MID-CONTINENT BANKER

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The Financial Magazine of the Mississippi Valley & Southwest

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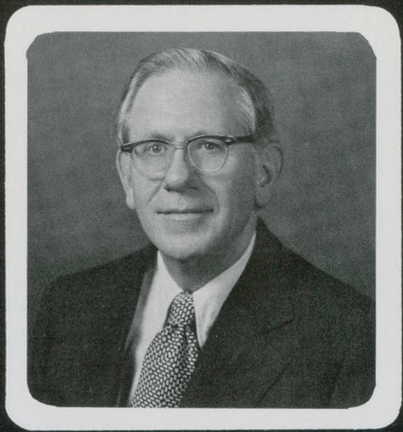

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CONVENTION ISSUE

Second of Two Issues

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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.
Aug. 5-10: ABA National School of Real Estate Finance, Columbus, O., Ohio State University.
Aug. 11-17: Bank Marketing Association Management School of Bank Marketing, Madison, Wis., University of Wisconsin.
Aug. 12-25: Central States Conference Graduate School of Banking, Madison, Wis., University of Wisconsin.
Aug. 13-24: ABA National Trust School/National Graduate Trust School, Evanston, Ill., Northwestern University.

MID-CONTINENT BANKER

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FEATURES

CONVENTIONS

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Mortgage Money From Tax-Exempts? Bonanza or Booby Trap?

They're Causing Great Hope, Great Alarm

LAST SUMMER, savings and loan associations found a brand new source of housing funds: the tax-exempt bond market.

But the discovery was not greeted with all-out enthusiasm by the frequently beleagured home-lending business. In fact, reactions ranged from great hope to great alarm.

"A new source of housing capital, the tax-exempt market, can be tapped, and existing mortgage-lending expertise of private financial institutions can be used to provide significant amounts of low-interest residential loans," states the mayor who made the first issue possible, Michael A. Bilandic of Chicago. (Mr. Bilandic has since been defeated in his bid for reelection.)

"It gives us access to secondary money markets as an alternative source of mortgage money," exults E. Stanley Enlund, chairman of the $2.5-billion First Federal Savings of Chicago, which participated in the creation of the first attempt to turn a city's bonding power into low-rate mortgages for its residents.

Critics point to negative aspects of the new program. The idea, editoralizes the Phoenix *Gazette*, has "such potential for abuse, that it could lead to a socialized mortgage market."

Adds *The Arizona Republic*, "It would use the credit and faith of the county's bonding power and tax revenues to generate quick, no-risk, reduced-interest money to keep contractors and financiers healthy."

Observers are torn between evaluations that the program is an innovative use of municipal authority or that it abuses a city's tax-exempt bonding power to benefit a few individuals. As is often true of complicated business issues, neither argument is without merit.

The accompanying article appeared in the October, 1978, issue of *Savings & Loan News*, official publication of the United States League of Savings Associations. Since this article appeared, there have been numerous developments in the market for tax-exempt mortgage bonds. Nonetheless, this article is a factual presentation of the concept of this particular type of bond and its use in the residential-mortgage market.

Basically, under the Chicago plan, the city raises capital for mortgage loans by issuing tax-exempt bonds. Since the bonds pay lower interest than high-grade taxable issues, the money can be loaned out at rates lower than those prevailing in the conventional mortgage market — in the case of Chicago, 2% lower.

Since the issues are revenue bonds, not general-obligation bonds, the city is only lending its name to create a tax exemption. It does not guarantee the bonds with its full faith and credit. The bonds are collateralized by a mortgage pool and covered by insurance. Mortgages made with the proceeds of the bonds generate the revenue that pays the principal and interest on the bonds.

The Chicago plan carries an unusual feature for tax-exempts — a modified pass-through of funds as the mortgages are paid down, making it likely that the bonds will be prepaid before the stated maturity.

The Chicago plan called for a $100-million bond issue, with $83.6 million used to fund home mortgages, $14 million set aside in several reserve funds and the remainder allocated for costs and a 2.35% fee to the underwriter, E. F. Hutton & Co., New York City. All mortgages are originated by First Federal Savings of Chicago, which screens applicants, disburses funds, services loans and manages the mortgage pool. For its efforts, it takes an origination fee of 2%, a service fee of 0.375% and an administration fee of 0.25%.

The association was directed to employ its normal underwriting practices with these limitations:

- Maximum combined family income of the borrower could not exceed $40,000.
- Mortgaged property had to be within the city limits.
- The property had to be the principal place of residence of the mortgagor.

From an underwriting standpoint, the bond issue was an unqualified success. The Chicago City Council, presented with the plan, passed an enabling ordinance in 10 days. The issue received an AA+ rating from Standard & Poor's and was oversubscribed within 24 hours at a net interest cost of 6.933% on a package of serial and term bonds. Within a month, in early August, the first 7.99% mortgages were being delivered to city residents.

That month, as well, two Colorado cities, Denver and Pueblo, passed authorization for similar issues. Applications for the low-rate mortgages were being taken in Denver beginning September 11 and in Pueblo from September 28.

In Arizona and Florida, where legislation passed last year permits local governments to issue revenue bonds for residential real estate financing, similar bond issues are under discussion.

And in Chicago, five more proposals for issues totaling $500 million were presented to the City Council.

Rapid proliferation of the new concept could be attributed largely to the efforts of E. F. Hutton. The investment banking firm is interested in reaping the rewards from a product it helped develop before its competitors have a chance to duplicate it. Both in Arizona and Florida, observers recognize Hutton's influence in the passage of enabling legislation.

Hutton representatives also were calling on primary lenders in the top six Florida markets "asking us if we want to be part of a plan. If we did, we would help them with the political and practical aspects (of creating a bond issue). If we didn't, it would get done anyway, we were advised," explains Roy G. Green, president, Fidelity Federal, Jacksonville.

Investment bankers seem to have an easy sell. The Chicago plan provides a box of goodies for everyone involved — the city, the mortgage lender, the investment banker and the city residents.

The lender can increase its mortgage portfolio without incurring risk because the fund actually belongs to bond purchasers. And the lender earns income from administration and servicing fees. Investment bankers stand to gain profits from underwriting fees. And individuals benefit from lower mortgage rates.

The city bears little risk since the bonds pay for themselves as the mortgages are repaid. And the city can tailor the bonds to promote its own purposes. In the Chicago instance, the plan was justified as an effort to encourage middle-income families to stay in the city or to move to the city from the suburbs.

"There are subsidy programs in existence for the very poor, and the very wealthy are able to take care of themselves," former Mayor Bilandic told the audience at a Community Revitalization Clinic, cohosted by the U. S. League of Savings Associations last September. "But there is a great void in the amount of money available to middle-income people."

Because of the reduced mortgage rate, a family could save $85 a month, or $30,000 over the life of a 30-year, $60,000 mortgage.

Bringing middle-class people into the city ultimately could increase property-tax revenues and help revitalize neighborhoods, city officials explain.

In addition, "We did it without putting one person on the city payroll, without one cent of cost for the City of Chicago," boasted Mr. Bilandic.

Now for the Bad News. Principals in the Chicago plan obviously are proud of their achievement. But criticism abounds.

While the tax law that authorizes revenue bonds does not place any social constraints on use of the proceeds, many critics agree with Dimitry Wanda, board chairman and president, Talman Federal Savings, Chicago. Says Mr. Wanda: "Any program that subsidizes mortgage rates should have a social purpose."

Making $80 million in mortgage money available throughout the city does not serve a direct social purpose, critics complain. As the Chicago Area Council of Savings Associations pointed out in a letter to the mayor: "Although the program does seem aimed at enticing home owners back to the city, it does not seem to offer any specific aid to struggling city neighborhoods and the people in them, but rather simply will subsidize borrowers who will be purchasing housing which already enjoys a good market in the city."

Because the funds are not targeted specifically at areas in need of revitalization, they have gone to "people who were already in the process of getting mortgages, who would have gotten mortgages from banks or savings and loans and didn't need the city program. It became a giveaway to those people who learn first what's going on — the developers, the speculators, the realtors and the city workers," notes Gale Cincotta, chairperson of National People's Action, a consumer coalition.

A second charge leveled against the program concerns the high ceiling on income. At the top of the scale, interest-rate "subsidies" are available for mortgages as high as $85,000, a sum for which a government subsidy might be difficult to justify.

In practice, however, with almost two-thirds of the loans processed in early September, First Federal discovered that not many loans are being made at the top scale. The average loan is $39,800, and average borrower income is $20,500, according to Mr. Enlund.

The two subsequent issues in Colorado set lower income-eligibility limits. In Denver, the income ceiling

WHO CAN ISSUE MORTGAGE REVENUE BONDS?

The power to issue mortgage revenue bonds lies in state law. Consultation with association executives in a large number of states has made possible this preliminary tabulation. States are categorized according to definite authority (explicit legal permission), strong possibility (statutory authority to issue tax-exempt bonds which may include bonds for residential mortgages), weak possibility (authority neither expressly prohibits nor expressly provides for issues) and definitely prohibited (expressly prohibited by statute or constitution).

Definite authority	Strong possibility	Weak possibility	Definitely prohibited	
Arizona	Louisiana	Alabama	California*	New Jersey
Colorado	Maryland	Indiana	Georgia	New Mexico
Delaware	Minnesota	Iowa	Idaho	New York*
Florida	Tennessee	Ohio	Kansas	North Carolina
Illinois	Wisconsin	Oklahoma	Massachusetts	South Carolina
Kentucky		West Virginia	Michigan	South Dakota
Nevada			Mississippi*	Utah
			Missouri	Washington
			Nebraska	

**legislation pending*

is $20,000, and in Pueblo, $18,000. But neither city imposes social goals on use of the bond proceeds.

Another criticism deals with the problem of giving all the loan origination business to one financial institution.

Competing lenders complain that the mass infusion of low-rate mortgage money could have a negative effect on the mortgage market. Others feel that First Federal is gaining customers it might not have otherwise.

First Federal officials explain that the Chicago plan is a pilot program. To ensure success, it was essential to circumvent the increased administration, underwriting and rating complexities that syndication would have brought.

All three criticisms — lack of social purpose, high qualifying income ceiling, use of one financial institution — can be defended as factors contributing to a high rating for a bond issue.

Nevertheless, one lesson of the Chicago experience seems to be that profitability and social purpose are not entirely compatible.

In Florida, "Some of the legislators are now wondering whether they knew what they were voting for," according to William D. Hussey, president of the state S&L league. "They thought they were providing housing for low- and moderate-income people. Now they find 'moderate' can be interpreted pretty high. Some of them are really upset."

Savings and loan executives believe responsibility for directing revenue-bond proceeds rests with local government.

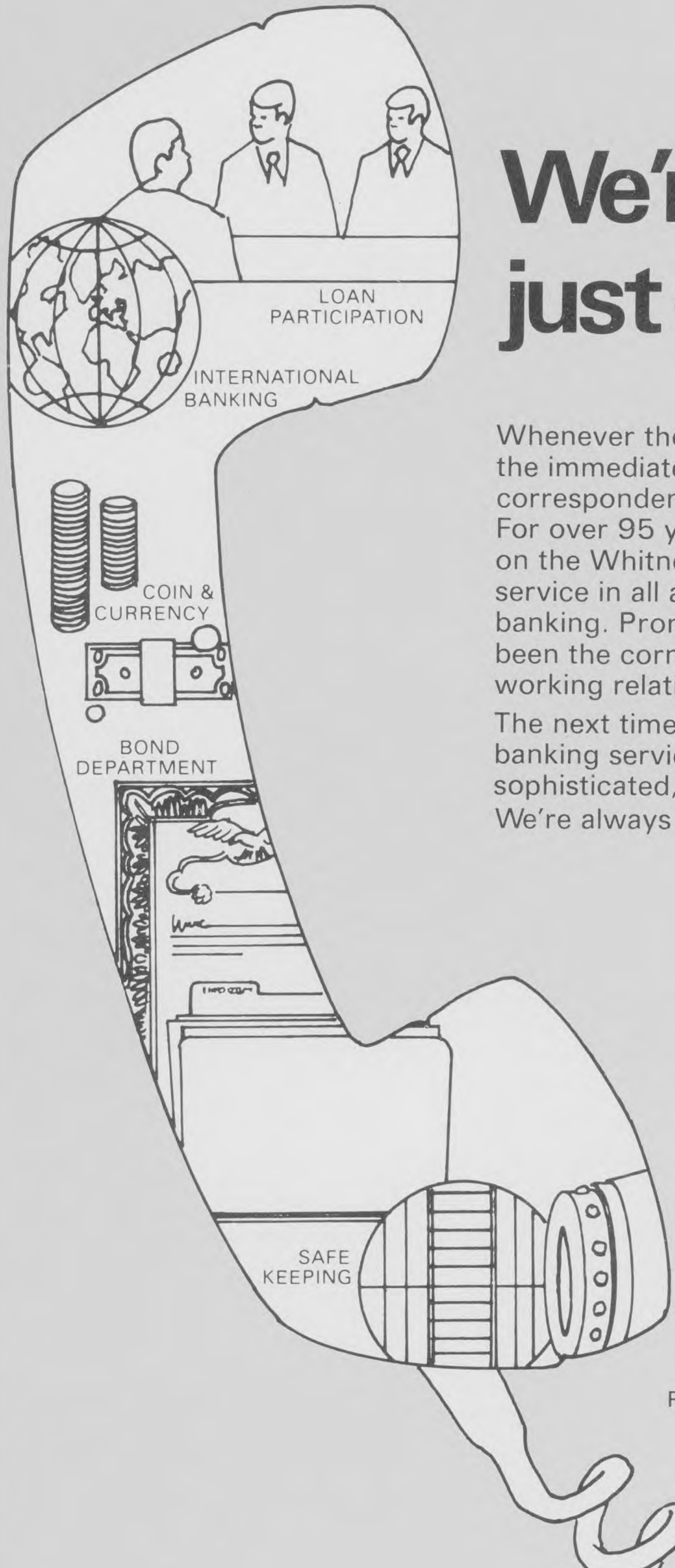
"To the extent communities need this, communities should determine the practical application of the issues," suggests Rollin D. Barnard, president, Midland Federal, Denver. His institution is the mortgage originator under both the Denver and the Pueblo bond programs.

Long-Range Concerns. While they support the concept of mortgage revenue bonds targeted at social problems, S&L executives are concerned with general consequences of mortgage-rate tax subsidies.

Will low-rate mortgage money tend to replace mortgage funds that normally would be used in the city? Will a bond issue tend to disrupt existing efforts to rehabilitate city neighborhoods?

"Many redevelopment programs in Chicago are working at the market rate. Institutions are breaking their backs, making small profits, only to have a city program which subsidizes

(Continued on page 28)



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The Case Against Tax-Exempt Housing Bonds

Mortgage Bankers Association Cites Reasons for Opposition

THE board of governors of the Mortgage Bankers Association of America (MBA) has adopted a policy resolution opposing tax-exempt bonds for housing. The resolution, adopted at a meeting held in conjunction with the MBA's national mortgage banking conference in New York City in late March, reads:

"The MBA opposes using municipal tax-exempt bond issues to provide funds for home mortgages. Such financing by municipalities is an inappropriate substitution of public funds in the private marketplace. We recommend that Congress enact legislation to prohibit such financing. In the event any tax-exempt bond issues are used for housing, such issues should be targeted toward meeting the needs of the disadvantaged, especially the low income, the elderly and the handicapped. Further, such programs should be simplified and standardized to make them less costly to home owners and easier to work with for all participants. Moreover, if used, such programs should allow all types of mortgage originators and servicers to participate."

The position adopted was recommended by a special MBA task force that was formed in response to the association's concern about the recent, rapid proliferation of tax-exempt revenue-bond financing of home mortgages by cities and counties.

Before deciding to adopt this resolution, the MBA did an extensive analysis of the tax-exempt-bond program, taking into consideration its impact at the local level, effect on the national mortgage market and on capital markets, especially the tax-exempt sector, relationship to state housing finance agencies, inflation and political action. Here is that MBA analysis:

1. *Impact at Local Level.* The impact of a tax-exempt-bond program for housing by a city, county or local entity will depend primarily on its size and degree of targeting. A program that is small, relative to total mortgage activity in the area, and tightly targeted to a specific locality or income group, will be least disruptive to lenders and could serve primarily to create additional business, but it may not be popular politically since the majority of the local citizens would not be eligible for loans under the program.

"It should be emphasized that many mortgages being sold under tax-exempt programs would not be sold otherwise, at least not in security form. They would remain in the portfolio of the originator or be sold as whole loans to another thrift."

At the other extreme, a program large enough to meet virtually all mortgage demand, and for whom almost everyone would be eligible, would be extremely popular, at least initially, but would totally disrupt the local lending market.

Availability of mortgage money at below-market rates would tend to be capitalized by higher sales prices for houses and thereby produce an unrealized gain for all home owners regardless of whether they bought or sold homes during the period. However, the city and community would have to lower property-tax rates, while maintaining the revenue constant, if the benefit is to remain with home owners. An attempt by the municipality to recapture the benefit through increased tax assessments would reduce popular support for the program and could cause serious problems of dislocation for existing residents, especially for those on fixed incomes.

Disruption to the lending community would be major. If only one or even just a few institutions were selected to originate and service the loans, non-participants would encounter a severe competitive disadvantage. The decision of which originator/servicers to include and which to exclude is a two-pronged one, involving the local government and the bond-rating agency. Although mortgage bankers were originally excluded in these offerings, there now is a trend toward their inclusion. However, mortgage bankers remain handicapped in gaining initial entry by their

lack of status as supervised lenders and, in some cases, by their lack of strong local recognition.

2. *Effect on National Mortgage Market.* Carried to its logical conclusion, replacement of the present system of delivering home-mortgage finance with a system that relies on tax-exempt-bond offerings would eliminate the need for the traditional role of the local portfolio lender, such as the S&L or savings bank. Instead, underwriters would sell bonds to raise funds, and local lenders, either mortgage bankers or former portfolio lenders acting like mortgage bankers, would originate and service loans according to specifications set by local government. Such a transformation would not occur instantaneously, of course, and a disruptive transitional period would precede it.

Today, the majority of single-family mortgage loans are held by thrifts and some large institutions; namely the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corp. (FHLMC), which specialize in intermediating mortgage and capital markets. Other important investor groups are pension funds, commercial bankers (portfolio and trust) and life insurance companies. Mortgage instruments are relatively high-yielding investments holding special appeal for those whose income is not taxed (e.g., pension funds) or whose income from mortgage investments receives favorable tax treatment relative to alternative investments (e.g., thrifts).

Marketing of tax-exempt mortgage bonds would have to be targeted to other groups; certainly they would have no appeal to pension funds, a huge and growing pool of funds. Thrifts also would find them relatively unattractive at current yields. Since earnings of most depositors are taxed, investments must offer sufficient yield to generate a spread for the association and a satisfactory after-tax return to the depositor. Widespread availability of tax-exempt mortgage bonds in denominations as low as $5,000 might itself become a powerful source of competition for deposits, especially as a burgeoning supply pushed up yields on tax-exempt bonds. Under these conditions, only a major shift in federal policy, such as a tax exemption for interest earned on ordinary savings, could forestall the demise of the thrifts as we now know them.

While new markets undoubtedly could be developed, the multiplicity of issuers and newness of the concept would complicate the task. Most importantly, we are talking about a huge and growing market that must raise in excess of $100 billion per year for home mortgages alone. Even if willing buyers could even be found, the economic cost of the restructuring would be enormous.

"The impact of a tax-exempt-bond program for housing by a city, county or local entity will depend primarily on its size and degree of targeting."

In addition, as presently structured, the gap between the funds raised by tax-exempt bonds and amount of money actually available for mortgages is much greater than for other established programs such as those of the Government National Mortgage Association (GNMA) and the FHLMC. In the first city of Chicago issue, $100 million was raised, but only $83 million was available for mortgages. Besides requiring large reserve funds, there are high costs for underwriting, insurance, servicing fees and the like. At present, the bonds do not appear to be the most efficient means of marshaling funds. Finally, reliance on tax-exempt bonds would eliminate the competition among different types of investors that presently allows lenders and, indirectly, borrowers, to shop for funds.

3. *Effect on Capital Markets, Especially Tax-Exempt Sector.* It has been said that behind the major push into tax-exempt housing bonds by municipal underwriters is an effort to fill the void left after completion of a large volume of refinancing rushed to market prior to the effective date of new Treasury arbitrage regulations. One underwriter maintained that as much as $20 billion in housing bonds could come to market in 1979 without affecting taxable/tax-exempt spread relationships. Unfortunately, the mortgage sector is many times that size and could not be digested by the much smaller tax-exempt sector. Even assuming that the 1978 volume of tax-exempt financing can be sustained without higher yields (and present yield spreads currently are more narrow than has been historically typical), continued growth of housing issues eventually would cause yields to increase.

At higher yields, a number of socially desirable projects will become economically unfeasible. Increased costs for pollution control and public works relying on tax-exempt financing will be passed on to the general public to the extent possible, but, eventually, there will be a crowding out of weak issues from the entire tax-exempt market.

Already one notices a tendency for issuers of tax-exempt housing bonds to be the more highly rated cities and counties. To some extent, this coincidence probably results from the presence of high-quality innovative financial managers, but much more important, is the likelihood that these are the very cities and counties least in need of raising funds for other social purposes and hence the ones that have the most excess credit capacity. A proliferation of tax-exempt housing bonds then would imply an increase in availability of tax-exempt funds where they are least needed and a reduction in availability of funds for the cities with the greatest needs.

At the same time, it is probable that yields on taxable securities will have to rise to remain competitive. While the taxable and tax-exempt bond markets are somewhat segmented, many institutions and individuals invest in both. To the extent that investors tend to move between the two markets, the yield on taxable bonds, whether federal government or corporate, must rise to remain an attractive alternative.

(Continued on page 34)

Tax Break May End On Housing Bonds

WASHINGTON, D. C. — A bipartisan group of congressmen has proposed to limit use of tax-exempt housing bonds.

The group, led by Representative Al Ullman (D.,Ore.), chairman, House Ways and Means Committee, introduced a bill last month that would end the tax break for interest received on mortgage bonds now being issued by state and local governments.

If the bill passes, the ban would be retroactive to April 25. Hearings are scheduled May 14.

Since July, 1978, when Chicago issued $100 million of these tax-exempts, some 50 local governments have issued over $1.6 billion of this type of bond. Representative Ullman argues that these bonds drive up the price of housing, increase interest rates for all tax-exempt bonds and reduce federal tax revenue.

The bill would permit state and local governments to continue using tax exempts to provide single-family housing for veterans and for multifamily rental housing for low-income families. Rent subsidies for wealthier families would be banned.

