously challenges the proposition that the current increase in withdrawals from the Federal Reserve System flows primarily from the fact that the cost of maintaining sterile reserves outweighs the benefits for a vast majority of institutions," Mr. Heimann said. "Failure to redress the inequitable burden of system membership will, in all likelihood, lead to further withdrawals from membership. This would erode the role of the Federal Reserve as central bank and eventually would result in serious adverse consequences for the nation's banking system."

The Comptroller emphasized that rapid changes in the world represent broad implications for the providing of financial services. Markets for financial services no longer are segmented and identified with a specific type of financial institution, Mr. Heimann said.

There are two responses to such change, Mr. Heimann said. One is to hold fast to what is known while watching it erode slowly. The other is to work constructively to address the new reality.

The IBAA and the Comptroller's office have not always agreed on methods for dealing with such changes, Mr. Heimann said, but they share basic concerns.

"You clearly are concerned about what seems to be increasing intrusions of government in private decision making and about the long-run viability of the independent bank in our financial system," Mr. Heimann said.

"Given our common goals, it seems to me that it is possible, in effect, to agree to disagree about certain matters while pursuing vigorously those matters on which we do agree. The fruits of such an approach are substantial."

Concentration in Banking. In other convention action, delegates supported a resolution endorsing H.R. 2747, which would limit expansion of large holding companies and eliminate arbitrary guidelines imposed by the Fed on establishment and regulation of small one-bank HCs. The bill would place a ceiling on statewide bank deposits that can be held by large bank HCs and would limit growth of nonbanking activities by such companies. At the same time, it would stop the Fed from using its arbitrary guidelines in formation of one-bank HCs needed for tax reasons in transfer of smaller banks from one independent owner to another independent owner. The bill was introduced by Congressman James Hanley and cosponsored by Congressman Fernand St Germain.

"As of the end of 1976, the 334 largest bank holding companies controlled deposits of $454.8 billion, 54% of the nation's commercial bank deposits," the resolution stated. "To date, no evidence has been produced to demonstrate that this enormous economic concentration has resulted in any public good. The IBAA believes it is time to review the Bank Holding Company Act of 1956."

Credit Unions. Delegates also directed IBAA leadership to "use their best efforts to stop further issuance of public-type charters to credit unions and to control expansion of powers without the attendant responsibilities and regulations imposed on competing institutions."

The resolution pointed out that in recent years credit unions have been allowed to organize without regard for the traditional common-bond-of-interest requirement. Such credit unions are openly advertising for accounts of the general public, in direct competition with commercial banks in the same market area.

"Such credit unions present unfair competition to banks because they pay no taxes and are not required to maintain liquidity through reserves and other methods," the resolution stated.

(Continued on page 88)

Other Resolutions. In other resolutions the IBAA:

- Urged Congress to review present federal bank compliance rules, in cooperation with the banking industry, to assure that the effects of such rules coincide with congressional intent.
- Called for continuation of the U. S. Department of Agriculture as a cabinet-level organization, with the federal government placing increased emphasis on the need to develop a strong rural America.
- Supported continued controls of interest rates on savings and CDs, but removal of the favored rate thrift institutions enjoy in those states where they have gained bank-like powers.

The association also reaffirmed a variety of its traditional positions on such issues as branch banking, joint independent-banking efforts, interstate bank HC acquisitions, state control of S&L branching and control of EFTS.

Keynote Address. In his keynote address, outgoing President Ivan D. Fugate said the IBAA message is loud and clear:

"Our independent banks not only are furnishing a major share of credit to the small businesses of America; our banks actually are small businesses with special needs that should be addressed by both Congress and the regulatory agencies."

Mr. Fugate reported that the IBAA had undergone a management study during the past year to streamline the association's structure and help it respond even more quickly to the membership.

Agricultural-Credit Outlook. Marvin Duncan, agricultural economist for the Kansas City Fed, reported that the agricultural-credit outlook is "essentially optimistic."

Mr. Duncan said net farm income for 1978 increased 40% over 1977 levels to $28 billion — second only to the $30 billion in 1973. This increase was paced by beef cattle prices more than 50% higher than year-earlier levels as ranch operations returned to profitability and by record corn and soybean harvests. Pork producers averaged some $30 net profit per slaughter hog sold in 1978, and cattle feeders have experienced about 15 profitable months in a row.

Improved cash flow in agriculture quickly brought relief to agricultural credit conditions, Mr. Duncan said.

In the year ahead, he said, preliminary income estimates suggest net farm income may increase somewhat above the 1978 level to perhaps as high as $30 billion. Such an increase would be due primarily to strength in the livestock sector, he said.

Feed-grain production may not decrease significantly from 1978 levels, the economist said, which may mean that 1979 prices will be steady to somewhat weaker. He added:

"While I do not propose to predict the future behavior of interest rates, it does appear that the economy will experience slower rates of growth in the latter half of 1979 — while probably avoiding a recession — that will tend to ease the competition for loanable funds."

New Officers. Advanced to IBAA president at the final convention session was Raymond D. Campbell, president, Oberlin (O.) Savings Bank Co. Mr. Campbell succeeds Ivan D. Fugate, chairman/president, Western National, Denver, who presided at the general sessions.

The new first vice president is Thomas F. Bolger, president, McHenry (Ill.) State. Elected second vice president was W. C. Bennett, CEO, Arthur State, Union, S. C., and the new treasurer is Robert H. Fearon Jr., president, Oneida Valley National, Oneida, N. Y. Mr. Fearon succeeds Don F. Kirchner, chairman/president, Peoples Trust, Riverside, Ia. ● ●

TOP: Mr. and Mrs. F. J. Rein and their son, Joey, (c.) went from Brookhaven (Miss.) Bank to New Orleans for IBAA convention. BOTTOM: Mr. and Mrs. Robert Patterson of Trenton (Tenn.) Trust were among those at IBAA buffet breakfast.

St. Louis Mayor James Conway (c.) cuts foreign currency ribbon opening Mercantile's new international banking center. He is flanked by Donald E. Lasater (l.), bank's ch. and CEO, and Patrick J. Brennan, s.v.p., national/international banking.

St. Louis Bank's Computer Linked to Those in Europe Via Worldwide Network

ST. LOUIS — Mercantile Trust recently opened its International Financial Communication Center, which links the bank computer-to-computer to about 600 of the largest European and North American banks through the Society for Worldwide Interbank Financial Telecommunications (S.W.I.F.T.).

St. Louis Mayor James Conway cut a ribbon of foreign currency to officially open the center. He was assisted by Donald E. Lasater, the bank's chairman and CEO, and Patrick J. Brennan, senior vice president of the bank's national/international departments.

The S.W.I.F.T. network, which began continuous operation in May, 1977, permits almost instantaneous transfer of funds among member banks. Formerly, funds transfers had to be accomplished by mail, telex or cable, all of which are much slower, less dependable, less efficient and more expensive than the S.W.I.F.T. network, a bank spokesman said. Also, the network will be used for transmission of international collections, letters of credit, warning notices and deposits and securities and to facilitate loans and foreign exchange.

According to Mr. Lasater, the bank has joined the network to maintain "the necessary services and support to enhance this region as an international market. . . . S.W.I.F.T. improves our ability to process a growing number of international financial transactions and to supply the basis for increased trade between St. Louis and the rest of the world."

Patrick J. Brennan, senior vice president, national/international banking, agrees. "In Europe, S.W.I.F.T. is used so extensively by banks that operating there without it is almost like trying to operate without mail service," Mr. Brennan said. "For a bank to provide first-class service to customers doing business in that part of the world, S.W.I.F.T. is becoming a necessity."

The Brussels-based network currently carries about 140,000 transactions a day and is expected to reach a daily volume of 250,000 transactions next year, more than are carried by the two major U. S. domestic wire-transfer systems combined.

Leslie M. Boll (r.), v.p., international banking, Mercantile Trust, St. Louis, explains how S.W.I.F.T. system works to Mayor James Conway as Donald E. Lasater, ch. and CEO, looks on.

Seminar for College Teachers Scheduled for August 15-17 At Graduate Banking School

MADISON, WIS. — The second banking seminar for college faculty will be offered August 15-17 at the Graduate School of Banking at the University of Wisconsin here.

Designed for teachers of banking and related subjects, the conference will acquaint them with current commercial bank management practices and aid them in developing more effective banking courses. Some 75 college professors are expected to attend.

The program will focus on commercial banking activities not usually covered in the college curriculum. Topics will include electronic banking, the changing structure of banks, investments and various types of loans.

Instructors will include senior practicing bankers, bank regulators and academicians who maintain close ties with the banking industry. Cochairmen for this year's seminar are Donald C. Miller, vice chairman, Continental Illinois National, Chicago, and William J. Korsvik, vice president, First National, Chicago.

Administrators of Graduate School of Banking's special seminar for college faculty review program at University of Wisconsin, Madison, are (from l.): Donald C. Miller, v. ch., Continental Illinois Nat'l, Chicago, Herbert V. Prochnow, school's director, and William J. Korsvik, v.p., First Nat'l, Chicago.

All costs of tuition, room and meals and materials as well as a travel allowance for the "students" will be assumed by the school's educational fund.

Invitations are being sent to more than 225 four-year liberal arts colleges within the school's 16-state sponsoring area. Qualified applicants must be nominated by a senior college official, and selection is based on educational background, past and present teaching assignments, demonstrated interest in banking and geographical distribution.

According to Herbert V. Prochnow, director of the school and former president of First National, Chicago, "The Graduate School of Banking, cosponsored by the Central States Conference of Bankers Associations, for many years has offered grant, fellowship and scholarship programs intended to bring teachers and students of college-level, banking-related courses to a fuller understanding of the business of banking. This seminar is an extension of that effort constructed to provide insights that come best from the practitioners of banking."

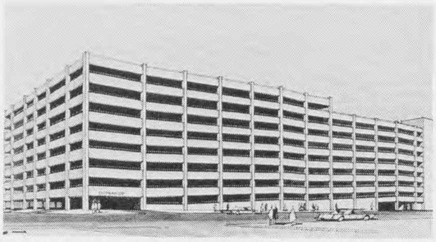
The seminar will be conducted during the school's regular 35th annual resident session.

