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MID-CONTINENT BANKER

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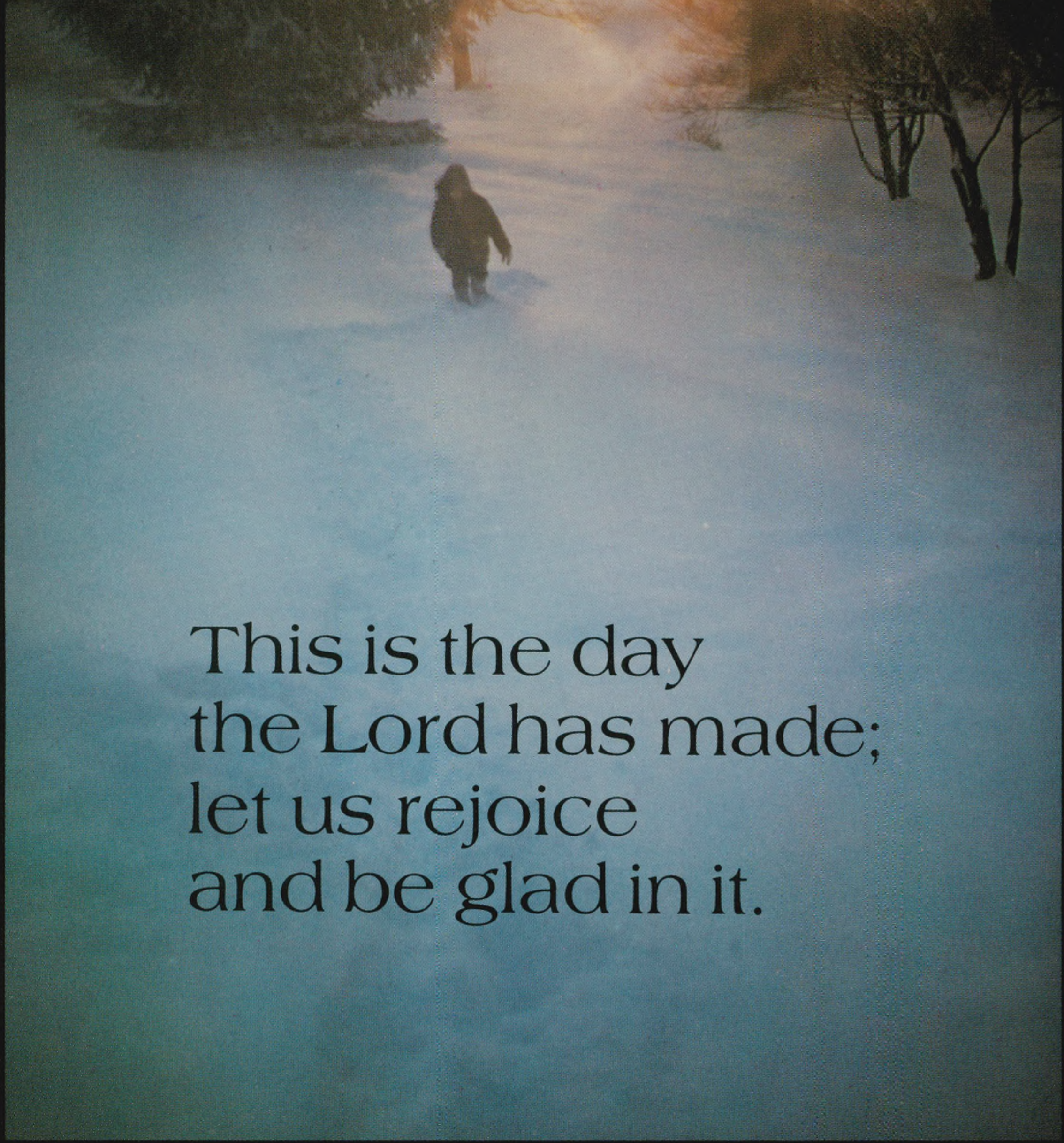
COMMERCIAL FINANCE/ LEASING ISSUE


This is the day
the Lord has made;
let us rejoice
and be glad in it.

Psalm 118:24

MID-CONTINENT BANKER

The Financial Magazine of the Mississippi Valley & Southwest

Volume 75, No. 13 **December, 1979**

FEATURES

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Convention Calendar

Jan. 6-9: Bank Marketing Association EFTS Conference, Dallas, Hilton.
Jan. 21-22: Robert Morris Associates Power Negotiations® Workshop, Chicago, Continental Plaza.
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: Bank Marketing Association Basic Advertising Workshop, Atlanta, Omni International Hotel.
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.
Feb. 10-21: ABA National Installment Credit School, Norman, Okla., University of Oklahoma.
Feb. 19-22: ABA Bank Investments Conference, Los Angeles, Los Angeles Bonaventure.
Feb. 21-24: 40th Assembly for Bank Directors, Palm Springs, Calif., Canyon Hotel Racquet & Golf Resort.
March 2-4: ABA National Credit Conference, Atlanta, Hyatt Regency.
March 2-5: National Automated Clearing House Association Annual Conference, Phoenix, Adams Hotel.
March 9-11: ABA "How To" Secondary Mortgage Workshop, Kansas City, Crown Center.
March 9-12: ABA Trust Operations/Automation Workshop, New Orleans, Fairmont Hotel.
March 9-12: Bank Marketing Association Marketing Research Conference, Miami, Omni International Hotel.
March 9-13: Independent Bankers Association of America Annual Convention, San Francisco, San Francisco Hilton.
March 9-14: ABA National Consumer Compliance School, Norman, Okla., University of Oklahoma.
March 12-14: Bank Administration Institute Check Processing Workshop, Kansas City, Crown Center Hotel.
March 13-14: Robert Morris Associates Loan Portfolio Management Workshop, Houston, Houstonian Inn.
March 16-18: ABA National Credit Conference, Atlanta, Hyatt Regency.
March 16-19: Bank Marketing Association Community Bank CEO Seminar, Scottsdale, Ariz., Del Webb's Mountain Shadows Resort.
March 16-21: ABA National Personnel School, College Park, Md., University of Maryland.
March 16-22: ABA Business of Banking School, Dallas, American Airlines Learning Center.
March 20-21: Robert Morris Associates Managing International Lending Risks Workshop, New Orleans, Hilton Hotel.
March 23-25: ABA Salary Administration Workshop, St. Louis, Sheraton St. Louis.
March 23-26: ABA National Consumer Compliance Conference, Miami, Omni International Hotel.
March 23-26: Bank Marketing Association Advertising Conference, Cambridge, Mass., Hyatt Regency Cambridge.
March 23-April 3: ABA National Commercial Lending School, Norman, Okla., University of Oklahoma.
March 26-28: Bank Marketing Association Public Relations Conference, Cambridge, Mass., Hyatt Regency Cambridge.
March 29-April 1: Association of Reserve City Bankers Annual Meeting, Boca Raton, Fla., Boca Raton Hotel.
March 30-April 4: ABA Community Bank CEO Program, Ft. Lauderdale, Fla., Holiday Inn at Inverrary.
April 9-12: Louisiana Bankers Association 80th annual convention, New Orleans, New Orleans Hilton.
April 13-16: ABA Southern Regional Bank Card Conference, New Orleans, Hyatt Regency New Orleans.
April 13-16: ABA National Installment Credit Conference, Washington, D. C., Sheraton Park.
April 14-15: Mortgage Bankers Association national conference, New York City, New York Hilton.

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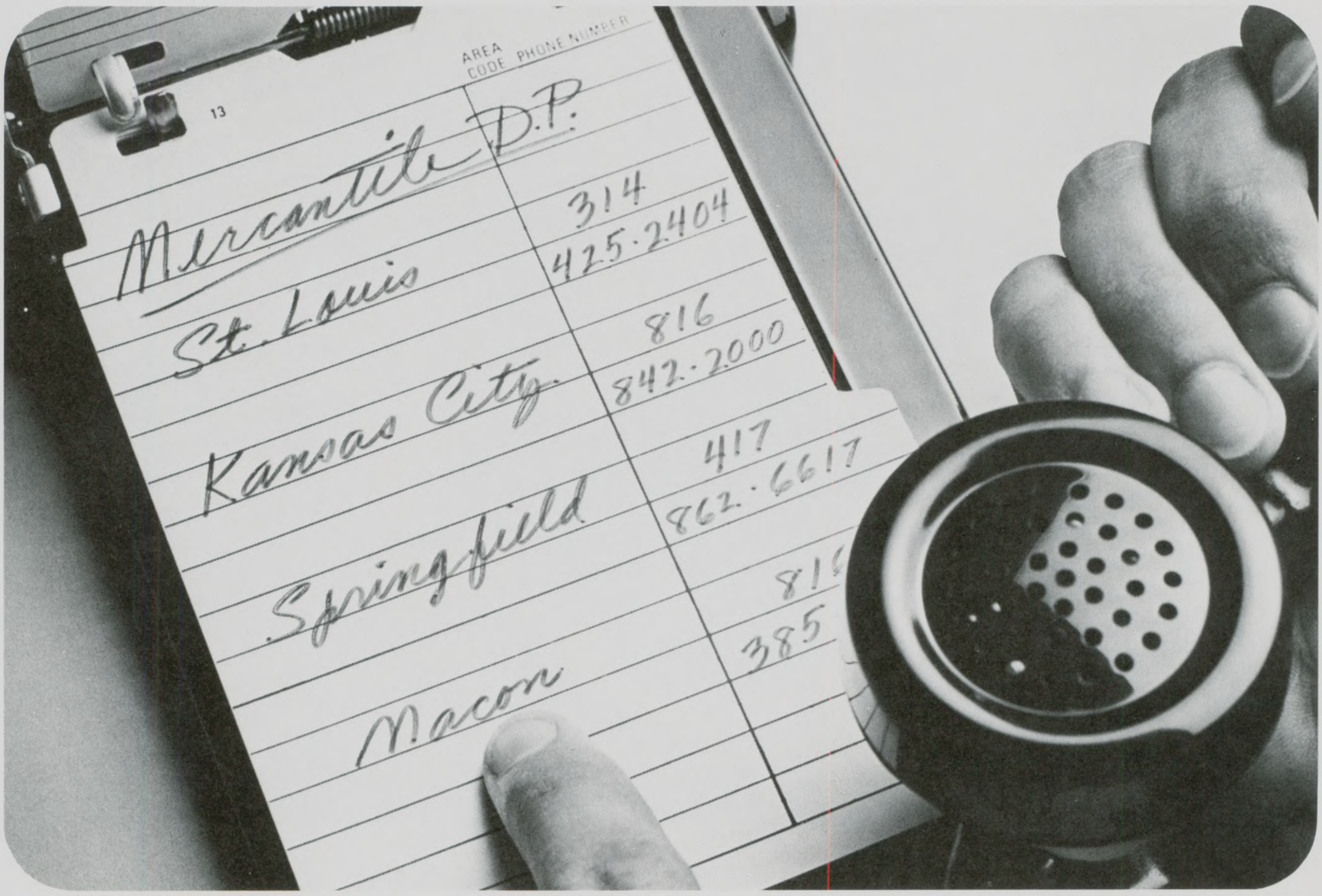

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By Dr. LEWIS E. DAVIDS
Illinois Bankers Professor of Bank Management
Southern Illinois University, Carbondale

Dynamics of Bank Examination

IN THE LAST DECADE, there have been some significant changes in the philosophy and conduct of bank examinations. This column will present a view of what some of these changes and their implications are for you, your bank and your community.

For well over a century, bank examinations have been philosophically questionable. They have involved examiners of a regulatory agency descending on a bank, generally at an inopportune and unannounced time. The examiners sealed the vaults, books and ledgers of the bank and then proceeded systematically to balance the books, first by laboriously counting the cash and obtaining confirmation from correspondents on interbank balances, then adding up totals of various assets and liabilities. They reviewed the loan portfolio to see whether it balanced with the loan ledger. A small proportion of the loan files would be selected. Documentation of the loans and borrower's balance sheet and P&L statements should justify the sample of loans.

Much time was disproportionally and ineffectively allocated. Though currency and coin represent a small percentage of a bank's assets, great diligence was exercised in counting coins and paper currency.

Similarly, examiners spent a great deal of time adding, by hand or machine, journals and ledgers to see if they added up correctly. Examiners prided themselves that the sample size of loans they reviewed was statistically adequate for the bank's size and capital structure.

They then proceeded to judge whether on paper the loan was substandard, doubtful, probable loss or acceptable. If the paper documentation and the financial ratios were within acceptable ranges, there was little or no criticism (write-up) of the loans. If the documentation and ratio-spread-sheet analyses were sloppy, the loan would be classified.

Note that the examiners did not verify that the company or account really existed or — if it did exist — that the names on the instruments were authoritative and real. In the case of mortgage loans, there was no real direct verification that the values attributed to the land, etc., were reasonable for the current market. The examination was geared to a certain time. It was static and the major emphasis was on the balance sheet balancing.

Look at the last published statements of Franklin National of New York City and U. S. National of San Diego before they failed. Both had capital according to the conventions of bank regulators and their examiners.

That examiners accepted U. S. government securities as "riskless" and that the bank could carry them on their investment ledgers at cost or book is a classic example of examiners' paradoxical postures. Banks such as Franklin National of New York City (now defunct) did borrow amounts on these deep-discount securities — amounts higher than their market values. Fed banks did lend on deep-discount, long-term U. S. bonds on terms that would be cited as unsound if commercial bankers were the lenders.

Look at any current quotation sheet of prices of long-term government securities. Then ponder the implications of this in terms of generally acceptable accounting principles that govern other types of businesses. Similarly, look on the valuation of the real estate mortgage portfolio of most commercial and mutual savings banks. Even more frightening, look at real-estate valuations of S&Ls.

Look, if you dare, at the last published statements of Franklin National and U. S. National of San Diego before they failed. Both had capital according to the conventions of bank regulators and their examiners. A high proportion of the lay public had confidence in the numbers these banks published — numbers that were untouched by any disapproval of regulators and their examiners though the Securities and Exchange Commission did register disapproval.

The SEC viewed the situation in a light quite different from bank regulators and examiners. To their credit, forward-thinking bank regulators, such as former Comptroller of the Currency James Smith, recognized how complex and sensitive bank examinations were in all their ramifications. He moved positively in the direction of improving the quality of bank examinations through an ongoing tracking of call reports and related operating data. He is to be commended for his support and implementation of the "early-warning surveillance system" approach in monitoring and examining national banks.

James Smith's successors have talked in a questionable way. They seem to have forgotten or ignored the fundamental reason for bank examination. It is solvency and vitality of the individual bank and the banking system.

One of the sad facts of life is that bank regulators, both federal and state, are subject to considerable political pressure. They also are pres-

(Continued on page 56)

Selling/Marketing

To Attract Crowds:

Bank Uses Midget Blimps On Special Occasions

First Union National, headquartered in Charlotte, N. C., is stirring up plenty of interest with two midget blimps that float nearby when a branch opens or reopens after renovation. Susan Schluessler, sales promotion manager for First Union, launched the blimp campaign, which has been successful in generating traffic at over 40 openings where the Japanese-made vinyl dirigibles have appeared.

The blimps were purchased by the bank from Ad Air Products, Garland, Tex. One of the blimps is 15½ feet long and 7½ feet in diameter. The larger one is 25 feet long and nine feet in diameter. The blimps are compact and lightweight when deflated. They fly at an altitude below 150 feet because of FAA regulations and can be pulled along easily by ground crews using ropes. James Bicket of Statesville, N. C., an experienced commercial hot air balloonist, handles the blimps for First Union, although, James R. Singleton, editorial services manager, says ". . . anyone can operate the blimps. It's as easy as filling a toy balloon — only a bit more time consuming." The bank expects to use the blimps for at least five years before replacing them.

The attention-getting airships will remain on hand to open more buildings and for use on any other occasion where gathering a crowd is desired. The blimps have been used in a holiday parade and in a parade for the Special Olympics for retarded children this year.

Thanks for the idea, Goodyear. Here comes the First Union National blimp!

First Union Nat'l blimp is pulled along during St. Patrick's Day Parade in Charlotte, N. C.

Winner of kid's art contest sponsored by First Nat'l, Wellington, Kan., was Danette McCormick (l.). At right, Francis E. Carr, ch. & pres., presents one of 16 flags that flew over nation's Capitol to contest-winner Ruth Felt.

Thanks for the Memories:

Free Dinner, Tabloid, Plant Highlight Centennial Party

It's not every day that a 100th birthday is celebrated. So when First National, Wellington, Kan., reached the century mark, the bank took a week to celebrate its centennial.

The bank had a birthday party and invited its customers and community to a free hot dog dinner that was served prior to Sumner County's Wheat Festival Parade.

About 1,500 persons attended and toured the bank's newly remodeled facility. Three displays were exhibited in the bank's lobby. They included displays from the Kansas Wheat Commission, entries in the bank's kid's art contest and the bank's fifth lobby display in its "Before There Was Money" series.

In addition, a six-page special edition tabloid was distributed with the Wellington *Daily News*, with four-color cover illustrations by a local artist and articles and photographs that highlighted the bank and town's history. A souvenir copy and a free magic plant pellet were given to those attending the dinner. Attendees had a chance to win a flag that had flown over the U. S. Capitol.

In addition, special centennial ads appeared in the newspaper and on radio. Topics for the centennial series included Wellington 1879: Business Is Booming, Getting to the Bank, Saving for the Future, Hard Winter Wheat, Checking and Home Improvement Loans. Also, a new theme and jingle, "Count on us, first and always," was introduced.

The Commercial-Finance Industry

Where Is It Now? Where Must It Go?

By RUSSELL B. DONAHUE
Chairman
National Commercial Finance Conference

THIS past January, the White House Conference on Small Business held a meeting to discuss problems faced by small businesses. A number of topics were discussed: accounting procedures, tax reform and a variety of problems relating to government regulations.

But the topic most prominent in the minds of the 500 business executives who attended the conference was capital — where to find it, how to raise it and its future availability.

The fact that capital is the predominant concern of small businesses and their medium-sized counterparts should have come as no surprise to anyone. About the only surprise is that it was the government that was taking the initiative to find out what was on the minds of the small-business people who, in my opinion, comprise the backbone of our economy.

Small and medium-sized businesses in the U. S. today face a capital crisis. Many believe that up-and-coming companies will not be able to finance new plant and equipment by selling shares of their stock to the public. Recently, the New York Stock Exchange published a survey entitled "Public Attitudes Toward Investing." The survey found 70% of the American public unwilling to take more than the barest minimum or small risk. And despite some instances of renewed speculative interest, this aversion to risk has been translated into a preference among investors for such passive vehicles as savings certificates, life insurance and treasury notes.

Apparently, many small businesses face a "Catch 22" situation. They aren't large enough to attract the capital they need, but without the capital they must find other means to grow.

How can the commercial-finance and factoring industry step in to fill the capital void facing small and medium-sized businesses? Meeting this need is our challenge. No matter how large we grow or influential we become, I am firmly convinced the future of the industry lies here.

"Clearly, banks have altered the shape of our industry. As astute lending professionals, bankers recognized that commercial finance played a vital role in helping small business grow. They recognized that secured lending often was the only answer for undercapitalized companies. Consequently, our industry experienced a bank invasion, for which we are glad."

We've examined the challenge that faces us — providing small businesses with the capital they need to grow. Let's see where we are, where we have been and what we must do to meet that challenge.

It wasn't too many years ago — the early 1950s — when I began in the business, and commercial-finance and factoring companies were considered lenders of last resort. In those days of the postwar boom, secured lending was viewed by major banks as a rather *avant-garde* form of financing with the tremendous amount of quality credit available. In those days, the prime interest rate was running around 3%, and the average commercial financing yield was approximately 15%. At the same time, factoring commissions were between 1½% and 2% of annual volume. All this left us with quite a margin.

Our industry, like much of the country, began to change in the 1960s. Prime rates rose to 8% and our margins shrank. It was during this period that banks became involved in the commercial-finance and factoring business with the first acquisition of a finance company.

We thought those were wild days, but they don't compare with the situation that prevails today. With prime rates of 15¼%, margins are getting harder to maintain. Factoring commissions, despite the improved service we now offer as the result of computerized credit analysis, have decreased considerably.

Perhaps as dramatic as the changes in our economy have been the changes in the structure of the commercial-finance and factoring business. Twenty-five years ago, the majority of our companies were small, independent organizations managed and financed by individual entrepreneurs.

Ten years ago, relatively few banks were active in commercial finance and factoring and few were members of the NCFC. In 1969, 81% of the NCFC membership were independent operations and only 15% were banks. Giant finance organizations made up the remaining 4% of our membership.

Bank membership has shifted dramatically. Today 58% of our members are banks or bank controlled. Yet the actual number of members that are independent or giant companies has

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The speech on which this article is based was given by Mr. Donahue at the annual convention of the National Commercial Finance Conference in Dallas in October. Mr. Donahue is e.v.p., Associates Commercial Corp., Chicago.

risen, though they represent a smaller percentage than in the past.

Clearly, banks have altered the shape of our industry. As astute lending professionals, bankers recognized that commercial finance played a vital role in helping small business grow. They recognized that secured lending often was the only answer for undercapitalized companies. Consequently, our industry experienced a bank invasion, for which we are glad. Banks' entry into the field opened new lending vistas, expanded our markets substantially and tended to upgrade our industry posture in the marketplace. And the banking organizations certainly have been enthusiastic and involved members of the NCFC.

Nor is the trend to secured lending limited to U. S. banks. Recently, Barclays Bank of England paid just about double book value for American Credit in Charlotte. RCA also announced it had reached an agreement to purchase C.I.T. Financial for more than $1.3 billion. Though the transaction now has been aborted, the Midland Bank of London did, in fact, offer to pay $42 per share for the Walter E. Heller International Corp. These massive deals indicate the tremendous interest many organizations have in the future possibilities of our industry. The entire business community has come to recognize the profitability of our companies and the quality of services they perform.

While this is an exciting trend, it points to a problem many commercial finance companies face — a need for more capital. It seems that we have more in common with our small and medium-sized clients than many of us may have thought. One of the most attractive features of a large-scale acquisition, the likes of which we have seen this past year, is the infusion of capital it provides. Undoubtedly, we will see other such acquisitions and mergers that provide our companies with the capital they need to grow and to expand the scope of service they provide.

But while they make good headlines, large-scale acquisitions don't appear to be a long-term answer to our industry's capital needs. We must find new financing means and continue to improve our use of existing capital sources.

In this regard, the commercial-finance industry faces a "Catch 22" situation of its own. On the one hand, we must seek additional capital to serve the needs of small and medium-sized businesses. On the other hand, to attract this capital, we must protect the integrity of our loan portfolios. But in so doing, we may not be able to satisfy the financing needs of some of the businesses we are trying to serve. Being innovative finance men, we should be able to come up with the answer to such a dilemma. We have done so in the past. We will do so in the future.

Too many legislators labor under the assumption that financing our industry amounts to one giant organization lending money to another. We must make Congress and state legislators understand that when a bank or an institutional investor supplies resources to a commercial finance company, it is really lending money to a series of small businesses and lending it at a time when those businesses desperately need it. It is the responsibility of the NCFC and its individual members to bring this point to bear on those who have the power and influence to further damage the ability of small business to grow and prosper.

Over-regulation by government has been a sign of the 1970s. The past 10 years have brought us such "innovative" pieces of legislation as the Truth-in-Lending Act, the Tax Reform Act of 1976, OSHA and ERISA, the Employee Retirement *Insecurity* Act of 1974. The decade also has brought us such horrors as double-digit inflation, spiraling interest rates and an energy crisis. In some respects, these events of the '70s have spurred profound changes in our life-styles and in the way our industry does business. But as unpleasant as some of those changes have been, they also have created significant new opportunities for the commercial-financing and factoring business in the decade ahead.

Clearly, inflation has been, and is likely to continue to be, the most important change affecting us. Ravages of inflation require greater dollar investment by small and medium-sized businesses in their receivables and inventories. Assets build at a faster pace than equity, thereby distorting leverage ratios. This same phenomenon has accelerated the financing of fixed assets through leasing and installment sales. Simply stated, the method of delivering money has been changed from unsecured, self-liquidating loans to a broad range of asset-based lending.

Fortunately or unfortunately, inflation represents a tremendous opportunity for our industry during the 1980s. Our ability to keep pace with the needs of small business for more innovative lending will be a prime determinant of how large we will grow individually and as an industry.

We clearly are in a history-making period — highest prime ever, 15¼% — inflation and turmoil in the investment marketplace. I'll make no predictions on the pattern of rates for the future. I'll leave that to the economic prognosticators.

One development whose impact on the commercial-finance business is not as clear is the energy crisis. What will our lack of energy mean to the finance business in the 1980s? Will there be new industries that may benefit from our unique brand of financing? Maybe solar-energy companies? Maybe service industries connected with energy companies and which we traditionally have shunned? I know I don't have the answers, but the questions are interesting. However, I am confident that our industry — with its great financing flexibility — has the know-

(Continued on page 18)

NCFC Officers Reelected

Russell B. Donahue and Norris S. Griffin were reelected chairman and president, respectively, of the National Commercial Finance Conference at its annual convention in Dallas in October. Mr. Donahue is executive vice president, Associates Commercial Corp., Chicago, a subsidiary of Dallas-headquartered Associates Corp. of North America. Mr. Griffin is president, BVA Credit Corp., Richmond, Va.