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First Commerce Corporation
Consolidated Statement of Income
(In Thousands)

	Three Months Ended March 31, 1979	1978
INTEREST INCOME		
Interest and fees on loans	**$12,249**	$12,375
Interest on obligations of states and political subdivisions	**697**	632
Interest on other investment securities	**1,692**	795
Interest on trading account securities	**85**	56
Interest on short-term investments and bank deposits	**4,286**	1,503
Total interest income	**19,009**	15,361
INTEREST EXPENSE		
Interest on passbook savings deposits	**1,435**	1,492
Interest on other consumer time deposits	**776**	596
Interest on time deposits of $100,000 and over	**3,866**	2,443
Interest on foreign branch time deposits	**380**	370
Interest on short-term borrowings	**2,811**	1,946
Interest on long-term debt	**487**	444
Total interest expense	**9,755**	7,291
NET INTEREST INCOME	**9,254**	8,070
PROVISION FOR LOAN LOSSES	**1,438**	1,995
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	**7,816**	6,075
OTHER INCOME		
Service charges, exchange and other fees	**1,329**	1,488
Other operating revenue	**428**	508
Trading account securities gains and losses	**41**	59
Total other income	**1,798**	2,055
Total operating income	**9,614**	8,130
OPERATING EXPENSE		
Salary expense	**2,625**	2,715
Employee benefits	**636**	540
Total personnel expense	**3,261**	3,255
Net occupancy expense	**696**	750
Equipment expense	**687**	867
Cost of other real estate	**(9)**	66
Other operating expense	**1,877**	2,321
Total operating expense	**6,512**	7,259
INCOME BEFORE INCOME TAX EXPENSE	**3,102**	871
INCOME TAX EXPENSE	**1,065**	253
NET INCOME	**$ 2,037**	$ 618
EARNINGS PER SHARE		
Primary	**$0.96**	$0.29
Fully diluted	**$0.80**	$0.28
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	**2,113**	2,108

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

First Commerce Corporation
Consolidated Statement of Condition
(In Thousands)

	March 31, 1979	1978
ASSETS		
Cash and due from banks	**$123,766**	$132,001
Due from banks — time		30,000
Investment securities:		
U.S. treasury securities	**18,516**	49,693
Obligations of U.S. agencies and corporations	**51,500**	3,092
Obligations of states and political subdivisions	**50,894**	52,286
Other bonds, notes, debentures and corporate stock	**1,895**	1,641
Total investment securities (market value $120,710,000 and $103,595,000, respectively	**122,805**	106,712
Trading account securities	**15,129**	793
Other short-term investments	**185,385**	120,568
Loans	**396,556**	501,832
Allowance for loan losses	**(6,769)**	(5,144)
Unearned income	**(5,772)**	(7,363)
Total net loans	**384,015**	489,325
Direct lease financing, net of unearned income of $965,000 in 1979	**3,501**	1,261
Bank premises and equipment	**14,230**	15,259
Due from customers on acceptances	**3,061**	5,619
Other real estate	**3,649**	5,541
Real estate subject to contracts of sale	**11,923**	12,356
Accrued interest on securities and loans	**9,224**	7,589
Other assets	**2,999**	4,190
Total assets	**$879,687**	$931,214
LIABILITIES		
Deposits in domestic banking offices:		
Demand deposits	**$314,068**	$332,988
Passbook savings deposits	**116,635**	121,720
Other consumer time deposits	**50,085**	37,715
Time deposits of $100,000 and over	**160,332**	152,239
	641,120	644,662
Foreign branch time deposits over $100,000	**10,825**	16,117
Total deposits	**651,945**	660,779
Short-term borrowings	**127,953**	175,258
Bank acceptances outstanding	**3,061**	5,619
Accrued interest payable	**6,159**	4,943
Accounts payable and other accrued liabilities	**6,368**	5,133
Long-term debt	**24,110**	21,920
Total liabilities	**819,596**	873,652
STOCKHOLDERS' EQUITY		
Common stock, $5 par value Authorized — 10,000,000 shares Issued — 2,185,721 and 2,179,966 shares, respectively	**10,928**	10,900
Capital surplus	**25,483**	25,350
Retained earnings	**25,376**	23,008
	61,787	59,258
Less — 71,518 shares of common stock in treasury, at cost	**(1,696)**	(1,696)
Total stockholders' equity	**60,091**	57,562
Total liabilities and stockholders' equity	**$879,687**	$931,214

OFFICERS OF FIRST NATIONAL BANK OF COMMERCE/FIRST COMMERCE CORPORATION

THOMAS G. RAPIER
President and
Chief Executive Officer

FRANCIS C. DOYLE
Chairman of the Board

IAN ARNOF
Executive Vice President
Chief Financial Officer

A. PEYTON BUSH III*
Executive Vice President
Chief Operations and Retail Banking Officer

MICHAEL A. FLICK*
Executive Vice President
Chief Credit Policy Officer

CHRISTOPHER B. YOUNG*
Executive Vice President
Chief Lending Officer

JOHN H. PALMER
Senior Vice President
Chief Business Development Officer

JOSEPH C. WHITE*
Senior Vice President
Chief Economist

* Officer of First National Bank of Commerce only.

Tax-Exempt Bonds, Public-Housing Policies Are a Mismatch

Purported goals cannot be reached!

By THOMAS J. PARLIMENT
Associate Economist
And
KENNETH J. THYGERSON
Chief Economist
United States League
Of Savings Associations
Chicago

AN INNOVATION in housing finance was hatched in 1978 that shows every indication of becoming a significant force in both the housing and tax-exempt bond markets across the nation. The innovation is a municipal tax-exempt revenue bond issue for single-family conventional mortgage investment. Since the premiere $100-million Chicago issue in July, 1978, the volume of municipal tax-exempt revenue mortgage bond issues has grown to over $1.6 billion. All this activity has occurred prior to the first anniversary of the plan's inception.

The proliferation of these tax-exempt issues should come as no surprise to anyone. It simply represents an ingenious way of dividing a federal tax subsidy among a select group of bond underwriters, lawyers, consultants, lenders and program participants. The programs are marketed under the appealing banner of help to the middle class, urban renewal and central city self-help. Several investment banking firms have been active throughout the nation in lobbying state legislatures to authorize these issues where they currently are prohibited.

One frequent reaction to this subsidy plan is: So what! If there's a legal way for some people to get a subsidy from the U. S. Treasury, then more power to them. The trouble with this is that every dollar saved in taxes by a buyer of a tax-exempt bond usually means another dollar that must be raised from some other taxpayer. It's for this reason that Congress limits use of tax-exempt power for purposes with clearly defined public benefits.

Of all considerations these mortgage bonds bring to mind, both supporters and skeptics of the plan have to recognize that the public-policy issues are paramount. We are talking about a federal tax subsidy in the case of these bond issues.

Public benefits that have been ascribed to the program range from relatively modest assertions that the interest-rate subsidy merely is a means of lessening the cost of housing for some of our middle-income and upper-middle-income home buyers, and thus redistributing income to these households, to more ambitious claims that the program will aid in redevelopment of urban areas and bring middle- and upper-middle-income households back to the central city. The goals are meritorious. The question is: Does this financing gimmick really accomplish such noble objectives? This is the purpose of this article.

"Tax-exempt financing will not materially enhance urban rehabilitation. We are merely playing 'musical chairs' by moving the same people from unsubsidized units to subsidized ones."

Tax-Exempt Plans as Mechanism for Redistributing Income. Under the frequently cited assertion that this plan is justified simply because it gives some relief to middle-income home buyers from rising costs of home ownership, it simply becomes a form of income redistribution to the middle-income class. The program really isn't designed or structured to help the poor; the investment criteria of the bond issue prohibit it. After all, no government body stands behind the credit-worthiness of the issues. Underwriters, bond-rating services and careful investors won't accept the issue if risk is involved. Thus, the instrument can be used primarily by middle- and upper-middle-income individuals who already have established their credit-worthiness for a mortgage in the private market.

The problem is that even for the middle-income class, it is an inequitable way to redistribute income. Remember, it is not an entitlement program; that is, everyone cannot simply sign up to receive benefits. Some buyers qualify and others don't. The way in which funds are allocated is on a first-come, first-served basis. Some buyers who are just as qualified to be subsidized as other buyers don't get the subsidy simply because they aren't in the right place at the right time. This leads to such questionable concerns as insiders having a knowledge of the availability of the subsidy taking special advantage. Other buyers lose out only because they bought a house prior to or just after the mortgages have been fully subscribed. This may create market distortions because there might be some encouragment for some individuals to go out into the market and rush the purchase of their home to take advantage of the subsidy.

(Continued on page 36)

The Secondary Mortgage Market

A liquidity source for heavy mortgage lending!

THE home-mortgage market operates through two tiers, both working through a complex and sophisticated network of lenders, government agencies, investors and numerous other services. These two tiers are the primary-mortgage market and the secondary-mortgage market. Working in concert, these two related market sectors deliver, manage and recycle the huge amounts of capital required for home mortgages each year.

An indication of the banking community's growing interest in the secondary-mortgage market is figures showing that mortgage sales in that market have more than doubled since 1970. Total home-mortgage sales climbed to $4.3 billion in the first nine months of 1977.

In the primary-mortgage market, banks lend funds directly to prospective home buyers. This embraces activities such as loan origination, underwriting, documentation, funding and servicing.

Basically, the secondary-mortgage market involves all activities associated with originating, purchasing and selling mortgage loans. It developed over the years as a vehicle for shifting funds from capital-surplus to capital-short areas. Organizations with short-term-investment funds can originate long-term mortgages without tying up funds in long-term investments. Lenders sell packages of mortgage loans to investors and then plow the funds back into new mortgages or other investment areas.

Many bankers who want to expand their servicing portfolios and increase the amount of money they have available for mortgages or other investments are finding that the secondary-mortgage market is an effective tool to accomplish these goals.

The secondary-mortgage market is not one central market, but rather an efficient, yet unstructured, network of lenders and investors. In the first nine months of 1977, secondary-mortgage-market activity amounted to about 35% of all originations, implying a significant portion of all mortgage production is written to qualify for sale in the secondary market.

Activities in the market generally encompass three basic steps:

1. *Assembling a marketable package of mortgages.* This normally is the lender/seller's function and is subject to certain guidelines.

2. *Executing the transaction agreement.* The lender/seller locates an investor willing to purchase the loan package. Of $41.6 billion in secondary-mortgage-market sales made in 1976, approximately $26 billion moved through institutional (government-related) channels, and $16 billion traded in the private market.

Basically, the secondary-mortgage market involves all activities associated with originating, purchasing and selling mortgage loans. It developed over the years as a vehicle for shifting funds from capital-surplus to capital-short areas.

3. *Servicing the loan.* The investor usually pays the lender a fee for servicing the loans. Sometimes, the fee is the residual between mortgage interest rates and yields required by the investor.

Institutional or government-related investors are the Federal National Mortgage Association (FNMA), the

This article is based on information contained in "Opportunities for Banks in the Secondary-Mortgage Market," published by the American Bankers Association. Information on purchasing copies of the booklet may be obtained by writing: Housing and Real Estate Finance Division, American Bankers Association, 1120 Connecticut Ave., N. W., Washington, DC 20036.

Government National Mortgage Association (GNMA) and the Federal Home Loan Mortgage Corp. (FHLMC). These agencies have dramatically expanded the secondary market and improved the flow of home-mortgage capital in the United States. Their purchases, sales and mortgage-pooling activities have created the first organized nationwide market in home mortgages.

Bankers distinctly prefer the private secondary market because it functions through a flexible and cost-effective framework. It allows some lenders and investors to establish stable relations, while permitting other buyers and sellers to gather on irregular bases. Still others are brought together by mortgage insurance firms that often serve as intermediaries for matching lenders and investors.

Basic characteristics of the private secondary market include the following:

- *Efficiency.* Participants generally indicate that transactions in the private secondary market involve fewer administration burdens and lower costs than comparable sales through institutions.
- *Greater Flexibility.* Buyers and sellers are better able to negotiate arrangements that more appropriately meet the unique circumstances of each party.
- *Higher Yields for the Investor and More Income for the Lender/Servicer.* Greater efficiency, lower cost and flexibility of the process provide savings that can lead to better yields and higher income.

Typical operations of the private secondary market normally don't attract new capital sources into the home-mortgage-lending sector. Thrifts dominate the sector and are major buyers of loans. Basically, purchase of loans involves recycling mortgage funds or idle funds earmarked for mortgages.

An indication of the banking community's growing interest in the secondary-mortgage market is figures showing that mortgage sales in that market have more than doubled since 1970. Total home-mortgage sales climbed from $1.7 billion in 1970 to $3.7 billion in 1976 and $4.3 billion in 1977's first nine months.

If past trends continue, home-mortgage originations likely will soar. Commercial banks have the potential to capture a meaningful share of this anticipated growth and to compete with other lenders for a share in the base of these credit needs. • •

Secondary Market Service Provided by Correspondent Bank In Lexington, Kentucky

TAPPING the secondary mortgage market is a convenient method of replenishing home-loan funds, but intricate packaging and bidding requirements complicate the picture.

Small and out-state banks "just don't have the volume and expertise to do it right," says Sam T. Adams, vice president in charge of correspondent banks at First Security National, Lexington, Ky.

That's where First Security stepped in with a program to package and sell the Fannie Mae-acceptable mortgages of correspondent banks.

The program's main benefit to a correspondent: "He can say 'yes' to a customer he ordinarily would have to say 'no' to," Mr. Adams says. "Our pitch is that you don't want to tell a customer 'no.' It's hard enough to get a customer. Nothing is more important to him than a home loan and if you can help him, he'll do business with you for years."

"It's a relatively simple program," he adds. Here's how it works: The entire application package, designed by First Security to meet Fannie Mae standards, is completed by the correspondent and then shipped to First Security. If acceptable, the Lexington bank buys the loan, which it then packages for the secondary market. Loan approval turnaround is less than 30 days. First Security takes the complete risk of fulfilling a Fannie Mae commitment.

The program "offers access to the secondary market at any time," Mr. Adams says, without the added cost of skilled staff. "They know First Security is always in the market."

Liquidity of the home-loan portfolio, in fact, is one benefit listed in First Security's program

Robert Johnson (l.), v.p. in charge of residential mortgages for First Security Nat'l, Lexington, Ky., is pictured with Sam T. Adams, v.p., correspondent banking. They're holding brochure on bank's secondary market service for correspondent banks.

brochure. Other benefits listed include ability to always be in the mortgage market with attractive terms; income from fees; opportunity to draw business from your competitors and ability to serve more customers and to do other business by cross-selling services.

Thus far, correspondent-bank response has been "real good," he says. First Security sent the program brochure announcing the service to every bank in Kentucky last October. Twenty-five banks signed up and sent personnel to three training seminars, which explained the complicated application and closing procedures.

First Security has limited the program, still in its pilot stage, to the 25 initial banks "to see how things go." Bank representatives haven't started selling the program, although an advertising campaign is planned.

The mortgage-packaging program "is important in a period of tight money," he says, and although small banks may not be interested now, "maybe a year from now they'll want to be back in

(Continued on page 30)

$27-Million Bank Services Over $45 Million In Mortgage Loans

Secondary market provides needed liquidity

By R. VAN BOGAN
President, Fidelity Bank
Carmel, Indiana

WITH the ever-increasing demand for residential mortgage loans and the continued need for commercial mortgages, many commercial banks have taken the challenge to service their local mortgage market. Meeting the challenge has become a profitable undertaking through sales of mortgage loans in the secondary market.

In 1975, Fidelity Bank of Indiana in Carmel experienced just such a strong demand for mortgage loans. There virtually were no available funds. Knowing the average home mortgage loan is, as some might state, "the Achilles heel" to bankers (especially in times of inflation), and with avid support from the board and enthusiasm on the part of management, a solution (preferably profitable) was sought.

Through a private mortgage insurance company, S&Ls that would be willing to purchase mortgage loans were researched and found.

Today, Fidelity Bank has in excess of 40 investors, predominately S&Ls, insurance companies and the Federal National Mortgage Association (FNMA) in which mortgage loans are sold on a 90-10 participation and whole loan sales.

Before going further into the reasons for getting involved in the secondary mortgage market and looking at opportunities available to commercial banks in the secondary market, it is important to inject a brief profile of Fidelity Bank of Indiana. The reason is twofold:

1. To understand the background of the particular bank involved.
2. To be able to relate direct experience in the area of the secondary mortgage market.

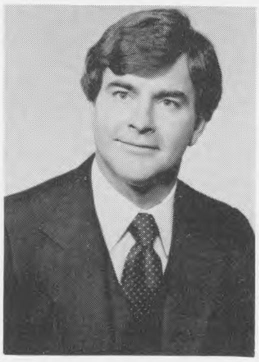
Fidelity Bank of Indiana is located in Carmel, a midwestern suburb on the northern side of Indianapolis, a city of one million population. It is an independent bank located in Hamilton County, contiguous to Marion County, of which Indianapolis is the seat.

Carmel itself has a unique existence and growth. In 1967, Carmel was a small farm community of 1,700. By 1978, a mere 11 years later, it had an estimated population of 18,000. Light industry and few local retail businesses to serve Carmel's population characteristically describe the area. The community now is predominately a "bedroom community" for Indianapolis.

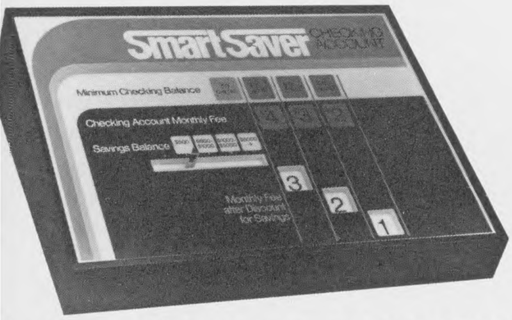
In conjunction with this rapidly growing population, Carmel houses one of the highest per-capita incomes in Indiana. With the rapid growth, it is not difficult to determine the excessive demand for credit, not only in the permanent mortgage area, but also in the construction area. In 1970, the average house in Carmel sold for $58,000. In 1979, it is selling for $90,000.

In 1975, all this added up to the fact that unless something was done, Fidelity could not handle the demand for mortgage loans. Something had to be done. For Fidelity the time was right, for the bank was relatively new, having opened August 16, 1973. An opportunity to be a leader was there, and Fidelity snatched it. Other banks were not making mortgage loans. In addition to achieving leadership and profits, Fidelity Bank also could do what customers demand — service the community.

Where has it led? Forty investors in 1977 and $20 million in sales of residential loans to the secondary market in 1978 are only the beginning. Recognition by such trade associations as the ABA, U. S. League of Savings Associa-



The author acknowledges that his bank, located in a "bedroom community" of nearby Indianapolis, literally was forced into the mortgage market. But, he notes, mortgage lending is profitable and it is a source of new business through cross-selling. Example: 71% of new mortgage customers open checking and savings accounts; 65% have bank cards; 69% have safe deposit boxes; and the mortgage borrower forms a strong base for consumer lending.



NEW PRODUCT

Increase Service Charges, Attract New Deposits

with Smart Saver Checking

The 'heart' of the program—Personal Financial Analyzer... takes cross-selling out of the blurry, motivational behavior realm... and into the clear-cut environment of operational methods.

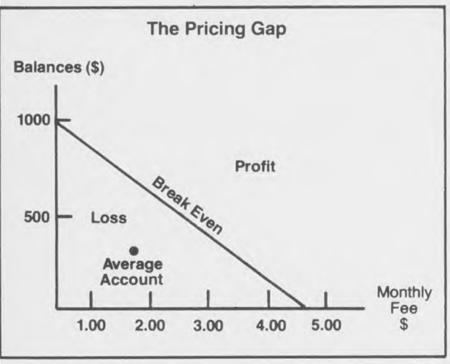
Recently hundreds of bankers have discovered the hidden profit potential in their personal checking account customer base. After learning that many of their customers were unprofitable, these banks instituted a new program to increase service charges and attract new deposits. That new program is the Smart Saver Checking Account.

The development of Smart Saver was based on an analysis of cost studies showing that personal checking accounts cost a bank $4.56 per month; and that a typical small-to-medium-size bank may be running an annual deficit of $100,000 to $200,000 by supporting these accounts. This is an ironic condition, in light of research showing that nearly 90% of these accounts have a profitable-sized savings account at a thrift institution.

Smart Saver is designed to take advantage of the hidden profit potential within your bank's existing customer base.

CLOSING THE PRICING GAP

Smart Saver "closes the pricing gap" and assures that your customers will be profitable.



How does Smart Saver work? First, Smart Saver tells you exactly how to price your checking account to maximize earnings. You may lose a few of your low balance accounts, but your total deposits will actually rise. And your fee income will increase sharply. Next, Smart Saver provides you with a detailed system for implementing your new prices. The program contains promotional items, training materials, letters, and other aids designed to ensure that virtually all of your customers become profitable as a result of either higher deposits or greater fees.

SMART SAVER ATTRACTS NEW DEPOSITS

Smart Saver's unique proposition is this: It offers a discount in checking fees for higher savings balances. This feature achieves these goals:

- Insulates high balance/profitable customers from a service charge increase.
- Convinces your existing customers to bring you their savings account which is currently at the local thrift institution. (95% of the consumers have both checking and savings, yet only 45% of your checking customers have savings at your bank!)
- Shows new customers why it is to their advantage to bring you all of their deposits.

Smart Saver's checking/savings combination actually beats the thrifts' ¼ point rate advantage. For example, many of the 200 banks offering Smart Saver give a $1.00 per month discount from checking for each $500 in a regular savings account. This discount is worth $12.00 per year! The ¼% interest differential offered by thrifts is worth only $1.25 per year. Smart Saver's scientifically developed system of cross-selling dramatically amplifies this "Smart Saver Advantage" and shows customers why it's smarter for them to do all their banking with you. They have previously saved at a thrift because of a price deal. To get their savings back to you takes a better deal also based on price. That better deal is Smart Saver.

AUTOMATIC CROSS-SELLING

The Personal Financial Analyzer is the revolutionary concept supporting the Smart Saver program. Its users call it "cross-selling in a box". (See picture in upper left corner.) The PFA (Personal Financial Analyzer) shows customers why it is to their benefit to keep ALL of their deposits with you, rather than splitting them among financial institutions. It takes cross-selling out of the blurry motivational behavior realm, and puts it into the clear cut environment of operational methods. Here's what new accounts personnel say about using the PFA:

- "If I didn't have my PFA, I probably wouldn't even mention a savings account."
- "I feel that I'm really helping my customer... I know that I'd rather have the $12.00 than the $1.50."
- "I hate to feel pushy; the PFA is an easier way to explain things."
- "I like it because it's so much faster. Most people understand better when they can see it for themselves."

TRAINING SIMPLIFIED

The Smart Saver Training System is modeled after the highly successful modular training programs used by large retail fast food chains. It makes sure that all customer contact people understand not only the Smart Saver concept, but how to use the various educational and promotional tools. The Smart Saver Training System contains a workbook, audio cassette, visual aids, role playing, vignettes, and tests. It is a self-contained, comprehensive educational program.

OPERATIONS

Virtually all of the banking industry's data processors have developed (or soon will develop) software which will enable banks to relate monthly service charges to balances in checking or savings. This is the only additional capability needed to implement the Smart Saver concept!

NOW ACCOUNT EVOLUTION

While NOW Accounts (interest on checking) are currently legal in only a few states, they will likely be more pervasive in the next few years. Smart Saver is the IDEAL product to offer now, because it was designed to be perfectly compatible with the various ways in which NOW Accounts may evolve. In fact, Smart Saver is currently being used in states where NOW's are legal. And user banks are enjoying the benefits of selling a regular savings account with a NOW account.

COMPLETE PROMOTIONAL PROGRAM

Smart Saver is a complete educational and promotional program. The basic kit includes: 1 Personal Financial Analyzer; Newspaper Ads (4 large, 4 small); 3 Radio Commercials; Billboard Art (2); Counter Cards (4); Brochures (500); Statement Stuffers (1,000); Door Stickers (10); Employee Badges (35); Balloons (100); User Manual; Training Manual; Press Kit; Advantage Chart; Logo Sheets; and, Sight Draft.

Additional items may be purchased for a nominal fee.