'Concrete Example:'

Corporate Leaders Cooperate To Build Parking Garage

A $5 million, nine-story parking garage with 1,109 parking spaces is the result of an Oklahoma City cooperative effort among Fidelity Bank, Oklahoma Gas & Electric Co. and the Oklahoma Industries Authority to satisfy the public's need for convenient parking without using city or state tax money.

The land for the project was purchased with federal revenue-sharing funds. The building will be financed by revenue bonds to be paid for on a user basis. When the bonds are retired, the land and the building will become county-owned. Fidelity and OG&E have agreed to lease about 800 parking spaces, a bond requirement.



This is artist's conception of Metro Parking facility, joint effort by Fidelity Bank, Oklahoma City; Oklahoma Industries Authority and Oklahoma Gas & Electric Co. to construct convenient public parking without using public funds.

Oklahoma Industries Authority is building the structure and will lease it to the bank and OG&E. Construction is expected to be completed by the spring of 1980, and the facility will connect the county office building with other buildings through the metro concourse tunnel.

The project has been hailed by Jack T. Conn, chairman, Fidelity of Oklahoma, Inc., as a "concrete example of cooperation between the county and two major corporations in the private sector of the local economy."

$1,000 Recognition:

Student of Year Receives Youth Bank Board Scholarship

The Twin City Bank student board, a panel of seniors representing area schools and informing Twin City Bank, North Little Rock, Ark., on student affairs, has awarded a $1,000 scholarship to a recipient it deemed, "Student of the Year."

The board, which keeps the bank

aware of what is happening in the community's youth market, presented the award to Lynn Schlatterer, a senior at St. Mary's academy who will enter Vanderbilt College, Nashville, to study computer science this fall.

Miss Schlatterer has had several honors to her credit: president of the student body, named in *Who's Who* in American high schools, member of the Society of Distinguished High School Students, chairman of the school's student-facility administration board, member of the National Honor Society, ranks in the top 15 of her class, member of the yearbook staff, pep club, prom committee, Y-teens, girls state, Catholic Youth Organization and was named homecoming queen.

Kane Gets ABA Post

Charles J. Kane, chairman, Third National, Nashville, has been elected chairman of the ABA's commercial lending division.

M. Brock Weir, Cleveland Trust, chairman, was elected vice chairman. Elections were held during the ABA's 31st national credit conference in Phoenix.

Both bankers will assume their posts at the ABA convention in October in New Orleans.

During the past year, Mr. Kane has served as the division's vice chairman and chairman, government relations committee. He succeeds Richard F. Ford, president, First National, St. Louis.

Mr. Kane joined Third National, Nashville, in 1974 and is chairman and CEO of Third National Corp. and the bank. Formerly, he was president, Citizens Fidelity, Louisville.

Mr. Weir joined Cleveland Trust in 1973 and also is chairman, CleveTrust Corp. Previously, he was president, Bank of California.

The seven new members of the commercial lending division's executive committee elected for one-year terms are as follows: Larry J. Hannah, executive vice president, American Fletcher National, Indianapolis; Leonard B. Marshall Jr., chairman, Louisville Trust; David A. Wollard, president, Southeast First National, Miami; D. Bruce Adamson, chairman and president, First National, Joplin, Mo.; William D. Breedlove, vice chairman, First National, Dallas; Richard S. Bibler, executive vice president, First Wisconsin National, Milwaukee; and John W. Kenney, vice chairman, United California Bank, Los Angeles.

Usury Ceilings

(Continued from page 43)

establish a floating ceiling remain in committee.

Arkansas, where the constitution limits loans to 10% simple interest, appears headed for a resolution of the usury-ceiling problem. "Never before has such a varied, broadly based and widely supported challenge been made to Arkansas' usury laws and never before have the economic conditions of the day so clearly demonstrated the severity of the economic harm this law is inflicting on our state," Edward M. Penick, chairman and CEO, First Arkansas Bankstock Corp., Little Rock, told shareholders. "There simply is no way that internal economies can offset the full impact of disintermediation in the Arkansas marketplace and the inability of Arkansas banks to charge fair market rates of interest for their lending services."

Delegates to the Arkansas constitutional convention, which convenes this month, will consider amendments raising the usury ceiling, but voters will not consider the proposed amendments until November, 1980.

In the meantime, Representative William V. Alexander Jr. (D.,Ark.) has asked Congress to pass a relief bill that would exempt business and agricultural loans of $25,000 or more from the 10% usury ceiling. Lenders would be able to charge up to 5% above the Fed's discount rate under the legislation.

Arkansas' usury ceiling also is being challenged as unconstitutional in a suit filed by First National, Little Rock, American State, Charleston, and owners of a Little Rock truck stop. The suit seeks to validate a $35,000 loan at 12% made to the truck stop owners. Each of Little Rock's major banks has asked to intervene on the side of the lenders plus the American Bankers Association, the Arkansas Mortgage Bankers Association, the Arkansas Savings & Loan League and the Arkansas Automobile Dealers Association. Labor and consumer groups are siding with the state in the suit. The circuit judge has set aside 37 court days for the trial, which began last month.

Eight of the 11 states with usury ceilings of 10% or less are in the Mid-Continent area. Alabama limits interest rates to 8%; Arkansas, Louisiana, Mississippi, Missouri, New Mexico, Tennessee and Texas enforce usury ceilings of 10%. ••

Federal Reserve Membership Plans Explored by ABA Pres.-Elect

Competitive equality needed, says Hope

By RALPH B. COX, Publisher

DECLINING membership in the Federal Reserve System was a topic of chief concern last month in a keynote address to Louisiana bankers by ABA President-Elect C. C. Hope Jr.

Mr. Hope, speaking in New Orleans at the 79th Louisiana Bankers convention, agreed that preserving the strength and independence of America's central bank is of grave concern to all bankers, whether or not they are Fed members. Yet, he said, the *method* chosen to preserve the Fed's ability to function as a strong and independent instrument of national monetary policy is every bit as crucial as the goal it is intended to achieve.

Mr. Hope, vice chairman of First Union Bank of Charlotte, N. C., posed this question about the problem:

"Why," he asked, "are so many banks dropping out of the Fed?"

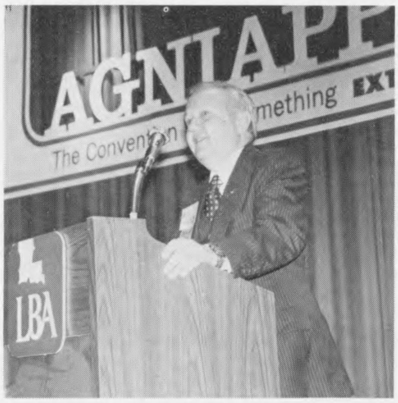
The answer: "Many banks feel that the quality and/or quantity of services they receive from the Fed is not an adequate return on the non-interest bearing reserves they must hold with the central bank. Being a Fed member," he said, "can be an expensive proposition and it is becoming a luxury that more and more banks have decided they just cannot afford!"

There are some reasonable solutions, suggested the ABA leader:

1. Improve the quality of services.
2. Cut reserve requirements.
3. Provide some sort of mechanism for giving banks a return on now-sterile Fed reserves.
4. Redefine the form of Fed required reserves, allowing all or part of the reserve balances to be held in the form of government obligations.

There is plenty of "maneuvering room," suggested Mr. Hope, in which the Fed can make itself more attractive in ways that would check its membership loss and probably bring new members into the system. The Fed's membership problem is a "problem of the marketplace," Mr. Hope stated. "A marketplace solution would seem to be the reasonable solution."

Several bills have come before congressional banking committees, Mr. Hope continued, using both mandatory and voluntary approaches to the membership problem. One mandatory approach, he said, would require all banks over a certain size to join the Fed or keep balances with the Fed. No final



ABA President-Elect C. C. Hope Jr. gives Louisiana bankers "a little something extra" (lagniappe) at their New Orleans meeting. Mr. Hope is v. ch., First Union, Charlotte, N. C.

NEW LBA OFFICERS

LBA President H. Graham Schneider, pres., First Nat'l, Lake Providence; President-Elect Crawford A. Bishop, pres., Bank of Gonzales; and Treasurer John Kenaley, pres., Hub City Bank, Lafayette.

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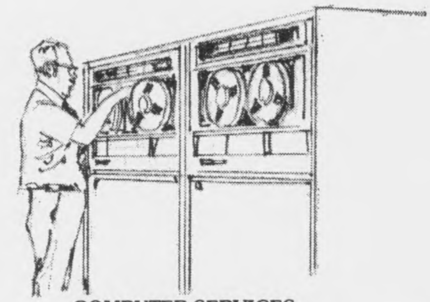

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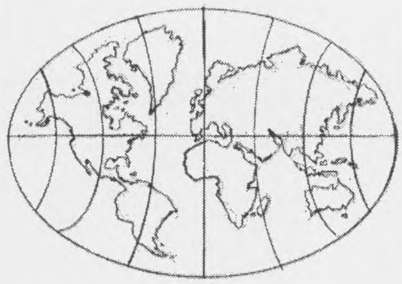

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Pictured at opening session of LBA convention: LBA Treasurer (1978-79) Joe Montero, e.v.p., Assumption Bank, Napoleonville; LBA Director Walter B. Stuart III, pres., American Bank, Lafayette; President-Elect H. Graham Schneider, pres., First Nat'l, Lake Providence; LBA President James G. Boyer, ch. & pres., Gulf Nat'l, Lake Charles; and Convention Chairman W. W. Whitmore, pres., First Nat'l, Houma.

Walter B. Stuart III, who completed term as LBA director, was named to two-year term on ABA executive council. On right is ABA Vice President for Louisiana, Charles Cassidy, ch. & pres., First State, Bogalusa.

action has been taken on any proposed legislation, he reported, as of the April 9 date of his speech.

The ABA, he said, has studied all the various proposals and through its Leadership Conference (composed of 400 bankers from all parts of the nation) has overwhelmingly endorsed voluntary approaches to Fed membership. The validity of the ABA's "consensus process," he said, and the desirability of voluntary approaches to Fed membership have been supported by the Association of Reserve City Bankers, the Conference of State Bank Supervisors, the Western Independent Bankers Association and by a recent Community Bankers Conference.

"This unified stance on the part of banking groups," said Mr. Hope, "has produced important new incentives for lawmakers and regulators to join bankers in another try at more realistic and constructive approaches, rather than a simple 'shotgun wedding' between banks and the Fed!"