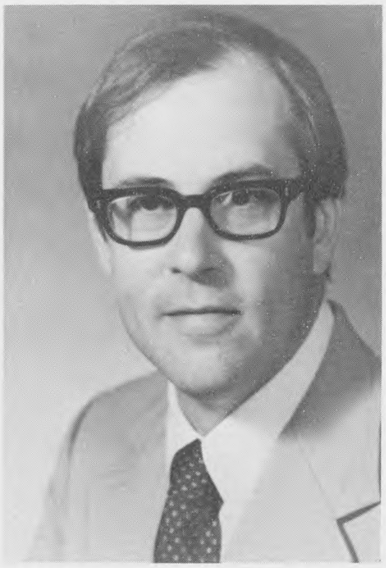
Reelected vice presidents were: Stephen C. Diamond, senior vice president, Walter E. Heller & Co., Chicago; Barry I. Newman, senior vice president, Aetna Business Credit, Inc., Hartford, Conn.; John F. Nickoll, president, Foothill Group, Inc., Beverly Hills, Calif.; and Melvin E. Rubenstein, Executive vice president, Rosenthal & Rosenthal, New York City.

GRIFFIN

DONAHUE

Gerald Blum, president, Trefoil Capital Corp., Norfolk, Va., was reelected treasurer. Reelected general counsel was A. Bruce Schimberg, partner in the Chicago law firm, Sidley & Austin. Leonard Machlis was reelected executive director/secretary.

How Business Lenders Can Help Young Firms Become 'Bankable'



Peter J. Levy is vice president, Aetna Business Credit, Inc., Hartford, Conn., which he joined in 1972. He is manager of the firm's Dallas office.

By PETER J. LEVY
Vice President
Aetna Business
Credit, Inc.

NEW COMPANIES, whether newly formed or recently acquired, often don't qualify for full bank lending. Their financial needs, however, are every bit as real as those of long-established firms and may even be more critical.

As a banker, you no doubt have seen commercial-finance services employed as a practical alternative for growing companies whose futures are bright, but whose loan requests surpass the level your bank feels comfortable providing. Turning to a business lender in such a case can help a bank officer not only assist a customer, but also enhance his position as that customer's financial adviser. In addition, such action could permit the bank to maintain its depository relationship with a client and lessen the risk of losing a customer with a promising future to another bank.

The variety of lending services provided by business lenders and the approaches they take to such activity make their services particularly applicable to young companies carving their way toward a positive track record.

Let's take a brief look at the variety of financial services available to such borrowers and how they function.

Business lenders, unlike most bank lenders, do not emphasize financial ratios or trends (although reasonable ratios are a factor). The principal concern of business lenders is the quality and amount of collateral securing the loan. This perspective means the business lender can undertake loans others might approach reluctantly. It does so by turning noncash assets into immediately available cash through a number of specialized financial services including: accounts-receivable financing; inventory loans; factoring; machinery and equipment loans and intermediate-term loans.

Let's briefly review these services.

Accounts-receivable financing: This financing method utilizes a company's accounts receivable as collateral against which it may borrow a percentage of face value. The client's customers are not notified of the financing arrangement and continue to pay the borrower as they normally would. The borrower repays the loan as receivables are being collected.

Inventory loans: Inventory loans are particularly useful for companies involved in highly seasonable businesses where a great deal of money is needed to build inventory at those times when a company experiences its lowest amount of incoming cash. Such loans most often are used in conjunction with an accounts-receivable loan.

Factoring: Factoring can relieve a company of the cost and burden of credit and collection chores. Credit lines are established for a company's existing regular customers and for its new accounts as they are sold. The factor actually purchases receivables at a discount and either pays the client as shipments are made (advance factoring) or as invoices come due (maturity factoring). Thus, for one fee, factoring offers a company protection against bad debts and reduces or eliminates headaches and costs involved in maintaining internal credit and collection operations. In factoring, the client's customers are notified of the arrangement and are directed to make payment to the factor.

Term loans: Existing machinery and equipment may be a source of extra cash. A company's equity in its machinery often can be used as a down payment for purchase of additional equipment or simply to provide extra cash. Such loans usually are arranged for periods of from one to five years.

Intermediate-term loans: A relatively new concept in lending, intermediate-term loans are an unusually flexible form of financing. They are used typically by companies that cannot, or do not desire to, obtain long-term institutional debt, yet find short-term financing inadequate to meet their needs. Intermediate-term loans can provide financing for terms of from two to 10 years (or longer). Repayment schedules and prepayment options are custom tailored to fit the borrower's needs. Only a few commercial lenders provide this unique form of financing.

The above services can be used singularly or in concert to provide sufficient financing for young and growing companies that otherwise might have difficulty in obtaining funds necessary to maintain or increase their operations.

These services are applicable particularly to that segment of American industry that suffers from what we call "the growth syndrome."

Typically, such a company is expanding rapidly. Chances are, its sales have increased suddenly — exceeding expectations — and it's becoming more and more difficult for the firm to keep pace with orders. To meet this new demand, it may be necessary to order new equipment, increase material purchases or raise employment levels.

The company, however, often finds itself in a cash bind. Additional machinery and inventory must be paid for and payrolls must be met long before orders can be turned into receivables — and receivables into cash. Thus, we have a company in need of money to sustain growth, but one unable to generate the necessary capital fast enough internally.

In addition, because the company is young or shows rapid growth, its balance-sheet ratios or financial history may be insufficient to qualify it for additional bank lending. In such cases, those much-desired increases in sales actually have precipitated financial pressures that inhibit the company's ability to capitalize on the potential it has realized.

Other victims of the "growth syndrome" are rapidly expanding companies that contact their banks for additional credit when it is discovered that overoptimistic planning or financial or operational setbacks have led to low profitability and low working-capital levels.

When this happens, a banker often is faced with the unpleasant choice of declining a customer with a sizable deposit balance and a promising future or insisting on infusions of equity to increase borrowings. Of these alternatives, one is undesirable and the other often impossible.

However, there is another option. The banker can refer the loan to, and perhaps participate with, a secured lender to offer this company more funds than would be possible through the bank alone.

There are a number of apparent reasons why the concept of "sharing" a loan is attractive to all parties concerned. A participation may be the best way for a banker to handle a difficult or sensitive financing situation, especially in the case of a younger company. Participation also can permit a larger financing and usually allows the commercial lender to offer the borrower a lower and more attractive "blended" rate.

Such situations have a history of working well. Let's look at some examples:

Recently our Dallas office was approached by a relatively new company that had been banking with a small bank. The young company had reached the lending limit of the small bank and went to a larger one seeking more money. The larger bank saw a young company with a great deal of potential and was highly desirous of initiating a relationship with it. The bank also saw, however, a young company not yet "ready" for full bank financing. Because the bank wished to show interest in and help this potentially good customer, it referred the young company to us. We examined the situation closely and financed the company in participation with the bank (which took one-third of the total financing). As is the case with all our bank-participation loans, we administered and monitored the loan, which served to protect both our interests and those of the bank. During the next year, this young company continued to grow and prosper. Eighteen months after the bank referred the loan to us, this firm had developed attractive enough ratios and borrowing history to qualify for full bank financing. At the request of the referring bank, we "returned" this client to it. As of this writing, the bank continues to meet the financial needs of this company, which still is maintaining its healthy growth pattern.

"Business lenders, unlike most bank lenders, do not emphasize financial ratios or trends (although reasonable ratios are a factor). The principal concern of business lenders is the quality and amount of collateral securing the loan. This perspective means the business lender can undertake loans others might approach reluctantly."

In another example, management and employees of a Texas subsidiary of a large national corporation turned to their bank for funds to purchase their division, which was being divested. In this case, the management/employee team required funds for both the purchase of the division and for working-capital purposes. Working closely with the bank, our office structured a financing package that met both the purchase and working-capital needs of the new owners. The bank participated with a 50% share.

The additional funds provided by calling in the business lender helped this banker service the needs of a potentially strong customer, which grew and became profitable in a short time. When this new company became fully bankable, the referring bank was able to assume the complete financing.

In both the above examples, asset-based lending was utilized to fill financing needs that could not be met fully by banks. In both cases, the companies were able to utilize funds made available through secured lending to weather their growth years and establish sufficient history and ratios to qualify them for traditional lending relationships with their banks.

Recommending secured-lending services for young and growing companies can supplement the financial services offered by your bank during those years you might look on as "uncomfortable" ones in your lending relationship with such firms.

Indeed, when combined, the concern of the banker, managerial abilities of the borrower and flexibility of secured lending can help many young companies take those first difficult steps on the road to unsecured financing. ● ●

Milestone Reached

Clarence C. Barksdale, ch., First Nat'l, St. Louis, tightens a nut to complete the installation of the first structural steel for the bank's new building in downtown St. Louis. The first beam weighed 20 tons. When completed in 1981, the bank building/office complex will be the largest structure of its kind in the state, according to a bank spokesman, and will contain nearly 900,000 square feet of floor space. The project is a triventure of First Nat'l, IBM and Equitable Life Assurance Society of the U. S.

Guidelines for Banks to Follow In Commercial-Finance Participations

By ROBERT A. MILLER
Executive Vice President
Congress Financial Corp.
New York City

AT A TIME when full-service capability is an important consideration, a growing number of smaller and medium-sized banks are participating with commercial finance companies to meet the broader borrowing needs of established accounts or prospective customers.

There is profit in participations, but there also are pitfalls. Before citing guidelines for prudent participations, it might be well to review briefly the mechanisms of secured financing known as factoring and commercial finance. Unfortunately, although secured financing has been with us for many years, a good deal of confusion and misunderstanding still surround it.

Factoring. Factoring involves purchase of accounts receivables. A factor assumes responsibility for credit and collection and agrees to pay the client on the maturity dates of purchased invoices. A cash advance may or may not be included. Although it remains principally a cash-flow tool, factoring also is used by companies with sufficient working capital and bank lines as an alternative to maintaining internal credit and collection departments.

Commercial Finance. Neither the purchase of receivables nor credit and collection services are involved in commercial financing, which is revolving loans secured by a borrower's assets. Secured assets typically are receivables, but inventory and equipment also may serve as collateral.

When we discuss participations, we usually are talking about commercial financing, although there are ways to participate in factoring when an advance is involved. Commercial finance is a more flexible mechanism and has found broader application than factoring.

Important Collateral Considerations. The most important considerations in evaluating a participation flow from the fact that secured lending is more than just taking an assignment of collateral. It demands, sophisticated evaluation of the borrower's assets to determine their liquid value and ability to monitor the collateral, which, in the case of receivables or inventory, will turn over many times during the life of a loan. Frequently, the new collateral is not the same quality as the old and, without constant administration, the lender can find himself with collateral worth far less than the situation calls for.

The need to police collateral accounts for the high overhead of a properly run secured-financing operation, which, in turn, is reflected in the higher interest charges required.

To monitor the revolving flow of collateral adequately requires an experienced staff of account executives supported by trained auditors and other assistants. For many years, this expertise was centered in a relatively small number of specialized companies, and the pool of talent has not expanded as greatly as the growth of this sector in recent years might

In the accompanying article, the author lists eight guidelines for a bank to consider when entering into a participation with a commercial finance company. They are:

1. Consider the nature of the transaction. Is the bank an active, fully disclosed participant?

2. Consider what will happen if problems develop.

3. Make sure you know your participant.

4. Look at the proposed transaction to see if it is basically sound.

5. Consider how the participation may be terminated.

6. Be aware that large loans involving several participants present a special challenge.

7. Consider what information should be supplied to participants by the managing partner and what the bank's role should be in dealing with the borrower.

8. Consider who will supervise the participation for the bank.

suggest. Major banks have entered the factoring/commercial finance field through acquisitions of established companies in preference to trying to staff their own departments. Other banks that started from scratch have experienced great difficulties in the personnel area.

New-Business Opportunities. Much of the interest in secured-financing participations in recent years is attributable to an increase in the average size of corporate borrowings in general and emergence of many large borrowings where the size of the transaction dictates that the risk be shared with several participants. Corporate financial managers who would not entertain the idea of a secured financing 10 to 15 years ago now consider it an alternative vehicle for growth, acquisition or working-capital requirements.

Taking advantage of this new-business opportunity, however, requires either a full-functioning secured-financing department or a participation arrangement with a competent commercial finance company. A history of smooth, well-managed participations has encouraged use of the second alternative.

Participations in less than super-sized transactions are originated for a variety of reasons. A banker may want to accommodate a loan applicant who does not qualify under banking criteria. Or a bank may want to secure itself and work out of a deteriorating credit situation that is susceptible to a secured-financing solution.

From the commercial finance side, participations represent a way to reduce the overall cost to the borrower by including a portion of bank funding in the package. Participations also make possible a financing that otherwise would exceed a lender's internal-lending limits.

Participation Guidelines. However the participation originates, the commercial finance company is the logical choice for administering the loan since it has the staff and systems to closely monitor the collateral. What, then, should be a bank's considerations in entering into a participation?

1. *Consider the nature of the transaction. Is the bank an active, fully disclosed participant?* The answer will help determine what you can expect and require of the finance company. To have a "true" participation, you must have some direct involvement with the borrower or expect some long-term benefits to be derived from a relationship with the finance company — as in a new-business-development program.

Congress Financial Corp. which offers asset-financing services, is an affiliate of the Philadelphia National Bank. This article is reprinted with permission from the *Journal of Commercial Bank Lending*, published by Robert Morris Associates.

A "true" participation is created if the bank brings in a borrower with which it has an existing relationship or which it views as a potential long-term customer.

A "true" participation also can originate with the finance company, if the account is located in the bank's geographical trade area and can be considered a new-business prospect.

In either case, the bank has something to gain when the borrower graduates from secured financing to unsecured banking. The bank, therefore, will want to maintain high visibility throughout the financing and be in on meetings and periodic reviews with the borrower. This should be spelled out in the agreement.

2. *Consider what will happen if problems develop.* The theory has been advanced that a finance company should not allow a bank participant to suffer a loss. A responsible finance company always will do everything in its power to protect a bank participant from a loss. However, it is my conviction that where there is a "true" participation and where the bank has a direct relationship, it should expect to take its share of any loss.

This issue gets to the real intent between the parties. Sharing risk certainly is one objective, and participation agreements typically call for losses to be absorbed on a proportionate basis.

However, there are occasions when the bank is a passive participant with no direct relationship to the borrower and no expectations of future benefits other than the interest on its loan. In such situations, the notion that the finance company will "get the bank out" if anything goes wrong becomes somewhat more understandable. Yet it would be wrong even then for the finance company actually to guarantee the bank's loan. This would be the equivalent of borrowing directly and would have to be reflected in the finance company's financial statement as a direct or contingent liability. An appropriate way of addressing the situation might be to give the bank a senior position in collateral on liquidation. This would avoid problems posed by a guarantee.

3. *Make sure you know your participant.* As noted, the greatest pitfall in a participation is failure or inability of the managing partner to police the collateral adequately. Therefore, it is of vital importance to assure yourself that you are associating with an experienced lead participant that can handle a transaction of the size contemplated.

Check out the reputation of the finance company at other banks with which it has participated. Inquire about the number of account executives and size of the auditing staff. Find out about the company's experience in handling large loans. Visit the company and see for yourself the procedures that are followed on a daily basis. Qualified finance companies welcome, and even invite, such investigation.

4. *Look at the proposed transaction to see if it is basically sound.* You may not be able to evaluate the collateral, but you can make a judgment about whether the proposed financing makes sense presuming the security is adequate.

5. *Consider how the participation may be terminated.* Many participation agreements cover the term of the financing agreement with the borrower and cannot be terminated prior to that contract's expiration. Banks inexperienced in participations, thinking they could terminate a participation on 30- or 60-day notice, sometimes have been surprised to find that all they could do was instruct the finance company to terminate according to notices provided in the agreement with the borrower.

6. *Be aware that large loans involving several participants present a special challenge.* A major pitfall in large loans concerns what happens on withdrawal of one or more participants. It would be prudent to determine at the outset whether the finance company

Wins Travelers Check Contest

Peggy Roche, teller, Pasadena (Calif.) Federal S&L, won first prize in the second Thomas Cook Good-As-Gold Sweepstakes for selling Thomas Cook travelers checks. Making the presentation are (from l.) John Taylor, v.p./sales, Thomas Cook, and Robert W. Oswald, v.p., Pasadena Federal S&L.

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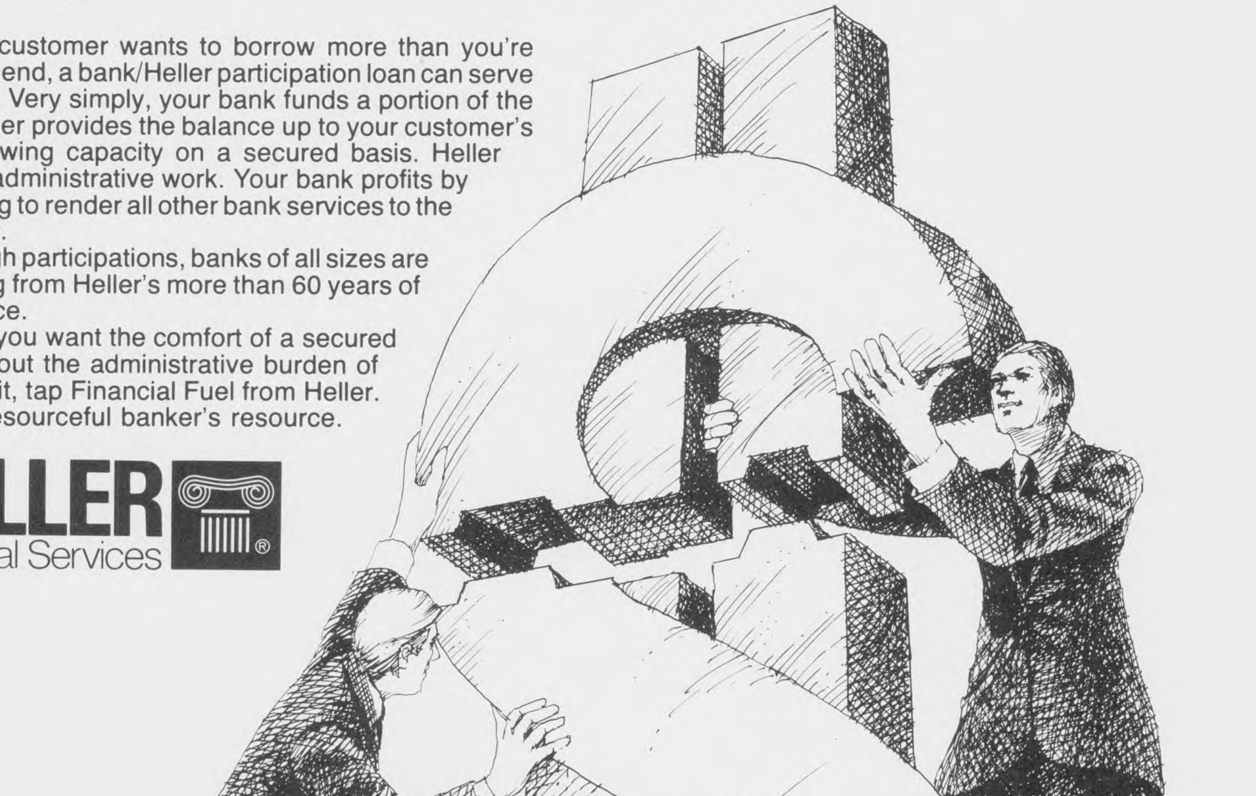

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has the resources to fund any withdrawals or if new participants will be required. If replacements cannot readily be found and the managing partner cannot pay out the participants due to financial inability or because the aggregate loan would be beyond its limits, there could be an unwarranted liquidation of the borrower.

No one would want to be a party to such an occurrence; so the participation should be structured to minimize the possibility. Ideally, the term of the participation should coincide with the term of the financing agreement, but this arrangement often is impractical. Large loans frequently are signed for terms of several years and involve equipment financing or other long-term requirements, and participants usually do not want to be locked in for such long periods.

A compromise would be to lengthen the termination period sufficiently to allow the managing partner time to secure replacements as needed. Terms of a year or more may be appropriate.

Prudent selection of partners also can alleviate the problem. Multiple participations are best shared with seasoned partners carrying amounts that are well within the limits of their portfolios.

7. *Consider what information should be supplied to participants by the managing partner and what the bank's role should be in dealing with the borrower.* These considerations should be subjects of discussion at the start of the relationship.

Finance companies make extensive audits and produce voluminous reports, which usually are supplied to participants. Our experience indicates, however, that banks frequently fail to give this material the proper attention, especially if they are not active participants. On the other hand, those participants who are involved in meetings and periodic reviews with the borrower typically remain current and well informed, minimizing the need for extensive and costly documentation. Thus, information to be furnished should be discussed and itemized at the outset.

It is the obligation of the finance company to use due diligence in monitoring the account and to make full disclosure to participants of any significant fact that could affect the loan. This requirement is subject to different interpretations, however, and should be discussed when considering the information to be furnished to banks.

8. *Consider who will supervise the participation for the bank.* It is preferable to select as liaison with the commercial finance company someone familiar with collateralized lending. This function is not for someone in training because status reports on collateral require an experienced eye for adequate interpretation.

In addition, if you are looking forward to a long-term relationship with the borrower, your representative's ability to foster goodwill and confidence will be pivotal. A person who might be an able "silent partner" may not fit the bill in meetings with the client.

Summary. As its applications and leverage become better understood, secured financing is becoming a more widely accepted and flexible tool in meeting cash requirements of undercapitalized companies. During the most recent recession, losses incurred by this presumably high-risk sector of the financial world actually were relatively lower than those incurred by commercial banks. Collateral made the difference.

The success of bank participation in commercial financing always depends largely on the diligence with which collateral is constantly appraised and monitored. Therefore, a bank should evaluate the prospects for good handling of collateral *before* it becomes involved in a participation. ● ●

Commercial-Finance Industry

(Continued from page 12)

how and imagination to adapt to virtually every type of challenge. By sticking to sound, fundamental lending practices, coupled with the nerve to try something new, we have prospered in all business climates, in good and bad times.

However, to capitalize on opportunities in the 1980s, we must pay greater attention to the management of borrowing companies and to the quality of their assets and receivables. Whether it is done formally or informally, we must work with managers in planning for the effective use of our funds and management of assets that secure those funds. For just as inflation, soaring interest rates and an energy crunch mean opportunity for our industry, they also can spell disaster if we aren't in touch with the operations of companies we serve.

It would be unrealistic to talk about the management of our customers without dealing with the management of our industry. It is simplistic to con-

clude that "more money" is the answer to all our problems, because as much as dollars and cents, we need to develop more extensive human resources to grow as an industry appreciably beyond where we are today. We must nurture the financing talent in sufficient amounts to provide all the service desired of us by small and medium-sized businesses and to meet the challenges that lie before us in the next decade.

The small-business loan — under $200,000 — is a good example. In many respects, it is the single hardest loan to make. It is often difficult to process and costly to handle, given the industry's present availability of resources. But if we are to provide a full range of services to small business, then we must address ourselves to the needs of the small, either directly or as rediscounter, lest they become "forgotten borrowers."

Education isn't a new problem, and it has been exacerbated by the desire of the industry to grow. Instead of developing new sources of commercial-financing and factoring talent, we seem content to allow talented professionals in our industry to move from one organization to another at great expense and often at the cost of our productivity. I have been on both sides of that fence. It is much like the free-agent system in major-league baseball. How often do we have to outbid other companies for the services of employees before it becomes more cost-effective to develop a "farm system" to train enough new talent to satisfy the needs of our industry?

I maintain we have already reached that point. The time has come for us to develop meaningful educational programs that will train potential members of our industry and do a more effective job of teaching new trends and techniques to existing commercial finance professionals.

Many of our members have recognized this and have spoken out in favor of strengthening the educational efforts of the NCFC. At the present time, the NCFC conducts schools for field examiners twice each year and holds regional seminars on an array of issues facing the commercial-finance industry. The conference also publishes a bimonthly journal and a basic brochure about industry activities. These programs address important needs, but they clearly aren't enough.

Recently, we received the findings of a comprehensive survey conducted by an educational consultant, Gordon Miller, which sampled the opinions of a range of senior executives in the industry. The Miller survey reached a number of important conclusions that should guide us in the development of educational initiatives, but none was more important than this. And I quote: "The overriding concern was that the future will require an educated professional who knows his work, who functions well interpersonally, is a skilled manager and who knows what business finance is all about. It is clear that members saw the future as an opportunity for the NCFC to help people in the industry who lack experience to become more knowledgeable about business finance, to increase the employment pool, to attract more quality people to the industry and to upgrade experienced professionals so they can keep pace with the change and uncertainty of the future."

"One development whose impact on the commercial-finance business is not as clear is the energy crisis. What will our lack of energy mean to the finance business in the 1980s? Will there be new industries that may benefit from our unique brand of financing? Maybe solar-energy companies? Maybe service industries connected with energy companies and which we traditionally have shunned?"

I think that is an accurate appraisal of where we are and where we must go. But the question remains: Just how should we tackle the massive educational task that faces us? According to the survey, commercial-finance and factoring executives agree that, despite some in-house programs, they would prefer to see the NCFC take the lead in education. Therefore, based on the attitudes, opinions and suggestions made by many top officials in this industry, the survey made a series of recommendations for enhancement of existing educational programs.

