MID-CONTINENT BANKER

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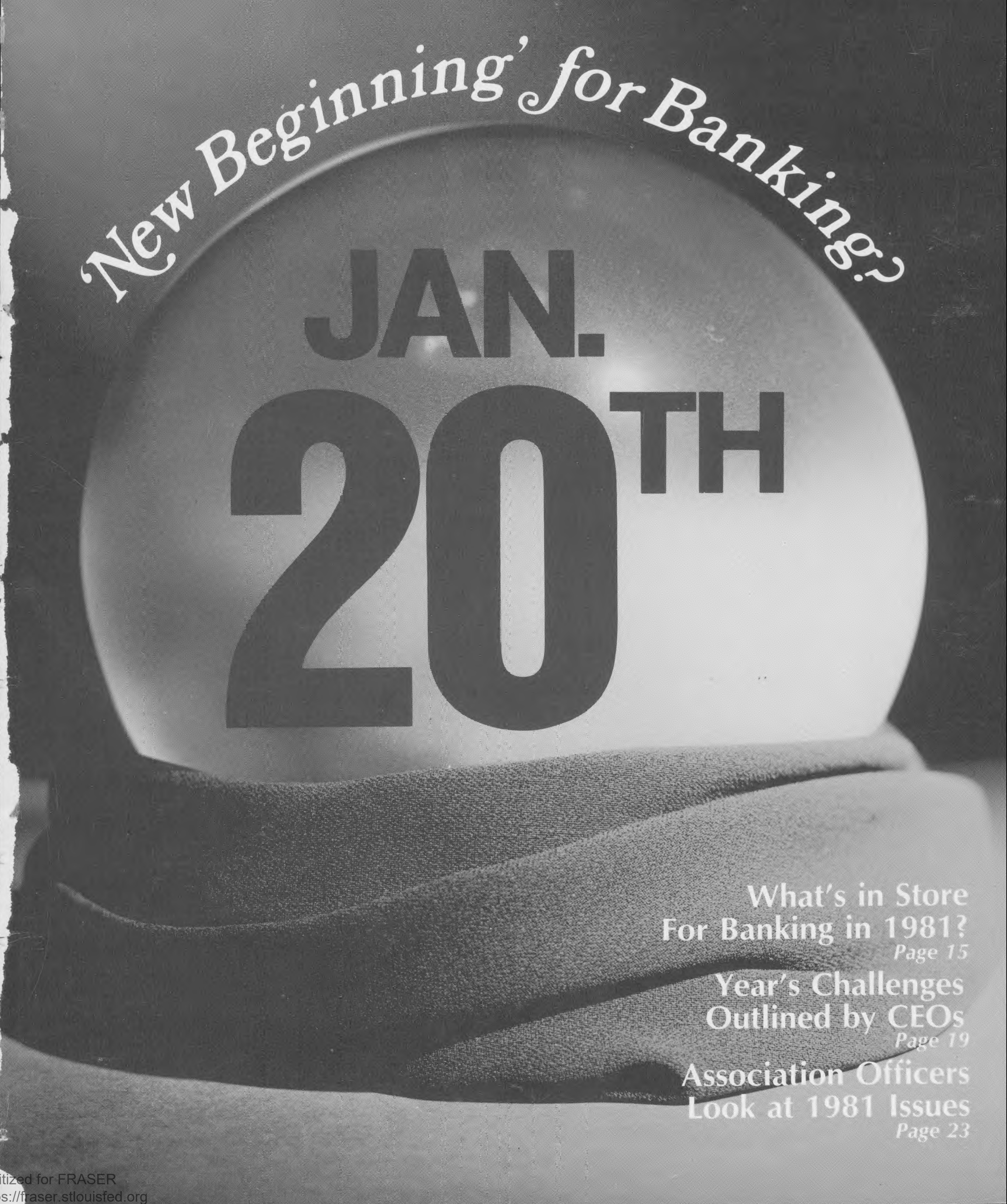
The Financial Magazine of the Mississippi Valley & Southwest

JANUARY, 1981



What's in Store For Banking in 1981?
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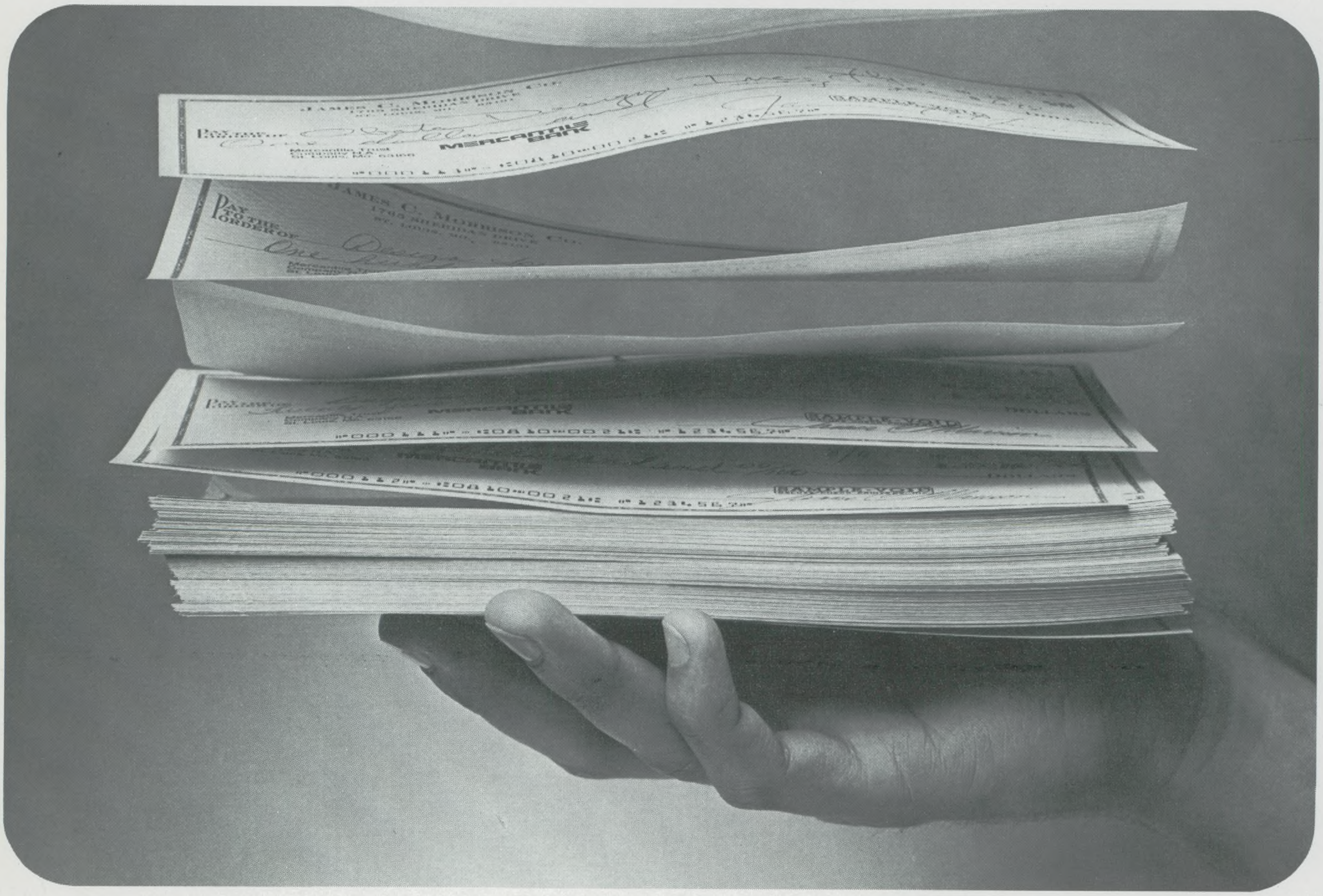