Mr. Hope pointed to one new idea recently advanced by Fed Governor Philip E. Coldwell. This plan would allow the Fed to set and hold required reserves on all transaction-account deposits at all financial institutions, but would continue the concept of voluntary membership and utilize reserves as clearing balances, with a return offered through implicit service pricing.

The southern banking leader acknowledged that 90 banks left the Fed System last year, but he reiterated that the mandatory approach was not the way to turn this situation around. "It would," he said, "mandate Fed reserve requirements for only a small number of larger banks, including some present non-Fed members. And it would promote further competitive inequities when a prime concern of the banking community remains *competitive equality* — not only between banks and their nonbank competitors, but also between banks of different sizes."

Advising further study by congressional banking committees and further input by bankers, Mr. Hope spoke convincingly that there are "far too many other options available that could do the job without the necessity of 'taking a piece out of anybody's hide.'"

He suggested one possibility under which bankers might accept Fed reserve requirements for all banks. That would be, he said, when reserve requirements were truly universal, applying equally to (1) all S&Ls, (2) credit unions and (3) mutual savings banks.

"In such a case, actual Fed reserve requirements could and (then) should be much lower than they are now. What we're talking about is *competitive equality*," was his concluding remark on the Federal Reserve issue.

Mr. & Mrs. R. Irby Didier are pictured here posing for cameraman in Fox-Stanley exhibit booth at convention, where hundreds of bankers and their wives and families were photographed during convention. Mr. Didier, now retired, served as LBA executive vice president for 25 years.

Shifting his attention to the subject of Regulation Q, Mr. Hope pointed out some recent findings of the Interagency Regulation Q Task Force. The one-quarter per cent differential designed supposedly to protect the housing finance market has not done its job. Staff reports from the Comptroller, the Treasury and the FDIC "all underline the fact," he said, "that Reg Q has done the opposite of what it was intended to do. It has chased money away from depository institutions. It has created discrimination against small savers."

Both objectives of Reg Q — the interest-rate ceiling for deposits and the quarter point in S&Ls' favor — were supposed to ensure adequate funds for the housing market. Instead, money-market rates have gone so far above traditional Reg Q ceilings that the ceilings themselves have become a cause of disintermediation.

"The arguments against the interest-rate gap also are impressive," said Mr. Hope.

- A Federal Reserve report states clearly that ". . . Results indicate that thrifts have been able to attract long-term funds without an interest-rate advantage."
- A report from the Comptroller's Office concludes that "Even if ceilings are retained, the statutory differential on ceiling rates paid on savings by thrifts and commercial banks should be repealed."
- An FDIC paper sees an end to the differential as a foregone conclusion.

"Regrettably," Mr. Hope stated,

"the new type of 'small-saver' instruments (lower than the $10,000 minimum now allowed) now being proposed . . . retains the differential.

"This is a new area where we must seek relief from the S&Ls' unfair competitive edge," he said, "before the period for public comment is over."

Mr. Hope then switched his attention to compliance regulations. Government paperwork, he said, is crowding out the productive work of the marketplace. More than 80% of the nation's banks, he said, have compliance officers (or departments) who do nothing but prepare reports and forms the government requires on almost every phase of banking.

One banker reported to the ABA, said Mr. Hope, that in his bank for every 10 minutes of productive work, he spends another hour "reporting to the government."

"Clearly," said Mr. Hope, "there is a need to turn this mess around."

He left his listeners with this challenge:

"We have telephones, typewriters and the addresses of those in Congress. Let those in Washington know of our concerns. That's an essential step in the (political) process — exercising our clout in the halls of Congress."

* * *

In business sessions following Mr. Hope's talk, Louisiana bankers elected the following new officers to serve during the coming year:

President, H. Graham Schneider, president, First National, Lake Providence; president-elect, Crawford A. Bishop, president, Bank of Gonzales; and treasurer, John Kenaley, president, Hub City Bank, Lafayette.

LBA members also elected two new directors: John J. Doles Jr., president, First State, Plain Dealing; and William W. Watson, president, Bank of St. Joseph.

Immediate Past President Walter B. Stuart III, president, American Bank, Lafayette, was elected to a two-year term on the ABA's executive council.

In a presidential address to the association, outgoing President James G. Boyer reminded LBA members of his stated objectives when he assumed leadership at the association's 1978 convention.

At that time, said Mr. Boyer, who is chairman and president, Gulf National, Lake Charles, "I outlined as my priorities and objectives the following:

"1. To retain and strengthen the Louisiana Bankers Association as the primary united force and advocate of the entire Louisiana banking community by working with other banking organizations in the state.

"2. To achieve a fair and equal competitive environment for Louisiana banks, which would enable them to compete favorably with savings and loans, credit unions and other competitors.

"3. To improve the education, training and professionalism of all Louisiana bankers through continuation of our many LBA-sponsored programs."

These objectives, he said, might be considered the main thrust of the LBA, and he humbly volunteered "that some progress has been made in each respect during the past 12 months."

His successor — H. Graham Schneider — noted that the goals were laudable ones and, in his own acceptance speech later at the convention, announced he would continue to pursue the same three goals set forth in 1978 by Mr. Boyer.

In a final word to LBA members, Mr. Boyer urged all bankers to become involved politically in the state. The LBA's ability to function effectively on the legislative scene, he said, depends on participation by bankers throughout the state.

"Make contributions to candidates in your area," he said. "Enlist the aid and support of your directors and officers . . . so that we can, as an industry, emphasize our support of particular candidates. If we do these things," he suggested, "and assume our responsibilities as active participants in the democratic process, we can have the political potential to influence the direction our industry will take." ●●

ABOVE: It wasn't "all work and no play" at the Louisiana convention. Bankers took time out for a Las Vegas party (using play money, of course). Winners bid for prizes at auction. At left, the crap table was a favorite of the men, and on the right a woman waits for her card at the blackjack table.

BELOW: Old friends enjoy bit of conversation prior to opening session of 79th LBA convention.

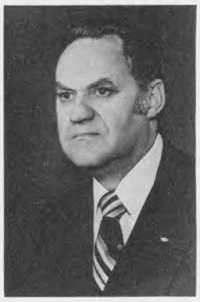
Missouri Convention

President

LEA

Pat Lea, MBA pres., has been pres. and CEO, First Nat'l, Sikeston, since 1971. He entered banking in 1953 at a Conway, Ark., bank and has served the MBA as v.p., treas. and on various committees. He is a former pres., Southeast Missouri Bankers Institute.

Vice President



TURNER

S. K. "Ken" Turner, pres., First Nat'l, Kirksville, is MBA v.p. He entered banking in 1947 at Citizens Bank, Shelbyville, joined a Kansas City bank in 1962, moved to his present bank in 1967 as e.v.p. He became pres. in 1975 and is a dir.

Treasurer

HUDDLESTON

MBA Treas. Lee Huddleston is pres., Country Club Bank, Kansas City. He joined State Bank of Oskaloosa, Kan., as v.p., fulltime after World War II. After serving as cashier at Rosedale State, Kansas City, Kan., and v.p., First Nat'l, Kansas City, he joined his present bank in 1963 as pres. and CEO.

Kansas City, May 14-15

Headquarters — Crown Center

PROGRAM

FIRST SESSION, 2:30 p.m., May 14

Call to Order — E. L. BURCH, convention chairman, and senior vice president, United Missouri Bank, Kansas City.
Welcome — RICHARD L. BERKLEY, mayor, Kansas City.
Address — LOUIS RUKEYSER, host of "Wall $treet Week" (Public Television), author, lecturer and broadcaster, Greenwich, Conn.
Panel — "State of the Association," featuring officers of the Missouri Bankers Association.
Introduction of Regional Vice Presidents, Secretaries and Chairmen of Standing and Special Committees.
Report of Committee on Nominations and Election of Officers.
Announcements and Adjournment.

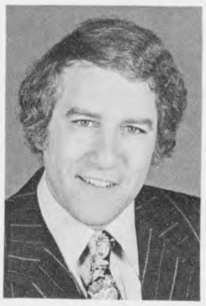
SECOND SESSION, 9 a.m., May 15

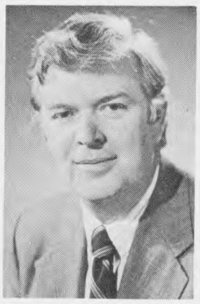
Panel — "Financial Institutions Regulatory Interest Rate Control Act (FIRA)," EDGAR H. CRIST, commissioner, Missouri division of finance; E. GLION CURTIS, regional counsel, FDIC, Kansas City; JOHN W. ROGERS, regional administrator, 10th National Bank region, Kansas City; and a representative from the Kansas City Fed.
Installation of Officers.
Meeting of Missouri Members of the American Bankers Association — CHARLES K. RICHMOND, ABA state vice president, and president, American National, St. Joseph.
Address — "Financial Management and Capital Adequacy," JOHN J. GLEASON, senior vice president, Northern Trust Co., Chicago.
Election of Member and Alternate Member of Nominating Committee to Serve at 1979 ABA Convention.
Announcements and Adjournment.

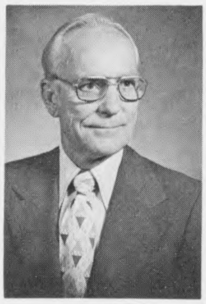
THIRD SESSION, 2 p.m., May 15

Call to Order.
Address — "Federal Legislative Update," REPRESENTATIVE IKE SKELTON (D.,MO), Lexington.
Investment Panel — "Who's In the Driver's Seat," FRANK K. SPINNER, president, Tower Grove Bank, St. Louis, moderator; RICHARD L. JOHANNESMAN, senior vice president, Mercantile Trust, St. Louis; WILLIAM T. SPRINGER, senior vice president, Boatmen's National, St. Louis; BYRON G. THOMPSON, vice chairman, United Missouri, Kansas City.
U. S. Savings Banks Presentation — MERLE M. SANGUINET, Missouri banking chairman for savings bonds, and chairman, St. Louis County Bank, Clayton.
Unfinished Business.
New Business.
Announcements and Adjournment.

Rukeyser Among Speakers At MBA Convention In Kansas City May 13-15


RUKEYSER


GLEASON


CRIST


RICHMOND

KANSAS CITY — Louis Rukeyser, host of public television's *Wall $treet Week*, heads the list of speakers to appear at the 89th annual convention of the Missouri Bankers Association, set for May 13-15 at Crown Center, Kansas City.