Here are several of the key educational initiatives suggested:

A. We should expand our school for field examiners by offering it more frequently to industry professionals on both introductory and advanced levels.

B. We should expand our seminar program and include more regularly scheduled meetings on a regional basis.

C. We should develop the journal into a more comprehensive publication for the commercial-finance and factoring industry, in part by including the work of outside authorities.

D. We should take a number of steps to develop future commercial-finance professionals, including establishment of a career-information center, placement clearinghouse and internship program.

Despite the importance of these suggestions, education of existing industry employees and recruiting are just two elements of the problem. We must take steps to broaden the exposure of graduate and undergraduate students to commercial finance and factoring. It is frustrating to come across so many major universities and graduate business schools that do not provide commercial finance and factoring as part of their curricula. Recently, I conducted an informal survey of 20 leading graduate business schools offering MBA programs and found that only six include these subjects in their programs, and most teach them only as part of more general courses on such subjects as commercial banking.

Many of the programs and enhancements recommended in the survey represent a major new educational opportunity for commitment by the conference and our industry. These initiatives, if adopted, will require substantial commitment of funds and time on the part of our members to implement.

However sizable our commitment to education must become, I am firmly convinced it will pay us handsome dividends for years to come. Our effort to attract talented professionals to the industry and better educate our existing employees on a number of levels is critical to our future capability to provide small and medium-sized businesses with expanded services.

These are the challenges that lie before us. In ever-increasing proportions, our ability to grow with the needs of small and medium-sized businesses and to respond to the factors of inflation, rocketing interest rates and energy shortages will determine how viable our industry will remain and how quickly it will grow. We have always found a way to turn difficult challenges into rewarding business opportunities. As we enter the '80s, I am confident we will continue to be the lenders of best resort for the businesses we serve. ● ●

Treasury Employees to Study Career-Development Program

Some 200 U. S. Treasury Department employees will participate in a pilot career-development program, featuring four seminars designed by the National Association of Bank Women's Educational Foundation.

Those seminars are career management, management process, women in management and introduction to career planning. Content and format of each seminar are targeted at specialized needs of women at different phases of career growth.

For example, participants in the career-management seminar will identify and assess their current skills and learn to make a five-year plan for professional development. The management-process seminar will help managers focus on concepts of management, leadership styles and decision making.

Warning Given Bankers:

Avoid Showing High Earnings

By KAREN KUECK
Assistant Editor

Agreeing that banks should not post excessive profits for 1979 are (from l.) Murray L. Weidenbaum, dir., Center for Study of American Business, St. Louis, Richard F. Ford, pres., First Nat'l, St. Louis, Irving R. Levine, NBC News correspondent, Washington, D. C., and Clarence C. Barksdale, ch., First Nat'l, St. Louis, at bank's 33rd annual correspondent conference.

A SOOTHSAYER gave Julius Caesar a warning that went unheeded. Clarence C. Barksdale sounded another warning that should not go unheeded unless bankers want to "face the same (public relations) problems as the oil companies."

That warning, given at First National in St. Louis' 33rd annual correspondent conference in November, was this: Bankers should avoid showing extremely high-profit increases for 1979.

Mr. Barksdale, bank chairman, told about 600 midwestern bankers, "We are a business that is able to manage our profits, and I would warn all of you to avoid showing extremely high rates of earnings increase for 1979," particularly when the consumer is suffering from high interest rates. The public will not understand banks posting enormous profits during this time, he said.

"The public will not understand it; the demagogues will blame it on high interest rates, and the politicians will hop on the bandwagon quickly for their 1980 campaigns."

His advice was that banks do everything possible to develop an extra public awareness of banks' community activities and concern for the economic welfare of their communities. He suggested that banks start extra-special public relations and advertising programs, make additional philanthropic contributions and channel resources into other community programs.

Rachel Balbach, a.v.p./economist, First Nat'l, St. Louis, and Murray L. Weidenbaum, dir., Center for Study of American Business, Washington University, St. Louis, and bank's consulting economist, predicted recession through next summer at bank's 33rd annual correspondent conference.

Also, he urged bankers to set aside higher reserves against potential losses because of today's poor economic conditions.

Warning that the banking industry could face a windfall-profit tax similar to that proposed for the oil companies, Mr. Barksdale told his peers to be careful.

"My warning to you . . . is to be prudent, generous and wise in the remaining two months of this year and to manage and conserve your earnings for the future benefits of your stockholders," he said.

Also, Mr. Barksdale reminded bankers that last year's forecast of a 16% prime rate by November, 1979, made by Darryl Francis, retired St. Louis Fed president, has proved correct.

First National's President Richard F. Ford explained in greater detail how bankers can avoid being made scapegoats for the recession being caused by tighter credit policies and high interest rates.

Bankers should "more carefully review all loan applications because of the business outlook, but we also should work hard to accommodate those loan applicants with prior good credit records and who demonstrate an ability to service those loans at today's interest rates. All banks are being squeezed for funds, but don't close the credit window," Mr. Ford said.

Both Messrs. Barksdale and Ford urged bankers to explain more carefully to eligible borrowers why interest rates are so high.

"For the most part, all new funds for loans must come from markets now charging record rates; hence, the banks, too, must add on their costs. But the important thing is that we, as bankers, learn how to communicate these facts across not only to our customers, but to the general public," Mr. Ford said.

Rachel Balbach, assistant vice president/economist, and Murray L. Weidenbaum, director, Center for the Study of American Business, Washing-

Lending panel members were (from l.) Walter Schmitz, s.v.p./lending administration, Richard F. Ford, pres. and moderator, David L. Kirkland, v.p./real estate lending, Neil F. Bergenthal, v.p./agricultural lending; and William K. Carson, a.v.p./credit section, correspondent banking participations and overlines.

Investment panel members were (from l.) John W. Fricke, a.v.p.; John W. Rowe, v.p.; Donald H. Ludwig, v.p.; and Kenneth A. Bretthorst, a.v.p.

"What's-New-in-Banking" panel members were (from l.) Arthur E. S. Schmid, s.v.p./general counsel; T. Barton French, s.v.p./corresondent division, and moderator; Calvin H. East, v.p./EDP sales; Warren B. Wiethaupt, v.p./marketing & planning; C. Vernon Fites, a.v.p./bond department; and Vernon P. Schmidt, a.v.p./real estate.

ton University, St. Louis, and the bank's consulting economist, told bankers that the outlook for the first half of 1980 is grim. Mrs. Balbach predicts a mild, short-lived recession before the second quarter.

"I see no significant growth (of the GNP) during 1980, but I don't see a serious recession," Mrs. Balbach said.

She believes that interest rates are in the "vicinity of a peak" and that "the prime rate will be about 11% by the end of the year."

Mrs. Balbach is even more dubious than Mr. Weidenbaum on whether Congress will accept the tough credit rules initiated October 6 by Fed Chairman Paul Volcker. Also, she is concerned about signs that the Fed's hike in its discount rate has not slowed expansion of the money supply, which has been fueling inflation.

"What may be needed is a Federal Reserve discount rate tied to the rate being charged in the fed funds market," she said.

Mr. Weidenbaum warned bankers not to become afflicted with the "gloom-and-doom" attitude that prevailed in the 1974-75 recession.

"With a reasonable sense of restraint, plus improved leadership, the '80s can be this country's best years. Ironically, the rest of the world, including the Arabs, has more confidence in this country's future than Americans. This is evidenced by the way they are trying to buy up American assets," he said.

Luncheon speaker Irving R. Levine coincidentally echoed Messrs. Barksdale and Ford's warnings about excess bank profits. In addition, Mr. Levine, who personally covered the October 6 Fed news conference, said, "It will take time, of course, to determine if the Fed's actions will restore confidence in the dollar, whether it will reduce the lust for gold and whether it will have the effect of slowing down the economy. . . ." Mr. Levine is NBC News correspondent, Washington, D. C.

Mr. Levine said that the Fed's action is a clear and simple plan designed for a recession. "It may be the only way to stop inflation," he said.

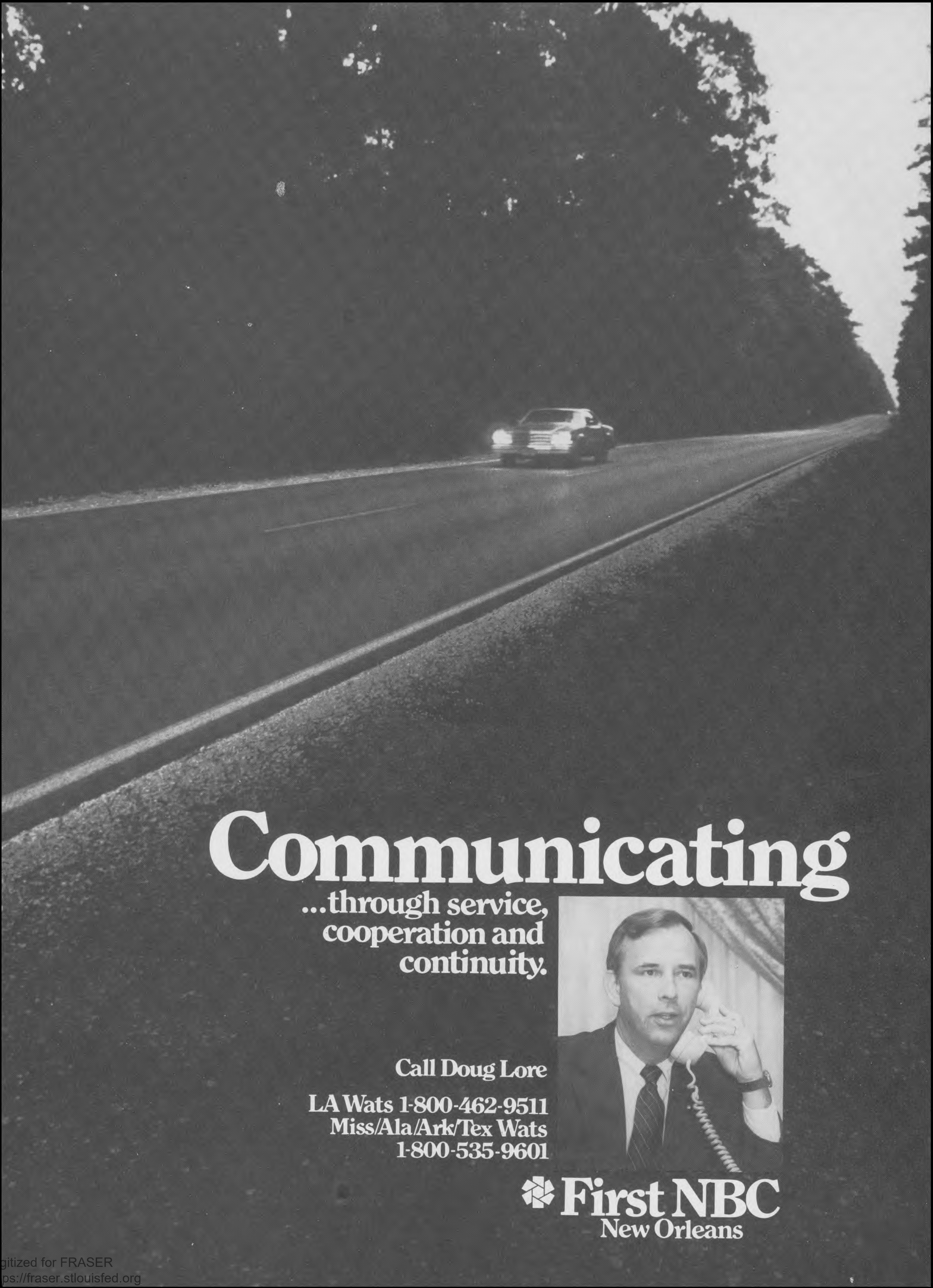
Concerning the Chrysler Corp. hearings, Mr. Levine believes that the failing automobile manufacturer probably will get congressional aid despite mounting opposition.

"While opposition to Chrysler is widespread, I think Chrysler will receive aid because of the number of constituents that will benefit from such help," Mr. Levine predicted. Constituents he listed included automobile dealers in 50 states, 10,000 suppliers and the political impact of the United Auto Workers.

Bankers polled during the meeting for their answers to an economic survey believe unemployment in 1980 will be in the 7½-9% range compared to today's 6% level. Some 47% of respondents believe the prime rate would range from 9-11%, while 41% believe it will be in the 11-13% range.

A majority of bankers believe the Fed's tight-money policy will be effective in reducing inflation next year, while housing starts will be below those of 1979. Gold is predicted to range between \$300-\$400 an ounce.

In the coming Presidential election, respondents foresee Senator Edward Kennedy (D., Mass.) edging out President Jimmy Carter as the Democratic nominee and Ronald Reagan as the Republican nominee. According to the poll, 34% of respondents predicted Senator Kennedy would win, while only 15% believe Mr. Reagan would be the next President. • •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Harris' Sex-Discrimination Case Progresses

"DON'T DO as we do; do as we say" could be the slogan of the U. S. government. This is what may be gathered from looking at material made public by Chicago's Harris Trust following an administrative hearing on the government's sex-discrimination case against the bank. This is the first such case in the banking industry to go to a full administrative hearing. It was conducted by Rhea M. Burrow, an administrative law judge in the Labor Department, from August 6 to September 26.

At a press conference, the bank made public copies of internal memos and letters from U. S. Treasury department officials that showed they believed the government's case against Harris in 1975 was without foundation.

Speaking for the bank, John L. Stephens, executive vice president/public and employee relations, pointed out that Harris' attorneys tried to place into the record statistics on the Treasury Department's own work force in its Chicago offices. As recently as 1977, he said, in Treasury's five job grades — GS 14-18 — there were only five women in these 194 staff positions. That is, to quote Mr. Stephens, "the magnificent participation rate of about 2.5%."

Mr. Stephens quoted what the government's chief trial counsel said in response to this poor showing: "The government does not have to have clean hands to enforce Equal Employment Opportunity laws. If the government had clean hands to prosecute all areas it prosecutes in, obviously, it would be stymied."

Harris used the news conference to make public copies of internal memos and letters from Treasury officials that showed they believed the government's sex-discrimination case against the bank in 1975 was without foundation.

The government's official complaint, issued December 8, 1977, charged that Harris Bank had an "affected class" of women and minorities. An affected class is defined as a group of people who are suffering today from effects of past discrimination, either in terms of salaries or positions.

The correspondence, which was obtained recently from the government, refers twice to "harassment" of the bank and says, "If Harris ever decided to go to a hearing, the government would be laughed out of the room."

In making these documents public at a news conference, Mr. Stephens said the government had turned over three large boxes of documents, but had claimed privilege on an additional 56 documents.

One of the letters written by the director of the Equal Opportunity Program of the Treasury Department to the director of the Office of Federal Contract Compliance Programs of the Labor Department says that the OFCC's position on Harris is "administratively cumbersome, potentially counterproductive for any possible affected class member, unwarranted by all the facts, unprecedented in the OFCC's agency relations and obviously a desire for OFCC jurisdiction" or "for reasons of harassment." This letter was dated August 6, 1975.

In another internal memo, dated August 1, 1975, the regional manager of Treasury's Equal Opportunity Program wrote, "Harris Bank has been such a cooperative contractor up to this point and is deserving of appreciation on the part of the agency rather than harassment from Treasury's OFCC liaison."

Mr. Stephens also referred to the timing of comments made last July by Weldon J. Rougeau, head of the OFCCP, stating his intention to try to debar Harris Bank August 6, when the hearing began. Said Mr. Stephens: "Mr. Rougeau made these comments weeks before the hearings commenced. And what is more incredible, the government's statistician did not complete his final computer runs that contained the alleged discrimination evidence against Harris until 3:40 a.m. on the morning of August 7."

Harry V. Roberts, professor of statistics, University of Chicago, analyzed the government study and testified at the hearing that the study had a serious flaw in not taking the job at time of hire into account, since responsibilities associated with jobs call for different rates of pay. Second, in measuring seniority, no distinction was made between full-time or part-time work. Third, the government study did not take into account important work experiences related to skill attainment, such as type of prior job, previous managerial responsibilities or absence rate of an individual while at the bank.

Mr. Stephens continued, "The judge did not permit us to present into

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Computer Training Program To Be Tested by BAI

PARK RIDGE, ILL. — The Bank Administration Institute will conduct a pilot test of a computer-based education program.

Providing a new educational delivery system for the banking industry, the computerized program will offer different training modules for various groups of bankers, such as tellers, installment lenders and marketing and operations personnel. In the pilot program, computer-based education monitors will be available in 70 cities throughout the U. S. to test bankers on compliance matters.

"The BAI is starting with a test of regulations because we feel that bankers currently face a pressing need for employee education and training assistance in this area," says BAI Chairman Carl W. Klemme, executive vice president, Morgan Guaranty Trust, New York City. "Regulations are having a profound effect on all banks, forcing major changes in their operations procedures. Keeping large numbers of bank employees adequately informed on regulations is becoming expensive.

"This automated delivery system might be able to contain such necessary educational activities while providing a more favorable cost/benefit relationship," Mr. Klemme says. "If we decide to proceed with this idea, we foresee the integration of other computer-based educational efforts ranging from new-teller training to financial-statement analysis."

Mr. Klemme says the BAI has been consulting with bank compliance officers representing large, medium and small banks about the test program's content.

Get to know your Commerce banker.

Steve Erdel graduated from Westminster College in 1973 and joined Commerce Bank of Mexico, Missouri the same year. Before moving to Kansas City, he was involved with the Audrain County Historical Society. Outside interests include snow and water skiing, photography and hunting. When you need a good correspondent banker with a lot of agribusiness expertise, look for Steve Erdel.

Fred Coulson heads our Correspondent Banking Division. He's a University of Kansas graduate whose career took him to the finance and insurance fields before joining Commerce some 10 years ago. A Kansas City Chamber of Commerce member, Fred enjoys tennis, golf, hunting and sports. Fred Coulson has the reputation as "the dean of correspondent bankers in the Midwest."

John Messina joined Commerce in 1949, and brings you the benefit of 30 years of banking operations experience. He's involved with fund-raising for the YMCA and American Cancer Society. John's a coin collector and jogger. In correspondent banking, he'll give you a good run for your money.

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evidence the affirmative statistical study developed by Dr. Roberts. He prohibited the bank from presenting its statistical case as a form of punishment for the bank's refusal to turn over two privileged studies prepared in anticipation of litigation. We were disappointed at this sanction because we felt Dr. Roberts' painstaking study went to the heart of the case.

"Unlike the government's study, Dr. Roberts measured a variety of factors related to salary determination at the bank. To ensure that his research strategies met the most stringent scientific tests, the studies were reviewed and confirmed by Dr. Arthur Dempster, a distinguished statistician and professor at Harvard University. Dr. Dempster testified that the Michelson study simply was inadequate (Stephan Michelson, government statistician). Dr. Roberts concluded, based on the result of his studies, that Harris Bank has been hiring and promoting employees on their assessed job qualifications. Secondly, female and minority employees have comparable qualifications to those of white males at any salary level.

"In other words, based on Dr. Roberts' studies, we find no evidence of systemic discrimination."

Mr. Stephens also referred to the bank's own equal-employment record. He pointed out that over a 10-year period (1969-78), women went from 2.7% to 21.6% of the bank's officials and managers. Within the category of professional jobs, he continued, 46.9% are women, compared with 28.6% in 1969.

A study of promotions at the bank, according to Mr. Stephens, showed that "In the years 1973 to 1977, promotion rates for employees were either identical for men and women or, at most, just three percentage points apart. For example, in 1973, 27% of male employees and 27% of women employees received promotions, in 1977, the numbers were 31% for men and 34% for women.

No decision is expected on the case by the administrative law judge until sometime after December 5, when oral argument is scheduled.

The recent hearing had its roots in 1974, when Harris Bank submitted an affirmative-action plan to the Treasury department. A compliance review of the bank's equal-employment-opportunity programs was held, and the bank was informed officially by Treasury that the comprehensive plan was in compliance. However, in 1975, the Labor Department took exception to Treasury's compliance letter. In May, 1977, Treasury notified Harris of four technical issues in the bank's affirmative-action program it believed needed modification. Treasury also raised the question of whether the bank had an affected class of women or minority employees.

Conciliation meetings were held to resolve the issues. On August 24, 1977 — on a day when one of these conciliation meetings was in progress — Treasury issued a "show-cause" notice charging that Harris Bank had discriminated against women employees and that it had failed to respond adquately to Treasury. Harris Bank responded fully to that notice. However, without acknowledging the bank's show-cause response, the Labor Department issued its administrative complaint December 8, 1977. Prior to the August 6, 1979, start of the hearing, the bank gave to the government more than 80,000 pages of documents for copying — besides its complete computerized personnel records. • •

Travelers Check Sales Streamlined

FIRST CHICAGO Cheque Corp. is the premier issuer of Visa travelers checks with an initial $1-billion printing. The firm has designed an innovative selling system for the checks that streamlines bank operations from customer sale to settlement and offers check security.

Boxing champ Muhammad Ali (l.) was first person to buy Visa travelers checks from A. Robert Abboud, First Chicago's ch. Bank is first U. S. issuer of checks that went on sale in November.

Called CheqPack, the system heat-seals color-coded check packets in a durable polypropylene film, rendering them tamper-proof. As long as the CheqPack wrap is intact, tellers and customers know they're protected against stolen or missing checks. The CheqPack wrap is considerably more secure than envelopes, tabbed checks or loose checks, according to First Chicago Cheque Corp.

The CheqPack selling system includes:

- Prepackaged checks in color-coded envelopes.
- MICR encoded and pre-calculated purchase agreements.
- Customer-refund information slip.
- Check wallets.
- Simplified daily settlement forms.
- Refund-procedure kit.
- Resupply instructions.
- Annual sales volume reports organized by location and agent.

Also, First Chicago gives its Visa travelers check agents a CheqKit Operations Guide that provides information and instructions necessary for a smooth travelers-check operation and employee training. The company reinforces the CheqKit with training in redemption procedures, customer service and operations to maximize staff productivity.

By W. KENNETH BONDS
Chairman
Trust Committee
Liberty Nat'l Bank & Trust Co.
Oklahoma City

Allow Commingled Agency Accounts

FOR YEARS, the trust industry has been steadfastly pursuing the authority to commingle agency accounts and to have the opportunity to make available to its customers a low-cost, pooled-investment vehicle. Although at present there are statutory restrictions prohibiting the collective investment of agency accounts, we believe the time has come for Congress to respond to the country's capital-market needs and to permit the modest investor a wider range of investment alternatives.

Congress needs to grant some reasonable form of legislative relief if these objectives are to be achieved while, at the same time, providing appropriate safeguards for investors. With the ever-increasing number of individuals who have the resources to make investments, more opportunities must be provided for participation in capital markets. Commingled agency accounts will provide more efficient and widespread market participation at a reasonable cost. We intend to diligently seek passage of legislation allowing banks, through their trust departments, to offer this service.

In fashioning this legislation, there must be a recognition of the essential differences in the regulatory frameworks under which mutual funds and banks operate. Certainly, investor protection must be a primary concern of any such legislation. This goal of achieving investor protection can be attained without perpetuating the burdensome regulatory requirements imposed on the mutual-fund industry. Indeed, the sentiment for liberalization is evident at the SEC in its recent moves to integrate filings affecting '33 Act companies, reduction of restraints on advertising and its announced intention to review the '40 Act to lessen some of its bureaucratic burdens. A regulatory system can be fashioned that is different from that presently applicable to the mutual-fund industry, but that achieves the goal of providing full disclosure and protection for the investing public. It must be remembered that, although mutual funds currently are subject to burdensome regulation, unlike banks there is limited continuous supervision of their operations. On the other hand, the banking industry is subject to extensive and continuous supervision through periodic examinations by bank regulators. This difference in regulatory emphasis should be kept in mind in any discussion concerning legislation to enable banks to offer commingled agencies.

"Expanding the allowable activity of commercial bank trust and investment departments to include collective investment for agency accounts would provide an important alternative to the present mutual-fund concept."

As I already have indicated, costs and burdens of the regulation placed on the mutual-fund industry are, in my opinion, disproportionate to the protections they may provide. I believe a more simplified system can be developed without sacrificing any investor protection. Banks for years have operated common-trust funds and commingled pension-trust accounts without this burdensome regulatory overlay, and no cases ever have been brought to my attention where participating trusts were not properly protected. Investment performance may vary, but that is not related to issues of proper disclosure. The modern regulation we advocate would be shaped by a concern for appropriate controls over the particular service offered to achieve essential investor protections and cost effectiveness. Such regulation should fall equally on the provider of that service regardless of whether it is a bank or a mutual fund.

Enactment of such legislation will allow us to service the agency-account customer properly. Our agency customers would be able to take advantage of investment vehicles we currently are able to offer only to trust accounts. Bank commingled pension-trust funds and common trust funds include a variety of investment options such as equity funds invested in varied size and type companies, fixed-income corporate bond funds and tax-exempt bond funds. This greater diversification would allow for better performance for our agency customers. And collective investment would open up investment options from which individually managed accounts now are foreclosed because of high minimum-size requirements.

Additionally, such accounts would fill a real need in the marketplace. Their availability would broaden the base of capital-market participation. This kind of account would be attractive especially to middle-income families, who, until now, have not had access to investment-management advice available through their local trust bankers. Collective investment — with its economies of scale — would permit us to offer the smaller investor

W. Kenneth Bonds is immediate past president, ABA trust division. He gave the talk on which this article is based at a conference on regulating securities activities of commercial banks at New York University.

an attractive alternative at a reasonable price.