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Convention Calendar

Jan. 26-28: Consumer Bankers Association Retail Banking Government Relations Forum, Arlington Va., Crystal City Marriott Hotel.
Jan. 29: Bank Marketing Association Basic Advertising Workshop, San Antonio, Tex.
Feb. 1-4: ABA Bank Telecommunications Workshop, New Orleans, Fairmont Hotel.
Feb. 1-6: ABA Conference for Community Bank CEOs, St. Petersburg, Fla., Don Cesar Beach Hotel.
Feb. 2-3: Robert Morris Associates BHC/Branch Bank Loan Administration Workshop, Dallas.
Feb. 5-8: 44th Assembly for Bank Directors, Hawaii, Kuilima.
Feb. 8-10: ABA Bank Investments Conference, Washington, D. C., Sheraton Washington.
Feb. 8-20: ABA National Installment Credit School, Norman, Okla., University of Oklahoma.
Feb. 9-11: Bank Administration Institute Bank Security Conference, Miami Beach, Fla., Fountainebleau Hilton.
Feb. 11-13: Bank Marketing Association EFTS Marketing Conference, New Orleans, New Orleans Mariott.
Feb. 12-15: 44th Assembly for Bank Directors, Boca Raton, Fla., Boca Raton Hotel/Club.
Feb. 14-20: ABA National Trust Conference, Honolulu, Sheraton Waikiki.
Feb. 15-18: ABA Community Banks Executive Conference, Phoenix, Hyatt Regency Phoenix.
Feb. 18-20: ABA Corporate/Commercial Marketing Seminar, Dallas, Fairmont Hotel.
Feb. 19-20: Robert Morris Associates Managing International Lending Risks Workshop, Houston.
Feb. 22-25: Bank Marketing Association Consumer Business Development Training Workshop, Dallas.
Feb. 22-25: ABA Conference for Branch Administrators, Phoenix, Hyatt Regency Phoenix.
Feb. 22-25: Bank Marketing Association Consumer Business Development Training Workshop, Dallas, Regent Hotel.
March 3-5: ABA Risk/Insurance Management in Banking Seminar, San Diego, Sheraton Hotel.
March 15-18: Bank Marketing Association Community Bank CEO Seminar, San Diego, Calif., Hotel Del Coronado.
March 15-18: Bank Marketing Association Marketing Research Conference, Dearborn, Mich., Hyatt Regency Dearborn.
March 15-18: 45th Assembly for Bank Directors, Honolulu, Sheraton Waikiki.
March 15-18: ABA National Compliance Conference, Dallas, Fairmont Hotel.
March 19-20: Consumer Bankers Association Leasing Conference, Anaheim, Calif., Disneyland Hotel.
March 22-24: ABA National Credit Conference, Chicago, Chicago Marriott.
March 22-25: ABA National Installment Credit Conference, Los Angeles, LA Bonaventure.
March 22-26: Independent Bankers Association of America Annual Convention, Las Vegas, Las Vegas Hilton.
March 22-28: ABA National Compliance School, Norman, Okla., University of Oklahoma.
March 25-27: ABA Basic Secondary/Mortgage Market Workshop, Atlanta, Omni International Hotel.
March 26-30: Louisiana Bankers Association Annual Convention, New Orleans, New Orleans Hilton.
March 29-31: ABA International Systems Symposium, Washington, D. C., Capital Hilton.
March 29-April 1: ABA Southern Regional Bank Card Conference, Miami, Omni International Hotel.
March 29-April 2: Bank Administration Institute Bank Auditors Conference, Dallas, Loew's Anatole.
March 29-April 3: Bank Marketing Association Management School of Bank Marketing, Athens, Ga., University of Georgia.
March 29-April 4: ABA Business of Banking School, Notre Dame, Ind., Notre Dame University.
March 29-April 9: ABA National Commercial Lending School, Norman, Okla., University of Oklahoma.
April 1-3: ABA Bank Security Seminar, Washington, D. C., Key Bridge Marriott.
April 4-7: Association of Reserve City Bankers Annual Meeting, Palm Beach, Fla., The Breakers.
April 5-8: Bank Administration Institute Conference on Banking Issues, Denver, Fairmont Hotel.
April 8-10: Bank Administration Institute Check Processing Conference, Atlanta, Atlanta Hilton.

MID-CONTINENT BANKER

The Financial Magazine of the Mississippi Valley & Southwest

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FEATURES

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The Banking Scene

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

The Right to Use the Fed's Discount Window

THE FEDERAL Reserve recently released a document titled "Operation of the Federal Reserve Discount Window Under the Monetary Control Act of 1980."

It's an interesting document, especially for the great bulk of the nation's banks that aren't Fed members. Under the Depository Institutions Deregulation and Monetary Control Act of 1980, the Fed is to open its reserves to any nonmember depository institution that maintains transaction accounts or nonpersonal time deposits. It's to provide accommodation on the same basis to non-Fed-member banks as to member banks.

Some historical commentary may help non-Fed members gain a better appreciation of the so-called discount rate. In recent years, the discount rate has been an advance rate and a below-market rate for those banks fortunate enough to be able to borrow at the discount window. They could obtain Federal Reserve funds at costs less than those charged for fed funds and Treasury bills.

This has not always been so. Back in the 1930s, the discount rate was set at a substantial premium over Treasury-instrument rates. This is an important element to consider, because if the discount rate — as it is called — is a privileged rate, a subtle difference is placed on the way the market operates.

To all intents and purposes, the discount rate is uniform throughout the 12 Federal Reserve districts. Occasionally there will be a few days' difference in imposing a new rate because of the need for ratification of the rate by the regional bank's board.

There really are three distinct Federal Reserve rates under sections 13 and 13A of the Monetary Control Act. One typically is based on eligible paper; another on advances secured by paper such as U. S. government obligations, and, to a lesser extent, one based on any other obligations eligible for Federal Reserve purchase.

The easiest way to handle loans under sections 13 and 13A is through use of U. S. government obligations, since there is no question about their eligibility. Loans under Section 10B are advances secured to the satisfaction of the Federal Reserve, while loans made under Section 13, final paragraph, aren't particularly applicable to banks, since they are advances to individuals, partnerships or corporations other than eligible depository institutions. There also is a special rate under Section 10B that is applicable to special advances under Regulation A. Thus, we really are discussing not one discount rate, but several rates.

Non-Fed-member banks should gear up to make a 'dry run' at using the Fed's discount window so they'll feel more comfortable about using this service should the need arise.

The same is true of the "window," which is administered by the discount committee or officer of each of the Federal Reserve district banks. While purists in Washington will say the window privilege is applied uniformly, the fact is that knowledgeable bankers perceive variations in application from one Fed district to another in terms of accommodating applicants for an advance or discount.

Because the discount rate is a below-normal market rate, sophisticated bankers prefer to avail themselves of it rather than pay a higher rate for federal or Eurodollar funds. On the other hand, there is a class of banker that prefers to be independent of the Fed and perceives the privileged rate as not being worth the additional supervision and dictation associated with the policing of the discount window by regulators.

It's interesting to note that in other central banks of the world, the rate for central-bank loans or advances to its country's banks typically aren't privileged but are at — or slightly above — normal market rates. Thus banks in those countries prefer to use the market rather than the equivalent of rediscounting at their central bank for assistance.

The basic philosophical differences between the two systems are important. In the early days of Fed operations, the concept of "eligibility" of collateral was tied to an almost puritan ethic. That is, certain forms of credit were "good" and other forms were "bad." Thus, a bank with "good" paper tied to such wholesome things as farm products — such as tobacco and self liquidating loans — was more likely to be accommodated than banks that had "naughty" types of paper, such as consumer credit. This philosophy, though somewhat modified, still persists where government views loans for speculation in commodities or in securities markets as not being quite as economically desirable as "good" credits under the Community Reinvestment Act. Since money is fungible, serious students question whether the concepts of good or bad are applicable where a loan program of a bank includes a wide range of lending. However, it probably can be generalized that the typical non-Fed member probably has more "good" eligible paper than the giant Fed-member banks.

One other facet must be described and that is the concept of privilege rather than right. For several decades, commercial bankers have held that the contention of the Fed that rediscounting was a privilege and not a right was philosophically wrong. It permitted the Fed to exercise its own perceptions

(Continued on page 34)

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NEWS OF THE BANKING WORLD


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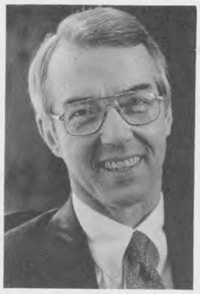
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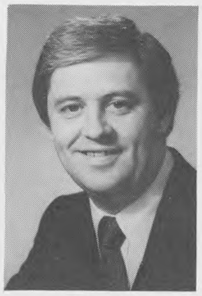
RIFFLE

• **Philip C. Jackson Jr.** has been elected vice chairman and a director, Central Bancshares of the South, Birmingham, Ala. Mr. Jackson remains chairman/CEO, Central Bank, Birmingham. He is a former member of the Fed's board of governors, serving from 1975 to 1978.

• **Ronald Terry,** chairman/CEO, First Tennessee, Memphis, has been named to the federal advisory council of the Fed, representing the Eighth District. He succeeds Clarence C. Barksdale, chairman/CEO, First National, St. Louis. Mr. Terry's appointment is for one year.

• **Dennis C. Riffle** has been named correspondent banking officer at Commerce Bank, Kansas City. He serves respondent banks in Arkansas and northern Missouri. He joined the Commerce organization in 1972 as an assistant vice president at Commerce Bank of Kahoka. He joined Commerce Bancshares' CBI Insurance Co. in 1978.