Also on the program will be John J. Gleason, senior vice president, Northern Trust, Chicago, and Representative Ike Skelton (D.,Mo.), Lexington. Kansas City's new mayor, Richard L. Berkley, will welcome delegates to the convention.

Frank K. Spinner, president, Tower Grove Bank, St. Louis, will moderate an investment panel. Edgar H. Crist, commissioner, Missouri division of finance, is a member of a "Financial Institutions Regulatory and Interest Rate Control Act of 1978" (FIRA) panel.

Mr. Rukeyser has been *Wall $treet Week's* host since 1970. Prior to that time, he was economic editor of *ABC News*. He is author of *How to Make Money in Wall Street*, a syndicated newspaper columnist, a lecturer and a former newspaper reporter.

Mr. Gleason joined Northern Trust in 1951 while attending DePaul University. In 1966, he became a second vice president. He was named vice president in 1969 and senior vice president in 1973. Also, he is treasurer of Nortrust Corp., the bank's parent HC. His present responsibility covers the financial-management function of both the bank and HC. His topic will be "Financial Management and Capital Adequacy."

Charles K. Richmond, president, American National, St. Joseph, is the ABA state vice president for Missouri. He will preside over ABA elections to select his successor.

Mr. Spinner joined Tower Grove Bank as president and CEO in January. Previously, he spent 30 years with First National, St. Louis, where he had been senior vice president of the bank and of First Union Bancorp., the bank's HC.

Mr. Crist became Missouri's commissioner of finance in 1977. Before that, he had a 35-year career at the St. Louis Fed and moved through every title position in the commercial-examination area. He was a vice president when he retired from the Fed.

"Federal Legislative Update" will be Congressman Skelton's topic.

The convention's first general business session will start at 2:30 p.m. Monday, May 14, in the Centennial A room. Other business sessions are scheduled for Tuesday, one at 9 a.m., the other at 2 p.m.

A "luncheon with the governor" (Joseph Teasdale) is tentatively set for noon May 15 in the Century Room.

Commercial exhibits will be shown from 2 to 6 p.m. Sunday, May 13, and from 8 a.m. to 6 p.m., Monday and Tuesday, May 14 and 15.

Special Events Set For MBA Convention

KANSAS CITY — Those attending the Missouri Bankers Association convention May 13-15 in Kansas City's Crown Center Hotel can get acquainted with others and kick up their heels at the same time at a jazz mixer and dance from 9 p.m. to midnight May 14 in the Century Ballroom. The dance will be informal.

A luncheon with Missouri Governor Joseph Teasdale is tentatively set for noon May 15 in the Century Room.

The MBA president's cocktail party will be held at 6 that night in the Century Lounge and Garden Terrace. It will be followed at 7 p.m. by the traditional president's banquet in the Century Ballroom. Entertainment will be provided by Tex Beneke and orchestra with Glenn Miller Sound and the Modernaires with Paula Kelly Jr.

Sports events include a golf tournament at 8 a.m. May 14 at River Oaks

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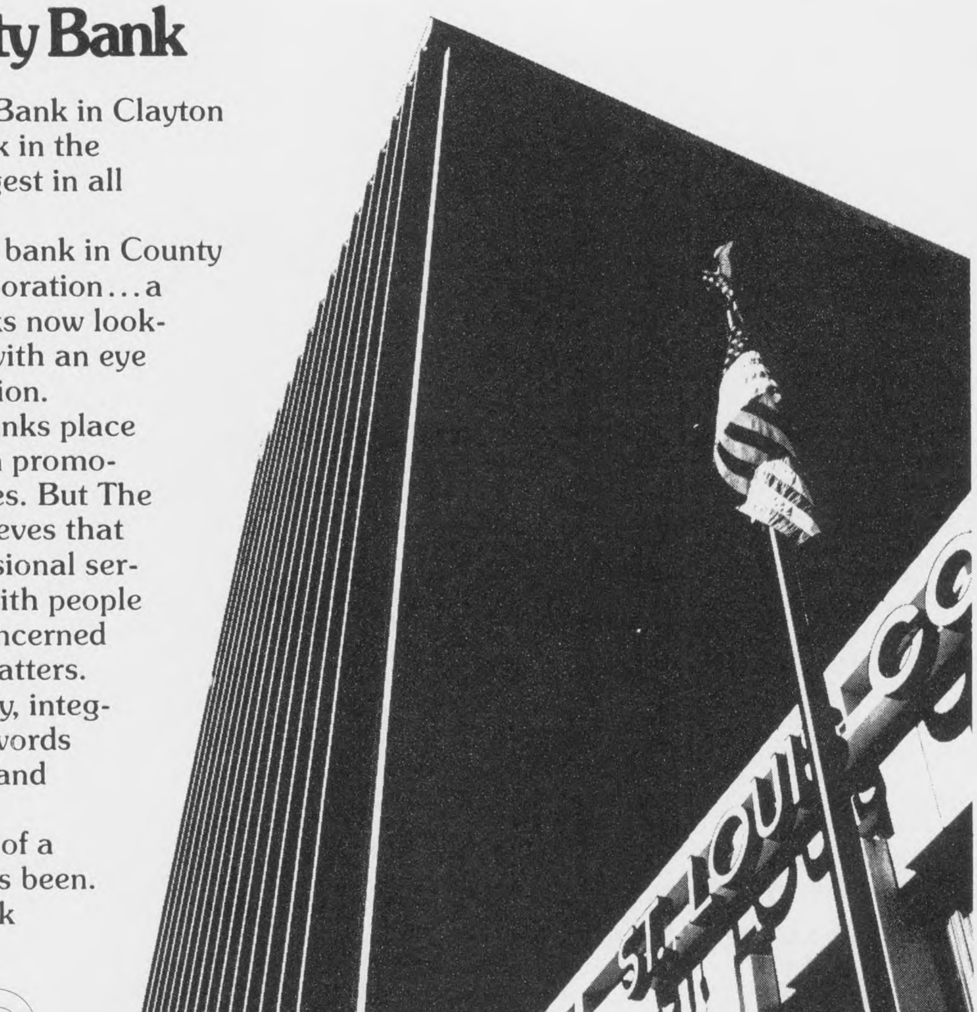


Golf Club, Grandview. Buses will leave Crown Center at 7:15 a.m. A tennis tournament will start at 9 a.m., Monday at the Overland Park Tennis club.

A two-hour "Ultimate Woman" presentation will be part of the spouses' program at 11:30 a.m. Monday at the Crown Center Centurian Room. Experts from the fashion, hair and cosmetic industries will "make over" several audience volunteers.

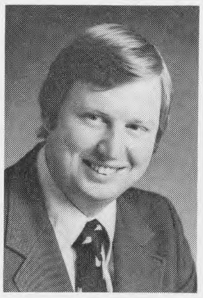
Four Missouri Bankers To Join 50-Year Club

Four veteran Missouri bankers are scheduled to be inducted into the MBA's 50-Year Club at this year's convention, according to R. Quinn Fox, assistant vice president, First National, St. Louis, who serves as club secretary.

Inductees are Harold Duncan, vice president and director, First Bank of Commerce, Columbia; Hugh T. Harlin, chairman, Bank of Gainesville; George B. Turner, retired assistant vice president, Boatmen's National, St. Louis, and Helen Turner, vice president and director, First National, Salem. They will be installed at the club's annual luncheon meeting, 11:30 a.m., May 14, in the Crown Center Hotel's Shawnee Room.

A. F. Berger, president, Citizens Bank, Owensville, is president of the club.

Convention Committee Headed By Burch and Springer


BURCH


SPRINGER

This year's Missouri Bankers Association convention committee is chaired by E. L. Burch, senior vice president, United Missouri Bank, Kansas City. William T. Springer, senior vice president, Boatmen's National, St. Louis, is vice chairman.

Other committee members, all of Kansas City, include the following: L. Joseph Archias, senior vice president, Boatmen's Bank, chairman of convention women's program; Fred N. Coulson Jr., senior vice president, Commerce Bank, tennis tournament chairman; George Dudley, senior vice president, First National; F. C. Edmunds, Red Bridge Mercantile Bank; George W. Goll Jr., president, North Kansas City State; Lee W. Huddleston, president, Country Club Bank and MBA treasurer; Robert V. Plummer, senior vice president, Columbia Union National; Melvin E. Schroeder, vice president, Mercantile Bank, golf tournament chairman; and George W. Sherman, president, Laurel Bancshares.

■ ROBERT W. MAININI has been elected assistant trust officer and Louis F. Hermann has been elected assistant cashier, Boatmen's National, St. Louis. Mr. Mainini formerly was with Dean Witter & Co., Inc., and Mr. Hermann joined Boatmen's in 1975.

■ TOWER GROVE BANK, St. Louis, has promoted Gregory G. Sprich to assistant vice president. He joined the bank in 1977.

Waldo F. Mottaz Is Nominee For Treasurer of MBA


MOTTAZ

The nominee for MBA treasurer this year is Waldo F. Mottaz, president and chairman, State Bank, Hallsville.

Mr. Mottaz entered banking in 1940 at Bank of Wellsville, which he still serves as chairman. He became affiliated with his present bank in 1966 as president.

He is vice president, Little Dixie BAI Chapter.

■ RUSSELL L. RUTH has been named president, Mercantile National of Clay County, Kansas City. He formerly was with Missouri Bank, Kansas City, where he served as president. Prior to that, he was vice president of what is now Goppert Bank, Kansas City.

■ LAWRENCE W. DUNN has joined Mark Twain Bank, O'Fallon, as vice president and a member, senior-management team. He formerly was cashier, Clayton Bank. Linda Jokerst has been elected assistant vice president/consumer services and loan administration. She formerly was a consumer services officer.

■ PIONEER BANCORP., St. Louis, has received approval from the Fed to become a bank HC by acquiring Pioneer Bank, Maplewood, and to engage directly in credit-related insurance activities.

■ ELLEN H. THOMA has been promoted to assistant vice president of United Missouri Bank, Jefferson City. She joined the bank in 1974.

■ AMERICAN BANK, Kansas City, has elected Thomas J. Wood III vice president. Formerly, he was president of United Missouri Bank, St. Louis. Also, David A. Stickelber has been elected to the board. He is president of Marion Corp.