For a long time now, the mutual-fund industry has been able to offer the small investor the advantages of collective-investment vehicles. A survey performed by Marshall Blume & Irwin Friend of the Wharton School raises the possibility that the mutual-fund industry may not be responding fully to the needs of these investors. The problem may be high cost, inflation, disillusionment over equities generally or other factors. Nonetheless, excluding money-market funds, participation in mutual investment is relatively low and has been declining over time. Shareholder accounts have declined in recent years from 10.9 million in 1971 to approximately eight million today. Is it just possible that a part of this important investor army might be re-enlisted if bankers were allowed to serve them? We think so, and we feel this is further evidence of the need to create viable alternatives for the small investor.

The current legislative structure may provide some insight into the declining share of the market held by mutual funds. Let's recall first that Glass-Steagall's artificial barrier to competition has created monopolies; as a result, the consumer has been deprived of economical investment alternatives.

The small investor with a significantly reduced set of investment options may decide to refrain from participation in the capital market or may choose direct self-managed participation or participation in mutual-fund investments. Expanding the allowable activity of commercial bank trust and investment departments to include collective investment for agency accounts would provide an important alternative to the present mutual-fund concept. It would open securities markets to individuals who thus far have refrained from participating for whatever reason. That the mutual-fund industry has been unable to attract and keep these accounts magnifies the necessity for new providers.

Our institutions are logical providers of such a financial service. Our experience in financial management is a good indicator of the quality services we could provide the public. The historical facts amply demonstrate that individuals with varying amounts of resources have voluntarily *chosen* a trust institution to manage assets having substantial value. We think that's a pretty good customer vote of confidence. More importantly, the public would have a *choice*. Promotional incentives connected with commingled-agency accounts would be no greater than those connected with services bank trust departments currently offer. And just as our customers now shop for the best possible trust and commercial-banking services, so will they act with commingled accounts. If mutual funds are able to offer a better and more profitable service, they deserve the business — and the rewards that go with it. The effect of our entry into this area is certain to be that — through competition — the consumer will be offered wider choices for investment services.

The mutual-fund industry has expressed some concerns about our entry into the field. One of these concerns is the alleged conflict-of-interest question, which we find to be no greater for commingled-agency accounts than it would be for existing trust and agency accounts. It is well known that securities laws prohibit individuals and institutions from trading on the basis of insider information. In the last two years, banking agencies have published their guidelines for development of internal procedures to separate commercial and investment areas of banks. All banks are required to have these procedures in place, which frequently are referred to as "The Chinese Wall."

Similarly, concern over excessive risk to a bank's stability is inapplicable since no bank funds are connected with a collective-agency account. The unwarranted fear exists that depositors might mistakenly correlate fund performance with the banking entity's reputation for financial soundness. If such a connection were to be made (which is doubtful in this enlightened age), educating the public about the facts would seem to be the logical response. A statement to that effect would, to us, seem to be appropriate in the preliminary stages to avoid any notion that bank funds were connected to these accounts and work unfairly against our competitors.

There also is the contention that the large bank may have an unfair competitive advantage attracting agency customers solely because of the bank's already existing customer base and the customer's perception of a bank as a logical provider of financial services. However, this clearly would not always be the case. There would be no reason for existing accounts to transfer from a securities firm that was providing satisfactory performance and competitively pricing the product. Moreover, if funds flow into bank-agency accounts, it is much more likely

that these funds will come — not from existing mutual funds — but predominantly from depository institutions. Most likely, the banking industry will channel funds previously held in time and savings deposits into the capital markets. Rather than competing for existing mutual-fund customers, we will be soliciting new entrants and, not too incidentally, new brokerage commissions for the securities industry. We will be expanding the aggregate amount of equity capital, broadening the base of investor participation and, in general, adding strength to the market.

We are not trying to capture a segment of the existing mutual-fund market. We expect to expand that constituency substantially. As well as broadening the customer base, commingled-agency accounts would allow smaller institutions to serve their clients without creating trusts. We have about 750 banks in the nation now operating common-trust funds, and virtually any or all would be candidates to offer commingled-agency services, provided costs of disclosure and regulation were not excessive. With local banks serving as managing agents, more individuals would become aware of investment opportunities. It is important for both the banking and mutual-funds industries to see constructive and enduring solutions to problems of capital formation that threaten both our interests, as well as those of the country's economic system.

The American Bankers Association's trust division has embarked on an effort to seek changes in Glass-Steagall to allow commingling of agency funds. We recognize, however, that before lessening restrictions of Glass-Steagall on banking activities, Congress must consider the purposes for its enactment and whether these or any other purposes outweigh the benefits that would be gained by such change. We believe that any possible conflicts can be dealt with fully through regulation, supervision and internal management. The practical advantages clearly outweigh the theoretical dangers. In order to offer these new investor services, we accept the fact of reasonable regulation. Bankers have lived with regulations for a long time. Our nation and its economy desperately need the freeing up of the marketplace. We are seeking a regulatory environment in which we can serve the public better and can compete freely as equals. We believe everyone, and that includes the mutual-funds industry, will benefit. ● ●

Firm Supplies Scoreboards For Olympic Winter Games In Lake Placid, N. Y.

Although companies cannot enter the XIII Olympic Winter Games in Lake Placid, N. Y., Daktronics, Inc., of Brookings, S. D., has won over its competition there.

The company's product — electronic scoreboards — will be located at each of the 1980 Olympic sports sites. Daktronics, Inc., was chosen last September as the official supplier of scoreboards that will instantly relay performance times and finishes of Olympic competitors to all viewers.

"It's certainly a milestone for our company," says Aelred Kurtenbach, Daktronics president. "When we started in 1969 (with two employees and a 250-square-foot warehouse), the people in Brookings didn't even know who we were, and now our product will be exposed to people from all over the world."

In addition to being seen by Olympic ticket-holders, the scoreboards will be seen by an estimated 900 million television viewers.

Since 1969, Daktronics has expanded its staff to 123 and has become one of the nation's leading innovators of electronic displays. The company supplies electronic voting systems, scoreboards, time-and-temperature displays and message centers for arenas and sports complexes.

At the Olympic games, the scoreboards will be used to light up results for ski jumping, cross-country, speed skating, hockey, bobsled, luge and biathlon and alpine skiing events.

Each of the nine scoreboards was custom designed for the games. The largest is 20 x 43 feet at the 70- and 90-meter ski-jumping site. As many as 2,943 incandescent light bulbs are needed to display some of the results, Mr. Kurtenbach says.

The scoreboards are more intricate than they seem. Special computer programs had to be written to accommodate the rules of each sport.

Trained volunteers from the Lake Placid Olympic Organizing Committee will operate the scoreboards. Also, eight Daktronic employees will be there should problems occur, Mr. Kurtenbach says.

After the games are over, most of the scoreboards will stay in Lake Placid because the organizing committee has a contract to purchase them then.

Put our staff on your staff.

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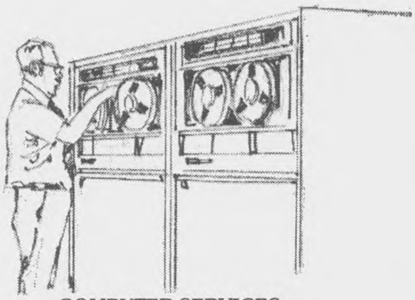
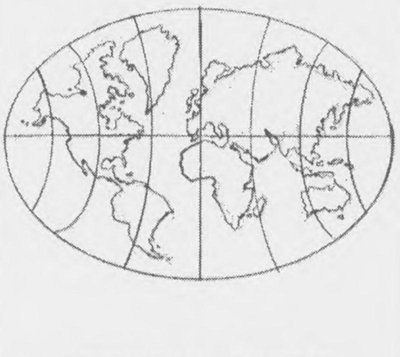


COMPUTER SERVICES

COIN & CURRENCY



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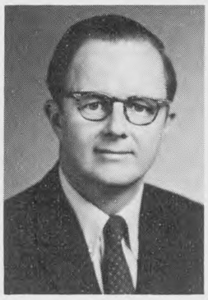


LINDSAY

PRESTON

WEATHERSTONE

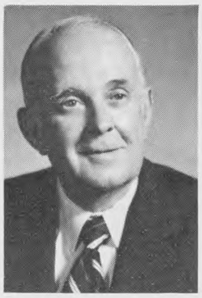
KAPNICK

• **Harvey Kapnick,** former chairman, Arthur Andersen & Co., was elected deputy chairman/director, First Chicago Corp., and its subsidiary, First National, Chicago. He retired as senior partner of the accounting firm in November. Mr. Kapnick joined Arthur Andersen in 1948 and became a partner in 1956. He became managing partner of the firm's Cleveland office in 1962 and a director in 1966. He was named chairman/CEO in 1970.

• **Lewis T. Preston** has been named to succeed Walter H. Page as chairman/CEO, J. P. Morgan & Co., Inc., and its subsidiary, Morgan Guaranty Trust, New York City, when Mr. Page retires December 31. Mr. Preston is president of the HC and bank. Succeeding Mr. Preston as president of the HC and bank will be Robert V. Lindsay, executive committee chairman. Dennis Weatherstone, vice chairman, will become executive committee chairman. Mr. Preston entered banking at Morgan in 1951. He was named executive vice president/international division in 1968 after he headed the bank's London offices. He became vice chairman, director and corporate office member in 1976 and has been president since 1978.

• **Donald L. Hunt,** president/CEO, First National, Marissa, Ill., and Mary R. P. Holt, president, Clothes Horse and Et Cetera, Little Rock, have been elected directors of the St. Louis Fed. They were elected to three-year terms beginning January 1, 1980.

Walter L. Ireland Dies



Walter L. Ireland, 64, died November 3. He was v.p., correspondent div., First Tennessee Bank, Memphis, which he joined in 1946. He worked in the proof, transit and credit departments before being given correspondent duties in 1953. In 1958, Mr. Ireland was promoted to v.p. and, in 1972, assigned to managing the bank's correspondent activities in Kentucky, Missouri, Illinois and Louisiana.

Regulatory News

More Reg E Provisions Made By Federal Reserve Board To Implement EFT Act

The Fed has adopted additional provisions of its Regulation E implementing the Electronic Fund Transfer Act. It also published for further public comment — by November 15 — revisions of several proposed provisions of Reg E.

Additions adopted deal with:

- Requirements for disclosures to consumers who use EFT services.
- Exemptions for transfers made to buy or sell securities and for transfers of funds within an institution.
- Record retention.
- Relation of the federal Electronic Fund Transfer Act to state law on this subject.
- Requirements for compliance with certain provisions of the act by those offering electronic fund transfer services.

The exemptions became effective November 15. The remainder of the new Reg E rules will become effective next May 10, the effective date of the sections of the act on which the rules are based.

The proposals, which are substantial revisions of previous ones, deal with:

- Requirements for documentation of EFT by operators of EFT services (designed to give consumers a record comparable to the record resulting from transfer of funds by check).
- Notification requirements — including a modified telephone-notice proposal — in connection with preauthorized electronic crediting of funds.
- Allocation of responsibility for compliance when EFT services are performed by a financial institution in which the consumer does not have an account.
- Requirements for prompt crediting of funds received electronically by a financial institution for a consumer's account.
- Procedures for resolving errors.
- Charges by financial institutions for actions and services (such as documentation and error resolution) required by the act or Reg E.

Consumer Hot Line Begins

The FDIC has introduced a toll-free consumer telephone hot line. It's designed to allow the public to ask questions, present views and voice complaints about consumer or civil-rights matters in banking. The number is 800/424-5488 and is in daily service, Monday through Friday, from 8:30 a.m.-5:15 p.m., eastern standard time.

According to FDIC Chairman Irvine H. Sprague, the new program will help the FDIC evaluate its administration of consumer-protection statutes. He believes banks will benefit, too, because the service can be expected to help resolve disputes stemming from customer confusion or misunderstanding of proper banking practices.

The new service was proposed and is being administered by Henry Newport, director of the FDIC's Office of Consumer Affairs and Civil Rights.

Insurance Sales Allowed HCs In Under-5,000 Communities

The Fed has revised Regulation Y to authorize bank HCs or their nonbank subsidiaries to act as agents for the sale of general insurance in communities with populations of less than 5,000.

The Fed acted in conformity with court action requiring it to reconsider a 1971 rule permitting this activity and after consideration of comment received on a proposal to alter the language of the 1971 rule.

The revised rule permits bank HCs or their nonbank subsidiaries with principal places of banking business in communities with populations of 5,000 or less to sell any type of insurance in those communities.

The Fed deleted a provision of the previous rule allowing such activity in communities with inadequate insurance-agency facilities.

Expected Legislative Packages Emerging

UNTIL the moment of final passage of major financial legislation, the legislative process multiplies the number of questions for bankers as it moves along. Observers of the legislative process never can be certain what elements of various bills will become law, and what provisions will be bargained away or dropped, as the final decisions are made on Capitol Hill.

Yet the context and tone of the legislative process can suggest the probable parameters of final congressional action. At press time, that seemed to be the case with legislation that could deal with a broad range of banking issues — Regulation Q reform and NOW accounts, the Fed's ability to manage monetary policy through its reserve-setting power, a federal overriding of certain state usury laws and simplification of the Truth-in-Lending Act. The context for banking legislation this year appeared to be one of opportunity, rather than one of hazard-control.

The expected banking legislative packages are emerging in both the House of Representatives and Senate. Taken together, the House and Senate packages deal with all major issues that concern bankers. The crucial question for bankers is how the two differing packages will be melded into a single act by a "conference committee."

In the aftermath of early November Senate approval of milestone financial legislation to enhance competition and give savers a better return on their savings, bankers were focusing on three clear goals: to ensure that any final bill that becomes law contains relief from Regulation Q for small savers; to analyze the new Senate bill, identify any unwanted elements it may contain and seek to have them excluded from the final legislation; and to persuade the House and Senate to address the Fed issue before Congress adjourns.

The Senate bill (which embodies linkage of the Regulation Q and NOW-account issues that bankers have been urging for several years) would permit NOW accounts nationwide, legalize financial services that were imperiled by a federal Appeals Court ruling, phase up all Regulation Q ceilings over a 10-year period, expand thrift institutions' asset powers and override state usury ceilings permanently for mortgages and temporarily for certain other loans.

As almost always happens when complex legislation is being debated, some objectionable provisions were added to the Senate bill. The legislative process always carries the possibility of problems along with the opportunity for constructive action. Unprinted amendments that were only partially described when they were presented have produced provisions the ABA is examining closely.

One such unwanted provision (which has never been discussed by the Senate Banking Committee) would give federal mutual savings banks an unwarranted new range of bank-like powers. (MSBs have the option of converting to federal charters, though none have done so yet.)

However, the ABA will work for passage of the basic Senate bill, which reflects many elements of the consensus positions adopted by bankers who are members of the Banking Leadership Conference.

Major elements of the Senate NOW account/Req Q bill that are responsive to the consensus of the ABA's Banking Leadership Conference would:

- Phase up all Regulation Q deposit interest ceilings over a 10-year period, in the process making meaningless the interest rate gap that discriminates against bank savers and banks.
- Overturn the Appeals Court ruling and legalize bank savings-to-checking automatic transfers, credit union share drafts and S&L remote-service units.
- Authorize NOW accounts nationwide (except for California) with a uniform rate ceiling for all financial institutions and provide that, eventually, the rate ceiling on share draft accounts should not exceed the ceiling for NOW accounts.
- Override state usury ceilings for farm and business loans over $25,000 until July 1, 1980, and override state constitutional usury provisions for those loans until July 1, 1981, setting a floating federal usury ceiling at 5% over the discount rate.
- Override all state mortgage usury ceilings permanently unless state legislatures reinstated their statutes within two years.
- Urge (but not require) eventual reduction of minimum-deposit requirements to $1,000 for all certificates of deposit whose minimums are currently above that level, including the $10,000 Treasury-rate money market certificates of deposit. Any one of the financial institution regulators could block this change.
- Greatly simplify and improve the Truth-in-Lending Act.
- And, conditional on reform of Regulation Q, authorize S&Ls to increase their credit-card and consumer lending, deal in commercial paper and

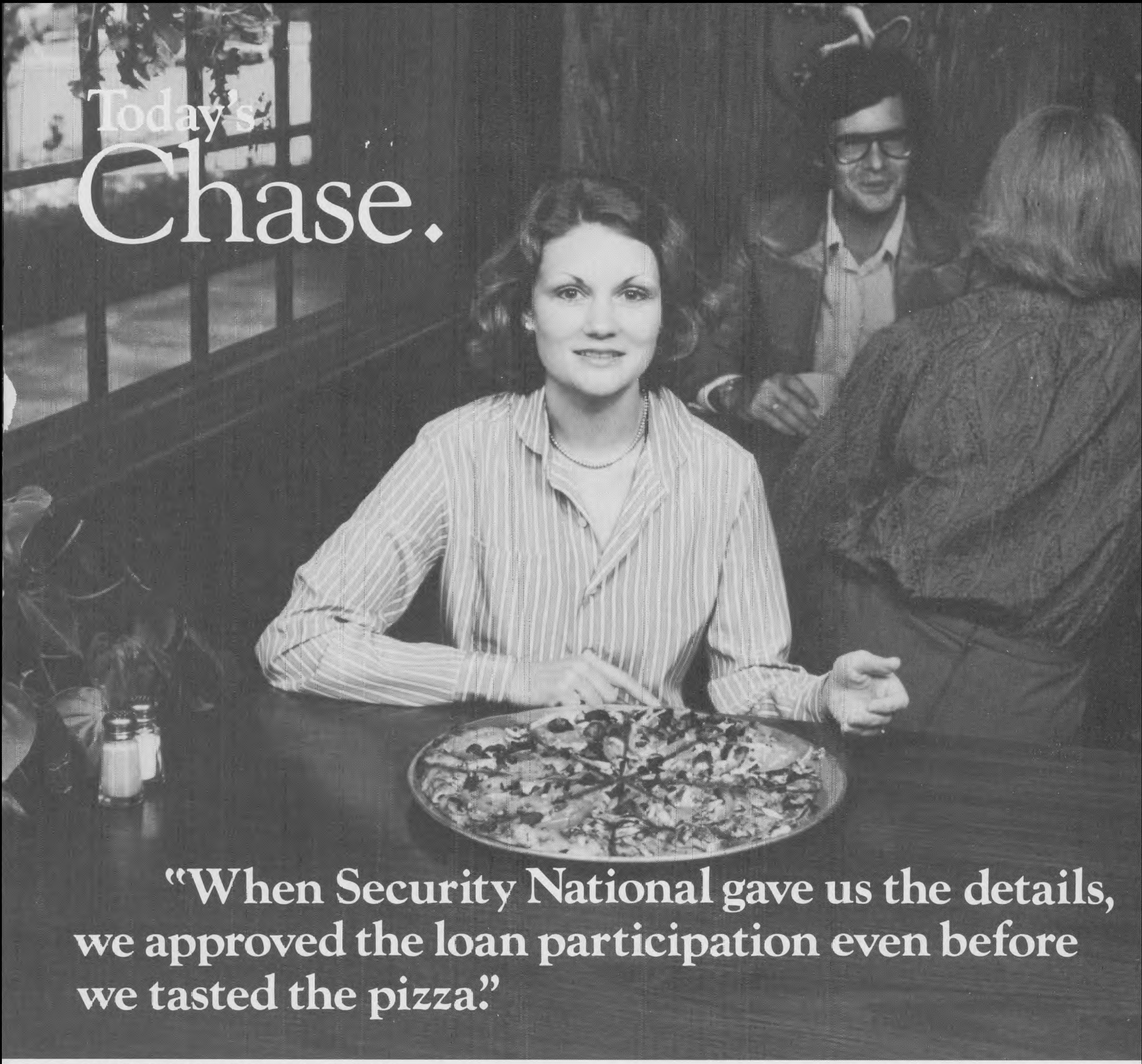
Editor's Note: This column was prepared by the ABA's public relations division.

No Fed-Membership Bill

WASHINGTON, D. C. — The Senate's last-minute effort to pass Fed-membership legislation before Congress adjourns this year met defeat last month in its Committee on Banking, Housing and Urban Affairs.

The committee voted to call up a bill sponsored by Senator John Tower (R., Tex.) that would pay interest on required reserves to keep banks from leaving the Fed system. However, Committee Chairman William Proxmire (D., Wis.) then gave up the attempt to pass the Fed bill this year.

The action caused shock waves because the committee was expected to bring up a different bill, one sponsored by Senator Proxmire. It would have tried to solve the Fed's problem by requiring all depository institutions to post reserves with the Fed. This bill was favored by Fed Chairman Paul Volcker and the ABA.



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Margaret C. Sipperly, Relationship Manager, Correspondent Banking

Nothing moves faster than the fast food business. And when our correspondent, Security National Bank in Walnut Creek, California, was approached by a rapidly-expanding chain of pizza restaurants, they knew they had to commit to the loan without delay.

But to meet their customer's financing needs, Security National had to have a quickly-approved upstream participation. They contacted Chase correspondent banking Relationship Manager, Meg Sipperly. Meg wasted no time in gathering all the pertinent information. Within 48 hours, she was able to tell Security National that Chase would not only participate, but would assist in structuring the credit arrangement. And only a few days later, she was in California to close the loan—and have her first taste of one of the client's pizza specialties, King Arthur's Supreme.

Nobody responds faster

Fast, knowledgeable answers on loan participations is the way we do things at Today's Chase. We know that our correspondents need that kind of response if they are to continue to serve their valued corporate customers effectively. And there's nothing we like better than helping our correspondents develop, maintain and strengthen customer relationships. If you need a fast response on a loan participation, you can always count on your Chase Relationship Manager.

CHASE

establish trust departments on the same basis as banks, in order to assist them in adjusting to the other changes the legislation would cause.

Although it is impossible to predict the outcome of the conference committee's negotiations, it is worth noting that all the Senate bill's provisions expanding thrift institutions' powers (except NOW authority) are contingent upon reform of Regulation Q. In other words, the Senate has expressed its commitment to the linkage of these issues and its unwillingness to expand thrifts' powers without simultaneously reforming Reg Q.

In contrast to the Senate bill, the House legislative package, as of this writing, would only extend NOW-account authority nationwide, overturn the Appeals Court ruling and address the Fed issue.

Approaching conference committee, leadership of the House Banking Committee appeared to be attempting to resist the momentum generated by the Senate bill as far as reform of Regulation Q was concerned.

On the Fed issue, the House package would cut Fed reserve requirements by about two-thirds and leave voluntary Fed membership in place. But if the Fed's reserve coverage fell to 67.5% or less of the nation's deposit base, the House bill would provide mandatory Fed reserve requirements for all depository institutions.

The expected banking legislative packages are emerging in both the House of Representatives and Senate. Taken together, the House and Senate packages deal with all major issues that concern bankers. The crucial question for bankers is how the two differing packages will be melded into a single act by a "conference committee."

The approach the Senate Banking Committee was considering would give the Fed reserve-setting authority over all depository institutions' transaction accounts and cut reserve requirements substantially for existing Fed members. The committee also was considering a proposal by the Fed chairman that the central bank be granted standby authority to impose a supplemental reserve requirement as a "safety net" the Fed could use (with certain safeguards) following the reserve cuts the pending bills would effect. The supplemental reserves would earn interest. The ABA was supporting the Senate bill and the Fed chairman's proposal as part of a broad effort toward competitive equality. • •

Mfg. Hanover Corp. Agrees To Buy Finance Subsidiaries Of First Pennsylvania Corp.

NEW YORK CITY — Manufacturers Hanover Corp. (MHC) and First Pennsylvania Corp. (FPC), Philadelphia, have agreed in principal for Manufacturers Hanover to purchase First Pennsylvania's consumer-finance subsidiaries and mortgage-servicing activities of its subsidiary, Pennamco, Inc. Purchase price would be about \$106.5 million.

Subject to regulatory approval, MHC would acquire all of First Pennsylvania's consumer finance-subsidiaries: CommoLoCo, Inc.; Continental Finance Corp. of America; Ellwood Consumer Discount Co., Inc.; Investors Loan Corp. and Industrial Finance & Thrift Corp., as well as First Pennsylvania Financial Services, Inc. Retaining their separate identities, the companies would operate under the general supervision of Ritter Financial Corp., MHC's consumer-finance subsidiary. The acquisition would extend Manufacturers Hanover coverage throughout the Sunbelt region from California to Florida, where Ritter is not now represented. Combined assets of the companies would total \$451 million, with 423 offices in 25 states, Puerto Rico and the Virgin Islands. Ritter now has 153 offices in 12 states.

Also, the agreement calls for MHC to purchase certain assets of Pennamco, Inc., including \$2.3 billion of its mortgage-servicing portfolio and seven branch offices. These activities will be added to those of MHC's mortgage-banking subsidiary, Manufacturers Hanover Mortgage Corp.

Manufacturers Hanover Corp. is the parent company of Manufacturers Hanover Trust, the nation's fourth largest bank. First Pennsylvania Corp. is the parent company of First Pennsylvania Bank.

Community Involvement

Save, Save, Save:

Ways to Conserve Energy Outlined in ABA Booklet

The ABA's marketing division has developed a 32-page, two-color booklet filled with illustrations for distribution through bankers to communities. It is entitled "Ways to Beat the Energy Crisis in the Home." The booklet attacks the energy crisis head-on with specific suggestions for conserving energy the average person can implement at home.

