MID-CONTINENT BANKER

(ISSN 0026-296X) The Financial Magazine of the Mississippi Valley & Southwest NOVEMBER, 1979

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C.C. HOPE JR. Named ABA President For 1979-80

SPECIAL IN THIS ISSUE:
- Investment-Portfolio Strategies
- Risk Management Examined

The Resource That's Never Out of Reach—Liberty Professionals.

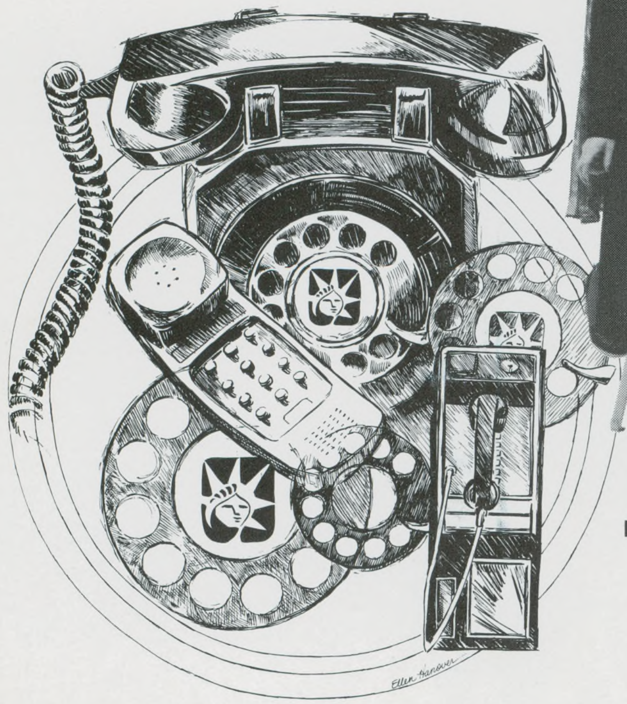
Mary Ann Lieber

Judy Mowdy

Denise Battle

Eunice Bachman

Elaine Elliott



Original pen and ink by Oklahoma artist, Ellen Hanover, commissioned by Liberty for the series "Art in Business."

Problems don't fit a schedule. They can happen at inopportune times. Our correspondent banks, however, don't have to wait for one of Liberty's correspondent banking officers to arrive. They can pick up the phone and talk to one of the capable women pictured here. Each is dedicated to step-by-step problem solving — the mark of the true professional.

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The Financial Magazine of the Mississippi Valley & Southwest

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FEATURES

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Officers: **Donald H. Clark**, chairman; **Wesley H. Clark**, president; **Johnson Poor**, executive vice president and secretary; **Ralph B. Cox**, first vice president and treasurer; **Bernard A. Beggan**, **William M. Humberg**, **James T. Poor** and **Don J. Robertson**, vice presidents; **Lawrence W. Colbert**, assistant vice president.

Convention Calendar

Nov. 18-20: ABA National Correspondent Banking Conference, San Francisco, Fairmont Hotel & Tower.
Nov. 25-30: ABA National Personnel School, Norman, Okla., University of Oklahoma.
Nov. 27-30: ABA Central Regional Workshop, Oak Brook, Ill., Oak Brook Hyatt House.
Nov. 27-Dec. 1: Bank Marketing Association Essentials of Bank Marketing Course-Southwest Extension, Houston, University of Houston.
Dec. 2-4: ABA "How to" Secondary Mortgage Market Workshop, Dallas, Hyatt Regency.
Dec. 2-4: ABA Bankers Educational and Training Forum, Atlanta, Hyatt Regency.
Dec. 2-5: Bank Administration Institute Second National ATM Conference, Hollywood, Fla., Diplomat Resort Hotel.
Jan. 6-9: Bank Marketing Association EFTS Conference, Dallas, Hilton.
Jan. 27-29: ABA International Banking Conference, New York City, Sheraton Center.
Jan. 27-30: ABA National Trust Conference, Washington, D. C., Hilton.
Jan. 31-Feb. 3: 39th Assembly for Bank Directors, Acapulco, Mexico, Acapulco Princess.
Feb. 3-6: ABA Conference for Branch Administrators, Washington, D. C., Capital Hilton.
Feb. 3-6: ABA Risk Insurance Management in Banking Seminar, Biloxi, Miss., Biloxi Hilton.
Feb. 10-12: Mortgage Bankers Association national conference, Houston, Tex., Hyatt Regency.

Johnson Poor Dies

ST. LOUIS — Johnson Poor, 51, executive vice president/secretary, Commerce Publishing Co., which publishes MID-CONTINENT BANKER, died October 19 of complications from hepatitis.

Following graduation from Bowdoin College, Brunswick, Me., in 1949, Mr. Poor was a reporter for the Columbia (Mo.) *Tribune*, an Air

Force officer in the Far East during the Korean conflict, then worked in New York City as a newsman for the Associated Press and as a public relations official for National Sales Executives. He joined Commerce Publishing in 1954 as an assistant editor, was elected to the firm's board in 1966, became vice president in 1967 and executive vice president/secretary in 1973. At the time of his death, he was publisher of two other Commerce Publishing magazines, *Club Management* and *Life Insurance Selling*, in addition to his other posts.

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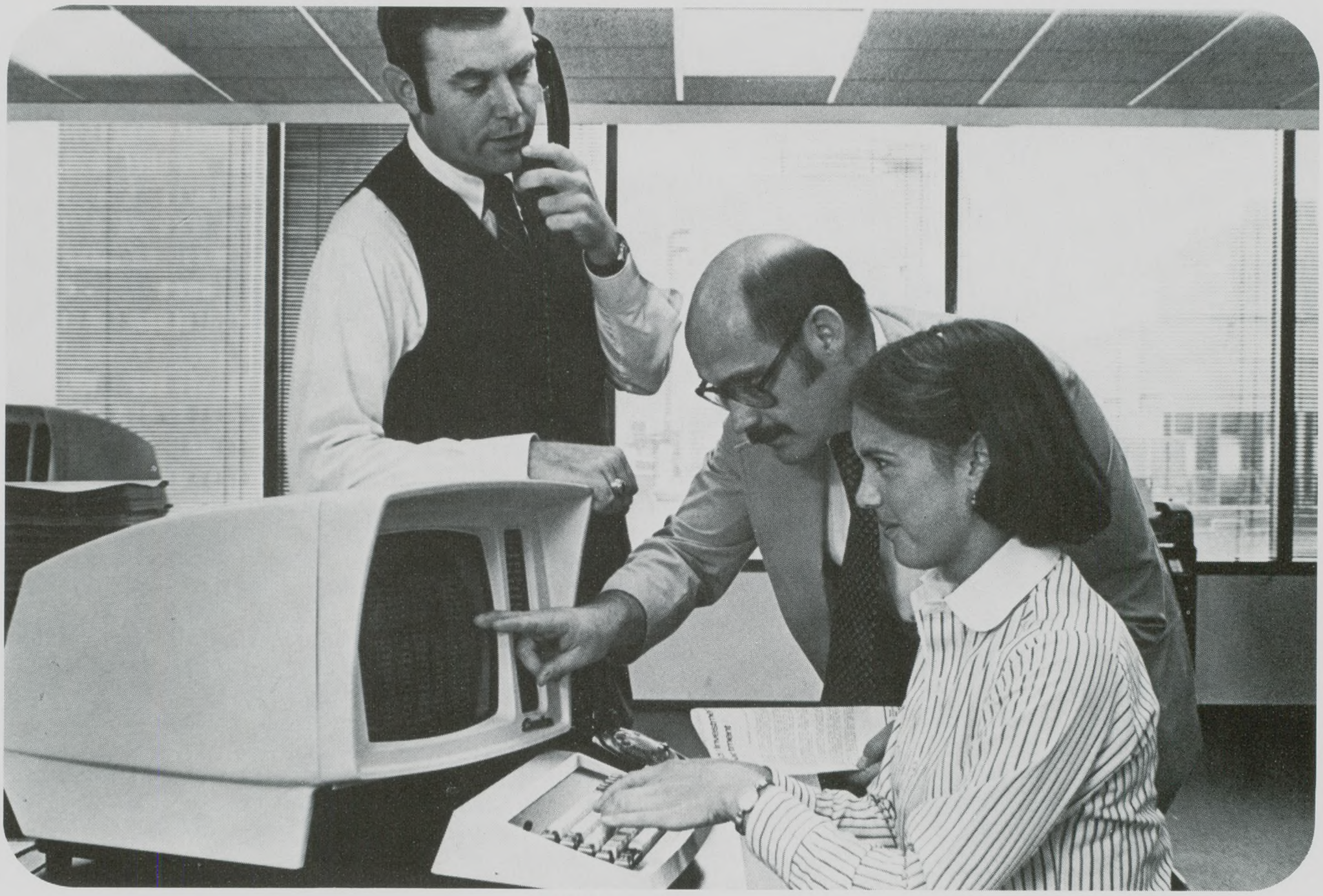

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The Banking Scene

By Dr. LEWIS E. DAVIDS

Illinois Bankers Professor of Bank Management
Southern Illinois University, Carbondale

Usury Puritanism: The Magic 6%

FOR CENTURIES, various cultures and religions have had a guarded attitude toward usury. Anyone reading the banking codes of many states 30 years ago could generalize that legislators considered 6% to be a usury ceiling on amounts lenders could charge borrowers. In fact, many states had a clause that if an instrument did not specify otherwise, the interest rate would be a statutory 6%.

In the last decade, most of the states, out of necessity, had to revise their interest-rate ceilings upward. A paradox can be noted. Those very individuals who were being locked out of the market by rising rates often supported not moving the rates up. This was due, in part, to a rise in consumerism accounts. The labor movement, while relatively weak, generally had its spokespersons oppose an increase in the usury rate. Most legislators were sympathetic with the concept of a low usury-rate ceiling publicly, though privately they indicated a more sophisticated understanding that the low interest-rate ceilings tended to be economically counterproductive. This is especially true and of concern in the area of residential mortgage interest rates. The construction industry recognized that low usury ceilings had adverse implications and tended to be the cause of financial institutions simply cutting off the making of any new mortgages when the ceiling was reached. In those states that had abnormally low usury ceilings such as New York, Arkansas and Tennessee, financial institutions either shifted their investments out of those restricted areas, such as mortgage lending, or if they did make mortgage loans, they were made in states with higher ceilings.

Dynamics of our times are making the workability of usury ceilings less and less effective. Gaining acceptance of a free market will require more than a passive hopefulness.

Gradually, the concept of floating the usury ceilings was adopted in a number of states. While the formula varied from state to state, typically the idea was to tie the floating residential mortgage interest rate to some criterion, such as average yield of long-term U. S. government securities. On top of that average would be added a differential. Typically, this ranged from 2½% to 5% higher than the long-term securities' yield.

In a number of states, such as Illinois, the usury ceiling was determined on a month-to-month basis. When the long-term U. S. government securities yield moved up or down, so did the usury ceiling. The interesting thing is that in one month a mortgage loan would not be usurious because it was made at a time when U. S. government securities were yielding a high rate of return. Yet a drop in the interest rate on these securities would make the previous rate usurious.

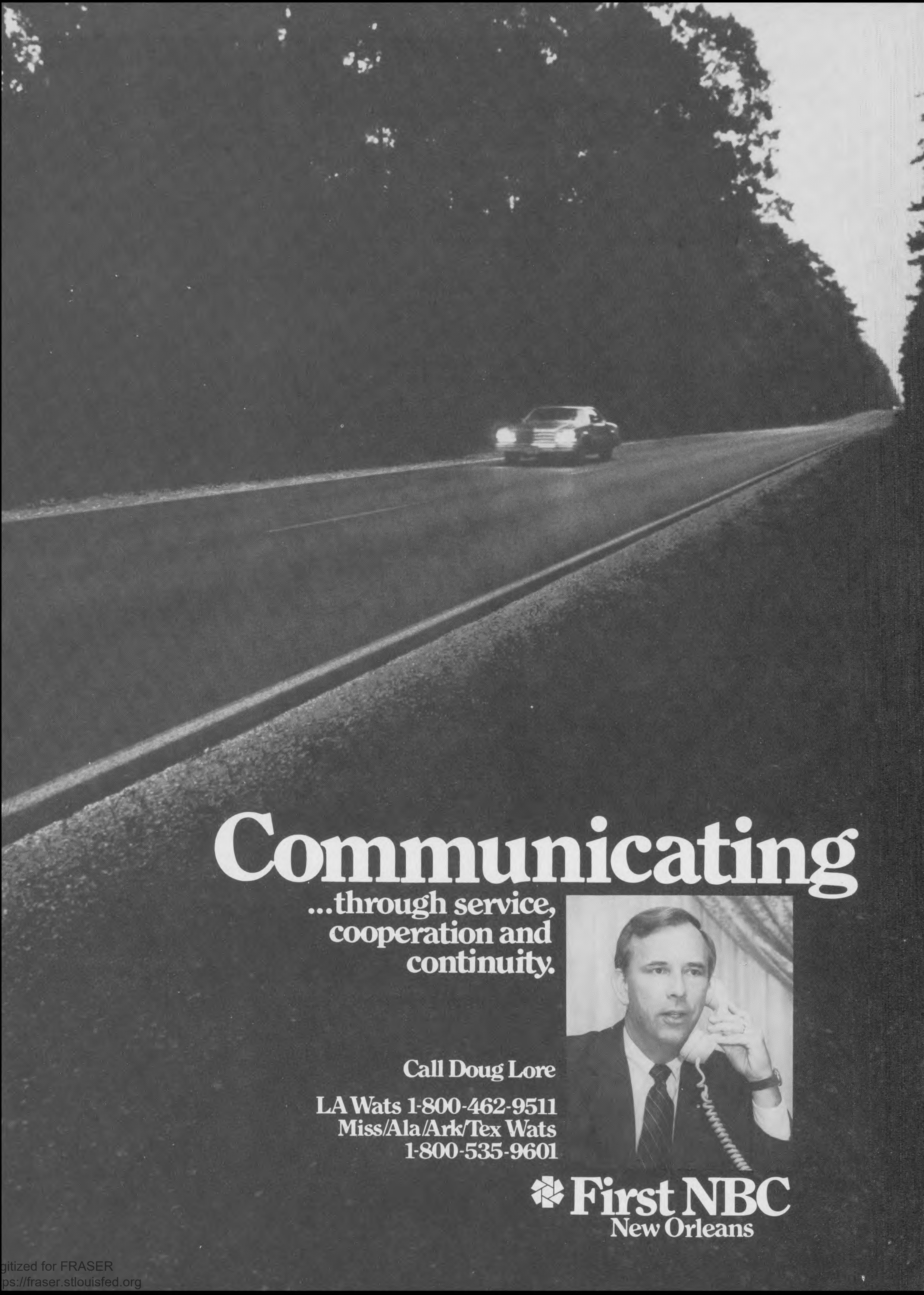
Another consideration is that a study of interest rates of all types shows that while some may be lower than others, the yield on U. S. government securities obviously will have less risk than bonds of lower-rated corporations. But a comparison of the spread of these two types of securities shows that while a spread exists, it is not undeviating.

Partly related to the above is the growth, especially on the West Coast, of the concept of variable rates for mortgages. The mortgagor pays a higher or lower rate on a mortgage to the mortgagee depending on the rate of interest of some standard such as long-term U. S. government securities plus a markup. These variable interest-rate mortgages are limited in how much the variation could be. The mortgagee is not permitted to change the rate every month, and generally rate changes are limited in the amount of up and down spread to ¼% to ½%.

Acceptance of floating usury rates on mortgages has tended to erode the concept that 6% or 8% is a magical figure above which the charge of usury should be decried.

Acceptance of floating usury rates on real estate mortgages and growing awareness by the public of the variable interest rates that a few states have permitted mortgage lenders to apply has tended to erode the concept that 6% or 8% is a magical figure above which the charge of usury should be decried. Another paradox involving the charge of usury is the fact that national banks are permitted to raise amounts they charge borrowers when the Federal Reserve increases its rediscount rate (a short-term, not a long-term rate). At times this will mean that national banks may be able to charge a higher rate than the usury rate established by the state in which it is lo-

(Continued on page 36)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Community Involvement

For Senior Citizens:

Social Services Guide Provided by Bank

Manufacturers Hanover Trust, New York City, in cooperation with the Community Council of Greater New York, is providing a guidebook of social services available to senior citizens in the five city boroughs.

Available free at any of the bank's 200 branches in the metropolitan area, the booklet contains addresses, phone numbers and descriptions of various service agencies, including social security, Medicare, Medicaid, health, housing and legal services.

Arthritis Seminar:

One-Day Course Designed To Help Sufferers Cope

More than 35 persons suffering from arthritis attended a seminar concerning the disease and its treatment hosted by American National, Chattanooga, Tenn.

Conducted by the Downtown General Hospital, the one-day course provided instruction designed to help arthritic patients gain a better understanding of the disease. Emphasis was placed on self-management of treatment that allows the patient to maintain optimum control of his condition. The health-care-team concept, involving the cooperation of patient, family, physician, nurse and physical therapist in a coordinated treatment plan, was also stressed.

This was the second such class. The first received so much response that applications had to be limited due to restrictions in available meeting space.

Course instruction was provided by a nurse clinician specializing in rheumatology, nurse educators and physical therapists. Class discussion included medications and their effects, physical exercise, heat treatments and defining different types of arthritis.

Paraffin bath to provide relief to arthritis joints is used at seminar held on arthritis — the disease and its treatment — sponsored by American Nat'l, Chattanooga, Tenn.

'A Bank Painting':

New Work Added to Collection Commemorates 50 Years

Main Bank of Chicago has added a new painting to its permanent collection of contemporary art. It is a 4x5-foot oil-on-wax canvas by Chicago artist Richard Hull entitled "A Bank Painting." Three hundred executives of Chicago businesses whose financial needs are serviced by the bank attended the open house at which the painting was unveiled.

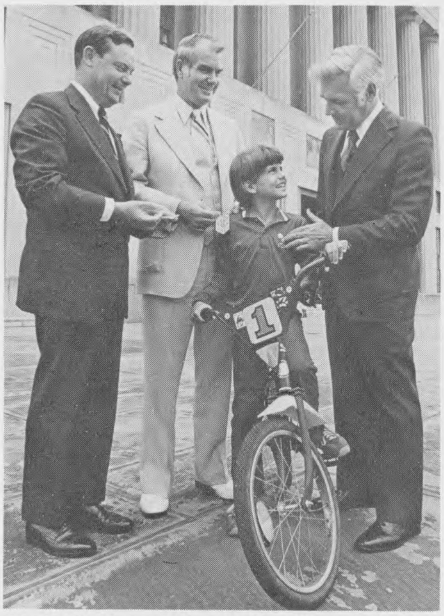
Richard Hull (l.) discusses his work, "A Bank Painting" with Sidney J. Taylor, ch., Main Bank of Chicago. Painting was commissioned in observance of its 50th anniversary.

Stressing the importance of encouraging creativity, Sidney J. Taylor, Main Bank chairman, points out that the contemporary art the bank holds proves the bank is receptive to new cultural ideas as well as new ideas in commerce.

"The collection has been described as unique for a banking institution because it breaks from tradition to focus attention on Chicago's contemporary art," Mr. Taylor says. "We feel such a collection is our contribution to the people of the city and a commitment to local artists, many of whom have gained national recognition. The art collection also represents pictorially our policy of always looking beyond the present to encourage future expansion and development in all our efforts."

The collection is open to customers and the general public during regular banking hours. Started in 1971, today the collection consists of 26 paintings and seven sculpture pieces.

Glow in the Dark



Nashville Mayor Richard Fulton (l.) and the city's Chief of Police Joe Cassey (c.) helped Third Nat'l Pres. Charles Cook launch a child safety campaign by putting the first glow-in-the-dark "Hot Dot" on Robert Hoskins, an eight-year-old second grader. Using the theme of "Children Should Be Seen and Not Hurt," the bank is giving away small, bright orange reflectorized circles at its 30 branches from the time school opens through the Thanksgiving Holiday weekend. Hot Dots help motorists see children during hours of dusk and semi-darkness.

Yahoo!:

Houston 'High Nooners' Given Crash Course on Texas

Houston National sponsored Rice University's "High Noon With Living Texas" program. The course gave concentrated information about Texas — past and present. The course was co-sponsored by Houston Academy of Medicine, Texas Medical Center, Inc., and the University of Texas Health Science Center at Houston. High nooners took in the course once a week for eight weeks during lunch hour.

Among entertaining speakers who were part of the program were: Ray Miller, producer of the television show "Eyes of Texas," who spoke on Texas ghost towns; Rice University Professor of Sociology William Martin, who spoke on country music; Rice University Provost, Professor of History and author Frank Vandiver, who spoke on the Civil War west of the Mississippi, and Don Carleton, director of the Houston Metropolitan Research Center, who gave an illustrated history of Houston.

Talk to the Animals:

'Spokes-Giraffe' Wins Fans During Expansion Phase

When a vice president of Longview (Tex.) Bank dressed up in a giraffe costume to attend civic affairs during the past 18 months, he was not just "giraffing" around. He was carrying out the bank's marketing plan to tell customers and friends in a humorous manner the serious reasons for the temporary inconvenience they were experiencing due to the bank's $2-million expansion and remodeling program. The bank's "spokes-giraffe" was affectionately called "Jethro," a name selected by bank President Rogers Pope and advertising/special events manager Hazel Hickey from many thoughtful suggestions made by bank employees.

Both outside and inside the bank, Jethro "spoke" on billboards, on posters and in the local newspaper, assuring customers that Longview Bank was "stretching its facilities" to provide better services for them, agreeing with them that "parking was a pain in the neck," but only a temporary malady, and saying thank you to customers for their patience and loyalty.

In the fall of 1978, the bank's entirely new 11-lane motor bank was opened officially and Jethro did his part to help cut the ribbon. Also on hand were two animated Six Flags Over Texas characters who merrily assisted Jethro in his welcoming duties.

Jethro, "spokes-giraffe" for Longview (Tex.) Bank, delights children and helps grown-ups be patient about inconveniences caused by bank's remodeling and expansion program.

Meanwhile, the necessary noise, dust and constant change caused by construction in progress at the main bank were at their peak. In August the dust settled and finishing touches were completed. A week was set aside for the grand-opening celebration. Tired, but happy, Jethro was asked to help entertain visiting customers and dignitaries. Again the bank enlisted the help of other colorful characters and a popular clown.

During that festive week, each morning 200 helium-filled balloons carrying certificates for free services and prizes were released to the sky. A grand-prize drawing was held each day and every hour on Friday climaxed by a grand-prize giveaway of a trip for four to Six Flags with accommodations at the Hyatt Regency Hotel in Dallas.

Much to management's pleasure, it seemed the entire county turned out that week to shake Jethro's hand and to view the bank's beautiful new home. Jethro had done a splendid job, but he has no thought of retirement. He may take a vacation, yes, but the bank's 25th anniversary is only four years away, and Longview Bank's desire to meet the changing needs of the town's marketplace will keep Jethro's neck stretching for years to come.

Jethro talks to Longview (Tex.) Bank via ads. Spokes-Giraffe keeps customers informed about remodeling progress and apologizes for inconvenience while bank improves facilities.

More Competition!

Two major life insurance companies have entered or soon will enter the money market fund field. The companies are New England Life and Mutual of Omaha.

New England Life has 1,600 agents registered to sell the securities of the company's money market fund. Already these agents have "pulled in" more than $100 million.

Insurance agents will not receive commissions on these "sales." Companies apparently have instructed their agents to use these money pools as prospecting tools and as another way to help their corporate customers.

While there is no accurate tally on the amount of money in these funds, several analysts have suggested totals in excess of $35 billion. And now: more competition for bank funds from the insurance man!

One-Week Essentials:

Bank Marketing Course To Be Offered in November

The Bank Marketing Association (BMA) has announced its "Essentials of Bank Marketing" course will be held November 27 to December 1 at the University of Houston Continuing Education Center.

The course is a one-week program for the banker who wants to increase his understanding of basic bank marketing principles and day-to-day applications. It also will aid students in understanding the relationship and role of marketing in the total functioning of the bank.

The BMA said prospective participants include bank marketing staff members who have narrowly defined marketing responsibilities and who want to broaden their exposure of marketing techniques and bankers with functional responsibilities in other areas who want to know how marketing applies to their function in the bank.

Some of the topics to be discussed are "Consumerism," by James H. Donnelly Jr., associate dean for continuing education and professor of business administration, University of Kentucky; "Marketing Research," by Roy K. Campbell, vice president/planning and development, Dun & Bradstreet, Inc., New York City; and "The Role of Advertising in Banking," by Norwood W. Pope, vice president and director/marketing, Sun Banks of Florida, Inc., Lake Buena Vista.

• **Walter E. Heller & Co.** Stephen C. Diamond has been elected president of the central commercial finance and factoring division of this Chicago-based firm. The office is newly created in recognition of the substantial increase in Mid-America secured lending and factoring operations, according to Heller. The division serves 16 states. Mr. Diamond, an attorney, formerly was senior vice president in charge of the division.

DIAMOND

GREVEY

• **Mosler Safe Co.** Ruth Grevey has been named to the newly created post of publicity/promotion specialist at this Hamilton, O.-based firm. She joined Mosler in 1974, going from the public relations department, Cassano Enterprises, Inc., Dayton, O.

• **MGIC Indemnity Corp.** This Milwaukee-based firm has announced the following elections: to executive vice president, Edward D. Norris; to vice president/director of liability underwriting, John M. Pfannenstiel; to vice president/director of fidelity-surety underwriting, Edward P. Neuberger; to vice president/national sales manager, J. Wayne de Nazarie; to vice president/director of administration, Robert K. Zastrow; to vice president/general counsel, Daniel S. Grable; to regional vice presidents/regional sales managers, Milwaukee, Jamie Anthony; Houston, James Conklin; Los Angeles, Donald Power; Edward Walline; and Atlanta, John Ward; and to assistant vice president/assistant sales manager, John Foley.

• **Cummins-Allison Corp.** Ken Smith has been named vice president/marketing for this Elk Grove Village, Ill., company's office products/automated money systems division. He will be responsible for marketing and sales for the corporation's 62 direct branch sales and service operations in the U. S. and Canada and sales training, sales promotion and advertising, field administration and personnel.

Corporate News Roundup

MOOG BOSTICK LEWIS

• **Doane Agricultural Service, Inc.** Michael F. Lewis has been named manager of the new real estate division of the St. Louis-based firm. In his new position, he will direct sales activities of 60 brokers and salesmen located in 16 states in the buying and selling of farm properties. Mr. Lewis previously was director of real estate sales/investment. Karen Moog has been promoted to operations coordinator, real estate division. Bill Bostick was promoted to account supervisor, marketing research division.

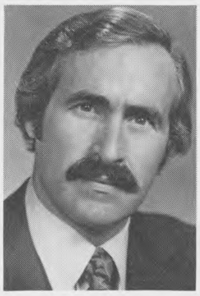
• **LeFebure.** Kathleen A. Mattenson has been appointed sales engineer by the Cedar Rapids, Ia., firm. Miss Mattenson will operate out of the St. Louis branch and will concentrate on the southern Illinois and southeastern Missouri market areas.

HAMILTON

MATTENSON

• **Diebold, Inc.** Charles E. Hamilton has been appointed general manager of the electronics plant in Newark, O. Before joining Diebold, Mr. Hamilton was with Burroughs Corp., Detroit, where he was general manager, line printer equipment program.

• **American Express Co.** Alva O. Way, senior vice president, finance, General Electric Co., will join the New York City-based firm as vice chairman and executive office member. Mr. Alva also will become a member of the board and chairman of the board's finance committee. He will become a director of American Express International Banking Corp. and also is expected to join the board of Fireman's Fund Insurance Co. Roger H. Morley, American Express president, will resign December 31 to pursue other business interests. Mr. Morley joined the company in 1974. On his departure from the company, the position of president will be eliminated from the organizational structure.



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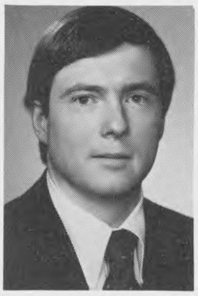


STRAUSS

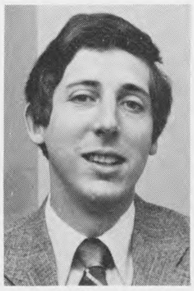
• **Aetna Business Credit, Inc.** Herbert B. Hirsch has been named senior vice president/division head, intermediate term lending/special financing division. Prior to his promotion at the East Hartford, Conn.-based company, Mr. Hirsch was vice president, industrial and special finance office. Philip F. Strauss Jr. has been appointed business development officer, Midwest marketing center, Chicago. He will be responsible for providing financial programs to serve the needs of prospective clients throughout Indiana, Kentucky and the Chicago area.