COST

The entire Smart Saver Program is only $2,500. If you wish to exclude local competitors from using Smart Saver, this feature may be purchased for $250 per competitor. Virtually all of the current Smart Saver banks have totally recovered the cost of the program through Smart Saver's unique pricing.

Smart Saver was developed by Whittle, Raddon, Motley & Hanks, Inc., a consulting firm well known for its commitment to quality. If you are not completely satisfied with the quality of the program, return it within 10 days for a full refund. For more information call (312) 266-8854.

Mail to: Whittle Raddon Motley & Hanks
625 North Michigan Avenue—Suite 1244
Chicago, Illinois 60611

☐ Send me the Smart Saver Program. Enclosed is my $300 refundable deposit toward the purchase price of $2,500 (plus delivery, and 5% sales tax in Illinois).

☐ Please send more information.

Name ________________

Bank ________________ Size ________

Address ________________

City ____________ State ____ Zip ________

Signature ________________

tions, Bank Marketing Association and insurance companies still is only a part. Becoming a progressive leader in sales of mortgage loans to the secondary market is commendable. However, just as important as all of these is the capability of servicing local demand.

Individual accounts such as Fidelity's experience are also backed up by analysis by economists. Opportunities for banks in the secondary mortgage market are discussed in a recent study prepared for the ABA by the economic consultant of Gladstone & Associates. Compelling reasons to make good use of the mortgage loan business are outlined. Expounding on five opportunities offered to banks, Gladstone & Associates enumerate the areas in which Fidelity based its success in the secondary mortgage market:

1. Mortgages are an enormous and growing investment vehicle for banks. Mortgage funds amounted to three times the corporate bond market; government issues (federal, state and local) together approximately equaled mortgage credit applications in the nation; trends in U. S. mortgage originations show even more dramatic growth: 1970 — $36 billion; 1975 — $78 billion; 1977 — $159 billion.

2. Banks are well positioned in overall terms to participate in mortgage lending.

3. Mortgage loans are high-quality paper by three key standards — yield, security and liquidity:

1. Yield — today 10¾% to 11%.

2. Security — the asset underlying the mortgage perhaps is the strongest, most secure, apart from the government and maybe even that in our financial system.

3. Liquidity — this perhaps is the greatest myth in mortgage loans. The term is for 25-30 years, but the actual life is much shorter, ranging from five to seven years, with the average being seven years. In addition, a new measure of liquidity is the secondary market. Properly underwritten and documented, mortgage loans are readily salable to the FNMA, as well as the private sector, S&Ls, insurance companies, etc.

4. Customers need and demand mortgage loans for good service.

5. Mortgage loans can be profitable in a number of ways (a) servicing, (b) escrow deposits, (c) cross selling and (d) yield.

Interestingly enough, these are the aspects that have led to Fidelity Bank's success and will continue to do so. The economy is similar to that of 1975 — high interest rates, strong demand and lack of sufficient funds to service mortgage demand. Thus, working in the secondary market has been a solution to the crunch gripping other banks concerning home mortgage loans.

Fortunately, an early start has allowed a relatively small bank an active continuance in secondary marketing of loans during the past 3½ years. In 1977-1978, sales of over $45 million were realized.

Today, active solicitation of mortgage loans has become one of Fidelity's trademarks as it continues to be the only bank in its county to offer such loans.

Because rates are moving to the 10¾-11% range, it has become even more profitable to make mortgage loans and sell in the secondary market. But the profitability does not end there. Statistics at Fidelity Bank and others indicate many other benefits.

For example, the ability to service customers through home loans also facilitates a growth of 10-15% direct-deposit growth in checking and savings. *Seventy-one percent of mortgage loan customers have opened checking and savings accounts* and, in many cases, utilized an array of other bank services. Sixty-five percent of home mortgage customers have a bank card, and 69% secure safe deposit boxes. *A tremendous base is established for consumer loan demand.* Builders are encouraged to do business with bankers who can provide home loans. This opens another profitable area.

In summary, the two most important reasons other banks might want to consider participating in mortgage lending are "profits" and "customers."

Like all banks, Fidelity would be nowhere without them. ● ●

Mortgage Rate Boosted

WASHINGTON, D. C. — The Department of Housing and Urban Development (HUD) last month raised the maximum interest rate allowed on government-insured mortgages to a record 10%. The half-a-percentage increase, which became effective April 23, makes the first change in the rate since last June 29.

The new rate applies to single-family home loans covered by both Federal Housing Administration (FHA) and Veterans Administration (VA) insurance programs. The 9½% rate continues to be the maximum allowed on mortgages for multifamily units.

Financing The Single-Family Home Builder

By RONALD D. RAINEY
Vice President
First Tennessee Bank
Memphis

THE SINGLE-FAMILY, detached-home-building industry is one of the largest in the country. With about a million and a half units built and sold each year, it has an annual total retail sales value of over $90 billion. This figure does not include condo projects or rental units built and sold. But even though this is a large industry, most of the construction is done by small local builders. In discussing the financing of single-family-home builders, I will be talking about these small-business entrepreneurs rather than the large tract builders.

Characteristics. What is the typical single-family home builder like?

1. He builds from five to 30 or 40 houses a year.
2. He has no staff. He and probably his spouse keep books, pay bills, do the decorating. In other words, the builder's operation is a family business.
3. He has little capital and liquidity, so not much staying power.
4. He — like many other builders — will build anything he can get financed.
5. I have heard some people say that this is the home-builder's creed: "A dollar borrowed is a dollar earned; a dollar renewed is a dollar saved; and a dollar repaid is a dollar lost."

Lending Risk. Some of these characteristics obviously will raise questions concerning lending risk. The single-family home builder usually is highly leveraged — he must be selling houses constantly to meet his overhead. Since his is a family business, lack of continuity of management is another problem. Then, too, there are the normal real-estate-financing problems such as cost overruns, bad weather, strikes, and diversion of loan funds as well as the marketing problem of selling his product when he gets it built.

With all those risks, why finance the single-family home builder?

1. It is an important industry in all communities in providing jobs and needed housing.
2. It is an excellent source of permanent real estate mortgages for those who make them for their own portfolios or to sell in the secondary market.
3. Diversity — you can spread your risk over many builders, subdivisions and price ranges. For example, my bank presently is financing about 300 houses. These are spread out over 45 different builders in 59 different subdivisions all over our county with almost half of them already sold.
4. Return — construction loans can be high yielding due to interest rates and commitment fees that can be charged. The typical commitment fee in our area now is 2.5% of the loan amount. With 70% of the loan outstanding on the average and repaid in one year, this corresponds to about a 13.5% gross yield in our state that presently has a 10% maximum interest rate.
5. Turnover — loans can turn over fairly quickly, usually in less than a year, as houses are built and sold, and they are repaid quicker than the large commercial-construction loans. The quicker the turnover rate, the less risky your loan and the higher your return because of the commitment fee paid on the front end.

Implementing a Successful Program. We have set up a strict and carefully controlled program for single-family-construction loans. As you will see, the procedure we use is expensive, but we feel that it is well

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worth the cost to reduce risk and avoid problems. The total procedure obviously would not be appropriate for all sizes of single-family-construction-loan portfolios, but I think some parts can be used in any construction-loan program.

Let me emphasize that home building is a local market. What will sell well in one area of the country might not sell at all in another area. You must know your local market and local borrowers. Even with all the control procedures and sophisticated market reports, there is no substitute for getting out and driving around the subdivisions yourself and seeing with your own eyes. Market conditions and inventory can change rapidly, so you must do it often. Also, many houses are sold on Sunday afternoons, so that is an excellent time to get a feel of the traffic and the attitude of buyers. You can also tell which of your customers are tending to business and have their models open and someone there to sell them.

For a successful construction-loan program, there are two key steps: underwriting and setting up the loan correctly and then following the progress of construction and disbursements and making sure they are done right.

Underwriting/Setting Up the Loan. Generally, my bank will lend up to 80% of the sale price or appraisal for a market house, which actually is pretty liberal because it usually represents all of the hard cost — lot and construction. We require complete plans and specifications for each house and a detailed cost breakdown. We review the costs carefully and do our own cost take-offs. We compare them to both information from construction-costing services and what costs our other builders are experiencing. If you are financing several builders, they are an excellent source of comparison because their information is up to date for your local area.

Obviously, we want to make sure we are not lending too much money. But, just as important, we want to make sure there is enough money available to build and market the house, since once we start disbursing money on a construction loan, we're in until the house is complete. If the builder runs short and can't pay any cost overages, we have to. We must provide the necessary funding to finish construction because a partially completed house isn't worth much. If we find total cost exceeding the amount of our loan, the difference must be put in in cash before we disburse any funds so that we are sure we have enough left to disburse at all stages to complete the house.

We also review the plans carefully to ensure that they comply with local building codes, subdivision restrictions and other requirements as well as to make sure that they are satisfactory for that market and price range. We also physically inspect the lot to determine that it has no drainage problems, topography is satisfactory for the house plan and that there are no unusual problems with the lot. In other words, we "kick the dirt." We also look at the number of houses being built in the subdivision and the surrounding area and see how they are selling.

Not only must you know your local housing market, but you must know your borrower. Look closely at the financial statements — both company and personal — to determine the value of assets, leverage, staying power and past profitability of the borrower's building program. Remembering that most builders are highly leveraged and have large amounts of debts, you might find a cash-flow analysis more useful by projecting known sales and projected sales of the borrower against expenses. It is important to have his starts spread out over the building cycle so that his houses won't all be completed and coming on the market at the same time.

Also, look closely at his building program that you are financing plus what he is financing with other lenders to determine his total sold and unsold position on houses under construction plus lot inventory. Make sure he does not have a large number of houses that have been completed for some time and have still not sold. Also, make sure he is not getting his building program spread out in subdivisions too far apart — he could end up spending too much time trying to drive all over the country.

Tracking progress of construction and disbursements. Once a loan is approved, we set each lot up on an individual commitment basis with a specified loan amount and commitment period. We then maintain separate records on each lot so that funds can't be borrowed on one house and used to pay bills on another. An inspection is made of each house before any disbursement and at least every two weeks to make sure the house is being constructed in a timely, good-workmanship manner and in keeping with the pre-approved plans. Our construction inspectors, who are people with construction backgrounds, do the plan and cost reviews on the front end and also determine the percentage of completion. We do not disburse over the amount determined as the percentage completed by the construction inspectors.

On each disbursement, loan proceeds are deposited to a special building account in our bank. Special checks, presented to us at the time a request is made for an advance, are payable to suppliers and subs and identify the lot we are financing. They require a countersignature by the lending officer handling the account and contain a lien waiver when they are endorsed and cashed. This way, we control the funds to make sure the proceeds of our loan advances are used to pay bills on the houses we are financing, and the suppliers and subs waive their liens up to the date of that payment. This helps us make sure we keep a first mortgage in our state, Tennessee; but, of course, the laws vary from state to state.

Construction-loan documentation is important, and we require in addition to the note, deed of trust and detailed construction-loan agreement, a title insurance policy, builder's risk insurance, liability and workmen's comp insurance and foundation surveys. Naturally, the builder tries to tell us these are unreasonable requirements since they slow him down and increase his cost, but we stick to them.

About four years ago, we started requiring foundation surveys on residential-construction loans. There has been much complaining, but it has proved worthwhile on more than one occasion. Just a few months ago, a foundation survey showed that the subdivision restrictions required the front of the house to be set back at least 40 feet from the street, and the foundation of this house was only 30 feet from the street. The builder had started framing the house when we stopped him and cut off further loan draws. We required him to take down the framing and cut off the front 10 feet of the slab and foundation, in effect moving the house back the required 10 feet. As you can guess, we had an upset builder when he found it was going to cost him $10,000 to correct his mistake. But before he could get the work corrected, our local paper ran a long article on another house in a different subdivision that was fully complete and couldn't be sold because it violated the subdivision-setback requirements by 4.5 feet. Our customer learned an expensive lesson, but the other builder's lesson will be even more expensive because a foundation survey wasn't required.

Conclusion. With a controlled loan program such as this, the risk can be kept to a minimum. The house should be completed and in a sellable condition with 20% of the value available to market the house and pay selling expenses and commissions. Prices of houses have continued to rise, so even if you have a builder who gets in trouble, there should be little principal risk provided that you have not allowed him to overdraw on his construction loan. Housing and jobs can be provided in your community while you make a secure, high-yielding loan. • •

Single-Family Mortgage Loans Can Be Sold in FNMA Auction

THROUGH the Free Market System auction, the Federal National Mortgage Association (FNMA) issues forward commitments for the purchase of single-family mortgage loans from originating lenders.

In the auction, lenders offer to sell mortgages to the FNMA at specified yields. The FNMA evaluates these offers, determines the amount of mortgages it will purchase and yields it will accept and then issues forward commitments to successful bidders.

Auction commitments, which may be obtained for loans on properties that are proposed, under construction or existing, are issued for a four-month period. In these commitments, the FNMA obligates itself, for specified periods, yields and dollar amounts, to purchase eligible home mortgages that meet its quality standards.

Sellers participating in the auction may bid either competitively or noncompetitively. When bidding competitively, sellers must specify the gross yield, including the $\frac{3}{8}$% servicing fee. In submitting a noncompetitive offer, a seller agrees to accept the weighted average yield of all offers accepted at the auction.

No individual offer may exceed the maximum established offer amount of $3 million. Only one competitive bid of less than $500,000 will be allowed; the minimum offer is $10,000.

Government-Assisted Housing:

An Investment Opportunity For Banks

SOME commercial bankers are missing real opportunities for profit! The field of housing is rich in the variety of roles that may be taken by commercial banks. Virtually all banks make single-family mortgage loans. Many purchase housing-related bond issues. A lesser number help finance building materials manufacturers, have relationships with selected developers, etc.

"Government assistance is in the form of financial help given to low-income families or elderly persons to help them pay the rent in privately owned apartment buildings."

However, there is a broad area in which only a few commercial banks now are active. That is the field of government-assisted housing. The phrase "government-assisted" is used to distinguish such housing from the common stereotype of "public housing." The latter is a type of housing that is typically designed, financed, owned and managed by public housing authorities, and its quality has varied dramatically from city to city.

"Government-assisted" housing, on the other hand, is privately designed, owned and managed. Although financing sometimes is provided by the federal government or through a state housing finance agency, it often comes from the private sector. Government assistance is in the form of financial help given to low-income families or elderly persons to help them pay the rent in privately owned apartment buildings. The largest current program of this type was established several years ago and is described fully in Section 8 of the National Housing Act.

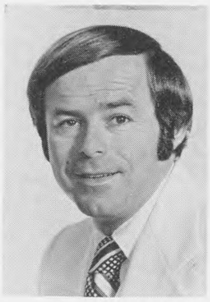
By WARREN G. CREIGHTON
And
ROBERT POWELL SANGSTER

Let's review some of the profit opportunities available to a bank under the Section 8 program.

First, however, it should be understood that these profits cannot be earned without some initial investment. The banker must learn the applicable regulations of the U. S. Department of Housing and Urban Development (HUD). These regulations are somewhat complex and are amended periodically.

The players drawn together by the Section 8 program are many. Several bank departments will have an opportunity to participate (e.g., real estate, investment, trust and commercial loan). The local HUD office will become the focal point. It usually initiates the development process by announcing availability of subsidy funds in specific cities and towns. In some cases, these announcements are made by a state housing finance agency (HFA). Attracted by these announcements, developers submit proposals to build apartment buildings on sites they have chosen within the identified cities. These proposals are extensively analyzed and evaluated by HUD or the HFA concerning the site, the architectural design, construction costs, operating costs and market. If all tests are passed, construction will begin, be completed, apartments will be occupied, and subsidy payments to the residents will commence. In the event of a vacancy (considered improbable given the need for housing and the extent of the subsidy), HUD will pay 80% of the rent for 60 days and an amount sufficient to pay debt service for a year.

SANGSTER



CREIGHTON

Mr. Creighton is chairman, UMIC, Inc., Memphis investment banking firm, and Mr. Sangster is chairman of the boards of UMIC Housing Development Corp. and UMIC Properties, Inc.

"Does your involvement with a 'government-assisted' development help fulfill your bank's desire to serve the public interest? Perhaps, but it also can be highly profitable."

In light of this brief description, how may a commercial bank participate? Let's consider first your relationship to the developer. If you are already his banker, he may need a loan to cover some front-end expenses, such as market research, survey, soil borings, etc. He will need letters of credit to meet HUD working capital and other requirements. On an average 100-unit development, these letters of credit could range between $50,000 and $175,000. Such letters typically represent little risk.

You may have the opportunity to make the construction loan. If so, there are several special factors operating in your favor. In many cases, advances made on the construction loan will be insured by the FHA. In all cases, work will be reviewed by a supervisory ar-

chitect. Construction must meet exacting HUD (and HFA, if one is involved) standards. HUD (and the HFA) will send inspectors to the site to ensure that construction is proper and proceeding on schedule. The developer will have been required to obtain a payment and performance bond. Of great importance, there will be a commitment for a permanent mortgage on which you can rely. Usually, the funds will be coming from the Government National Mortgage Association (GNMA), the state housing finance agency or from a tax-exempt bond issue.

If it fits your investment needs, you also may elect to make the permanent loan. Such loans usually have either a 30-year or a 40-year term.

Throughout the development process, of course, substantial funds may be available for deposit with your bank.

These somewhat traditional lending roles do not exhaust your opportunities for profit. For example, if bonds are used to provide permanent financing, you may act as trustee or paying agent. You also may elect to purchase these bonds since they typically have an A-1 or AA rating and relatively high tax-exempt yields. Indeed, you even may become one of the managers of the underwriting account.

You also may establish a continuing relationship with a state housing finance agency. Since an average HFA will have issued between $100 million and $800 million in bonds and notes, large amounts often are available for investment in CDs and other deposit instruments. At the same time, HFAs have substantial operating accounts to be placed.

Some commercial banks have provided standby lines of credit for HFAs to use to meet short-term-construction-lending commitments. In addition, an HFA may borrow from your bank's trust department by issuing a tax-exempt note to you. This arrangement is similar to master note agreements common in commercial finance.

In most cases, equity for Section 8 developments will be obtained through formation of limited partnerships by a firm experienced with syndications. Since payments from the syndication to the developer are made somewhat in advance of receipt of payments from the limited partners to the syndication, you may be needed for provision of a collateralized line of credit for use during the interim. Under such circumstances, the syndication firm might acknowledge the appropriateness of compensating balances.

Your opportunities do not end with completion of construction. Section 8 developments are managed by carefully selected property-management firms. If you have been involved with the development from its beginning, it would not be unreasonable to expect to manage operating and other accounts for the development.

Does your involvement with a "government-assisted" development help fulfill your bank's desire to serve the public interest? Perhaps, but it also can be highly profitable. These government-assistance programs have become a large and stable segment of the national housing industry (some 350,000 apartment units per year). At this time, few commercial banks have become active participants. Therefore, opportunities abound. • •

New Credit Guidelines Issued To Facilitate Home Loans

THOUSANDS of Americans could find it easier to buy houses, according to the Federal Home Loan Mortgage Corp. (FHLMC), because of new credit and appraisal guidelines the corporation announced April 11.

The guidelines, which will become final this summer, are targeted at traditional "rules of thumb" used by mortgage lenders in determining whether families are credit worthy and property is economically sound.

The proposed changes are:

• To qualify for mortgages, families should show that their mortgage payments, insurance and taxes equal not more than 25%-28% of their gross monthly incomes. Previously, 25% was the ceiling.

• A family's overall debt payments should not exceed 33%-36%. The previous limit was 33%.

• Age, race or religion of a borrower and location of property will not be of prime concern. The FHLMC says, "Any mortgage loan the borrower can be expected to repay according to its term and that is secured by real property that provides sufficient value to recover the lender's investment if loan default should occur" will be accepted.

• The expected "economic life" of property won't be considered relevant unless it's five years or less. Previously, the corporation looked carefully at the anticipated life of a house compared with the length of the mortgage.

According to FHLMC President Philip R. Brinkerhoff, the new guidelines will help young people and families in "urban areas and rural areas that might not in the past have met standards."

"These guidelines," he continued, "are designed to make clear that the corporation stands ready to buy sound home mortgage loans no matter who the borrowers, no matter where the property."

Bonanza

(Continued from page 8)

the rate for mortgages" without regard for specific rehabilitation efforts, remarks Talman's Mr. Wanda.

Others are concerned about creating a two-tier mortgage market in which associations would be forced to decide which borrowers would get the lower rate.

"People are confused," says Mr. Wanda. "They are likely to wait for the next bond issue," expecting to take advantage of the lower rate. Questions about the effect of the Federal Home Loan Bank Board's nondiscrimination regulations remain unresolved.

"The limitations as to the type of loan, income requirements, type of structure and primarily its location, all have the potential, through application of the effects test, of resulting in a discriminatory, hence illegal, lending policy," Norman Strunk, executive vice president, U. S. League, writes in a recent *Management Bulletin*.

Limits Untested. Some Wall street-

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Tax-Exempt Mortgage Bonds: Should Banks Buy Them?

SHOULD commercial banks buy the tax-exempt mortgage bonds discussed in the accompanying article? Do they provide the three important factors: *yield*, *safety* and *liquidity*?

A Memphis investment banker says banks should buy the bonds. A Chicago commercial banker also says, "Yes," but qualifies that answer.

Dave A. Furnas, senior vice president/director, UMIC, Inc., Memphis, believes these tax-exempt mortgage bonds will be profitable for banks because they provide:

1. Yield — almost without exception, an investor can obtain an additional 40 to 60 basis points higher yield on equally rated bonds by buying single-family mortgage revenue bonds.

2. Security — Mr. Furnas believes the security is unusually strong because these bonds offer investors: a. A first lien on a mortgage that has equity. b. A nationwide default rate of only a fraction of 1%. c. A loan portfolio of homes that are appreciating in value about 14% annually (nationwide). d. VA-FHA and private mortgage insurance on loans in addition to a wraparound policy that's similar to an umbrella policy on personal insurance. e. Three reserve funds — two of which come from bond proceeds and the third accumulated out of excess revenues over debt service and expenses.

3. Liquidity — he believes the bonds are extremely liquid because: of their rating and security; with the yield differential between comparably rated bonds, they will stand a good chance of appreciation as they are more widely accepted; and banks have been allowed to participate in underwriting groups, which lends creditability to the securities.

"In the past," says Mr. Furnas, "whenever a new-concept-type financing has been introduced to the market, such as Section 23 leased housing, arbitrage, special obligations and escrowed bonds, invariably — as they became more widely accepted — they have appreciated considerably."

In the past, he continues, his firm has found that bank examiners would like for portfolio managers to: 1. Improve rating. 2. Increase yield. 3. Stay in the same maturity.

"To our knowledge," he concludes, "the single-family mortgage revenue bonds represent the first time this can be accomplished."

Preston T. Luney, executive vice president, Harris Bank, Chicago, says his answer has to be, "Yes — but, since all residential mortgage bonds are not the same."

"They are a financing instrument like others that have come before them — new and untried," he points out. "As with anything new, they must be considered on their own merit and judged by guidelines suited to their particular structure."

Yield is a market consideration, says Mr. Luney, and, with the proliferation of this type of financing, yields will be more generous. He bases this opinion on these bonds' lack of performance track record, their uniqueness and anticipated volume to be funded.

"The safety quotient," he goes on, "will be determined by specific analysis of a given credit. Criteria are many, new and varied. An entirely new pattern of analysis must be applied purely because the security provided is different from others currently in place and holding a performance record."