• **William H. Cole** has been named executive vice president/CEO, KBA Mortgage Corp., an affiliate of the Kansas Bankers Association designed to assist Kansas banks in filling the real estate mortgage needs of their customers. Corporation offices are in the Merchants National Building, Topeka. Working capital for the new corporation has been solicited from participating banks according to deposit size. Through the corporation, Kansas banks will obtain an active secondary market that is expected to add to the housing capital available to bank customers in the state. Mr. Cole was formerly vice president and head of the residential construction loan department at Amortibanc Investment Co., Wichita.


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• **Barry F. Sullivan,** chairman/CEO, First Chicago Corp. and First National, Chicago, has been elected a trustee of the University of Chicago, of which he is an alumnus, receiving an MBA degree in 1957.

• **Margaret L. Egginton** has been appointed special assistant to FDIC Director William M. Isaac. Mrs. Egginton had served in the legal division of the Federal Reserve Board since 1979. Prior to that she was counsel to First Kentucky National Corp., Louisville.

• **Wayne D. Angell,** president, Council Grove (Kan.) National, has been re-elected to the nine-member board of the Kansas City Fed for a three-year term. Mr. Angell joined the board in 1979.

• **Alan B. Coleman,** dean, Edwin L. Cox School of Business at Southern Methodist University, Dallas, has been named president, SWGSB Foundation, and director of the Assemblies for Bank Directors, the Southwestern Graduate School of Banking and the Intermediate Banking School, effective March 1. He will succeed Richard B. Johnson, who died last June, as SWGSB Foundation president and Assemblies director. As director of the banking schools, he succeeds William S. Townsend, who resigned last year to become president, First Bancshares of Texas, Longview, a bank HC.

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Theft, Crime Causes For Travelers Cheques Loss

CRIMINAL ACTIVITY of one kind or another is the largest reason consumers lose travelers cheques, according to a survey conducted by American Express Co.

Tracking case studies for 5,050 selected refund claims over a seven-month period — January to August, 1978 — the survey revealed that 47% of reported losses were due to theft.

The most common cause of all losses — sneak theft from hotel rooms — accounted for 10% of all cases. Next highest was theft from automobiles, then unarmed street theft (pickpockets and purse snatchers), then theft from the home. Only 1% of losses was due to armed robbery.

According to Michael Lively, president, Travelers Cheque Division, American Express, roughly one out of every 200 persons can expect his travelers cheques to become lost or stolen.

"Theft is the most common cause of loss, but there are many other ways people lose their travelers cheques," Mr. Lively notes.

According to the survey, another 42% of travelers cheque refund claims were made for cheques that had disappeared through some form of simple loss. They may have been dropped, misplaced, accidentally thrown out or even hidden and then forgotten.

"At least when this happens with travelers cheques, you can get them replaced," Mr. Lively notes. "When it happens with cash you're out of luck."

The remaining 11% of refund requests for missing cheques were a mixture of the odd and the commonplace:

Some cheques are left at home when an individual goes off on a trip (in this case American Express can make a refund in transit if the customer promises to return the original package of cheques when he returns). The statistical analysis also shows that cheques disappear in the mail (where they shouldn't be in the first place).

Then there are somewhat unique situations. "Our customers have dropped them over cliffs, into deep water, had them eaten by a giraffe, blown away by jet exhausts and carried away by a seagull," Mr. Lively recalls.

"They have been burned up in fires, eaten by pets, destroyed on purpose and some have just mysteriously disappeared. Nobody knows where."

According to Mr. Lively, in 1978 American Express made over 190,000 refunds totaling $60 million paid to consumers.

Most refund claims are authorized on the day the loss is reported. Clients are normally referred to any one of 60,000 refund locations to pick up replacement cheques. Claims not made over the telephone are handled by a visit to an American Express travel service office or through the mail.

The biggest single cause of delay in the refund process is lack of information from the consumer, according to Mr. Lively.

Travelers should make a point of listing the serial numbers of the cheques they purchase on the separate slip of paper that American Express supplies, Mr. Lively advises. When a cheque is used, that serial number should be crossed off. Such a record of unspent cheques will help expedite a refund in the event that the cheques are lost or stolen. It's also a good idea to make a mental note of where the cheques were purchased.

These simple actions enable the issuing company to ascertain quickly the authenticity of a claim.

The proper way to use a travelers cheque is to sign it once when you purchase it, then sign it again while the acceptor watches. The matching signatures are the safety feature of the cheque. Some people make the mistake of not following instructions and countersign the cheques ahead of time, then lose them, or they don't sign the cheques at all and lose them, according to Mr. Lively. In either case, the company and the claimant must wait to see whether the cheques are negotiated before a claim can be settled.

Another reason for refund delay — and it is not a frequent reason — is suspected fraud. American Express has a responsibility to protect its clients. All personnel in its network of over 950 offices and representatives are trained to watch for certain things that signal caution. While on the whole, the company prefers to risk loss rather than inconvenience a customer, such caution can benefit all customers. Were fraud losses to climb, so too would the presently small fee charged for protecting customers' money.

"On that basis, we believe that a brief delay is preferable to fee inflation," Mr. Lively notes. ● ●

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Get to know your Commerce banker.

David Scott joins Commerce's Correspondent Bank Division with eight years experience in bank operations. You can rely on him for sound advice on operational questions. David has a total of 16 years service with Commerce, having worked his way up from mail clerk to his current position of assistant vice president. During this time he also spent three years in the military and earned a B.A. from Rockhurst College. He is a Kansas City native who enjoys tennis and snow skiing.

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

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

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Corporate News Roundup

• **LeFebure.** Bob Wright has been appointed sales engineer and will be operating out of the Memphis Branch, servicing portions of Arkansas, Mississippi and Tennessee. He formerly was branch service manager.

• **American Municipal Bond Assurance Corp.** Kenneth S. Hall has joined this firm as vice president, new-issue insurance. The firm is a subsidiary of MGIC Investment Corp., Milwaukee. Mr. Hall is responsible for developing the new-issue insurance line within AMBAC through a nationwide marketing program to municipal bond dealers and issuer communities.

• **Associates Commercial Corp.** Norris Griffin has been named executive vice president of the factoring division. The firm is the commercial finance subsidiary of Associates Corp. of North America. Mr. Griffin is responsible for the firm's factoring operations in North America and is headquartered in Charlotte, Va.

• **Tri-Continental Leasing Corp.** This firm, located in St. Louis, has acquired the business of Summit Leasing Corp., which will operate as the vendor service division of Tri-Continental. Richard Masulli, former president of Summit Leasing, has been elected a senior vice president of Tri-Continental and will head the new division.

• **BarclaysAmerican/Commercial.** This firm, located in Charlotte, N. C., has passed the billion-dollar point in factoring volume, posting a 20% increase over year-earlier figures. The firm has been expanding, opening a regional office in Louisville in 1979 and expanding its Dallas offices in 1980. Future plans include a New York office this year.

• **Aetna Business Credit.** Sale of this firm, located in East Hartford, Conn., was consummated last month to BarclaysAmerican Corp., by Aetna Life & Casualty, Hartford, following Fed approval. Selling price was approximately $165 million. The firm will become the fifth operating division of BarclaysAmerican, headquartered in Charlotte, N. C. It is a subsidiary of Barclays Bank International.

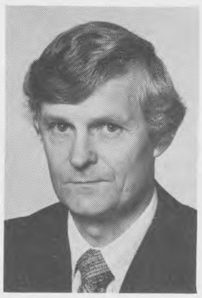
• **Diebold.** Philips Data Systems, Colchester, England, and Diebold, Inc., Canton, Ohio, have announced the signing of an international OEM agreement wherein Philips will purchase and market Diebold's 9000 series ATM TABS total automatic banking systems in the United Kingdom. The TABS 9000 will be marketed under the Philips name and the firm will provide technical, software and support service in the United Kingdom market.

• **Hibbard, O'Connor & Weeks.** This Houston firm has changed its name to Westcap Corp. Its two subsidiaries, Hibbard & O'Connor Government Securities and Hibbard & O'Connor Municipal Securities, have changed their names to Westcap Government Securities and Westcap Securities, respectively. Clifton Iverson Jr., president/CEO, joined the firm late in 1979 and presided over a reorganization that resulted in a new management team being selected.

• **Doane Agricultural Service.** This St. Louis-based farm management firm has merged with Victorio Agricultural Service, a Missouri subsidiary of the Victorio Co. of Phoenix. Doane management and its board will continue and Doane's president, J. W. Hackamack, will join the Victorio board.