• **Bank Building Corp.** J. Harold McDonald has been appointed manager, facility planning studies, Financial Research Associates, an affiliate of Bank Building Corp. and Marshall & Stevens. Mr. McDonald joined the St. Louis-based Bank Building Corp. in 1973. Prior to his new appointment, he was a senior financial analyst in the Southwest division. Charles E. Hoffman has joined Financial Research Associates as a marketing consultant responsible for various sales ac-

HOFFMAN McDONALD KUENEKE

tivities. James E. Kueneke has joined the company as a marketing manager based in St. Louis. Prior to joining Bank Building Corp. he was a market development specialist for Orchard Corp., St. Louis.

• **Richard L. Bacon, AIA, Architect & Associates.** George J. Matyas has joined this firm, based in Ste. Genevieve, Mo., going from Crane & Fleming, Architects & Engineers, in his native Hannibal, Mo. Mr. Matyas is a 1977 graduate of the University of Kansas, where he received a bachelor of architecture degree.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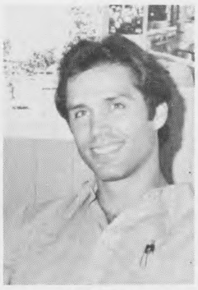
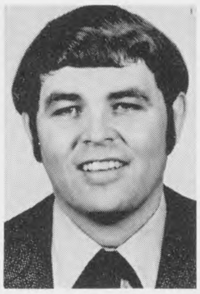

MATYAS

• **Walter E. Heller & Co.** Edward Zukerman has been promoted to vice president, operations, central notes receivable/leasing division. He will oversee operations activities of Chandler Leasing Corp., a full-service leasing subsidiary of the Chicago-based financial services firm. Mr. Zukerman joined Heller in 1978 as vice president, Heller-Oak Communications Corp., a position he retains in addition to his new responsibilities. Judith L. McCoy has been appointed assistant treasurer. She has been with the company since 1961. Eight new officers also have been elected. Promoted in central commercial finance were Shyam Amladi to assistant vice president, Dennis B. Hirstein to administrative officer, Evelyn Johnson to operations officer (Troy, Mich., office) and Eugene O'Hara to administrative officer. Named assistant vice presidents, notes receivable division, were Donald E. Bayston and Steven D. Schaedel. In central factoring, Martin Lewald was made an administrative officer and Howard R. Moore was promoted to assistant vice president.

NEWS OF THE BANKING WORLD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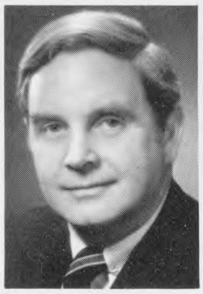

EVANS

• **Llewellyn Jenkins,** Manufacturers Hanover Trust, New York City, was elected vice chairman of the board and director. Mr. Jenkins has held various positions in the bank's national division, which services major corporate, middle market and correspondent account relationships. Mr. Jenkins has announced his candidacy for president-elect of the American Bankers Association for 1980-81. John J. Evans, executive vice president, was elected a director. Mr. Evans joined the then Hanover Bank in 1950 and worked in the national division, where he rose to the rank of vice president, supervising business in 13 midwestern states. He later worked in the metropolitan and operations divisions. In other senior management changes, Robert A. Byrne, corporate trust; James R. Hambelton, corporate communications, and Donald B. Herterich, corporate trust, were elected senior vice presidents.

• **Terry Anders** has been appointed assistant vice president, field services, Federal Land Bank, Wichita. Mr. Anders previously was president of the Federal Land Bank Association, Sterling, Colo. In his new position he will be responsible for supervision of 17 Federal Land Bank associations located in western Kansas, eastern Colorado and western Oklahoma.

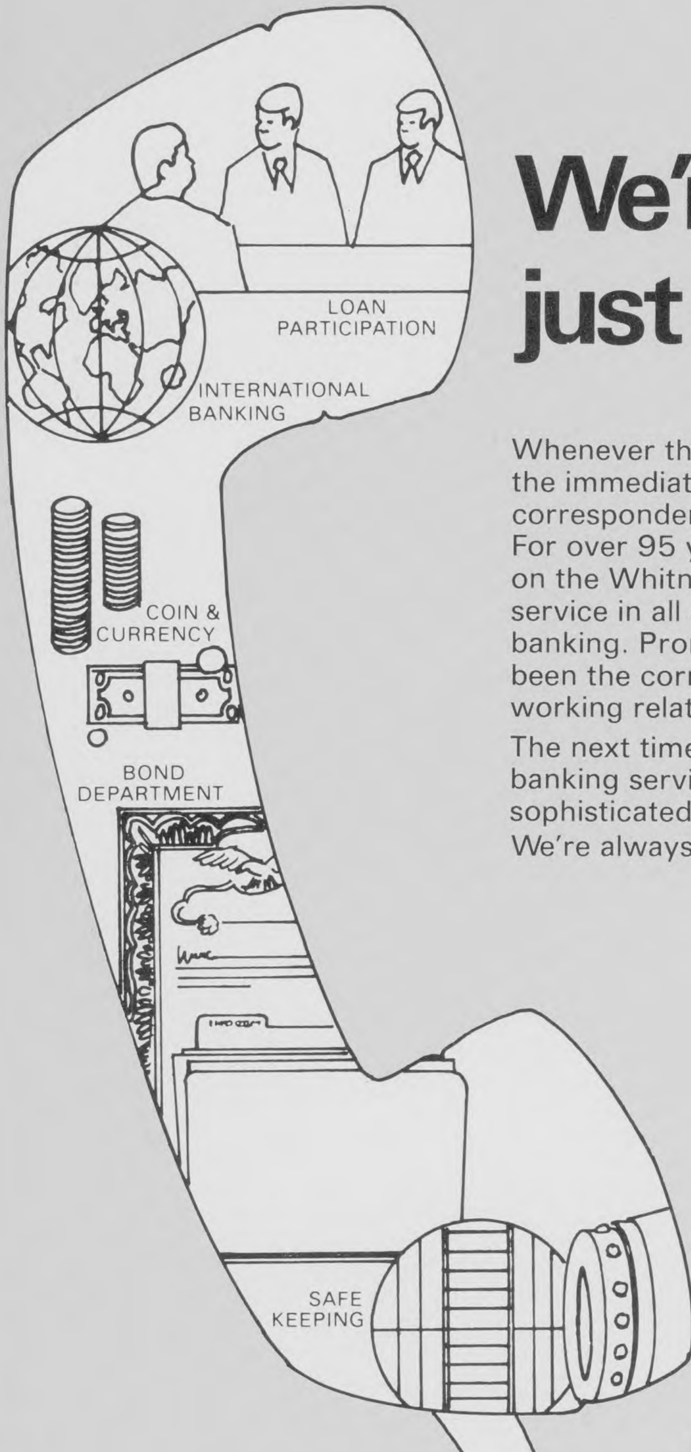



BYRNE HAMBELTON HERTERICH

• **John F. McGillicuddy,** chairman and president, Manufacturers Hanover Trust, New York City, was presented the American Graduate School of International Management's (AGSIM) International Executive of the Year Award at the school's annual board of trustees dinner held at the Phoenix Country Club. AGSIM grants the award annually to an executive in recognition of efforts to foster international understanding through constructive and mutually beneficial business management among peoples of the world.

Reno Odlin Dies

Reno Odlin, 82, past ABA pres. (1965), died September 15. At the time of his death, he was honorary ch., Puget Sound Nat'l, Tacoma, Wash., where he was pres./ch., 1936-62. He was ch./CEO, 1962-73. Mr. Odlin was a director, San Francisco Fed, 1938-44, and a member, Federal Reserve Board advisory council, 1946-50.



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Omnibus Banking Bill on Horizon

INCREASING in likelihood is the prospect that yet another omnibus banking bill will emerge from Congress before the end of the year. Elements that could be embraced by such a bill include virtually the entire range of major pending banking legislation: universal reserve requirements set by the Fed; phasing-up of Regulation Q deposit interest limits and an eventual end to the interest-rate gap; authorization of NOW accounts nationwide for all financial institutions and perhaps an effort to simplify the Truth-in-Lending Act.

Due as much to the mechanics of the legislative process as to any other single factor, an omnibus banking act may result from congressional efforts to deal with a deadline set by the federal courts. (Equally, the possibility exists that no final legislative action will be taken on these issues this year.)

Congressional procedures produce formidable bottlenecks. In each of the recent congresses, well over 20,000 bills were introduced; generally, fewer than 700 (including spending measures) ever became law. Thus, whenever it seems that a particular bill has a good chance of being enacted into law, the temptation to add other bills to it becomes increasingly strong. The other side of the coin is that, as each additional element is spliced onto the bill, the total package becomes more complex and may generate more controversy than the original bill.

If Congress fails to act on at least some of these financial matters before December 31, however, a ruling by the U. S. Court of Appeals for the District of Columbia will take effect, terminating all bank automatic transfers from savings to checking accounts, credit union share drafts and S&L remote-service units. Legislation to overturn the Appeals Court's ruling is seen as the most likely vehicle for more comprehensive action on a wide range of banking issues.

The House and Senate Banking committees already have responded to the court decision by approving bills that would authorize NOW accounts with a uniform interest-rate ceiling for all financial institutions nationwide. The House of Representatives has passed such a bill, and — as of this writing — it was expected that the Senate would consider NOW-account legislation in the relatively near future.

At this point, the question of combining other crucial legislation with a NOW-account bill comes into play. The ABA is supporting the Senate Banking Committee's bill all-out, because it links eventual elimination of the Reg Q interest-rate gap to the extension of NOW-account power nationwide. This is a political and competitive linkage the ABA's policy-making Banking Leadership Conference has been insisting on for several years. In addition, the Senate bill as it is currently structured would simplify the Truth-in-Lending Act to some extent.

Because efforts to simplify and improve the Truth-in-Lending Act have been frustrated twice in the House of Representatives, the Senate Banking Committee has added Truth-in-Lending simplification to its Now-Account/Regulation Q bill.

The Senate Banking Committee's NOW-account/Reg Q bill therefore has become the focus of attention for organizations concerned with financial legislation.

Bills dealing with the Fed issue have moved on a track parallel to bills concerned with NOW accounts so far. In this area, the House of Representatives has approved a measure that would leave the present voluntary system of Fed membership intact while providing a "safety net" for the central bank in the form of mandatory Fed reserve requirements in the event the Fed's reserve coverage of the deposit base fell to a certain level.

Pending before the Senate Banking Committee as of this writing is a new bill that would give the Fed universal reserve-setting authority over all depository institutions. This bill closely parallels the consensus position adopted by the ABA's Banking Leadership Conference, which has called for universal reserve-setting authority for the Fed as part of a broad legislative thrust toward competitive equality across the board.

Given the December 31 deadline facing Congress for action on the NOW-account question, as well as the rapidly narrowing legislative bottleneck, it is expected that efforts will be made at some state of Senate consideration of the NOW-account/Regulation Q bill to add the Fed legislation to it.

The area of concentration for bankers then would become the conference committee in which members of the House and Senate attempt to reach agreement on some final bill, compromising the substantial differences between the House and Senate bills.

The urgency of the need to resolve the Fed issue this year became even more apparent following the central bank's actions in early October to bolster confidence in the dollar overseas and to combat inflation at home. One of the key actions taken by the Fed was imposition of a new 8% reserve requirement on new "managed liabilities" above a certain level. The new reserve requirement affects Eurodollar deposits, repurchase agreements and large certificates of deposit at Fed-member banks.

While little doubt has been expressed as to the need for the Fed's action in a monetary context, it nevertheless points up the need for fair and equal reserve treatment of all financial intermediaries in the context of competitive equality. Numerous bankers who have expressed support for the Fed's anti-inflation program have pointed out that, in the short run, it also highlights the inequity of the current reserve structure.

In addition, ABA leaders and others

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

Don LacKamp. Livestock credit analyst.

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Fed, FDIC Act on Truth-in-Lending

ACTIONS concerning Truth-in-Lending were taken recently by the Fed and FDIC. The FDIC proposed amendments to simplify and strengthen Truth-in-Lending enforcement guidelines. The Fed announced it will revoke an amendment to its Regulation Z — Truth-in-Lending — that allowed an exception to the "cooling-off" period for consumers who pledge their homes as security in open-end credit arrangements.

The FDIC's proposed changes in Reg Z guidelines will be published in the Federal Register for 60-day comment as soon as all five financial regulators act. The changes were recommended unanimously by the Federal Financial Institutions Examination Council.

The proposals:

1. Would increase the error tolerance from ⅛% to ¼% for an understated annual percentage rate before reimbursement is required.

2. Would give the agencies flexibility to use common sense and good judgment in enforcing the law in highly technical areas and unusual circumstances.

3. Would require reimbursement for all violations back to the last examination in which the creditor failed to correct a practice cited by the examiner.

In addition, the agencies are asking for general comments on three additional matters:

1. Should mortgage lending be treated differently for reimbursement purposes because of its unique characteristics?

2. Should the five states permitted to enforce Trust-in-Lending be required to ask for reimbursement?

3. Any information concerning costs associated with reimbursement and benefits accruing to bank customers.

The Fed's revocation of the "cooling-off" amendment will take effect next March 31. In July, 1978, the Fed announced it had amended its Reg Z exempting from this notice requirement individual advances under open-end credit arrangements (such as use of a credit card) when the creditor and seller are not the same or related persons. The amendment required that the right-of-recision notice must be given, in the case of such open-end credit transactions secured by a home mortgage, only when the credit plan is opened, when the credit limit is increased, whenever terms of the account are changed, whenever a security interest in a home is added to an existing open-end credit plan and once annually.

The Fed originally proposed the amendment in December, 1977, and adopted it — after substantial modification on the basis of comments received — in July, 1978. Following adoption of the amendment, the Fed was urged to reconsider on grounds that interested parties may not have been aware of the proposed action. Consequently, last February the Fed asked for comments on whether the amendment should be repealed. The action was taken after the Fed received and considered about 160 comments.

Also rescinded were related Federal Reserve Board and staff interpretations of the amendment. ● ●

Payment Rules Announced For Financial Institutions Under Financial Privacy Act

The Fed has announced adoption of rules under the Right to Financial Privacy Act for reimbursing financial institutions that provide their customers' financial records requested or required by the federal government. The act and the Fed's Regulation S implementing it became effective October 1.

The Fed adopted Reg S following consideration of comment received after publication of proposed rules last August. The act places restrictions on federal-government access to financial records of individuals maintained by financial institutions by requiring that, with certain exceptions, federal authorities seeking such information must follow prescribed procedures.

The act also authorizes, with some exceptions, reimbursement to financial institutions for costs associated with providing such records and directs the Fed to establish regulatory rules for reimbursement.

Reg S provides that:

- Financial institutions are entitled to payment for the reasonably necessary costs directly incurred in assembling or providing required, requested or authorized customer financial records. The federal financial supervisory agencies are exempt from the act's restrictions in the exercise of their supervisory, regulatory or monetary functions.
- Only financial institutions are entitled to such reimbursement. This includes credit-card issuers. Corporations and partnerships comprised of more than five individuals are not affected.
- Rate of reimbursement for personal time is $10 an hour, or $2.50 per quarter hour. Reimbursement is limited to the total amount of personnel time spent in locating, retrieving, reproducing, packaging and preparing documents or information for shipment at the request or requirement of the federal government.
- Rate of reimbursement for reproduction costs is 15¢ a page.
- Reimbursement for transportation costs is limited to actual costs.

Heimann Proposes Revisions To Ease Report Burden On Small National Banks

Comptroller of the Currency John G. Heimann has proposed a revision to 12 CFR Part 18, an OCC regulation concerning national banks' annual reports. The Comptroller hopes the revision will reduce the burdens of reporting for "small" national banks.

As presently written, 12 CFR Part 18 requires all national banks not subject to the registration and periodic reporting requirements of the Securities Exchange Act of 1934 or wholly owned subsidiaries of bank HCs to distribute annual reports to their shareholders and specifies the format of those reports. Under the proposed revision, Part 18 would be made more consistent with the call report, as amended last December, thus simplifying information requirements for annual reports and basic financial statements.

Banks electing to use the "small bank call report" forms for statutory reporting purposes (12 USC 161) also

(Continued on page 44)

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Mortgage Pool Formed to Help Housing

A NEW FORM of security that pools mortgage loans from multiple-lending institutions will help prevent mortgage funds from dwindling in a tight-money economy, according to Leon Kendall, president, MGIC Mortgage Marketing Corp. ("Maggie Mae"), a subsidiary of MGIC Investment Corp., Milwaukee.

The sale of the first such issue was announced August 1 by MGIC Mortgage Marketing Corp., which assembled $50 million of home loans from 35 lending institutions in 24 states for sale to a major insurance company.

"With the prospect of a tighter monetary policy, continued availability of mortgage money is essential to the health of our nation's housing industry," Mr. Kendall says. "Growth of conduits between the home-mortgage market and the nation's capital market will ensure that funds will be available for home lending. Specifically, they can enable lenders of all sizes to generate new mortgage funds through mortgage-related securities, regardless of government credit policies or other economic factors."

In general, mortgage-related securities repackage traditional mortgages into a bond or certificate for sale to investors. Until the Maggie Mae sale, the mortgage-related securities market was accessible only to lending institutions with large mortgage portfolios. Previously, only major lenders were able to package a group of mortgages from their holdings to create a security. Bank of America, San Francisco, for example, issued the first mortgage-backed pass-through security in September, 1977. To date, only five institutions have followed with public pass-through issues.

However, according to Mr. Kendall, "The idea behind Maggie Mae is to reach savings and loans, savings banks, mortgage banks and commercial banks of all sizes. These are the institutions hit hardest when money gets tighter. Through a conduit like Maggie Mae, a full range of lenders can sell their loans to outside investors. It's no longer a game just for the big guy."

In the first Maggie Mae issue, commitments from lenders ranged from $1 million to $5.5 million, with no individual mortgage loan larger than $150,000. MGIC Mortgage Marketing Corp. has been actively recruiting lending institutions to participate in selling and servicing mortgages to be sold through Maggie Mae.

"When lenders are caught between dwindling savings deposits and tightening federal credit controls," Mr. Kendall continues, "mortgage money may not be available to service the needs of customers. But with the help of a conduit in selling mortgages, lenders can stay in local loan markets. Since Maggie Mae uses the pass-through concept, the sale of mortgages is a sale of assets — the funds are renewed and can be loaned again on new mortgages. This is a valuable alternative source of funds for lenders threatened by disintermediation."

Commenting on the option of selling mortgages directly in the secondary-mortgage market, Mr. Kendall notes that "the real innovation in the Maggie Mae concept is that new investors will be attracted to the housing industry. Since Maggie Mae packages mortgages into securities, many institutions that traditionally have not invested in mortgages will be drawn to the high return mortgages currently are offering. As a result, new sources of funds will be available to lenders."

Mr. Kendall predicts that conduit programs like Maggie Mae could grow to a size exceeding the GNMA market within five years. "Increasingly, lenders are finding themselves restricted in selling mortgages to government programs," Mr. Kendall says. "Limits placed on the dollar size of the mortgages is a critical constraint. What's more, many lenders have problems with processing requirements and the amount of time needed to sell in government auctions. Private conduits like Maggie Mae can be more convenient, flexible, and efficient."

Maggie Mae and MGIC are subsidiaries of MGIC Investment Corp., Milwaukee. MGIC is the nation's oldest and largest private insurer of conventional low down-payment mortgages, with over $38.5 billion of insurance in force. • •

MGIC Develops Program To Explain Experiences Of Variable Rate Mortgages

MGIC, Milwaukee, has developed a program of informative materials based on the experience of California lenders to assist mortgage lenders now authorized to issue variable rate mortgages (VRMs).

"The experience of California lenders in VRMs can provide valuable insights for lenders throughout the country," notes Bill Lacy, MGIC vice president. "That's why we've asked the people with the most experience to talk about the problems they faced and what solutions they found. By taking advantage of what lenders have learned in California, associations across the country can get a faster start with their own VRM programs."

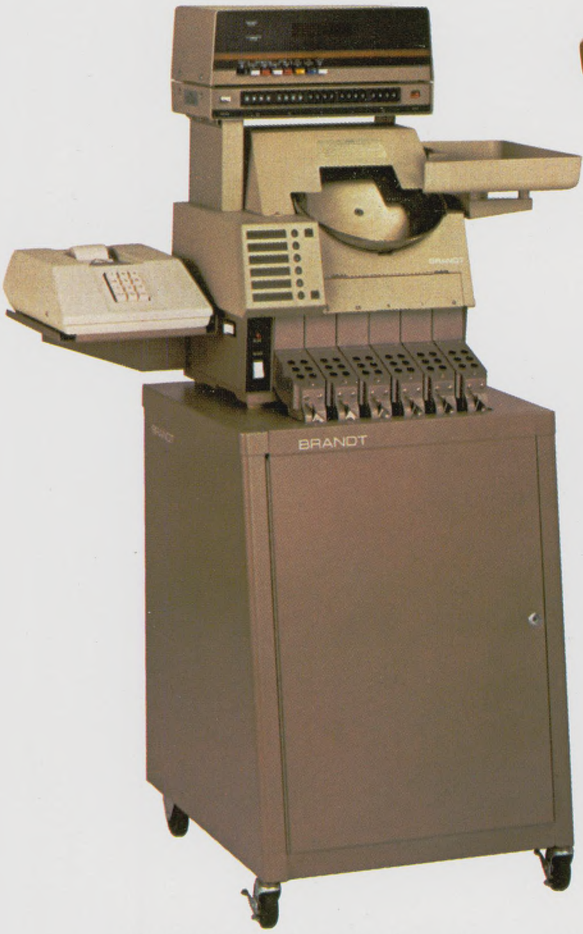
MGIC's information program contains a legal memorandum on the implications of VRM lending, prepared by Michael Roster of McKenna & Fitting, Los Angeles. The memo discussed disclosure during application, loan documents, the variable rate note and Regulation Z disclosures.

The program's main element offers a 45-minute cassette tape recording of a discussion of VRMs with two experts. Robert McNitt, vice president, California Federal S&L, speaks on the lender and consumer benefits of VRMs and John Galanis, MGIC general counsel, presents the specific legal framework for VRM lending. Documentation forms required to originate a VRM also are included.

Also, MGIC — on request — will conduct information presentations to company representatives about benefits, specific requirements and marketing strategies of VRMs.

"With this program, lenders receive valuable information in three vital areas: legal requirements, 'How-tos' and practical experience," Mr. Lacy says.

Mortgage lenders can obtain more details at MGIC regional offices.



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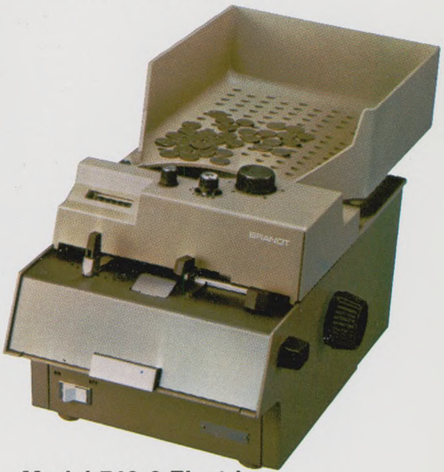

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Inflation: 'Enemy No. 1' Declares ABA Convention

ONE MIGHT say that Fed Chairman Paul A. Volcker "upstaged" all other speakers at the ABA's convention in New Orleans last month. Former Secretary of State Henry Kissinger played to a standing-room-only crowd, it's true — but as a national figure of long standing expected to bring an important message on United States-Soviet Union relations, that was understandable.

Mr. Volcker, of course, just three days prior to his New Orleans appearance, had made a dramatic announcement to the financial community.

- The discount rate had been raised from 11% to 12%.
- The Fed had established a marginal reserve requirement of 8% on "managed liabilities."
- The Fed also had said it was abandoning its technique of using the Fed-funds rate as a target in carrying out its monetary policy.

The stage, therefore, was set for a capacity audience when Mr. Volcker spoke. Bankers were there again — as a standing-room-only audience — to hear the chairman and to learn firsthand how seriously the Fed would pursue its new policy.

The chairman immediately stated that the Fed's announcement was intended to deal forcefully with the strong inflationary pressures spreading nationwide and to assure the financial community that its concern with excessive growth in money and credit also was shared by the Fed.

Therefore, he said, the basic actions announced a few days earlier would be used in controlling the amount of reserves in the banking system. None of the actions taken, he said, "will prevent moderate growth in money and credit commensurate with the needs of the economy. They are," however, "designed to curb excesses that otherwise would spill over into inflation."

Mr. Volcker then added a word of caution to bankers and their responsibilities to the banking system. "The board," he warned, "has particularly stressed its own concern that, in a time of limited resources, banks should take care to avoid financing essentially speculative activity in commodity, gold and foreign-exchange markets."

Bankers, familiar with their own markets, can make judgments on the type of loans that best serve the needs of customers and the community. "But my general feeling is," he said, "that this hardly is the time to search out for exotic new lending areas or to finance speculative or purely financial activities that have little to do with the performance of the American economy."

Would the Fed's decision to more closely control the money supply fade under adverse political or economic news? There could be a time, the chairman submitted, that policies could change momentarily if business activity should recede or the size of the budget deficit change.

However, he concluded, "when the money supply is brought clearly under control and expectations of inflation dissipate, interest rates will tend to decline, and our recent actions should bring that day sooner, whatever the initial impact on interest rates."

Almost as if anticipating "election-year promises" of tax reductions, Mr. Volcker noted that the Fed could only support tax reductions "if earned by

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Willis W. Alexander, exec. v.p.; President-Elect Lee E. Gunderson, pres., Bank of Osceola, Wis.; President C. C. Hope Jr., v. ch., First Union Nat'l, Charlotte, N. C.; Chairman John H. Perkins, pres., Continental Illinois Nat'l, Chicago; and Treasurer Virgil E. Solso, pres., Oregon Bank, Portland.

sustained spending restraint and if they would stimulate investment, cut costs and offset the inflationary effects of moving people into higher tax brackets."

"That time has not yet come," he asserted. "What we need to guard against is *premature* and *excessive* stimuli, during expansions as well as recessions — and it seems to me," said the chairman, "that we have come a long way toward learning that lesson."

Thus, the Fed chairman issued a challenge to the nation's bankers to cooperate with the Fed in its fight on inflation by demonstrating "the conviction that we (as a nation) have the wisdom and the fortitude to maintain the financial discipline required to cope with inflation."

Behavior of financial markets since those first few days of the Fed's announcement is, of course, history. Prime rate up to 15¼%, Fed funds as high as 18% — and now operating in a two-tiered market — and money supply slowing somewhat, even without the disastrous error committed by one reporting bank.

Chairman Volcker, obviously carefully appraising bank reserves as recently as October 24, asked the nation's banks to ration credit evenly across the full spectrum of the economy. His request apparently was an effort to avert a credit shortage and a steep recession. He stressed he was not establishing credit controls, but that banks themselves ultimately would be responsible for credit decisions.

Inflation, its causes and actions to help control it also concerned the attention of another headline convention speaker, Treasury Secretary G. William Miller.

The war against inflation, said Mr. Miller, must have top priority, but, he warned, "there is no quick or simple solution. The war must be waged through a comprehensive strategy on all fronts on a continuous basis."

The Treasury's efforts, he said, can be made through a disciplined fiscal policy. Inflation has been fed, he noted, through the cumulative effects of large federal deficits year after year. "We are determined," he said, "to apply fiscal restraint and move as quickly as possible toward a balanced budget."

The Treasury Secretary observed that progress was being made in percentage figures rather than in gross totals. For example, he pointed out that the federal deficit in 1976 was 3% of GNP. "This year," he said, "it will be down to only 1%."

Likewise, he related federal spending to GNP, noting that in 1976 it represented 22.6% of GNP. "This year, it will be down to about 21.5%," and said Mr. Miller, "we intend to reduce it further."

The Federal Reserve, he said, will attack inflation through its more disciplined monetary policy recently announced, but both fiscal and monetary restraint take effect (against inflation) with some lag. "Another important policy," he emphasized, "is the voluntary program to moderate pay and price increases and thus provide time for the other basic policies to take hold."