Mr. Luney believes it will be difficult to determine now what these bonds' liquidity features eventually will be because of their widely diverse security and maturity setup. He is confident that when the surge of new-issue activity has subsided, the secondary market will demonstrate a reasonable degree of liquidity for these bonds.

ers wonder about how many mortgage revenue bonds the municipal market can take, what effect the issues might have on a city's credit rating and what effect they would have on the conventional mortgage market.

As for tax consequences, the Revenue and Expenditure Control Act of 1968 provides a list of exempt activities for bond issues. One of these is "residential real property for family units." Thus, the U. S. Treasury has no authority to limit or regulate these bonds. Any restrictions would require congressional amendment of the Internal Revenue Code.

Authority to issue revenue bonds lies in state constitutions or statutes. Local governments then must be willing to authorize an issue. Many of them seem to be looking to the mortgage-revenue bond as a solution to their problems.

"What intrigues me is that the funds can be targeted for social goals," remarks Jay Lytle, mayor of Evanston, Ill. "I can think of two: stimulating housing rehabilitation in an aging community like ours and preserving historic housing."

Savings association executives, nevertheless, are concerned about use of revenue bonds, both from a competitive standpoint and from the standpoint of using a publicly authorized advantage to fulfill a public purpose.

"There can be broad misuse unless guidelines are carefully and thoughtfully drawn" in authorizing mortgage revenue bonds, warns Mr. Barnard.

Lexington, Ky.

(Continued from page 17)

the (home-loan) market." First Security already has the trained staff and a new computer program to handle the program, so the bank intends to continue the correspondent service indefinitely.

"I think the potential is unlimited," Mr. Adams says. "We feel the potential is there and we are ready to service it."

He expects the mortgage-packaging service to attract more correspondents to First Security, which already handles 160 banks. The bank "is always looking for ways to help correspondent banks." Given the program's simple structure, Mr. Adams "can't understand why more correspondent banks are not into it." When First Security began to design the program, it couldn't find a similar program to analyze. ● ●

Bergland, Agribusiness Specialists Speak at First Tennessee Seminar

FOR the third year in a row, the $1.4-billion First Tennessee Bank of Memphis handled a sellout crowd of correspondent bankers and agribusinessmen at its annual agricultural seminar last month. There was good reason: The lineup featured U. S. Secretary of Agriculture Robert Bergland, flanked by agribusiness specialists from some of the industry's most respected organizations.

Molitor Ford, s.v.p., First Tennessee Bank, Memphis, speaks at bank's agricultural seminar last month.

The capacity crowd of 470 gathered at Memphis' Hyatt Regency to hear reports on issues ranging from commodity price supports to the chemical and fertilizer outlook for 1979.

In his remarks, Secretary Bergland said, "Agriculture is the one industry . . . in which we are the undisputed grand champion of the world." But, he added, it is an area in which the U. S. must set firm goals and adopt a comprehensive policy to avoid drastic supply/price swings in the future. He asked, "Do we want food at the lowest possible cost, or maximum output per acre? We've never decided."

There was good news in the Secretary's address for cattle farmers, who were promised there would be no beef price controls in his administration. In fact, he said, many of the problems in balancing prices and production in that industry can be traced to price controls in previous years.

During his 30-minute address and the 15-minute question-and-answer session that followed, Mr. Bergland made one point clear: He would prefer to maintain a free-market environment for American agriculture, rather than burden the industry — and consumers — with excessive and complicated price supports and controls. "So far, I've been convinced our system works well," he said. "The government's role . . . is to act as a monitoring agency."

Farmers, said Secretary Bergland, are hurt worse by uncontrolled inflation than any other economic group in the United States. "They buy at retail and sell at wholesale . . . and they have no defense," he said.

Molitor Ford, First Tennessee's senior vice president and manager of the correspondent division, told the bankers and producers in the audience the agricultural industry's future is bright, but there was growing concern about the declining participation of many of the country's banks in agribusiness credit.

"Loans from commercial banks have dropped in comparison with other sources," Mr. Ford said. "Right now, banks are providing 40% of agricultural credit; the farm credit system, 42%; insurance companies, 10%; and the Farmers Home Administration, 8%. The FHA's 8% is more than double what it was two years ago.

"The percentage of participations by large city banks has dropped from 19% two years ago to less than 14% in 1978. This is an alarming trend . . . while 73% of the 14,500 banks in the U. S. are under $25 million in deposits and hold only 16% of commercial bank deposits, they provide 51% of the agricultural loans."

In comparison, he said, the role of First Tennessee's bank in Memphis is increasing, a natural accommodation of its correspondent's needs and of the needs of the agricultural economy it serves.

Mr. Ford also said that a principal factor in the future of American agriculture — one that's not likely to disappear soon — is the sharpening interest of foreign buyers in American farmland. Turnover of land, he said, reached $800 million last year, with projections as high as $1 billion by the end of 1979 . . . and questions are being raised by producers, bankers and legislators about whether the trend is in the nation's best interest.

Bill Houston, a director of First Tennessee Bank, Memphis, and a Mississippi agribusinessman, underscored the degree of uncertainty that faces the commodity producer and marketer with this anecdote:

"A buyer working for a group of mills was sent to New York to watch the cotton market," he said. "He observed for a few days, then wired a message to his employers. 'The price of cotton,' he said, 'is fixed in New York and goes up when you've already sold and down when you've already bought. Today, some think it will go up, and some think it will go down. I do, too. Whatever you do will be wrong. But act at once!'"

Other seminar participants included Terry Fredrickson, senior deputy governor, Farm Credit Administration; Earl Wayne Avery, Tennessee state director, FHA; Bill Guithues, vice president, Grace Chemical Co.; Steve Gabbert, executive vice president, Rice Millers Association; Carroll Brunthaver, Sparks Commodities; and Arlie Bowling, director of economics and market research, National Cotton Council of America. ••

U. S. Agriculture Secretary Robert Bergland tells those attending First Tennessee Bank of Memphis' agricultural seminar that agriculture is one industry in which U. S. is undisputed grand champion of world.

New 'Magic' Mortgage Certificate Introduced

A PROGRAM designed to bring new sources of money to the nation's home-mortgage industry has been announced by Mortgage Guaranty Insurance Corp. (MGIC), the country's oldest and largest private mortgage guaranty insurer.

Known as MGIC mortgage certificates, or Magics, the new program was created to assist smaller originators of home loans who wish to enter the secondary mortgage market through mortgage-backed pass-through certificates.

"Magics extend the Government National Mortgage Association (GNMA) pass-through security concept and technique to conventional home mortgages and ultimately will tap new sources of funds for home owners, including those seeking low down-payment or high-ratio loans," according to Leon Kendall, MGIC president. "The standardized pooling and servicing documents used in the prototype transaction will be refined and streamlined to enable them to function in all states. As this happens, the role played by Magics can grow dramatically."

Of interest to the lender, Magic certificates represent the nonrecourse sales of an undivided interest in pools of mortgage loans on primary, owner-occupied, single-family residences. Loans in the program may be unseasoned and may be "to-be-produced" loans to fill forward commitments. Though no specified mix of loan by loan-to-value (LTV) is anticipated, initial pools will contain loans to 90% LTV, although loans to 95% are anticipated in future pools.

Mr. Kendall points out that Magics are unique because they provide a standardized set of investor-oriented documents providing enhanced marketability and liquidity. Also, a unique package of insurance coverages gives the investor the safety and assurance needed to forego inspection of documents and properties.

"As in many other conventional mortgage-backed pass-through security offerings of late," Mr. Kendall explains, "there is a standard mortgage guaranty insurance coverage policy on all loans over 80% loan-to-value and a 5% of pool coverage policy on the entire package."

With the first $3-million prototype issue of Magics by Suburban Coastal Corp., Wayne, N. J., and Peoples Savings Bank, Bridgeport, Conn., a performance bond was used to guarantee that servicing would be performed in accordance with the servicing agreement. This performance bond, issued by MGIC Indemnity, a sister corporation, assured investors that the monthly pass-through of principal and interest will take place as scheduled — regardless of collection from individual borrowers.

"While this approach may be unique at present," Mr. Kendall adds, "we feel that it will become much more commonplace in the near future." • •

The Case Against

(Continued from page 12)

It should be emphasized that many mortgages being sold under tax-exempt programs would not be sold otherwise, at least not in security form. They would remain in the portfolio of the originator or be sold as whole loans to another thrift.

The vast majority of FHA/VA loans already are financed through capital markets, directly as GNMA securities or indirectly through FNMA borrowings, but this is not the case with the majority of conventional mortgages, the type typically financed by tax-exempt bonds.

4. *Relationship to State Housing Finance Agencies.* For some years now, state housing finance agencies have used the tax-exempt bond market to raise funds for housing. In 1978, such issues topped $5 billion and accounted for more than 15% of all tax-exempt offerings. While it is not the function of this task force to analyze the activities of such agencies, we would like to point out that care should be taken to see that, having proscribed housing issues by local entities, we do not then see them proliferate at the state level.

Such a program can be avoided if state agencies are limited to programs targeted to the disadvantaged, specifically low-income persons, the elderly and the handicapped.

Our primary concern is not with a particular class of issuers, but with the potential of a massive transfer of funds from the private taxable sector to the public tax-exempt sector — by whatever means. The mortgage sector is much too large to undergo so fundamental a change without disrupting the entire economy.

5. *Inflation.* While the individual borrower may believe that obtaining a below-market-rate mortgage from a tax-exempt bond solves his problem with inflation, widespread reliance on this technique would exacerbate the problem for the nation as a whole.

Proliferation of these issues undoubtedly will result in some loss of revenue to the Treasury, with the exact magnitude depending on the weighted average tax rate of current mortgagor investors. This varies from zero to maximum corporate rates (a typical S&L is believed to be in the 20-25% range). At the same time, demands on the Treasury could rise because of the need to increase direct federal support to those financially weaker cities that have been crowded out of the tax-exempt sector.

In the absence of an increase in the tax rate, the combination of decreasing revenue and rising needs would force the Treasury to increase borrowing. Because of the pressures on market yields resulting from the swollen tax-exempt sector, the cost of borrowing and servicing the debt would be higher, further hampering the effort to fight inflation, i.e., moving the federal budget toward balance.

In addition, use of tax-exempt financing for housing would allow the largest single sector of the credit markets to escape the discipline of high interest rates and thereby undermine the effectiveness of monetary policy in combating inflation.

Finally, providing tax-exempt financing for housing, but not for other industries, would give housing an unfair advantage over other investments, some of which would contribute more to increased productivity and hence to the control of inflation over the long term.

6. *Political Action.* Although it is possible that a massive effort to meet the bulk of the nation's single-family mortgage needs through use of tax-exempt bonds would cause such programs to drown of their own weight, we do not believe the economy should

be subjected to a disruption of that magnitude. Instead, Congress should take prompt action to end the authority under which municipal governments are issuing these bonds (the 1968 Revenue and Expenditure Control Act).

Action at the federal level is necessary because use of these bonds involves an externality; i.e., it is to the advantage of a particular city or county to issue the bonds because the cost to the economy is shared by all citizens, whereas benefits accrue only to those residing in a particular area.

Similarly, additional state legislatures will wish to obtain for their citizens the same benefits being enjoyed by those of other states. Only at the national level, where the cost to society as a whole is apparent, is there any incentive to treat the problem. • •

Reuss Calls for Limits on Use Of Tax-Exempt Housing Bonds

CHAIRMAN Henry S. Reuss (D.,Wis.) of the House Committee on Banking, Finance and Urban Affairs last month released a Congressional Budget Office (CBO) study of the rapidly growing use of tax-exempt state and local bonds to finance low interest mortgages for single-family homes and called for limits on their use. The study estimates that such bond issues, if not curbed, will cost the U. S. Treasury over $2 billion annually by 1984.

The Carter Administration has said it will propose legislation to limit tax-exempt mortgage bonds to those that help low- and moderate-income families or that serve "other narrowly targeted public policy objectives." Representative Reuss urged the Administration to submit its proposal "as soon as possible." He said the Housing and Community Development Subcommittee of the House Banking Committee, chaired by Representative Thomas L. Ashley (D.,Ohio) expects to hold hearings on the subject shortly.

Representative Reuss urged "sympathetic consideration" of one of the alternatives suggested by the CBO, namely "requiring home owners to choose between participating in a state or local mortgage-bond program and taking the current mortgage-interest tax deduction" as a "way of effectively limiting the subsidy to low- and moderate-income people."

"At the same time," he said, "Congress should take a look at the present federal income-tax subsidy for home owners' itemized mortgage interest and local property-tax deductions." The CBO study pointed out that these provisions "mostly benefit middle- and upper-income taxpayers" and will cost the Treasury $14.6 billion in lost revenues in 1980.

"Wealthy taxpayers get Uncle Sam to defray up to 70% of their local property taxes and mortgage interest not only on their principal home, which is proper, but on endless second homes — country estates, ski lodges, seashore retreats," the Wisconsin representative said. "We properly restrict deductions for home insulation and for alternative energy sources to a taxpayer's principal home. We could save billions for the Treasury if we did the same thing for interest and property-tax deduction. Such a combined reform of both the tax-exempt bond and the home-ownership deduction would help more moderate-income people than the present system and blow the whistle on a flagrant waste of taxpayers' dollars."

The study reports that 50 localities in 12 states* have issued more than $1.6 billion in single-family mortgage bonds since Chicago first issued such bonds last July. State housing finance agencies in 23 states issued another $2.5 billion in single-family mortgage bonds during the same period.

The CBO study estimates that localities will issue a total of $4 billion in single-family mortgage bonds in 1979 and that localities and state housing agencies will issue anywhere from $20 billion to $35 billion in 1984 if no federal limits are imposed. Tax exemption for the interest on local and state housing agency bonds will cost the Treasury $340 million in lost revenue in fiscal year 1980, the CBO estimates, and from $1.6 to $2.1 billion in fiscal year 1984.

This large volume of single-family bonds will drive up interest rates on other forms of tax-exempt state and local borrowing, the CBO report says, with $10 billion in new single-family bond issues estimated to push up tax-exempt interest rates in general by half a percentage point and the rate for housing bonds by more than a full percentage point.

"Tax-exempt bonds are a costly and inefficient form of subsidy at best," Representative Reuss said. "And the wastefulness is compounded when they are used to finance low-interest mortgages for people with incomes of $40,000 a year and more. With the federal deficit for fiscal 1980 already at about $29 billion, we can ill afford to dissipate scarce taxpayer resources on subsidies for a handful of affluent families. We have a private marketplace in this country that is supposed to take care of their needs."

Legislation limiting tax-exempt bonds would require a change in the tax law and thus would be referred to the tax-writing House Ways and Means Committee. Mr. Reuss said that his committee would make prompt recommendations to the Ways and Means Committee.

The CBO report sets out a number of options for Congress to consider, but, in keeping with CBO practice, makes no recommendations. Options analyzed by the CBO include:

Taking no action.

Eliminating the tax-exemption for all single-family mortgage bonds, with a possible exception for bonds that are backed by the full faith and credit of the issuing government.

Limiting tax-exempt bond financing to housing for families with low and moderate incomes.

Allowing tax-exempt bond financing for higher-income families only when it serves some specifically defined public purpose, such as revitalizing designated geographic areas.

Allowing only legislatively established state or local housing authorities to issue tax-exempt housing bonds.

Combining limits on tax-exempt financing for single-family homes with expansion of one or more of the other federal home-ownership subsidies.

"Congress cannot rely on this problem to take care of itself," Representative Reuss concluded. "Everyone involved in setting up these mortgage-bond programs — bond underwriters, state and local governments and financial institutions — is being pushed by competitive pressures to proliferate them well beyond reasonable limits. Even those who are uncomfortable with the long-term implications of unrestrained growth in these programs are hard put to exercise self-restraint in the face of these pressures. Congress should step in and save them from themselves." • •

* Alaska, Arkansas, California, Colorado, Delaware, Illinois, Kentucky, Louisiana, Maryland, Minnesota, New Mexico, West Virginia

Mismatch

(Continued from page 14)

Another equity concern relates to the question of why buyers in some locations and not others should be able to take advantage of the subsidy. After all, it is a federal tax subsidy. Why should people in states that grant their municipalities the power to issue these bonds enjoy the subsidy, and people in states who don't grant the authority be left out? Why should the side effects of these issues — inflationary increases in home prices and higher bond costs on bond issues for other purposes — affect those persons who didn't benefit from the subsidy? Of course, municipalities nationwide will ask this same question about equity, thereby prompting neighboring municipalities or states to enter into these issues to eliminate this inequity and in doing so negate the benefits supposedly generated to a particular city. It is a classic case of the "fallacy of composition." What is in the best interest of one participant can hurt all if everyone gets into the act. In this case, there are good "political" reasons for everyone to get into the act.

These programs just won't pass muster as an income-redistribution scheme. They simply are too discriminatory among those middle-income home buyers who can take advantage of the program. Thus, the way in which existence of these plans is going to have to be justified lies with the ways in which these plans increase or improve the quality of the urban environment.

Tax-Exempt Plans and Urban-Redevelopment Goals. Many supporters of these programs put forth these programs as a means of encouraging urban redevelopment. They suggest that the programs will accomplish this goal via a host of effects: 1. By upgrading the housing stock. 2. By resettlement of the city by the middle class in owner-occupied housing stock — generating a stabilization of the neighborhoods. 3. Strengthening the municipal tax base. Let's take these redevelopment goals one by one and see if the bond plans are a cost effective and efficient vehicle for achieving these goals.

Upgrading Housing Stock. Housing stock in any city can be upgraded only by rehabilitating existing units or by building new units. However, mortgage-bond plans have not been structured to devote a majority of their loans for these purposes. Why? The bond program is a shallow subsidy for middle-income households where lenders adhere to normal underwriting guidelines. How many of these borrowers will want to be located in neighborhoods where substantial rehabilitation is necessary? Surveys indicate very few. On the other hand, if they locate within the more healthy housing market areas of the city, chances are excellent that the house they purchase will be owner-occupied by an unsubsidized resident with socioeconomic characteristics similar to the buyer. Unless it is specifically mandated that the plan should provide for a certain number of rehabilitation units or new construction units within certain neighborhoods of the city, it is unlikely that housing stock will be upgraded.

There is a logical explanation for the reason why the issues can't be structured to accomplish urban goals. First, we should consider how the bond market would react to an issue collateralized by a substantial number of loans in areas of the city targeted as "in need of rehabilitation" and not backed by the "full faith and credit" of the issuing municipality. The answer is:

"Growing use of tax-exempt mortgage bonds today is in direct conflict with overall general economic stabilization policy. This has obvious implications with respect . . . to anti-inflation efforts."

not well. The bond investor likes to spread risk and, of course, the bond market would like mortgages included in the municipal issue to follow that dictum. But that always has been at the heart of the urban-housing problem. That is, the risk is concentrated; in all likelihood, too concentrated for ready acceptance by buyers of municipal bonds. It certainly would be nice if a 1.5% to 2% shallow interest-rate subsidy could rebuild our cities. However, if the FHA 235 programs of the early 1970s (which were 7% deep interest-rate subsidies) were failures, then it is wishful thinking to expect that such a shallow subsidy now could provide such a benefit.

In addition, these programs can provide the side effect of displacement. Any subsidy program that facilitates conversion of existing rental housing into owner-occupied units obviously will have an impact on households renting those units. If rental units are not being built to accommodate people displaced by the program, these people either must bid up the price of existing apartments or leave the city. Neither result is clearly in the public interest.

Resettlement of the City. If these bond plans aren't really designed to improve housing stock, maybe they can encourage resettlement of the city — the movement into the city by middle-class owner-occupants. Or perhaps they at least will stem the flight of the middle-income class from the city, which has been characterized by two decades of urban outmigration.

Here the crucial question with respect to household mobility is whether single-family, tax-exempt mortgage bond programs will do any better at attracting new residents with certain socioeconomic characteristics than the conventional mortgage market. Will the percentage of borrowers who actually move into the city be any greater than the percentage of conventionally financed borrowers who move into the city? Evidence gathered to date suggests little difference. About one-third of urban mortgage-loan borrowers are new to the city, whether or not they are subsidized. As one observer noted, "Tax-exempt mortgage revenue bonds make it just as easy for a 'desirable resident' to move out as they do to bring one in."

What is important for us to remember is that units purchased would have been occupied anyway by home owners of a similar socioeconomic status. No benefit is generated for the city. That is, we can conclude that the mortgage-bond-plan sales would have been sold to families of similar economic characteristics anyway. Most houses financed are located in neighborhoods with low vacancy rates — neighborhoods in which the private market would have produced the same result without a subsidy.

Tax-exempt financing will not materially enhance urban rehabilitation. We are merely playing "musical chairs" by moving the same people from unsubsidized units to subsidized ones. Not only do the tax-exempt, single-family mortgage bond plans fail equity tests for income redistribution; they also fail urban housing-policy tests.

Housing Price Inflation and Tax-exempt Bonds. We might be lulled into thinking that as long as it doesn't do any harm and some people are getting some benefit from the program in terms of slightly lower housing costs, the only person really being hurt is Uncle Sam. He is losing tax dollars.

The problem is that harm may be done. In fact, the provision of interest-rate subsidies to buyers of homes in such neighborhoods can create an inflationary pinch in home prices. It is with this inflationary impact on home prices that these programs can do the public the most harm.

During the days of the old 235 mortgage-subsidy program, appraisers raised concerns about the problem of appraising the value of a house whose price was inflated through bidding by subsidized buyers. That is, they were worried about the extent to which subsidized buyers were capitalizing this lower financing cost into the price of a home. Simply put, a buyer with an 8% mortgage competing for a property with another bidder having a 10% mortgage can capitalize his lower financing cost in his bid price for the house. Municipal bond plans are likely to have a similar capitalization impact on home prices. It takes only a few buyers with the advantage of the subsidy to "season" prices in the housing market, since the inflated prices they pay for houses will be recorded and mechanically passed on via the appraisal process to much of the rest of the market. And, of course, the extent to which the interest-rate subsidy is capitalized in the purchase price directly reduces any benefit the home buyer would have received from lower monthly payments.

Strengthening Municipal-Tax Base. Supporters of tax-exempt mortgage bonds also maintain that an important benefit of the program is that it strengthens the municipal-tax base. Actually, as previously mentioned, the provision of interest-rate subsidies to buyers of homes in neighborhoods where there already is a healthy market demand does no more than create an inflationary push on home prices in those neighborhoods. Most people would find the idea of increasing assessed valuations hard to swallow, especially when they result from inflated home prices brought about by the bond issue and not from any real improvement in property value.

Other Public-Policy Considerations. There are other public-policy considerations we should be concerned with when evaluating the impact of these tax-exempt bonds. For example, the volume of these bonds has exploded. In less than a year, they have gone from zero to a total of $1.6 billion in the tax-exempt market. If this rate of growth continues to saturate the tax-exempt market, something has to give. Perhaps the interest rate municipalities have to pay on other kinds of issues (sewer, school, other local public development) is going to increase. The fact that this higher cost would be encountered in the bond market by these housing issues is a serious concern.

There are two other problems with these issues. First, the spread between the rates on tax-exempt municipals and mortgage rates is not constant, and there is no guarantee that the extent of the subsidy to the home buyer (which depends on this spread) will be constant over time. This subsidy approach results in an unpredictable and variable subsidy over the business cycle. Furthermore, it is often the goal of national economic policy for housing to be slowed when the economy is overheated. Today is just one of those times. Growing use of tax-exempt mortgage bonds today is in direct conflict with overall general economic stabilization policy. This has obvious implications with respect to the success of our national anti-inflation efforts.