There is information on meter reading, lighting, hot water tanks, heating, insulation and household areas. Also included is a checklist for customers to use in evaluating the progress of their energy-conservation program. The ABA points out the ultimate proof of customers' success in energy savings will be their monthly energy-use charges, but these printed guidelines can help them get those lower utility bills.

The ABA is recommending distribution of the booklets, which can be imprinted, to communities by mail, at the teller's window, in counter literature racks and as local radio/tv giveaways.

Stampede!

Runners Enter Race To Benefit YM/YWCA

St. Joseph Valley Bank, Elkhart, Ind., in cooperation with the Elkhart YM/YWCA, has sponsored a "stampede." This second annual event gave runners who entered the race the choice of completing a five-mile or 10-mile course. Trophies were awarded for the best finishing times in various categories, and everyone who crossed the finish line received an official finishing time and a free Stampede T-Shirt.

Jack Lorri (l.), starter for this year's Stampede, records course distance measured by Tom Ertel, s.v.p., St. Joseph Valley Bank, Elkhart, Ind., as Elkhart YMCA Director Chuck Best (r.) looks on.

In addition to a good time, stampede runners made a contribution toward the construction of a new outdoor running track for an Elkhart YM/YWCA. According to Terrence Brennan, bank president, the first stampede held last year grew out of the need for an outdoor track. "Running enthusiasts and members of the Elkhart 'Y' had complained about the lack of an outdoor track at the otherwise well-equipped facility," Mr. Brennan explained. "In response, people from the bank, many of whom are avid runners, got together with directors of the 'Y' and came up with the idea of sponsoring a race to generate funds toward construction of a new track."

Communications Link:

Teletype Machine Installed To Help Deaf Customers

Handling business by telephone is a routine matter — unless you're deaf.

Communications problems of hearing-impaired people led Lakewood Bank, Dallas, to install a teletype machine (TTY), which operates over standard telephone lines for the convenience of its deaf customers.

Lakewood Bank is believed to be the first bank in Dallas to make the service available.

"The machine is used for any type of transaction that can normally be handled by phone," says Robert L. Burns, the bank's president. "The TTY can save a trip to the bank to transfer funds from an individual's checking account to savings, for example."

Another use is to arrange an appointment with a loan officer, who will be prepared to handle the special communication requirements. Grace Perez, a Lakewood loan teller who is adept at sign language, frequently serves as interpreter.

Some 600 TTYs in Dallas County link homes of deaf persons with one another and public agencies such as police and fire departments, library and tax offices.

Just Part of Team:

Bank Donates Money To Reinstate Sports

Commerce Bank of Willard, Mo., is not trying out for the team. But it is supporting the teams and athletic programs of Willard Junior High School.

The bank stepped in with a $3,500 donation to reinstate athletic programs that were about to be cut from the district's extracurricular activities because of budgetary belt-tightening measures. Belt-tightening was necessary after the district's proposed tax levy was defeated five times during the last two years.

"Our board feels all extracurricular activities, particularly a sports program, are important to students and the community," says Robert E. Smith, the bank's president. "As a bank we don't support or oppose the passage of the school levy. We just want to keep sports available to the students."

Mr. Smith adds, "We don't want to run the schools, but we can provide the money needed until the school system can get back on its feet and make it through these tough financial times."

No. 5

Free-Enterprise Series Adds Title to List

American Fletcher National, Indianapolis, is introducing its newest addition to its Fundamentals of Free Enterprise booklet series. The latest title is *Productivity: America's Critical Need to Work Smarter*. The booklet examines why productivity increases in the U. S. have fallen behind most other industrial nations. It also suggests steps the nation can take to restore high productivity rates such as those that characterized the early 1960s.

As with earlier booklets in the series, the productivity essay is directed mostly to a teenage audience.

"We hope the series is contributing to a better understanding of our economic system," said Frank E. McKinney Jr., American Fletcher National chairman.

The bank has distributed more than 350,000 copies of the earlier booklets, mostly to school systems.

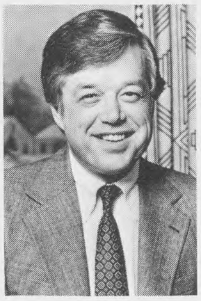
Corporate News

DOTY LEAVER McCORMICK SPALDING ROGERS

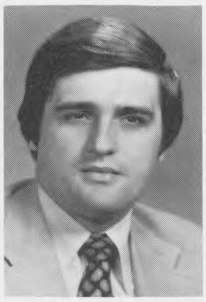
• **Bank Building Corp.** Harvey B. Leaver has been named president of DCS, Inc., BBC's recent acquisition from Diebold, Inc., Canton, O. Mr. Leaver had been BBC's director of marketing-financial market. DCS, Inc., specializes in providing financial institutions with manufactured financial buildings, mini-banks and remote-transaction facilities. As president, Mr. Leaver will coordinate marketing and product-development operations between the St. Louis-based BBC and DCS, Inc. Replacing Mr. Leaver as BBC's director of marketing-financial market is Thomas L. Spalding. Mr. Spalding goes to the firm from Republic Steel, Atlanta, where he was vice president/marketing and sales.

• **Bank Building Corp.** BBC has promoted the following: Raymond E. Rogers to marketing manager/banks from director/advertising and public relations; Leighton E. McCormick to director/marketing communications from assistant director/financial communications; and William H. Doty director/business planning. Mr. Doty goes to BBC from Ralston Purina Corp., St. Louis, where he was manager, market planning/development.

• **Brandt, Inc.** This Watertown, Wis.-based firm has named Lawrence E. Johnson executive vice president/ marketing, finance and planning. Mr. Johnson goes to Brandt from Utility Products, Milwaukee, where he was president. Also, the firm plans to build a 25,600-square-foot addition to its corporate headquarters and major manufacturing center. The new one-story addition will contain offices for data processing, order processing, accounting and other departments and an enlarged shipping operation including enclosed truck-dock facilities. Project completion is expected by late June, 1980.



JOHNSON

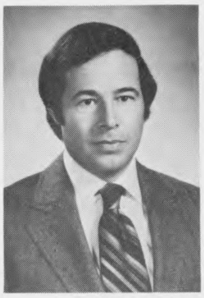


PEREGRIN

• **Aetna Business Credit, Inc.** This East Hartford, Conn.-based company has promoted the following: Guy Peregrin has been named divisional assistant vice president, intermediate term lending/real estate division; William J. Magee Jr. loan officer, intermediate term lending/special financing division; Michael R. Mulberry has been promoted to regional vice president/manager, new business development of the firm's factoring division from manager of factoring activities in the New York business development district. In the firm's treasury department, William L. Trubeck has been appointed vice president/ liability acquisition; Charles P. Watras assistant vice president/assistant treasurer, financial sales; and Michael A. Eberhardt assistant treasurer/financial sales.

• **Associates Corp. of North America.** Gilbert N. Zitin has been named senior vice president/ marketing manager of this firm's business loan division headquartered in Chicago. He will be responsible for the division's business development, advertising and public relations programs.

• **Doane Agricultural Service, Inc.** Michael G. Rooks has been named senior project analyst/marketing research division of this St. Louis-based company. He will be responsible for design, development and production of marketing research studies for the firm's fertilizer industry clients. Also, Howard Audsley joined the firm as an appraiser in its Jefferson City/ Columbia, Mo., office. Mr. Audsley had been managing a farm near Columbia.



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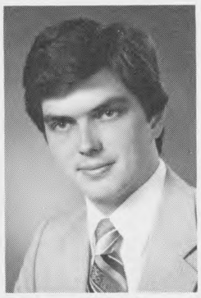
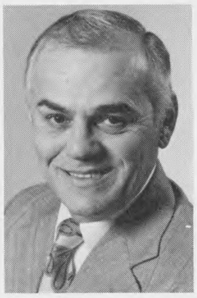


ROOKS

• **Commercial Credit Co.** Joseph D. Minutilli has been elected president/chief operating officer of this Baltimore-based company. He succeeds Paul G. Miller, who remains the firm's chairman/CEO. Mr. Minutilli joined the firm in 1951 at its Cleveland office and went to its home base in Baltimore in 1964. He had been executive vice president since 1975.

NACHTRIEB

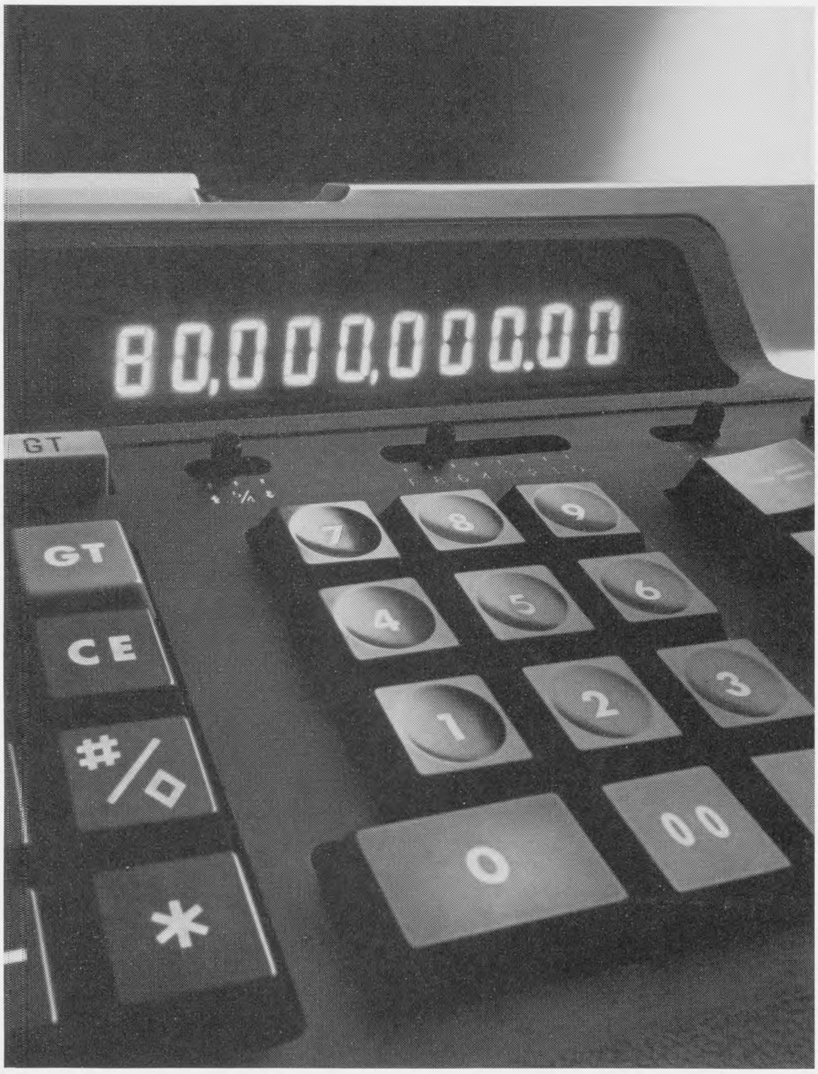


MINUTILLI

• **BankAmerica Corp.** John J. Nachtrieb has been named president of BankAmerica Corp.'s wholly owned subsidiary, BA Cheque Corp., which manages BankAmerica travelers check operations worldwide. Mr. Nachtrieb, formerly vice president/marketing sales in retail banking operations, replaces Ernest J. Young, who is retiring. Mr. Nachtrieb joined the bank in 1972.

How do you add $80,000,000 to your lending limit?

Ask Chicago's Bank.



It isn't everyday a customer walks in and asks you for a half million, much less 80 million dollars. But it's good to know that when one does, you can deal from strength – First Chicago's in-house lending limit plus yours – no matter what your liquidity need or portfolio concentration.

It's also good to know you're dealing from experience. First Chicago can provide expert counsel on any type of financing. We've handled them all.

Our aim is to help you maintain your position with your customer. Our prices are competitive. And when you need an answer fast, we'll give you one fast.

Banks large and small, near and far, have added First Chicago's lending capabilities to theirs. And profited by it. In more ways than one.

Phone your First Chicago correspondent officer in Chicago or one of our nine regional offices listed below. Or call John Ballantine, Vice President, at (312) 732-4131.

Once we put our limits together, there's almost no limit to what we can do.

FIRST CHICAGO
The First National Bank of Chicago

Chicago: John Ballantine, 312/732-4131 • **Atlanta:** Norman McClave III, 404/892-0966 • **Baltimore:** Robert E. Probasco, 301/547-8700
Boston: Robert G. Barrett, 617/247-4040 • **Cleveland:** Earle C. Peterson, 216/781-0900 • **Dallas:** James A. Edwards, 214/742-2151
Houston: Grant R. Essex, 713/658-1100 • **Los Angeles:** Thomas E. Flowers, 213/628-0234 • **New York:** Donald Glickman, 212/751-3910
San Francisco: William R. Lyman, 415/788-4311

Arkansas Gets 'Relief'

Federal law allows banks to exceed 10% usury limit until July 1, 1981

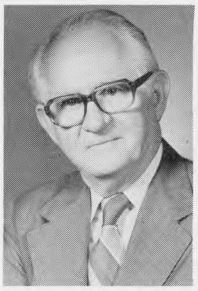
ARKANSAS BANKERS have some temporary relief from the state's 10% usury limit, and the "relief" is good until July, 1981, unless other actions are taken in the state.

Last month, President Jimmy Carter signed into law a bill that provides a temporary exemption to Arkansas lenders from usury ceilings on business and agricultural loans. The act, rushed through Congress and supported specifically by Arkansas representatives, allows federally chartered or federally insured institutions in Arkansas to make business and agricultural loans of $25,000 or more at interest rates not to exceed 5% above the Fed's discount rate. As this was written, that maximum rate would be 17%.

This temporary provision states that preemption of the Arkansas ceiling expires July 1, 1981. At that time, the usury limit would revert to 10% unless the proposed new Arkansas constitution is approved in November, 1980, and the vote is certified. Included in that constitution is a provision to lift the usury ceiling.

Arkansas bankers place some additional hope for relief from the state's usury laws in a court case concluded recently in Little Rock. The case was termed a "friendly" suit because the defendants aren't hostile parties. The suit was against the state banking commissioner and the attorney general's office because they have the legal duty to uphold the usury law. However, Banking Commissioner Beverly J. Lambert Jr., a former banker himself, has stated openly that Arkansas' usury limit should be raised.

The suit originated when two Little Rock businessmen, Luke Quinn and Ed Moore, and two banks from which they had borrowed money at 12% annual interest, sought to have the interest limit declared in violation of the United States Constitution so that interest rates in Arkansas would be allowed to "float" without restriction, as least until the 1980 election.



Arkansas commissioner in a 'friendly' suit with state's bankers

LAMBERT

A number of Little Rock bankers were called to testify in that suit. Each banker who appeared pointed out that lendable funds in the state had all but dried up. They also pointed out that the 10% limit also applies to the amount of interest a financial institution can pay for its deposits. Thus, Little Rock and other Arkansas bankers pointed out that large amounts of money had "fled" to nearby states or to other major money-market cities.

One banker who testified — William H. Bowen, president of Little Rock's Commercial National — stated Arkansas' large farming community was on the brink of collapse because farmers are almost completely dependent on the federal Farm Credit Administration for financial support. That system, he testified, like banks, is finding it impossible to make profitable loans at 10%. He said that about 25,000 farmers depend on the 14 Production Credit Association districts and 12 Federal Land Bank districts for credit. Those institutions continue to lend money to Arkansas farmers at a loss, he said, and to the detriment of their patrons elsewhere in the country.

National banks in Arkansas, of course, have been allowed to charge 1% above the Federal Reserve discount rate, but state banks have been restricted by the 10% usury limit.

Making Financial Plans Is Subject of Symposium At Northern Trust

Making personal financial plans in today's inflationary economy is not easy. However about 30 Chicago-area corporate executives were given professional advice at a day-long symposium sponsored by Northern Trust. It focused on complicated issues and alternatives facing executives in making personal financial plans.

Participants were introduced to the importance of identifying financial objectives and usefulness of self-financial analysis by Martin A. Gradman, vice president/executive and professional division, banking department.

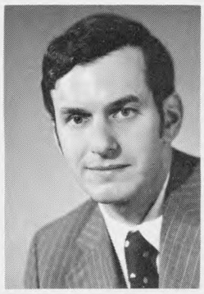
"Making a financial plan and storing it away is no longer effective," Mr. Gradman said. "An executive's financial plan now should be regularly evaluated and strategies altered to reflect current financial and economic conditions."

Robert G. Dederick, senior vice president/economist, reflecting on the October 6 Fed action said, "Because of our intense inflation, the dollar has been on the international sick list and, inevitably, the Fed has been forced to respond by tightening monetary policy. This need for monetary restraint makes it almost certain now that the U. S. will experience a recession. Any indication of backsliding on the Fed's part would quickly be greeted by renewed pressure on the dollar. Thus, the crucial issue appears to be how deep the recession will be. (I) look for a decline on the order of the 1957-58 model, when real GNP (gross national product) dropped by 3.2%."

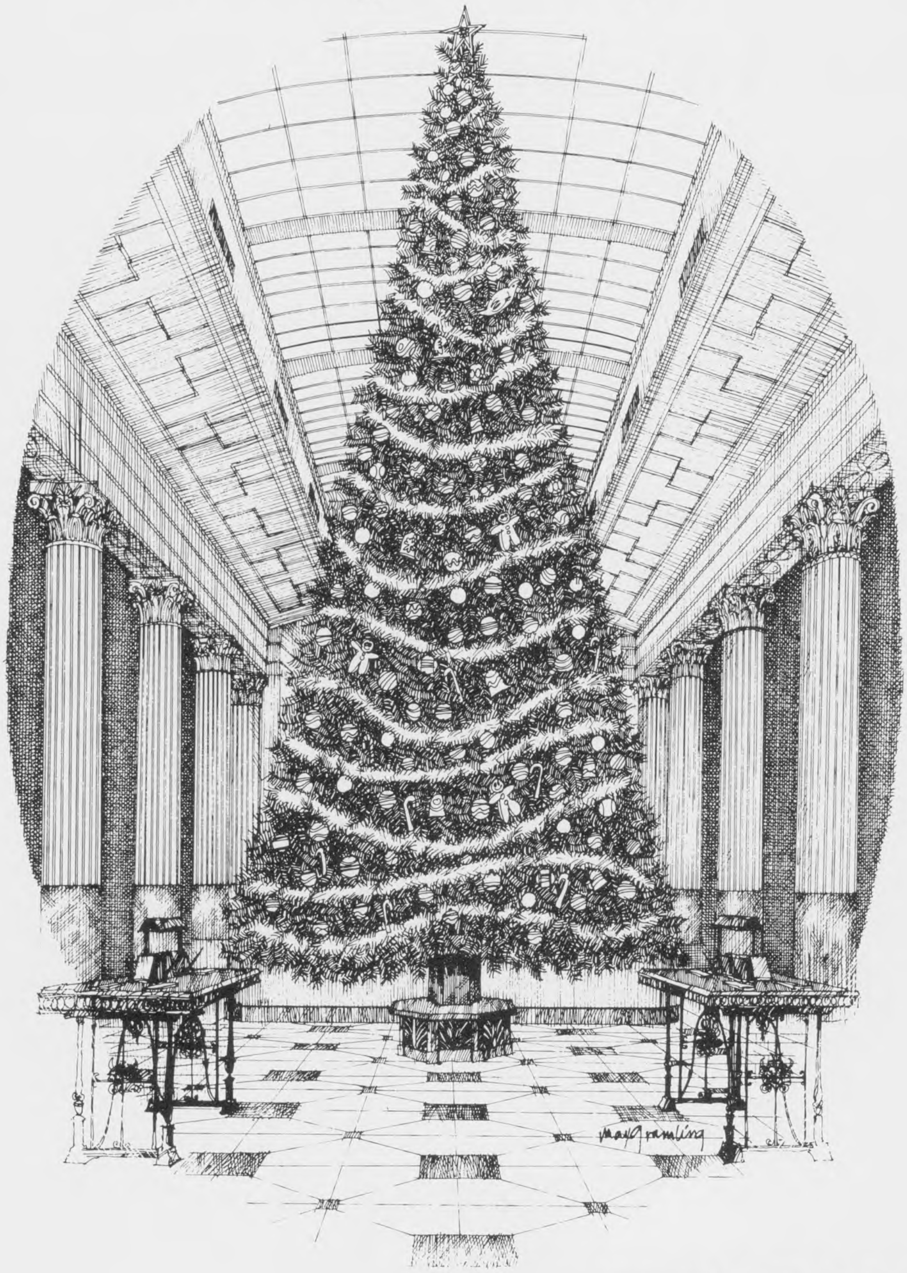
Other topics discussed included "Tax Savings and Family Security Through Estate Planning," "Investment Planning" and a panel discussion on tax shelters. Also, the symposium included a workshop to study financial planning situations.

Dr. David E. Morrison, a consulting psychiatrist, discussed "Managing Stress."

DEDERICK



GRADMAN



The Leasing Alternative: Its Advantages, Pitfalls

By BUDDY LANIER
Vice President And Manager First Tennessee Leasing Corp. Memphis

IF IT'S TRUE that a little knowledge can be dangerous, it's probably fair to say that a little knowledge about leasing can make it seem the answer to all your customers' problems. It isn't true, as the following example shows.

Not long ago, First Tennessee Leasing Corp. was approached by a group of physicians whose practice was directed toward a complex and demanding specialty — neurosurgery. They had discovered that their practice would benefit tremendously from use of a sophisticated piece of medical hardware — a $150,000 body scanner — and they were pretty well sold on the idea that they should lease the equipment from us.

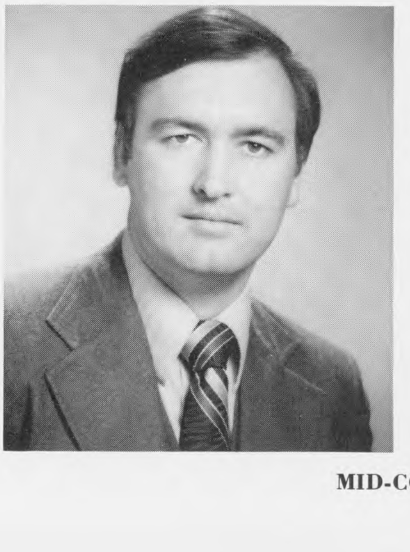
When we examined the proposed lease transaction, it became obvious to us that while they unquestionably would benefit from use of the equipment, they stood to benefit most from its ownership. Here's why:

Each of the physicians had an annual income in excess of $100,000, which put them in a relatively high tax bracket. If they leased the scanner from us, they would lose more tax advantages than we, as owners of the equipment, could credit them with. But if they purchased it, they would be able to depreciate the equipment themselves and gain a much larger tax benefit by virtue of their high incomes. After some convincing, the medical group purchased the scanner, and we were satisfied in knowing we had steered them away from what could have been an unsatisfactory lease arrangement.

The example I've just described isn't an extreme one. In fact, it's fairly typical of the kinds of decisions we've become accustomed to making in our search for leasing prospects.

First Tennessee Leasing Corp. is a seven-year-old wholly owned subsidiary of First Tennessee Bank, N.A., Memphis, which, with $1.4 billion in assets, ranks as the state's largest. Our activities are regulated by the Comptroller of the Currency. We're described most appropriately as a single-investor direct-leasing company concentrating on the middle market.

Specifically, our primary thrust is toward capital-equipment-leasing business in the $75,000-$750,000 range, although our authorized operating range for individual leases falls between $25,000 on the low end to First Tennessee Bank's legal limit of roughly $8 million. Our current portfolio stands in the $7-million range. We concentrate our efforts on the portion of the country known generally as the "Southeast," and we're most active in Tennessee and the six states that surround it.



Because First Tennessee Bank is the western anchor point in a network of 13 affiliates that stretches from one end of the state to the other, our leasing services can be delivered from that point or any other in our system. Our affiliates are being prepared for active involvement in our sales efforts, and our plans call for eventual concentration on our over 900 correspondents as potential generators of business. While we seek our own direct business, we are putting ourselves in a position to help our correspondents meet their own customers' needs as well.

Prospects, to say the least, are encouraging. A 1978 survey by the American Association of Equipment Lessors shows that more than 15% of all capital goods purchased in the United States last year were leased and that the volume is projected to grow to 18% by 1981. With an increasing number of industries moving from the "frozen North" to the Sunbelt and Mid-American regions, it seems likely that leasing opportunities will abound for institutions that can sense the winds of change and turn about to meet them.

As opportunities for development of leasing business grow in number, and as conventional debt-financing costs continue to mount (remember when we thought a 15% prime was ludicrous?), it's probable that more customers will begin looking more closely than ever at the leasing alternative. Lenders should, too, and should be prepared to discuss the advantages — and the pitfalls — of equipment leasing when the situation arises.

When a corporate customer or other mid-sized borrower wants to acquire a piece of equipment for his industrial plant or professional practice, he has three choices: He can purchase it outright, purchase it through a combina-

tion of cash down payment and term loan, or he can lease it. Since most firms are interested only in using the equipment, using it at a reasonable cost is all that normally matters. But the total financial and tax picture should be brought into sharp focus before the final decision is made.