The voluntary program has helped moderate price and pay increases, but, Mr. Miller stated, greater participation by management and labor is necessary in the year ahead to establish and apply fair pay standards. Thus, he said, a Tripartite Pay Committee, chaired by John Dunlop, has been established, with its first assignment being to recommend pay standards for the period ahead.

"In this connection," he said, "the Administration (has) worked out a National Accord with American labor leadership in support of the war against inflation and providing for labor involvement in the pay-price program."

Mr. Miller also recognized that cost-raising actions of government contribute to inflation. He pointed to "unnecessary regulation" and agreed that efforts must be intensified to reduce the burden of government — and in particular the burden on banking.

This will not be easy, he admitted. "Much regulation is founded in statute, and while we can improve and shorten and clarify, we often need legislation to make real reductions in burden."

Changes will take time and Mr. Miller welcomed banker suggestions and recommendations in this area.

Response to this challenge came quickly from C. C. Hope Jr., who was advanced to the presidency of the American Bankers Association at its final session. Acting almost as if he had read Secretary Miller's speech, this energetic, story-telling North Carolina banker announced that "the time has come for us in banking to shoulder a major role against the destructive force of inflation."

Mr. Hope therefore announced creation of two new ABA units, an Inflation Task Force to be headed by Gaylord Freeman, former chairman, First National, Chicago; and a Regulatory Task Force to be headed by Charles W. McCoy, chairman and CEO, Louisiana National, Baton Rouge.

The Inflation Task Force, he said, comprised of bankers and nonbankers, will attempt to find workable solutions to the nationwide problem of inflation and to communicate its ideas with all publics of this country, including bankers and the general public at all age levels.

The Regulatory Task Force, said Mr. Hope, will strive for better communications between banks and regulatory agencies.

"Grass-roots dialogue," he said, "is the best way for all of us to understand the burden that over-regulation places on banks and consumers. This dialogue in a series of seminars," he suggested, "will produce facts that pinpoint specifics of the regulatory burden and that will show us how the regulatory system can be refined to serve consumers, bankers and the government more efficiently."

These new task forces, said the North Carolina banker, will have full use of the expertise in ABA banker committees and councils as well as the ABA staff.

The nation's bankers can expect the full force of the ABA presidency behind this effort, too, since Mr. Hope's interests were clearly established when he came on the ABA scene in 1973 as chairman of the ABA's task force on relationships with the Comptroller and then as chairman of the ABA committee on *all* bank regulatory agencies in 1974. In this capacity, he organized and conducted seminars throughout all 50 states, for bank CEOs and representatives from regulatory agencies.

Mr. Hope also understands the need for political action, having served as national chairman of BANKPAC, the banking industry's political action committee, as well as a member of the administrative committee of the ABA's government relations council.

Special sessions during the ABA convention allowed bankers to have close contact with the various regulatory agencies. In a session with the national bank regulators, Comptroller John G. Heimann said that his agency no longer would look favorably on continued leveraging by under-capitalized institutions.

"We not only are concerned with the prudence of such expansion," he said, "but also with the impact that the explosion of debt may have on the economy — both as a factor in the inflationary spiral and as a source of risk."

Mr. Heimann also was concerned

(Continued on page 65)

Bank Investment Portfolios: Stay Short? Long? Lock in?

Survey Reveals Strategies Used By Banks in Mid-Continent Area

BANK investment portfolio managers never have easy jobs. They are faced daily with making decisions that could affect their institutions' earnings for years to come. Their lot, of course, was not made easier by the Fed's action October 6 — boosting the discount rate, imposing marginal reserve requirements on a collection of liabilities and abandoning the Fed funds rate as an implement of its monetary policy. As a result, some strategies portfolio managers were using may be obsolete now.

However, the same general questions face these managers as they did before Fed Chairman Paul Volcker's announcement: "Do I stay short with my investments? How short? Or should my bank begin to 'lock in' some of these attractive yields? If so, how 'long' should we go?"

Several bankers, in answer to a survey made by MID-CONTINENT BANKER, have outlined their investment strategies, which range from locking in current yields to building and maintaining large cash reserves to utilizing tax swaps. Here's what these bankers from our 13-state area had to say.

Utilizing Tax Swaps

"We began cautiously to commit funds to the investment portfolio following the Federal Reserve Bank's actions of October 6," says John W. Fricke, assistant vice president, First National, St. Louis (a $2.7-billion bank). "Although it will take several weeks to ascertain the Fed's specific intentions regarding the growth rate of money, it is prudent to begin investing now (middle of October), especially in the municipal-bond market. There appears to be a large amount of funds available for investment, such as pension funds, trust funds and bank portfolios, so that when the rally eventually begins, it probably will be quick and substantial. The supply of municipal bonds is so low, especially for high-quality issues, that when investors do decide to be more aggressive, it may be difficult to find the desired quality and quantity of tax-free securities to purchase.

"Another investing technique we have accelerated is utilization of tax swaps — use of tax losses to increase the yield of the investment portfolio. This is an excellent method of taking advantage of these high interest-rate levels even when a bank does not have funds available to commit to the investment portfolio because the sale of existing portfolio securities at a loss provides funds for investing. Although this is a program we generally utilize on an annual basis, we have increased our loss allocations for 1979 because of potential record earnings and attractiveness of the securities markets. Most professional portfolio managers would agree that 1979 is an excellent year for tax swaps for most banks due to the high level of earnings and depressed level of bond prices."

Maintain Cash Reserves

Gary L. Gamm, vice president/investment division, Fourth National, Wichita ($696 million in assets), says: "During the past 18 months, we have forecast what we believe to be an imminent move upward in both short- and long-term interest rates. As a re-

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'Locking-in' Policy in St. Joe

A "LOCKING-IN" policy has been adopted by the $184-million American National of St. Joseph, Mo., reports William F. Enright Jr., chairman of the board/chairman of the investment committee, in answer to MID-CONTINENT BANKER's survey on bank-investment-portfolio strategies. Mr. Enright says:

"Our investment committee recently adopted a policy of 'locking in' current yields on a selective basis and without haste over the next 60 days. We have a sizable bond-maturity total in 1980, and we are replacing these maturities in advance through borrowings by repurchase agreements and in the Fed funds market. This anticipation also takes into account the expected deposit rise and decrease in loan demand.

"We currently are reinvesting treasury-issue maturities in the four- and five-year range and municipal securities in the 10- and 13-year range. These maturities fit well into our portfolio needs.

"The above policy is being pursued as we anticipate significantly lower yields in 1980 as our economy continues its recessionary slowdown."

End Of An Era?

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

SATURDAY, October 6, 1979, may have marked the end of an era — let's call it the *Burns/Miller era of interest-rate control* — a period during which the Fed has allowed rates to rise gradually without reducing the supply of available credit.

It simply has not worked.

Interest-rate management alone has been ineffective against inflation. Growth in the money supply has not been checked, and credit growth has almost identically paralleled inflation.

But the Fed hasn't had much choice.

Control of reserves — which impact both the extension of credit and the money supply (monetary base = reserves of member banks + currency) — has not been a viable alternative. Too many banks already have dropped out of the system. Many more are waiting (and not too patiently) just to learn how Congress will deal with the problem. One does not tamper with reserve requirements against such a background.

But chances of a compromise Fed-membership solution have improved remarkably under the leadership of Chairman Paul Volcker. Apparently, the Board of Governors now feels it can afford to risk a few weeks of further potential attrition in membership more easily than it can continue to leave the strong arm of reserve control "tied behind its back." If the two risks indeed have been in balance in recent months, the persistent assault on the dollar abroad has made the decision easier.

In any case, a new era is on us — let's call it the *Volcker era of reserve control* — a period during which the Fed will be concerned primarily with the supply of available credit, letting the cost of credit seek market levels.

Managing a bank's bond portfolio in such an environment rarely has been more challenging. The key questions now are: a) how many months or years will be needed for the new approach to defeat inflation? and b) will the Fed remain firm, despite the inevitable political pressures that already are building? Since there is little assurance of early success and, even then, no assurance at all that long-term rates (already inverted) will move lower with short-term rates, there would appear to be plenty of time to "lock in" what seem to be attractive long-term yields.

The recent $1-billion financing by IBM — its first offering of debt ever — also may be offering a subtle message to portfolio managers. At least, it was loud and clear to underwriters who couldn't retail it at a profit. I suspect the great company's timing was based as much (or more) on an assessment of higher long-term-rate trends as it was on the need for funds.

Therefore, whether the bond portfolio manager should "bet against" IBM or not, in my opinion, he should at least project his bank's "worst-case" liquidity needs and only then, with true secondary reserve funds, move out to distant maturities on a "dollar-averaging"-scale-buying basis over time.

sult, our portfolio policy has evolved around the principal of building and maintaining large cash reserves, even in light of the recent Fed action. We continue to believe this is the prudent course of action. We do not expect interest rates to peak before the end of the first quarter of 1980.

"In our opinion, it is conceivable to foresee a continued modest rise in short-term rates and a more pronounced upward spiral in long-term rates, even from current levels.

"Our resulting portfolio policy will be to continue maintaining cash reserves until early 1980. At that point, we will evaluate the possibility of committing our cash reserves to the long-term tax-exempt market.

"It should be remembered, however, that even when the decision is made to commit these reserves, a negative carry will exist between long-term rates and the rate that can be obtained for short-term funds, i.e., the Fed funds market. This condition has existed in every major cycle during the past decade, and portfolio managers should be careful not to become complacent in their management strategies."

A 'Barbell' Philosophy

"Fannin Bank (Houston) is primarily a corporate-oriented bank, with the attendant potential for large-percentage fluctuations of deposits and loans," says John F. Williamson, vice president/investment officer (the bank has $327 million in assets). "Therefore, we must manage our investment portfolio to enable it to meet these potential fluctuations when, or if, they occur. To handle this and, at the same time, to maximize the investment-income stream, we use the long and short or 'barbell' maturity curve.

"Our barbell curve is structured to have two-thirds of our maturities in the one- to five-year area and one-third in the 15- to 20-year area. For the most part, we stay away from what we call the 'middle years' because those usually are where most bank purchasing pressure is, especially in the Texas market, resulting in lesser relative values being available in those years. With two-thirds of our total investment portfolio maturing in one to five years, we are able to maintain a high degree of investment-portfolio liquidity, which affords us the opportunity to go after the best relative values available when we are in the long market. If the purchasing pressure shifts away from the middle years to the longer years, as it does occasionally in Texas,

(Continued on page 32)

What Makes FIPS Fly?

A Fixed-Income Portfolio Service That's Proving to Be Effective For Institutional Investors

By MICHAEL L. McCOWIN
Vice President
Harris Trust
& Savings Bank
Chicago

CAN a FIPS fly? That was the question being asked in the fall of 1974.

In the midst of one of the most chaotic bond markets in memory, a new idea was being born at Harris Trust — a fixed-income portfolio service (FIPS) for institutional investors. Five years later, in the fall of 1979, with the bond market once again in the throes of a major collapse, that idea is being put to the test. Can a big bank, with an outstanding record of active bond management for its *own* trust accounts, provide an *effective* fixed-income service for *other* institutions?

Five years ago, Ken Meyer and Bob Newman, spark plugs behind Harris' remarkable success in active bond management, decided that it could. The combination of reliable interest-rate forecasting and aggressive bond management enabled Harris to achieve a 9.1% annual rate of return on fixed-income funds during the five years ended December 31, 1974. Thus, when the new FIPS service was launched in the spring of 1975, it was supported by an impressive record of performance. (During the same five-year period, the Salomon Brothers High-Grade Corporate Bond Index had achieved a return of only 6.7% per year.) Messrs. Meyer and Newman were convinced the same expertise that had achieved this enviable result could be shared effectively with other money managers on a fee basis.

Several hurdles had to be overcome before the new fixed-income portfolio service (FIPS) could be launched. First, senior management had to be convinced that such a service would not impair Harris' own performance. This might result either from diverting the attention of the fixed-income staff from the bank's own accounts or prematurely revealing the bank's strategies to other bond-market participants.

Fortunately, the prior success of the bank's equity-oriented institutional investment service (IIS) had demonstrated that such fears were unfounded. The IIS service had been launched in 1964 by Fred J. Young amid the same concerns by senior management that "trust department secrets" would be given away. Although originally limited as to number of customers allowed, by 1974 IIS had grown to over 400 subscribers, making it the largest service of its kind in the country.

Meanwhile, there had been no evidence of any impairment of Harris' equity performance as a result of "lost secrets." Furthermore, Mr. Meyer and Mr. Newman were able to convince management that the bond markets were more than liquid enough to be unaffected by the new service. And so it was that, in May, 1975, the new FIPS service became a reality.

Convincing potential users of the service that it was worth the $1,500 per year at which it was originally offered proved no problem. In view of Harris' widely recognized position of leadership in the still emerging field of active bond management, many early subscribers expressed surprise that Harris would even offer such a service, much less at a modest price. Although the annual subscription rate was later raised to $2,000, there was no thought given to pricing at "what the market would bear."

One important objective in providing an investment service is to help correspondent trust departments compete effectively in local markets. Trust services are increasingly sought on a *local* level, where personalized service and attention can be provided. With the help of an effective investment service, local trust departments can combine "big bank" investment expertise with personalized attention

COMPARATIVE RESULTS-COLLECTIVE FIXED INCOME FUNDS
(All Data Include Income)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	Six Months 1979	9½ Year Compound
Harris Bank (Excludes Conv. Debt)	17.5%	13.4%	7.9%	3.9%	3.6%	13.4%	15.3%	3.3%	4.7%	6.2%	9.3%
Salomon Bros. High Grade Corp. Bond Index	18.4	11.0	7.3	1.1	(3.0)	14.6	18.6	1.7	(0.1)	6.2	7.7

Mr. McCowin is division administrator of Harris Bank's investment advisory service division.

to individual needs.

If we priced our services solely on the basis of maximizing revenues, we might place them outside the range of many small trust departments. On the other hand, pricing individually for each customer on the basis of his asset size or ability to pay, as some do, is not a business practice we would be prepared to defend. While we don't intend to *lose* money on *any* of the services we provide, we are not going to drive the small customer away with aggressive pricing.

The first subscribers to the new FIPS service were mainly IIS subscribers. However, interest quickly broadened. Today, the more than 200 FIPS subscribers are divided about equally between IIS subscribers and non-IIS subscribers. Insurance companies account for about 10% of FIPS customers, with investment counselors, pension funds, endowment funds and others comprising another 10%. This broad interest in FIPS reflects both the unique qualities of the service and the wide range of needs among bond-market participants.

There is no way a life insurance company would ever engage in the kind of aggressive maturity and sector restructuring we employ in our marketable bond fund — the $1.5-billion, tax-free employee benefit fund, which provides the basis for the FIPS Service, but most insurers have to plan for the investment of large cash flows, and our bond market forecasts and quality reviews are of considerable help in timing and allocating these funds.

The FIPS reports are divided into three basic categories: statistical summaries, bond-portfolio strategies and quality-review analyses.

Each week, a review of current market statistics is provided, including yield levels and spread data for various market sectors. In addition, a broad survey of the forward bond calendar is provided.

Bond-portfolio strategy is provided monthly in a review of Harris' $1.5-billion marketable bond fund, including maturity distribution, sector analyses and interest-rate expectations. During the month, changes in maturity distribution are communicated immediately in memo form, along with comments on the underlying rationale and suggestions for implementation.

A quarterly strategy report also is provided, featuring a topic of special interest. For example, the most recent article was a 12-page report dealing with the valuation of floating-rate notes. This article received considerable attention even beyond FIPS subscribers, causing Harris to be flooded with requests for reprints. While we don't mind if non-FIPS subscribers *eventually* get hold of something like this, we think it is important for our subscribers to be the first recipients of any proprietary work we produce.

The quality-review-analysis segment of the service provides both a complete statistical summary of *all* issuers on the Harris fixed-income working list, provided annually, and an individual credit analysis provided prior to an expected sale of bonds. The latter reports include substantial financial data and a page of written comment, including recommendations.

An important aspect of the quality-review analysis is assignment of each issue into one of two categories based on Harris' judgment of the issuer's credit strength. This often provides the customer with an advance indication of possible bond-rating changes.

In addition to the written materials, FIPS subscribers also are afforded direct access to the Harris staff and are invited to attend a one-day bond conference, held each spring, and a two-day investment-outlook conference held each fall.

Periodic expansions of the service are planned, such as the recent addition of a yield/quality comparison service for electric utilities Harris introduced in August. Included as part of FIPS at no additional cost, this service attempts to identify trading opportunities in the electric-utility sector by identifying issues that appear to be inappropriately priced relative to their credit ranking. According to Bob Newman, "We intend to provide our subscribers with every useful product our internal research can support. We leave it to them to use it as best fits their own needs and circumstances."

Although the immediate acceptance FIPS received in 1975 was a little overwhelming, the Harris staff knew there was a large demand for this type of service. The rapid inflation of the last decade has catapulted us into an era of high and widely fluctuating interest rates. Anyone who is not prepared to deal with the highly volatile bond markets this produces will be driven under by the competition. Furthermore, the vigorous return to life of the "business cycle," which many economists had declared dead in the 1960s, has put a premium on good credit analysis.

Pension-fund managers who have not developed a capability for active bond management will continue to lose business to alternative forms of investment, such as guaranteed investment contracts (GICs) currently

(Continued on page 79)

ABA to Hold Training Forum For Banking Educators In Atlanta December 2-4

ATLANTA — A unique "Bankers Educational and Training Forum" will be held December 2-4 at the Hyatt Regency Hotel here.

Its intent is to bring together the nation's banking education and training leaders — training directors, banking professors and representatives from banking schools, state associations and the American Institute of Banking — to explore the future of banking and to spotlight likely changes in the industry and skills and knowledge tomorrow's bankers will need, according to James H. Duncan, chairman, ABA education policy and development council.

Mr. Duncan, who is chairman/CEO, First American Bank Corp., Kalamazoo, Mich., said the conference's goals would be:

- To increase communication among the diverse groups involved in the essential process of educating and training bankers.
- To avoid unnecessary duplication of future efforts and thereby reduce costs.
- To explore current trends and developments in the banking industry and training and education fields.
- To actively stimulate positive changes through exchange of ideas and exposure to the latest training and educational methods and technology.

A forecast for the banking industry will be given by Robert Joss, senior vice president, Asia-Pacific division, Wells Fargo International Banking Group, San Francisco, who served with the U. S. Treasury Department from 1969-71.

Harvard professor Daniel Bell, chairman of the American Academy of Arts & Sciences' Commission on the Year 2000, will present a look at the future. He has written and lectured extensively on current trends and their implications for the future.

Mr. Duncan said the successful ABA Banking Leadership Conference format of "groups of 10" tables will be used to divide conference participants into manageable units for hammering out specific strategies based on the futurists' remarks.

'We're No. 1'

Medium-Sized Trust Department Ranks Above Large Banks In Investment Performance

By J. R. AAKER
And
ROGER W. GILCREST

A RETURN of 17.5% in 1978 gave the trust department of First Bank, South Bend, Ind., the No. 1 ranking among 212 banks and 40 insurance companies analyzed by A. S. Hansen, Inc., in its 10th annual survey of employee benefit equity managers. *(EDITOR'S NOTE: The Hansen performance survey is conducted by A. S. Hansen, Inc., actuaries/consultants. The survey is said to be one of the oldest and largest of its kind and a respected source of information on the performance of equity investments for pension and profit-sharing plans.)*

Hansen also ranked First Bank on top for its two-year (1977-78) performance and its three-year (1976-78) performance. First Bank's three-year average annual rate of return of 14.7% compares with only 3.3% for the Dow Jones and 7% for the Standard & Poor's 500.

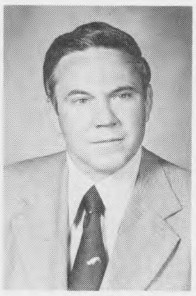
The ability of a medium-sized ($300-million-plus) trust department to produce consistently superior investment results in competition with the largest banks (24 of the nation's 25 largest banks are included in the Hansen survey) and insurance companies results from a combination of factors: philosophy, organization, skill, size — and a bit of luck.

First Bank's approach to common-stock investing is a blend of disciplined, traditional investment concepts, executed by skilled personnel who operate in an environment of relative professional freedom.

Primary emphasis is placed on the economic forecast in order to make two decisions: degree of exposure to equities and kinds of stocks that will perform well in a given economic climate. For the past 12-15 months, First Bank's equity funds have included 25%-30% cash positions in anticipation of the recession predicted by all economists. Further, emphasis has been switched from those stocks that perform well in an expanding economy to those that can be expected to do well in late stages of the economic cycle.

Organizationally, First Bank has a distinctive approach. It does not require prior committee approval for investment changes, does not work with an "approved" list and does not pretend to perform investment "research." Instead, specific policies and guidelines have been established controlling the selection of securities, and specific objectives and strategy established for all funds. A limited number of highly reliable sources of investment information, primarily investment houses and one or two banks, are employed and periodically monitored. To facilitate the flow of investment information, our investment officers establish personal relationships and regularly travel to meet with our investment sources on a face-to-face basis.

AAKER



GILCREST

J. R. Aaker is senior vice president/investment div., First Bank, South Bend, Ind. Roger W. Gilcrest is senior vice president/trust officer of the bank.

Our investment staff of four officers meets regularly to discuss potential purchases or sales. Once a decision has been made, it can be implemented immediately without resort to a committee. In lieu of committee approval or an approved list, investment changes are promptly documented and reported to the officer in charge of the trust department and, through him, to executive management of the bank as well as the directors' trust committee. Availability of established policies and objectives enables management to review the wisdom of investment changes as well as to offer input concerning specific securities.

Our size is an advantage. Large enough to command the respect and attention of the investment community, we are small enough to dispose of an entire holding without disturbing the market.

No investment approach, however well conceived, will succeed without skilled, experienced personnel selecting the securities. The final investment decision invariably involves personal judgment that can be accomplished only by seasoned, trained personnel.

Achieving a No. 1 ranking in any survey involves an element of luck. During 1978, our overall strong performance was enhanced by acquisitions of two companies in which we held significant positions. These securities had not been selected, however, for their prospects as "take-over" candidates, but rather on their fundamentals as undervalued, long-term-growth situations. First Bank's investment philosophy emphasizes consistency rather than an "outperform-theaverages" approach.

Even more important than the No. 1 ranking in 1978 are the high rankings over a several-year period. As a consistent result appears, "luck" becomes less of an explanation for success.

In 1979, our common-stock funds have continued to do well, about equaling the Dow Jones and S&P 500 despite having large cash positions. The cash positions reflect our current perception of the market as having significant down-slide risk. Our long-term view of the market, however, is optimistic. By all traditional measurements, common stocks currently are undervalued. Indeed, given recent inflation levels, stocks are the most undervalued major asset in the United States.

The move to substantially higher market levels will occur when investors perceive that the nation is beginning to solve the problems of inflation, value of the dollar and cancerous growth of federal regulations. ● ●

Study Backs Underwriting by Banks Of Municipal Revenue Bonds

BORROWING COSTS for municipal issuers of revenue bonds would decline significantly if commercial banks were eligible to underwrite these bonds, says William L. Silber, professor of economics/finance, New York University. In a 70-page report, Professor Silber reviewed and analyzed 12 studies by nine different research teams covering market data back to 1959. He made his independent analysis for the ABA and Dealer Bank Association.

In scrutinizing all available empirical studies, he found that "statistically significant impacts of bank eligibility emerged from virtually every research effort." Any single study may be subject to bias, the report adds, but the collective results can be "extremely powerful."

Techniques used to establish benefits of increased competition all focus on a comparison between issues eligible for bank underwriting and those that were not. The impact of bank eligibility is significant, according to Professor Silber, because different methodologies, different samples and different time periods all produce essentially the same result.

The Silbur study, based on 1977 data, found that interest-cost savings from bank competition could range conservatively from $150 million to $300 million. Statistical studies should provide a range of estimates, rather than a single number, and the "degree of uniformity" among a large number of wide-ranging studies "is comforting," the report adds.

Cost savings to issuers, says the report, would flow from: 1. Lower underwriting spreads as more bids were submitted for revenue bonds. 2. Lower reoffering yields to ultimate investors as banks conducted a broader and more intensive search for those investors. The search for investors can have particularly beneficial effects in a fragmented market such as the one for municipal securities, says the Silber study. Moreover, any tax advantage banks have in holding or "carrying" securities, "is of no real importance in the underwriting process."

Professor Silber's report concludes: "The weight of the evidence clearly rejects the position that expected savings from permitting banks to underwrite currently ineligible revenue bonds is trivial."

Revenue bonds — bonds repayable from a specific stream of revenues — now comprise more than 60% of the more than $40 billion of municipal bonds issued annually. A bill before the House Financial Institutions Subcommittee, HR 1539, would permit commercial banks to bid on and underwrite currently ineligible issues. Identical legislation has been introduced in the U. S. Senate, where it passed in two earlier sessions.

The Silber paper will be given to federal agencies, congressmen and other public officials interested in the legislation and in the cost to municipalities of the *status quo*. ● ●

Investment Portfolios

(Continued from page 26)

lower prices quickly develop for middle-years paper and higher prices for longer paper. Then, we simply adjust and move our purchasing to middle-years paper, which then has become a better relative value. Therefore, we never run a true long and short maturity curve. We always will have a few items in the middle. However, the weighting always is long and short.

"As economic and interest-rate cycles change, we will vary our two-thirds-to-one-third split, but we never will take the variance any further than having a minimum of half the total portfolio maturing in the one-to-five-year area. Currently, we are maintaining a 50-50 split between our long and short maturity areas to take advantage of the current cycle, locking in some attractive long yields. With this restriction of having at least half the total investment portfolio in the short one-to-five-year area, we are able to maintain a comfortable level of investment-portfolio liquidity. Also, the fact that we are in the rapidly expanding Houston economy, with our bank receiving its proportionate share of that growth, we can get back to a two-thirds-to-one-third split in a relatively short time simply by investing a larger percentage of our investment-portfolio growth in the one-to-five-year area.

"For the near term, we plan to maintain a posture of having 50% to 55% in the short end of our maturity curve and 45% to 50% in the long end to continue to take advantage of current high rates, locking in some more attractive long-term yields. When, or if, we see that current high short-term rates are affecting Houston business conditions adversely, ultimately affecting our bank's overall liquidity position, we would begin immediately to adjust our investment-portfolio posture. Obviously, this is an area that must be monitored closely on a daily basis."

In light of the Fed's October action, Mr. Williamson added that, obviously, his bank is evaluating that development and its aftermath — as are all banks — to determine what its posture should be. Current values of this "buyer's market" are painfully obvious, he says, and, purely from an investment standpoint, he suggests purchasing high-quality long bonds.

Municipals Attractive

"We feel this is an excellent time to invest in government securities as well as municipals," says Jack O. Weatherford, chairman/CEO, Murfreesboro (Tenn.) Bank. "It is the first time for the last two or three years that municipals have become an attractive arena for investments.

"Because we feel the present high interest cycle will not last much longer (perhaps another quarter), the current quarter is the time to lock in some of the high yields now existent. Also, because we believe the down cycle will not fall as low in relation to its posture before the rise, as has been the case in the past, and because we feel the cycle will not remain down as long, we are thinking more of short-term maturities. I think government maturities should be two to five years and that municipal maturities should be in the five- to 10-year range. In the past, we would buy high-grade municipals with 12- to 15-year maturities.

"All this philosophy obviously is adapted to Murfreesboro Bank and the

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loan demand we have in this area. Loan demand has continued to be high (we see the necessity of reaching a little stronger for liquidity than we have in the past two to five years)."

No Long-Term Bonds

William H. McLean, chairman of the $307-million Commercial National of Little Rock, reports a change in investment strategy since last summer. He explains it this way: "Earlier this past summer, our investment department recommended to management that we begin lengthening maturities in order to lock in what appeared to be attractive interest rates. We purchased a number of government issues of approximately 10-year maturities.

"Recent events changed our minds, and we reached the conclusion that abnormally high interest rates are going to be here for a long time. We think that a near-term recession certainly will drop rates temporarily, but that high rates again will rise because the real cause of inflation has not been dealt with. Believing this, we do not think it wise to invest in long-term bonds of 10 years or more."

Mr. McLean added that his bank's investment department, composed of a number of experienced officers, studies economic trends and meets with Commercial National's executive committee every Monday morning. At that time, investment decisions are approved.