McClure, Houk to Speak At Young Bankers Seminar At Tan-Tar-A June 5-7

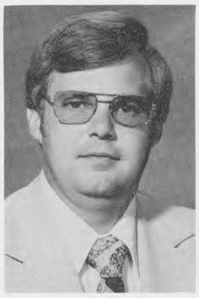
LAKE OF THE OZARKS — John W. McClure, vice president, Mercantile Trust, St. Louis, and Allen Houk, president, Capital National, Houston, are among the speakers scheduled for the Missouri Young Bankers Seminar to be held at Tan-Tar-A here June 5-7.

Competition is the topic of Mr. McClure's talk, and profitability is the theme of Mr. Houk's address.

The seminar's kickoff speaker will be Terry Heineman of Morris Massey & Associates, Boulder, Colo.

"Banking in the Political Arena — Its History and Future" will be discussed by Robert W. Crawford, executive vice president, and Richard Mason, director of governmental affairs, both of the Missouri Bankers Association. High-performance profitability will be the topic of Alex Sheshunoff, president, Sheshunoff & Co., Austin, Tex.

And "How Management Looks at You" will be the topic of the panel consisting of Mills Anderson, chairman, Bank of Carthage, Richard Pfleging, president, Bank of St. Ann, and Mr. Houk.



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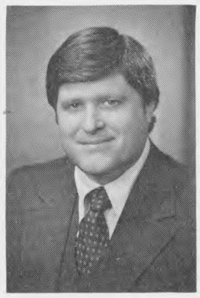


ROSS

Bob Albright, ABA director of membership services, will give an address entitled "Professionally Yours."

Golf and tennis tournaments will be part of the social scene, and a barbeque will replace the usual banquet. Dress for the entire seminar is casual.

Chairman of the Young Bankers this year is Bill C. Lee, executive vice president, State Bank, Seneca. He began his banking career with First National, Nowata, Okla., in 1971; moved to McIlroy Bank, Fayetteville, Ark., in 1972; joined First National, Neosho, Mo., in 1973 and went to his present bank late in 1976.

Vice chairman of the Young Bankers is W. Michael Ross, senior vice president in charge of correspondent banking, Bank of St. Louis. He began his banking career in 1976, when he joined the bank as a correspondent banking officer. He teaches a course in bank management for the AIB.

■ BLUE RIDGE BANK, Kansas City, has promoted the following: Frances Klaustermeyer to vice president and cashier, Jean Gooch, to vice president, commercial and real estate loans, and Nancy Rove to assistant cashier and manager, Sterling and 43rd Street facility.

■ FIRST NATIONAL of Pierce City's controlling interest has been purchased by Bill Miller, chairman, State Bank of Slater, and Bill Nance, president First State, Pattonsburg, from Frank Carter, chairman and president of the Pierce City bank. Mr. Miller and Mr. Nance will serve as directors and plan to retain all present management and staff.

■ ROBERT L. HARRIS has joined Plaza Bank of West Port, St. Louis, as senior vice president and chief lending officer. Formerly, he was executive vice president and chief lending officer, North St. Louis Trust.

Missouri Needs Better Policies To Keep, Attract Businesses, Says Barksdale at HC Meeting

ST. LOUIS — Clarence C. Barksdale, chairman/CEO, First Union Bancorp., mixed HC news and his views on the national and Missouri economy at the HC's annual shareholders' meeting April 11.

He said that although 1978 was a good banking year in terms of earnings, it also was a year of increased regulatory controls caused by passage of the Community Reinvestment Act (CRA) and the Financial Institutions Regulatory and Interest Rate Control Act (FIRA). As a result, bankers are spending more time and money now on record-keeping, he said.

On Fed membership, Mr. Barksdale said that he opposes a proposed bill that would enforce mandatory Fed membership. "I believe in a voluntary Fed membership," he said. He nixed the idea that First National might be one of those banks leaving the Fed fold.

He pointed out that the current Missouri administration is not creating an economic atmosphere that keeps businesses in Missouri and attracts new ones. "That affects our state's economy

Greeting shareholder (c.) at First Union Bancorp. stockholders' meeting are (from l.) Clarence C. Barksdale, ch./CEO of HC; and Richard Ford, pres., First Nat'l, St. Louis.

and the economy in which our bank does business," he said.

Turning to HC matters, Mr. Barksdale said, that continued growth in loan volume was a positive factor in the bank's first quarter results.

"Loans averaged 18% higher than in the first quarter of 1978," he continued. "However, as a result of the increase in the past year in interest rates to their currently high level, overall spreads narrowed, which had the effect of partially offsetting the benefit of loan growth."

He is optimistic "that our rate of earnings growth will exceed that of the first quarter. An easing of interest rates as the economy slows during the latter part of the year and resulting improvement in interest spreads are the primary reason for this expectation."

In actual figures, First Union's consolidated net operating income in the first quarter of this year was $6.3 million, compared with $5.9 million in the first quarter of 1978. On a per-share basis, net operating income was $1.35, and a 6.3% increase over the $1.27 earned in the first quarter of 1978.

After the effect of investment-securities transactions, first-quarter income this year was $6.1 million, or $1.32 a share, compared with $5.9 million, or $1.28 a share, in the first quarter of 1978. On a per-share basis, this represents a 3.1% boost.

Also, the stockholders voted to add Davis K. Jackson, president, J. C. Nichols Co., Kansas City, and Robert H. Quenon, president and CEO, Peabody Coal Co., St. Louis, to the board. They will succeed Darryl R. Francis and Virgil Grant, who have retired from the board. Mr. Francis, who was president, St. Louis Fed, for 10 years before retiring, is now chairman/CEO of Merchants National, Fort Smith, Ark. Mr. Grant is retired executive vice president, Caterpillar Tractor Co., Peoria, Ill.

■ BUELL L. HOYT, vice president, Mercantile Bank, Kansas City, has joined the bank's parent HC, Mercantile Bancorp., St. Louis, as part of its executive-development program. The latter is designed to prepare individuals for top-management posts in Mercantile banks around the state. Mr. Hoyt joined Mercantile of KC in 1960 and, most recently, was manager of its consumer loan department. In other action, the KC bank promoted Roger D. McPeek to vice president and acting manager, consumer loan department. He has been at the bank since 1969.

■ MERCHANTS BANK, Kansas City, has promoted Don Kempter and Anthony Lombardo to first senior vice presidents. Mr. Kempter had been senior vice president/loan division since 1973. Mr. Lombardo had been senior vice president/data processing since 1970. The bank also announced two appointments: Randall P. Castle and D. Craig Barnes to assistant vice presidents. Mr. Castle joined the bank

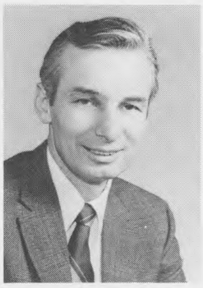
March 26 from Jackson County State, Kansas City, and is in operations. Mr. Barnes was with Commerce Bank, St. Joseph, before going to Merchants Bank April 2. He is assisting the executive vice president with marketing in the commercial banking area.

FARRELL HECKMAN DILLE

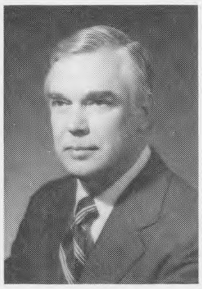
■ MERCANTILE BANCORP., St. Louis, parent HC of St. Louis' Mercantile Trust, has nominated three directors: Neal J. Farrell, Mercantile Trust president; Earl K. Dille, executive vice president, Union Electric Co.; and William G. Heckman, chairman and CEO, Arch Mineral Corp. Prior to joining the bank in 1978, Mr. Farrell was senior vice president/international department, Chase Manhattan, New York City, and group executive/international correspondent banking. In other action, Mercantile Trust has promoted Schuyler G. Herbert to trust officer and James M. Allison Jr. to manager/13th and Olive Banking Center.

■ THOMAS E. BISHOP JR. has joined Commerce Bank, Kansas City, as an assistant vice president/correspondent division. He has four years of banking experience. Prior to joining the bank, he served as a correspondent division officer specializing in agribusiness, American Fletcher National, Indianapolis.

■ UNITED MISSOURI BANCSHARES, Kansas City, has named Walter Beck executive vice president, assisting in loan administration and business development. He formerly was executive vice president, First National, Kansas City. In other action, the HC's lead bank, United Missouri, Kansas City, has made the following officer promotions: William C. Boaz III to senior vice president/corporate trust and mutual funds division, with responsibility for overall management of the division; Sharlyn Anderson to

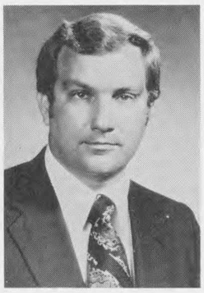


BOAZ



BECK

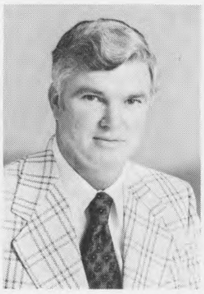
vice president/Bankcard division; Donald E. Kirkpatrick, manager/investment department operations division, to vice president; Thomas D. Cochran to assistant vice president/corporate trust and mutual funds division; Allen Davis to assistant vice president/Bankcard division; John D. Koester to assistant vice president/commercial banking division; and Michael R. Snyder to assistant vice president/commercial division, business development. Roger Tranckino has been elected vice president/tax-exempt securities, trading and underwriting division, investment department.



BURBANK

PARNELL

■ LARRY M. BURBANK, president, Bank of Springfield, has been elected CEO, succeeding Ben A. Parnell Jr., who continues as chairman. Mr. Burbank joined the bank as president in May, 1978, after serving four years as president and CEO, Crawford County State, Robinson, Ill. Mr. Parnell is a past president, Missouri Bankers Association.



LEWIS

■ EDWIN B. LEWIS has been named president and chairman, Commerce Bank, Brunswick. He joined the bank after serving six years as vice president and manager, agribusiness department, Commerce Bank, Kansas City.

■ FRANKLIN COUNTY MERCANTILE, Washington, has awarded the first Ben F. Geisert Memorial Scholarship, which it funds, to Mark F. Brinkmann of Morrison. The $800 annual award is given over a 10-year period to a maximum of 28 students who show high scholastic achievement, placement test scores, extracurricular activity and ability to articulate. Mr. Brinkmann, who enters the University of Missouri/Columbia College of Agriculture this fall, was selected over other prospective UMC students from the Washington area. He is a member of the student council, Future Farmers of America, National Honor Society, Presbyterian Youth Group, Pork Producers and is a four-year basketball participant. The scholarship was established in honor of Ben F. Geisert, UMC graduate, who introduced many innovative agricultural techniques for which he gained outstanding recognition.