HALL


GRIFFIN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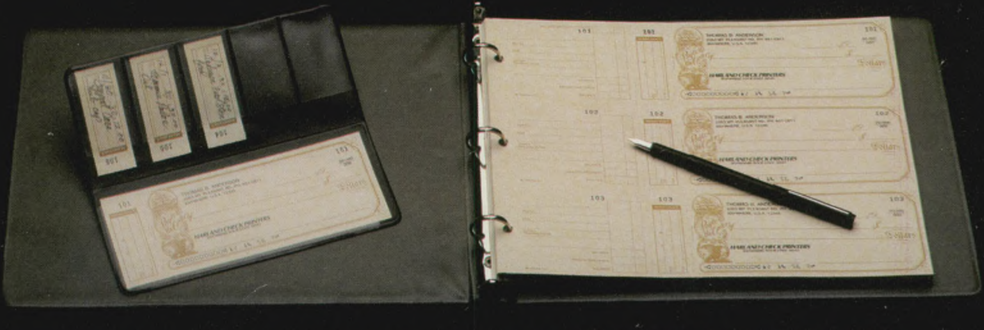

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The New Congress:

What's in Store For Banking?

By Martin T. Farmer
Legislative Affairs Director
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DECISIONS made in Congress follow a certain predictability, whether they are made by a lame-duck Congress, such as the 96th, or by an incoming group, such as the 97th's Republican Senate and Democratic House. In fact, the 96th and 97th congresses, and their successors, can be counted on to address banking issues that are not new.

Remembering that Washington was Democratic in terms of the 96th Congress and the Carter White House, let's look into the congressional future. It would be naive to minimize the overall extraordinary political change that is occurring. The numbers alone show that change.

Before the election, the House of Representatives consisted of 273 Democrats, 159 Republicans and three vacancies. In the 97th Congress, the 435-member House will consist of 234 Democrats and 192 Republicans. In other words, Republicans gained 33 seats November 4. In terms of the Senate prior to the election, we had 58 Democrats, 41 Republicans and one Independent. After the election, the Senate of the 97th Congress will consist of 46 Democrats, 53 Republicans and one Independent.

Change in Senate control was made possible by a remarkable and unexpected capturing of 12 seats by Republicans. At the risk of throwing some cold water on the general business, and to a lesser degree, banking euphoria that exists following the November elections, we should remember that the government itself is designed to achieve balance. The Republican majority in the Senate and the growing Republican minority in the House clearly will want to work aggressively and affirmatively with the Reagan Administration. It should, however, be noted that not a single Republican senator among the 53 in the new Congress has ever chaired a committee or subcommittee, while only three Democrats have even served in the minority.

Congress has the habit of protecting its respective constitutionally delegated responsibilities and its turf. In fact, the natural tension between the arms of Congress and the White House, or for that matter, the courts, provide for the health of the overall system. We should not exclude from this balancing arrangement the other, albeit less official, arms of government such as the bureaucracy — in our case, financial regulators, media, vested interests as expressed through the Washington lobbies and so on with other actors in the legislative process.

To review briefly what the banking committees will look like starting this year, let's look at the most recent ones. The Senate Banking, Housing and Urban Affairs Committee consisted of nine Democrats and six Republicans. Gone from this roster are retiring Senator Adlai Stevenson III of Illinois and defeated Senators Robert Morgan of North Carolina and Donald Stewart of Alabama.

As we look at this year's Senate Banking Committee, the 15 members probably will be made up of eight Republicans and seven Democrats. The new committee will be chaired by Jake Garn of Utah, probably will have John Tower of Texas and may have a number of new Republican faces. Senators Nancy Kassebaum of Kansas, Richard Lugar of Indiana and William Armstrong of Colorado may seek other committee assignments afforded them by the change in Senate control.

On the Democratic side, it's not certain whether former Chairman William Proxmire of Wisconsin will seek to become minority spokesman, since he has an opportunity, because of his Democratic seniority, to be the ranking Democrat on the Appropriations Committee. Senator Harrison "Pete" Williams of New Jersey may leave the Banking Committee. Accordingly, the probable 15 members of the new Banking Committee may be relatively new to issues jurisdictionally assigned to banking. Here is how the Senate Banking Committee probably will act:

1. The process will be more orderly. The committee as a whole will be less mischievous about combining issues or moving legislation unexpectedly.
2. The committee will review recent enactments. There's an attitude that the committee should review the legislation it recently passed.
3. The oversight function will be increased. Greater scrutiny will be given decisions of the Depository Institutions Deregulation Committee and the Fed in its monetary policies.
4. The committee can expect more confrontation with its still Democratically chaired House counterpart.

As far as the House Banking Committee is concerned, the overall degree of change is not as significant as in the Senate. Given the Republican gains of some 33 seats in the House,

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This article is based on a speech given by Mr. Farmer at the 1980 conference of bank correspondents sponsored by First Nat'l, Chicago.

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the ratio between the parties will change. We know that current Chairman Henry Reuss of Wisconsin — because of recent health problems — intends to seek the chairmanship of the Joint Economic Committee, thus leaving the Banking Committee chairmanship open. Traditionally, such a vacancy would go to the next senior member of the majority party. As a result of Ohio's Thomas "Lud" Ashley's defeat and Pennsylvania's William Moorhead's retirement, Fernand St Germain of Rhode Island is the next senior Democrat. No one doubts that he will seek the chairmanship.

Independent of what Democrat chairs the committee, it is realistic to observe that the ranking Republican, William Stanton of Ohio, has done a remarkable job, while in the minority, of keeping Republican members of the Banking Committee unified. Scenarios can be envisioned where Representative Stanton and his Republican colleagues will be successful in reaching across the aisle to form coalitions on given issues so that the House Banking Committee may be similar to the Senate Banking Committee. Representative Stanton, like Senator Garn, seems predisposed to review recent enactments, rather than rush pell-mell into passing new laws.

Let me now explore with you issues that will face the financial industry in Congress over the next few years. Most viewers of the congressional-banking scene have predicted that restrictions on geographic expansion of banks would be the chief menu item for the 1980s. It is clear that the soon-to-be released White House Study on applicability of McFadden will not have the impact that either the expansionist banks hoped for or that some independent or community banks feared. The Carter Administration, by its release of the report, is fulfilling a mandate of the International Banking Act of 1978.

Proponents or opponents of geographic change will take from the study only those portions they find to their advantage. Early predictions that this study would lead to early and serious consideration of the McFadden-Douglas Amendment-interstate EFT, etc., by Congress have fallen by the wayside. By way of reference, let us recall that the McFadden Act of 1927 basically declares a federal policy on branch banking. It defers to individual states authority to determine how national banks could branch within their boundaries. It limits branching by national banks to state boundaries. It is clearly an anti-branching act.

As McFadden addresses branching, the Bank Holding Company Act specified bank-HC activities across state lines. In effect, bank HCs are precluded from acquiring banks outside their home states. Authority is given individual states to permit or prohibit multi-bank HCs. Although the impact of the report will not be great, the issue itself will not go away. Remaining to be seen is whether President-Elect Ronald Reagan and his cabinet would want to visit this area. Early indications are that the new Administration does not regard the matter as critical.

Senator Garn's Senate Committee may want to study industry structure for the '80s in a slow and methodical fashion. It is difficult to see any House Banking Committee member wanting to force early consideration of McFadden or Douglas, least of all, Mr. St Germain. Depending on how you categorize issues, the first agenda item on the interstate issue will occur prior to expiration of the current Interstate Trust Activities Moratorium, due to expire October 31, 1981. Although that issue is narrower than nationwide branching or interstate acquisitions, it has been argued successfully on a states' rights basis by opponents of interstate-trust-activities expansion. Sentiment clearly exists in the new Senate, given its conservative leanings, for states' rights.

Now that I have indicated that serious consideration of the interstate-banking issue will not be forthcoming immediately in the next Congress, it should be pointed out that interest in the issue is increasing and earlier predictions are still valid that the 1980s will be a period when interstate restrictions will be removed. The interstate debate tends to center on one or more of the following possibilities:

1. Authorization for nationwide branch banking through repeal of the McFadden Act.
2. Modification of the Douglas Amendment of the Bank Holding Company Act that would permit acquisitions of bank HCs or banks across state lines.
3. Modification of McFadden to permit electronic banking across state lines and usually expressed in terms of initial authority to operate electronically within a standard metropolitan statistical area (SMSA), which can overlap state boundaries.
4. Utilization by individual states of current authority to authorize recip-

(Continued on page 56)

Seven Bankers Serve Reagan On His Special Task Forces

SEVEN BANKERS have been serving on President-Elect Ronald Reagan's various task forces, whose purpose is to evaluate current economic policies and programs and recommend legislative and executive actions that must be undertaken to re-establish the nation's economic growth and stability.