Gov't/Municipal 'Runoff'

At the $746-million Albuquerque National, George S. Jenks, chairman/CEO, says: "Our portfolio is approximately 46% government and agencies and 54% municipals, with investments equaling about 31% of assets. As can be seen, this is a relatively high percentage in investments that would place us in a position to switch out to other asset forms. Because of the aberration in interest rates and the drastically inverted yield curve in governments, our strategy most recently has been to utilize government runoff to meet loan demand and reinvest municipal runoff out 10 years to try to take advantage of higher yields. Historically, our portfolio has been short, and this will have the effect of lengthening the municipal segment, while shortening the governments and agencies. It is our intention to restore the government runoff as loan demand moderates, interest rates decline or deposit growth exceeds loan demand."

Loss Strategy

"Our present loan demand is extremely strong," says Richard M. Pollack, senior vice president, Sears Bank, Chicago ($493-million bank), "and to accommodate borrowing customers, we presently are not in a position to increase portfolio outstandings. In reinvesting proceeds of our maturing taxable and tax-exempt issues, our inclination is to reinvest at the longer end of the maturity ladder to lock in yields we believe will be attractive during 1980. We are a firm believer in utilizing the strategy of taking losses on tax-exempt bonds and reinvesting sale proceeds in higher-yielding issues when banks can afford the resulting reduction in net income." ● ●

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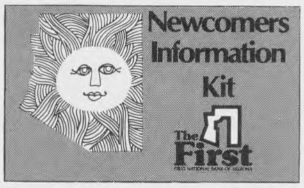

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Liberty Nat'l Hosts 'Sky Breaking' To Start New 19-Story Tower

LOOKING UP and forward to the future, not down nor backward, was the subtle theme of the "sky breaking" (not ground breaking) of the new Mid-America Tower, which will provide additional office space for Liberty National, Oklahoma City.

To commemorate the sky breaking, the bank launched more than 2,000 helium-filled balloons to mark the beginning of construction of the new 19-story office tower.

"Downtown Oklahoma Citians are weary of looking down into the ground (a tongue-in-cheek reference to a two-year demolition program by the Urban Renewal Authority). Things are looking up in downtown Oklahoma City," according to J. W. McLean, chairman, Liberty National, who presided at the sky breaking.

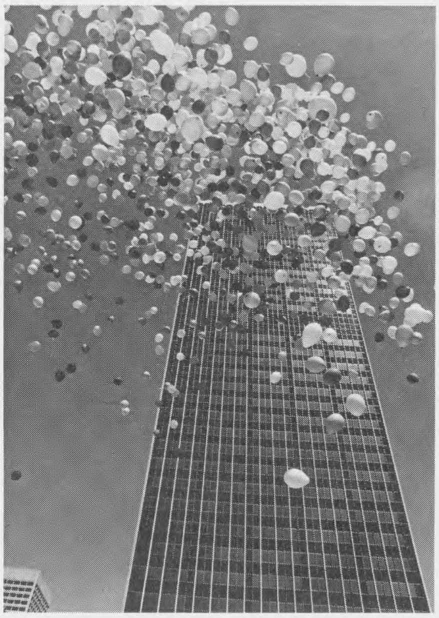
The bank will share the building with two additional co-owners, an Oklahoma City law firm and the Devon Corp.

An extra dividend for spectators was tucked into six balloons. Five certificates entitling finders to $100 CDs and one $500 CD were inside balloons launched.

Mid-America Tower, which will occupy the corner of Main and Broadway south from Liberty Tower, will provide nearly 350,000 square feet of office space and will be connected to Liberty Tower through the city's underground concourse system.

The office tower is the first of two proposed buildings for Mid-America Plaza. The second will be a 350-room,

J. W. McLean, ch., Liberty Nat'l, Oklahoma City, tells audience that things are looking up (improving) in his town at 'sky breaking' of bank's 19-story Mid-America Tower.



Balloons were integral part of 'sky breaking' of Liberty Nat'l of Oklahoma City's new 19-story Mid-America Tower.

19-story hotel with a 600-car parking garage. Construction of the hotel is expected to begin during the next three years.

Helium-filled balloons were used as invitations to the event, which commemorated the bank's 61st anniversary and the 11th anniversary of the ground breaking of the 36-story Liberty Tower.

Mr. McLean recalled that Liberty Tower signaled the beginning of numerous major office structures in the city's central core and said, "Now, 11 years later, we are all the more impressed with the future of downtown Oklahoma City and we trust Mid-America Tower will be another worthy addition." ● ●

Usury Puritanism

(Continued from page 6)

cated, though state-chartered banks are held to the usury ceiling.

In many states, corporations are not subject to usury charges. It is interesting also that, as of this writing, the prevailing prime rate is well over 11½%. When added to the fact that compensating balances typically are called for on prime loans, this comes out to possibly a 10% to 15% higher effective rate even though the prime is rated as above. Also, consider the relationship of interest-rate ceilings to the inflation rate: If the inflation rate is in excess of 10% and the mortgage interest rate is 10%, in real value, the interest is a de facto negative rate because the lender is forced to pay a tax on the interest received.

Conclusion: Dynamics of our times are making the workability of usury ceilings less and less effective. These dynamics are difficult for the man on the street to comprehend. Both the public and legislators have an affinity for usury ceilings on all types of lending. Getting legislators or the general public to accept a free and unregulated market will require more than a passive hopefulness. ● ●

Study Shows Record Level In Financial Performance Of Regional Banks

Financial performance of the nation's regional banks is at a record high, according to Cole Surveys, Inc., Boston. This survey, which has tracked financial performance since 1973, represents a cross-section of regional, non-money center banks in the nation.

"Our participants have shown dramatic improvement since the inception of this report," says Ben S. Cole, president. "During the first half of 1973, return on assets averaged .68%, compared to the current six-month average of .95%. And return on equity averaged only 11.27% then and now is 13.61%.

"We're finding that bankers are more sophisticated these days and much more concerned about tracking the components of their profitability throughout the year and, I might add, throughout the business cycle."

This study shows that, on average, branch banks were more profitable than unit banks. For the four-quarter average through second quarter 1979, net income per $MM assets was 14.3% higher for branch banks than for unit banks. "They outperformed unit banks in both interest revenue and expense," according to Mr. Cole.

Cole Surveys, Inc., is affiliated with Cole & Associates, Inc., management consultants specializing in salary administration, incentive compensation, performance appraisal, organization development and manpower planning. Both Cole organizations are subsidiaries of the Wyatt Co., actuaries and consultants in employee benefits, employee communications and risk management.

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Banker Gives Break to Customers; Promotes Term Insurance for Loans

By KAREN KUECK
Assistant Editor

CUSTOMERS transacting a real-estate loan with Citizens Bank, New Haven, Mo., get a good deal from Wayne Bock, the bank's president. In cases where additional insurance seems needed to protect the property involved, Mr. Bock usually suggests they purchase single-premium decreasing term life insurance, despite the fact that he could earn a higher commission by selling credit-life insurance.

He promotes single-premium decreasing term insurance because it provides the same coverage and is cheaper for his customers than credit life. Mortgage payments and the cost of housing are steep enough already, he explains.

Obviously, his customers agree. More than 70% of his new real-estate-loan customers have been sold on the insurance. In fact, Mr. Bock's success in selling this insurance won him third place in a contest sponsored by Security Benefit Life Insurance Co., Topeka. The policies are written on this company through Insurance Enterprises Inc., St. Louis.

Wayne Bock, pres., Citizens Bank, New Haven, Mo., discusses single-premium decreasing-term life insurance with residential-real-estate loan customers.

Wayne Bock, pres., Citizens Bank, New Haven, Mo., won third prize in insurance-selling contest this summer. He has been selling single-premium-term life insurance since March.

Single-premium term rates are cheaper because they are based on an individual's age and health and are for the duration of the loan. If the breadwinner dies, this insurance pays off the balance of the mortgage. Credit-life rates are the same at age 16 as they are at age 65 because they are tied to a group policy.

If a customer is 30 years old, single-premium-term insurance is about one-third the cost of credit life. For example, a 30-year-old customer in good health can expect to pay $251 for single-premium-term decreasing insurance on a 10-year, $10,000 loan. Credit-life coverage on the same loan would cost the customer $750.

"The majority of people want to have some sort of insurance to pay for their home in case something happens (to the breadwinner). I am looking at the most protection for the lowest cost for the customer and also protecting the bank's interest. A person feels more secure knowing that if something happens to him, or her, the spouse is not going to be saddled with payments that might be between $200-$400 per month. The spouse will have a deed rather than a debt," he says.

"Most people can afford single-premium-term life insurance. In some cases, the option of choosing between single-premium-term and credit-life insurance can mean the difference between insuring a loan or not insuring it."

Mr. Bock soft sells single-premium-term insurance.

"If a customer is adequately insured already, I don't push it," he says. "If a customer doesn't want single-premium-term insurance, then I advise him to check the alternatives with his insurance agent. As long as he is adequately insured, then the situation is okay with me."

About six out of 10 real estate loans are for residential real estate in this town of about 1,500. At first glance, the town might seem to be primarily an agricultural community. However, it is not. About 500 persons are employed by Kellwood Co., St. Louis, at its New Haven location. This company is an apparel manufacturer of men's, women's and children's clothes and outer wear. Also, the company manufactures home fashions and recreational equipment, such as sleeping bags, tents and backpacks. Other residents are employed at Langenberg Hat Co. and at the Hebbeler Pepsi-Cola Bottling Co. located in New

Haven and some are employed in nearby Washington, Mo.

Citizens Bank has written more residential-real-estate loans this year than in the past. When the bank started offering money market certificates to customers for the first time, it caused a need for expanding the bank's loan portfolio to generate additional income.

Since March, the bank has written about $400,000 of insured real estate loans to 16 customers.

Although the bank leans heavily toward residential-real-estate loans, it does make agricultural-real-estate loans, too. Some customers have bought land strictly as an investment or as a future building site.

"Around here, it is common for a young couple to purchase between five to 10 acres of land, six to eight miles out of town on which they eventually will build a home," Mr. Bock says.

Mr. Bock says that the Fed's belt-tightening announcement on October 6 regarding the money supply will not evaporate his mortgage-loan money.

"I don't think it's going to have quite as drastic an effect in our particular area as it would in some of the larger metropolitan areas. We don't have the large corporate demand that they do which competes with consumers for loans."

He explains that the larger metropolitan banks probably will lend the higher-priced money to corporate customers at 14% or 15% rather than lend it to consumers at 11.4%, Missouri's current usury ceiling.

In addition to saving his customers money on their insurance, Mr. Bock tries to save them money on their loans. He does this by writing loans for 15 years instead of 20 or 30. He explains that a $25,000 loan during a 15-year period would cost a customer $26,000 in interest with monthly payments of $284. However, the same loan for a 30-year period would cost $60,000 in interest with monthly payments of $238. That's a $34,000 difference in interest.

Obviously, making these insured residential-real-estate loans is good business for Citizens Bank and is helping it grow. Deposits have grown from $8.005 million as of May 31, 1979, to $9.331 million by mid-October. Assets have mushroomed from $9.711 million in January to $10.6 million in 10 months. ● ●

"Term" Fulfills Need for Higher Coverages

Insurance firms are recognizing the increasing number of restrictions being placed on credit life insurance, i.e., lower rates, lower commissions and other legislation that further restrict both profits and coverage amounts. Thus, new sources of coverage and profit, says Ron Davis of Guardsman Life, West Des Moines, Ia., are emerging from the insurance industry.

Term insurance, he states, has long been recognized as a "good buy" for the borrower, except at the older ages. However, delays in issuance of term policies (because of medical exams and restrictive underwriting) have kept bank agents from writing a volume of this business, he says.

Many companies, he says, including Guardsman Life, now have "streamlined" their procedures, asking only four health-related questions on the application, liberalizing underwriting criteria and extending limits on amount of insurance written for each individual.

These newer policies are easier to write, he explains, and "volume" accounts often are able to issue policies right in the bank. These systems, he says, are revolutionizing the industry and he urges bankers to look for these coverages to partially replace any lost volume on credit life and also to add coverage to those borrowers who need larger limits.

Pension-Investment Fund Begun By Manufacturers Hanover

NEW YORK CITY — Manufacturers Hanover Trust has introduced a new high-yield pension investment plan designed to provide a secure rate of return competitive with guaranteed income contracts (GICs) offered by insurance companies.

The fund, known as a commingled bond-immunization fund, has initial assets of about $68 million from pension-fund clients invested to provide a return of approximately 9.8% annually for five years. Immunization is a means of hedging the structure of a bond portfolio to assure a base level of return regardless of interest-rate fluctuations. Also, according to the bank, it permits more flexibility than GICs in redeeming investments prior to full maturity.

Graduate Banking School Appoints Five Faculty Section Leaders

MADISON, WIS. — The Graduate School of Banking, University of Wisconsin, has appointed five new section leaders from its faculty members. All are bankers, according to Richard I. Doolittle, the school's administrator.

They include William J. Chapman, executive vice president, First National, St. Louis — commercial bank credit section leader; David E. Connor, president/director, Commercial National, Peoria, Ill. — postgraduate loans/bank investment management; James E. Louden, president, First Chicago Trust of Arizona — third-year course in personal financial planning; Lloyd C. Lyons, vice president/director of personnel, Indiana National, Indianapolis — personnel management; and Bernard T. Wall, vice president, First National, Chicago — third-year course on trust department procedure and practice.

"The section leader directs those faculty members assigned to particular subject areas and oversees all scholastic activities assigned to that area," says Mr. Doolittle.

Section leaders are chosen from the faculty lists for their experience and leadership in the given field of study, Mr. Doolittle says. There were 33 section leaders for the 1979 school program.

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How Embezzlers Work; How to Discourage Them

By OSCAR W. JONES
Director
Loss Prevention Services
Risk Control
Services, Inc.
Chicago

EMBEZZLERS are getting tougher!

In the last 10 years, bank-embezzlement losses have increased three times! Just as disillusioning is the fact that as we become more enlightened on internal controls, embezzlers become more accomplished in concealing their work over extended periods. The large embezzlement these days often has gone on for over 10 years before its detection. In addition, there is little chance of determining length of time and amounts involved in misappropriations of money later replaced and thus never discovered or publicized.

While it is not possible to say with any accuracy that such-and-such a bank will be next on the list, neither is it possible to say that it will not be. Embezzlement has and will continue to hit at both large and small banks if any opening at all exists. We have to be on our guard constantly. We must be ever watchful for the dishonest employee. We must learn how to prevent his peculations or at least how to detect them with no waste of time.

In almost all instances of defalcation, the employee continues his embezzlement just as long as he can do so successfully. If money has once been taken and replaced without arousing suspicion, it surely will tempt the culprit to commit further misdeeds. Success may, and often does, attend these peculations for many years. Some are never discovered.

Bank embezzlements may be consummated with little or no attempt at concealment or with the most elaborate precautionary devices in an attempt to keep the misdeeds under cover. Oddly enough, experts in the matter have concluded that the plan followed in the concealment is, in the great majority of cases, not conceived until after the fact. That is to say, the embezzler first helps himself, then decides how to cover his fraud. You can see that the best cure for this ill is complete elimination of any chance for things to be "buried." (Of course, there are those cases wherein no thought is given to concealment, since the employee takes the money and leaves town in the same act. But we are interested here primarily in long-term peculations.)

"Most employees are trustworthy. Yet embezzlements are committed by trusted employees, for it is axiomatic that no bank would place an employee about whose honesty it has any doubts in a position where he could manipulate a swindle."

There are a number of ways in which an embezzler can fog his trail. Here are the principal methods used and some ways to prevent them.

1. *Misappropriation of money or property* before it has been recorded properly, which points out the need for firm controls at the point of entry and automatic double check on incoming items with verification used regularly as a means for determining accuracy of bank records.

2. *Misappropriation of income*, again pointing out the need for good checking methods and constant verification of these items.

3. *Manipulation of expenses* follows quite naturally. Thus, responsibility for disbursements should be centralized, and controls should be set up to verify receipt of all goods or services for which expenditures have been made.

4. *Actions taken above and beyond those authorized* by management. The best way to combat this is to define clearly what duties and discretionary powers are within the province of each staff member. Acts beyond the scope of an officer's or employee's duties should call for immediate disciplinary action. In some cases, the bank, its officers and directors can be held liable for damages, so authority must be well defined.

5. *Forging instruments or making fictitious entries*. By far the best counter to this is a dual-control system that requires that all items be double-checked at the time of the transactions. Too, the need is obvious for regular and accurate verification.

6. *Irregular bookkeeping entries*. Without a doubt, the best way to stop these is through audit control. The knowledge that the various journals, ledgers, etc., may be inspected at any time is a powerful deterrent to the would-be embezzler. Peculation thrives on the status quo.

7. *Mishandling of Physical Assets*, either those of the bank or those of customers. Dual controls, inability of any one person by himself to authorize any action whatsoever that affects bank assets or customer assets for which the bank is responsible, regular audits of these physical assets, verification of all instructions and authorizations concerning them: *These* are your weapons to fight loss in this area.

Actually, there are 33 separate and distinct types of embezzlement. The seven listed, however, are comprehensive and set up general areas in which most embezzlers work.

One of the things about this list that often causes comment is that it is concerned largely with those details usually controlled by long-trusted, valu-

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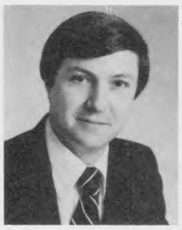

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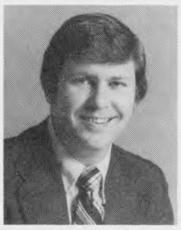

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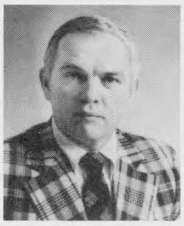

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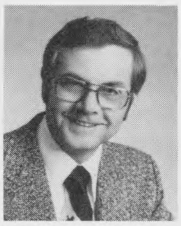

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Most employees *are* trustworthy. Yet embezzlements are committed by trusted employees, for it is axiomatic that no bank would place an employee about whose honesty it had any doubts in a position where he could manipulate a swindle. Thus, it seems a bank is faced with a problem of how far to trust a trusted employee.

I think a bank can trust him a long way — *if* the proper controls are arranged to operate independently of personalities. That *if* includes audit controls, internal controls, verification. The bank has a responsibility — yes, an *obligation* — to its employees to ensure their trustworthiness and remove temptation by using controls and methods available to them to prevent dishonesty at its source and before the initial dishonest act is committed.

May I repeat a paragraph from a previous article on embezzlement trends:

"In the interests of your depositors, your stockholders and public relations, it is imperative to allot a reasonable amount of money for personnel audit, modern audit controls and insurance protection. The position of banks in the mind of the public demands a stop to their forced closings and to the huge losses resulting from this vicious disease, embezzlement. The cure is in your hands." ● ●

New Loss-Prevention Firm

Risk Control Services, Inc., with headquarters in Chicago, is a new national firm prepared to meet the rapidly growing demands for professional help in safeguarding against bank frauds and embezzlements and against the new rash of bank holdups throughout the nation.

Overall operation of Risk Control Services, Inc., is being directed by Oscar W. Jones, who, for the last 10 years, has been director of loss prevention services for Scarborough & Co., Chicago-based bank insurance specialists. In this capacity with Scarborough, he has worked closely with banks throughout the nation in the areas of general bank-accounting

practices and procedures, internal controls and physical security. Formerly an agent with the U. S. Treasury Department, he investigated bank-oriented frauds and embezzlements for a number of years in that capacity before joining Scarborough. His background also includes eight years in banking and 18 years in public accounting. Mr. Jones was a member of the ABA audit task force and is the author of numerous articles on bank-accounting practices, audit procedures, internal controls and physical security.

Says Mr. Jones, "With the FBI reducing its role in its investigation of 'white-collar' crimes, i.e., bank frauds and embezzlements, banks across the nation now are in need of loss-prevention services to safeguard against these losses. With the dramatic increase in bank holdups, banks are in equal need of safeguards against these vicious crimes."

Banks wanting more information on this new professional service should write: Risk Control Services, Inc., 55 West Wacker, Chicago, IL 60601.

Proposes Revisions

(Continued from page 18)

may use those forms to satisfy many of the annual reports' financial-statement requirements.

In what is described as a unique move, Mr. Heimann also asked for comments from all interested parties concerning retention or elimination of 12 CFR Part 18 in its entirety. He specifically requests opinions as to whether the costs and burdens incurred by banks in satisfying the regulations' requirements are equal to public benefits derived from them, particularly in view of the fact that primary financial data required under the regulation also are publicly available.

The proposed revision also addresses the issues of annual-report distribution and details for annual-report-footnote requirements. The proposal suggests that reports no longer need be provided to the Comptroller or to the appropriate regional administrator of national banks. Also, to accommodate situations where a national bank has a small number of shareholders who don't want annual reports, a new exemptive provision has been added. Details of footnote requirements have been replaced by a cross reference to 12 CFR Part 16.

Comments are invited by November 19 and should be sent to: Rhoger H. Pugh, Director, Coordination Division, Office of the Comptroller of the Currency, Washington, DC 20219.

Employee-Motivation Course Offered to Bank Managers

MADISON, WIS. — A management institute seminar entitled "Employee Communication and Motivation for Bankers" will be held December 6-7 at the University of Wisconsin extension center here.

It is designed to teach bank managers methods to help their employees perform to the maximum of their capabilities. Topics will include day-to-day efficiency through communication, helping employees understand their roles in the bank, employee participation and job performance and techniques of evaluating communication in your bank and area of responsibility.

For more information, contact Joyce Stout, Management Institute, University of Wisconsin-Extension, 432 N. Lake St., Madison, WI 53706.

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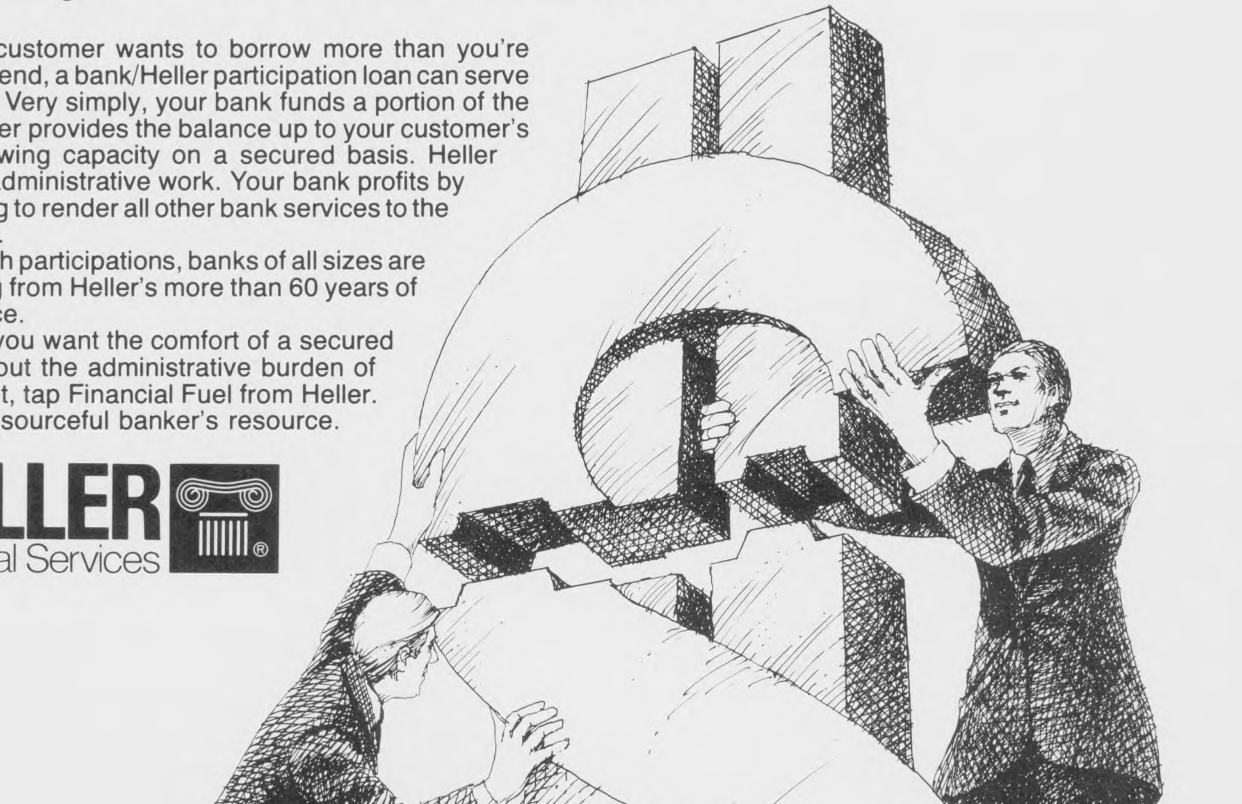

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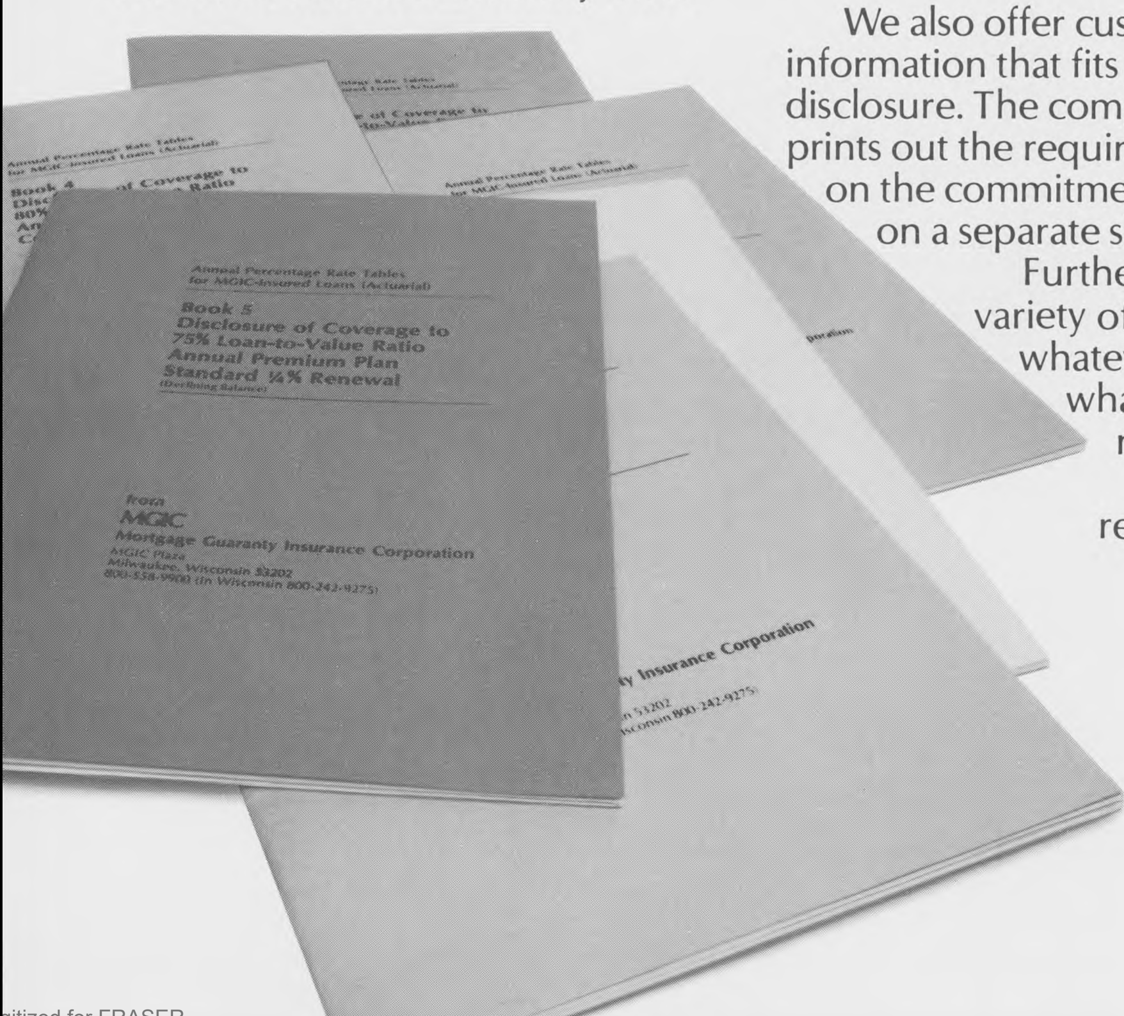

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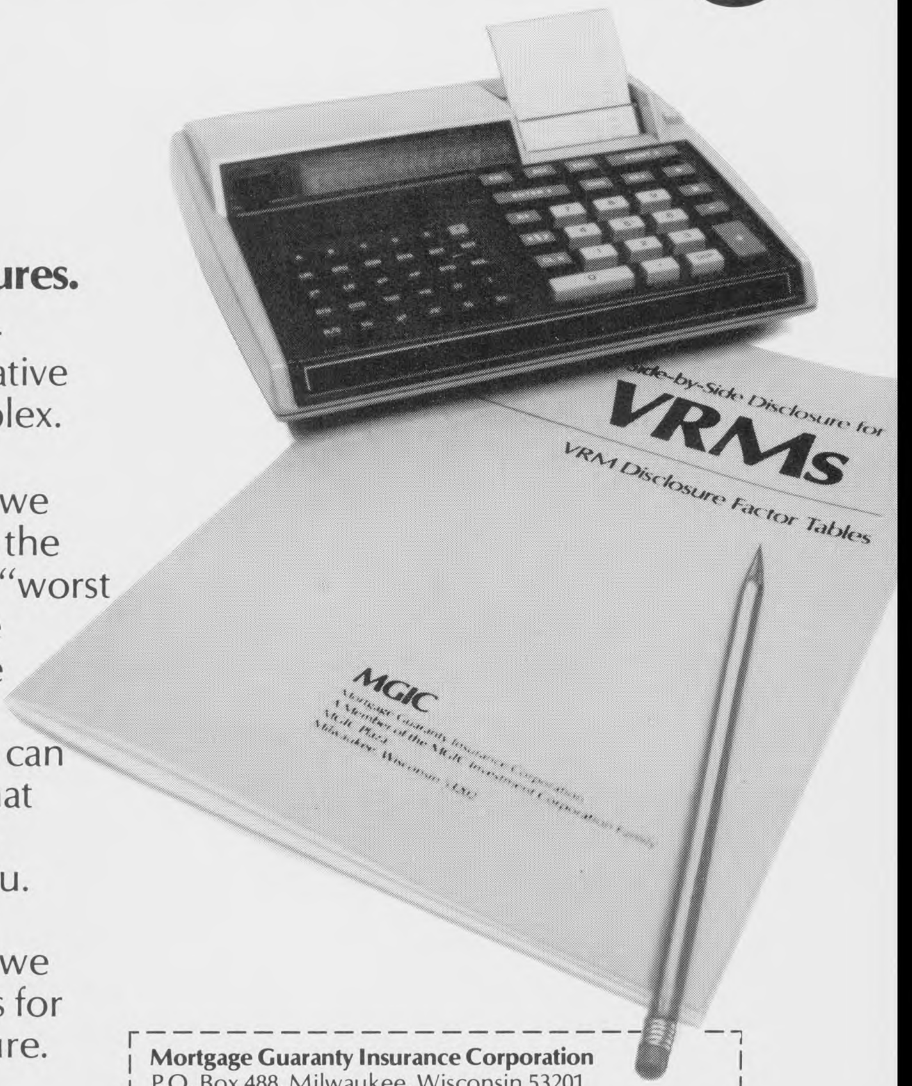

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Risk Management

Key To Improved Security

By JAMES E. MOONEY

SECURITY, as it is practiced in the banking industry today, is *obsolete*. It is obsolete because it is incomplete. It is incomplete because it concentrates on loss prevention and control. And it is incomplete because the security function in most banks is administered as a separate responsibility, *not* integrated with overall bank management. As such, security is a *response*. But a response to what?