If the customer has excess working capital or expects a relatively low rate of return on his capital, a cash outlay may be to his best advantage. (Consider the case of the physicians in the opening paragraphs of this article.) But, generally, the greater the value a firm places on the availability of its working capital, the more expensive — and less advisable — it becomes for that firm to purchase for cash.

The cost of using both cash and proceeds of a term loan usually is less than that associated with an outright cash purchase. But money costs are presently staggering and are likely to remain so for some time. The least expensive method, in the long run, probably will be the 100% financing that a lease offers.

Here are some benefits of leasing that we've identified and that you may want to consider with your own customers.

- For most companies, the lower cost (compared with the financing methods described above) may make a lease the best answer.
- Leases might be made for longer periods than term loans, and stretching the payments over a longer period of time can have a dramatic effect on a given firm's cash flow.
- Lease payments are made from pretax funds and, in most cases, to one degree or another, are tax deductible.
- Equipment acquisitions that might be prohibited under previous loan agreements often are permitted through leasing.
- Fixed lease payments can have a leveling effect, which may be helpful to a company in budgeting for equipment costs.
- There may be an inflation advantage. Since lease payments are fixed at the beginning of a lease, future payments probably will be made in progressively cheaper dollars. This can be true of a term loan, of course. But a lease may last longer.
- Lease payments can be coordinated with normal business cycles and can offer more flexibility than a loan.
- In simple terms, most leases can provide freedom and flexibility for valuable working capital that may be needed more critically in some other area of operation.
- There may be an accounting advantage. If your customer's capital-expenditures budget is tight, a lease can be used to acquire the needed equipment, and the outlay can be classified as an operating expense under standard accounting principles.
- Finally, if your customer places heavy emphasis on return on assets, an operating lease may be beneficial, since a lease arrangement usually has a positive effect on the return-on-assets ratio.

Obviously, the benefits vary depending on the customer in question. And, within reason, anything that can be considered tangible property can be leased, yielding some advantage to the customer. The sample situations described below illustrate some of the possibilities, as well as situations in which a lease might seem to be a solution but was, in fact, not chosen because of other circumstances.

A plastics-fabricating company approached us not long ago after having formed a new, associated company to make the raw materials for a related company. The end product was to be used by the building industry as thermal insulation. The company wanted to acquire a $136,000 piece of equipment designed specifically for the insulation-making process. The company was interested in preserving its relatively scarce working capital. Ultimately, the decision was made to lease the equipment because a term loan would have required 20% of the purchase price as a down payment. The lease, on the other hand, was 100% financing.

A southern bank had planned to acquire almost $50,000 worth of new furniture and fixtures for its offices. Regulatory authorities strongly advise a 50% capital-to-fixed-asset ratio, and purchase of the furniture — and entry of the property on the bank's books as an asset — would have pushed the bank's ratio out of line with the acceptable norm. To keep fixed assets at an acceptable level, the bank leased the furniture from us on a true-lease basis. This off-balance-sheet-financing method let the bank acquire the fixtures it needed without pushing its capital-to-fixed-asset ratio beyond recommended limits.

In an example of a situation in which a lease was *not* the complete answer, we were approached by a construction company that had its eye on a 50-ton crane with a 70-foot boom and a $170,000 price tag. The firm wanted to lease it from us. After some investigation, we showed it that it would be more to its advantage to purchase the crane by borrowing the capital in the partners' individual names, then leasing the crane back to the company. The individuals received the investment tax credit and depreciation benefits of a purchase on the equipment, and the company got the benefit of the lease.

It would be appropriate here to spend some time discussing a few of the most common leasing "pitfalls," too, but it would seem presumptious on my part to caution seasoned lenders. Instead, I might only mention that First Tennessee Leasing Corp. is a "balance-sheet priority" lessor, rather than a "collateral" lessor. It means that we place more emphasis on cash-flow adequacy to cover lease payments — in other words, the general financial strength of the lessee — than on the pure value of the collateral or the property being leased. It's our philosophy that if we have to begin figuring recovery possibilities into the risk formula as part of the decision-making process, we probably shouldn't make that lease to begin with. We're more interested in where the business's cash flow is coming from and how stable it is.

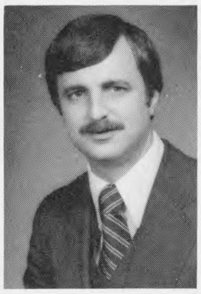
As in any lending arrangement, we bear in mind the contingent liability of "absentee ownership" on any equipment we lease. But there is an advantage, some say, to having *title* property rather than a lien on it, as would be the case in a secured-lending transaction. As a matter of policy, also, we normally do not lease to individuals — only to corporations or partnerships, although there have been rare exceptions.

While our portfolio now is a relatively modest $7 million, we've set ourselves an objective that calls for doubling the portfolio within the next 30 months or so. Considering the potential market within our grasp, and the growing attention and sensitivity to advantages of the leasing alternative that we've observed within our markets, we foresee ample opportunity to reach that goal.

The same opportunities exist for you in your own market, as well. And, in the turbulent economic period that most likely lies ahead, valid financing alternatives probably will be more welcome than ever — for you *and* your customers. • •

Our Auto-Leasing Program Passed Its Year-End Goal Within Six Months

By JOHN J. SWEK
Manager
Autolease Division
Manufacturers National Bank
Detroit



THE THOUGHT that automobile leasing by individuals is an idea whose time has come is well documented by our experience at Manufacturers National Bank of Detroit. The interest of Patrick M. McQueen, consumer loan department vice president, had been sparked when auto leasing entered his discussions with West Coast bankers. He proposed it as a potential new Manufacturers Bank service. Months of careful research and study ended in October, 1978, when the bank made a commitment to formulate a leasing program.

Mr. McQueen, John G. Bascom, senior vice president, consumer loan department, and the bank's management committed to a dealer-oriented, open-end auto-leasing service. Introduced last January 22, the Manufacturers National Bank Autolease Program had as its initial goal 30 participating automobile dealers and outstandings of $3 million by December 31, 1979.

Already by the end of March, just two months into the program, 41 dealers had enrolled in Manufacturers Bank Autolease and, by the end of July, outstandings reached $3.3 million. A steady progression in number of participating dealers, leases and outstandings has characterized the program since its inception.

Our most current available data, that of October 31, 1979, show 76 participating dealers, a cumulative lease total of 650 and outstandings of $5.5 million. With the special impetus of 1980 model introduction still a factor, and providing the current growth trend of our Autolease Program continues, a projection of close to 1,000 leases and about $7.5 million in outstandings is feasible by year-end.

Our product-development aim was to design a program that would win wide acceptance by auto dealers in our market area. It also had to offer the customer a viable and attractive alternative to conventional automobile financing and be one that would generate new business and satisfactory profits for the bank.

As the city credited with putting the world on wheels, the greater Detroit area has a significant number of autolease sources available to the dealer. Besides factory plans, these include independent leasing companies and dealer-owned leasing operations. Therefore, design of the Manufacturers Bank Autolease Program had to be such that it would be extremely competitive while adhering to the dictates of bank regulatory agencies.

In our resulting program, all leases are generated by new-car dealers on a nonrecourse basis, meaning that the dealer has no liability once the lease is assigned to the bank. Only open-end-finance leases, with the customer responsible for the residual value, are accepted, with terms ranging from 12 to 48 months.

Vehicles may be marked up to the manufacturer's suggested retail price plus $200, with the bank advancing up to that amount at cashing. Residual values are established as a percentage of retail sticker, based on specific make and model car, and are updated quarterly to reflect changes in the retail market. Interest rates are calculated using a monthly money factor with dealer participation allowed within specified ranges. This dealer reserve is paid at cashing with no charge-back to the dealer. Typically, no down payment is required on leases, but the first month's rent, plus a security deposit of a like amount and current license and title fees, are payable on delivery.

The bank handles monthly billing and insurance follow-up. However, the dealer maintains contact with the lessee throughout the term of the lease and at termination. Each participating dealer receives a monthly report showing the status of each lease he has on the books. Information is provided on the vehicle, customer and payment history. The dealer is alerted also to potential early termination and the opportunity to lease the customer another car. All this is accomplished by use of a computer program purchased from First National Lease Systems of Indian Wells, Calif.

Marketing of our Autolease Program was extensive and took various forms. Beginning in January, it was previewed by groups of 15 to 20 dealers at a series of luncheon meetings. A personal contact closely followed the presentations. Dealers who enrolled were supported by newspaper and magazine advertising as well as with mailings to the bank's customers. All of these

Emblem of Manufacturers Nat'l of Detroit's Autolease Program is in form of hood ornament of car and is used in all promotional material, including newspaper ads, for program.

stressed the role of the dealer as the key to the program. The bank also provided various point-of-purchase materials and direct-mail pieces. A continuous call and training program was established and subsequently expanded to where three full-time sales representatives service the participating dealers.

The Manufacturers Bank Autolease Program is sold to auto dealers as another method of marketing new vehicles profitably. It is not meant to replace all other lease programs or to capture a portion of the retail business currently being generated in the dealership. Use of the term "sold" is intentional. Dealers who want to participate pay a one-time fee of $1,500. Intent of the fee is to motivate the dealer to make a commitment to leasing. Once money is invested, there is a tendency to strive to capitalize on that investment — in this case, by selling leasing to customers.

Most profiles of auto-lease customers come from the West Coast, where auto leasing boomed in the early 1970s and where something like four of 10 cars are leased. At the time of one 1975 study, results indicated that the individual lessee was between 35 and 49 years old, a well-paid executive living in a suburban area and planned to lease again.

So far, the Manufacturer's Bank Autolease customer seems to be a professional or business person who wants a 24-month lease and a prestige car in the $10,000 range. But, as familiarity with advantages of leasing expands, combined with rising car prices, we expect to find all segments of the driving public represented.

With the success experienced in the Detroit area, the Autolease Program is now being expanded outstate with similar results. Out-state dealers include 10 in the Bay City area and others in Ann Arbor, Battle Creek and Ionia.

The bank's commitment to sufficient funds for product development and marketing support, along with a continuing effort to maintain adequate and skilled staffing, has brought our program to where it is today after less than a year in operation. Those things and the program's stress on service to both the dealer and the customer are why we believe that in recent weeks, the Autolease division has been signing up just about one new dealer participant every week.

If the Fed predicts that 40% of the nation's cars will be leased vehicles by the early 1980s, it certainly is an idea whose time has come. ● ●

Bank Examination

(Continued from page 7)

sured to enforce legislation, which though well intended by Congress, is disputable in terms of its cost-to-benefit ratio.

Today the ranks of bank examiners have split. On one side are traditionalists who believe that banks must be sound and be sensitive to policies established by their own boards — directors who know the bank and the community better than bureaucrats in Washington.

On the other side is a new breed of examiners, generally younger than the traditionalists, often with little historical perspective. These examiners

An increasing number of capable individuals are stating that their exposure to liability through proliferation of highly technical and controversial regulations forces them to decline board memberships.

know that Washington, which has given us such successes as Amtrak and the U. S. Postal Service (not to mention unworkable wage and price guidelines), can, likewise, successfully dictate to a bank its hiring, promotion, loan, investment and other policies.

More than a few traditionalists with accounting and financial-management backgrounds have been pressured and transferred (often against their wishes) from areas of their expertise to the compliance area. They must badger banks and examine them in the social do-good spirit of regulations such as B and Z, Truth-in-Lending, affirmative action, etc. Let it be clearly understood, bankers always have supported Truth-in-Lending, but they are unalterably opposed to Regulation Z's Truth-in-Lending, with its more than 1,500 incomprehensible letters of interpretation and its dozens of amendments.

Typically, bank regulators have compounded the compliance problem. In their corps of new employees there is a Joan of Arc spirit of crusading. Bankers are the adversary rather than legitimate business persons who have operated in the public interest and made substantial contributions to economic growth of communities.

To compound the problem, regulators have stepped up "educating" compliance examiners. Unfortunately, the education is not in judgment and maturity, but in how to catch inadvertent violations of extremely complex and debatable regulations.

How many bankers in a typical bank have the time or desire to study Regulation Z and its interpretive letters in their entirety and still have time to serve customers and keep the bank profitable? Compliance examiners do have that time.

In self defense, good-sized banks are transferring highly skilled officers from productive work in lending into the nonproductive work of trying to stay on top of almost daily reinterpretations and amendments to compliance regulations.

In my travels, I have observed certain disturbing facts. The cost to banks of counterproductive government regulations and compliance examination must be transferred to bank customers in the form of higher charges and interest rates. Banks must inform their customers of this severe and growing problem coming out of Washington.

Washington and state regulators must be made aware of the unpublicized, but real, trend and serious threat banks face in recruiting board candidates. An increasing number of capable and knowledgeable individuals are saying that, although they want to serve their community and would like to serve on bank boards, their exposure to liability through proliferation of highly technical and controversial regulations forces them to decline board memberships.

A decade ago, it was almost unthinkable for an individual to turn down the honor and opportunity for community service membership on a bank board represents. Today, though naturally it is not broadcast by the bank or the individual, the fact is that hundreds of banks have experienced instances of candidates rejecting the offer of a board seat. That is bad, but what is worse is that bank directors in growing numbers are opting not to stand for reelection. And one cannot blame them in light of the exponential growth of their liability. ● ●

How Banks, Leasing Firms Can Be Partners in Profit

By SAMUEL L. EICHENFIELD
Senior Vice President
Walter E. Heller & Co.
Chicago

ONE WAY a bank can continue to maximize profits and service needs of customers, even though its own funding capability may be severely restricted under today's monetary conditions, is through participation with a commercial finance company.

In this article, we deal with participations in fields of equipment financing and equipment leasing.

• Funding is shared by the bank and the commercial finance company.

• The bank can invest as much or as little as it chooses.

• The credit risk is shared in relation to the funding.

The bank/finance company participation process is nothing new. It has been going on for at least 40 years and has been applied to all lending services normally rendered by finance firms. There even is a cooperative arrangement for banks and factors. Its usage, however, tends to peak when banks encounter abnormal credit or economic conditions. Right now is that kind of time: The U. S. economy is under stress, and interest rates are at record high levels because of Fed actions. What's more, availability of lendable funds is under scrutiny.

In a period such as this, there is pervasive reluctance in the banking community to commit medium-term funds to deserving customers, even if funds are available to lend. Unfortunately, these turndowns occur even though requests are reasonable and customers require those funds to improve productivity and maintain planned growth. A participation removes these lending barriers. It allows the bank to provide accommodations to its good customers — even to new customers it desires to add — without reducing its resources below a currently desired level.

"... For banks now experiencing difficulties extending equipment-financing credit to good customers, and for other banks that would like to offer a 'new' service at a time when there aren't many ways a bank can expand its business, leasing in participation with a finance company can bring benefits that accrue to properly managed arrangements."

For example, a bank customer wanted to acquire $250,000 of needed, cost-saving production equipment and desired a seven-year payment program — through leasing or financing. The solution by our Chandler Leasing subsidiary, highlighted below, allowed the bank to make the deal and retain its position as the prime credit supplier to its customer:

• A participation was structured whereby Chandler funded the transaction in the name of the bank (such funding sometimes is the entire amount).

• Identity of relationship between bank and customer, therefore, was maintained.

• Chandler Leasing assumed responsibility for all administrative services.

It is important to stress the strength of the bank's position. Although the commercial finance company is funding the transaction, identity of the relationship between the bank and its customer is being maintained without prejudicing future transactions. The commercial finance company is responsible for all administrative services, i.e., documentation, invoicing and, in the case of leases, equipment purchasing, property-tax collection, etc. Furthermore, in the case of leases, the commercial finance company may be able to utilize tax benefits attributable to ownership in structuring a lease, thereby consummating a transaction not possible under circumstances where such an approach is not available to the bank.

There is another reason leasing participations are increasing, even in "normal" years. When the Comptroller of the Currency in 1963 allowed national banks to enter the leasing business, a good many jumped in. Earliest joiners were the largest banks, with smaller banks entering the field as time progressed. Some banks accli-

When a customer needs more than your lending limit or lease capacity, think Bank of America.

When your bank's customers decide to expand or replace major equipment, they'll probably turn to you for additional financing. And even if they ask for more than your lending limit or leasing capacity, you can still honor their requests. Because Bank of America can help you with overline or lease assistance.

We can also put the skills of our account officers to work for you. They have decision-making capabilities and direct access to BankAmeriLease for any additional assistance you might need. So you can be sure these borrowers stay your customers.

With over 1200 offices around the globe, Bank of America can provide a world of correspondent banking services—including lease participations. So the next time you need a correspondent bank, remember us. We're the banker's banker.

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mated well to this specialized business and developed profitable leasing divisions. However, many other entrants have discovered, to their chagrin, that leasing carries with it penalties (they hadn't expected), as well as rewards.

One of the main areas of difficulty was credit analysis, which required bankers to use unfamiliar criteria. They found that credit determination was much different than in unsecured, short-term lending. Another problem was that anticipated yield often proved to be illusory. There is a requirement (sometimes not realized) to know equipment values and profitable ways to dispose of equipment at the end of the lease or in the case of repossession. Then, in the case of tax-oriented leasing, there is the necessity of managing the lessor's tax liability so that the tax shelter generated can be used.

With it all, however, positive experiences of many banks indicate that when done properly, leasing can be a significant source of profit. Banks that are successful have made the necessary commitment in resources and personnel. However, not all banks are able or willing to extend themselves in these ways, and for some banks, it would be uneconomical to do so. Many banks removed these inhibitions by forming associations — continuing participation arrangements — with experts in the leasing business. Those that did not may well have let business opportunities go begging — worse yet, diverted good business in their communities to other, distant financial sources.

For banks that have not yet added leasing to their regular lines, a review of its major advantages perhaps will encourage serious reconsideration of service obligations they "owe" their customers. From the *customer's* standpoint, leasing brings the following principal benefits:

• *Cash flow is enhanced.* One of the strongest features. Typically, a lease provides 100% financing, generally can be structured to include freight and installation and also may include progress payments, if required.

• *Working capital is left relatively unimpaired.* With leasing, cash remains available for inventory demands or seasonal increases in accounts receivable and other company needs.

• *New flexibility is created.* Leasing can be an intermediate- to long-term financing device. In general, most leases are written for a term of five to eight years, but can, on occasion, be written for periods up to 15 years or more.

• *Tax aspects are favorable.* Investment tax credit and accelerated depreciation benefits can apply to companies experiencing an interim period of losses or working off tax-loss carry-forwards from prior losses. Companies facing capital expenditures that will create greater tax benefits than they have the ability to utilize can trade these benefits to the lessor and receive, in return, lower than normal rental rates on the equipment involved.

• *Operating expenses are tax deductible.* When properly structured, lease rentals constitute a deductible expense that can exceed the interest and depreciation deduction available to companies that have financed their equipment purchases in other ways or who have purchased outright.

In sum, for banks now experiencing difficulties extending equipment-financing credit to good customers, and for other banks that would like to offer a "new" service at a time when there aren't many ways a bank can expand its business, leasing in participation with a finance company can bring benefits that accrue to properly managed arrangements. The bank will not increase its overhead structure or create risks and exposures in areas it is not staffed to handle. The bank and leasing firm will be partners in profit, taking an active role in a financial service that today accounts for approximately 15% to 20% of all capital acquisitions. • •

Ready for Launching

Leasing arrangements for these two barges — being readied for launching from the Nashville Bridge Co. facilities in Ashland City, Tenn. — have been completed by officials of Third Lease Corp. The latter is an affiliate of Third National Corp., Nashville. According to William L. Rockholz, Third Lease pres., the barges will be operated by Hollywood Marine, transporting fuel oil in the Gulf Coast area. The vessels, which cost about $950,000 apiece to manufacture, are being leased to a Houston investment group.

MHT Introduces QuickFinance, Equipment-Financing Program Available at 200 Branches

NEW YORK CITY — Manufacturers Hanover Trust has introduced a new equipment-financing program available through its 200 metropolitan-area branches.

Called "QuickFinance," the branch-banking service enables qualified customers to obtain lease financing for purchases of small-ticket items, such as mini-computers, word-processing machinery and biomedical and dental equipment, generally in the $5,000-$100,000 range.

According to Douglas E. Ebert, senior vice president/deputy general manager in charge of MHT's branch-banking group, QuickFinance also will be marketed to equipment vendors, who can put together prearranged financing packages to facilitate sales.

Type of financing available includes a purchase-option lease and a conditional sales contract. "This program gives our branches an additional financing tool that will attract new customers," Mr. Ebert says.

Most applications will receive a response in 48 hours.

How Much on What:

Banks Surveyed on Spending They Do in Marketing Area

How much are banks spending on marketing their services and how do they spend those marketing dollars?

For the "Analysis of 1978 Bank Marketing Expenditures," the Bank Marketing Association canvassed all banks with deposits of $25 million or more and made a random sampling of banks with deposits of less than $25 million to answer that question. Survey data were analyzed by service type: retail, commercial, trust and institution, and by expenditure type: advertising in magazines and newspapers, on radio and television, in directories, by direct mail; public relations; sales promotions; staff sales training; and marketing research and development. The report gives survey results by size of bank to enable any bank to compare its marketing spending with banks of comparable size.

The report was distributed at no charge to BMA members and other banks that participated in the survey. It is available to others at a charge of $15 from the Research and Planning Department, Bank Marketing Association, 309 West Washington Street, Chicago, IL 60606.

What's an Aircraft Corp. Like You Doing in a Lease Like This?

IT'S QUITE A SURPRISE to hear that one of the nation's manufacturers of aircrafts also is one of the nation's participators in leasing transactions that range from the predictable leasing of jets to globe-hopping business executives to the not-so-predictable leasing of irrigation equipment to American food producers. This kind of surprising and laudable behavior has involved McDonnell Douglas Finance Corp. (MDFC), Long Beach, Calif., in a partnership with regional banks that helps them remain competitive in an increasingly tough field by participating with them in commercial leases.

MDFC, a wholly owned subsidiary of McDonnell Douglas Corp., St. Louis, was founded 11 years ago to finance DC-8, DC-9 and DC-10 aircraft for domestic and international airlines. But it didn't stop there. In 1973 it expanded leasing activity to include other major industrial equipment. Today assets are over $500 million and capital equipment leasing accounts for more than 50% of annual volume. MDFC has done for jets what General Motors Acceptance Corp. (GMAC) did for automobiles. Starting close to home providing financing for aircraft leasing, MDFC broadened its scope to help bankers expand their resource pools.

The leasing industry created by commercial-leasing corporations like MDFC has grown to a multi-billion-dollar business. Bankers now find it as advantageous to participate in a lease transaction as to extend a loan. Competition not only from outside the bank, but competition internally for the banks' assets have caused the leasing industry to burgeon. Bankers seeking ways to allocate their resources internally and to continue to service existing or potential customers have found a relief valve in commercial-leasing partnerships.

One partnership MDFC entered into with a regional bank involved leasing a $3-million corporate jet aircraft for the bank's customer. The bank wanted to preserve its existing credit lines and needed a partner with which to share the credit risk. By forming a partnership, the bank was able to accommodate its customer, obtain a partner that understood the aircraft market and protect a valued relationship.

Bankers now find it as advantageous to participate in a lease transaction as to extend a loan. Bankers seeking ways to allocate their resources internally and to continue to service existing or potential customers have found a relief valve in commercial-leasing partnerships.

Another partnership with a bank was formed by MDFC to provide lease financing for irrigation equipment. In this instance, the bank had a concentration problem in agriculture. The partnership allows this bank to service its customers, both directly and through vendors, manage tax bills and improve yields. This program remains in effect today and should remain viable until circumstances change for either partner.

To facilitate ease of operation and flexibility, these MDFC bank partnerships have been done on a single-investor basis. The partners put up 100% of equipment cost. This greatly simplifies the transaction by eliminating non-resource debt and other entities found in the typical leveraged-lease transaction. The scheme involving lessee with manufacturer is simplified when the single-investor-lease transaction is arranged and complicated if the transaction involves leveraged leasing. Leveraged leasing can triple the number of parties involved in the leasing transaction.

It is important that a banker choose his partner carefully as a lease transaction will last for many years.

You will want some of the following characteristics in a partner:

- Good reputation: someone who will not compromise your institution.
- Knowledgeable: someone who has expertise in the leasing field, particularly tax leasing. This includes residual-value analysis, legal documentation and tax considerations.
- Flexible: someone who can be responsive to your customers' needs.
- Financially strong: someone who will be there over the lease term and who has the ability to provide additional funds as your customer grows.

When a bank has limitations in leasing, it might want to consider the possibility of participating with an established commercial-leasing company; it can be a way to maintain and/or expand service during these highly competitive times. ● ●

Small, Middle-Business Markets Opening For Small-Equipment Leasing

By MICHAEL G. SLOAN
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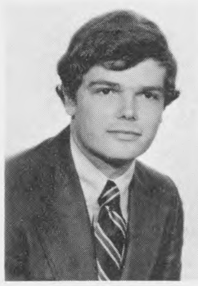

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ACCORDING TO a recent Department of Commerce business study, the equipment-leasing industry now accounts for approximately 15% of current capital-investment spending.[1] Measuring the industry in another way, the study said that equipment lessors now have outstanding leased assets whose total original cost exceeded $100 billion. These impressive statistics are measures of an industry whose growth rates at times reached 30% per annum over the past two decades.[2] During 1975 some $15 billion worth of new-equipment leases was booked by equipment lessors.[3]

A major reason for these striking totals and growth rates has been the industry's ability to finance "big-ticket" items. They include jets and jumbo jets required by airlines, super tankers needed by the petroleum industry, rolling stock needed by railroads, generating equipment needed by electric utilities — items whose unit values have soared into the millions of dollars.