These task forces and the bankers on them are:

Inflation policy — *J. Dewey Daane*, Frank K. Houston, professor of banking, Owen Graduate School of Management, Vanderbilt University, Nashville, and chairman/international policy committee and a director, Tennessee Valley Bancorp., Nashville; *A. Gilbert Heebner*, executive vice president/economist, Philadelphia National; *Alan Reynolds*, vice president/business and economic research, First National, Chicago, and *Beryl W. Sprinkel*, executive vice president/economist, Harris Trust, Chicago.

International monetary — *Rimmer de Vries*, senior vice president, Morgan Guaranty Trust, New York City.

Spending control — *Laurence H. Silberman*, executive vice president, Crocker Bank, San Francisco.

Housing — *Philip C. Jackson Jr.*, chairman/CEO, Central Bank, Birmingham, Ala.

Mr. Daane was a member of the Fed's Board of Governors from 1963-74 and is a director of Commerce Union Bank, Nashville. Mr. Heebner is a former special assistant to the chairman of the Council of Economic Advisers. Mr. Silberman is a former undersecretary of labor and deputy attorney general. Mr. Jackson also served on the Fed's Board of Governors — from 1975-78.

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No Major Banking Legislation Foreseen For Several Months in New Congress

By Warren Seipp, Manager/Editorial Communications, American Bankers Association

THE 97th Congress convenes this month to begin organizing itself to carry out its legislative duties.

The legislative agenda for banking that will be formed over the next few months is of great importance to all bankers. Congress has oversight authority over the deregulation process begun last March with passage of the Omnibus Banking Bill, and the ABA is developing a long list of new items it will be urging Congress to consider at the earliest opportunity. These include such important matters as comprehensive reform of the Glass-Steagall Act, relief from unrealistic usury restrictions and repeal or reform of costly and ineffective laws passed during the 1970s that have created the massive regulatory burden bankers must bear.

Most of the country's attention will be focused on the inauguration January 20 of the new President, Ronald Reagan. However, initial steps in the process of Congress' organizing itself are equally important as key determinants of the legislative process in coming months. When the new Administration takes office, changes in personnel will be highly conspicuous. The new President and Vice President and a fairly small number of especially prominent appointees will dominate the news. But with Congress, there are two separate chambers, each with different memberships, operating structures and responsibilities. In addition, there are 535 individual men and women and a large number of committees that must be accounted for in any attempt to analyze the structure and begin to predict the new Congress' actions.

One factor often ignored in considering how Congress works is that the process of passing legislation fundamentally is a matter of dealing with people. The effectiveness of a legislator depends on his or her ability to relate personally to other members of Congress and to understand the complex procedures involved in federal legislation. Experience and the art of persuasion are important tools for any member of Congress, as they are for any banker. Just as in any other business, significant changes in identities of participants will make an adjustment period necessary.

As new members of Congress learn their functions, and those newly promoted to positions of authority learn the extent of their new powers, the 97th Congress, at least initially, will act with more caution and deliberation than did its predecessor.

In any discussion of the new Congress, there are several essential factors that must be covered. One of the most readily apparent of these factors is the "youth" of Congress. Many members are just beginning their federal-legislative careers. Of the 435 members of the House of Representatives, 74 are beginning their first terms. This group, combined with the large number of new congressmen first elected in 1974, creates a majority of 266 representatives who have served eight years or less. In the other cham-

Farm Credit Amendments Passed

THE FARM Credit Act Amendments of 1980 were adopted by Congress and sent to the President for signature on December 13, ending a long battle that pitted the ABA and the IBAA against each other as each association lobbied legislatures to present its views.

"Thousands of small and medium sized banks serving American agriculture stand to benefit from the Farm Credit Act Amendments of 1980," said the IBAA after the bill was adopted.

Across town, the ABA pledged to "continue to work toward reversing the objectionable elements of the Farm Credit Act Amendments that confirms in legislation the blatant discrimination the Farm Credit System has practiced through regulatory limits on access to federal intermediate credit bank facilities."

The amendments extend the powers of the Farm Credit System to include what are essentially full commercial banking powers.

Major provisions of the bill are as follows:

- Lowers the cooperative farmer member eligibility requirement for financing from Banks for Cooperatives from 80% to 60% for service and local supply co-ops as well as from 70% to 60% for rural electric co-ops.
- Permits Federal Land Bank Associations and Production Credit Associations to finance off-firm processing and marketing businesses in which up to 80% of the product isn't produced by the borrower.
- Authorizes a Bank for Cooperatives to make or participate in loans and commitments and extend other technical and financial assistance to any domestic or foreign party, but only "with respect to its transactions with a cooperative for the export or import of agricultural commodities, farm supplies or aquatic products through purchases, sales of exchanges." Also, it may make such loans and commitments to any party partially owned by a co-op for the purpose of "facilitating" the co-ops.
- Authorizes Cooperative Farm Credit System (CFCS) corporations that could provide numerous non-credit services with exemptions from state franchise taxes and other provisions of federal and state laws to which similar corporations are subjected.
- Exempts all CFCS units from state usury laws.
- Grants broad powers for loan and loss sharing throughout CFCS units, permitting transfers of funds and liabilities from one CFCS unit to any other unit nationwide.
- Authorizes 2,500 banks to enjoy loan and discount privileges from Federal Intermediate Credit Banks.

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ber, 18 senators will be new, and 37 others still are serving their first terms. These statistics indicate that a substantial number of legislators will be occupied in learning their new responsibilities.

One important result of the elections was the emergence of the Republicans as the majority party in the Senate and reduction of the Democratic majority in the House from 117 to 50. The most dramatic consequences of this change will be seen in the Senate, where all committee chairmanships and the majority on each committee will be Republican.

However, even in the House, the reduced majority will make the Democratic leadership's job more difficult than it has been in the past.

Democratic leaders never have faced such a situation because they have spent their entire congressional careers with a solid Democratic majority. The fact that the Senate and White House are under the opposite party's control will only increase the difficulty of maintaining party discipline and certainly will limit the ability of the Democratic majority to control and influence key legislation.

Republican control of the Senate is of particular importance to banking. Many observers apparently believe the Republicans are more likely than the Democrats to be sympathetic to interests of businesses such as banks, but it would be unrealistic to rely on that assumption. The most important consequence of Republican control of the Senate is the shift of the Senate Banking Committee's chairmanship from Senator William Proxmire (D.,Wis.) to Senator Jake Garn (R.,Utah). Senator Garn has expressed interest in maintaining traditional distinctions between banks and other types of depository institutions and is opposed to "nationwide" banking. In addition, he has criticized the Depository Institutions Deregulation Committee for moving too quickly in reducing the differential required by Regulation Q.

On the House side, there has been a dramatic shift in ratio of Republicans to Democrats and a change in the Banking Committee's leadership. Congressman Henry Reuss (D.,Wis.) has announced he will resign as chairman of that committee, a post he has held since 1974.

Representative Reuss was reelected by a substantial majority in his district, but he has decided to take advantage of his opportunity to become chairman of the Joint Economic Committee, a post that alternates between the House and Senate in each Congress and was held in the 96th Congress by Senator Lloyd Bentsen (D.,Tex.). This committee, composed of both senators and representatives, studies and formulates broad economic policy and is accorded great respect by members of Congress.

Taking Representative Reuss' place as House Banking Committee chairman will be Fernand St Germain (D.,R.I.), who also is planning to retain his post as chairman of the Financial Institutions Supervision, Regulation and Insurance Subcommittee.