It is largely a response to exposures we recognize *primarily* through legislation and regulation and *secondarily* through haphazard experience and what we like to call "common-sense" observation.

As such, security methods can be compared to *security blankets*. In this department, some of you have electric blankets, backed up by wool blankets, space blankets and thermal underwear. Some of you have security blankets that resemble unmended fishing nets.

Now, a healthy respect for loss prevention and control is a positive contribution to security in *any* business. The problem, for the most part, is that prevention and control strategies tend to be isolated. It is comparable to swatting at bees, then removing and medicating the stings, as opposed to either avoiding the devils, eliminating them or repelling them.

In short, security as practiced in most institutions today is *response* and *reaction*. It does not evolve from systematic risk analysis. It is *not* risk management.

Crime risks are only one area of overall bank risk. But it is *risk* that security measures must respond to. And *risk* can be examined and assessed. And it can be managed.

Risk may be defined briefly: It means uncertainty. By definition then, the greater your awareness, control and thorough-going management of risk is, the lower your risks will be — simply because uncertainty has been reduced.

What is risk in the sense that it can be managed?

Basically, there are two types of risk, and it is easy to distinguish between them. In short, investment and similar marketplace risks are *not* the subject of risk management because they have two sides. They may produce gain or they may produce loss. Simply, the techniques of risk management can be applied to risks that cause *loss only*.

Essentially, risk management is a *decision process* that involves five steps. These are:

1. Analyzing — identifying and evaluating — exposure to loss.
2. Developing alternative techniques for treating each exposure.
3. Choosing the best techniques or combination of them.
4. Implementing your choices.
5. Monitoring your results — and around again.

The process of risk management is a simple, continuing cycle.

You can make it as basic or as complicated as you like, but the underlying principles remain the same. Risk management is a systematic *awareness* of certain kinds of risks and *action* to control them. Those are the nuts and bolts.

The awareness phase requires that you develop a method of recognition and analysis of overall risk. The action phase requires that you choose among alternatives. Awareness first. Action second.

Now let's make it easier by getting more specific.

What bank operations or assets create manageable risks?

First off, where to look? Where do you find the tools with which to build a systematic approach to managing risks? A stroll around the building and through the various operating areas won't tell you much. What will? In the case of a bank, it's fairly simple. Go straight to your working papers. This means your balance sheets, profit-and-loss statements, organization charts, flow charts, loss records, leases, service contracts, personnel training and similar procedures manuals — indeed *any* documents that reflect an overall picture of the bank's business — because the bank *is* a business whose profitability, as well as whose safety, is in your hands.

Risk management is *best* begun by digging into the balance sheet. Not only is it the most sensible way to do it, it helps put this area of bank management into the same perspective as all

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James E. Mooney, CPCU (chartered property casualty underwriter), is an independent risk and insurance consultant specializing in the particular needs and

problems of financial institutions. His advisory activities are confined to bank officers, directors and insurance representatives. He is not involved, directly or indirectly, in the sale of insurance.

He also is editor and publisher of *The Risk and Insurance Management Guide* and editor of *Risk Management News*. He brings a background in all phases of property, marine and casualty underwriting, as well as in marketing, insurance and financial education, publishing and research to his current activities.

Mr. Mooney received the CPCU designation in 1969. He has developed several basic and advanced seminars in risk, insurance and supervision. He conceived and created the InCARE Service (Insurance-Coverage Analysis, Review and Evaluation) — a systematic, "balance-sheet" insurance program review. In addition, Mr. Mooney is the author of several insurance and taxation guides and is a regular contributor to insurance and management periodicals.

This article is based on a talk given by Mr. Mooney at a security seminar sponsored by the National Association of Mutual Savings Banks.

other areas. Thus, it is completely compatible.

Look at the asset side of any balance sheet. It proceeds logically — from the most liquid item, cash, to the least liquid, fixed assets. Where are the concentrations? What perils threaten these assets? What values does the balance sheet reflect? Actual value? Book value? If any assets, alone or in combination, were damaged, destroyed or lost, what would be the effect on the earning capacity of the bank?

With respect to the liability side of the balance sheet, you may assume that (with the possible exception of tax accruals) the entire amount — including capital and net worth accounts — is subject to claims brought against the institution by third parties alleging almost any combination of negligence or malfeasance. Principal areas of exposure here are injuries to employees and injuries to the general public. Appropriate steps must be taken to control all hazards and to minimize frequency of loss. *Frequency* is especially important with respect to liability potentials because incidents that occur may create *no* dollar loss, *moderate* dollar loss or *substantial* dollar loss. In addition, you must evaluate your own potential for error or mistake: Could the bank be sued? By a customer? An employee? An owner or trustee? For the same kinds of mistakes? Will the bank be liable? Or could you personally be held liable? Who pays?

Once you have identified bank risks, you must determine their importance. And only *you* can determine relative importance. You will find a variety of risk situations. You will find risks that have large loss potential, that are virtually unpredictable and unmeasurable. And you will find many types of risk that are small, spread out, relatively measurable and, occasionally, quite predictable. You will find situations where there are *many* opportunities for loss to occur as well as situations where there are *few* opportunities for loss. It will be these combinations of relative risk spread, chance of loss occurrence and potential size of a loss that will further refine your overall risks profile.

Once you can see that profile and perspective, what can you do to reduce the chance that loss can happen? *Or,* if a loss does occur, how can the effect of the loss be minimized?

As we observed earlier, there are many approaches to risk management. Some are simple; some are complex. All of them add up to *answers* plus *action.* All attack the same questions and problems.

Remember, risk management requires *action* – once risks have been identified and evaluated. After you have pinned down the risks you face, defined them, assigned a relative value and importance, then you must *act.* You know what you face. What can you do about it?

There are five ways of dealing with risks of loss. The term "ALERT" suggests prompt response and helps you keep them in mind. As an acronym, it suggests five alternatives that are available to you. They are:

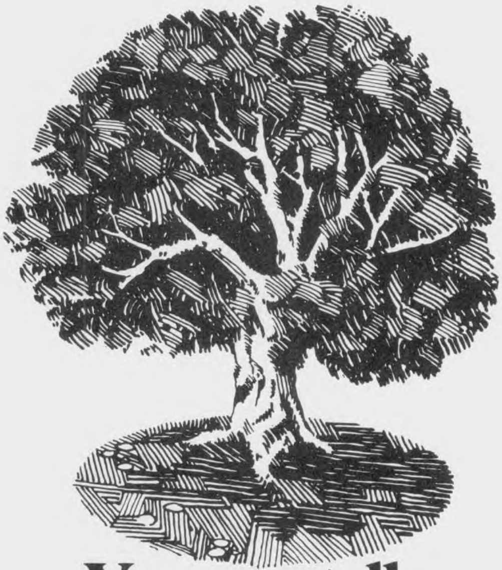
1. Avoid.
2. Let go.
3. Enhance.
4. Retain.
5. Transfer.

Let's go over them briefly:

Avoid means an active decision not to incur the risk. Of course, there are many risks inherent just in eating, sleeping or breathing. They cannot be avoided. But certain risks can. If you want to avoid injuring anyone with an automobile, you can choose not to drive. More practically, if you are driving, you can avoid the risk of driving while intoxicated simply by not drinking. In business, you can avoid risks of subcontractors or employees, in many cases, by choosing to use independent contractors instead. You can avoid substantial EDP hardware risks by contracting your information-processing needs to an outside service organization.

Let go refers to a risk you have, but would rather be without. The principle is the same as avoidance. The *difference* is that some risks you already have can be eliminated — by termination, non-extension, renegotiation or, possibly, reorganization. The same examples serve here. Agency relationships involved with employees and subcontractors can be eliminated by choosing to deal with independent contractors instead. Maintenance is one area of bank operations where this might be particularly apt.

Enhance describes a positive act. Anything you do to reduce or minimize risk or prevent loss enhances the risk and makes it more attractive — either to retain or to insure. Installing fire-detection and extinguishing apparatus, burglary and robbery-detection and alert systems, constructing a fire wall, arranging operations and property to disperse values or to contain hazards — distributing assets to "get all the eggs out of one basket" — are some basic examples of ways certain risks can be enhanced. Even if insurance is still needed, its cost will reduce as the potential for loss is reduced. So you



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

- Our lead bank, National Bank of Detroit, is the largest in Michigan and eighteenth in the U.S. with deposits of approximately $7 billion.
- Eight other subsidiary banks strategically located throughout the state of Michigan bring the total number of retail banking offices to 147.
- International offices in London, Frankfurt, Tokyo, and Nassau plus financial affiliates in Europe, Asia, South America and Australia.
- Additional domestic subsidiaries engaged in mortgage banking, consumer finance and insurance.

Our growth is made all the more significant to investors because of consistent profitability. In the last ten years, for example, earnings have grown at a compound annual rate of more than 11% and the dividend rate has increased at a compound annual rate of 7%. This earnings growth over the past decade compares favorably with that of the banking industry and the Standard & Poor's 500 (Composite) stock index.

National Detroit Corporation is listed on the New York Stock Exchange (Ticker Symbol NBD). Our latest financial reports are available by writing to the Financial Communications Department.

CONSOLIDATED BALANCE SHEET—September 30, 1979

(dollars in thousands)

ASSETS

Cash and Due From Banks (including Foreign Time Deposits of $995,418)	$2,325,199
Investment Securities—At Amortized Cost (Market value $1,379,942)	1,399,640
Trading Account Securities—At Lower of Cost or Market (Market value $11,059)	11,059
Money Market Investments	1,117,623
Loans:	
Commercial	2,391,041
Real Estate—Construction	50,409
Real Estate—Mortgage	1,048,264
Consumer	681,029
Foreign	538,509
	4,709,252
Allowance For Loan Losses	(58,544)
Unearned Income	(92,345)
	4,558,363
Lease Financing	24,543
Bank Premises and Equipment (at cost less accumulated depreciation of $65,759)	89,786
Customers' Liability on Acceptances	238,037
Other Assets	143,929
Total Assets	$9,908,179

LIABILITIES AND SHAREHOLDERS' EQUITY

Deposits:	
Demand	$2,193,541
Certified and Other Official Checks	386,574
Savings	1,407,682
Time	1,205,583
Certificates of Deposit	950,907
Foreign Office	1,124,602
	7,268,889
Short-Term Borrowings	1,527,818
Liability on Acceptances	238,037
Accrued Expenses and Sundry Liabilities	203,683
Capital and Installment Notes	76,151
Total Liabilities	9,314,578
Other Commitments and Contingent Liabilities	—
Shareholders' Equity:	
Preferred Stock—No Par Value	—
No. of Shares	
Authorized 1,000,000	
Issued —	
Common Stock—Par Value $6.25	75,972
No. of Shares	
Authorized 20,000,000	
Issued 12,155,502	
Capital Surplus	180,529
Retained Earnings	337,100
Total Shareholders' Equity	593,601
Total Liabilities and Shareholders' Equity	$9,908,179

Assets carried at approximately $766,000,000 (including U.S. Treasury securities carried at $44,000,000) were pledged at September 30, 1979, to secure public deposits (including deposits of $60,793,000 of the Treasurer, State of Michigan) and for other purposes required by law.

Outstanding standby letters of credit at September 30, 1979, totaled approximately $53,000,000.

NBD

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NATIONAL DETROIT CORPORATION

National Bank of Detroit

611 Woodward Avenue, Detroit, Michigan 48226

National Bank of Detroit and its international banking and financing subsidiary, International Bank of Detroit; NBD Commerce Bank, Lansing; NBD Port Huron Bank, N.A.; NBD Troy Bank, N.A.; NBD Dearborn Bank, N.A.; Grand Valley National Bank, Grandville; First State Bank of Saginaw; NBD Portage Bank; Peoples Bank & Trust of Alpena; Instaloan Financial Services, Inc.; NBD Mortgage Company; NBD Insurance Company; NBD Financial Services of Florida, Inc.

should review every avenue for risk improvement.

Retain. As suggested, a risk may be either so minimal or so remote (you may have reduced it to that point) that you will find it more expensive to transfer it to an insurance company or other third party such as a contractor than to keep it.

One example of predictable losses is automobile physical damage. If you've got a few vehicles in your business, you don't need an actuary to tell you that you can expect a few "fender benders" over the course of their useful lives. But you can see the cost difference between buying maximum first-dollar insurance (if you can get it) and a large deductible such as $500 or $1,000. If you like, you can consider using the cost savings as the basis for funding automobile physical-damage repairs below the deductible amounts.

Transfer risks to somebody else. This is a frequent method of reducing risk to the business and to you and your people. A common example is incorporation. A legal entity is created to assume the responsibilities of the business, and the personal liabilities of owners and operators is limited. Another frequent instance is to require so-called "hold-harmless" or "indemnification" agreements with subcontractors, suppliers or tenants. Often this device is abused and over-relied on, especially when you have no assurance that the contracting party has or will have the resources to carry it out if needed. Frequently, people who use these methods ask that they be backed up by a certificate of insurance.

Although, in theory, insurance is not considered a transfer of risk, for practical purposes we will label it as such for this part of the ALERT stage. Insurance is probably the most frequent example of risk transfer — from the bank to the insurer. In certain instances, such as automobile liability or workers' compensation, insurance is not only the most practical way of dealing with risk, it is required by law. And, of necessity, insurance is the only way to deal with most of the large potential losses that banks face. Thus, insurance and services which it provides always will be the bulwark of any risk-management program.

A good *physical-loss-control or security program* necessarily involves all the techniques of loss review, planning, prevention, crime deterrence, safety, first-aid and maintenance. While all these things may seem routine, they play crucial roles in your plans to control risk.

Financial hazards also must be explored and controlled. Effective controls reduce the impact of embezzlement or other fraud. Credit and purchasing controls, if constantly reviewed and revamped, will minimize the opportunity for loss to occur. Procedures for handling (or not handling) cash and negotiables, if regularly reviewed and improved, similarly will reduce the opportunity for loss.

Computerized personal and financial data in today's environment rapidly is approaching what the nuclear industry calls a "critical mass." Far too many businesses — unfortunately including a majority of banks — evidently cannot wake up to the fact that they are almost totally at the mercy of electronically stored information and the people and machinery that handle or mishandle it. And, contrary to some sophisticated insurance pitches these days, I am willing to guarantee you that all the insurance in the world cannot replace lost information. And no insurance company can keep you in business long while you go about trying to retrieve or reconstruct

Dallas is to money what Chicago is to transportation.

Chicago is our kind of town: A transportation hub. Trucking, shipping, the railroads all center in Chicago. And O'Hare is the nation's busiest airport.

It's transportation that makes Chicago go. Like it's money that drives Dallas.

Dallas is the Southwest's lead city in correspondent banking, and through Republic National Bank of Dallas you can offer your customers a complete range of financial services, in each of our departments—Trust and Investment, Petroleum and Minerals, even International.

Republic's help and cooperation are sought by correspondent banks in virtually every state. Because we offer our correspondents the capabilities and financial services of the Southwest's preeminent commercial bank.

Today, it's finance that keeps Dallas on the move. As well as transportation, since our own D/FW Airport is third in domestic air carrier operations. Because what Chicago is to transportation, Dallas is to money. And Republic National Bank *is* Dallas.

Republic National Bank is Dallas

REPUBLIC
OF TEXAS

Member FDIC

billions of grains of electronic dust.

Equally important is the development of a basic *catastrophe plan*. A catastrophe plan is nothing less than a complete emergency system to use *after* damage or destruction occur to assets vital to operations or services.

You do this by concocting a number of "what-ifs?" and asking, "What else can happen?" and "What can happen next?" The exercise ends when you begin to sleep all the way through the night again. The object of a catastrophe plan is to establish *advance* arrangements to continue service despite damage to facilities. Remember, you *cannot* close your doors and tell your customers to come back in six months.

A catastrophe plan requires time and energy *and*, yes, money. But regardless of cost, it is certain to be far lower than the cost to devise and execute an emergency plan on a rush basis in the aftermath of damage or destruction.

Risk review, awareness and action are *continuing* jobs. Risks are in a constant state of change — as are their importance and magnitude — if for no other reason than new developments in technologies, information-gathering and distribution systems and legal and social requirements and values.

Ten short years ago, we didn't have to do much thinking about pollution and environmental hazards. We did not have to worry about the now critical components in information and in word processing. We didn't have to be concerned about compliance with a variety of laws and regulations dealing with consumer *disclosure* and the opposite end of that seesaw, consumer *privacy*. We didn't need to gulp tranquilizers at the thought of pension funding, employee-benefits administration, equal-employment opportunity, community-reinvestment constraints and a host of new legal systems and attitudes that have introduced many new concepts of *strict* liability. Take an aspirin and *add* to all that the effect of *inflation* on assets and income values, and you cannot avoid an ongoing picture of change.

The kinds of risks that should concern us lurk in all areas of bank assets and operations — from the largest machine and the highest executive down to the last sheet of paper — whether it is negotiable or not — and the newest teller-trainee. Remember, *risk management* is not concerned with economic judgments that bring assets, investments and personnel together. It is concerned with their protection, their preservation and their continuing income-earning opportunity. So, although risk management has its own special focus, it cannot be separated from overall bank-management and general-management vision and foresight.

A valuable aid is the monthly publication, *Risk Management News*, which keeps you up to date on current risks, insurance, loss-prevention and management techniques and of which I am privileged to be senior editor.

Another area of support in practical risk-management education are basic and advanced seminars, which over the past few years, have been attended by approximately 300 bankers, their trustees and often their insurance advisers. I'll have to admit I get involved there as well.

On a more personal level, in 1976, I introduced the Insurance Coverage Analysis Review and Evaluation (InCARE) service, which — again for many of your institutions — has become *the* working risk-management and insurance-control document.

I urge you to investigate and to take advantage of these risk-management services.

The primary purpose of risk analysis and risk management is *prevention, reduction and financing of loss*.

It is well past the time when you can afford to *back* into your security programs with random responses and reactions.

An integrated risk-management approach produces a consolidated program of continuing risk reduction, risk control, risk financing and monitoring. All this adds up to a much more *secure* security and the distinct probability of some refreshingly surprising cost savings. ● ●

E. H. Schoor Dies

Edward H. Schoor, 71, died October 8. He retired in 1973 from St. Louis' Mercantile Trust, where he was v.p., banks and bankers department (now central group), serving as department anchorman for the last two years before his retirement. He traveled primarily in Kansas and Missouri. Mr. Schoor's banking career spanned more than 50 years and began at Nat'l Bank of Commerce, a predecessor of Mercantile Trust. He joined the banks and bankers department in 1954.

At Correspondent Bank Meetings:

The 'Party's

Social Part Takes
As Banking Grows

THIS IS AN ERA in which banking regulations and laws are multiplying fast; new technological improvements are being announced almost daily, and competition from other financial institutions is increasing. As a result, banks — particularly medium-sized and small banks — need all the help they can get to run a profitable operation. And they're getting this help from their city-correspondent banks, not only through traditional correspondent services such as check processing, bond-portfolio assistance, Fed-fund trading, etc., but with seminars, conferences and meetings on pricing of services, banking regulations and laws, investments, planning for automation and other subjects of interest to today's bankers.

These seminars are different from the correspondent-bank meetings held many years ago. Then, these get-togethers were mostly social and featured a party atmosphere, with perhaps a short business meeting thrown in. Of course, seminars and conferences held today aren't all business, but the "fun" part of them has taken a decided back seat to the business part.

This philosophy is voiced by Curtis E. Skinner, senior vice president, Northern Trust, Chicago, who says, "We provide an active schedule of seminars at Northern Trust for correspondent bankers and believe this is a most important facet of our account relationships with our bankers. Certainly, one of our objectives is to present timely subjects that have a direct bearing on the successful administration of banks. We have had quite a number of our bankers indicate they maintain account balances with us, in part, to participate in our seminars and look at this area as being as important as some of the more traditional services."

During a typical year, continues Mr. Skinner, his bank's seminars are presented for bank CEOs, investment portfolio officers, lending people and those in all phases of operations. As key legislative or regulatory matters arise, he explains, the bank may hold a special session to address specific subjects.

Again, according to Mr. Skinner, in an effort to make a seminar's subject matter more appropriate and useful to those attending, Northern Trust holds some meetings for larger banks and

Nashville's 3rd: "Let's Talk Banking, II"

NASHVILLE'S Third National Bank held its second annual correspondent seminar last month, clearly following a trend that indicates that major correspondent banks are anxious to bring much-needed and helpful information to their respondent banks.

That feeling obviously is a mutual one as respondents are seeking "advice and counsel" regarding government regulations, predictions on the economy, as well as information on how to handle fast-changing banking situations. As one banker so aptly put it during hallway conversations: "We're all paying closer attention to the bottom line . . . and that's what it's all about!"

Third National's seminar was studded with topics that fit the "bottom-line" pattern.

- Economic outlook . . . and interest rates
- Pricing bank services
- Capital planning
- Corporate cash management networks
- SBA and FHA sources of financing

FACING PHOTOS BELOW: Two views of some 250 "student" bankers who came from four-state area to attend Third Nat'l's second correspondent seminar.

Over'

Back Seat to Business Increasingly Complex

others for smaller banks. This has been effective, says Mr. Skinner, in bringing worthwhile information to groups with common interests.

Through such "working-session" seminars and meetings, Northern Trust hopes to provide tangible assistance to banks. Mr. Skinner reports the bank has received many unsolicited compliments on this format and plans to keep following it.

Evolution of correspondent-bank conferences from "parties" to business sessions can be seen at Mercantile Trust of St. Louis, which has been conducting annual correspondent conferences since 1955. Until 1977, they were known as "Mercantile's Baseball Party," and the programs originally were designed more as social than as business affairs. However, the gatherings did include sessions on banking, presented by Mercantile officers. While the bankers were attending these sessions, their wives could tour the city or be guests at special "feature" sessions. The bankers' sessions normally began at 2 p.m., followed by dinner and dancing and a St. Louis Cardinals' baseball game.

Over the years, the format of the meetings — especially since the mid '70s — has been focused more on the business rather than the social aspect. To reflect this change, Mercantile changed the conference name in 1977 to "Mercantile's Correspondent Conference" and, this year, extended the program to a full day of business topics.

Since 1977, subjects at the various Mercantile conferences have included pricing of bank services, practice of shared systems (such as ATMs), international banking, economic outlooks and new developments in regulations and legislation.

First Tennessee Bank of Memphis owes a good portion of its development as a regional bank to the agribusiness field, and so it has developed an annual agricultural conference. The third such meeting last March was looked on as the most notable one held so far because of two reasons, according to the bank. First, there was a "heavyweight" panel featuring Agriculture Secretary Robert Bergland and specialists in fields ranging from commodity production and marketing to fertilizers and chemicals, as well as government-assistance programs.

Second, the response to the confer-

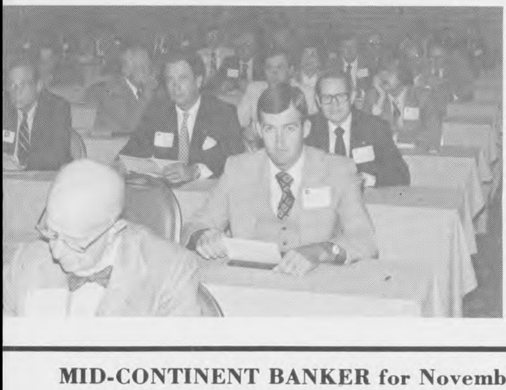
(Continued on page 59)

• Bankruptcy Reform Act of 1978

Information on The Bankruptcy Reform Act of 1978, scheduled to go into effect several days after the seminar, has since been disseminated to all banks of the nation, and bankers and their attorneys are pondering the eventual effect of this new legislation. A discussion of the Bankruptcy Act, from the Third National seminar, will be found elsewhere in this issue.

Lawrence A. Kudlow, chief economist for Bear, Stearns and Company, New York, in a scathing analysis of the Administration's handling of fiscal and energy policies, also was critical of the Fed's handling of the money supply, which, he illustrated, had re-

(Continued on page 76)



TOP: Robert E. Penquite (l.), one of the speakers at Third Nat'l seminar, illustrates a point to J. E. Southwood, v. ch., and H. E. Johnson Jr., sr. v.p. of host bank.

BOTTOM: Charles J. Kane (l.), ch. and CEO of host bank, visits with Lawrence A. Kudlow, New York economist, who keynoted seminar with speech on economic outlook.

At last, a look at the unheard-of: an actual overline ad.

You may have noticed that not many banks exactly advertise the fact that they offer overlines to their correspondents.

But Continental Bank does. In fact, we're running this ad to make a bid for overlines—from our correspondent banks, and from a lot of other banks we'd like to have as correspondents.

We have a simple approach to each overline request we get: if our correspondent values a customer enough to lend its legal limit, we think its overline deserves some pretty serious consideration on our part.

At Continental Bank your credit requests don't go from committee to committee to committee. They go to your account manager—one officer who has the authority to say "yes" or "no" on most loans. So you get your decision fast—direct from the person who made it.