Much of this big-ticket lease financing came after a 1963 ruling by the Comptroller of the Currency allowing national banks to enter the industry as lessors of personal property for the first time. Using their particular advantages, which included existing credit relationships with potential lessees and lower costs of funds, national banks participated aggressively in both direct and leveraged-lease transactions of big-ticket items.

Growth Trends. Currently, there are indications that the leasing market is changing. Some of the larger lessors are beginning to redirect a significant amount of their efforts from the high end of the market down to the middle market and even the small-business market of potential lessees. There is a feeling that the industry's big-ticket market is maturing and that the next area of rapid growth will be in these smaller markets.

Changes Explaining Trend. A number of changes in the business environment seem to explain this trend, such as:

1. The recent FASB Statement No. 13, which will force direct presentation of lease debt on the balance sheets of certain large equipment lessees already concerned about balance-sheet weaknesses.

2. Increased market sophistication on the part of past big-ticket lessees with the passage of time, as the post-lease period market value of leased equipment forfeited by the lease arrangement proves to be much higher than originally estimated.

3. IRS lease-classification guidelines that have been applied on a case-by-case basis and that narrowed requirements for qualification of leases as "true" financial leases. Such qualification is necessary to allow lessors to realize attractive tax benefits crucial in bigger deals.

While new areas of the big-ticket market are being explored, real growth prospects appear to lie in smaller markets. Most national banks and large leasing firms have been active in the middle market for some time, willing to finance, through direct-leasing programs, equipment whose cost ranges between $25,000 and $2 million.

Small-Business Market Opportunities. However, there is a small ($2,000 through $25,000) business market that offers an equally attractive growth area. Banks and larger equipment lessors have ruled out this market for direct-leasing activity because of fixed-cost factors and manpower limitations. However, this market has been served by small, local leasing companies. As these lessors grow, their need for outside financing will increase and offer banks a chance to participate in this growth end of the equipment-leasing industry.

Financing Small-Equipment-Leasing Industry. On the surface, the small-equipment-leasing industry represents a risky investment option to the banker. Its 100% financing, long-term structuring and its dependence on estimated future market value underline this risk. Bankers, as do other investors, seek to maximize returns while minimizing risks. Restrictions placed on the banking industry as a result of the problems of the 1930s have added emphasis to this risk-minimization practice.

However, risks comparable to those found in the leasing industry are present in a number of other areas of bank investing — risks that have been successfully and profitably minimized through the past willingness of bankers to get involved and learn about the

[1] U. S. Department of Commerce, Domestic and International Business Administration, Bureau of Domestic Commerce, *Equipment Leasing and Rental Industries: Trends and Prospects* (Washington, D. C.: Government Printing Office, 1976), p. 1.

[2] J. A. Campanella, *Leveraged Lease Financing and the Commercial Bank* (New Brunswick, N. J.: Rutgers University, 1974), p. 5.

[3] W. Williams, "$100 Billion in Leases," *New York Times*, November 6, 1977, pp. Business 1, 11.

industry in which they're interested. Proper structuring methods and documentation have been developed to allow the financing of a wide range of businesses, and the small-equipment leasing business must be subject to the same type of treatment.

Specialized knowledge of the industry is needed for this potential financing so that the banker can handle the risks of the industry and the overall consulting function he often assumes with smaller companies of limited financial sophistication. This knowledge will allow the banker to manage risks of small-lessor financing successfully through structuring and documentation of bank credit.

Lessor Risks. Let us look first at risks involved in equipment leasing. Simply stated, the business requires that a lessor purchase and deliver equipment for use of a lessee and eventually dispose of that equipment under a number of options. In return for use of the equipment, the lessee is contractually required to pay the lessor in amounts and at times stipulated by a lease contract.

Each step of the transaction exposes the lessor to three categories of risks — ownership risks, credit risks and investment risks. These risks are:

Ownership Risks

(1) Maintenance and upkeep.
(2) Casualty loss and liability exposure.
(3) Maintenance of legal status as personal versus real property.
(4) Obsolescence.

Credit Risks

(1) Improper or incomplete credit evaluation.
(2) Financial failure of lessee.
(3) Fraud on the part of the lessee.
(4) Compliance with consumer-protection legislation.

Investment Risks

(1) Yield and nominal interest-rate calculations.
(2) Tax qualifications.
(3) Uncertain residual values.

Ownership Risks. Productive equipment has a value only as long as it is in fully usable condition to perform the service for which it was designed. The lessor as owner must either maintain the equipment or see that it is maintained in full operating condition throughout its life by the lessee. The latter arrangement most often is the case in financial leases.

Thus, the lessor often is left in the role of inspector and enforcer — a role that must be carried out regularly after being clearly stipulated in the lease contract. Regular inspections must be made to ensure that equipment is being maintained and used properly. If alterations to the equipment are allowed by the lease contract, the lessor must be able to verify that the alterations have not adversely affected the economic life, value or resale potential of the equipment.

"Equipment lessors now have outstanding leased assets whose total original cost exceeded $100 billion. (It is) an industry whose growth rates at times reached 30% per annum over the past two decades."

Another aspect of ownership risk is exposure of the lessor to casualty or theft loss of his leased property. Insurance is the most straightforward solution, carried in an amount at all times equal to the actual cash value of the equipment covered, with a provision that loss shall be payable directly to the lessor. Evidence of lessees' securing proper insurance coverage must be in hand before the lease transaction can be completed.

Along similar lines, ownership of productive equipment exposes the lessor to potential personal-injury liabilities caused by or in connection with use of the equipment. Again, insurance is the answer. The lessee should be required to carry liability insurance in limits sufficient to cover reasonable claims commensurate with the potential for injury represented by the equipment. Also, the lessor should cover himself with a blanket policy that takes effect in the event the lessee's coverage has lapsed or is insufficient. Again, proof of coverage should be required.

The owner of leased equipment also must make sure that his property is at all times in the personal-property category. It must never become real property, because he might lose legal ownership rights. The lease contract must stipulate that leased equipment must never be physically attached to its surroundings so as to become a part of the real property on which it is located. Again, inspection should verify this, after signed landlord and mortgagee consents for removal of leased property at the lessor's discretion have been taken in lease documentation.

A major risk any equipment owner faces is the changing environment that could render his equipment technically or economically obsolete, reducing its real value severely. Expertise concerning particular types of equipment is needed to understand the state of the art and the rate at which change occurs. In a given field, this expertise may be beyond the ability of the lessor, and perhaps he should not, for this reason alone, enter into a lease covering such equipment.

Every effort should be made to determine and document residual equipment values through trade information and contacts, dealers, market studies, blue books, tax-depreciation guides, past history, etc., for it is this value on which the lessor will base a number of lease calculations. And obsolescence may strongly affect the lessee's willingness to live up to his fixed-term lease contract.

(Continued on next page)

Credit Risks. One of the attractive features of leasing is the ability it provides to finance, over relatively long terms, up to 100% of the cost of the equipment to be used by the lessee. Given this feature, credit evaluation must be based on credit checking at least as rigorous as bank practice. The lessee, in general, must represent a stronger credit risk than a typical bank equipment-loan borrower.

Lease applications must allow for full verification of assets and income of potential lessees and guarantors and must include information about current creditors. The applications must be signed and must contain statements attesting to their accuracy and allowing lessor investigation of commercially available credit information. Potential lessees' financial statements and tax returns covering several years of history should be required. The lessor must have expertise in analyzing such information, distilling real net cash flows and making sound, logical credit decisions.

As in any type of credit decision, the lessor must assure himself he is not dealing with a business that is poorly managed, controlled or that represents an undue amount of business risk. Personal visits, inspection of cash-control procedures and accounting practices and industry studies must be a part of the lessor's credit-evaluation process. Also, it is important that the lessor require at least annual financial-statement updates from the lessee.

Lessee fraud and misrepresentation are additional risks that must be reduced. The lessor should be certain that the lessee's contact is authorized by the lessee's firm to act on its behalf in debt contracts. The lessor should hold corporate resolutions or partnership agreements to that effect. More resolutions or agreements should be held covering guarantors.

Also, there is the possibility that the lessee could try to sell the equipment or use it as collateral for other lending arrangements. In the state where the equipment is being used, the lessor should file a UCC 1 financing statement with the correct wording identifying the leased equipment and nature of the lessee/lessor relationship, naming the lessor as owner and secured party and showing the lessee's signature.

Suppose the lessee claims never to have received the equipment or to have received unsuitable equipment. The lessor should require the lessee to sign an equipment-acceptance form, which acknowledges receipt and acceptance of equipment as is, and includes an express disclaimer of lessor warranty for performance or adaptability to the lessee's needs.

Just as banks find themselves subject to compliance with numerous federal consumer-protection and disclosure regulations, so does the leasing industry. The Consumer Leasing Act of 1976 essentially made lessors of small equipment subject to provisions of the Truth-in-Lending Act, requiring schedules of payments, charges, warranties (if any), termination options, etc. If the lessor is dealing with consumer business, he must be aware of these requirements and be able to comply when necessary.

Investment Risks. The motivation for becoming an equipment lessor centers around income-tax savings and real cash flows, which combine to produce an attractive return on invested capital. But as simple as the basic leasing concept may be, the expected return on investment (and even adequate cash flows) through leasing equipment comes about only after a complete understanding of complex accounting and IRS principles and guidelines. Several areas of risk exposure are present.

Return on investment can be understood in terms of a discount rate that equates future benefits (cash flows) with present costs (equipment cost). Here, the cash flows are made up of installment payments, expected residual values and tax-expense reductions. Legitimacy of each cash-flow component is at issue when structuring a lease package.

The lessor must set a target return on his investment and determine a nominal interest rate with which to structure his lease-payment schedule to reach that return. His target must be high enough to cover his cost of funds, servicing costs and risk factor and must be adjusted for tax savings and equipment-residual values he expects to realize. The lessor must have the ability to verify that his proposed lease package actually will meet his return needs. Computer analysis is an efficient solution to this problem.

Legitimacy of expected tax savings presents a significant risk to the lessor. He must establish with the IRS on a case-by-case basis that his lease packages conform with "true" financial lease guidelines so that the leases qualify for full depreciation and investment-tax-credit benefits. Although various IRS revenue procedures (such as Rev. Proc.'s 75-21, 75-28, 76-30) have set limits in this area, it generally is recognized that each transaction will be judged on its own particular set of circumstances. This involves the lessor's establishing a certain amount of "at-risk" investment in the leased property at all times. Pre-approval of leases by the IRS is a good solution. Also, depreciation guidelines must be properly understood, which requires a review of current IRS Class Life Asset Depreciation Range requirements and related tax code sections. If the lessor does not have this specialized knowledge, he should employ qualified tax advisers.

Residual values of equipment "booked" into lease yield and nominal interest-rate calculations are estimates, at best. However, they may account for a large proportion of desired return for the lessor. For this reason, they should be conservatively estimated and limited to a small percentage of original equipment cost. High technology-equipped residuals must be regarded skeptically if considered at all.

Documenting Financing Package. I have discussed several major risks associated with the small-equipment leasing industry. Certainly, there are other areas of risk. Nevertheless, my preceding comments should provide a good base on which to approach bank financing. So let me briefly explain how the banker can structure and document a financing package to reduce his risks in dealing with the small-equipment lessor.

First, the banker should approach the package on a line-of-credit basis. The lessor should be fully researched and, if found to qualify for bank credit, he should be given a commitment subject to a set of conditions. The first condition should require that the lessor prove he has recognized and controlled all the risks just discussed on each lease transaction he wants financed. Simply, the banker can devise a checklist and record and verify the lessor's documentation before any disbursal of funds. All lessor-generated documents should be pre-approved by the bank's legal department.

Second, the banker should second-guess the validity of each lease credit, asking himself whether the lessee would qualify for similar bank credit without question. Early in the lessor relationship, the bank should double-check the lessor's supporting credit documentation for accuracy and completeness.

Third, the bank should secure its investment by requiring an executed assignment of lease rentals and a security interest in the equipment being leased. The security interest should be perfected through "assignee" status on the UCC 1 filing and an executed security agreement. Also, evidence of personal property tax payments on leased equipment should be supplied by the lessor to protect the bank's security interest.

Fourth, the banker should place a restriction on the debt-to-worth position of the lessor, ensuring an adequate and liquid cushion in the event of lessee default. Understanding the inherent cash-flow problems of the industry, the banker should monitor the lessor's internal controls and cash flow through periodic audits of his journals and records.

Fifth, the bank should require that for a given lease transaction, the lessor's scheduled lease-payment income (disregarding residuals) more than service his scheduled bank debt. Also, at all times, value of the equipment leased must be in excess of outstanding bank debt. Lessee delinquencies should be reported immediately via monthly agings. The banker should verify the lessor's payment-schedule worksheet to ensure cash flow.

Sixth, personal guarantees should be taken from the leasing company's principals to cover the line of credit.

Seventh, the banker should try to finance a number of different types of equipment and lessees through leases of a given lessor. This helps reduce the unsystematic or industry-specific risk found under the line of credit, which could leave the bank exposed to a large amount of obsolete equipment or a high number of lessees in one ailing industry.

At first glance, these requirements seem to involve prohibitive costs and time requirements. However, a closer look is needed. The standardization required under the checklist system, pre-registration of lessor documentation forms and establishment of thoroughly researched lines of credit for qualified lessors can reduce costs and time demands to a level consistent with other types of bank installment lending that have proved to be profitable in the past. ••

Lending/Leasing Problems? There's Help for Bankers

NO BANKER wants to refuse a secured loan from a good, credit-worthy commercial customer or even turn down a marginal customer. Nor does he want to pass up a leasing arrangement that could prove profitable. However, in this era of tight money, a banker may have to say "no" more often than "yes."

Yet there is an answer to this dilemma. Bankers can work with commercial-finance firms and leasing companies to accommodate customers they otherwise may have to turn away. But — under present tight-money conditions — are such firms willing to work with banks?

"Definitely," says Gilbert N. Zitin, senior vice president, Associates Commercial Corp., Chicago, a subsidiary of Dallas-based Associates Corp. of North America. He says his firm has money through commercial paper and its bank lines. The minimum-size loan Associates Commercial will handle is $200,000, although it will work on a smaller account if there's a prospect for growth. The firm will lend a maximum of $20 million per customer.

It is aggressively seeking these types of loans: accounts receivable, inventory, capital equipment.

Also actively seeking new business is First Wisconsin Financial Corp., Milwaukee, which operates as a regional lender and provides lines of credit secured by accounts receivable and inventory to manufacturers and wholesalers. In addition, it finances and leases production equipment.

"We have a strong background of working closely with the banking community on a participation basis," says Robert J. Schwaab, senior vice president. "The size of the loans we prefer runs from $25,000 to $5 million and occasionally larger."

First Wisconsin Financial centers its activities in Wisconsin, Illinois, Missouri, Indiana, Michigan, Minnesota and Iowa. On occasion, says Mr. Schwaab, it will serve other areas contiguous to its central region.

Another affirmative answer came from Full Service Leasing Corp. (FSLC), Marlborough, Conn., a wholly owned subsidiary of General Electric Credit Corp., Stamford, Conn. The firm says it has money to lend and can accommodate bankers' marginal customers and, in fact, encourages bankers to refer such loans to it. Full Service Leasing, says William C. Polini, vice president/general manager, seeks business-equipment loans and business-equipment leases, with no restriction on sizes.

Mr. Polini points out that the firm is funded by its parent and so has no problems with having enough money to lend. FSLC provides equipment-leasing and financing programs *exclusively* to the banking industry.

First National Leasing Corp., Milwaukee, has funds available for leasing and is actively engaged in encouraging bankers to refer lease customers to that firm. According to Senior Vice President Casey Kolp, First National Leasing, as a pioneering (since 1956) equipment-leasing specialist, has acted for banks of all sizes in the Midwest and South as a lease underwriter, investor and consultant. Mr. Kolp proudly points out that this has been accomplished by helping bank customers to grow and profit in good times and bad.

As a leasing specialist, continues Mr. Kolp, his firm can help bank customers get what they want and need with skillful structuring of leases to gain the optimum advantages, some of which are:

1. Keeps working capital working, not tied up in fixed assets. 2. Lets equipment pay for itself from revenue it generates. 3. Keeps bank lines of credit open for expansion of receivables and inventories. 4. Pinpoints equipment costs to specific projects or profit centers. 5.

(Continued on page 71)

NEWS
From the Mid-Continent Area

Alabama

■ RICK METZGER has been promoted to vice president and manager/advertising and public relations, Central Bancshares of the South, headquartered in Birmingham. He joined the marketing division in 1975 as an area marketing manager/southern region and was responsible for marketing and promotional efforts for Central Bank affiliates in Montgomery, Mobile, Auburn, Eufaula and Dothan.

■ SUSAN M. WALKER has moved up from assistant cashier to assistant vice president, First National, Birmingham. She is in the personnel department. In other action, M. Troy Woods has joined the bank as assistant vice president and manager/bank card department. He formerly was with United American Bank, Knoxville, Tenn.

Arkansas

HARRIS

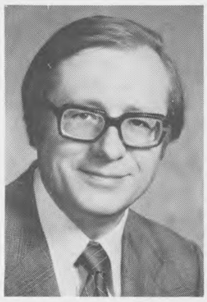
■ LARRY W. HARRIS has joined Little Rock's Commercial National as leasing representative. He had been vice president at another leasing firm in the state and had been employed as credit sales manager, Appliance Buyers Credit Corp.

■ TRAVIS COHEA has been named vice president and manager/mortgage loan department, City National, Fort Smith. He formerly was president, Marion S&L, Hamilton, Ala.

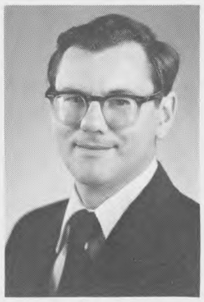
■ CITIZENS BANCSHARES CORP., Jonesboro, has received Fed approval to become a bank HC through acquisition of Citizens Bank, Jonesboro.

Illinois

■ ROGER L. CLIFFORD heads a list of promotions at Chicago's National Boulevard Bank. He was advanced from assistant vice president to vice president. New assistant vice presidents are: Jean L. Anderson, formerly assistant cashier; Virginia B. Burnell, formerly personal banking officer; Thaddeus J. Dutkiewicz, formerly operations officer; Henry S. Mazik, formerly assistant comptroller; Timothy G. Towle, formerly assistant cashier; Richard J. Truty, formerly assistant comptroller; and William M. Walsh, formerly investment officer. Ronald J. Hoaglund and Maurice T. Simmons were elected assistant trust officers, and Elaine C. Thomas was named assistant cashier.



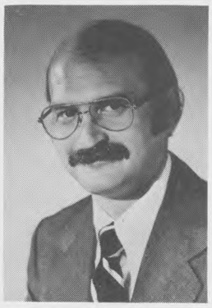
WATSON



CLIFFORD

■ BURTON WATSON has been named sales engineer, Chicago branch, LeFebure, Cedar Rapids, Ia. He is working in the greater metropolitan Chicago area in Cook and Lake counties.

■ CHARLES "STEVE" KEELEN has been transferred from the Oregon (Ill.) office of Doane Agricultural Service, Inc., St. Louis, to its Aurora office. That office offers professional farm and ranch management and consultation services to farm owners and operators in northeastern Illinois. Mr. Keelen joined Doane in October, 1978.



SHERMAN

■ ROBERT F. SHERMAN, senior vice president, American National, Chicago, has been named head of the correspondent and institutional banking division. He joined the bank in 1967 and was head of its operations division.

■ NORTHERN TRUST, Chicago, has named Sheila A. Penrose second vice president/associate economist, economic research; Roger Gould second vice president, personal financial planning, trust department; and Paul G. Kimball second vice president, foreign exchange, bond department.

■ J. PETER MORRIS has been named executive vice president, Chicago Clearinghouse Association of the Midwest ACH. Mr. Morris formerly was director of electronic funds transfer services research, Credit Union National Association.

■ MID-CONTINENT BANCSHARES, INC., Belleville, has received Fed approval to become a bank HC through acquisition of Belleville National.

■ McHENRY STATE has dedicated the newest building in the McHenry State bank complex. The structure is called the Gerald J. Carey Building in honor of Mr. Carey, who was president

at the time of his death in 1972. With this addition, McHenry State now has three separate locations. The Carey Building, situated on the same site as the main bank quarters, has six drive-up lanes, a 24-hour depository and a small lobby with five inside teller windows. The first floor also has the installment loan department and new-account desk. The second floor will have the auditing, mailing and bookkeeping departments. On the lower level are employees' lounges, mechanical room, employees' dining room/kitchen, proof department and training center.

■ HENRY D. KARANDJEFF, chairman/president, American Heritage Bank, Granite City, was honored last month for serving continuously on the board of the Tri-City Regional Port from its beginning 20 years ago to just recently. Presentation of a commemorative plaque was made to Mr. Karandjeff at dedication ceremonies for the port's new grain-transfer terminal. He also is honorary chairman, Granite City Trust.

Indiana

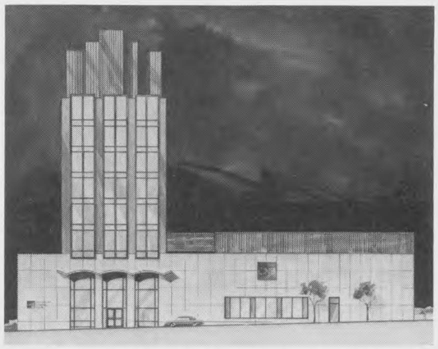
■ GEORGE H. GROVES has been promoted to vice president/corporate development, Irwin Union Corp., Columbus. He continues as division manager of the retail credit area in the HC's chief subsidiary, Irwin Union Bank, Columbus. He joined the bank in 1977, having formerly worked in two Chicago banks, LaSalle National and First National.

■ DANIEL R. JONES has joined South Bend's First Bank as assistant vice president/general business and industry unit. He was assistant vice president, Valley Bank, Mishawaka.

■ LINCOLN NATIONAL, Fort Wayne, has announced several promotions. Dolores H. Bangert, vice president, was advanced to vice president and manager/operation center and data processing. She joined the bank in 1952. John D. Bostick, Marvin L. Hathaway and Steven D. Sowers were elected assistant vice presidents. Mr. Bostick went to the bank in 1974; Mr. Hathaway, in 1957; and Mr. Sowers, in 1968.

Kansas

■ COMMERCIAL NATIONAL, Kansas City, is remodeling a 2,500-square-foot building immediately west of its main building to house its commercial division. Completion is scheduled after the first of the year. The exterior will be of precast white aggregate panels with bronze anodized aluminum trim, along with insulated bronze-tinted reflective glasswork, which will blend with the main bank building's exterior. The interior will have a contemporary design and a full-length-access entry from the bank's main lobby.



This is artist's sketch of how Commercial Nat'l of Kansas City will look after remodeling of addition that will house its commercial division.

■ G. W. "JERRY" CARR has joined First National, Wichita, as a marketing

New YBOK Officers

Joseph H. Stout, v.p., Fourth Nat'l, Wichita, was elected pres., Young Bank Officers of Kansas, at its recent annual convention. He succeeds Murray Lull, vice pres./cash., Smith County State, Smith Center.

Other new YBOK officers are: pres.-elect, Steve Colliatie, First Nat'l, Topeka; sec., Dean Thibault, agricultural lending/correspondent banking officer, Hutchinson Nat'l; and treasurer, John P. Ayres, a.v.p., First Nat'l, Manhattan.

representative, with primary responsibilities in advertising and business development. He previously was an account executive for KTVH, Wichita.

■ ROBERT B. DOCKING, former Kansas governor, has been named an advisory director of Wichita's Fourth National Corp. and its subsidiary, Fourth National Bank. Mr. Docking is president, Union State, Arkansas City. He served an unprecedented four terms as governor from 1967-75. His late father, George Docking, also was governor.

■ R. DAVID BIXBY has succeeded the late Robert N. Allen as president, First National, Chanute. He was executive vice president. Harold L. Culver has been named to that post. He formerly was president, First State, Lansing.

■ SARAH WEAVER has been elected assistant vice president/loan division, Kansas National, Prairie Village. She formerly was with two Kansas City banks, Indian Springs State and Westgate State.

Kentucky

■ FIRST NATIONAL, Louisville, has announced these promotions: from accounting officers to senior accounting officers, Stanley Hudson III, Phillip G. Reich and Kenneth A. Young; from revolving credit officer to senior revolving credit officer, Daisy P. Hitchcock; from assistant operations officers to operations officers, Melvin C. Delaney, Carol L. White and Helen Wilson; from assistant branch properties officer to branch properties officer, Floyd B. Durham; and from assistant public relations officer to public relations officer, Eileen M. Reott.

■ BOB ANTROBUS has been promoted from assistant vice president to vice president in charge of Bankcard, First Security National, Lexington. Don W. Kelly has joined the bank as an assistant vice president/loan review department. He spent three years as a national bank examiner for the Comptroller of the Currency in Washington, D. C.

■ MALCOLM LEE GARDNER, formerly controller, First City Bank, Hopkinsville, has been promoted to vice president. He went to the bank in 1978 from Old National, Evansville, Ind.