All these factors — the presence of many new members, control of the two houses by different parties and change in chairmanship of the two banking committees — mean the 97th Congress will be far different from the 96th Congress. They also mean no major new banking legislation is likely to gain momentum for several months as the new Congress organizes itself and becomes accustomed to dealing with its own membership and as each house of Congress becomes accustomed to dealing with the other and with the new Executive-Branch leadership. ●●

Policymakers Face Credit Concerns

EIGHT major worrisome aspects of the credit system should be kept in mind by leaders when they form national policies, said Henry Kaufman, general partner and member of the executive committee of Salomon Brothers, international investment banking firm, recently. They are:

- Debt continues to grow rapidly — at an annual rate of 11.5% in the 1970s compared with 7.5% in the 1960s. "If this acceleration continues in the 1980s," Mr. Kaufman said, "there will be no way out except through the destruction of values and damage to our economic and political system. The worth of financial savings will continue to diminish rapidly; the flight away from financial assets will become prominent; and confidence in political, economic and financial contractual arrangements will dissipate."
- The credit system is adapting to accommodate the inflationary spiral and is no longer a bulwark of stability. The adaptation is being helped by the unwillingness of regulatory authorities to enforce realistic liquidity and capital standards. Financial institutions are being restructured by regulation to become inflation pass-through vehicles.
- Entrepreneurship in the credit system is overriding fiduciary responsibility, a development that is being encouraged by the new credit system in which financial institutions are pushing hard to create more debt because the interest rate risk has been removed from lending and investing.
- The traditional concept of liquidity is disappearing. Liquidity now means access to new debt as well as cash and liquid asset holdings.
- Corporations are increasingly borrowing short to finance long. A fiction has been created since these transactions, shown as short-term assets by lenders and short-term liabilities by borrowers, are really long-term because there is no cash flow underlying these obligations that are due within one year.
- A consolidation of financial institutions is in the offing, which will bring together highly leveraged institutions with those that still have some leveraging capacity.
- The long-term capital market may diminish in scope and vitality and burgeoning short-term borrowings, on balance, will enlarge the power and activities of commercial banks, raising problems or compromises concerning their capital adequacy.
- Equity sharing in financial arrangements may become the buzzword of credit markets in the 1980s. For corporations, the problem with shorter maturity financing and lower corporate credit quality will result in increased dependence on internal financings or more equity issues far beyond anything seen in the 1970s. This pressure is not conducive to meeting large capital demands, Mr. Kaufman stated.

Fiscal policy must gain credibility quickly if a successful economic recovery is to be launched, he said. This will require an immediate hammerlock on federal expenditures in addition to a reduction of tax rates.

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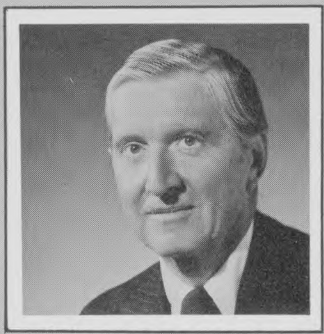
For 1981: CEOs Outline Challenges, Struggles Facing Banks

Frank B. Hower Jr.

J. W. McLean

Frank A. Plummer

Martin C. Miler



John H. Perkins

Banks Face Struggle For Share of Market

By Frank A. Plummer

WE AGAIN are facing a new year; but this time, a year impacted with recent legislative changes and a dramatic change in the political environment.

When we review the changing banking scene, the basic change appears to be a new era in which the "saver" will be encouraged to the apparent detriment of the "user" of funds. Fortunately, the banking industry of the Southeast is approaching this change in *modus operandi* with caution. It is recognized that unprofitable operations eventually result in unsound operations.

Interaction among commercial banks, S&Ls and credit unions, as they struggle for share of market, will be the scenario for 1981. Understandably, there is a wave of re-pricing of services to compensate for rising costs. This new trend of proper pricing is commendable; however, if it is not properly structured and phased in gradually, it might bring on a new look at restrictive legislation in some geographical areas.

Bankers in this section of the country, at this time, are disturbed about pressure on the interest-rate structure that will create financial problems primarily for the small-business and agricultural customers and bring the housing industry to its knees. The outlook is confused further by rumors that money-market banks are breaking prime in many instances as they cope with the competitive market and foreign banks.

A favorable future development would be the demise of prime-rate terminology, as the banking industry relates lending prices to overall account profitability in the commercial seg-

(Continued on page 46)

Frank A. Plummer is ch./CEO, First Alabama Bancshares, Montgomery.

Key Decision Ahead In Three Related Areas

By J. W. McLean

IT SEEMS to me there is one key decision to be made by each bank's management with respect to three related subjects: 1. NOW accounts, pricing, marketing competition. 2. Pricing bank services. 3. Variable-rate mortgage and installment loans. This decision will have enormous impact on the size and shape of a bank and its earning power during the '80s and beyond.

I believe the three subjects are directly related because they each are related closely to the so-called "retail" side of banking.

The *key decision* to which I refer is where and how should the *so-called* "retail/wholesale" trade-off be made?

For example, insofar as NOW

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accounts are concerned, banks are "caught in the middle" — caught, on the one hand, between *brokers* who can offer one-day availability on funds that yield an attractive market rate (well in excess of the 5¼% NOW-account maximum); and, on the other hand, *thrifts*, which already have served notice they intend to offer "loss-leader" terms. The question for bankers to resolve is how much should we compete for NOW accounts (even on a marginal or loss basis), to ensure that we maintain a large "retail" base *from which many of tomorrow's "wholesale" customers will emerge*. In other words, what are the long-range benefits of violating banking's 11th Commandment: "Thou shalt not pay interest on demand deposits"?

In my opinion, the same assessment can and should be made with respect to mortgage and installment lending, as well as service charges in general. And the outcome may well vary widely from bank to bank.

In our own case, while we have tried consistently to keep service charges conservatively firm and realistic, we are well aware of the fact that some of our most desirable "wholesale" relationships are managed today by individuals who originally formed their loyalty to Liberty as obscure "retail" customers only a few years ago.

In fact, we are calling attention to this fact in Liberty's 1980 annual report. The cover asks, "What do these people have in common?" Eight individuals are pictured inside a large question mark. The answer appears on an inside double-page spread: ". . . (with one exception) each one now favors Liberty with significant so-called 'wholesale' banking business. Yet, only a few years ago, they were only individual, or so-called 'retail' banking customers. As a group, they are what bank-marketing professionals refer to as 'upper mobiles' — people who are motivated to move sharply upward economically . . ."

A brief biography and photo of each of the eight Liberty customers appear on the two pages.

In short, it would seem that a "wholesale" ONLY commitment would be much more successful on Wall Street in New York City than at Main and Broadway in Oklahoma City. This is especially so, in view of the relatively positive upward mobility of people who live and work in Mid-America. In fact, I believe any other approach would be most inconsistent with our basic objective: *maximum sustainable long-range earning power*. Furthermore, it would be most difficult for our particular bank to abandon this philosophy, which, over the years, has made us what we are.

But, again, each bank's management must make its own assessment based on its own history, its economic and competitive environment and, finally, its organizational strengths and weaknesses.

Capital Ratios. Turning to another area, while the debate goes on over definition of capital in the eyes of the regulators, it seems to me there is another basic consideration — one which, in fact, has been virtually ignored.

I'm referring to the need to go much deeper than *stated* capital when making peer-group capital comparisons. To illustrate the point: A bank or bank HC with a relatively liquid $50 million of stated capital could well deserve a higher capital-fund appraisal than one of the same size with $100 million, more than half of which is offset by brick and mortar, data processing equipment, unrealized bond losses, etc.

When will we recognize and honor a peer-group "net-capital ratio" (stated capital less "frozen assets") as the true test of capital adequacy? It certainly would cure some present regulatory inequities. ● ●

To Price for Profit, Know Customer Base

By Martin C. Miler

HISTORICALLY, most commercial banks have "followed their market leader" in product development and pricing; priced on a markup of average production cost or presumed sufficient volume would materialize to justify thin profit-margin pricing, based on "incremental cost" of production.

While all three of these traditional approaches to pricing have merit — dependent on time, place and circumstance — they (unfortunately) are, in most instances, employed as medical prescriptions, without a patient diagnosis.

Where Tradition Is Deficient. It is true that we are all guilty, at one time or another, of dealing with symptoms, instead of causes, seeing problems, opportunities and "missing the forest for the trees." However, the dynamic nature of banking, its superabundance of individual products and overwhelming flood of paper requiring labor intensity, have forced us to think in a transaction — rather than planning — mode. Because of this, we tend to focus on the individual product, rather than on the intrinsic nature of banking and total customer relationships. We have a propensity to snack and eat piecemeal rather than seek true nutrition from well-conceived menus. This has led to indigestion from time to time.

Most bankers understand that commercial banks, regardless of size, have relatively few highly profitable customers, a reasonable number of marginally profitable customers and a significant number of unprofitable customers. Again, we tend to delude ourselves into believing that the profitable customer is profitable when measured by incremental, rather than "full-load," cost. Since space does not permit a digression into the foibles of cost accounting, the argument for marginal cost pricing of unprofitable customers must await a subsequent airing. However, for the moment, let it be said there is no such thing as incremental (or marginal) cost in banking. Volume increases are too rapid to allow long-term unused plant/equipment flexibility.

While we may recognize customer-profit differentiation, we — almost universally — lose sight of how all financial institutions "make profits." That is why pricing bank services has been "jousting with trees," instead of "programmed reforestation"!!!

Pricing for Profit. Commercial-bank-earning proficiency is determined by its gross profit. Gross profit is defined as "total operating income, less interest paid." Total operating income, itself, has become meaningless because of growth in bank time deposits/purchased money.