There are, of course, numerous additional considerations, such as how lenders cooperating in such mortgage programs can comply with the myriad of federal anti-discrimination lending regulations. The Community Reinvestment Act calls for local lenders to meet local demands. But what if government takes the business? Private lenders can't discriminate on the basis of income, sex, race or location. Many of these programs require it. A complete evaluation of the effectiveness of this scheme to subsidize moderate-income home buyers, or any alternative scheme, also must address these considerations.

This analysis of the purported public benefits of these municipal bond programs has shown that this scheme provides neither an equitable nor effective means of achieving its purported goals. Moreover, it has the potential of doing harm — adding unnecessarily to housing inflation and frustrating general economic stabilization policies and fair lending practices. ● ●

HUD Unveils New GPM Program

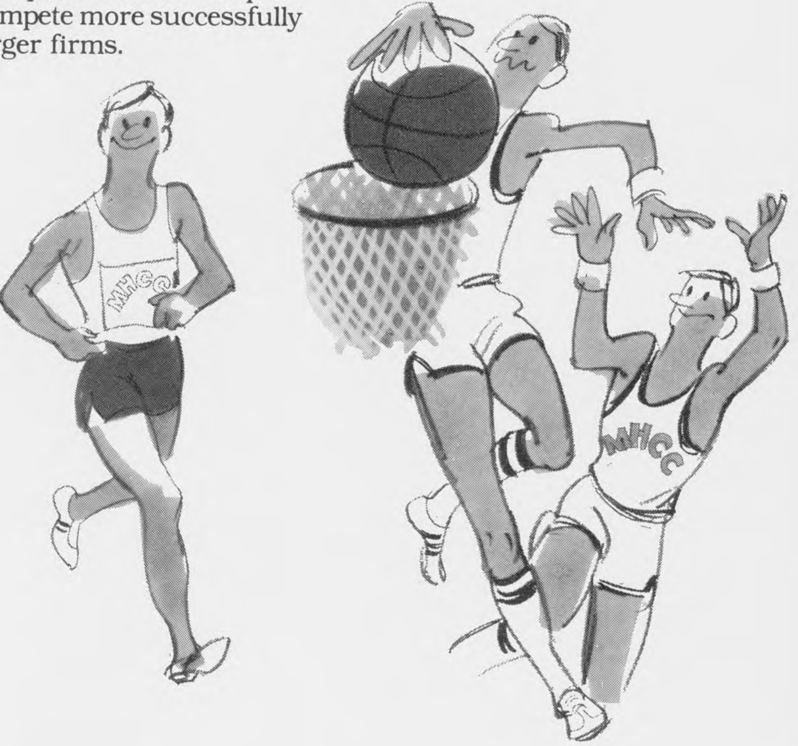
A PROGRAM designed to stimulate use of graduated-payment mortgages (GPMs) was unveiled April 24 by the Department of Housing and Urban Development (HUD).

Under the GPM program, scheduled house payments are lower in the early years and rise gradually to a predetermined level.

HUD's new program, which creates a new secondary market for mortgages, will allow lenders to use their mortgages as collateral on securities they sell to investors. The securities will be guaranteed by HUD's Government National Mortgage Association (GNMA), or Ginnie Mae. Money from sales of the securities then will be available for more mortgage loans.

A secondary market already exists for GPMs through the Federal National Mortgage Association (FNMA), or Fannie Mae. The latter borrows money to buy mortgages, thus also making additional funds available to lenders for more home loans.

According to HUD literature, GPMs are "likely to appeal most to first-time home buyers in the $15,000-$25,000-income range."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Community Reinvestment Act: More Questions and Answers

THE SECOND set of questions and answers on the Community Reinvestment Act (CRA) has been issued by the four federal supervisory regulatory agencies responsible for enforcing the act. They are: FDIC, Comptroller, Fed and Federal Home Loan Bank Board (FHLBB). The first set of questions and answers appeared in the March issue of MID-CONTINENT BANKER.

As the four agencies said in their first Q&A paper, answers to these commonly asked questions "should not be regarded as official interpretations. Their purpose solely is to be helpful to financial institutions and the public by providing useful background information. . . . (F)financial institutions should focus on the spirit of the legislation and try to avoid narrow, legalistic interpretations of the legislation or the regulations."

The first set of questions and answers provided staff guidance on: community delineation, contents of CRA statements, CRA public notices and maintenance of files of public comments and recent CRA statements. The second set provides staff guidance on: assessment of institutions' performance records under the CRA, agency encouragement of institutions under the CRA, available sanctions under the CRA and impact of the CRA on HCs and their affiliates.

Here is the new set of questions and answers, beginning with the number 16 since there were 15 Q&As in the first set:

16. Will activities in addition to lending be considered in the CRA assessment?

Answer: Yes. While the principal focus is on loans, the agencies recognize that other activities and efforts contribute toward the CRA's goals. The agencies will consider the extent to which an institution's activities foster local community revitalization — for example, purchase of state or municipal bonds or involvement through investment or other contributions in a local community-development project. The agencies also will consider activities such as efforts to establish a dialogue with community members concerning a community's credit needs, the institution's record of opening and closing branches and offering services (including noncredit services), marketing and special credit-related programs to make community members aware of credit services offered at its offices and extent of participation by the institution's directors in formulating policies and reviewing its performance with respect to the CRA's purposes.

17. Will an institution's performance in helping to meet community credit needs be assessed even if an institution does not make an application covered by the CRA or is legally precluded from doing so?

The agencies say that applications by a bank or S&L that's a subsidiary of a holding company will be treated in the same way as those filed by any bank or S&L. Only the CRA record of the applying bank or S&L will be taken into account.

Answer: Yes. While Congress directed that approval or rejection of applications be used to encourage community investment by banks and S&Ls on a safe and sound basis, it also sought to have each supervisory agency use its examinations "to encourage" institutions to be sensitive to their responsibilities to help meet local credit needs. As envisioned by Congress, this effort by the agencies is to be ongoing and not limited to the formal applications process.

18. How will the agencies "encourage" institutions to help meet credit needs of their local communities?

Answer: Encouragement will be provided in three ways. First, within the limits of the agencies' resources, their staffs will be providing information and technical assistance and will be meeting with representatives of industry and management of individual institutions to explain the CRA, regulations and examination procedures. This information exchange will help institutions understand the CRA's purposes and how the agencies plan to implement the act.

Second, as part of each CRA examination, agency examiners and field staffs will discuss with management their findings regarding the institution's CRA performance. Where appropriate, the agency staff may suggest ways in which the institution can improve its performance.

Third, in decisions on applications, where the CRA is a material factor, the agencies will comment publicly on an institution's performance record.

19. Will an institution be given a poor CRA assessment for making loans outside its local community?

Answer: An agency's assessment of an institution's performance will focus on the record of the institution in helping meet credit needs within its community. The act, implementing regulations and examination procedures set no numerical criteria for the amount of loans an institution should make within its local community or communities. If an institution is effectively helping to meet local credit needs, activities conducted outside its local community will not affect the institution's CRA performance record.

20. May an institution use a policy of making certain loans only to existing customers, without adversely affecting its CRA assessment?

Answer: In examining an institution, the agencies will pay special attention to any restrictions placed on availability of those types of credit an institution has indicated on its CRA statement it would extend in its local community. Examiners will focus on whether any such restriction has or would have a significantly greater impact on low- and moderate-income neighborhoods and/or classes of borrowers protected under the Fair Housing and Equal Credit Opportunity acts than it does on the remainder of the community. In every case, examiners will consider the business rationale for adopting a particular policy and whether other policies would serve the same business purpose with less adverse impact. Examiners will conduct this review, taking into account the specific restriction and facts and circumstances regarding its effects. One aspect of this review will involve the relative ease or difficulty of becoming a customer eligible for credit under the restriction. In addition, examiners may consider whether the institution has adopted a policy of limiting certain loans to customers as a temporary response to tight-money conditions or as a permanent policy.

Loans available on any restrictive basis should be listed on the CRA statement with the restriction(s) noted. However, the agencies recognize that institutions occasionally make certain specialized loans to good customers — loans they do not offer on a regular basis. This type of spot-lending activity need not be listed on the CRA statement.

21. In assessing an institution's CRA performance, will an examiner seek information outside of the institution being examined?

Answer: The examiner will seek such information if he or she believes it is necessary to complete a fair and accurate picture of the institution's performance. For example, if the examiner believes the institution's description of its community is unreasonable, the examiner may review the delineations of other, similar institutions in the community. In addition, contacts may be made with persons who have commented on an institution's performance, local officials, local business owners, community residents, real estate brokers and others.

22. What sanctions are available to the agencies under the CRA?

Answer: A poor CRA performance record may result in denial of an application. The agencies also may use the full range of their enforcement powers to ensure compliance with requirements of CRA regulations such as preparing a CRA statement, maintaining public comment files and providing the public notice. In addition, prohibited discriminatory or other illegal credit practices that are adverse factors under the CRA also will result in sanctions under the Equal Credit Opportunity Act, federal fair-housing laws or other consumer-credit-protection laws.

23. Are applications for electronic-deposit facilities covered by the CRA?

Answer: Generally, such applications are covered. The agencies have different rules regarding processing of applications for electronic-deposit facilities. Therefore, each institution should consult its supervisory agency before filing.

24. How are bank and S&L holding companies affected by the CRA?

Answer: The CRA applies to applications filed by HCs to merge or to acquire commercial banks and S&Ls. When decisions on such applications are made, the Fed in the case of bank HCs and the FHLBB in the case of S&L holding companies will take into account CRA records of all bank or S&L affiliates of the applicant HC. The parent HC need not prepare a CRA statement, maintain public comment files or prepare a public notice. The HC must conform, however, to requirements of the regulation for media notices of applications filed to acquire a bank or S&L.

25. How does the CRA affect applications by banks and S&Ls that are subsidiaries of HCs?

Answer: Applications by a bank or S&L that is a subsidiary of a holding company will be treated by the agencies in the same way as those filed by any bank or S&L. Only the CRA record of the applying bank or S&L will be taken into account. The bank or S&L may request, however, that the agency consider the contribution of any of the bank's or S&L's non-depository affiliates in helping to meet credit needs of the community or communities of the applicant bank or S&L. For example, if the applicant bank or S&L has an affiliate community development corporation operating in the same community as the applicant, the applicant may ask that contributions of that corporation in helping meet credit needs of the particular community be considered by the agency in assessing the overall CRA record of the applicant. ● ●

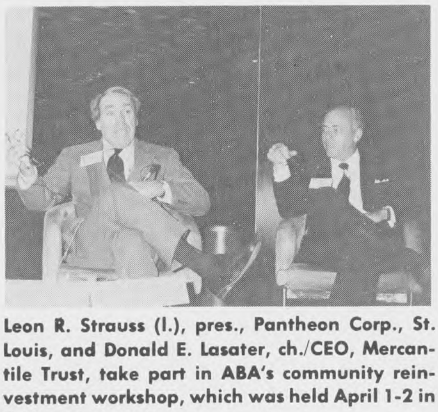
ABA's Community Reinvestment Workshop Spotlights Rehabilitation Programs

HOW TO plan and implement local community development and rehabilitation projects was discussed at length April 1-2 in St. Louis, where the ABA's urban affairs section held a community reinvestment workshop at the Sheraton St. Louis Hotel.

About 125 bankers (give or take a few because of a fogged-in St. Louis airport April 1) heard speakers and panelists describe mechanisms for private-sector-redevelopment efforts, special community credit programs for low- and moderate-income housing and comprehensive neighborhood redevelopment. Actual case studies were presented, and delegates were given looseleaf notebooks containing copies of most of the presentations to take back to their banks and study.

St. Louis was a particularly appropriate site for the workshop because several redevelopment programs are in progress or are being planned. For example, Leon R. Strauss, president, Pantheon Corp., St. Louis, told how — with the help of that city's bank, Mercantile Trust (and Donald E. Lasater, chairman/CEO) — he was able to undertake a massive redevelopment of a 100-acre area in the central west end.

In the session on "Mechanisms for Private Redevelopment," bankers were told about the Council for Northeast Economic Action in the Northeast, which received a grant from the Housing and Urban Development Administration (HUD) to conduct an innovative demonstration project to focus on various federal economic development programs.



Leon R. Strauss (l.), pres., Pantheon Corp., St. Louis, and Donald E. Lasater, ch./CEO, Mercantile Trust, take part in ABA's community reinvestment workshop, which was held April 1-2 in St. Louis.

The Philadelphia Mortgage Plan was described during the session on "Special Community-Credit Programs for Low- and Moderate-Income Housing." This plan is designed to provide residential mortgage financing throughout Philadelphia to creditworthy individuals. Participating banks have agreed to make conventional mortgage loans available for ratios of 90% to 95% of property value or appraisal value, whichever is the lesser amount. The plan's member banks intend the program to be responsive to the needs of many prospective home owners, especially those seeking to buy properties in older residential neighborhoods, which, for various reasons, have suffered or are beginning to suffer deterioration and disinvestment. Properties to be financed will be appraised and underwritten according to well-defined criteria that contemplate individual block-level conditions, rather than generalized or preconceived neighborhood or area impressions.

Various federal programs were described by representatives of HUD and the Subcommittee on Housing and Urban Affairs of the Senate Committee on Banking, Housing and Urban Affairs. ● ●

Mild Recession Predicted at Symposium

A SLOW DOWNHILL roller coaster ride will be the direction of the U. S. economy in the last half of 1979, according to Robert G. Dederick, senior vice president and economist at Northern Trust, Chicago.

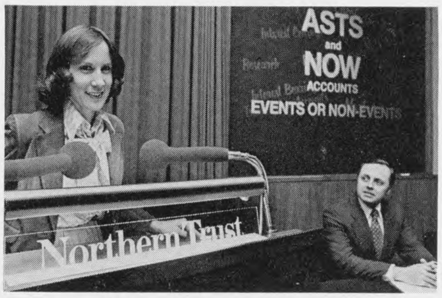
Speaking at the bank's 60th correspondent bank symposium, Mr. Dederick said that the economy probably will experience a mild recession, starting this summer or fall and ending six to nine months later. "Household-related spending already has started to fray around the edges, and after a lag, business spending should soften as well," he said.

He believes interest rates "will rise only a bit further before starting downward in the summer. One year from now, both short-term and long-term rates should be well below current levels."

Investments in recession-resistant type industries were encouraged by Herbert B. Gofman, vice president/trust.

"Since we believe the fundamentals will begin to improve later in the year, we consider this a good time for long-term investors to accumulate equities. The major areas we prefer are . . . those with excellent longer term prospects such as the health-care and drug industries, office equipment, the capital goods industry and exploration companies."

Robert G. Dederick, s.v.p. and economist, Northern Trust, Chicago, predicted mild recession for late 1979 at bank's 60th annual correspondent banking symposium.



Nancy L. Johnson, personal banking officer, Northern Trust, Chicago, and Harold J. Wiaduck Jr., 2nd v.p., stressed need for careful development, pricing and marketing of NOW accounts at Northern Trust of Chicago's 60th annual correspondent banking symposium.

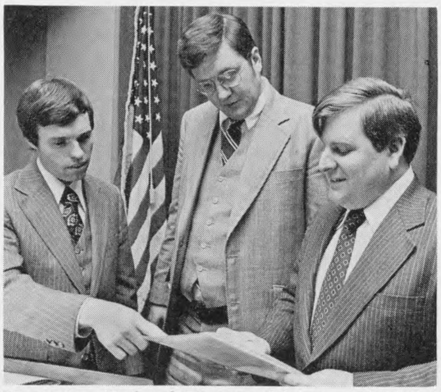
Concerning slow acceptance of automatic transfer accounts, Harold J. Wiaduck Jr., second vice president/banking, said, "Most bankers privately report that customers are not sure it's worth it — they are confused over fees and the bewildering array of accounts. One banker recently put it this way: 'Those who want it can't afford it . . . those who can afford it do not want it . . . and those who have it cannot reconcile it.'"

He stressed the need for careful development, pricing and marketing of NOW (negotiable order of withdrawal) accounts. Mr. Wiaduck and Nancy L. Johnson, personal banking officer/marketing, suggested that bankers put this project at the top of their planning dockets to ensure that their banks will be capable of responding with a simple, but cost-efficient, product when banks finally are authorized to pay interest on demand deposits or offer NOW accounts.

The need to establish a mechanism to analyze the impact of check-processing-services pricing, including the proposed Fed pricing of those services, was stressed by C. Mark Shumaker, second vice president and Glenn W. Proud Jr., financial services officer, both of banking, and Leonard M. Greetis, second vice president/banking services.

"This mechanism does not need to be complicated, but it should ensure that you cover all factors in determining the best alternative for your bank. It should also give you the ability to react quickly and make decisions on a timely basis when changes in pricing do occur," Mr. Shumaker said.

Guest speakers included Donald W. Hasbargen, a consultant with Hewitt Associates, and Joe Cappo, associate publisher, *Crain's Chicago Business*, and the following who composed a bank presidents' panel: Merl B. Highland, Kalamazoo County State, Schoolcraft, Mich.; Willis K. Loof, West Chicago State; Dick Willard, Farmers & Merchants National, Benton Harbor, Mich., and David D. Bear, executive vice president, United Financial Service Corp., Rockford, Ill. ● ●



Discussing 'Federal Reserve Pricing — Bottom Line Impact' at Northern Trust of Chicago's 60th annual correspondent banking symposium are (from l.) C. Mark Shumaker, 2nd v.p., Leonard M. Greetis, 2nd v.p., and Glenn W. Proud Jr., financial services officer.

New Mexico Convention

President

HARMON

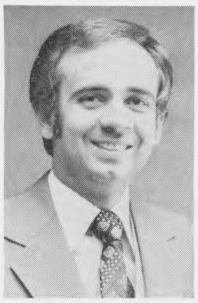
Leon G. Harmon, NMBA pres., is pres., New Mexico Bank, Hobbs, which he joined as pres. in 1963. From 1957-63, he had been pres., First Nat'l, Riverton, Wyo. He entered banking in 1946 at Planters State, Salina, Kan. He is former ABA v.p. for New Mexico and is a member of the New Mexico State Board of Educational Finance.

President-Elect

WILBANKS

Kenneth O. Wilbanks, pres-elect, NMBA, is pres., First Nat'l, Farmington, which he joined in 1967 as pres. He entered banking in 1947 in Oklahoma.

Treasurer



KALANGIS

NMBA treas. is Ike Kalangis, pres. & CEO, Capital Bank, Santa Fe. He is a graduate of the Southwestern Graduate School of Banking, Southern Methodist University, Dallas, and is dir., First New Mexico Bankshare Corp. He is sec., New Mexico Council on Economic Education.

Albuquerque, June 14-16

Headquarters — ALBUQUERQUE HILTON

PROGRAM

FIRST SESSION, 10 a.m., Friday, June 15

Call to Order — LEON G. HARMON, president, New Mexico Bankers Association, and president, New Mexico Bank, Hobbs.
National Anthem — CARMOLINE GRADY, Albuquerque.
Invocation — CHARLES R. THIGPEN, Methodist minister, Albuquerque.
Address of Welcome — DAVID RUSK, mayor of Albuquerque.
Response — KENNETH O. WILBANKS, president-elect, New Mexico Bankers Association, and president, First National, Farmington.
Address — BRUCE KING, governor of New Mexico, Santa Fe.
Address — C. C. HOPE JR., ABA president-elect and vice chairman, First Union National, Charlotte, N. C.

SECOND SESSION, 9 a.m., Saturday, June 16

Call to Order — LEON G. HARMON.
American Bankers Association Meeting — WAYNE STEWART, ABA state vice president, and president, First National, Alamogordo.
Address — ROGER GUFFEY, president, Federal Reserve Bank, Kansas City.
Report of the Executive Vice President.
Recognition of 25- and 50-Year Club Members — LEON G. HARMON.
Address — LEONARD PASSMORE, secretary and counsel, Texas Bankers Association, Austin.
Report of the Audit Committee — RAYMOND E. ROSE, committee chairman, and vice president/auditor, Albuquerque National.
Report of the Resolutions Committee — PHILIP W. WHITE, committee chairman, and president, Citizens Bank, Albuquerque.
President's Annual Report — LEON G. HARMON.
Report of the Nominating Committee — CHARLES A. JOPLIN, committee chairman, and president, Security National, Roswell.
Election of Officers.
Presentation of Past President's Pin and Certificate.
Remarks by New President.
Selection of 1981 Convention City.
Announcements.
Adjournment.

Science Editor, Football Player Among Speakers Announced For NMBA Special Activities

ALBUQUERQUE — Two celebrities have been lined up for the New Mexico Bankers Association convention's special activities.

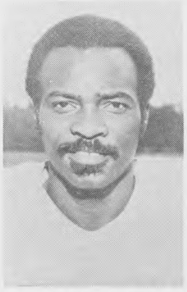
Both Jules Bergman, *ABC News* science editor, and Ken Burrough, wide receiver of the Houston Oilers professional football team, are scheduled to speak at the annual prayer breakfast at 7:45 o'clock Friday, June 15.

Mr. Bergman's appearance is being made possible through the courtesy of Edison Electric Institute. He writes his stories from first-hand knowledge. While covering all 30 manned spaceflights in the U. S. space program, he completed much of the same rigorous training NASA puts its astronauts through, including weightlessness, centrifuge rides and heat exposure.

A pilot himself, Mr. Bergman has covered the first flights of almost every new U. S. military and commercial aircraft, personally flying as many of them as possible.

As the space program slowed down, Mr. Bergman turned more of his attention to documentary work. He won an Emmy for his performance as co-writer and narrator of ABC's "Close-Up on Fire" in November, 1973. Other documentaries in his "Close-Up" series include "Oil: The Policy Crisis," "Danger in Sports: Paying the Price" and "Crashes: The Illusion of Safety."


BERGMAN


BURROUGH

He has been reporting on energy problems and controversies for the *ABC Evening News* for the past several years, including stories on solar, wind and nuclear energy and related subjects, i.e., fuel-economic cars and mass transit.

Mr. Burrough has been playing professional football since 1970, when he was the first-round draft choice for the New Orleans Saints. He was traded to the Houston Oilers in 1971. He has been the leading receiver for the last six years. Mr. Burrough has an average of 52 yards per catch over the last nine years.

During the off-season, he is studying the jewelry business at a store in Houston and is working on his master's degree in public affairs.

Other special activities include the men's golf tournament, which will be held at 8 a.m. Thursday, June 14, at the Rio Rancho Country Club. A continental breakfast and lunch will be served at the club. The Albuquerque Country Club will be the site of the spouses' golf tournament at 9 a.m.

The past presidents' luncheon will be at noon June 14 at the hotel with entertainment by Young Greek Dancers. A patio reception will be held at 6 p.m. with entertainment by the Mariachis.

The spouses' tennis tournament will be from 8-10:30 a.m. Friday, June 15. It will be followed by a luncheon at the hotel with entertainment by Cornelius R. Love III of Crofton, Md.

The presidents' luncheon will be held at noon Friday and will feature an exotic dancer. The men's tennis tournament will begin at noon. The spouses' bridge tournament will be held from 2-4 p.m. at the hotel.

A buffet supper will start at 6:30 p.m. with music by Elton Travis and band.

Saturday's social events include a buffet breakfast at 7:15 o'clock with entertainment by the Continental Duo. That evening, a banquet will be held at 6:45 o'clock in the international ballroom. Entertainment will be provided by the Bobby Freeman dinner show.