■ CITIZENS NATIONAL, Bowling Green, plans to open a branch adjacent to the new Greenwood Mall, with Assistant Vice President Neil Wood as manager. His post of manager, Ashley Circle Branch, has been taken by Bill Reynolds, also assistant vice president. In other action, the bank will move its Laurel Avenue Branch to a new building.

■ FED APPROVAL has been given Western Kentucky Bancshares, Inc., Livermore, to become a bank HC through acquisition of Farmers & Merchants Bank, Livermore.

Louisiana

■ MARTIN J. DOODY JR. has been named data services officer, First National Bank of Commerce, New Orleans. The bank also elected Roy A. Reed Jr. systems officer/data processing; Patricia O. Haun administrative officer; and Gaye A. Miles national accounts officer/national accounts.

■ HARRY P. GARRETT has been promoted to senior vice president in charge of the bank card division, Fidelity National, Baton Rouge, which he joined in 1976.

Mississippi

■ CITIZENS BANK, Hattiesburg, has promoted Betty Cameron to assistant vice president and Elsie King to branch officer. Miss Cameron joined the bank in 1964 and had been supervisor, bookkeeping department. Mrs. King joined the bank in 1960.

■ FIRST MISSISSIPPI NATIONAL, Hattiesburg, has elected Kenneth J. Lyons Jr. assistant vice president/commercial loan department and Donald Marie Jr., operations officer. Mr. Lyons goes to the bank from Metropolitan National, Biloxi. Mr. Marie joined the bank in 1973.

■ RONALD STOKES has been promoted to assistant vice president, Peoples Bank of Mississippi, Union, at its Louisville Office. Mr. Stokes joined the bank in 1978.

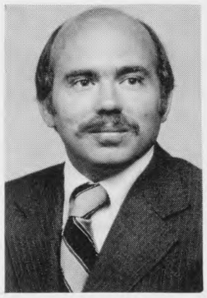
■ TOMBIGBEE BANK, Fulton, has promoted the following: Johnny Berryhill and Inita McMullan to assistant vice presidents; and Willie Gregory and Gena Green to assistant cashiers.

■ JOHN M. CHRISTY has joined National Bank of Commerce of Mississippi, Starkville, as assistant vice president/lending area. He goes to the bank from First National, New Albany, where he was vice president/manager of its Ripley Branch.

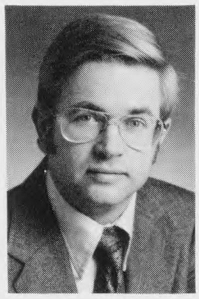
■ CARLTON M. REID has joined Merchants & Farmers Bank, Kosciusko, as head of its Ackerman Branch. He had been a sales representative for a national firm.

Missouri

■ FIRST NATIONAL, Kansas City, has promoted the following: from trust officer to vice president, Carter R. Harrison Jr.; from assistant cashiers to assistant vice presidents, Judith A. Spafford and Michael S. Spafford; to assistant cashiers, Edward M. Hughes and Linda M. Koe; and to assistant trust officers, Dean A. Graves and Paula L. Hofius.



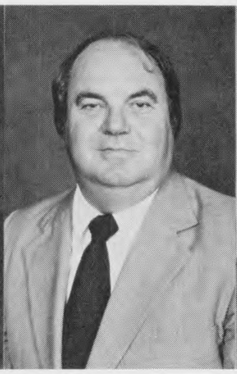
HARRISON



TEMPEL

■ WILLIAM C. TEMPEL, trust group manager, trust division, Commerce Bank, Kansas City, has been made senior vice president. The bank also elected three assistant vice presidents: Dolores A. Brents, manager, 10th Street lobby, retail department; James M. McLaughlin, bond department; and Gary G. Simpson, installment loans. Assistant Vice President Robert G. Alley has been named manager of the bank's newly combined money market/foreign exchange division of the bond department.


EDMISTON


KINCHEN


UPTEGROVE


NIEHOFF

■ FIRST UNION BANCORP., St. Louis-based multi-bank HC, has reorganized its affiliate administration by appointing four regional managers. H. Duncan Edmiston, president/CEO, Rolla State, was made manager, central/southwest region, and vice president, First Union. Lonnie L. Kinchen, president/CEO, Bank of Kennett, was appointed manager, southeast region, and vice president, First Union. R. Lloyd Uptegrove, president/CEO, First National, Independence, was named manager, Kansas City region, and vice president, First Union. Cyril A. Niehoff, chairman and recently retired president, Florissant Bank, was appointed manager, St. Louis region, and consultant to First Union. Each regional manager has responsibility for a group of the HC's out-state affiliate banks.

■ ROBERT A. FRAHM JR., senior vice president, Mercantile Trust, St. Louis, has joined Mercantile Commerce Trust, St. Louis, as president. He joined Mercantile Trust in 1954 and most recently headed the credit review department.

FRAHM

■ BARRY L. SEARER has been elected trust officer, Mercantile Trust, St. Louis. He joined the bank in 1978 as a representative in the trust institutional marketing division, going from IBM.

■ JOHN S. KREIGHBAUM has been elected senior vice president, United Missouri Bank, Kansas City, and chairman, United Missouri, Jefferson City. He was president of the latter bank and has been succeeded in that post by F. Michael Backer, formerly vice president. William A. Zub, who was senior vice president of the Jefferson City bank, has advanced to executive vice president. Noel J. Shull has been named vice president, United Missouri Bancshares, Kansas City, HC that owns the Kansas City and Jefferson City banks. Mr. Shull formerly was vice president, Columbia Union National, also in Kansas City, and also spent four years with the KC office of the Small Business Administration.

■ RICHARD M. RATHGEB joined First Bank of Commerce, Columbia, November 5 as executive vice president, chief operating officer and a director. He was vice president and assistant manager of affiliate administration, First Union Bancorp., St. Louis. The latter recently announced plans to acquire First Bank of Commerce. During his nine-year career at First Union and its principal affiliate, First National, St. Louis, Mr. Rathgeb worked in various areas, including correspondent banking.

New Mexico

■ CHARLES R. "BUZZ" MURRELL has been elected president/CEO of United Southwest National, Santa Fe. He goes to the bank from First National, Santa Fe, where he was senior vice president/loan division. He replaces Garrett R. Quintana, who has been serving as interim president since April.

■ EDDIE YBARRA has joined First National, Santa Fe, as assistant vice president/assistant manager of its Los Alamos Branch. He goes to the bank from Mimbres Valley Bank, Deming, where he was assistant vice president.

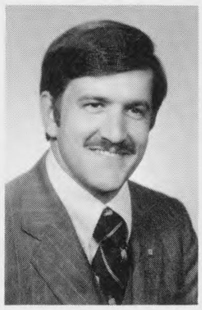
■ FRANK EASTLAND has been named vice president/cashier, San Juan National, Farmington. He goes to the bank from First National, Albuquerque.

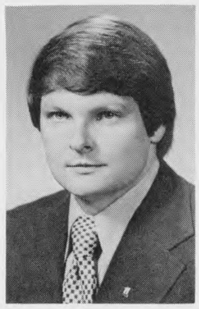
■ FIRST STATE, Gallup, has named Kenneth Agee vice president/installment loan administrator and James Steem staff officer/credit analysis and review. Mr. Steem goes to the bank from First National of Arizona, Phoenix.

■ RIO GRANDE VALLEY BANK, Albuquerque, has named Charles T. Pascetti and Richard G. Bailie assistant vice presidents. Mr. Pascetti will be in charge of branch operations and Mr. Bailie will be a departmental supervisor in the bank's real estate division.

Oklahoma

■ FIRST NATIONAL, Oklahoma City, has promoted the following: Jim Burgar, correspondent bank division, and George Cook, regional lending division, both of the continental group, to senior vice presidents; and new vice presidents are Jay Hammond, industrial group, and Ted Strybosch, manager/real estate group. David W. Dollarhide, vice president, has been elected head, industrial/community development.


COOK


BURGAR

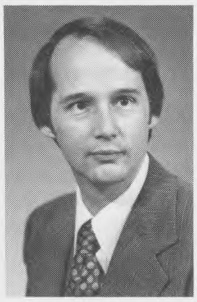

HAMMOND


STRYBOSCH


DOLLARHIDE

■ FOURTH NATIONAL, Tulsa, has promoted the following: John D. Strong Jr. to senior vice president/commercial loans; Ronald R. Glass to vice president/credit quality, controller's office; and Nancy Payne to assistant vice president/commercial loans.

STRONG



GLASS

New assistant cashiers are Jeri Cochran, operations, Jeri L. Amstutz, marketing, and Nancy Shields, investments.

■ BANCOKLAHOMA CORP., Tulsa, has named four new vice presidents: Larry D. Sweet, account officer/energy-related loans; William S. Boedeker, who invests assets in trust accounts; Sara Freeman, new loan control/operations department; and Ed Brown, financial planning/accounting. Promoted to assistant vice presidents were: Keith Forrester, energy; Rick Wimpey, money-market investments; Al Rutland, specialized lending; Gareld F. Gill, information systems; and Donna Lester and Joe Rodanski, trust operations.

■ FIDELITY BANK, Oklahoma City, has elected Allen E. Coles, president/CEO of W & W Steel Co., Oklahoma City, a director of the HC and bank. Also, the bank has named Mike Keller, commercial loan officer, oil/gas department, and Mark Kyle, consumer loan officer, retail banking division, as assistant cashiers.

■ DENZIL E. OSWALT has been elected senior vice president, Security Bank, Ponca City. Mr. Oswalt had been vice president/regional banking, First National, Tulsa. At Ponca City, he will be in charge of commercial loans and will be chairman of the loan and discount committee.

Tennessee

■ J. LLOYD LANGDON, president/CEO, Hamilton Bank, Johnson City, has been elected chairman/CEO. Replacing Mr. Langdon as president is Chauncey W. Lever, who was elected a director and chief operating officer. Mr. Lever goes to the bank from Florida Bank, Fort Lauderdale, where he was president/CEO and chairman. Also, he has been chairman, Florida National Banks of Florida, Inc., and president/CEO and chairman, Florida First National, Jacksonville.

■ FIRST AMTENN CORP. of Nashville elected Kenneth L. Roberts chairman/CEO of the HC and First American National. Mr. Roberts had been president/CEO of the bank and HC. Owen G. "Bob" Shell Jr. was elected the bank's president/chief operating officer. Also, he was elected a director of both the bank and HC and was designated HC vice chairman. F. G. Cavin was elected president of First Amtenn and vice chairman of First American. He had been vice chairman of First Amtenn. Andrew Benedict, who retired from active management in July, but continued to serve as chairman of both the bank and HC, was elected senior chairman of both boards.

ROBERTS

SHELL

CAVIN

New TBA Trust Officers

New officers of the Tennessee Bankers Association's trust division were elected at the group's annual meeting in October.

Officers include: president — A. H. (Tony) Thompson, executive vice president, Valley Fidelity Bank, Knoxville; vice president — Fred Newman, vice president/senior trust officer, American National, Chattanooga; secretary — John Sparks, vice president/trust officer, First American National, Nashville; and treasurer — James A. Kleiser Jr., vice president/trust officer, Union Planters National, Memphis.

E. Kelton Morris, vice president, First Tennessee Bank, Memphis, and the group's immediate past president, will serve as an executive committee member.

Texas

■ THOMAS G. PLASKETT, senior vice president, finance, and chief financial officer of American Airlines, has been appointed to the board of First United Bancorp., Fort Worth.

■ FROST NATIONAL, San Antonio, promoted two officers. Tom Hawkes was promoted to vice president, Bancard administration, and Cynthia Ann Ramirez was promoted to assistant vice president, personnel. Mr. Hawkes is manager of sales and service for the Bancard Center. He has been with the bank since 1972. Miss Ramirez joined Frost Bank in 1973 and served as a secretary in the correspondence center and personnel department before becoming an employment interviewer in 1975. She continues in this capacity.

■ BANK OF THE SOUTHWEST, Houston, has named Kathy A. Hunt and Ann H. Sager vice presidents. New assistant vice presidents are Gregory A. Stuart, executive/professional banking, and Michael J. Tighe, Southwest Bancard. Mrs. Hunt, who joined the bank in 1976, will be responsible for administering corporate accounts in Houston. Mrs. Sager, who joined the bank in 1978, will administer personal accounts and loan portfolios for the executive/professional department.

HUNT

SAGER

■ FIRST NATIONAL, Fort Worth, has exceeded $1 billion in market value of trust assets for the third consecutive quarter in 1979. This sets a new record for the bank's trust operation, according to Jerry D. Minton, senior vice president. Also, Donna R. Parker has been named marketing officer/manager/corporate marketing, general banking group. This group includes commercial, real estate, international and energy banking.

■ FIRST CITY NATIONAL, Houston, has elected Jeffrey M. Bond and

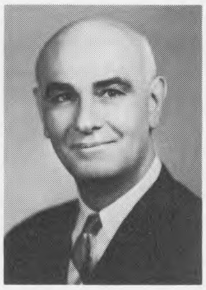
Ronald N. Brown vice presidents. New assistant vice presidents are John R. Behrman, investment division; James A. Elkins III, metropolitan department; Raffi D. Krikorian, international department; John F. Lowman, metropolitan department; and Theodore E. Davis, trust investment officer.

■ DR. ROBERT M. BRANSFORD, a Texarkana surgeon, has been elected a director of Texarkana National and its parent company, Texarkana National Bancshares, Inc.

■ CAPITAL NATIONAL, Houston, will move its main banking office to the concourse level, Two Allen Center, and will lease about 200,000 square feet of space in the adjacent 50-story building under construction. The new building, previously known as Three Allen Center, will be renamed Capital National Bank Plaza. The bank will occupy nine floors in the new building, plus two lower levels.

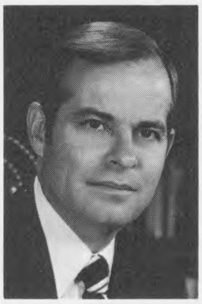
■ WILLIAM P. BARNES, chairman/president, General American Oil Co. of Texas, was elected a director of Republic of Texas Corp., Dallas.

BARNES

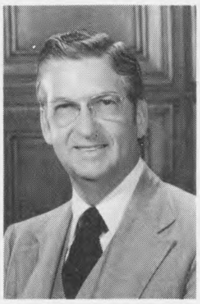


■ FIRST NATIONAL, Amarillo, has promoted Jim Melton, manager/installment loan department, to senior vice president and Assistant Cashiers Danny Kendrick and John Myers to assistant vice presidents. Mr. Melton joined the bank in 1970 and was named department manager in 1977. Messrs. Kendrick and Myers joined the bank in 1975 and 1971, respectively.

MELTON KENDRICK MYERS



BUTZ



FUGITT

■ KARL T. BUTZ JR. has been elected president, Mercantile Texas Corp., Dallas-based bank HC. He succeeds Lewis F. Lyne, who was elected vice chairman. Charles M. Fugitt was promoted to senior vice president of the HC. He was executive vice president of its leading subsidiary, Mercantile National, in charge of banking division II, including the correspondent, national, Southwest, metroplex, metropolitan, marketing and cash management departments. Mr. Butz had been president of the bank the past 3½ years. He also once held that post at First National, Fort Worth, where Mr. Fugitt once was senior vice president and senior commercial loan officer. The latter also had been vice president of both Bank of the Southwest, Houston, and First National, Longview. In other action, George L. Clark was elected Mercantile National's president and a director, moving up from executive vice president. James B. Gardner, the bank's executive committee chairman, was elected vice chairman of the board to succeed Mr. Lyne. Mr. Gardner will be responsible for several commercial divisions.

Died: Cullen J. Kelly, past president and chairman, First National, Midland, on October 24. He was honorary board member of the bank when he died. He joined the bank in 1948, was elected a director in 1955 and became president in 1959. Before joining First National, Mr. Kelly had been a state bank examiner for about three years.

Problems?

(Continued from page 65)

May offer tax advantages as an operating expense. 6. Permits immediate ordering of needed equipment at today's prices. 7. Allows all benefits of ownership without major initial cash outlays. 8. Eliminates depreciation accounting problems and simplifies bookkeeping. 9. Offers the possibility of capitalizing on unbudgeted opportunities or emergencies. 10. Offers numerous payment plans and lease-end options for maximum flexibility. 11. Provides 100% equipment financing without compensating balances or down payments.

As Mr. Kolp explains it, his firm tries to know leasing the way bankers know banking. Time and experience, he says, have taught First National Leasing the documentation necessities and accounting complexities indigenous to sound lease financing. As an affiliate of a billion-dollar bank, says Mr. Kolp, his firm understands bankers' problems, and this affiliation gives it ready access to large amounts of capital during times of austerity. In fact, he says, the firm has a long history of lasting business relationships with banks and bank customers and stresses the philosophy of "sticking with our customers through thick and thin." Sixty percent of its business, he says, is repeat business.

Mr. Kolp cautions against thinking that leasing is a concept to be utilized only as a secondary source of financing when traditional sources of money dry up. "Nothing could be further from the truth," he emphasizes. "While it is true that our firm is the beneficiary of stepped-up requests for leasing quotes in volatile, recessionary times such as these, it also is true that leasing is a strong participant during periods of high economic expansion when growth-oriented firms are outstripping their ability to borrow to finance sales. As an established intermediate-term source of funds, leasing's place in the economy has been and continues to be a necessary ingredient in capital formation.

"Foresighted bankers and bank customers are realizing that all companies can use leasing to some degree to augment their overall financial arrangements." ● ●

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.

Due, in part, to recent increases in rates for 26-week U. S. Treasury bills and a corresponding rise in the interest rate member banks may pay on money market CDs, numerous questions have been asked about the penalty for early withdrawal of time deposits. The following represents a sample of the most-often-asked questions about Regulation Q received by the consumer affairs division of the St. Louis Fed:

Q. May a member bank refuse to redeem a time deposit prior to maturity?

A. Provisions of Regulation Q do not require a member bank to redeem a time deposit prior to maturity without penalty except in cases where the owner of the time deposit has died or has been determined to be legally incompetent by a court or other administrative body of competent jurisdiction. Under all other conditions, the regulation permits a member bank to require depositors to fulfill the terms of the contractual obligation created by the time deposit.

Q. May a member bank assess a greater penalty for early withdrawal than specified in Regulation Q?

A. Regulation Q establishes only the minimum penalty required to be assessed. Therefore, a member bank may impose a more severe penalty for early withdrawal of a time deposit. The more severe penalty, however, must be disclosed at the time the depositor enters into the time-deposit contract with the bank.

Q. Must the "new" (July 1, 1979) penalty for early withdrawals of time deposits be applied to contracts entered prior to July 1, 1979?

A. Effective August 1, 1979, provisions of the "new" penalty may be applied, with the consent of the depositor, to time-deposit contracts entered into before July 1, 1979. Thus, a member bank has the option on pre-July 1, 1979, time deposits of applying either the "old" penalty or, with the customer's consent, the "new" penalty for early withdrawal.

Career Apparel Contest

Banks and financial institutions that have career apparel programs may enter the third annual "Career Apparel Image of the Year" award competition sponsored by the Career Apparel Institute, a division of the National Association of Uniform Manufacturers.

Created to honor companies that have outstanding employee clothing programs, the eight awards are given in four categories. They are: financial/business sales; food/hotel; transportation and service/industrial.

In each category, one award will be given to a company with a program of national scope and one to a company that does business on a local or regional basis. Company size does not limit eligibility.

Entries must be accompanied by a color photograph of several of the firm's employees in their career apparel wardrobes. To be eligible, the business clothing program must contribute to the company's image.

Career apparel is defined as fashionable clothing especially designed and manufactured to be worn on the job. It can be stylish and traditional in design, must be practical and comfortable to work in, provide easy maintenance and wear well.

Entry blanks and complete details on the "Career Apparel Image of the Year" awards may be obtained from the National Association of Uniform Manufacturers, 1156 Avenue of the Americas, New York, NY 10036.

Bank Directors Seminar To Be Held in January

The Management Institute of University of Wisconsin-Extension has developed a seminar that explores the entire spectrum of being a bank director. Called "Effectively Contributing as a Bank Director," it will be offered January 24-25 in Madison.

The program will focus on positive contributions that directors can make to their banks in a manner that helps them meet their legal responsibilities.

Program fee of $150 includes all materials, luncheons, dinner meeting and refreshments. For more information, contact Joyce Stout, programming assistant, Management Institute, 432 N. Lake St., Madison, WI 53706.

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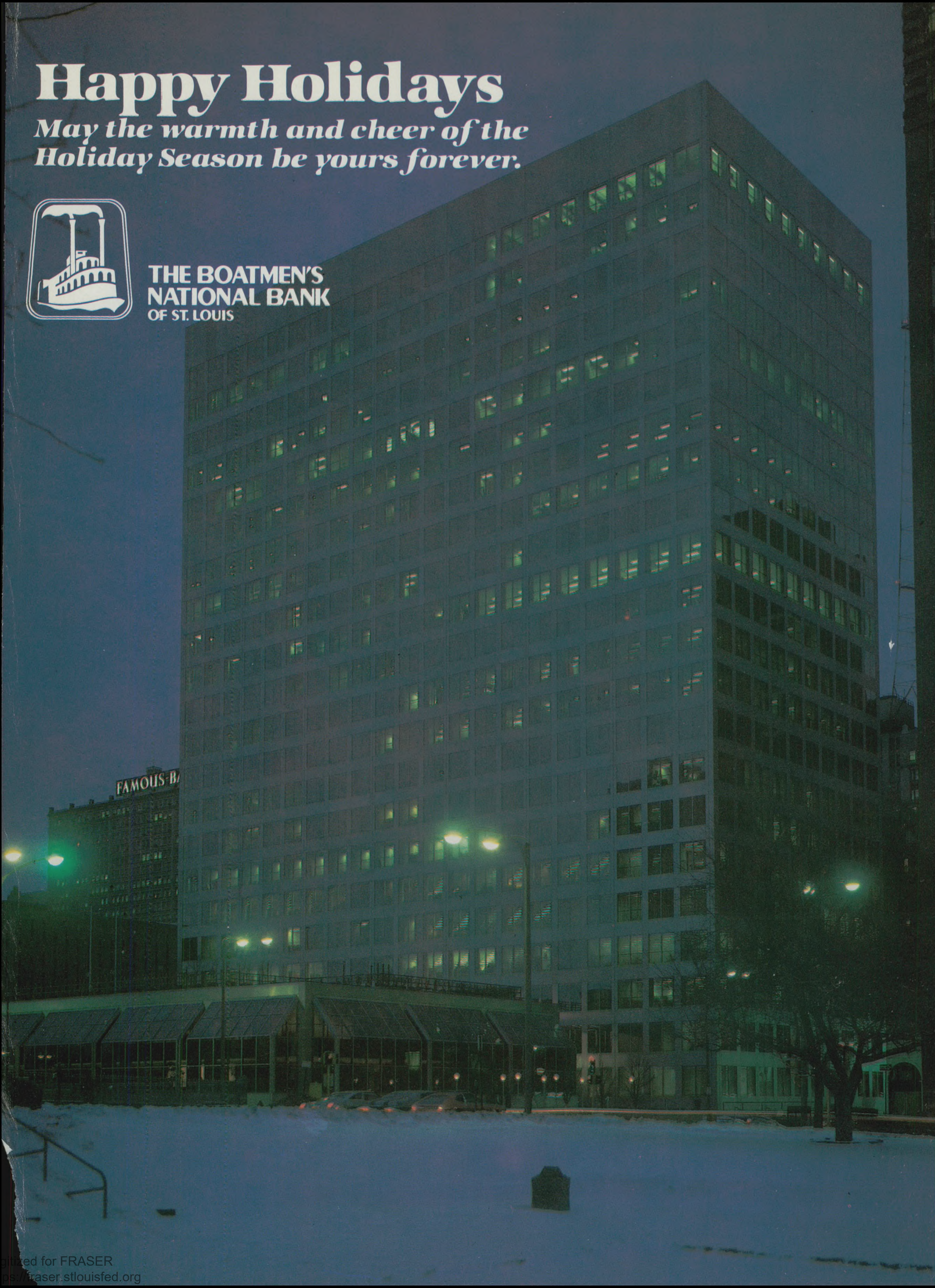
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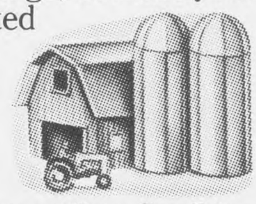

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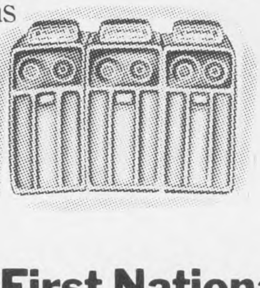

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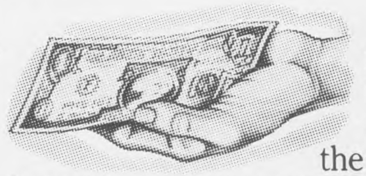

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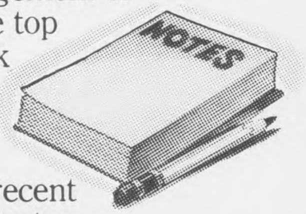

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Of course, your correspondent banker is always available for individual consultation. He's the key to our relationship and the person we depend on to make fast decisions on our behalf. He's the one you can depend on, too, when you want to get more from your correspondent bank. He can help you plan for your bank's future and for our future together.

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