Bank inventory is money. Cost of bank inventory is its interest paid. Accordingly, gross profit in a bank is comparable to gross profit (sales, less cost of goods sold) in a manufacturing company.

Once this revenue base is understood and accepted, pricing bank services takes on an entirely different perspective. Less than 18% of all U. S. commercial-bank gross profit is derived from noninterest-oriented activities. This means that more than 82% of all U. S. commercial banks' gross profit comes from loan and investment functions.

Most importantly, there is an intrinsic relationship between noninterest income and noninterest expenses for banks that specialize in noninterest-

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Left to right:
William Antoniello, Senior Vice President, Director of Data Processing Department
Ronald H. Allison, Assistant Cashier, Contract Services Group
John E. O'Connor, Vice President, Correspondent Division
Paul G. Ward, Assistant Cashier, Correspondent Division
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oriented services. Almost without exception, these banks have inordinately high fixed and overhead expenses. On the other hand, banks that do focus on loan/investment pricing and segmentation marketing, to acquire high-balance customers, have disproportionately lower fixed and overhead expenses.

Pricing Is a Derivative. If, then, most of our focus is on noninterest-oriented service pricing, are we using our time and talents effectively? Logically, pricing is a tactic to be used as another tool in implementing strategies. Unfortunately, from most of the literature I have read on this subject, it would seem that it has become a tactic in search of a strategy!!!

Again, because of space constraints, I will use an extreme illustration. Probably the most important pricing dilemma for bankers, during the past year, has involved NOW accounts. Yet, I am sure that none of us, on reflection, would believe that NOW-account pricing was important to Morgan Guaranty Trust, New York City, when the NOW-account service was authorized in New York two years ago.

The lesson is clear. Strategy determines the business and, as a result, the customer base we pursue. Once the strategy is formulated, pricing becomes another tactic, similar to advertising, ATM machines, branch locations, etc. At this point, a decision can be made whether to "skim" selected segments of the marketplace or opt for "penetration or volume pricing." Therefore, the planning process determines what type of customer we are attempting to reach, dictates the products that must be used to appeal to that customer and directs us in pricing a particular service "aggressively" or "passively."

The Pricing Target. In essence then, noninterest-oriented services are priced to support loan and investment functions in the sense of being "plan driven" or "market driven." This means that a commercial bank's pricing should focus on yields and the cheapest possible funding for its earning assets. Accordingly, successful pricing requires a customer-profitability system to distinguish who contributes what to bank profitability. How many banks have such systems? Only the Wizard of Oz knows. How many need such systems? Only time will tell. ● ●

Become More Selective In Products, Services

By Frank B. Hower Jr.

BANKS surely are facing the most volatile and competitive period in their recent history. While the Federal Reserve Board moves to control inflation, Congress has acted to increase competition for the consumer dollar, and consumers are caught in a bind that profoundly affects their attitude toward savings and credit.

It is of concern to bankers that not only will our customers have less disposable income to save, but that they are becoming somewhat cynical about the value of savings. Inflation continually has eroded the value of savings as prices have increased at a rate far higher than the interest the average consumer has been earning. On the other side, while there is growing negative opinion concerning easy credit and a reluctance to borrow for things other than necessities, there remains the specter of even higher inflation and the temptation to borrow with today's "cheap money."

Faced with this consumer attitude created by inflation, banks also must meet the most sweeping financial legislation in history. The DIDC legislation of 1980 and other recent regulatory changes will have a significant impact on banking in 1981. Among the effects will be:

- Increased competition and additional interest expense through introduction of interest-bearing checking accounts for banks and S&Ls and lifting of the interest-rate ceiling under Reg Q.
- Proliferation of money-market funds and other such widespread competition for the consumer dollar.
- Need for banks to position themselves to meet future statewide and/or national banking situations.
- Introduction of new variable rate certificates of deposits with rates tied to money-market funds.
- Opportunity for credit unions, brokerage houses, insurance companies and major retailers to vie for the consumer dollar.
- Further innovations and increased competition in corporate cash management.
- Variable-rate and equity-participation mortgage loans.

This all adds up to the fact that our traditional sources of funding will disappear rapidly and that the cost of funds to banks will continue to be high and volatile in the foreseeable future.

It also means that banks must develop a new agility to position themselves to survive and grow in view of the many pressures on the industry.

I believe there are two critical areas that relate to banking in the 1980s: 1. Spread Management. 2. Productivity.

Spread Management. Matching assets to liabilities to achieve an acceptable rate differential is an absolute necessity. In the commercial area, floating-rate loans have replaced most fixed-rate lending, and the feasibility of adjusting installment-loan rates is being studied.

The 1980s will have to provide some

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Frank B. Hower Jr. is ch./CEO, Liberty Nat'l, Louisville.

Three Key Aspects In 1981 Challenges

By John H. Perkins

THERE can be little doubt in anyone's mind today that the banking industry of this country has entered a period of revolutionary changes that will have far-reaching implications for the industry and those it serves. How banks respond to these changes in an increasingly volatile climate that promises continuing large fluctuations in interest rates at high levels will, to a large extent, set the pattern for banking in the years ahead.

The current economic environment, fed by high levels of inflation, is one that will demand unusual flexibility and creativity on the part of bank management. Three key aspects stand out as contributing to the challenges ahead:

First, banks are losing their once strong positions as financial intermediaries. As interest rates fluctuate to produce negative-yield curves, traditional funding profits suffer.

Second, new entrants into the financial services industry are providing and developing new services and products to compete with our own, but, at the same time, they are not bound by bank regulation. Investment firms are moving into the savings market with an incredible array of mutual funds, including money-market funds; insurance companies are moving into credit

(Continued on page 66)

John H. Perkins is pres., Continental Illinois Nat'l, Chicago, and a past ABA pres.

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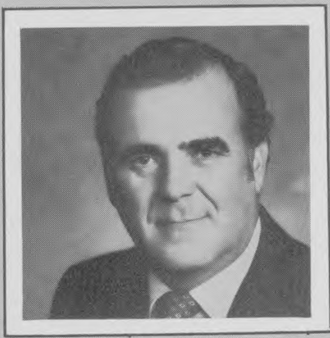
Association Officers Look at 1981 Issues



Lee Gunderson

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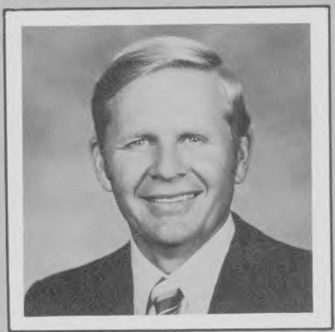
Thomas L. Ridenhour



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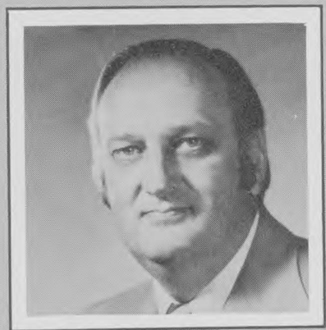
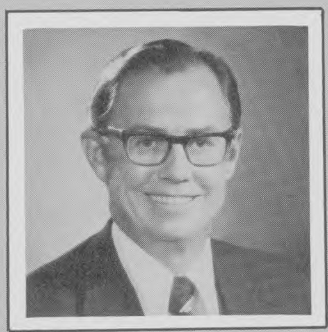


Robert H. Duckworth



N. Berne Hart

Paul Mason

Sound Monetary Policy Is Nation's Top Need

By Lee Gunderson

BANKERS' preeminent opportunity in 1981 is that of working to fight inflation. I am proud the ABA has taken a lead and has formulated a program we feel can help end the inflationary cycle.

The first point in the program is that this country needs to institute, and stick by, a sound monetary policy — that is, a policy that does not allow the money supply to grow faster than the real economy. Those of us in banking are acutely aware of the need for sound management of our money supply.

Hand-in-hand with a sound monetary policy goes a sound fiscal policy that does not allow deficit spending unless this country faces a real national emergency. The ABA also has called for a comprehensive reform of the federal-tax system. A system must be instituted that provides incentives for savings and investment that will foster productivity and growth, rather than the present system, which rewards continued consumption. With an increase in productivity, we also will feel a greater need for a free and open international-trading system.

Fifth, and probably most important, the ABA reasserted its belief in the power of the American electorate. Our elected leaders listen to the messages we send them. Few, if any, politicians will consistently go against the will of their constituents. But it is up to each and every one of us to let our representatives know what our will is.

A sixth critical point is the need for a reduction in government regulation that overburdens industry and produces no positive result. In dealing with government over-regulation, we must be careful not to overlook opportunities; in many cases, we will have to

(Continued on page 53)

Lee Gunderson is ABA pres. and pres., Bank of Osceola, Wis.