Franklin County Mercantile, Washington, pres., Jack Lohan (l.) and Elmer Steffens (r.), ch., review details of Ben F. Geisert Memorial Scholarship, which bank sponsors. Also present are John W. Sweeney (seated c.), director of development, University of Missouri/Columbia, and Ben A. Geisert, bank director and son of Ben F. Geisert.

MacCARTHY

■ JOHN PETERS MacCARTHY has been elected president and CEO, St. Louis Union Trust, and vice chairman, First Union Bancorp., St. Louis. Eugene F. Williams Jr. will continue to serve as chairman of the trust company. Mr. MacCarthy joined the company as secretary in 1969, was elected executive vice president in 1972 and president and chief operating officer in 1975. rior to joining the trust company, he had been a partner in the St. Louis law firm of Bryan, Cave, McPheeters & McRoberts.

Anonymous Gift Expands School's Banking Courses, Establishes Professorship

KANSAS CITY — A $100,000 anonymous gift to the School of Administration, University of Missouri at Kansas City, will be used to establish a professorship in banking.

The gift will endow a chair to be named for the late Carl W. Allendoerfer, former chairman, First National, Kansas City.

Though his formal education ended with high school, Mr. Allendoerfer was known in banking as a scholar and innovator, according to George A. Russell, the university's chancellor. Mr. Allendoerfer went to the old American National, Kansas City, in 1901 and moved to First National in 1907. He died in 1955.

The university is conducting a national search for a qualified person to fill the chair.

With the addition of the chair, the business school plans to expand its curriculum to include a full program in banking next fall. Banking majors will be able to earn either bachelor's or master's degrees in business administration.

In addition to teaching, the banking professor will develop new banking courses and a research program and serve as senior academic adviser for banking majors.

Also, the school's continuing education program will start a bank executive certificate program. Selected applicants from the banking community will be able to audit four courses in the graduate banking program to acquire certification.

A 10-week executive seminar in commercial bank management is planned. Each session of the weekly meetings will begin with a one-hour lecture by a banking faculty member. Also, students will be involved in a simulation/training program known as BankSim, in which they will run hypothetical banks through eight operating quarters in a five-week period.

Short courses involving special topics in banking and one-, two- and three-day seminars will be developed.

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We can give you an extra edge with our specialized professional correspondent bank services. Arkansas bankers know that they can call The Banker's Bank at any time for cordial, personalized service which is designed to solve your uniquely individual banking problems, and not to attract your customers.

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THE BANK.

Commercial National Of Little Rock

Commercial National Bank of Little Rock, 200 Main Street, Little Rock, Arkansas 72201

Arkansas Convention

President

BROWN

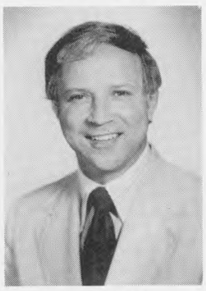
Doyl E. Brown is Ark.BA pres., and pres., t.o. and dir., First Nat'l, Wynne, which he joined in 1938. He was named cash. in 1955, dir. in 1962 and pres. & t.o. in 1966. He is a past pres., Jr. Bankers Section.

President-Elect

HIATT

Joe S. Hiatt is Ark.BA pres.-elect, and pres. and ch., American State, Charleston. He entered banking in 1954 at First Nat'l, Fort Smith. He joined his present bank in 1957, was made e.v.p. and dir. in 1961, elected pres. in 1967 and ch. in 1971.

Treasurer



BRANDON

Ark.BA treas. is William H. Brandon Jr., pres., First Nat'l, Helena. He joined the bank in 1964 as an officer and became pres. in 1970. He will give the treasurer's report during second gen'l business session of Convention on May 15.

Hot Springs, May 12-15

Headquarters—ARLINGTON HOTEL

PROGRAM

FIRST SESSION, 9 a.m., May 14

Call to Order — DOYL E. BROWN, president, Arkansas Bankers Association, and president and trust officer, First National, Wynne.
Invocation — JOE S. HIATT, president-elect, Arkansas Bankers Association, and president, American State, Charleston.
Address — BERYL ANTHONY, United States congressman.
Address — ED BETHUNE, United States congressman.
Announcements and Awarding of Door Prize.
Adjournment.

SECOND SESSION, 9 a.m., May 15

Call to Order — DOYL E. BROWN.
President's Address — DOYL E. BROWN.
Report of the Treasurer — WILLIAM H. BRANDON JR., treasurer, Arkansas Bankers Association, and president, First National, Helena.
Report of the President, Junior Bankers Section — JAMES STOBAUGH, president, Junior Bankers Section, and vice president, National Bank of Commerce, Pine Bluff.
Address — JIM GUY TUCKER, former United States congressman, now legal counsel, Fair Arkansas Interest Rate Committee.
Meeting of Arkansas Members of the American Bankers Association.
Resolutions Committee Report — MAX MITCHAM, committee chairman, and chairman, Smackover State.
Election of Officers.
Announcements and Awarding of Door Prize.
Adjournment.

State Usury Laws to Be Featured At Arkansas Convention in Hot Springs

PROPOSED USURY-ceiling changes, which are expected to be made at the Arkansas constitutional convention this month, will highlight discussion at the Arkansas Bankers Association convention May 12-15 at the Arlington Hotel in Hot Springs.

Jim Guy Tucker, former U. S. congressman and now legal counsel for the Fair Arkansas Interest Rate Committee, will outline the crippling situation imposed by the state's current constitution, which sets a 10% interest-rate ceiling, and proposed constitutional changes.

Two U. S. congressmen from Arkansas, Beryl Anthony (D) and Ed Bethune (R), are scheduled to speak during the first general business session of the convention, and Arkansas Governor Bill Clinton has been invited to speak to delegates. At press time, the invitation had not been acknowledged.

Convention activities get underway on Saturday, May 12. On that date, the past presidents of the Ark.BA will hold their annual black-tie reception, dinner and meeting.

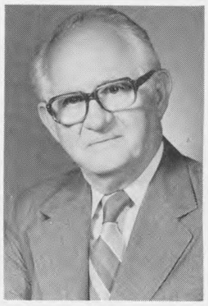
On Sunday, May 13, the nominating committee will meet at 10 a.m.; the resolutions committee will convene at 1 p.m., and the Ark.BA board will meet at 3 p.m. That evening, the general convention reception will begin at 6 p.m. in the Arlington Hotel Conference Center. Entertainment will be provided.

Following the first general business session on Monday, May 14, the annual tennis tournament will be held at Hot Springs Country Club.

The second general business session will be held on Tuesday, May 15, followed by the annual golf tournament at the Hot Springs Country Club.

The annual banquet will begin at 7 p.m., May 15, in the Conference Center. ••

New Banking Commissioner



Beverly J. Lambert Jr. was sworn in April 19 as Arkansas banking commissioner. He began his banking career at Bank of Holly Grove, then went to Bank of West Memphis, where he was pres. 15 years. He spent seven years as pres., First State, Crossett, retiring two years ago. Since then, he has been a consultant for the Little Rock investment banking firm, Powell & Satterfield, Inc. He is a past pres., Arkansas Banking Association. In his new post, Mr. Lambert succeeds Harvel C. Adams, who has moved to Stuttgart. Mr. Adams also is a retired banker. Mr. Lambert's son, Beverly J. Lambert III, is s.v.p. and mgr./investments, Worthen Bank, Little Rock.

Hobgood Resigns Ark.BA Post

James C. Hobgood, this year's Arkansas Bankers Association vice president who was slated to become president-elect for 1979-80, has resigned his office in the Ark.BA. He cited family health problems as his reason for resignation. However, he remains chairman, Merchants & Planters, Arkadelphia.

■ CITIZENS NATIONAL, Hope, has opened its South Main Branch, the first branch bank in Hempstead County. It is located at the corner of 16th and Main streets in Hope and will offer all banking services, except lending, which are available in the main bank building. The new office has 2,400 square feet of floor space, three drive-in lanes, safe deposit boxes and three lobby teller stations.

Artist's conception of new branch, Citizens National, Hope, which opened in April, shows three drive-in lanes, safe deposit boxes and three lobby teller stations.

In the class of correspondent bankers, three Senior Vice Presidents head the list... Lynn Hobson, Gus Morris and Jim Newman. They also happen to head the Correspondent Bank Department at one bank... Memphis Bank & Trust. They carry those titles and that kind of responsibility for good reason.

Their experience and knowledge is senior among the area's correspondent bankers. Under their leadership, Memphis Bank & Trust is building the fastest growing Correspondent Bank Department in the South.

With a full staff behind them, they deliver a range of services senior by comparison including: Transit, Data Processing, Visa and Master Charge, Draft Collection, Investments, Federal Funds, Safekeeping, Credit Assistance, Loan Participation, Trust Services, Wire Transfers and Business Referrals. They can provide expert advice on Insurance, Regulatory Affairs, New Banking Services, Advertising and Marketing, Training Personnel... even the designing of bank facilities.

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MEMPHIS BANK & TRUST

MEMBER F.D.I.C.

The Senior Class '79

Oklahoma Convention

President

RODGERS

OBA Pres. William W. Rodgers Jr. is pres. & t.o., Security Bank, Blackwell, which he joined in 1967. He has held his present position since 1970.

President-Elect

STEPHENSON

OBA Pres.-Elect W. L. Stephenson Jr. is ch./CEO, Central Nat'l, Enid. He entered banking there in 1956. He was elected v.p. in 1959, e.v.p. in 1961 and pres. in 1965. He became ch. in 1975.

Treasurer

PATTEN

John H. Patten, pres. and ch., Security Nat'l, Norman, is OBA treas. He entered banking there in 1951 and was elected pres. in 1963 and ch. in 1970. He has served on the OBA board and was ch. of Group IV.

Tulsa, May 14-16

Williams Plaza Hotel

PROGRAM

FIRST SESSION, 1:30 p.m., May 15

Call to Order — WILLIAM W. RODGERS JR., president, Oklahoma Bankers Association, and president, Security Bank, Blackwell.
Address — LEE GUNDERSON, president, Bank of Osceola, Wis.
Meeting of ABA Membership — MORRISON TUCKER, ABA vice president for Oklahoma, and chairman, United Oklahoma Bank, Oklahoma City.
President's Message — WILLIAM W. RODGERS JR.
Address — ORAL ROBERTS, president, Oral Roberts University, Tulsa.
Adjournment.