Governor, KC Fed President Among Speakers Announced For NMBA Convention

ALBUQUERQUE — Roger Guffey, president, Kansas City Fed, and C. C. Hope Jr., ABA president-elect, and chairman, First Union National, Charlotte, N. C., head the list of speakers for this year's annual New Mexico Bankers Association convention set for June 14-16.


GUFFEY


HOPE


PASSMORE

Mr. Guffey will speak during the second business session on Saturday, June 16. Mr. Hope will speak during the first session on Friday, June 15.

Other speakers will include New Mexico Governor Bruce King, Leonard Passmore, secretary and counsel, Texas Bankers Association, Austin, and David Rusk, mayor of Albuquerque. Governor King and Mayor Rusk will speak at the first session while Mr. Passmore will speak during the second.

ABA members in New Mexico will hold their meeting during the second session, with Wayne Stewart, ABA state vice president, and president, First National, Alamogordo, presiding.

Other second business-session reports will include audit committee, which will be given by Raymond E. Rose, committee chairman, and vice president/auditor, Albuquerque National; resolutions, Philip W. White, chairman, and president, Citizens Bank, Albuquerque; and nominating, Charles A. Joplin, chairman, and president, Security National, Roswell. NMBA President Leon G. Harmon will give the president's annual report. He is president, New Mexico Bank, Hobbs.

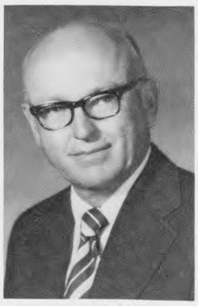
Election of officers and selection of a 1981 convention city are also on the agenda.

Hudgeons Resigns Post

SANTA FE — Denton R. Hudgeons has resigned as executive vice president of the New Mexico Bankers Association. He has not announced his future plans. At press time, a successor had not been named.

Illinois Convention

President



BACKLUND

IBA Pres. B. F. Backlund is pres., Bartonville Bank, which he joined in 1970. He entered banking with Nebraska Banking Dept. in 1955 and is a graduate of the Graduate School of Banking at University of Wisconsin.

1st Vice Pres.

WEIR

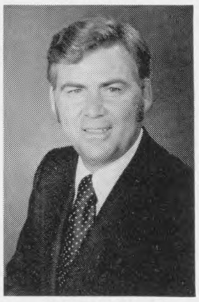
2nd Vice Pres.

LEMMERMAN

IBA 1st v.p. is Gavin Weir, ch. & pres., Chicago City Bank, which he joined as pres. in 1970. Formerly, he was with Pullman Bank, Chicago, which he joined in 1950.

IBA 2nd v.p. is Jack D. Lemmerman, pres., Nat'l Bank, Monmouth. He joined his bank 31 years ago and has been pres. since 1966. He is a past IBA treas. and past pres. of Group Six. He is a member of ABA's governing council and a dir. of Western Illinois Chapter of AIB.

Treasurer



BURROUGHS

Raymond C. Burroughs, IBA treas., is pres. & CEO City Nat'l, Murphysboro. He entered banking in 1955 at Bank of America, Bakersfield, Calif. From 1957-66 he was with Wayne County Bank, Fairfield, Ill. He has been pres./CEO of City Nat'l since 1966. He is a dir., St. Louis Fed.

Chicago, June 6-8

Headquarters — CHICAGO MARRIOTT

TENTATIVE PROGRAM

FIRST SESSION, 9 a.m., June 7

Presiding — B. F. "CHIP" BACKLUND, president, Illinois Bankers Association, and president, Bartonville Bank.
Presentation of Colors.
Invocation.
Address — "The Implications of Illinois Agricultural Exports and the U. S. Trade Balance," WARREN W. LEBECK, senior executive vice president, Chicago Board of Trade.
Address — "Future Prospects for Competition Among Depository Institutions," SAMUEL B. CHASE JR., managing associate, Golembe & Associates Inc., Washington, D. C.
American Bankers Association Annual Meeting and Election — C. C. HOPE JR., ABA president-elect, and vice-chairman, First Union National, Charlotte, N.C., presiding.
Door Prize Drawing.
Adjournment.

SECOND SESSION, 9 a.m., June 8

Presiding — B. F. "CHIP" BACKLUND.
Panel — "McFadden Act," JAMES F. BELL, general counsel, Conference of State Bank Supervisors, Washington, D. C., and C. F. MUCKENFUSS III, Deputy Comptroller of the Currency for Policy Planning, Washington, D. C.
Address — ANDREW BRIMMER, Brimmer & Co., Washington, D. C.
Address — FRANK REYNOLDS, *ABC News* correspondent.
Door Prize Drawing.
Adjournment.

LUNCHEON ADDRESS, noon, June 8

Address — REPRESENTATIVE HENRY S. REUSS (D., Wis.), chairman of the House Committee on Banking, Finance and Urban Affairs.

THIRD SESSION, 2 p.m., June 8

Presiding — B. F. "CHIP" BACKLUND.
IBA Annual Meeting and Business Session.
Election of Officers.
Adoption of Proposed Resolutions.
Annual Reports — B. F. "CHIP" BACKLUND and WILLIAM HOCTER, executive vice president, Illinois Bankers Association, Chicago.
Adjournment.

Variety of Topics:

Reuss, Lebeck, Bell Head List of Speakers At IBA Convention

REUSS

LEBECK

BELL

CHASE

CHICAGO — Representative Henry S. Reuss (D., Wis.), chairman of the House Committee on Banking, Finance and Urban Affairs, and Warren W. Lebeck, senior executive vice president, Chicago Board of Trade, head the list of speakers for this year's annual Illinois Bankers Association convention, set for the Chicago Marriott June 6-8.

Congressman Reuss is tentatively scheduled to speak at the luncheon Friday, June 8. Mr. Lebeck is scheduled to speak on the "Implications of Illinois Agricultural Exports and the U. S. Trade Balance," at the first business session, which starts at 9 a.m. Thursday, June 7.

Samuel B. Chase Jr., managing associate, Golembe & Associates Inc., Washington, D. C., will speak on "Future Prospects for Competition Among Depository Institutions" at the first business session. Presiding over the American Bankers Association annual meeting and election, which will be held during the first session will be C. C. Hope Jr., ABA president-elect, and vice-chairman, First Union National, Charlotte, N. C.

Both James F. Bell, general counsel, Conference of State Bank Supervisors, and C. F. Muckenfuss III, deputy comptroller of the currency for policy planning, both of Washington, D. C., are scheduled to speak during the second session. Also, Andrew Brimmer, Brimmer & Co., Washington, D. C., and Frank Reynolds, *ABC News* correspondent, will speak then.

Election of officers will take place during the third session, tentatively scheduled for 2 p.m. Friday, June 8.

Independent Community Banks To Hear Gerald Ford At Their Convention May 16

SPRINGFIELD — Former President Gerald Ford will address approximately 700 members and guests of the Independent Community Banks in Illinois (ICBI) here at the association's fifth annual convention dinner May 16. He will speak on economic conditions and foreign affairs and will answer questions from the audience.

The following day, the convention's business session will feature these speakers and topics: William C. Harris, commissioner of banks and trust companies, on regulations and current banking problems, such as Fed membership; Raymond Campbell, president, Independent Bankers Association of America (IBAA); and Terrence Klasky, IBAA legislative counsel, on federal legislation affecting banking interests; Senator Vince Demuzio (D., Carlinville), chairman, Senate Finance and Credit Regulations Committee, on pending state legislation; and H. Samuel Forrer, a Ulysses, Kan., banker who will speak on bank structure and its importance to consumers. Mr. Campbell is president/CEO, Oberlin (O.) Savings Bank.

Carl Schmitt, former California superintendent of banks, will be the Thursday luncheon guest speaker. During his tenure, he was an outspoken critic of the concentration of economic and political power by large California banks as a result of widespread branch banking.

The ICBI was formed five years ago by community bankers to oppose branch banking and other related bank-structure changes.

Bank Beats Blizzard

Despite the "blizzard of '79," York State, Elmhurst, managed to hold the grand opening of its expanded and remodeled main building, and the ribbon cutting pictured above took place as scheduled. First, a section of the building's original roof, constructed in 1951, buckled under the weight of a 20-inch snowfall January 13. Then, on January 24, the day before the opening ceremonies, 24 inches of snow fell on Elmhurst. Despite these setbacks, the bank reports the three-day grand opening was a well-attended success. Pictured here (l. to r.) are: John Jordan, exec. dir., Elmhurst Chamber of Commerce; Abner Ganet, Elmhurst mayor; George F. Hammerschmidt, ch., Elmhurst Chicago Stone Co.; William L. Johnson, dir., York State; William C. Gooch Jr., pres. of the bank; James C. Dawson, bank dir.; Norman Peterson, admin. v.p., Illinois Bankers Assn., Chicago; Robert Palmer, Elmhurst city mgr., and George F. Hammersmith, bank dir.

A 'Full-Service' Statement

PEKIN — First State is offering a new full-service checking-account statement to its customers that describes all their banking transactions — besides checks and deposits — in one monthly report.

The top half of the statement has standard information, such as account name and number, number of checking and depositing transactions and a sequential listing of processed checks. In addition, it includes code letters and transactions for special deductions, such as checking withdrawal for a savings deposit (SD), loan payment (LP) or mortgage payment (MP).

The bottom half of the statement is divided into four sections: up-to-date information on special savings accounts, such as Christmas Clubs or IRAs; a monthly review of CD and repurchase agreements, including maturity dates and face amounts; loan facts on car or home, which show amount of regular payments, remaining balances and remaining number of payments; and special messages about important financial opportunities available from the bank, such as, "Your CD matures next month. We will be happy to discuss today's investment opportunities with you. Just call our number or stop in. Have a good day, Mr. and Mrs. John Doe."

■ KENNETH E. COOK, a past president of the Illinois Bankers Association, has been elected president emeritus, DuQuoin State, where he formerly was president. Michael D. Travelstead is the new bank president, and David J. Emerson has been elected chairman. W. A. Jasecko was reelected executive vice president and cashier. Mr. Travelstead and Mr. Emerson belong to a group that purchased majority interest in DuQuoin State earlier this year. Mr. Travelstead spent nine years at University Bank, Carbondale, where he was vice president. Last summer, he was named president, First National, Tuscola, and held that post until last November. Mr. Emerson continues as executive vice president, University Bank, Carbondale, in addition to holding his new post at DuQuoin State. Messrs. Travelstead and Emerson also were elected to that bank's board, as was Saleh S. Jabr.

■ CENTRAL NATIONAL, Sterling, has promoted seven officers: Robert D. Eversman to vice president and investment officer; Wayne P. Andreas to assistant vice president and cashier; Stephen M. Bryan to trust officer; Russell E. Thorpe to trust officer and Verla L. McCormick and Onnadine C. Hosler to assistant cashiers. Miss McCormick also is an administrative officer.

■ PAUL K. REYNOLDS has been promoted to assistant cashier, Soy Capital Bank, Decatur. He joined the bank in 1977 as administrative assistant and is in charge of student loans and assists in consumer lending.

■ HERITAGE STANDARD, Evergreen Park, has promoted these officers: William J. F. Rus to senior vice president/commercial-industrial banking division; Glenn Krietsch to vice president/commercial-industrial banking division; John O'Gara and James McKenzie to assistant cashiers and Geraldine Gestaut to procashier.

■ GEORGE C. MOTTIER has been appointed vice president, Bank of Clarendon Hills. Previously, he was second vice president, Central National, Chicago, where his responsibilities included loans and correspondent banking.

■ STUART B. DRAKE has been promoted to assistant vice president from assistant cashier, Farmer City State. He is a law student at Southern Illinois University/Carbondale and will be joining the bank for the summer.

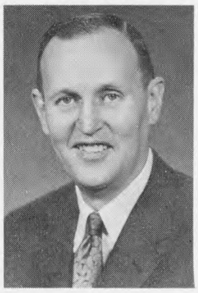
Above: Lobby, Citizens National, Decatur, as it looks after 30-month remodeling and expansion project.

Below: Gordon Currie (r.), midwestern radio announcer and caricaturist, joined Citizens National, Decatur, open-house festivities. Mr. Currie drew caricatures of bank personnel, including — for second time — those of Tom Crocker, retired officer, and Mrs. Crocker. First time was 20 years ago.

■ CITIZENS NATIONAL, Decatur, held an open house in April to celebrate the completion of its 30-month expansion and remodeling project at its Landmark Mall location. Special attraction at the event was famous caricaturist and Hollywood reporter, Gordon Currie, who is featured on several Midwest radio broadcasts. Mr. Currie had drawn caricatures of bank personnel 20 years ago and returned for the opening to draw new ones, including those of Thomas W. Crocker, a retired bank officer, and his wife. The Crockers had their first "sitting" by Mr. Currie in 1959. Several thousand visitors toured the new quarters during the festivities.

Indiana Convention

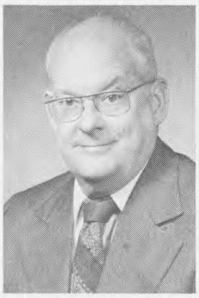
President



SHAFFER

IBA pres. is Paul E. Shaffer, ch. & pres., Fort Wayne Nat'l. He entered banking in 1945 at Rockford (O.) Nat'l, joined his present bank in 1952, was elected pres. in 1968 and ch. in 1970. He is a certified commercial lender.

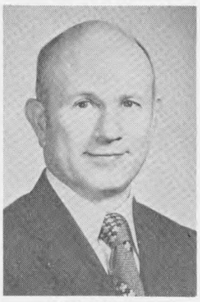
Vice President



WORTHINGTON

Serving as IBA v.p. is Wayne Worthington, ch. and CEO, Nat'l City Bank, Evansville, which he joined in 1941. He was elected v.p. in 1963, s.v.p. in 1965 and e.v.p. in 1967. He became pres. in 1972 and ch. & CEO in 1978.

Treasurer



SWAIM

Robert O. Swaim, IBA treas., is pres., Citizens State, Marshall, which he joined in 1946 as dir. He became v.p. in 1948 and pres. in 1957.

French Lick, June 12-14

Headquarters — FRENCH LICK-SHERATON HOTEL

TENTATIVE PROGRAM

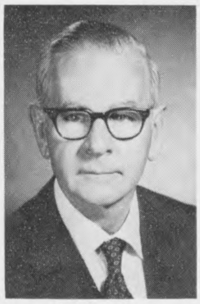
FIRST SESSION, 9:30 a.m., June 13

Call to Order — PAUL E. SHAFFER, president, Indiana Bankers Association, and president and chairman, Fort Wayne National.
Film — "Together We Are Something."
ABA Elections — WILBUR ROBY, president, Anderson Banking Co.
Address — JULIAN L. RIDLEN, Indiana state treasurer.
Address — "Executive Stress" — STEVE A. MARTIN, professor, Union Theological Seminary, Richmond, Va.
Report of Nominating Committee — TOM G. VOSS, immediate IBA past president and president, Seymour National.
Election of Officers.
Adjournment.

SECOND SESSION, 9:30 a.m., June 14

Call to Order — PAUL E. SHAFFER.
Address — NANCY H. TEETERS, Member, Board of Governors, Federal Reserve System.
President's Address — PAUL E. SHAFFER.
Address — A. A. "BUD" MILLIGAN, former ABA president and president, Bank of A. Levy, Oxnard, Calif.
Meeting of Members of the American Bankers Association.
Adjournment.

Milligan, Teeters To Speak At Indiana Convention To Be Held in French Lick


MILLIGAN


TEETERS

FRENCH LICK — A. A. "Bud" Milligan, former ABA president, and president, Bank of A. Levy, Oxnard, Calif., and Nancy H. Teeters, member, Board of Governors, Federal Reserve System, head the list of speakers for this year's annual Indiana Bankers Association convention set for June 12-14.

This year's theme, "Together We Are Something," will be reinforced by a film of the same title, which will be shown at the first business session June 13.

Executive stress will be the topic of Steve A. Martin, professor at Union Theological Seminary, Richmond, Va. Also speaking at the first session will be Julian L. Ridlen, Indiana state treasurer.

ABA elections and the association's election of officers will take place during the first business session.

Mr. Milligan and Mrs. Teeters will speak at the second business session on June 14. Paul E. Shaffer, IBA president, will give the president's address at that session.

Tennis, Golf, Levee Singers Will Entertain Conventioneers At Indiana Bankers Convention

FRENCH LICK — Special activities for the Indiana Bankers Association convention will start with the 50-Year Club reception and dinner at 6:30 p.m. Monday, June 11.

A buffet luncheon and golf tournament will be held at noon Tuesday, June 12, hosted by Merrill Lynch. At 6:30 p.m. a past-presidents' reception and dinner will be held.

Wednesday's activities will include a spouses' coffee from 8:30-10 a.m. followed by the women's singles tennis tournament. Spouses and bankers will have separate luncheons at noon.

The men's golf tournament and men's single tennis tournament will both start at noon Wednesday. Golfers will play on the Valley and Hill courses.

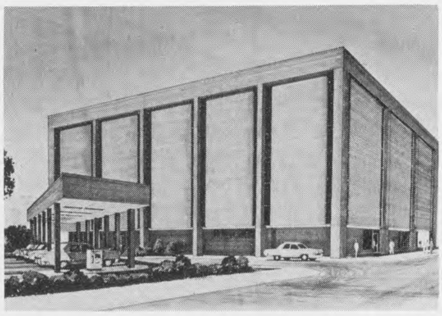
Ray Monsalvatge will be the featured speaker for the convention banquet scheduled for 7 p.m. Wednesday.

The spouses' golf tournament will be held from 8-10 a.m. Thursday, June 14. At 9:30 a.m., there will be a spouses' putt-putt contest.

A doubles tennis tournament will be held at noon. It includes both mixed and men's doubles. From 2-4 p.m., there will be a spouses' card party.

An all-convention reception and banquet will start at 6 p.m. Thursday. The banquet will start at 6:30 p.m. Entertainment will be provided by the Levee Singers.

■ FIRST NATIONAL, Logansport, held ribbon-cutting ceremonies in March for its new building located at One First National Plaza. Indiana Governor Otis Bowen was a special guest. Open-house festivities for shareholders, banking representatives, customers and friends were held in April. The new four-story building has about 52,000 square feet of floor space and contains a three-panel mural in the lobby painted by local artist Wilbur Meese.


First Nat'l, Logansport, has moved to new four-story building at One First National Plaza. Structure contains about 52,000 square feet of floor space and displays three-panel mural in lobby painted by local artist.

■ AMERICAN FLETCHER NATIONAL, Indianapolis, has announced these vice-presidential promotions: banking group — E. Morris Apple, Lawrence Banking Center, and Thomas E. Hogue, Wanamaker Banking Center; asset management group — Gary B. Brown, also senior trust officer; Daniel L. Fleck, also investment officer; J. Andrew Richey, also investment officer; and Richard F. Stegemeier, also trust officer. New assistant vice presidents are F. Steven Iles and Norma J. Kattau, operations group; Ronald R. Nevitt, Woodruff Place Banking Center; Elsie E. Shaw, operations group; and Wendy A. Teer, Master Charge.

■ CHRISTOPHER J. MURPHY III, president, First Bank, South Bend, has been appointed by President Carter to the advisory committee of the John F. Kennedy Center for the Performing Arts, Washington, D. C.

■ JAMES E. JOHNSTON has been promoted to data processing officer, Old National, Evansville. He previously had been a systems sales representative in the bank's Tabco computer division.

■ PAUL A. TURNER has been promoted from assistant controller to controller, Lincoln National, Fort Wayne. He replaces Paul M. Taylor, who retired in March after 25 years of service.

Bank's History Documented In Book by Retired Officer

MUNCIE — Merchants National has completed an 84-page paperback book that spans 85 years of bank history. In it are brief descriptions and interesting facts about the corporation, its consolidation, location of its facilities since 1893 and autobiographies of bank chairmen and presidents.

Cream-colored pages with brown ink reflect the historical theme of the text, which is highlighted by old photos of bank officers and previous decor, old business correspondence, advertisements and newspaper clippings.

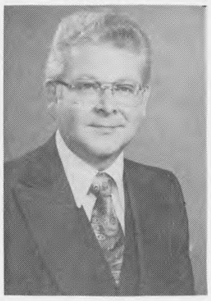
The author, Philip F. Schooley, a native of Muncie and a long-time officer of the bank, researched the information from corporate records, general journals, daily statements, published reports, bank charters and other documents. He was commissioned by William P. Givens, president, "Whose dream it was to place this history in written form . . . (so) the history and growth of the organization could be documented while still available." Mr. Schooley is a former senior vice president and comptroller and now is retired from his position as secretary to the board.

Tennessee Convention

President

BENEDICT

Chairman



BULLINER

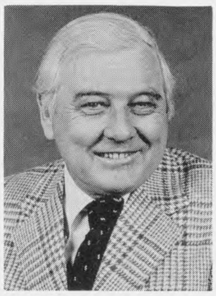
Andrew B. Benedict Jr., ch., First American Nat'l, Nashville, is TBA pres. He joined the bank in 1935 and has been ch. since 1969. He is also ch., First Amtenn HC.

TBA Ch. Jack R. Bulliner is ch. & pres., First State, Henderson. He joined his bank in 1948 and has been pres. since 1970 and ch. since 1977. He is a former pres., Tenn. Young Bankers Div.

Exec. Vice Pres.

GILLIAM

President-Elect



TAYLOR

Robert M. Gilliam has been TBA e.v.p. and treas. since 1962. He joined TBA in 1959 as sec.-treas. Prior to joining TBA, he was mgr., agriculture and area development department, Memphis Chamber of Commerce.

TBA Pres.-Elect G. Robert Taylor is ch. & pres., Merchants Bank, Cleveland. He joined the bank in 1945, was elected pres. in 1970 and ch. in 1975.

1st Vice Pres.

FITZHUGH

2nd Vice Pres.

ANDREWS

Serving as TBA 1st v.p. is James R. Fitzhugh, pres., Bank of Ripley, which he joined in 1945. He became an officer in 1946 and has been pres. since 1964.

Serving as TBA 2nd v.p. is Dan B. Andrews, pres., First Nat'l, Dixon, which he joined in 1966 as an officer. He has been pres. since 1967.

Nashville, May 20-23

Headquarters—Opryland Hotel

PROGRAM

MONDAY, MAY 21

7:30 a.m. — Convention-wide breakfast.
9:30 a.m. — Joint meetings, state and national bank divisions.
Noon — Board of directors meeting.
2 p.m. — Independent Bankers division meeting.

TUESDAY, MAY 22
BUSINESS SESSION, 9:30 a.m.

Call to Order — ANDREW B. BENEDICT JR., president, Tennessee Bankers Association, and chairman, First American National, Nashville.
Welcome.
Report of the ABA Vice President for Tennessee — DAVID NUNN, ABA vice president for Tennessee, and chairman, Bank of Halls.
President's Address — ANDREW B. BENEDICT JR.
Address — DANIEL H. BRILL, Assistant U. S. Secretary of the Treasury for Economic Policy.
Address — LAMAR ALEXANDER, Governor of Tennessee.
Election of Officers.
Adjournment.
1:30 p.m. — Board of directors meeting.
6:30 p.m. — Reception.
7:30 p.m. — Banquet.

TBA Convention Entertainment To Feature Country Music And Annual Prayer Breakfast

NASHVILLE — Special activities for the Tennessee Bankers Association convention May 20-23 have been orchestrated to coincide with one of the town's main industries — country music.