Call John Tingleff at 312/828-2191 with your request. If we can get together with you over an overline, Continental might just become more important to you overall, as a correspondent. And that's exactly what we're trying to do.

We'll find a way.

CONTINENTAL BANK
231 SOUTH LA SALLE STREET, CHICAGO, IL 60693

Continental Illinois National Bank and Trust Company of Chicago.

'Party's Over'

(Continued from page 57)

ence, which usually is limited to 250 persons, was so great that bank management realized it was going to have to be moved from its usual site — the auditorium in the bank's main office — to a place that could accommodate a larger audience.

Invitations are sent each year through First Tennessee's correspondent division. Each agricultural correspondent is invited to bring one or more of his best producer/customers. According to the bank, information on the conferences also travels by word of mouth because the seminars have developed a sizable following. Thus, the bank receives inquiries well in excess of the number of invitations mailed. For example, this year's conference was half booked even before the brochures and reply cards went out.

First Tennessee's goal is to have at least one major conference each year, and response received so far on its ag meetings almost guarantees them to become a permanent part of the bank's conference plans from now on.

"We feel the ag conference is essential to the further development of banking relationships in our marketing region," says a bank spokesman, "because the area's economy relies in large measure on agriculturally related business."

First National, St. Louis, holds a large correspondent bank conference each November, but it also sponsors seminars that focus on specific topics. For instance, this year the bank had a seminar dealing with the Financial Institutions Regulatory and Interest Rate Control Act (FIRA), a two-day seminar on bank investments and a one-day session for those correspondents who have students attending the Graduate School of Banking at the University of Wisconsin. The latter was First National's 15th annual problem-review session that gives students some insight into problems they will have to answer in writing during the coming year.

First National's 33rd annual conference for correspondent banks, scheduled for November 8, features panel discussions of economics, lending, investments and new developments in banking. After a day of business meetings, the evening will be devoted to dinner and entertainment. This will be the 33rd year for such conferences, which focus heavily on subjects of interest to bankers.

Chicago's National Boulevard Bank has received comments such as "excellent" and "informative" on its financial seminars, held for correspondent and commercial customers. The bank started holding them two years ago and, although one is not scheduled for this year, it will hold one in 1980.

"This seminar," says a bank spokesman, "underscores a major commitment on our part to serve a greater number of banks in the Midwest, particularly Illinois, where most banks find their long-range objectives consonant with ours."

Last year's seminar featured Eliot Janeway, political economist, two Illinois congressmen and bank representatives. Mr. Janeway also spoke at the 1977 seminar.

At these seminars, bankers hear discussions on the economy, tax legislation, current events out of Washington and, of course, topics of interest at the moment to bankers.

A change in Missouri's usury law prompted Kansas City's Commerce Bank to hold a seminar last August for the CEO and one associate from each of its correspondent banks. The two-hour meeting — for which no fee was charged — focused on the law, with a Kansas City attorney as the speaker. It was followed by cocktails.

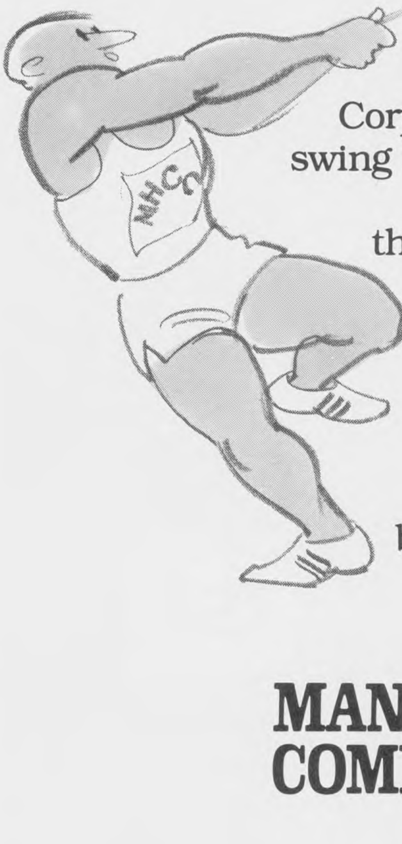
Next April, the bank will hold an all-day correspondent conference with a continental breakfast, lunch at noon and dinner and entertainment that night. However, most of the day will be devoted to business sessions. Attendance will be limited to banks' CEOs and spouses or their associates and spouses. There will be no registration fee.

Deposit Guaranty, Jackson, Miss., which is planning its second annual correspondent bank program for November 29, hosts such conferences to supply its correspondents with the most current practical information they can use to improve their own banks' performances.

For instance, the bank has learned that a few of its correspondents have retained consultants to make complete examinations of their banks. So this year, Deposit Guaranty decided to include two nationally known CPA consultants on its program. Also this year, it will experiment with part of the program by allocating it to investment workshops, which will be headed by four of its correspondents. The objective is to develop more dialogue this way. This year's program will include a regulations update from the bank's

monetary muscle

Leveraged financing to help companies with spinoffs and acquisitions.



When it's time to sell part of the business or buy a new one, Manufacturers Hanover Commercial Corporation can help you swing the deal.

MHCC will advance the needed capital, using an asset-based loan, which will ensure a smooth transition between buyer and seller.

Once the new business has secured a firm hold in the marketplace, our experienced cash and credit specialists can help it take advantage of added profit opportunities. And with the monetary muscle of the $45-billion Manufacturers Hanover organization behind us, you can be sure we'll be around to deliver on the promises we make.

For the leverage your company needs to grow, let the power of MHCC go to work for you.

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5775-B Glenridge Drive, N.E., Suite 450, Atlanta, Ga. 30328 (404) 255-5612

John W. Marlin (l.), Charles W. Bone (2nd from l.) and William L. Small (c.), featured speakers at one-bank HC seminar sponsored by American Nat'l, Chattanooga, Tenn., discuss program with John P. Wright (2nd from r.), bank pres.; and Jack R. Crigger, e.v.p./nat'l/corres. div. Mr. Marlin is Nashville CPA, and Messrs. Bone and Small are Nashville attorneys.

legal counsel, an economic outlook and a discussion of planning for automation.

Last year's conference spotlighted talks on "Achieving High Performance for Your Bank," "Asset/Liability Management — Latest in Balance-Sheet Management" and "Specialized Corporate-Financing Alternatives."

Simmons First National, Pine Bluff, Ark., has held several seminars during the last three years. The latest, last May, was focused on FIRA. This fall, the bank tentatively is planning a seminar on personnel regulations and the Bankruptcy Reform Act of 1978.

Memphis Bank doesn't hold big correspondent conferences each year, but as various developments of interest to bankers come along, the bank holds meetings and seminars on those subjects. For instance, this year, it invited its correspondent banks' CEOs and their attorneys, if they wanted to bring them, to a discussion of FIRA. A year or two ago, following a Supreme Court decision on interest rates in Tennessee, Memphis Bank sponsored two seminars on that development.

According to Senior Vice President Lynn Hobson, Memphis Bank holds informational seminars "on the spur of the moment" when the bank believes something has come along that their correspondent bankers should know about. The bank believes such seminars are helpful especially to rural-area banks.

A relative newcomer to the correspondent-banking field, Nashville CityBank, also features seminars as new developments occur in banking. For instance, the Community Reinvestment Act caused Vice President Arthur Willard to put together a CRA seminar for the bank's own correspondents, but it became so popular that he "took it on the road," even as far away as Iowa. The bank also has sponsored conferences and seminars on other specialized topics.

As part of its ongoing effort to provide its correspondent bankers with informational programs, American National, Chattanooga, Tenn., conducted a seminar recently on "The One-Bank Holding Company . . . Is It for You?" It was the first in a series of conferences scheduled to be conducted quarterly.

These seminars are an outgrowth of the previously well-attended annual correspondent bankers' seminars held the past several years at Tennessee's Fall Creek Falls State Park. These annual conferences provided leisure-time activities as well as updates on topical events taking place in banking.

American National's data services department has conducted six confer-

ABA Correspondent Conf.

SAN FRANCISCO — "Perspective: 1980 and Beyond" is the theme of this year's ABA national correspondent banking conference scheduled for November 18-20 at the Fairmont Hotel and Tower here.

The regulatory panel — a high point of previous conferences — will be featured. Representatives of the three banking agencies and a noted state bank supervisor will discuss regulatory and legislative issues confronting correspondent banking.

In addition, the program will feature a discussion of commercial banking in the 1980s and concurrent workshops and special-interest sessions.

Speakers will include John Swearingen, chairman/CEO, Standard Oil Co. of Indiana, Chicago.

ences a year for many years. They are designed to make bankers aware of advances in computer-automation services. Last February, the division conducted a seminar in Knoxville on demand-deposit and CD systems. The next month, a seminar in Gadsden, Ala., briefed correspondent bankers on updated automation techniques within the industry.

The one-bank HC seminar was aimed at senior-management personnel with an interest in exploring the advantages and disadvantages of forming one-bank HCs. The program was designed to provide the necessary information with which those attending could determine the feasibility of such an organization for their banks.

Program participants included professionals experienced in one-bank HC conversions and bankers who had converted their banks.

"We believe seminars are an extension of the service we offer correspondent banks," says Jack R. Crigger, executive vice president, national/correspondent division. "They are excellent vehicles for communicating important information, keeping abreast of the myriad changes in the banking environment and the technological advances in operational systems." ● ●

Banking Bill

(Continued from page 16)

have stated that satisfactory legislation on the Fed issue this year would free the central bank to devote more of its resources to the national fight against inflation.

The monetary effort to combat inflation, to the extent that it has raised the cost of funds to lenders, has highlighted yet another serious concern: state usury laws. The central bank is attempting correctly to limit the supply of credit, but one unfortunate by-product of such monetary policy is virtual elimination of credit in some or all categories in states where there are relatively low usury ceilings.

Rates now being paid by lenders for funds in money markets are reaching or exceeding the maximum loan rates permitted under state usury statutes. Perhaps never before in history has this disparity between national policies and state laws created such an acute bind for lenders and for those who desire to borrow.

To a limited extent, bills in both the House and the Senate would address this problem. Certainly, the time has come for Congress to correct the situation by preempting state usury statutes for all loan categories. The ABA is urging Congress to include provisions preempting state usury laws in any omnibus financial bill enacted this year or to take separate action on this increasingly pressing problem.

Because efforts to simplify and improve the Truth-in-Lending Act have been frustrated twice in the House of Representatives, the Senate Banking Committee has added Truth-in-Lending simplification to its NOW-account/Regulation Q bill. While this legislative language is far from perfect, its addition to the bill is indicative of the serious problems and complexities created by the Truth-in-Lending Act and Regulation Z.

The ABA has filed a lawsuit challenging the legal authority to retroactive reimbursement orders that have been issued by the regulatory agencies under Reg Z, and the Federal Financial Institutions Examination Council has put forward a proposal to amend the Reg Z enforcement guidelines. The amendments would permit creditors a greater tolerance in disclosing the annual percentage rate charged to borrowers before reimbursements and record searches are ordered. The regulators would be given more flexibility in the application of the enforcement guidelines in special situations, and the retroactive time period in which the enforcement guidelines would apply would be changed.

Specifically, corrective action would be required on Reg Z violations discovered on loans consummated since January 4, 1979. However, when a regulator determined that a creditor had failed to correct practices that resulted in violations cited in previous examination reports, corrective action would be required for all affected loans consummated after the date on which the lender first received notice that its practices were in violation of Reg Z.

● **Associates Corp. of North America**. The Corporation, headquartered in New York City, has opened a business loan division office in Mobile, Ala. The new office will serve commercial loan customers in Alabama and Mississippi and will be under the direction of Robert L. Holcombe. Mr. Holcombe had been a business development official in the equipment division of a major commercial financing organization.

The Northern Trust would like to introduce you to The Fast Buck.

Our Cash Letter Service is designed to turn your checks into money quickly. We have a check-clearing network that spans the country, with immediate availability on all major money markets.

But speed alone isn't all you should expect in check collection. You need the processing of your checks to be as error-free as possible. That is where our people and our computer systems shine the brightest.

At The Northern Trust, we set very high performance standards for the services we provide to our correspondents. We're demanding on ourselves. But the results are worth it. An independent analysis of check collection systems bears this out.

The analysis was based on these measures: reject rates; transit returns; free and lost items; missent, miscoding and listing errors; and transit holdovers. In every category, The Northern Trust performed better than the average for the other Chicago banks included in the survey.

When you try our Cash Letter Service, we can analyze your check collection operation and monitor the effects of your transportation arrangements to identify your needs. So, give our Cash Letter Service a trial. It may be the proven-quality answer to all your check-clearing problems.

For more information on how our service can benefit you, contact Glenn W. Proud, Jr., Financial Services Officer, Bank and Corporate Services Division, The Northern Trust, 50 South La Salle Street, Chicago, Illinois 60675. Telephone (312) 630-6000.

Aren't you ready for The Northern?

The Northern Trust

'Enemy No. 1'

(Continued from page 24)

with the potential that exists for serious liquidity problems for some institutions in the coming months. If money-market funds begin to drain substantial amounts of deposits out of banks, he warned, "liquidity in some institutions — particularly smaller ones that do not have ready access to the money market — will be stretched. . . . There may be a corresponding effect," he said, "on larger banks which historically have relied on (smaller banks) as a source of liquidity in a crunch."

Bankers were put on notice by Mr. Heimann that examiners, during this time of economic uncertainty, would "insist that fundamental principles of sound banking be followed."

Bankers also were cautioned to prepare their thinking for the likelihood that NOW accounts would be authorized in 1980 and the prospect that regulation Q would terminate quickly. "The ability to price services to recover actual costs," said the Comptroller, "will become essential to maintaining profitability and perhaps survival."

Mr. Heimann did report to bankers that his office shares banker concern with the burdens of regulation. His staff, he said, is trying to improve the effectiveness of compliance examinations, but, at the same time, reduce the burden on banks as well as examiners. He pointed to the Regulation Z reimbursement guidelines that were suspended as one example of regulators reversing themselves on previously issued regulations.

FDIC Chairman Irvine H. Sprague also joined with the Comptroller in his concern that regulatory burdens be reduced. The FDIC chairman announced that just a few days prior to his appearance in New Orleans, Truth-in-Lending reimbursement guidelines had been revised by the Federal Financial Institutions Examination Council.

The changes (now in effect) would increase the error tolerance for an understated APR rate from ⅛% to ¼%; would give the agencies flexibility to use common sense and good judgment rather than rigid adherence to detailed Truth-in-Lending guidelines; and would require reimbursement for all violations only back to the last examination in which the creditor failed to correct a practice cited by the examiner.

The FDIC chairman also asked for banker comment on three additional areas:

1. Should mortgage lending be treated differently for reimbursement purposes because of its unique characteristics?

2. Should the five states permitted to enforce Truth-in-Lending be required to ask for reimbursement?

3. Any information concerning costs associated with reimbursement and benefits accruing to bank customers.

Although inflation and regulatory practices occupied the limelight at the ABA's annual convention, hundreds of other speakers — bankers and nonbankers — brought topics of vital interest to those attending:

- A look at check truncation. Pilot programs soon will begin across the nation to demonstrate that banks do not need to return checks with statements. Speakers agreed that "truncation" was a bad term and that "free check storage" would be the selling point of this program. In full utilization by the banking industry, "free check storage" would save the banking industry millions of dollars annually.
- An examination of investment-portfolio procedures. How to cope with permanently high and variable inflation rates. Bankers heard that it no longer may be possible to follow the traditional pattern of buying peak yields and stretching out the portfolio. That may not be possible, an investment panel said, as rates continue to "ratchet" upward.
- NOW accounts and need for planning. If and when NOW accounts are permitted nationwide, banks will have to adopt marketing and pricing policies that hold their accounts and yet do not devastate earnings. Armed with information developed in the six eastern states offering NOW accounts, one speaker stated, bankers have an unusual opportunity to plan ahead and benefit from the experiences of others.
- The Bankruptcy Reform Act of 1978. A Washington, D. C., attorney analyzed the act and remarked that it will require court decisions to resolve ambiguities in the act. He advised bankers, however, that as the process evolves, appropriate policies and procedures be adopted (by banks) to assure that this "new addition to the business of banking does not have an adverse impact on it."

And so it goes. Regulations are condemned, but new ones are passed. The ABA's new task forces will have a never-ending job. But will bankers of the nation offer their help? We believe they will. — Ralph B. Cox

New Rules in Bankruptcy Game

Lenders Face Tougher Time With New Debtors' Exemptions

By THOMAS P. KANADAY JR.
Attorney
Farris, Warfield & Kanaday
Nashville

IN THE FUTURE, we will see a lot of changes in the way the bankruptcy game is played. The players will be the same, but the uniforms they will be wearing are new. Under the old act, the person who filed a bankruptcy petition was called a "bankrupt." Since October 1, however, this person is no longer called that. Now he is given the less sinister title of "debtor." Furthermore, can you imagine attending a first meeting of creditors and the bankruptcy judge is not even allowed to attend?

We still have all the other players: the hopefully secured creditor, the hopelessly unsecured creditor, the trustee, the bankruptcy judge, etc. But the rules that apply to the bankruptcy game have changed and bankers are not going to like all the changes.

Although the code became effective October 1, many transactions that were entered into before October 1, nevertheless, will be affected by the new law.

Exemptions From Creditors' Claims. A dramatic new federal exemption statute greatly expands the exempted property of the bankrupt — excuse me, I mean — debtor. Let's look at some of the most important exemptions. First, each debtor has a homestead exemption not to exceed $7,500 in real or personal property. Also, each debtor can claim as exempt his interest in a motor vehicle valued at $1,200 or less. Also exempt are jewelry items valued at $500 or less, household goods, furnishings and clothing (with a limit of $200 on each item). Furthermore, life insurance contracts and up to $4,000 in dividend interest or loan value of a life insurance policy are protected. Thus, you can see that if a husband and wife both declare bankruptcy, they will have available exemptions of at least $20,000 to $25,000.

Some of us may question whether such a comprehensive exemption statute is either financially or morally right. But one fact is particularly clear for bankers. In making unsecured loans, a banker no longer can be comforted by the fact that a husband and wife have $10,000 or $15,000 equity in their home because this free and clear equity now can be claimed as exempt property. If the home is mortgaged, of course, the debtor cannot claim the exemption. The lesson is obvious. Bankers must place a greater reliance on secured lending.

Thomas P. Kanaday Jr. (r.) greets bankers at Third Nat'l of Nashville's correspondent bank seminar. Mr. Kanaday is an atty., Farris, Warfield & Kanaday, and heads the firm's corporate division and specializes in estate planning. He spoke about Bankruptcy Reform Act of 1978, and the accompanying article is based on that talk.

The new bankruptcy code allows the state legislature to enact its own set of exemptions to replace exemptions provided by the bankruptcy code itself. Until the state legislature does so, the federal exemption still may be claimed by debtors. Although bankers have had some relief in interest-rate legislation, they should give serious consideration to encouraging state legislatures to adopt more restrictive and more reasonable sets of exemptions to replace the sweeping exemptions set forth in the bankruptcy act.

Avoidance of Certain Liens. Another shocking aspect of the new bankruptcy act is that non-purchase money liens on household goods, jewelry, appliances and similar items can be abrogated or avoided in bankruptcy. Thus, if a borrower secures a loan with his household furnishings, the bank loses its lien if that borrower goes bankrupt. The lien cannot be avoided, however, if proceeds from the loan actually were used to purchase the household goods and furnishings that secured the loan. Here the obvious lesson is that household goods and furnishings have little value as collateral unless the bank has made the loan to purchase these items. If the bank wants a source of repayment for the loan, another type of collateral must be used.

Debtor's Right to Redeem Consumer Goods. Under the old bankruptcy act, the secured creditor took comfort from the fact that the bankrupt frequently would renew his notes so that he could keep his furniture, his automobiles, etc. The new bankruptcy code, however, now gives the debtor a right to redeem property used primarily for personal, family or household use by

paying the secured creditor the value of this collateral, a value to be determined by the bankruptcy court. I believe this may have a substantial impact on automobile lending.

Having cut my legal teeth in repossessing automobiles for Third National of Nashville's finance department, I frequently find that the realizable value of the repossessed automobile is less than the loan balance. Under the new code, the debtor now will make an effort to convince the court that the car has as little value as possible because he will be allowed to purchase that car by paying the secured creditor the value that the court deems appropriate. The debtor's right to redeem emphasizes the need of the secured creditor to see that his loan is, in fact, fully secured. In the meantime, I am sure that we will see a precipitous rise in the blood pressures of many lenders when the debtor walks away with the lender's collateral at bargain rates.

New Restrictive Procedure for Reaffirming Secured Debts. After the court determines that a discharge in bankruptcy is appropriate, a second court appearance called the "discharge hearing" is held. At the discharge hearing, the court will inform the debtor of the seriousness of the bankruptcy and tell the debtor the reason for granting or denying the discharge.

All agreements to reaffirm debts with a creditor must be executed before the discharge hearing. All agreements to reaffirm debts must be approved by the court if they are consumer debts not secured by real estate. The court must find that the reaffirmation will not impose an undue hardship on the debtor and his dependents and that the reaffirmation is in the best interest of the debtor. In all likelihood, the court will not reaffirm a secured debt for more than the value of the collateral because in the usual case this would not be in the debtor's best interest.

Another wrinkle, however, poses potential problems for lenders. After the court has determined that the reaffirmation agreement is enforceable, the debtor still has 30 days to change his mind and rescind the agreement. It doesn't require a great deal of ingenuity to imagine what will happen to the reaffirmed automobile loan if the car is wrecked in the 30-day period, or the debtor finds another car he would rather have.

Set-Off – the Bankers' Favorite Lien. Under the new bankruptcy code, the bank's right to set-off is preserved almost intact, but now there is a dramatic change in the manner in which the set-off can be exercised. Under the old act, the bank could just set-off automatically — even after the bankruptcy petition was filed. Under the new code, the filing of the bankruptcy petition stops the bank from exercising its set-off until it has given notice to the court and there has been an opportunity for a hearing. Should the bank violate the automatic stay and set-off without notice to the bankruptcy court, the bank is guilty of contempt.

Preferences – Voidable Preference. Under the old bankruptcy act, any payment received by the bank on an unsecured debt within 120 days of the bankruptcy filing could be recovered by the bankruptcy trustee. One apparently positive change in the new code cuts down the preference period from 120 days to 90 days. Although this is a favorable point, the new bankruptcy code has a tough point — the concept of the insider. If a preferential payment has been made to the bank by an insider of the bank within 12 months of the bankruptcy, all such payments within the 12-month period can be set aside. Who is an insider? An insider of a bank may be an officer, director or person otherwise in control of the bank. An insider is also a person related to an officer or director, and "related" means relationship within three degrees. For example, a nephew of a director is an insider. This concept of insiders, along with the expanded preference period relating to insiders, may be just fine for the big city, but I imagine that it will impose an undue and unfair hardship for lenders in smaller communities.

Objections and Exceptions to Discharge. Grounds for objecting to discharge remain about the same, but there is a greater penalty for objecting if your objection is not sustained. If a creditor is unsuccessful in his attempt to except his debt from discharge because of alleged fraud or false financial statements, the debtor is entitled to costs and all of his attorney's fees for fighting the objection.

Involuntary-Bankruptcy Petition. Involuntary petitions, when the creditors and not the debtor know that a borrower should be placed in bankruptcy, probably will become more prevalent. The old requirement for an involuntary bankruptcy was that the borrower must be insolvent and must commit "an act of bankruptcy," such as admitting in writing that he was insolvent. Now, if the debtor is "generally not paying his debts as they become due," there is a basis for filing an involuntary petition. The big question, of course, concerns what is meant by the phrase "generally not paying debts." Is this based on amount, number, etc.? Again, should the court determine that the creditor was not current in filing an involuntary petition, the court may enter judgment against the creditor for costs, attorney's fees, damages — even punitive damages!

Conclusion. Over the next few years, bankers will be hearing a lot more about the new bankruptcy code. Bankers, however, should not fail to reevaluate their lending and their collateral policies just because the new code is complicated or because they are somewhat ignorant of how it may affect them in certain areas. They should reevaluate these policies. Also I urge that, for a while, bankers be tolerant of their lawyers who say, "I would like to look that up before I answer about the new act." In fact, they may want to insist that they do so. ● ●

At BMA Convention:

Heimann Expresses Concern For Effects of Regulation Q

COMPTROLLER of the currency John G. Heimann told bankers attending the Bank Marketing Association convention in New Orleans that continuation of Regulation Q controls on interest payments to depositors in the present inflationary environment could have significant consequences for the nation's commercial banks and thrift institutions.

"The increasing interest sensitivity of deposits and development of attractive and viable market substitutes for deposits, such as money-market mutual funds, have created an unknown level of potential volatility in traditionally stable consumer deposits," he said.

"By combining a market rate of interest with traditional financial services, money-market funds have a formidable competitive advantage. Once consumers switch their deposits to a money-market-fund account, it seems likely that they won't switch funds back to depository institutions, even if market rates decline," he said. The Comptroller explained that such a situation would occur largely because of the accounts' convenience to consumers.

A money-market-fund account can serve as an all-purpose consumer account, combining into one account many of a consumer's most frequently used financial services. It can serve as a checking account as well as a savings account. Also, credit-card privileges can be linked to it, and the account can provide instantaneous liquidity and direct access to other types of investments.

Mr. Heimann said that a preservation of the status quo will make losers out of many depository institutions, particularly smaller banks and thrifts.

"Those who have fought most effectively for retention of Q are those who have lost and will continue to lose their stable base of core deposits," he said.

According to the Comptroller, the flow of deposit funds into money-market funds could result in a series of significant effects including the following:

- A shifting of funds from small depository institutions to larger ones because of the absence of an established market that prevents smaller institutions from replacing lost deposits through sales of large CDs.
- Greater concentration of funds in the hands of a few institutional investors creates potential instability because institutions are more dependent on decisions of a few investors than on those of many depositors.
- Focus on yields on part of money-market-fund managers, which might lead to imprudent investment decisions.
- Possible exhaustion of top-quality investments, since sizable money-market-fund growth will require either increased exposure to top-quality institutions or lower-quality standards.
- Threat to small-bank liquidity because of potential deposit losses and limited asset flexibility.
- Increased competition for deposits will bring profits under increasing pressure, making it imperative for institutions to price products to reflect costs.

"These effects would be less certain and their probable consequences far less troublesome were it not for Regulation Q," Mr. Heimann said.

Removal of Regulation Q will change the rules of the game in competition for deposits, he said.

"Elimination of Regulation Q would enable small banks, large banks and thrifts to compete more effectively with money-market funds and hold on to core deposits.

"A reweaving of the structure of law and regulation is inevitable. Action now can provide a framework for an orderly adjustment to a new environment. Failure to act now risks losing control of timing and raises the risks of being forced to respond in a crisis situation."

New Officers. Norwood W. "Red" Pope, vice president/marketing, Sun Banks of Florida, Inc., Orlando, was

New BMA officers include (from l.) treas. Barry I. Deutsch, manager/information & planning, Mellon Bank, Pittsburgh; 1st v.p. Ronald E. Hale, e.v.p. City Nat'l, Bryan, Tex.; pres. Norwood W. Pope, v.p./marketing, Sun Banks of Florida, Orlando; and 2nd v.p. Leonard W. Huck, e.v.p., Valley Nat'l, Phoenix.

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To find out more about how Fidelity can make things twice as nice for you and your customers, call either Harry Garrett, Vice President and Manager of Fidelity's Bank Card Center, or Whit Morris, Vice President and Marketing Manager at (504) 387-4084.

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elected BMA president for 1979-80.

Other elected officers include first vice president — Ronald E. Hale, executive vice president, City National, Bryan, Tex.; second vice president — Leonard W. Huck, executive vice president, Valley National, Phoenix; and treasurer — Barry I. Deutsch, manager/information and planning, Mellon Bank, Pittsburgh.

Six directors elected to three-year terms are John V. Egan Jr., vice president/director, corporate communications, Continental Illinois National, Chicago; Joyce A. Healy, vice president, Manufacturers Hanover Trust, New York City; and Robert E. Jordan, vice president, Mountain States Bank, Denver.

Also, James P. Kovach, vice president/marketing director, BancOhio National, Akron; Betty Sanderson, senior vice president/marketing director, First National, Pulaski, Tenn.; and T. Frank Wallace, president, Community Bank of Lafourche, Raceland, La.