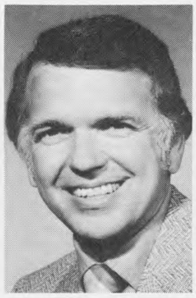
SECOND SESSION, 9 a.m., May 16

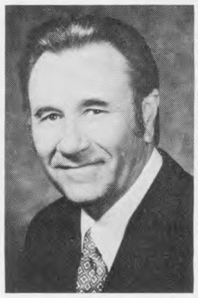
Call to Order — WILLIAM W. RODGERS JR.
Introduction of New 50-Year Club Members.
Address — B. CARTER RANDALL, senior vice president, Royal Trust Bank of Miami.
Address — GEORGE NIGH, governor, state of Oklahoma.
Report of Nominating Committee.
Election and Installation of Officers.
Address of New President — W. L. "BUD" STEPHENSON JR., chairman, Central National, Enid.
Address — BILL BANOWSKY, president, University of Oklahoma.
Adjournment.

'Meet the Press' Monroe Slated for OBA Convention In Tulsa May 14-16


MONROE


GUNDERSON


NIGH


ROBERTS

Bill Monroe, executive producer of NBC-TV's "Meet the Press," is the keynote speaker at the Oklahoma Bankers Association's formal banquet at 7 p.m., Tuesday, May 15. Following his talk, entertainment will be provided by singer Archie Lewis.

Mr. Monroe's journalism career includes being NBC's Washington bureau chief for seven years before becoming anchorman on the "Today" show. Since December, 1975, Mr. Monroe has been anchorman and executive producer of the award-winning news program, "Meet the Press." He won broadcasting's highest news award, the Peabody, in 1973.

Prior to Wednesday morning's business session, five different breakfasts will take place at 7:45 o'clock in different rooms in the Williams Plaza Hotel. Groups meeting for breakfast include the 50-Year Club, the School of Banking of the South and the Madison, Southwestern and Stonier Banking School graduates.

B. Carter Randall, senior vice president, Royal Trust Bank of Miami, highlights Wednesday morning's business session. Prior to joining Royal Trust, he was senior vice president, investments, Equitable Trust, Baltimore. Mr. Randall is a regular panelist on "Wall $treet Week," a public television program dealing with the economy and investment markets.

Wednesday evening, an "Oklahoma Party" buffet dinner will be held. Orchestra and disco bands will provide music.

Speaking at the first afternoon business session will be Lee E. Gunderson, president, Bank of Osceola, Wis. He is Region V candidate for ABA president-elect for the 1979-80 term. Mr. Gunderson was employed in South Dakota banks from 1952 to 1961 and moved to Wisconsin in 1961. He joined his present bank as executive vice president in 1966 and was elected president in 1976. He is past-president of the Wisconsin Bankers Association. Also, he served on the ABA board from 1975 to 1977 and has been a governing council member since 1975.

Conventioneers also will hear Oklahoma Governor George Nigh; Oral Roberts, president, Oral Roberts University, Tulsa; and Bill Banowsky, president, University of Oklahoma, Norman.

Five Oklahoma Bankers To Join 50-Year Club

TULSA — Five veteran Oklahoma bankers are scheduled to be inducted into the OBA's 50-Year Club at this year's convention.

Inductees are Henry Croak, chairman/CEO, American State, Midwest City; H. L. Ferguson, director, American National, Sapulpa; Richard McClure, retired senior vice president, First-Oklahoma, Sulphur; Clarence McGinty, president, Glencoe State; and Willis Sexton Tudor, retired bookkeeper, Citizens National, Muskogee.

Club chairman is John N. "Happy" Camp, chairman, Waukomis State, and vice chairman is J. R. Symcox, chairman, City National, Norman.

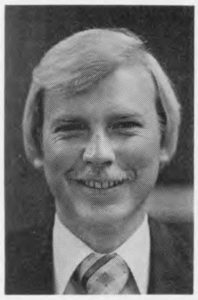
■ UNITED BANK, Tulsa, has promoted Ann Hollingsworth to assistant vice president from assistant cashier and Linda Battison to assistant cashier. Miss Battison also is teller supervisor.

■ STEVE SCHOOLEY and Marc Wolin have been elected vice presidents, Bank of Commerce, Tulsa. Mr. Schooley also is controller and is responsible for accounting and purchasing operations. Prior to joining the bank, he was an audit officer, First National, Tulsa. Mr. Wolin is head, loan review department, and joined the bank from Carlsbad (N. M.) National, where he was a vice president/commercial loan department.

■ SECURITY BANK, Lawton, has announced these promotions: Robert D. Scott Jr. to senior vice president and cashier from vice president and cashier; David F. Sandstrom to vice president and trust officer from vice president and assistant trust officer and Wydon Warren to assistant vice president from assistant cashier.

■ SHEPHERD MALL STATE, Oklahoma City, has elected Robert L. Medley and J. K. "Jerry" Altshuler advisory directors. Mr. Medley is president, Medley Insurance Services, Inc. Mr. Altshuler is president, Equitable Factors, Ltd., and Equitable Acceptance Corp.

ANDERSON



■ MICHAEL W. ANDERSON has been named vice president/correspondent banking department, United Oklahoma, Oklahoma City. His previous experience includes six years with Liberty National, Oklahoma City, and most recently as assistant vice president/correspondent banking department, Union National, Wichita.

When Does a Pair of Aces Beat a Full House?

When you deal with Fourth National's Correspondent Bankers.

Fourth strives for quality, not quantity. **Gary Dobson** and **Tom Kellogg** represent 20 years of banking experience. They have the authority to be accurate. They give you answers fast.

So you don't have to remember an army of names. All it takes is two.

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Fourth National Bank
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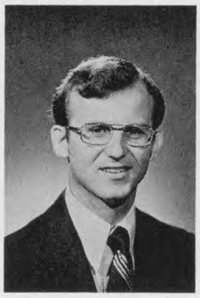
The Bank for Banking Entrepreneurs.

Multi-Bank Branching Loses

OKLAHOMA CITY — SB 246, a multi-bank branching bill, was killed last month for this session of the state legislature. However, it could resurface next January, when the legislature meets again.

The Independent Bankers Association of Oklahoma (IBAO) claims victory for stopping the proposed legislation this year. The independents lobbied intensively to convince a heavy majority of the 26-member House Banks and Banking Committee to support Chairman W. D. Bradley's recommendation that no committee meeting be held if the multi-bank supporters were short of gaining the necessary votes to bring the bill by Senator Lee Cate to the floor. The result was to kill it for this year, but permit it to stay alive for consideration next January.

HELLEN



■ WILLIAM R. HELLEN JR. has been promoted to vice president/financial institutions, Bank of Oklahoma, Tulsa. He has been in the correspondent banking department since 1975 and most recently served as assistant vice president. Larry Smith has joined the bank as assistant vice president and manager/consulting services. The bank also has elected Edgar R. Sanditen and Thomas J. Hughes to the board. Mr. Sanditen is chairman and CEO, OTASCO; Mr. Hughes is president, Hughes Lumber Co.

■ FIRST NATIONAL, Tulsa, has promoted the following: James A. Glick, to assistant vice president/operations division, from banking officer; John C. Lack, to banking officer/international department; and Dana Lowe to banking officer/finance division from cost analyst. Mr. Glick has been with the bank since 1974; Mr. Lack, since 1976, and Miss Lowe since 1977.

■ FIRST BANCORP., Holdenville, has been approved by the Fed to become a bank HC, to acquire First National, Holdenville, and engage in credit-related insurance activities through an indirect ownership interest in First Holdenville Insurance Agency.

NEWS
From the Mid-Continent Area

Illinois

■ CONTINENTAL BANK, Chicago, has promoted these officers to second vice presidents: H. Randolph Williams, George E. Douglas, Donald H. Faloon, Judith L. Farling, Robert A. Manna, Charles W. Pacey Jr., Joseph F. Pellicore, Howard J. Tatar and Daniel S. Shook. Ellen M. Roucek has been promoted to attorney, corporate counsel department.

■ HARRIS BANK, Chicago, has elected these vice presidents: trust department — David J. Blears, Richard C. Caldwell, Michael L. McCowin, Lance Morgan and Martha T. Russell, who serves in the bank's Scottsdale, Ariz., office; James Ortega, manager, banking department in Sao Paulo, Brazil; James A. Grabsky, checking account services division; and David K. Harmon and James T. Kinsella, municipal bond division.

■ HELEN B. JUNZ has been appointed vice president and area manager/business and economic research division, First National, Chicago. She formerly was a deputy assistant secretary of the Treasury. Prior to this, Miss Junz served as senior staff economist for the Council of Economic Advisers, where she was responsible for analysis of effects of international economic policy on U. S. foreign and domestic policy problems.

■ G. HERBERT CLAUSEN has been elected executive vice president and CEO, Northwest Bank, Peoria. Formerly vice president and cashier, he joined the bank in 1976. Also promoted were Margaret E. Curl to assistant vice president; Gerald W. Schleeter to cashier and Richard D. Beer to assistant cashier and marketing officer.

IBA/Multi-Bank HC Policy

JOLIET — The Illinois Bankers Association will face an internal test of its legislative policy on regional multi-bank HCs, said James Oberwortmann, vice chairman, Union National, who is an IBA member.

Petitions are circulating and many IBA banks are demanding a vote at the annual convention, he said. "Multi-bank HCs, in my view, offer the best chance for banks of all sizes to remain in the competition from credit unions and S&Ls."

According to Mr. Oberwortmann, a June, 1978, survey completed by the research firm, Market Facts, for the IBA shows 45% of IBA-member banks either "favor now" or "could accept" some form of multi-bank HC legislation. "We believe the actual number is a clear majority when taken on the issue of regional multi-bank HCs," said Mr. Oberwortmann.

The resolution being circulated statewide among IBA members asks the IBA to maintain its opposition to statewide bank HCs, but support the concept of "multi-bank HCs limited to specific geographic regions."

Mr. Oberwortmann added he was optimistic this was the year the IBA would change its old position and adopt a progressive, new policy. "I am confident in light of the advantageous laws for S&Ls and credit unions, the IBA will be in favor of the legitimate needs of Illinois banks for some modest structure flexibility."