A cast of Opryland dancers and singers will perform "Country Music U.S.A." at the banquet held at 7:30 p.m. Monday, May 21, in the Tennessee Ballroom of the Opryland Hotel, Nashville's newest convention facility. The show is a chronological anthology of the great country music hits.

Jim Ed Brown and his singing partner, Helen Cornelius, will entertain TBA bankers and spouses after the grand banquet planned for 7:30 p.m. Tuesday, May 22, in the Tennessee Ballroom. Mr. Brown and Miss Cornelius were awarded the Country Music Association's title, "Duo of the Year," in 1977.

They have appeared on Dolly Parton's television show, "Pop! Goes the Country," "Hee Haw" and on their own syndicated show, "Nashville on the Road." Miss Cornelius, a Hannibal, Mo., native, is best known for her hit, "We Still Sing Love Songs in Missouri." He has recorded such hits as "Southern Loving," "Sometime Sunshine" and "Morning."

Spouses attending this year's convention will have a variety of activities to do or attend. The program starts at 9:30 a.m. Monday with a coffee bar and activities preview in the Knoxville Room.

Among several "At the Hotel" events scheduled for Monday are a needlework and crafts demonstration presented by Mary Lou Davis from The Needlecraft Shop, Nashville, and an art and framing demonstration entitled "American Pilgrimage Through the Painted Word," by Kathy Hardeman of Lyzon Art Gallery.

Both events will be held from 10:30 a.m. until noon in Cumberland A&B. A bridge tournament will be held from 1 to 4 p.m. in the Natchez Trace A&B.

Also, spouses are invited to play in the golf and tennis tournaments, which begin at 11 a.m. Monday at Belle Meade Country Club.

Tuesday activities include a tour of the Tennessee Botanical Gardens and Fine Arts Center at Cheekwood, a 50-room Georgian mansion, a luncheon at Belle Meade Country Club and an optional tour of either historic Travellers' Rest or Carter's Court in Franklin. Also, a shopping trip to Rivergate Mall has been planned.

The Carter House was purchased by the state in 1951 as a shrine to commemorate the Battle of Franklin, a Civil War battle fought on November 30, 1864.

Convention-wide events include a poolside cocktail reception from 3-6 p.m., Sunday, a breakfast from 7:30-9 o'clock Monday and a stag luncheon at 11:30 a.m. Tuesday.

The third annual prayer breakfast scheduled for 7:30 o'clock Wednesday will conclude the convention.

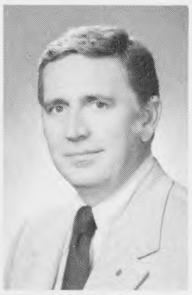
Alexander, Brill to Speak At Tennessee Convention In Nashville May 20-23

NASHVILLE — Tennessee's new governor, Lamar Alexander, and Daniel H. Brill, Assistant U. S. Secretary of the Treasury for Economic Policy, head the list of speakers taking part in this year's Tennessee Bankers Association convention, set for May 20-23 at the Opryland Hotel.

About 1,000 bankers and spouses are expected to attend the three-day meeting, which will conclude with the third annual prayer breakfast on Wednesday, May 23.

The first business meeting of the convention will start at 9:30 a.m. Monday, May 21, when the state and national bank divisions meet jointly. Speaking at that session will be ABA President-Elect C. C. Hope Jr., vice chairman, First Union National, Charlotte, N. C.; NABW President Esther Smith, vice president, Commerce Union Bank, Lebanon, Tenn.; and Thomas C. Mottern, the state's new banking commissioner and former president, Hamilton Bank, Johnson City.

SMITH



MOTTERN

Mrs. Smith will be opening speaker and she is expected to discuss the work of the National Association of Bank Women, Inc. (NABW).

Governor Alexander and Mr. Brill will speak at the general business session at 9:30 a.m. Tuesday, May 22. TBA President Andrew B. Benedict Jr., chairman, First American National, Nashville, will deliver his president's address at the meeting. ABA members in Tennessee will hold their meeting during the general business session with David Nunn, ABA vice president for Tennessee and chairman, Bank of Halls, presiding.

Installation of new TBA officers will take place during the grand reception and banquet Tuesday evening.

■ JOHN L. HANIGAN, chairman, president and CEO, Genesco, Inc., has been named director, First Amtenn Corp., a Nashville-based bank HC. He left retirement in 1977 to head the corporation after acting as chairman, Brunswick Corp., Chicago, for 13 years.

■ HAROLD MARCUM has been named vice president and senior credit officer/credit department, metropolitan division, American National, Chattanooga. J. B. Huffstutler has been promoted to senior vice president and transferred from the trust division to the bank administration division to head the data processing department.

■ ARTHUR M. WILLARD has been promoted to vice president, and J. Gary Clement has been promoted to assistant vice president, Nashville CityBank. Mr. Willard joined the bank in 1976 and continues to work in the loan administration area. Mr. Clement, who also joined the bank in 1976, will continue his responsibilities in the commercial lending area.

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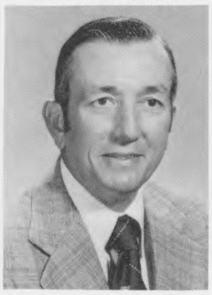
Alabama Convention

President

MITCHELL

Ala.BA Pres. William H. Mitchell is pres. & CEO, First Nat'l, Florence. He joined the bank in 1958 following a 12-year stint as an attorney.

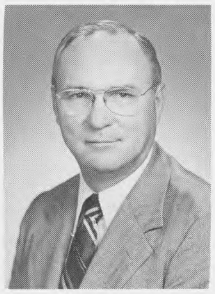
1st Vice Pres.



SHIRLEY

George S. Shirley, pres., First Nat'l, Tuscaloosa, is Ala.BA 1st v.p. He joined his bank in 1960 as a.v.p. and has been pres. since 1970.

2nd Vice Pres.



CAFFEY

Guy H. Caffey Jr., pres., Birmingham Trust Nat'l, is Ala.BA 2nd v.p. He joined his bank in 1951 and became pres. and dir. in 1969, CEO in 1973 and ch. in 1977. Also, he is ch. of Southern Bancorp. of Alabama.

Hilton Head Island, S. C., May 28-31

Headquarters—HILTON HEAD HYATT

PROGRAM

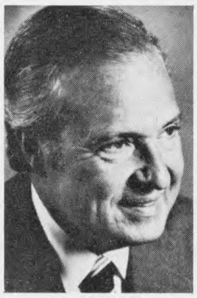
BUSINESS SESSION, 9:30 a.m., May 29

Call to Order — WILLIAM H. MITCHELL, Alabama Bankers Association president, and president, First National, Florence.
Welcome.
Panel — FRANK A. PLUMMER, moderator, and chairman, First Alabama Bancshares, Montgomery. Panel members will include SAM M. FLEMING, retired chairman, Third National, Nashville; C. C. HOPE JR., ABA-president-elect, and vice chairman, First Union National, Charlotte, N. C.; MONROE KIMBREL, president, Atlanta Fed; W. LIDDON McPETERS, president, Security Bank, Corinth, Miss.; and REX MORTHLAND, deputy director, FDIC.
Adjournment.

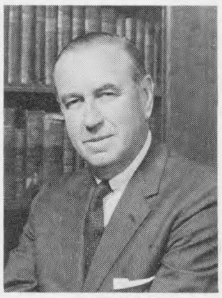
SECOND SESSION, 2:30 p.m., May 29

Call to Order — WILLIAM H. MITCHELL.
Address — U. S. SENATOR ERNEST F. HOLLINGS (D.,S.C.).
Resolutions Committee Report — CLARENCE TURNIPSEED, president, First National, Brewton.
American Bankers Association Meeting and Election — HORACE BROOM, state vice president for Alabama, and president, Citizens Bank, Hartselle.
Adjournment.

Senator, Panel to Speak At Alabama Convention On Hilton Head Island


McPETERS


MORTHLAND


FLEMING


KIMBREL

HILTON HEAD ISLAND, S. C. — U. S. Senator Ernest F. Hollings (D.,S.C.) and a panel of banking experts moderated by Frank A. Plummer, chairman, First Alabama Bancshares, Montgomery, will be the featured speakers at this year's annual Alabama Bankers Association convention scheduled for May 28-31 at the Hyatt on Hilton Head Island, S. C.

Senator Hollings is scheduled to speak at the second business session on May 29, while the panel is slated for the first business session that morning.

Other panel members will include Sam M. Fleming, retired chairman, Third National, Nashville; C. C. Hope Jr., ABA president-elect, and vice chairman, First Union National, Charlotte, N.C.; Monroe Kimbrel, president, Atlanta Fed; W. Liddon McPeters, president, Security Bank, Corinth, Miss.; and Rex Morthland, deputy director, FDIC.

Messrs. Fleming, Kimbrel, McPeters and Morthland are all former American Bankers Association presidents.

Presiding over the convention will be William H. Mitchell, Alabama Bankers Association president, and president, First National, Florence.

Alabama members of the American Bankers Association will hold their meeting and election during the second business session with Horace Broom, state vice president for Alabama, and president, Citizens Bank, Hartselle, presiding. The resolutions committee report will be given by Clarence Turnipseed, its chairman, and president, First National, Brewton.

'Shipwreck Party,' Dancing Among Entertainment Slated For Alabama Conventioneers

HILTON HEAD ISLAND — Special activities for the Alabama Bankers convention will begin with a dinner-dance at 7 p.m. Monday, May 28. Dress is casual.

A School of Banking of the South breakfast will be held at 8 o'clock Tuesday, May 29, and will be followed by the convention's opening ceremonies and flag raising by the U. S. Marine Color Guard and Drill Team, Paris Island.

A spouses' poolside brunch will be held at 10 a.m. Tuesday and the past-presidents' luncheon will be held at noon.

Evening entertainment will include a formal dinner-dance to the tune of Jimmy Farr and his orchestra with singers. It will begin at 7 o'clock.

The Independent Bankers breakfast will be held at 8 o'clock Wednesday. Tennis and golf tournaments will be held Wednesday. Other activities that day will include sightseeing on the island or in Savannah.

At 7 p.m. Wednesday there will be a "Shipwreck Party," which features "all the seafood you can eat" plus entertainment and dancing on the deck.

Newton DeBardeleben Dies

Newton DeBardeleben, 64, who was chairman/CEO, First National, Birmingham, died April 23. He had had heart surgery the week before. He joined the bank in 1962 and became chairman/CEO in 1976. He was vice chairman of Alabama Bancorp. since the HC's inception. Prior to joining the bank, he was president, DeBardeleben Coal Corp., from 1949-62. He practiced law with a Birmingham law firm after graduating from Yale Law School.

Island Paradise Awaits Alabamians

TOP: Hyatt Hotel on Hilton Head Island, S. C., has dramatic ocean view. BOTTOM: Hotel is located in center of Palmetto Dunes Resort, which boasts two 18-hole golf courses.

AN ISLAND paradise is the setting for this year's Alabama Bankers Association convention on Hilton Head Island, S. C.

Convention-goers will be staying in the 360-room ocean-front Hyatt Hotel. The hotel, which opened in 1976, features Hugo's Rotisserie restaurant, Club Indigo that usually features name entertainment, boutiques, swimming pools, health club and banquet facilities for 850 people.

The hotel is located in the center of Palmetto Dunes Resort, which has two championship 18-hole golf courses, a 17-court tennis club, villas and three miles of Atlantic beach.

Water sports abound. Surf or deep sea fishing are the main attractions. Or guests may go sailing, pedal boating, canoeing, biking or horseback riding.

Shopping centers and art galleries are close to the resort. ● ●

Southern Trust School

The seventh annual session of the Southern Trust School, conducted by the Alabama Bankers Association's trust division, will be held July 15-21 at Birmingham Southern College.

The three-year school, formerly the Alabama Trust School, is held annually. Each session consists of 39 hours of classroom instruction, special lectures and discussion groups. On completion of the third year, students receive diplomas.

The school is designed for those who recently have entered the trust business from colleges, law schools, commercial banking and other business activities and those experienced in a specialized phase of trust work who wish to broaden their trust knowledge.

Founded in 1973 and established to meet training needs of banks in the southeastern United States, the school is endorsed by the Georgia and Mississippi Bankers associations.

■ FIRST NATIONAL, Mobile, has elected A. F. Delchamps Jr. and William P. Harvey as directors. Mr. Delchamps is president, Delchamps, Inc., a Mobile-based supermarket chain. Mr. Harvey is president and CEO, Mobile Gas Service Corp. Additionally, William H. Armbrecht, Kenneth R. Giddens and John Pugsley were elected directors emeritus.

■ JOEL B. CARTER has been elected chief operating officer, First National, Russellville. He is executive vice president. Mr. Carter also serves as a bank director.

Alabama public officials, bank representatives and officials of Mid-Western Nurseries, Inc., Tahlequah, Okla., meet in Alabama Governor Fob James's office to announce plans of company's move to Centre. Mary George Jordan Waite (6th from l.), pres. and ch., Farmers & Merchants Bank, Centre, was instrumental in bringing about move, which will bring 125 new jobs to city. Others involved: Nell Kilgore (7th from r.), bank secretary; Bob R. Berry (6th from r.), pres., Mid-Western Nurseries, Inc.; and Tom Ryan (4th from r.), industrial development representative, Alabama Power Co.

Industrial Development:

Bank President Instrumental In Obtaining New City Jobs

The chairman and president of Farmers & Merchants Bank, Centre, Mary George Jordan Waite, has been instrumental in bringing a containerized nursery to the community, a move which will bring with it about 125 new jobs.

Mrs. Waite is chairman of the industrial development committee, Centre Area Chamber of Commerce. This committee made contact with Bob Berry, president of Mid-Western Nurseries, Inc., Tahlequah, Okla., and arranged for the business to lease land from Alabama Power Co. on Weiss Lake, just outside the city.

Capital investment will be approximately $5 million, and the company has taken a 50-year lease on the site. Ground-breaking ceremonies should take place in June, and the plant should be in operation by the end of the year. There will be 50 job openings at first and 125 eventually.

An interesting sidelight to the announcement is that the nursery's corporate headquarters in Tahlequah is in Cherokee County. The new facility in Centre also will be in Cherokee County — Alabama.

■ W. DAN PUCKETT has been named senior vice president/asset and liability management, Central Bancshares of the South, Inc., Birmingham, parent HC of Central Bank, Birmingham. He will have responsibility for managing loan and investment assets and deposit liabilities of the corporation and its affiliate banks.

■ ROBERT S. WILBANKS has joined Commercial Guaranty, Mobile, as vice president/commercial loans, and Johnnie L. Robinson has been elected assistant cashier.

Mississippi Convention

President

GAGE

MBA Pres. R. D. "Bobby" Gage III is pres. and CEO, Port Gibson Bank. He joined his bank in 1952 as cash./v.p. after five years as an attorney. He was appointed pres. & CEO in 1967.

Vice President

McMULLAN

Serving as MBA v.p. is Paul W. McMullan, ch., First Mississippi Nat'l, Hattiesburg. He entered banking in 1954 in Newton and joined First Mississippi Nat'l in 1965. He has been pres. since 1973 and ch. since 1974.

Treasurer

CALFEE

Don F. Calfee, MBA treas., is a dir., Simpson County Bank, Magee. He entered banking in 1939 at First Mississippi Nat'l, Hattiesburg, and joined Rankin County Bank as e.v.p. in 1962. He was pres. there before resigning in Jan., 1979. His future plans have not been announced.

Biloxi, May 19-23

Headquarters—Biloxi Hilton & Broadwater Beach Hotels

PROGRAM

FIRST SESSION, 9:15 a.m., May 21

Call to Order — R. D. "BOBBY" GAGE III, president, Mississippi Bankers Association, and president, Port Gibson Bank.
Executive Committee Report — R. D. "BOBBY" GAGE III.
Resolutions — EDWARD RATHER, committee chairman, and president, First State, Holly Springs.
Financial Report — DON F. CALFEE, Mississippi Bankers Association treasurer, and director, Bank of Simpson County, Magee.
Presentation of 40-Year Club Certificates.
Chair of Banking Report — DONALD L. MOAK, chair of banking.
Young Bankers Section Report — WALLACE E. McMILLAN, president, Young Bankers Section, and vice president, Peoples Bank, Tupelo.
Standing Committee Reports.
Address — JOHN T. KELLY, special agent in charge, FBI, Jackson.

SECOND SESSION, 9:30 a.m., May 22

President's Address — R. D. "BOBBY" GAGE III.
Report on School of Banking of the South — ORRIN H. SWAYZE, director emeritus, School of Banking of the South.
Meeting of Mississippi Members of American Bankers Association — LEO W. SEAL JR., member, ABA governing council, and president and chief executive officer, Hancock Bank, Gulfport.
Presentation of 50-Year Club Certificates.
Address — C. C. HOPE JR., ABA president-elect and vice chairman, First Union National, Charlotte, N. C.
Necrology Report.
Resolutions Committee Report — EDWARD RATHER.
Address — MORGAN MAXFIELD, economist, North Kansas City, Mo.
Report of Nominating Committee.
Election of Officers.

Your Best Mississippi Connection

Mississippi, like the rest of the South is rapidly growing and changing. Staying alert to these changes is difficult without a knowledgeable local connection. Well, you have one, with First National Bank.

Headquartered in the Capital City, First National has its finger on the pulse of the entire state. We are sensitive to Mississippi's political and governmental climate. We play a key role shaping the state's economy.

No one knows better than we do the unique Mississippi Delta area, where agriculture and industry compete for dominance.

The economy of the traditionally agricultural South and Southwest area of the state is now strongly influenced by petroleum, timber, education and health care services.

If you need a good connection in Mississippi, chances are we know what you need to know and who you need to know. In Mississippi, call First National, first!

First National Bank
Jackson

BRANCHES:
The Bank of Greenwood
Greenwood

Commercial National Bank
Greenville/Leland

Citizens Bank of Hattiesburg
Hattiesburg

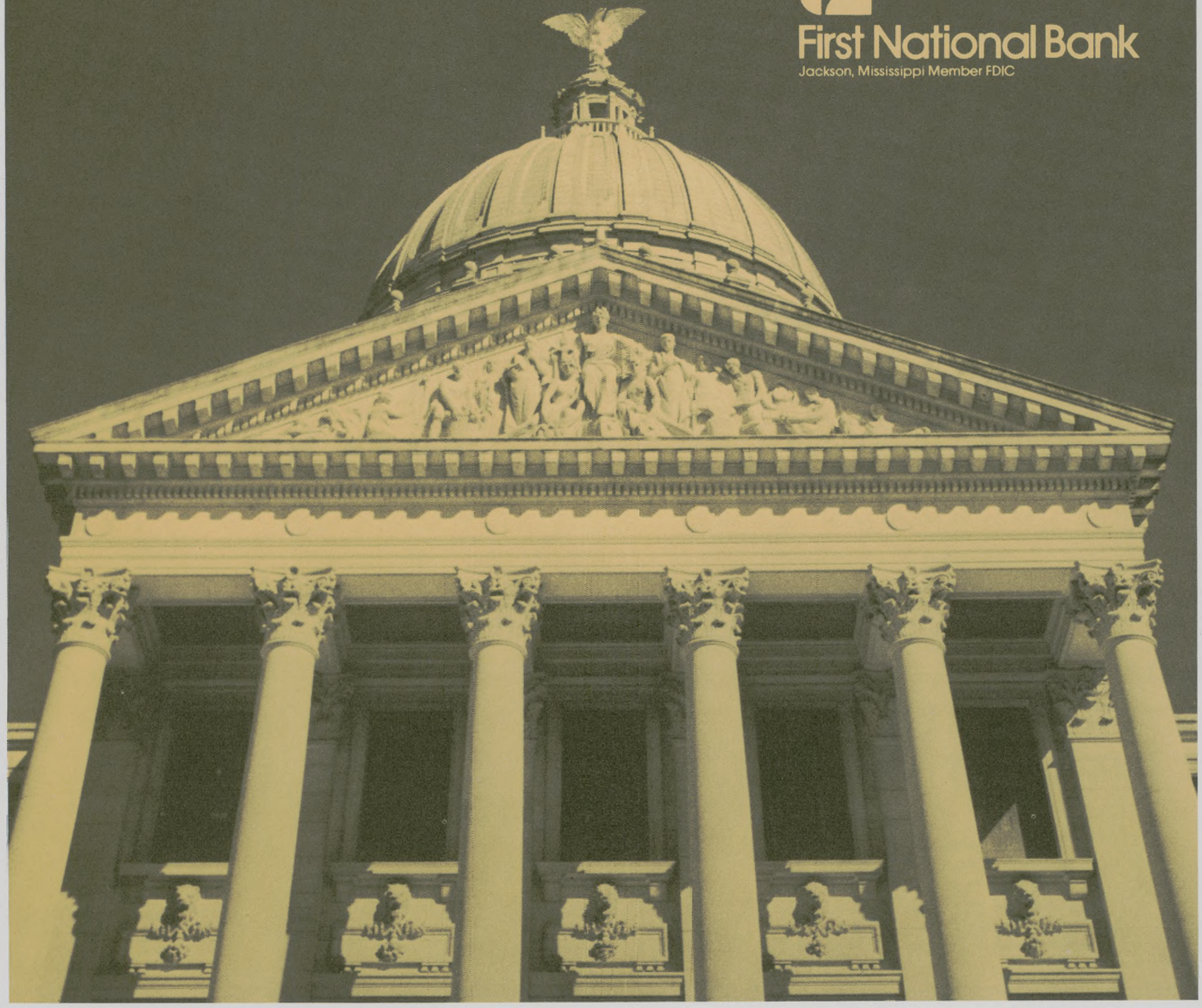
First National Bank
McComb

Columbia Bank
Columbia

Tylertown Bank
Tylertown

Amite County Bank
Gloster/Liberty

First National Bank
Jackson, Mississippi Member FDIC



Good Food, Parties, Activities Planned for Mississippi Bankers 'Julep Jubilee' May 19-23

BILOXI — Special activities for the Mississippi Bankers Association convention May 19-23 revolve around sports, fine cuisine and renewing old and making new acquaintances at the various bank-sponsored parties.

The MBA tennis tournament starts at 8:30 a.m. Saturday, May 19, at the Hilton and Broadwater Beach hotels tennis courts. The golf tournament starts at noon at the Broadwater Sun course. Late arrivals can compete at 1 p.m. May 21.

Three financial-institution sponsored parties will be held starting that afternoon. From 1-4 p.m., a welcoming party sponsored by Mississippi Bank, Jackson, will be held in the Hilton boardwalk cafe. At 6:30 p.m., First Mississippi National, Hattiesburg, will hold its party in the Hilton grand ballroom. From 9:30-11:30 p.m., a party will be held in the Hilton grand casino by Central Credit Life Insurance Co.

A devotional service will be held at 9:30 a.m. Sunday, May 20, in the Broadwater Crown room.

Tennis tournament finals will be held at noon on the Broadwater tennis courts. A cheese and wine-tasting party will be held from 3-5 p.m. in the Hilton Ballroom by Central Bank, Birmingham. Deposit Guaranty National, Jackson, will host a pool-side party at the Broadwater from 6-8 p.m. The executive committee and past presidents will have a dinner at 8 p.m.

Guests are invited to attend a party given by the National Bank of Commerce, Memphis, from 10 p.m. until midnight.

Monday's social events start with a party hosted by First National, Jackson, from 11 a.m.-1 p.m. An oyster bar will be held from 4-6 p.m. by Hancock Bank, Gulfport. It will be held in the Mississippi Coast Convention Center Exhibit Hall. At 6:30 p.m., the MBA will host a cocktail party at the same place. It will be followed by "Bobby's Julep Jubilee" in the convention center from 7:30-10 p.m. Entertainment will be provided by George King and the Fellowship.