The 1980 BMA convention will be held September 14-17 at the San Francisco Hilton Hotel. • •

Fourth Nat'l Wins Top Award In Bank Marketing Association Golden Coin Competition

Fourth National, Wichita, took top honors in the Bank Marketing Association's 1979 Golden Coin Awards Competition. Awards were presented at the BMA's 64th annual convention in New Orleans.

Fourth Nationals' entry, "Use Us. For All We're Worth" was rated "Best of Show" and also won a trophy in the marketing category for banks with $500 million to $1 billion in assets.

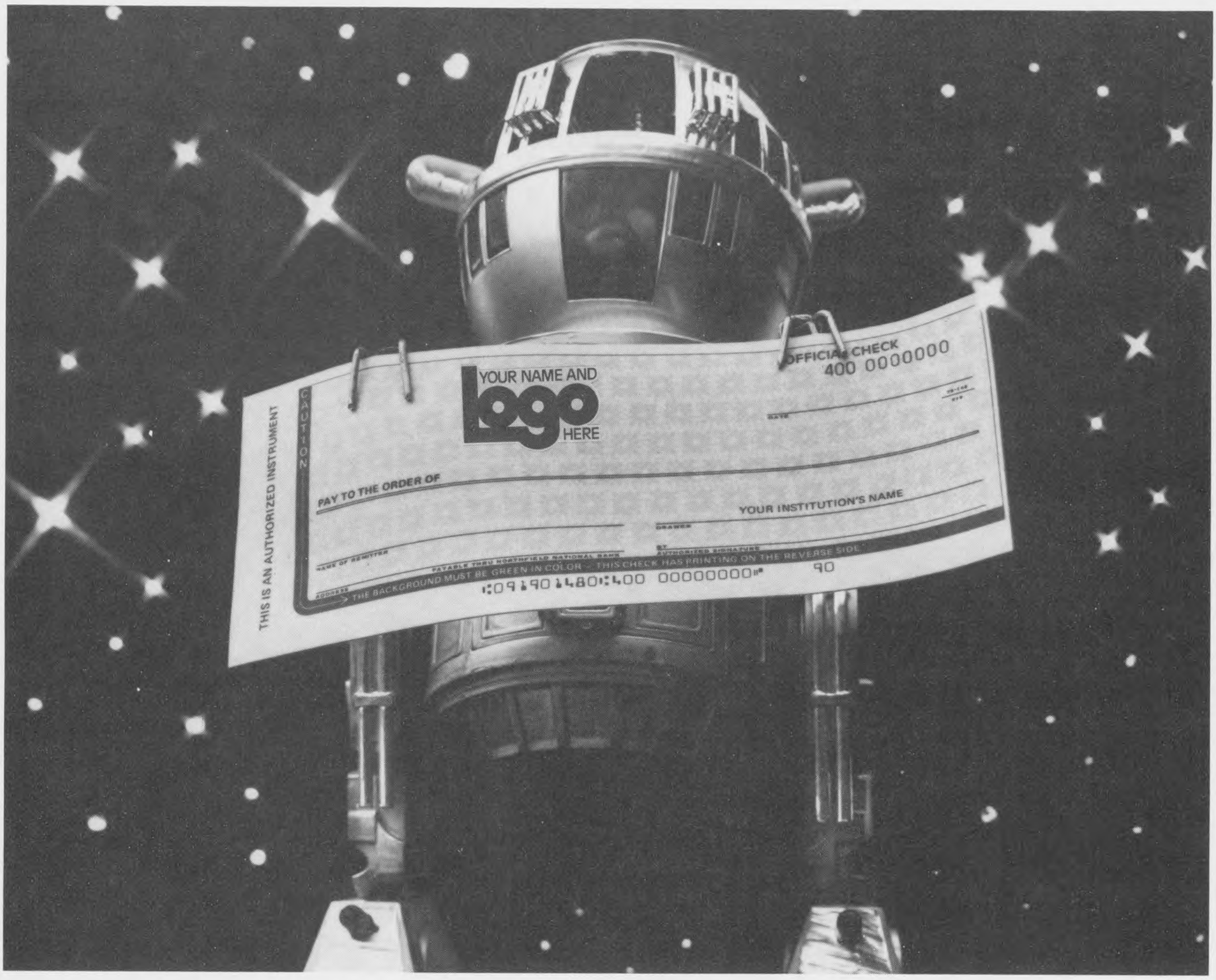
Facing the threat of decreased market share because of pressure from S&Ls and credit unions, Fourth National decided to condition its public in favor of banking in general and the Fourth in particular. Campaign results surpassed expectations. The bank sought a 10% growth in both new savings and checking accounts. It achieved a 15% growth in checking and 22%, savings.

Banks in the Mid-Continent area that won certificates of merit are Ruston (La.) State for "Go Ahead Banking for Get Ahead People" and Continental Illinois National, Chicago, for "Buckingham Fountain Art Fair."

Seven Mid-Continent-area banks were among 31 winners of the BMA's "Best of TV" competition. They include Worthen Bank, Little Rock; Harris Bank, Chicago; Liberty National, Louisville; City National and Louisiana National, both of Baton Rouge; Texas Commerce, Houston; and Capital National, Austin, Tex.

These winning commercials are featured in a new 16mm sound/color film available from the BMA.

• **Brandt, Inc.** Four new staff members have been appointed at the firm's Watertown, Wis., headquarters. Donald E. Kuehl has been named financial analyst. Mr. Kuehl was formerly with General Electric Co.'s medical systems division. Robert P. Poth joins Brandt as tax manager after serving at Cutler-Hammer, Inc., Milwaukee. Jerry D. Scheiber is a new manager of product engineering. Mr. Scheiber was with RTE-ASEA Corp., Waukesha, Wis. Stanley R. Schmidt was appointed quality control manager. He was formerly with Ohio Medical Products Co., Madison, Wis.



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Webster, Smith Get Top Posts In Nat'l Assn. of Bank Women


THOMSON


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WEBSTER

INSTALLED AS 1979-80 president of the National Association of Bank Women (NABW) at its recent convention in New Orleans was Josephine M. Webster, vice president/investment officer, American Fletcher National, Indianapolis.

Other new officers include vice president — Jane McGavock Smith, vice president/compliance officer, First & Merchants National, Richmond, Va.; secretary — Karen Thomson, vice president, St. Joseph Valley Bank, Elkhart, Ind.; and treasurer — Betty L. Crow, vice president, Commerce Bank, Kansas City.

Two-year terms of northwestern and southwestern quadrant directors will be filled by Dolly Lotz, assistant vice president, Idaho Bank, Pocatello, and Hellen Reese, vice president/trust officer, Republic National, Dallas, respectively. Northeastern and southeastern quadrant directors, Joan L. Palmer, assistant vice president/ manager Delaware Trust, Fenwick Island, and Joyce M. Hardwick, assistant vice president, Security Bank, Corinth, Miss., respectively, will continue to serve the second year of their terms.

Fifteen regional vice presidents were installed at the convention. They are:

Florida — Louise Lanier, assistant vice president, Exchange National, Winter Haven, Fla.; Lake — Karen S. Coldiron, assistant vice president, Irwin Union Bank, Columbus, Ind.; Middle Atlantic — Gwendolyn I. Richards, assistant vice president, CCNB Bank, Camp Hill, Pa.; Midwest — Betty J. Wagner, assistant credit officer, Omaha National; New England — Arlene Chapman, treasurer, Mascoma Savings Bank, Lebanon, N. H.;

North Atlantic — Thelma D. Sparrow, assistant vice president, Bankers Trust, New York City; north central — Judith Chisholm Murphy, vice president, M&I Investment Management Corp., Milwaukee, Wis.; northwestern — Ruth McCormick, assistant vice president, Oregon Bank, Portland; Rocky Mountain — Dorothy Gardner, auditor, Dixie State, St. George, Utah; south Atlantic — Arlene L. Maul, assistant trust officer, Commerical & Savings Bank, Winchester, Va.;

South central — Judith H. Weathers, assistant vice president/personnel director, Guaranty Bank, Lafayette, La.; southern — Dannye Sue Brown, branch manager/officer, American National, Chattanooga, Tenn.; southeastern — Marietta G. Watson, vice president/operations officer, Carolina Bank, Sanford, N. C.; southwestern — Shirley A. McCubbins, vice president, First National, Fort Worth; and western — Marjory A. Wood, vice president/trust officer, First National of Arizona, Phoenix.

Standing committee chairmen ap-


COLDIRON


REESE


BROWN


McCUBBINS


WEATHERS


LASKEY


COLE


DOUGLAS


RIVERS


R. SMITH

Bankers Receive Certificates

Five Mid-Continent-area bankers have been awarded certificates of recognition from the National Association of Bank Women for completing their major courses of study in a unique bachelor's degree program in management at Mundelein College, Chicago.

Those bankers — all from Chicago banks — are Judy Baer, senior division assistant, Laurel Maupin, unit manager, and Judith Pranga, area representative/worldwide banking department, all at First National; Joan Borowiak, financial management officer, Northern Trust; and Nancy Ray, personnel representative, Harris Trust.

Although the group has completed six two-week courses that constitute the major study area, participants will fulfill remaining course requirements individually.

In addition, some 25 women bankers have completed the first requirement of the NABW degree program in management at Louisiana State University, Baton Rouge.

They completed the first of six two-week management institutes, which consitute the major study area. After completing other course requirements individually, the bankers receive a bachelor of science degree in management from LSU.

By joining hands we can do a lot better for our customers and ourselves.

National Boulevard can help augment your banking operations, expanding the scope of existing services and implementing new ones for your respondent customers.

Our "One-On-One" correspondent banking professional works closely with his counterpart at your bank. His job: to coordinate financial resources, facilities and capabilities for maximum benefit.

At National Boulevard there's only one way—the One-On-One way—for us to work together. And when we do, we make a combination that's practically irresistible—and highly profitable.

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pointed at the convention include the following:

Awards/scholarship — Geraldine D. Marston, assistant vice president, Park National, Newark, O.; bylaws — Irene Laskey, vice president, North Side State, Tulsa; education/training — Valoise Douglas, second vice president, Continental Illinois National, Chicago; finance — Janice C. Notaro, senior vice president/controller, First Los Angeles Bank; membership — Joan Rivers, assistant vice president, Corpus Christi (Tex.) National; nominating — Ruth I. Smith, president, First State, Kansas City, Kan.; and resolutions — Ellen N. Cole, vice president/trust officer, Merchants & Marine Bank, Pascagoula, Miss. • •

Nashville's Third

(Continued from page 57)

bounded sharply over the previous five months. He questioned the Fed's tolerance of monetary acceleration "at exactly the wrong moment in the current business cycle."

One of the major issues facing the Fed (and its chairman, Paul Volcker), he said, was the pressing need to restore confidence in U. S. monetary policy by reaffirming the "goal of gradual money-supply-growth deceleration over a period of perhaps three years." (Several weeks later, in its "Saturday announcement," the very issue that Mr. Kudlow raised was handled by the Fed.)

Mr. Kudlow also theorized that as the nation's presidential election neared, the Fed could be under pressure to expand the monetary base. Fed resistance to this pattern, he said, will be a formidable task. (Perhaps in light of Mr. Volcker's subsequent announcement, Mr. Kudlow can look to what he termed would be a "monetary miracle" in 1980 if the Fed did not "prime the pump" in advance of the elections.)

A hard look at the "bottom line" was the approach used by one of the seminar speakers, Robert E. Penquite, a management counseling executive from the Dallas area.

Mr. Penquite, who has counseled with hundreds of banks throughout the nation, illustrated the high costs of servicing the checking account and the need to re-price checking service charges.

Studies have shown, he pointed out, that the average account, writing 15 checks per month, needs a balance of $950 in order to break even. He illustrated the effect on "the bottom line" of raising service charges on the $50 and $100 accounts. Some accounts are "squeezed out," he acknowledged, but income is improved and activity is lessened in this approach.

Mr. Penquite also acknowledged the "old banking philosophy" which said that the borrower would pay for the costs of the checking customer. He questioned whether this can be the future philosophy of the banking industry or whether the newer approach will be to charge realistically for checking services.

In the area of "capital planning," State Banking Commissioner Thomas Mottern announced that his department was in the process of completing a study that might offer ways for "special offerings of tax incentives" that would attract new bank capital to Tennessee. Information, he said, would be released "soon" by his department.

Irvine H. Sprague, chairman of the FDIC, presented bankers with a look at some of the nation's "legislative processes," outlining some of the problems in reaching major decisions at the national level. The conference was "wrapped up" with talks by Third National officers John Cipriano (corporate cash management) and Bobby T. Logue (SBA and FHA sources of financing).

"It was a day well spent," one banker observed. And applause ringing the night before — as Third National's singing group performed — also said to the host bank: "We came, we learned AND we had a good time." • •

Solar Savings:

Bank Receives Award For Saving Energy

Liberty National, Louisville, received an award for its outstanding energy-conservation efforts from the Jefferson County (Ky.) Energy Commission. The bank was the only financial institution among eight local businesses and organizations to be recognized by the commission.

The bank was cited for its construction of the first solar-heated branch bank in Kentucky, installation of thermostat time clocks in 19 banking facilities and initiation of an energy-saver loan program. This program offers customer and community residents a discounted interest rate on loans used to make home improvements that increase a dwelling's energy efficiency.

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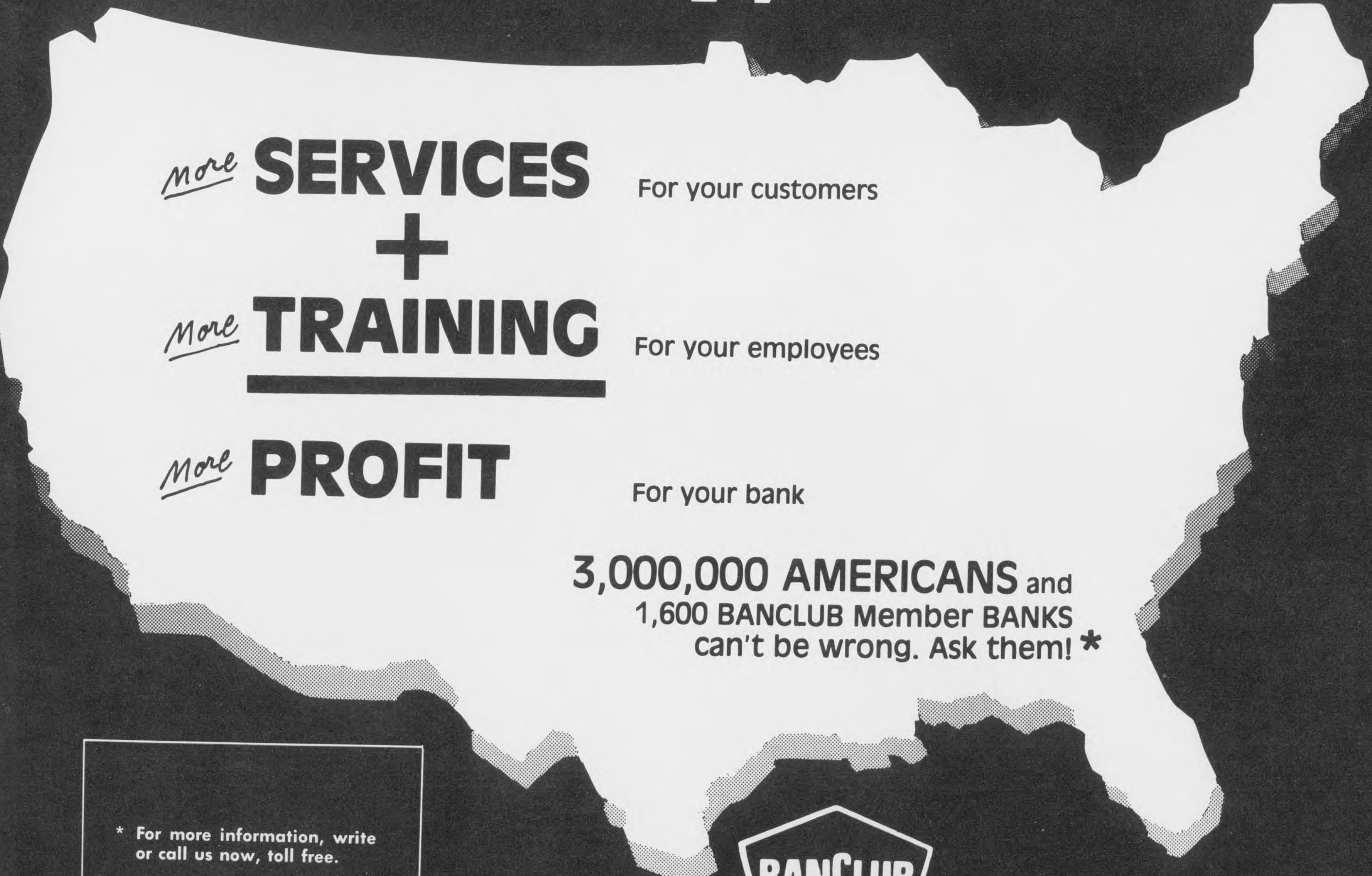

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Specialized Banking Diploma Goes to Texas Woman

Celia Cotton, assistant cashier/new accounts, Tyler (Tex.) Bank, was one of the first two bankers in the country to receive a specialized diploma under the new educational program developed by the American Institute of Banking.

At l., Richard Killmon, immediate past pres., American Institute of Banking, and first v.p., Texas Commerce, Houston, and Charles Childers, pres., Tyler (Tex.) Bank, present specialized diploma to Celia Cotton, a.c./new accounts, Tyler Bank.

She received her diploma in bank management skills and theory. Through a joint program with Tyler Junior College and the AIB Oil Center Chapter, Tyler, Miss Cotton earned an associate and applied science degree in bank management from the college.

To earn her diploma, Miss Cotton took several required and elective courses, including bank management, principles of marketing and installment credit administration. She has been taking AIB courses since 1970.

Can FIPS Fly?

(Continued from page 28)

being offered by insurance companies. We have a demonstrated track record of achieving positive incremental returns through active application of our strategies. While we can't *eliminate* volatility by carrying investments at par the way a GIC does, we can at least show we are getting better returns than a passive strategy would provide. What's more, we believe that our FIPS subscribers can do the same by applying these strategies to their own accounts. If we pass that test, it will mean success not only for FIPS, but for the whole idea of active bond management.

So the question of whether FIPS "really can fly" may be decided in the next six to 12 months as the current interest-rate cycle unfolds. Harris, in the belief that long-term interest rates are near a peak, has recommended to FIPS subscribers (and implemented in its own marketable bond fund) an 80% position in long-term bonds. This is only 5% short of the 85% policy maximum at Harris and is up from a less than 30% position two years ago.

We have come full circle. By this time next year, most of our original FIPS subscribers will have had a complete cycle over which to evaluate the effectiveness of our advice. We think they will be well satisfied, but the proof will be in the numbers. If we're not adding value, they'll drop us. It's that simple.

Aside from the effectiveness of FIPS strategies, which can only be tested over time, the success of the service to date has been largely attributable to three factors. First, there is the bank's track record and reputation as a bond manager. It's no secret that we have been successful in fixed-income management, both in terms of investment performance and in terms of winning new accounts. People like to associate with a winner.

A second factor is the ability and willingness to take an independent view. We often differ with "the street," and we don't mind running contrary to the consensus view. Even if you don't agree with us, you will know where we stand. The current market is a good example. There are highly respected experts who differ with our forecast of an imminent peaking in interest rates.

The third, and perhaps the most important factor for many FIPS subscribers, is that the Harris service is a by-product of the bank's own investment operations. It is not theoretical or abstract. It reflects the actual positions the bank takes in its trust-department portfolios. This lends a measure of credibility few other services can provide.

FIPS truly is unique. A few other banks provide an "add-on" bond strategy to their correspondent-equity service, but I know of no other major fixed-income manager, certainly none with our record of success, who lays it all out, line by line, strategy by strategy, in a way that would allow anyone subscribing to the service to match his own performance.

Will FIPS ever get too big? Would too many subscribers make the service self defeating? I seriously doubt that will ever happen. There are too many big players and too many big egos. Besides having different assumptions going in, most market participants also have different objectives. That diversity of opinions and objectives, together with high inflation and the usual inept attempts at management of the economy by Washington, will continue to provide opportunities for all of us. ● ●

Legislative Victories Recapped During Missouri Regionals

PRAISING EFFORTS of the Missouri Bankers Association staff and all bankers who helped in its efforts to get Senate Bill 305 enacted into law was the theme of remarks made by MBA President S. K. "Ken" Turner at the recent regional meetings of the Missouri Bankers Association. When Mr. Turner was unable to attend, MBA Vice President Lee Huddleston was presiding officer.

Mr. Turner is president, First National, Kirksville, and Mr. Huddleston is executive vice president, Country Club Bank, Kansas City.

Both men recapped how the MBA has reinforced its commitment to staying involved in the legislative process.

"I believe a new era of banking for Missouri is under way . . . both in the political area and in grass-roots support," Mr. Huddleston told bankers attending the Region Five meeting in St. Louis County. "Senate Bill 305 is a monumental victory . . . and will increase the bottom line."

An audio/visual explanation of the newly enacted bill explained its highlights:

- General usury floats at three percentage points over the long-term (10 years or longer) U. S. government bond rate.
- Small Loan Act rate will be increased to 2.218% per month on the first $800 and 1.25% per month (15% APR) on amounts between $800 and $2,500. A 10% APR is applicable to amounts of more than $2,500.
- Lenders may charge a late charge for pre-computed loans under the Small Loan Act.
- The statutory second mortgage-loan rate is 1⅜% per month (16.5% APR).
- Prepayment penalties for early payoff of residential real estate loans have been reduced to 2% of the outstanding balance. This is the maximum prepayment penalty a lender can impose in the first five years.

Merle Sanguinet, ch./pres., St. Louis County Bank, presided over MBA's Region Five meeting.

- Notices and cure periods are required for repossessions of collateral and after sales of collateral. Deficiency judgments may not be enforced in certain instances.
- Other consumer remedies include private lawsuits for violations, limitations on loan-contract provisions and loan guarantees.
- Lending discrimination based on geographic location of residential real estate is prohibited.

Also, MBA officers reported that the Bank Day bill supported by the organization during the 80th General Assembly has become law. It ensures that banks offering any services on Saturday, Sunday or legal holidays will not be required to include such days in meeting clearing deadlines.

Bankers attending the meetings and their customers were urged to write their respective legislators about the costs and burdens that increasing banking regulations are heaping on banks and, ultimately, their customers.

Regional officers were elected at the meetings, to take office following next May's MBA convention in St. Louis. Elected were:

MBA Exec. v.p. Robert Crawford urged bankers and customers to write legislators about costly banking regulations.

Region One: v.p. — Glenn A. Miller, executive vice president, Canton State; sec. — Duane S. Wheelan, president, Perry State.

Region Two: v.p. — Richard Miller, chairman and president, Merchants and Farmers, Salisbury; sec. — Phillip Holmes, president, Farmers State, Princeton.

Region Three: v.p. — Donald Folks, vice chairman, Farmers State, St. Joseph; sec. — John McConkey, president, First State, New Hampton.

Region Four: v.p. — James E. Smith, executive vice president, Union State, Clinton; sec. — Rodney R. Hill, president, American Bank, Kansas City.

Region Five: v.p. — T. Charles Bruere IV, president, First State, St. Charles; sec. — Hord Hardin II, president, Commerce-Manchester Bank, St. Louis.

Region Six: v.p. — James C. Moser, president, Bank of Poplar Bluff; sec. — R. Winston Reed, executive vice president/cashier, Carter County State, Van Buren.

Region Seven: v.p. — Roy Cochran, executive vice president, First National, Neosho; sec. — Larry Price, president, Bank of Kimberling City.

Region Eight: v.p. — R. L. Himmelberg, president, Tri-County Trust, Glasgow; sec. — John Cline, president, Commerce Bank, Mexico. ● ●

Illinois Governor Signs Bills Permitting Electronic Banking Effective January 1, 1980

SPRINGFIELD, ILL. — Widespread electronic banking services will be available to all Illinois citizens after January 1, 1980, when two consumer-oriented bills authorizing installation of point-of-sale (POS) terminals and automatic teller machines (ATMs) become effective.

Signed recently by Illinois Governor James Thompson, the bills provide additional services for bank customers at off-premise locations. POS services include check guarantees, account-balance inquiries and direct transfer of funds from a customer's credit account to the retailer's account.

Each Illinois bank will be permitted to have a maximum of 10 unmanned 24-hour ATMs separate from its main banking premises. If the ATMs are more than 3,500 yards from the bank's main location, they must be made available for sharing by all other banks that also could legally place their own machines at the same location.

Two types of systems to operate POS terminals may be used. One is a funds-transfer corporation that must be owned by at least 200 banks and that can service POS terminals throughout the state. The other is a network, owned by anyone including a financial institution, that can service POS terminals within its home county and contiguous counties. A financial institution may not use both of these systems at the same time.

ATMs will accept payment on existing indebtedness, handle account-balance inquiries, transfer of funds between different accounts of the same customer within the same bank, make check verifications and/or guarantees and permit withdrawal of cash according to a pre-authorized line of credit with the bank.

An ATM may not be located closer than 600 feet to an existing bank without consent of that bank, except in Chicago's central business district.

In the event of unauthorized use of a card, a customer would be liable for the actual loss or $50, whichever is less, if prompt notice (usually two business days) is given. Failing to give prompt notice, the customer would be liable for up to $500. Also, the customer retains the right to stop payment on transactions.

Secret Witness Program Reinstated by BofA To Deter Bank Robberies

SAN FRANCISCO — Bank of America is reinstating its "Secret Witness" program to help deter bank robberies.

The bank will publish photographs and information on suspected robbers of its branches in newspaper advertisements, which will offer $1,000 for information leading to arrest and indictment of a suspect. Identities of informants will be kept confidential.

"Bank robberies, in general, are on the rise," said Ronald F. Young, vice president/security. "We believe the action we are taking is in the best interests of our bank, our shareholders and our customers and the communities in which we operate."

Mr. Young said the bank always has worked closely with law enforcement to combat bank robbery and that the Secret Witness program is designed to "support and strengthen these efforts."

Informants may use a toll-free telephone number to report information about suspects.

NEWS
From the Mid-Continent Area

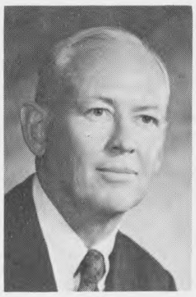
Alabama

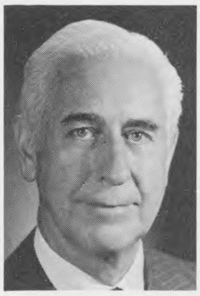
■ ROY W. GILBERT has been elected president and director, Birmingham Trust. Mr. Gilbert takes on the new responsibility after the board's acceptance of the resignation of W. Ralph Cook. Mr. Gilbert began his career with the bank in 1962. In 1970 he was elected senior vice president/ operations and, in 1972, executive vice president, Southern Bancorp.

■ FIRST NATIONAL, Mobile, has announced that Shirley F. Harbin, branch officer, has been named manager, Saraland Branch, and Robert E. Lee, assistant vice president, will be manager, Crichton Branch.

■ FIRST ALABAMA, Birmingham, has announced the promotions of six employees. Lem C. Stabler Jr. has been named trust officer, personal trust administration. Joan M. Wandrisco, training department supervisor, has been made assistant vice president. Elected assistant cashiers were Terry Burney, assistant manager, 32nd Street Office; F. M. McDowell, credit manager, revolving credit; Sidney O. Roebuck Jr., merchant sales supervisor, and Pat J. Spiegner, accounting supervisor.

Arkansas


McLEAN


BUTLER

■ COMMERCIAL NATIONAL, Little Rock, has announced the elections of Richard C. Butler and William H. McLean to new positions. Mr. Butler, formerly chairman, was elected senior chairman, and Mr. McLean was named chairman. Mr. Butler joined the bank in 1963 as president. Mr. McLean joined the bank in 1956 and was elected vice chairman in 1969. Richard L. O'Shields and Sam M. Walton have been elected to the bank's national advisory board. Mr. O'Shields is chairman and CEO, Panhandle Eastern Pipe Line Co., Houston. Mr. Walton is chairman and CEO, Wal-Mart Stores, Inc., which he founded.