Kansas

■ FIRST NATIONAL, Wichita, has promoted these officers: William A. Byerly to senior vice president and senior trust officer from senior vice president and trust officer; John J.

BYERLY LUERDING MANAHAN

Luerding to senior vice president (continuing to head the marketing division) from vice president; and C. H. Manahan to senior vice president in charge of the personal loan department from vice president.

■ ARTHUR L. PITCOCK has been appointed EDP operations manager/commercial data division, Commercial National, Kansas City. He joined the bank in 1978 as EDP operations supervisor.

■ FOURTH FINANCIAL CORP., Wichita, has elected Fred Berry Jr. and Les Cooper to the board. Mr. Berry is president, Berry Cos., Inc., which has subsidiaries in Kansas, Oklahoma and Colorado. Mr. Cooper is active in the livestock industry and has extensive ranching interests in the Southwest.

■ MERCHANTS NATIONAL, Topeka, has promoted the following officers: Allen E. Heimer and S. Richard Dill to assistant vice presidents and Billie M. Pohl and Stephen R. Page to trust officers. Mr. Dill was promoted to correspondent bank officer in 1976.

■ MAURICE R. LINNENS has been promoted to vice president, Wichita State. He joined the bank from Kansas State, Wichita, where he served as vice president/commercial lending.

Banking Scholarships

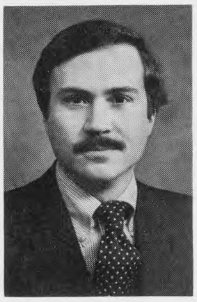
The Young Bank Officers of Kansas (YBOK) is offering $500 scholarships per semester to Kansas college students in their junior years. The scholarships can be continued during the senior year if the student maintains good academic standing.

Planned or current juniors enrolled in finance, banking, business or a comparable curriculum are eligible.

Banks with employees who are students in these fields should encourage employees to apply through the school's business department.

The scholarship is open to students at Kansas University, Kansas State University, Wichita State University, Emporia State University, Fort Hays State University and Pittsburg State University.

Kentucky



McKENZIE

■ JAMES T. McKENZIE, vice president, has been named head/correspondent bank department, Liberty National, Louisville. He joined the bank in 1971 and the correspondent department in 1975.

■ FIRST KENTUCKY TRUST, Louisville, has announced these promotions: from vice presidents to senior vice presidents — Lawrence A. Warner and Anthony J. Zimmerer Jr., investment management area; both also serve on the investment policy committee. Named vice presidents in the same area are Junius W. Prince III and Irvin W. Quesenberry Jr. Mr. Quesenberry also becomes vice president, First Kentucky Investment Advisers, a wholly owned subsidiary of First Kentucky National Corp., parent HC of the trust company.

■ ANTHONY R. BELLUCCI has been elected vice president of Louisville Trust's commercial banking group, where he heads the metropolitan division. Before joining the bank in February, he was vice president, First National, Louisville.

Louisiana

■ AMERICAN BANK, Houma, has elected Philip E. Henderson, a city attorney, and John B. Marceaux, a Terrebonne veteran educator, to the board. Elected advisory directors were Darrel Chitty and George Bass. Mr. Chitty is president and CEO, LynDar Food Services; Mr. Bass is president and founder of Bass Industries.

Texas

CARPENTER

CHUMNEY

■ FROST NATIONAL, San Antonio, has made the following officer promotions: Lon P. Carpenter, senior vice president/national accounts; Earl H. Chumney Jr., senior vice president/international; David W. Rece, senior vice president/trust operations and tax; Sally G. Bates, checking services, and Joe V. Villarreal, accounting, to vice presidents; and Robert R. Neyland, cost and planning, to assistant vice president.

RECE

BOYD

■ WILLIAM R. BOYD IV has taken an early retirement from First City National, Houston, after 25 years of service. He intends to remain active in banking and other business interests and has opened an office in the city. During his career with the bank, Mr. Boyd was involved with the correspondent department from 1956 until his retirement. He managed the department from 1970 to 1978. His new office address is P. O. Box 79669, Houston, TX 77079.

Equitable Bank Opens

DALLAS — Robert H. Sewell has been elected president of the new Equitable Bank, which opened in April at the corner of Preston and Campbell roads.

Mr. Sewell, formerly vice president, Peoples National, Belton, also has served at Capital National, Austin; National Bank of Commerce, Dallas; and as an assistant national bank examiner in Abilene with the Comptroller of the Currency.

The new bank has 1,800 square feet of space and three drive-in lanes. It was organized with $500,000 capital, surplus of $500,000 and undivided profits of $250,000. Currently, 125,000 shares of common stock with a par value of $4 are outstanding.

Other Equitable officers are Wallace T. Lester, vice president, and Joy Gallagher, cashier. Mr. Lester formerly was an assistant vice president, Citizens Bank, Richardson, and Miss Gallagher joined the bank from Dallas/Fort Worth Airport National.

■ W. DONHAM CRAWFORD, chairman and CEO, Gulf States Utilities Co., and Edwin Singer, a private investor in ranching and petroleum development, have been elected to the board, First City Bancorp., Houston.

■ WILLIAM D. BREEDLOVE has been elected vice chairman and board member, First National, Dallas. He will have primary responsibility for the banking divisions and remains chairman, credit policy committee.

■ CAPITAL NATIONAL, Houston, has named these vice presidents: Allan E. Pevoto, also director/personnel; Allen U. Hulings and Sherman L. Smith, money center division; and Lyn D. Davis, also manager/credit division.

Fed Answers Regs Questions

Randall C. Sumner, examiner in St. Louis Fed's consumer affairs dept., answers common questions about federal regulations that affect most banks. Information given here reflects Mr. Sumner's opinions, not necessarily those of the St. Louis Fed or the Board of Governors.

Q. What changes in advertising are required by the recent amendments to Regulation Q relating to money-market CDs?

A. Effective March 15, 1979, changes in Regulation Q prohibit the compounding of interest on money-market CDs issued on or after that date. Changes in advertising copy for these certificates are required. Institutions still may advertise an annual effective interest rate based on reinvestment after six months of both principal and interest if such ads comply fully with advertising guidelines previously issued. Prior guidelines require that ads that state an annual effective yield contain a clear and conspicuous statement that the rate stated is an annual rate and that this rate is subject to change on renewal. Also, these ads are required to contain a statement that federal regulations prohibit the compounding of interest during the term of this deposit category. These guidelines apply to any advertisement, announcement or solicitation relating to interest paid on money-market CDs. Also, proper disclosures must be made on lobby signs, statement stuffers and promotional materials.

Q. What record-retention requirements are banks subject to under the Real Estate Settlement Procedures Act (RESPA)?

A. Most banks appear to be aware of RESPA's basic provisions, which require that customers be given a copy of the special information booklet, a good faith estimate of the amount of range of settlement costs and, when conducting settlement, that the bank prepare HUD Form 1. Frequently, violations of record-retention requirements are noted. Specifically, RESPA requires the bank to retain the Uniform Settlement Statement (HUD Form 1) for two years, or until it disposes of its interest in the property. Where the bank does not conduct settlement, and therefore is not required to prepare HUD Form 1, the bank still must obtain a copy from the settlement agent and retain it in bank files for the appropriate period.

Q. How many copies of Truth-in-Lending disclosures must consumers be given in credit transactions subject to rescission?

A. Generally, where a credit transaction involves more than one person, Truth-in-Lending disclosures need be made to only one of them. However, in transactions involving rescission, each person who has a right to rescind the transaction must be given *two* copies of the Notice of Right to Rescind, and *each* person also must be given a copy of the Truth-in-Lending disclosures. As the rescission period does not begin until a customer has received the proper disclosures and as a bank may not disburse funds until the rescission period has *expired*, it is important that all customers receive notices on a timely basis.

Index to Advertisers

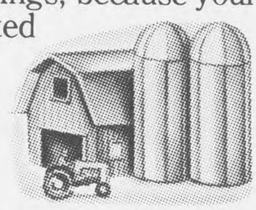
A correspondent bank should give you more than just a correspondent banker.

We do.

When you choose First National Bank in St. Louis as your correspondent bank, you get more than a correspondent banker.

You get an entire staff of specialists who offer you daily assistance for daily needs.

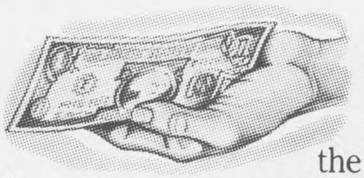
For example, the "Rabbit Transit" check-clearing systems our people have developed can help improve your earnings, because your transit items become collected balances rapidly.



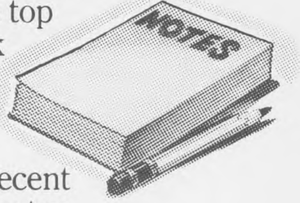
We also offer you the services of agricultural finance specialists who can help you provide your customers with expert advice as well as flexible loan arrangements.

In the area of Fed Funds, investments and the safekeeping of securities, we offer a performance record that's highly regarded in our industry.

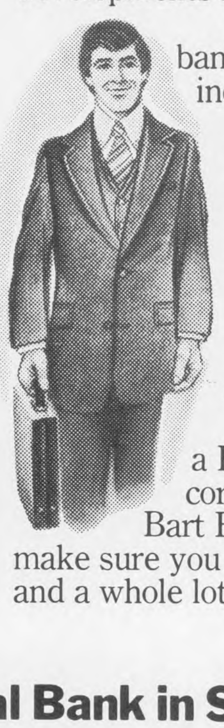
Our electronic data processing team brings you the most sensible systems for getting work done—reliably and accurately. And our computer specialists offer counsel and advice in all phases of EDP systems.



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



We sponsor timely seminars where you and other top management of your bank meet with the top management of our bank to exchange ideas and share expertise. These seminars also serve to keep you up-to-date on recent developments in our industry.



Of course, your correspondent banker is always available for individual consultation. He's the key to our relationship and the person we depend on to make fast decisions on our behalf. He's the one you can depend on, too, when you want to get more from your correspondent bank. He can help you plan for your bank's future and for our future together.

If you're not already seeing a First National Bank in St. Louis correspondent banker, just call Bart French at (314) 342-6967. He'll make sure you get a correspondent banker… and a whole lot more.

First National Bank in St. Louis

A First Union Bank

Member FDIC