Prior to the Louisiana School of Banking graduates' breakfast at 8 o'clock Tuesday, May 22, there will be a milk-punch party sponsored by the Bank of New Orleans.

A two-hour stag luncheon will be held starting at 11:30 a.m. in the Broadwater crown room. It is sponsored by Union Planters National, Memphis. A women's luncheon will be held at the same time in the Hilton grand ballroom.

Hancock Bank of Gulfport's oyster bar will be repeated from 4-6 p.m. Tuesday and will be followed by the MBA banquet at 7:30 p.m. at the Mississippi Coast Convention Center.

■ HANCOCK BANK, Gulfport, has promoted the following: Charles Eastland, from assistant vice president and trust officer to vice president and trust officer; Carroll A. Kemp Jr. and David L. Mills, from assistant vice presidents to vice presidents; Warrene Brewer, from account service officer to assistant vice president; Kate Gentry, from loan officer to assistant vice president; Prat E. Cambre, from assistant loan officer to loan officer and John Hall, from assistant loan officer to credit officer. New officers named are Kent Darsey, assistant loan officer; Sue Feeney, assistant branch officer; Everett Lewis, assistant loan officer and Jeannette Monti, assistant credit officer. In addition, C. Hooker Quick, member of the Bank of Picayune branch board and chairman of that group since 1977, has been elected to the advisory board, Hancock Bank, Gulfport. Gregory H. Mitchell also has been named to the advisory board. Mr. Quick is president, Quick & Grice, Inc.; Mr. Mitchell is owner, Ole Salem Packing Co. Bank of Picayune is a branch of Hancock Bank.

Mississippi

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Mississippi's largest banking system-now reporting over 1.3 billion in assets and with 50 offices in 12 Mississippi cities-offers its services in whatever areas might be helpful to you and your customers in investigating Mississippi's potential for industrial or commercial investments.

For more information on Mississippi's potential for industrial or commercial investments and how we can help, please write Corporate Banking Division, One Deposit Guaranty Plaza; Jackson, MS 39205

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Attracting 25-40 Age Group Is Object of Bank's Package

A PACKAGE PLAN that would contain enough services to attract new customers and still be profitable for the bank was the objective for many years of Brookhaven (Miss.) Bank. The decision to put together such a plan resulted from an increase in its computer capabilities, which enabled the bank to offer "Ready Reserve," a pre-approved line of credit. The plan (offered at $4 a month) also provides a service many current customers had requested — insufficient-funds coverage, which also required more computer capabilities.

Although Brookhaven Bank already served 70% of its market, which has only one city with three banks, it is interested particularly in the 25-40 age group of new residents. According to Rebecca N. Vaughn, vice president/marketing, this influenced development of the package because research indicates that checking-plan packages have strong appeal to persons in that age group.

The bank came up with "Checking Plus," which was the subject of intensive training sessions for bank management and customer-contact employees. In addition, an eight-week employee-incentive campaign was conducted, with personnel receiving cash awards for each new account obtained. During this campaign, 92% of new or converted accounts from the demand-deposit-account base of 7,500 were credited to specific employees by customers who turned in referral cards. Employees were divided into groups of "contact," "semi-contact" and "noncontact" and received coins in clear plastic bags at weekly staff meetings.

Although "Checking Plus" was put together by Brookhaven Bank, it offers automatic membership in a nationally franchised program called New Outlooks Club. Members of this club receive newsletters, accidental death/dismemberment insurance, special motel and car-rental discounts, special vacation offers, up to 50% savings on national magazines and up to 40% savings on Doubleday books. The New Outlooks Club is franchised by Marketing Outlooks, Inc., Darien, Conn.

In addition to "Ready Reserve" and no stop-payment charges, "Checking Plus" includes personalized checking accounts and checks, 5% refunds on installment loans, free travelers, cashier's and certified checks, bank money orders, bank drafts and notary services, counseling and estate planning, automatic savings, direct deposit of federal payroll, social security, retirement, dividend and pension checks and senior-citizen discounts ("Checking Plus" is offered at half price to those 62 and over). • •

Hope, Kelly, Maxfield To Speak in Biloxi At Miss. Bankers Convention

BILOXI — ABA President-Elect C. C. Hope Jr., vice chairman, First Union National, Charlotte, N. C., and John T. Kelly, special agent in charge, FBI, Jackson, head the list of speakers for this year's annual Mississippi Bankers Association convention set for May 19-23.

Mr. Hope will speak on Tuesday, May 22. Mr. Kelly is scheduled for Monday, May 21.

The first business meeting of the convention will start at 9:15 a.m., when MBA President R. D. "Bobby" Gage III will give the annual executive committee report. The financial report will be given by Don F. Calfee, MBA treasurer and director, Bank of Simpson County, Magee.

Donald L. Moak, who holds the chair of banking, will give the chair of banking report. Edward Rather, president, First State, Holly Springs, will give the resolutions committee's report. The Young Bankers Section report will be given by Wallace E. McMillan, its president, and vice president, Peoples Bank, Tupelo.

Mr. Gage will give the annual president's address at the second business session starting at 9:30 a.m. May 22. He will be followed by Orrin H. Swayze, director emeritus, who will give the School of Banking of the South's report.

ABA members in Mississippi will hold their meeting during the general business session, with Leo W. Seal Jr., ABA governing council member and president and CEO, Hancock Bank, Gulfport, presiding.

Mr. Hope will speak during the second business session. Also, economist Morgan Maxfield, of North Kansas City, Mo., is scheduled to give an address.

The nominating committee report will be followed by election of officers.

■ HANCOCK BANK, Gulfport, has begun construction of its new bank building, which had been delayed pending final approval of an urban development action grant to the city of Gulfport for a 400-plus car parking garage and other amenities to improve the area.

HANCOCK SQUARE IS PRE-LEASING NOW.

The space race is on.

Introducing Hancock Square, a bold new business complex in the heart of downtown Gulfport's Harbor Square. Doors open in 1980.

Office space in our tower affords commanding views of the Gulf of Mexico and her sandy coastline from high above the ground. Ground floor retail suites offer high density traffic in an enclosed setting of gardens and fountains.

But perhaps the most remarkable thing about this dynamic new business community is that premium space is now pre-leasing at competitive prices.

You need to know about Hancock Square today, while space exists. Because once the space is gone, it's gone. And then you'll always wonder why you ever settled for less.

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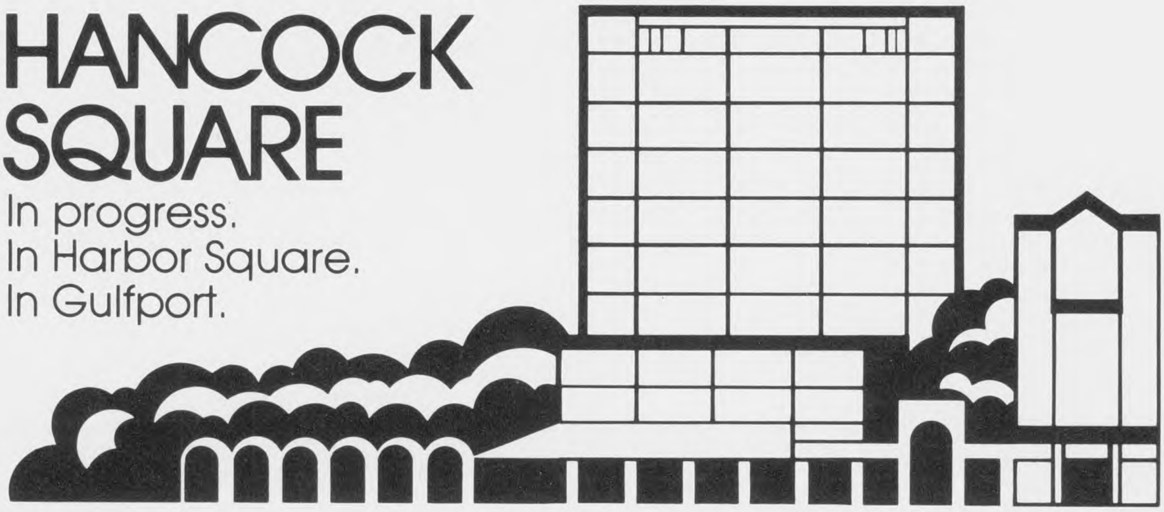
In Harbor Square.
In Gulfport.



For complete information, call George Schloegel at 601/896-2694
or write: Hancock Bank, P.O. Box 4019, Gulfport, MS 39501

NEWS
From the Mid-Continent Area

Arkansas

Capital Accounts Increase

LITTLE ROCK — William H. Bowen, president, Commercial National, has announced the bank's $1.5-million stock issue has been fully subscribed. The 100,000-share issue, approved by stockholders at the March 13th annual meeting, increased total capital accounts of the bank to more than $20 million. Existing stockholders were given a preferential right to purchase their pro rata shares of the new issue. A limited amount was sold to the general public.

A two-for-one split also was approved, raising the number of outstanding shares to 742,144, including the new issue. Sale price of the new stock was $15 per share compared to the recent bid/ask quote of $15-$16.

The bank announced the sale of a $1-million capital note in November, 1978. "This capital totaling $2.5 million added during the past five months will continue to support our growth and service to our market area in the years to come," Mr. Bowen said.

In other action, the bank announced it has sold its travel department to Travel Center, Inc. Jim Phillips, bank vice president and manager, is the president of the new corporation. The center will remain in its present location on the second floor of the main bank building, and the staff will remain unchanged.

The travel department opened in 1968. Last June, the Comptroller of the Currency requested all national banks operating travel departments to divest themselves of such operations by June, 1981. The ruling followed lengthy legal actions on behalf of nonbank affiliated travel agencies.

■ DANIEL W. KOEHLER has joined Union National, Little Rock, as vice president and comptroller. The bank also has elected as director E. Allen Francis, vice president and Midwest regional manager, Safeway Stores.

■ THE FED has announced its approval of the application of American Pioneer Life Insurance Co., Trumann, to retain additional voting shares of First National of Poinsett County, also of Trumann.

■ COMMERCIAL NATIONAL, Little Rock, has elected Thomas A. Bruce to its board. Dr. Bruce is dean, College of Medicine, University of Arkansas.

Illinois

■ MICHAEL E. KING has been elected a trust officer, American National, Chicago. An attorney, he joined the bank in January as a probate administrator and has spent three years in trust administration.

Died: Robert L. Weber, director, McHenry State, on March 12. He was a banker 55 years and spent 50 years with McHenry State, which he served as president in 1973. His death followed in less than three months that of another McHenry State officer, William A. Nye, M.D., bank chairman, who died December 29. Dr. Nye, on the bank board since 1939 and chairman eight years, practiced medicine in McHenry 40 years.

Indiana

■ THEODORE M. MYERS has been named assistant vice president, data sales department, St. Joseph Valley Bank, Elkhart. Mr. Myers joined the bank in 1969 as a programmer. He has received promotions to EDP systems officer and project leader.

■ LINCOLN NATIONAL, Fort Wayne, has opened its new U. S. Highway 30 East New Haven Office. Designed for maximum heat and energy savings, the brick split-level is a full-service banking office. Gary Lybarger and Bob Dewart serve as branch manager and assistant branch manager, respectively, of both the new office and the other New Haven office.

Kansas

■ BRYCE L. ANDERSON has been elected president, Ranchmart Bank, Overland Park. He has had experience in banking and with a mortgage company and an S&L.

■ BETTIE CAPPS and Thelma Thomas have been elected assistant cashiers, Rosedale State, Kansas City. Mrs. Capps has been with the bank since 1962 and now is teller supervisor. Mrs. Thomas has been with the bank since 1964 and is supervisor/accounting department.

Kentucky

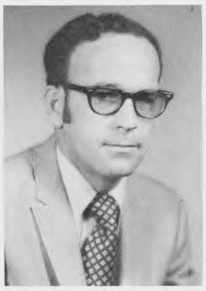
■ KARL M. SHELTON has been elected president, Citizens Fidelity Corp., Louisville, parent HC of Citizens Fidelity Bank. He fills a vacancy created by the resignation of Joe M.

Rodes. Mr. Shelton has been senior vice president and treasurer, Seattle-First National and Seafirst Corp., a one-bank HC in Seattle.

■ SECOND NATIONAL, Lexington, has promoted these officers: J. H. Graves III, president, to chairman and CEO; Raymond G. Schwedhelm, executive vice president, to chief administrative officer and a director; Timothy D. Strohl to vice president/marketing; George Lathram, to assistant vice president/commercial banking; and William Newman to assistant vice president/consumer banking.

Louisiana

■ WHITNEY NATIONAL, New Orleans, has promoted three assistant vice presidents to vice presidents: Curtis T. Lee, personnel officer; Robert M. Molaison, manager, Algiers Branch; and James M. Whalen, head of the credit department. The following assistant cashiers were advanced to assistant vice presidents: Walter G. Brunken Jr., Tulane Avenue Branch; David Leeds Eustis, national accounts; Marylee K. Heumann and Claude C. Ward, electronic data processing; Johnny L. Kidder, Broad Street Branch; M. Cleland Powell III and Barrett J. Wilson Jr. Cecilio J. Manero and John C. Wingrave II were promoted to assistant cashiers.



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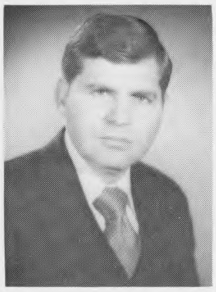


WHALEN

New Mexico

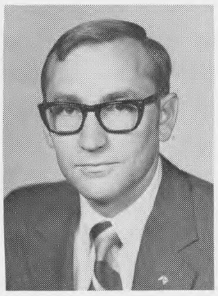
■ FIRST NATIONAL, Raton, has elected Curtis L. Keeler president. He was vice president and cashier. Other officer promotions are: Audrey Mae Rea, from assistant vice president to assistant vice president and cashier; and Cynthia Sue Scheafer, from assistant cashier to assistant vice president and assistant trust officer. The bank also appointed Robert Bright, Angel Fire realtor, an associate director and Albert K. Mitchell, a 40-year director, a director emeritus.

■ FIRST NATIONAL, Albuquerque, has announced the following officer changes: Don E. Woodward, president emeritus and director, to vice chairman; Norman R. Corzine, from senior vice president to executive vice president; Gary E. Cordova, from assistant vice president to vice president and comptroller; Rivka Gisser, assistant vice president, given additional title and duties of assistant comptroller; Don L. Massey and Larry H. Alderman to assistant vice president from assistant cashiers; and Georgine K. Arbon, assistant cashier, to manager, Montgomery Office.

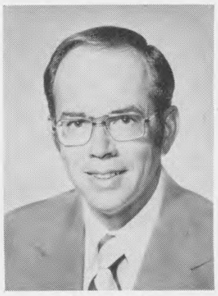
■ BANK OF LAS CRUCES has promoted Don L. Shaw to vice president and Clark E. Morrow to assistant cashier. Mr. Shaw is a second-year student at the New Mexico School of Banking, and Mr. Morrow has been in the banking industry six years.

■ SECURITY NATIONAL, Roswell, has promoted Phil Owen to executive vice president from senior vice president and has elected the following directors: Jerry Pritchard, John Hall and James F. "Bud" Wagner, and associate director, Henry Alaniz, all local businessmen.

Texas



CHASE



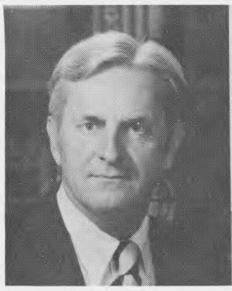
HOLCOMB

THAYER

■ JEFF CHASE has been elected senior vice president/special loans and loan review, Republic National, Dallas, and Hugh G. Holcomb has been elected senior vice president/credit administration, Republic of Texas Corp., the bank's HC. Mr. Holcomb previously served as senior vice president/finance and credit administration department, Republic National.

■ RUSSELL THAYER, president and chief operating officer, Braniff International, has been elected a director, Fort Worth National. He has had 30 years' experience in the airline industry and joined Braniff in 1970.

■ BANK OF THE SOUTHWEST, Houston, has named Lambertus van Lawick vice president/international banking and Robert E. Sleet Jr. vice president/energy. John R. Fulkerson has been elected vice president and manager/personnel department, and W. J. Bowen, chairman and president, Transco Co., Inc., has been elected to the board, Southwest Bancshares, Inc., Houston, the bank's parent HC.



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Automatic Transfer Service, RSUs and Share Drafts Ruled Illegal by Court

WASHINGTON, D. C. — Automatic transfers, credit union share drafts and S&L remote service units (RSUs) were declared beyond statutory powers by the U. S. Court of Appeals here April 20. The action reversed a lower court decision.

However, the court stayed the effective date of its decision until next January 1, thus allowing the programs to continue operating until then. The Appeals Court also urged Congress to act on these matters.

A panel of three judges said federal regulators have illegally permitted banks to allow "automatic fund transfers" between savings and checking accounts, authorized S&Ls to operate "remote service units" in shopping centers and other locations and allowed credit union customers to write check-like "share drafts" on their credit union savings.

As a result, the panel said, three "separate and distinct types of financial institutions" created by Congress to serve separate needs have become "or are rapidly becoming" operations "offering virtually identical services to the public, all without the benefit of congressional consideration and statutory enactment."

The court recognized, however, that "enormous investments have been made" to install new equipment and that "a disruption" of the services would "necessarily have a deleterious impact on the financial community as a whole." That is why the cutoff date of January 1, 1980, was set "in the expectation that Congress will declare its will on these matters."

The April 20th decision was the result actually of three suits: The ABA had challenged the legality of the credit union share drafts. The Independent Bankers Association sought to close down S&Ls' RSUs, and the United States League of Associations wanted an end to automatic transfer services at commercial banks.

The Credit Union National Association (CUNA), headquartered in Madison, Wis., was quick to voice disappointment at the prospect of having to stop its members' share-draft service. As David S. Wright, CUNA chairman, said, "CUNA remains firmly committed to share drafts, and we'll be studying every available option, including not only the support of Congress as recommended by the Appeals Court, but also the possibility of further appeal to the Supreme Court."

An ABA spokesman said the next step as far as the automatic-transfer decision is concerned is up to the Fed, but that the ABA probably would support the Fed in whatever it decides to do. As of press time, the Fed had not announced what action it plans to take.

As might be expected, the IBAA is pleased with the decision on S&L RSUs. The association had filed suit against the Federal Home Loan Bank Board (FHLBB) seeking discontinuance of the RSUs on the basis that the FHLBB's RSU regulation was illegal. According to an IBAA spokesman, "We felt that the lines that had been drawn by Congress as to the functions of these different financial institutions were being fuzzed, with one wanting to get into the other's business although that was not the way it was set up. The court ruled that all three regulations are illegal." He added that S&Ls take on more and more of the attributes of banks, but the S&Ls don't want to give up the advantages they have.

In the IBAA's opinion, the court's deciding all three cases together and deciding them on a consistent basis is helpful and the IBAA's position was vindicated. All three cases were argued on the same day, March 30, and the court then acted with what's described as "unusual speed" (less than four weeks). The cases had been ordered to be argued together because they all were bank cases and generally related. The IBAA spokesman says that it was clear at the argument of the cases that the court would issue one opinion on all three.

Henry Bodendieck Dies

KANSAS CITY — Henry A. Bodendieck, 72, long-time member of the staff of *Bank News*, died of cancer April 20.

Mr. Bodendieck became the first editorial assistant on the magazine's staff when he joined it in 1928 following graduation from the University of Missouri School of Journalism at Columbia. He filled all staff positions on *Bank News* and headed its corporate parent, Financial Publications, Inc., as pres. and principal owner before selling his interests four years ago. He had been consultant publisher since then.

Half-Billion-Dollar Income Reported by BankAmerica HC; Non-Gov't Banking Event

SAN FRANCISCO — BankAmerica Corp., HC of the nation's largest bank, last year became the world's first non-government banking institution to record income of more than half-a-billion dollars.

Income at Bank of America totaled \$514 million before securities transactions, a 30.2% increase over 1977's \$395 million. Retail banking accounted for \$260 million, or just more than half, of HC profits. Earnings per share advanced 30.3% from \$2.71 to \$3.53, and return on shareholders equity climbed to 18%, highest level in recent history.

The retail banking division's income advanced 32.7%, earning "special comment and a word of praise for the people of our branch-banking system" from President A. W. Clausen. About 49,000 employees work in the retail banking, data services and premises division.

The world banking division contributed \$241 million or 46.8% to HC income.

Bank of America is celebrating its 75th year of operation.

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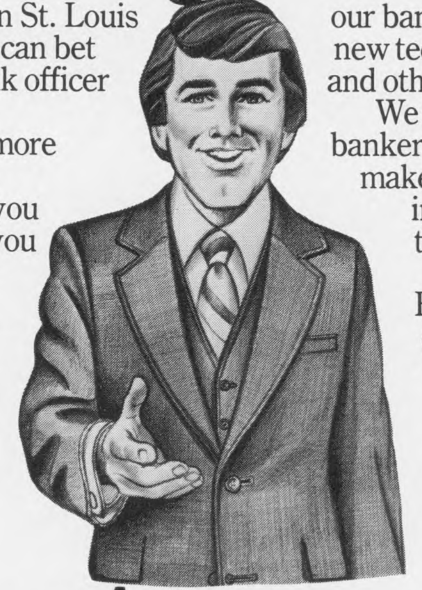
What you see.



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

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

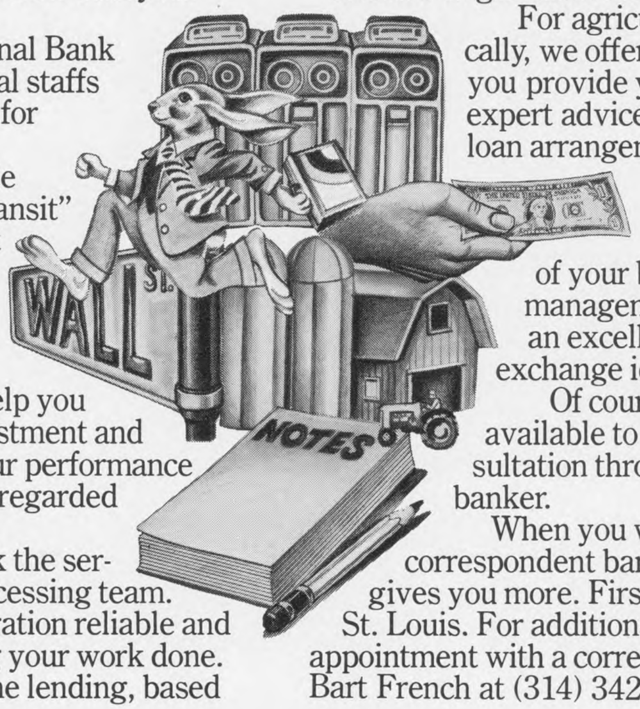
Of course, he's available to you by phone almost every day. So, you can get fast, on-the-spot service whenever you need it.

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

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

If you're not already seeing a First National Bank in St. Louis correspondent banker, you should call Bart French today at (314) 342-6967. He'll make sure you see one soon.

What you get.



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

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

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

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

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

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

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

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

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

When you want to get more from a correspondent bank, get with the bank that gives you more. First National Bank in St. Louis. For additional information or an appointment with a correspondent banker, call Bart French at (314) 342-6967.

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