■ WORTHEN BANK, Little Rock, has promoted 12 employees. They are John Woodworth, human resources, to vice president; Howard Shepherd and Kelly Johnson, trust department, to vice presidents and trust officers; Ina Johnson, supervisor, main lobby tellers; David Boerner, commercial loans, Don Crone, customer information, John Lipin, Cantrell Road Branch manager, and Walter Patterson, business development, to assistant vice presidents; and Jacqueline Moore and Emma Lou Neal to assistant cashiers. First Arkansas Bankstock Corp., Worthen Bank's HC, has promoted Woodlief A. Thomas to vice president, finance and control department.

Illinois

■ NATIONAL BOULEVARD BANK, Chicago, opened its new facility at One Illinois Center. The opening-day ceremony began with WGN's radio personality Wally Phillips cutting a money ribbon of over $100, which will be donated to the Neediest Children's Fund. The opening celebration also included a week-long Treasure Chest promotion. First prize in the promotion was a trip for two adults or a family of up to four to Disneyland with other "keyholders" winning saving accounts. Personal Banking Officer Nancy McGaughey will manage the personal banking area, and Assistant Vice President James Dickerson will be the officer in charge of lending and deposit business.

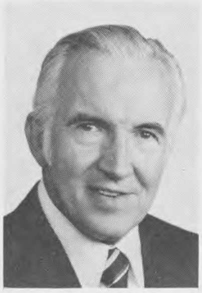
■ WILLIAM R. DREVANT, former vice president and director of marketing, Merchandise National, Chicago, has joined First National, Chicago, as vice president, real estate division. Mr. Drevant will be responsible for developing business relationships with local and national savings and loan associations.

■ NORTHERN TRUST, Chicago, has promoted to vice presidents Robert F. Bosco and Lloyd E. Clark, both of the trust department. Also in the trust department, Thomas E. Cooper, Randall C. Hampton and William J. Smith were promoted to second vice presidents. In the banking department Kenneth R. Harder, Glenn W. Proud and Joseph B. Starshak were promoted to second vice presidents. Thomas J. Pfenning was named second vice president, operations department.

■ CONTINENTAL ILLINOIS, Chicago, announced the promotions of two second vice presidents and three banking officers in financial services. Named second vice presidents were Margaret A. Detrick and James R. Pastorello. Promoted to banking officers were Michael W. Dann, Elizabeth Ann Johnson and Margaret A. Penar. In multinational banking services, Peter F. Meder was promoted to second vice president. In general banking services, Margaret J. Bellock and George O. Morgan Jr. have been elected second vice presidents.

■ THE ILLINOIS BANKERS ASSOCIATION, Chicago, has named Charles J. Obie to the new position of director, public relations, and James W. Civik to the post of assistant director, education. Mr. Obie will be responsible for communications functions and media relations. Before going to the IBA, he managed a speakers bureau and customer service program for Walgreen's. Mr. Civik has responsibility for organizing statewide banking conferences and assisting bank officials in establishing educational priorities.

■ FIRST BANCORP., Belleville, has announced appointments of two directors. Homer Weidmann was elected to the board, Illinois State Trust, Belleville, and Howard Lippert is newly elected to the board, First National, Belleville. Both are subsidiaries of First Bancorp. Mr. Weidmann is president, Belleville Shoe Manufacturing Co., and Mr. Lippert is president, Liese Lumber Co.

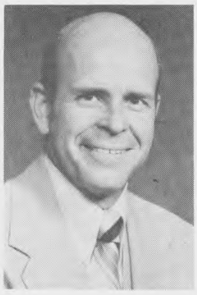


WEIDMANN

LIPPERT

Indiana

■ TOM CATTON has been appointed sales engineer, Indianapolis branch, LeFebure, Cedar Rapids, Ia. He will concentrate on a 20-county area in central Indiana.



CATTON

Ralph Sherping Dies

WABASH — Ralph Sherping, former pres., First National here, and pres., Indiana Bankers Association, 1961-62, died in September. He was in banking from 1919-65.

■ J. DOUGLAS ADAMSON has been appointed vice president/marketing director, Purdue National, Lafayette. He goes to the bank after eight years with Franklin Bank, most recently serving as marketing director.

■ GARY C. DECH has been appointed manager of First National of East Chicago's new Merrillville Office. He goes to the bank with 10 years' experience from two banks and an S&L.

■ JOHN SEIDL has been promoted to assistant vice president/investment officer, First Bank, South Bend. He joined the bank in 1971 and was operations manager at the Ewing Avenue Office before he was appointed an investment officer in 1977.

■ MARTHA "JAN" HOEPNER has been promoted to assistant vice president/personnel at Citizens Bank, Jeffersonville. She joined the bank in 1969 and has worked in the installment loan and proof departments. Before joining the bank, she was with Citizens National, Evansville.

Kansas

■ JERRY D. PIERSON has been named president, First National, Derby. He had been president, First State, Osborne.

■ UNION STATE, Clay Center, has contracted Bank Building Corp., St. Louis, to expand and remodel its main banking facility. Plans call for a 3,000-square-foot expansion of the bank's main offices. Also, changes in the vault

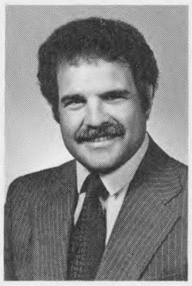
Protection Bank Closed

PROTECTION — The FDIC has begun paying insured deposits in Farmers State. The bank was closed September 21 by Roy P. Britton, Kansas bank commissioner, and the FDIC was named receiver.

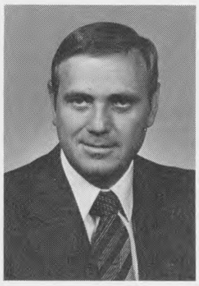
FDIC Chairman Irvine H. Sprague said that more than 96% of the deposits of the more than $4.7 million-deposit bank are estimated either to be secured or within the FDIC insurance limit (generally $40,000). There are about 1,500 deposit accounts.

will be made to increase safe-deposit-box capacity.

■ FIRST NATIONAL, Wichita, has named Ron J. Mosier and James Oxley vice presidents, commercial loans. Mr. Mosier goes to the bank from First National, Derby, where he was president. Mr. Oxley had been vice president, United American Bank, Wichita.



OXLEY



MOSIER

New Lenexa Bank Opens

LENEXA — Country Hill State opened here recently in temporary quarters.

Officers include William R. Mills, president; Phillip J. Hammond, vice president/cashier; Ann Rundquist, operations officer, and Esther Turner, executive secretary.

Kentucky

■ FIRST NATIONAL, Louisville, has promoted to vice presidents William R. Barrett, formerly senior national banking officer; Thomas W. Raatz, formerly senior banking officer, and Carl M. Thomas, formerly senior administrative officer. Promoted from banking officers to senior banking officers were: B. W. Brumagen, Lawrence E. Dension and Charles W. Williams. Robert J. Lampton was moved up from marketing officer to senior cash management officer. Charles E. Mooser Jr. was promoted to senior national banking officer from national banking officer. Gregory Silliman, formerly commercial banking officer, was named senior commercial banking officer. William A. Laraque was named national banking officer.

■ FIRST SECURITY, Lexington, has announced John H. Holmes and Robert G. Dorris have joined the bank. Mr. Holmes, now vice president, commercial loans, was with Second National, Lexington. Mr. Dorris, who was with First National, Louisville, now is assistant vice president, correspondent banking.

■ CITIZENS NATIONAL, Bowling Green, has announced the promotion of Beverly K. Spangler to manager, consumer loans, and assistant vice president. Robert W. Wood, former manager, consumer loans, has assumed responsibilities as head of a research team that is making plans for a new financial service.

■ LITA DUNN, administrative assistant to Vice President Don Atwood, First City Bank, Hopkinsville, was honored as the Hopkinsville B&PW Club's "Young Careerist" for 1979-80.

Louisiana

■ BANK OF NEW ORLEANS has promoted Alan R. Meador to senior vice president, commercial loan division. Mr. Meador joined the bank in 1977. William S. Spann Jr. was elected vice president and personnel director. He was formerly affiliated with Louisiana National, Baton Rouge. James C. Green is now vice president and manager, installment loans. He was formerly with Boatman's National, St. Louis.

■ FIRST NATIONAL BANK OF COMMERCE, New Orleans, announced elections of Richard J. Carlson to bond investment officer; Wolfgang G. Decker to banking officer, loan operations; Vernon A. Diaz to assistant trust officer and Susan P. Miguez to banking officer, credit and research.

■ FIRST NATIONAL BANK OF JEFFERSON PARISH, Gretna, has announced realignment of its top-management team. Benton M. Wakefield Jr. has been elected chairman, CEO and director. Marvin S. Mayer has been elected president and director. Bernhardt C. Heebe has been elected vice chairman. Mr. Wakefield had been president, FBT Bancorp., Inc., South Bend, Ind., and chairman, First Bank, also in South Bend. Mr. Mayer began his association with First National in 1965 after leaving a position as national bank examiner. Mr. Heebe, a Jefferson Parish attorney, has been serving as chairman, First National Bank of Jefferson Parish, on an interim basis. He has been a director since 1951.

Mississippi

■ JOE FERNALD has been promoted to assistant vice president, Brookhaven Bank. He joined the bank in 1976 as a management trainee and was named loan officer in 1977. Mr. Fernald was manager, Lincoln Plaza Branch, before assuming duties as manager, Highland Square Branch.

■ FIRST M & F Corp., Kosciusko, has received approval from the St. Louis Fed to become a bank holding company through acquisition of Merchants & Farmers Bank, Kosciusko.

Bank Closed in Mississippi

UTICA — Fidelity Bank and its branches in Jackson were closed September 27 by James H. Means, state comptroller, bank supervision department. The bank's deposits were assumed by Bank of Jackson, N. A., a new bank chartered by the Comptroller of the Currency, and there were no losses to the closed bank's depositors.

James T. Speed, pres./ch., Bank of Quitman, headed a group that bought what remained of Fidelity Bank for $1.7 million at an FDIC auction less than 12 hours after the bank was closed. The new Bank of Jackson opened October 1, with Mr. Speed as ch., James T. Mitchell of Meridian as pres. and Robert E. Smith of Quitman as e.v.p. All are on the new bank's board and also are directors, Bank of Quitman. Another director of both banks is State Senator Glen Deweese of Meridian.

The former headquarters of Fidelity Bank in Utica now is called Bank of Utica.

Ben Lampton Dies

R. Ben Lampton, vice chairman, First Nat'l and First Capital Corp., Jackson, died September 24 in an automobile accident while vacationing in London. He joined the bank in 1949 as a management trainee. He was a past president, Mississippi Bankers Association, and had been serving as a member of the ABA's governing council. Also, he had been a dir. of the New Orleans Branch, Atlanta Fed.

Missouri

■ MERCANTILE TRUST, St. Louis, has elected Harry N. Schweppe Jr. senior vice president/trust department. He joined the bank in 1953 and was promoted to assistant vice president in 1963 and elected a vice president in 1967. He is responsible for trust operations and corporate trust services. New assistant vice presidents are Jon L. Henderson, Jane Rawlings and Martha C. Shelby. Mr. Henderson joined the bank in 1976, Mrs. Rawlings in October, coming from a bank in Nashville, and Miss Shelby in 1943.

LOHE

SCHWEPPE

■ NORBERT W. LOHE has been named chief executive officer, Florissant Bank. He succeeds Cyril Niehoff, who is retiring from that position, but will continue as chairman. Mr. Lohe joined the bank in 1952. Before being named CEO, he was president and chief operating officer.

■ FIRST NATIONAL, St. Louis, has elected two new vice presidents: William F. Sommer, also controller, and Ben A. (Todd) Parnell and promoted Harold C. Mueller to assistant vice president. Mr. Sommer joined the bank in 1968 as a staff accountant. Mr. Parnell rejoined it in 1977 and is manager of the bank's Los Angeles office. Mr. Mueller joined the bank in 1977.

■ UNITED MISSOURI BANCSHARES, Kansas City, following receipt of an A-1 rating from Standard & Poor's and an F-1 rating from Fitch Investors Service, will begin issuing commercial notes through its bond department. The notes will be issued with maturities ranging from one to 270 days and in minimum denominations of $25,000. Proceeds will be used primarily to fund the HC's recently acquired mortgage banking subsidiary, City Bond & Mortgage.

Consumer Finance Conference To Feature Bankruptcy Act

KANSAS CITY — The Bankruptcy Reform Act of 1978 is among topics slated for the Missouri Bankers Association's consumer finance conference November 29-30 at the Crown Center Hotel. Frank Koger, a Kansas City lawyer, will describe the act.

A legislative update by Richard H. Mason, MBA governmental affairs director, will kick off the first afternoon's sessions. Then, Linda Nixon, Kansas City Fed, will discuss compliance.

Concurrent workshop sessions that afternoon will include the following topics: "Take a Look at Your Title," by Jerry Goldberg, director, Missouri Revenue Department, and Jack Lupardus, of that department's motor vehicle division; "Loan Documentation" by Ron J. Maas, senior vice president, American Bank, Kansas City; and Harry F. Harrison, senior vice president, Westport Bank, Kansas City; "Profit and Pricing" by Gary Robben, Gary Robben & Associates, Kansas City; and "Direct Lending vs. Indirect Lending" by Norman T. Williams, executive vice president, Commerce-Manchester Bank, St. Louis. Workshop sessions will be held on the first afternoon and will be repeated once.

A legislator's panel will kick off the second day's meetings and will be followed by an economic forecast given by Eugene A. Leonard, senior vice president, Mercantile Bancorp., St. Louis.

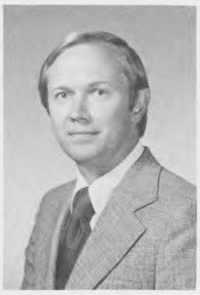
At press time, the conference's keynote speaker had not been announced.

The meeting will be opened November 29 by MBA President S. K. "Ken" Turner, president, First National, Kirksville. There will be a banquet and entertainment that night.

■ DONALD A. WIBBENMEYER has been elected assistant vice president of County National Bancorp., Clayton. He will be responsible for loan review/compliance with government regulations for the HC's five banks. Mr. Wibbenmeyer is assistant vice president of St. Louis County Bank, which he joined in 1969.

■ LARRY E. RUSSELL has joined Phelps County Bank, Rolla, as vice president. He will manage the bank's investment portfolio and will work in administration and business development. Previously, he was vice president, United Missouri Bank, Kansas City.

■ JOHN C. TAYLOR has been elected senior vice president, commercial banking division, Commercial National, Kansas City. He will be responsible for his division's commercial lending and banking functions. He goes to the bank from Commerce Bancshares, Kansas City, Mo., where he was vice president/loan administration. Also, he had been vice president, Commerce Bank, Springfield, Mo. He



TAYLOR

CRIST

entered banking in 1970 at Commerce Bank, Kansas City, Mo.

■ EDGAR H. CRIST, former Missouri finance commissioner, has joined Peoples Bank, Cuba, as senior vice president/director. He will serve on the discount committee and will work with the bank on an advisory basis. Mr. Crist was employed by the St. Louis Fed for 35 years before retiring as vice president/bank examination division in 1977. He was appointed state finance commissioner in 1977 by Governor Joseph P. Teasdale and resigned in August because of personal reasons.

New Mexico

■ FIRST NATIONAL, Sante Fe, named Edwin P. Cover executive vice president and Tom Jacobs senior vice president/community banking group. New responsibilities have been given to the following: Abel D. Tellez, vice president, will head the commercial loan division; T. Gene Jones rejoined the bank as vice president, real estate division; Fred Gallegos has joined the bank as vice president, commercial loans. New assistant vice presidents are Nancy Bennett, real estate, and Carol Schupp, commercial loans. Mr. Cover goes to the bank from National Bank of the Commonwealth, Indiana, Pa. He will supervise five divisions: community banking group, commercial loan, real estate, bank operations group and the Los Alamos division.

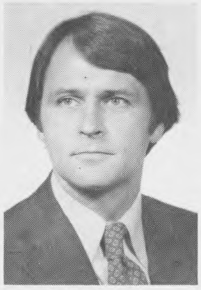
■ PHILLIP H. OWEN has been elected president, Security National, Roswell. He had been executive vice president/director and succeeds Charles Joplin, who has accepted a position with Albuquerque National. Mr. Owen went to the bank as a trust officer in 1967 from Kansas City Bank. He was elected a director in 1977 and executive vice president in 1979.

■ FIRST NATIONAL of Rio Arriba, Espanola, has received approval from the Comptroller of the Currency to establish a new branch in Chimayo. It will be located near the intersection of state roads 76 and 520.

■ BANK SECURITIES, Inc., an Albuquerque HC, has agreed in principle with Robert O. Anderson, his sons, Phelps and Robert B., and A. G. Hamilton for the latter to purchase about $9.45 million of BSI securities consisting of 200,000 shares of new BSI capital stock and $6.75 million of debentures of subsidiary banks with warrants for the purchase of 500,000 BSI shares. The agreement in principle is subject to various conditions. As part of the proposed transaction the Anderson group would succeed to control BSI and would obtain irrevocable proxies for 290,000 outstanding shares held by certain major stockholders. The Anderson group members would become BSI directors, together with up to three other nominees. Ted Bonnell, Maurice Hobson and John Petty will remain on the board and maintain their stock ownership. Robert O. Anderson would be elected board chairman and Mr. Hamilton would serve as president/CEO. Mr. Anderson is chairman of Atlantic Richfield Co. Mr. Hamilton is a director, American Bank, Carlsbad, and chairman/CEO, Oncor Corp., Houston. Robert B. Anderson of Roswell is president, Lincoln County Land & Cattle Co. Phelps Anderson is a director, First National, Roswell, president, Tinnie Mercantile Co., and a member of the New Mexico state legislature.

Oklahoma

PORTER



DOLLARHIDE

■ FIRST NATIONAL, Oklahoma City, has made two officer changes. Felix N. Porter, vice chairman/director of the bank and executive vice president/director of First Oklahoma Bancorp., Inc., has retired. He joined the bank in 1937, was promoted to vice president in 1958 and to president in 1969. In 1974, he was elected executive committee chairman and the next year was elected vice chairman. David W. Dollarhide has joined the bank as vice president, community/industrial development. Mr. Dollarhide goes to the bank from the University of Oklahoma, where he was director of development.

■ JOE B. SYLVAN, former senior vice president, First National, Tulsa, has been named president, Boulder Bank, Tulsa. CEO William R. Shaw was named chairman. A. F. Boudreau Jr., president, Petroleum Trading and Transportation Co., has stepped down as chairman, but remains a director. Mr. Sylvan entered banking in 1967 at Morgan Guaranty Trust, New York City, where he called on the bank's corporate and correspondent customers. In 1971, he joined Republic National, Dallas, as vice president responsible for that bank's New York City activities, including management of a $150-million loan portfolio. In 1976, he joined First of Tulsa as vice president/corporate division and was named senior vice president in 1977.

SYLVAN

■ GLEN E. LEMON, president, First Bank, Booker, Tex., has been elected to the board of First Bancshares, Inc., and First National, Bartlesville. Mr. Lemon has served as an executive officer and director of Southwest Cattlemen's Credit Corp., the newly acquired subsidiary of First Bancshares, Inc., since its founding in 1970. The firm has been merged with Ag Credit of Beaver County, Inc., and will serve the agricultural needs of a five-state region. It has agricultural loans outstanding of more than $10 million, and capitalization is $2.6 million. Offices are in First Bank, Booker, Tex., and First State, Forgan.

Tennessee

■ THIRD NATIONAL, Nashville, has promoted Edgar W. Anderson, a manager in the systems department, and Helen D. Miller, correspondent department, to vice presidents. New officers named are W. Steven Jaynes, commercial officer; and Charles E. Bagsby, W. Langley Granbery Jr., Valere Kay Proctor and William F. Waldkirch, all administrative assistants. Mr. Anderson joined the bank in 1969 and was promoted to assistant vice president in 1975. Mrs. Miller joined the bank in 1949 as a secretary. She was promoted to assistant vice president in 1977.


ANDERSON


MILLER

■ FIRST NATIONAL, Lawrenceburg, has promoted Jay Durham and Levon Jones to senior vice presidents and Robert Parker to vice president. Mr. Durham is a senior loan officer and will assume additional operations responsibilities. Mr. Jones, also a senior loan officer, will assume additional duties in branch supervision. Mr. Parker manages the bank's Industrial Park Branch and will assume additional installment-loan duties.

New TVA Pension Trustee

NASHVILLE — Third National's trust division has been selected by Tennessee Valley Authority Retirement System directors to become trustee and manager of a portion of the system's fixed-benefit fund.

The bank will manage a $10-million portion of the TVA fund, according to Wirt C. McKnight, first vice president of the bank's trust division.

According to Herbert S. Sanger Jr., TVA general counsel and chairman, TVARS board, the latter chose Third National because its trust division could "manage this portion of our funds as well as any of the top fixed-income managers in the country." Mr. Sanger said this evaluation was based on the bank's "past performance, investment-personnel experience, management fees and other factors."

Texas

■ REPUBLIC NATIONAL, Dallas, has elected Joseph R. Musolino vice chairman and director. He had previously served as executive vice president. The board has approved creation of two new departments; corporate banking, managed by John Stuart, executive vice president, and general banking, managed by Bob Rork, senior vice president. Joe B. Fortson, senior vice president, succeeds Mr. Stuart as manager, real estate department. John H. Falb, responsible for loan approval and administration; Raleigh Hortenstine III, manager, money market division, and Frederick T. "Rick" Sauer, manager, cash management division, have been promoted to senior vice presidents and given memberships on the executive committee. Elected to vice presidents and trust officers were Hellen H. Reese, trust personal services, and Mary Alice Mayer, trust strategic planning and marketing research.


MUSOLINO FORTSON RORK STUART

■ FIRST SECURITY NATIONAL CORP., Beaumont, will be merged into First City Bancorp. of Texas, Houston, with Fed approval. The merger is scheduled for completion during the fourth quarter of 1979.

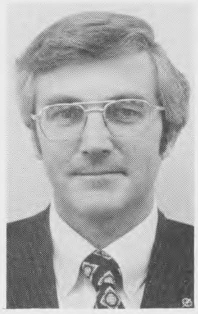
■ FORT WORTH NATIONAL has elected James D. Sweeney, president of the Waples-Platter Companies, food wholesaling and manufacturing firm in Fort Worth, to the board. Mr. Sweeney also is president of Ranch Style, Inc., a nationwide distributor of food products; White Swan, Inc., a food service operation, and Graphic Arts, Inc., a food label printing company. Gerald Whitney Smith has joined the staff of Fort Worth National as an assistant vice president and employment manager, employee relations department. He was previously with Austin National as an assistant vice president and employment manager.

■ BILL R. HENSON, vice president and trust officer, First National, Fort Worth, has been promoted to manager of the minerals management area, a function of trust services. His new duties will include minerals; urban, commercial, farm and ranch real estate and securities management. Promoted to assistant vice presidents were Stewart Alcorn, credit analyst; Kenneth Forswall, real estate loans, Eva Mullis, international, and Modena Smith, operations. Newly elected assistant vice president is Garnett Smith Jr., international business development.

HENSON

■ BANK OF THE SOUTHWEST, Houston, has named Hilton Hemphill and R. Sells Neuhaus senior vice presidents. Mr.Hemphill, most recently vice president and director of research at United States Trust, New York City, will manage the trust investment department. Mr. Neuhaus has been with the Bank of the Southwest since 1964 and has been manager of the personal trust department since 1973. Randy A. Graham was promoted to vice president, personnel. William "Don" Parnell was promoted to vice president, personal banking. Jeffrey J. Schmitz was named vice president and assistant controller, accounting.


NEUHAUS


HEMPHILL

■ CHARLES T. "RUSTY" CRAWFORD has assumed duties as president of First State, Archer City. Mr. Crawford goes to the bank from Fort Davis State, where he served for the past four years as president and director.

Fed Answers Regs Questions

Randall C. Sumner, examiner in St. Louis Fed's consumer affairs dept., answers common questions about federal regulations that affect most banks. Information given here reflects Mr. Sumner's opinions, not necessarily those of the St. Louis Fed or the Board of Governors.

Q. What reports must be filed by executive officers and principal stockholders of member banks pursuant to FIRA as implemented by revisions to Regulation O?

A. Each executive officer and each principal stockholder of a member bank must file with the bank's board a report showing the maximum amount of indebtedness (including related interests) to each depository bank of the member bank during any calendar year. Also to be included are amount of indebtedness, range of interest rates charged and terms and conditions of the loan.

Q. What reports must be filed by member banks with their appropriate federal regulator pursuant to FIRA as implemented by revisions to Regulation O?

A. In addition to a compilation of reports filed by executive officers and principal stockholders, member banks must provide a list by name of each person who files a report with the bank's board and the aggregate amount, or sum, of all indebtedness reported to the board. Also, member banks must provide a list by name of each executive officer and each principal stockholder of record as well as the aggregate amount of all extensions of credit made by the bank to the above and to their related interests.

Q. Under what conditions may a member bank pay an overdraft of an executive officer or director of the bank?

A. Section 215.4 of Regulation O provides that no overdraft of an executive officer or director of the bank on an account at the bank may be paid unless the payment is in accordance with (1) a written, pre-authorized, interest-bearing extension-of-credit plan that specifies a method of repayment or (2) a written, pre-authorized transfer of funds from another account of the account holder at the bank. The general prohibition does not apply to inadvertent overdrafts in an aggregate amount of $1,000 or less, provided the account is not overdrawn for more than five business days and the member bank charges the executive officer or director the same fee charged any other customer of the bank in similar circumstances.

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OAS President to Address ABA International Meeting

WASHINGTON D. C. — Alejandro Orfila, secretary general, the Organization of American States, located here, will be a featured speaker at the ABA's fifth international banking conference.

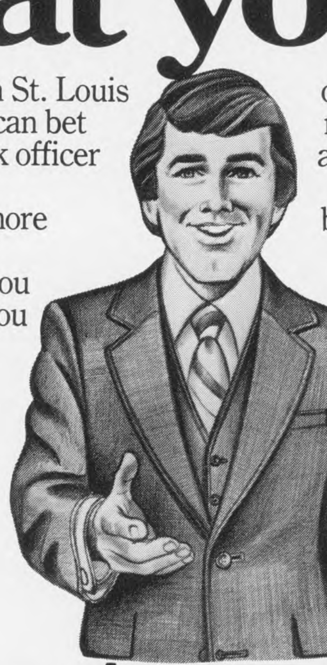
Scheduled for January 27-29 at the Sheraton Center, New York City, the meeting's theme is "Managing Global Risk." Speakers and participants from international banks will analyze the social, economic, legal and political risks and opportunities that will challenge international bank managements in the 1980s.

Mr. Orfila's address will focus on the western hemisphere, with an analysis of the role of international banks in Latin American development.

Keynote speaker will be Otmar Emminger, president, Deutsche Bundesband — Germany's central bank — who will address the future regulatory environment for international banking.

Other speakers will include ABA president C. C. Hope Jr., vice chairman, First Union National, Charlotte, N. C.; M. H. Fisher, editor, *Financial Times*, London; John J. Sisco, president, American University, Washington, D. C.; and George Will, syndicated columnist, Washington *Post*.

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.

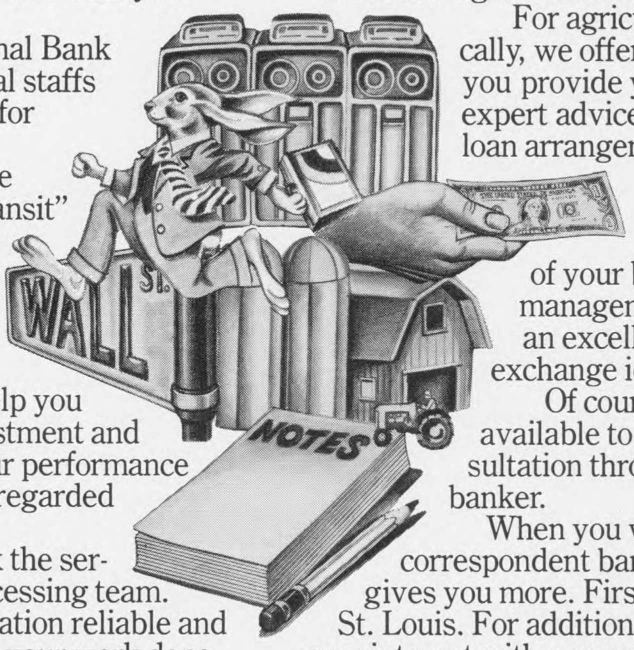
Of course, he's available to you by phone almost every day. So, you can get fast, on-the-spot service whenever you need it.

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.

First National Bank in St. Louis

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