Interest-Rate Relief 1981's Critical Need

By Thomas L. Ridenhour

CONSUMER banking in 1981 will be characterized by continued volatility of interest rates, industry pressure to change usury ceilings, tighter credit standards and a more knowledgeable and rate-sensitive consumer. By 1982, as a result of all these, we can be sure consumer bankers will be older (and wiser).

High and volatile interest rates of the past year will continue, with the prime likely to hit 20% or more. Over the next few quarters, there is not likely to be any short-term relief from inflation. As a result, interest rates charged for consumer loans will con-

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tinue to exceed usury ceilings in many states. We may see some positive results from this problem. It forces us to look hard at major issues that have been taken for granted: fixed-rate installment loans and usury ceilings.

Bankers now realize that fixed-rate loans can become a nightmare in a volatile interest-rate climate and that there is a need for a change in traditional retail-lending instruments. Consumer loans must be priced high enough to accommodate anticipated fluctuations in funding costs, or be priced on a variable rate basis, which would allow for rate adjustment based on some indices of money costs. Some banks, in states whose usury statutes allow such floating rates, already are beginning to implement this concept of a "consumer prime rate." With this concept, loans are priced at prime plus 1, prime plus 2, depending on an analysis of risk factors.

During last year's high interest rates, lenders in many states with unrealistically low usury ceilings exerted pressure on state legislatures to raise or remove ceilings. Their argument was that restrictive ceilings in periods of high interest rates radically restrict availability of credit, particularly for lower-income, higher-risk consumers. In several states, their compelling arguments proved to be successful; however, other states, notably Arkansas, voted to stay with its low ceilings and take the risk of seeing the consumer-credit market dry up. With no relief in sight, there is a need to carry the battle further — to the federal level.

Federal preemption of state usury ceilings is sure to be a major issue for consumer bankers in 1981. The concept is not new, since the federal government already has become deeply involved in the usury issue. For instance, Congress in 1980 adopted a federal scheme that overrides (at least to some extent) state usury rates on first-lien home mortgages, business and agricultural loans in excess of $1,000 and mobile-home loans.

One mechanism being considered to effect preemption is the concept of a "federal contract" for consumer loans, with rates determined by the marketplace and with consumer protections included.

Besides reeling from high interest rates, consumer bankers in 1980 shook their heads disbelievingly over the unprecedented high levels of personal bankruptcies that began showing up. Liberal exemption provisions of the new Bankruptcy Act, coupled with extensive attorney advertising promoting bankruptcy, was effective in changing the concept of bankruptcy from a "last-resort" option to a consumer right. Creditors have seen both straight bankruptcies (Chapter 7) and wage-earner plans (Chapter 13) creating problems and abuses. Chapter 13 cases in particular have presented serious problems for unsecured creditors. Since the bankruptcy courts set and apply their own standards, many unsecured creditors are being faced with zero or "de minimus" payments, such as 5¢ on the dollar, on wage-earner plans.

For consumer bankers this means that, even if the bankruptcy rate begins to stabilize, it will do so at a substantially higher level than in the past. And, with prices of these bankers' current loan portfolios based on a previously stable bankruptcy-loss environment, this means new customers will have to undergo tighter credit-worthiness standards, higher finance charges and denials of credit.

Presently, consumer bankers and other creditors are collecting solid information about bankruptcy abuses. In 1981, they will be trying to convince Congress to eliminate abuses and to reduce the economic impact of the new bankruptcy law. The creditor community will not be unrealistic. What it wants is legislation that prevents bankruptcy from being used as a way out of "affordable debt."

Tying all these issues together is the critical need for interest-rate relief so that the risk in consumer lending can be realistically priced in the loan rate. The issue will be given front stage in 1981 because of the volatile economic environment and resulting problems of 1980. • •

More Changes Foreseen In Pricing of Assets

By Robert H. Duckworth

IN THE NOVEMBER elections, voters of this country spoke out loud and clear. They may have expressed many frustrations but, at the least, they said, "We are tired of lack of leadership; we are tired of inflation, and we are tired of too much government at all levels."

Most businessmen and the public in general view these results as positive, but we still don't know who really was listening and who really will take the steps needed to accomplish changes.

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In any event, history would indicate it will take a period of time for government to react, so we should not expect massive changes in 1981.

Let us, therefore, take a look at interest rates for the next 12-18 months. In the past, interest-rate predictions were based to some extent on the prediction of the economic forces affecting those rates. However, for the past few years, the old laws of supply and demand and economic indicators have not worked. The simple reason for their lack of credibility is that interest rates now are used in an attempt to control the economy instead of the economy controlling interest rates. The resultant volatility is too great to permit any worthwhile projection, and bankers would be foolish to run their banks based on interest-rate projections. However, raising and lowering the money supply and interest rates to effect economic goals does indicate a continuing erratic and volatile rate environment.

As volatile interest rates continue, in the short run, and over time result in a general upward trend, commercial banks will need to turn more and more to pricing loans on a variable-interest-rate basis. It has been commonplace in commercial lending for some time to tie loans to prime or some other variable-interest rate. Real estate loans recently have begun to be priced to permit changes in rates from time to time. I expect additional innovative pricing techniques will occur in the real-estate-lending arena, as well as in consumer loans, in order to meet the challenge of the variable-rate environment.

Throughout the next decade, banks will continue to attempt to match the pricing and maturity of their assets with the pricing and maturity of their liabilities. Liabilities, or sources of funds for banks, are changing significantly and will continue to do so. This will prompt more changes in pricing the assets. Asset and liability management, therefore will, have a significant impact on bank earnings, particularly if mismatches begin to occur between fund sources and fund usage.

Even given diligent matching, the interest margin, which is the difference between interest paid for funds and interest earned on those funds, may tend to shrink because of competition and regulation. This will mean banks will need to do more business at narrower spreads.

With reference to government regulation, I do believe the new Administration and some of the regulatory agencies are sincere in their desire to

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lessen the burden on banks. However, this undoubtedly is a slow process since the regulations already are in place. Let's place more hope in seeing a decrease in legislative activity that spawns the ponderous rules.

Without question, exess regulation is costing our customers billions of dollars. Many of these laws and regulations are created out of a lack of knowledge. An example is the Community Reinvestment Act (CRA). Bankers were serving their communities, but special-interest groups and Congress perceived banks were not doing the job. The resultant CRA legislation and subsequent regulations have imposed problems on some members of the banking community. It is not uniformly administered and is used in some cases as a whip without regard to a bank's overall performance. Special-interest groups have found it to be another tool for disruption. Banks will continue to search out community groups that will work to better their neighborhoods and promote those opportunities. We hope some relief will surface in 1981 to eliminate its use as a weapon.

Government continues to be a formidable competitor of the private banking industry. As interest rates rise as a result of a tighter money policy, there is a hue and cry for special rates for special segments of our business community. On one hand, the government seeks to slow down borrowing through tighter money and higher interest rates. On the other hand, it gives special rates and terms to anyone hindered in attempting to obtain credit. In addition, the government continues to form agencies or subsidize borrowers so they won't have to pay the high interest rates.

It never ceases to amaze me how the government creates tight money to get banks to restrict lending, but then promptly complains because banks aren't taking care of the borrowers and creates additional "government" to do what it has prohibited the private sector from doing. To expect any major changes in this attitude probably is wishful thinking.

Government-guaranteed loans undoubtedly will flourish for a short while in this atmosphere. Originally, government-guarantee programs were designed to assist with loans banks otherwise would not extend because of risk. Now, many such loans are requested simply to take advantage of reduced interest rates. And banks sometimes make them to look better under the CRA. They are solicited by the various guaranteeing agencies and promoted by brokerage houses, and few really are made because the guarantee is needed. So, the role of the government guarantee has changed. I question this change; I think the subject should be addressed soon to make sure the intended role is being met by current legislation.

Although 1981 will be a year of change, I believe history will show we have a tendency to overestimate the change during any one year and underestimate the change over five-10 years. All short-run factors tend to be somewhat more positive, with the attitude of the people and their perception of the new Administration being extremely favorable. There should be some opportunities for all segments of our economy at least to be heard and evaluated. Perhaps we bankers can use this opportunity to gain momentum in our desire to reduce regulatory costs in order to serve our customers in a more efficient and productive manner than we can now. ● ●

Marketing-Oriented Banks Have Bright Future

By Ronald E. Hale

IN A DIRECT confrontation between commercial banks and other financial institutions on a "level playing field," I'm glad I'm the commercial banker.

The rapidly developing trends in regulation and technology that are moving various types of financial institutions closer together have been looked on by many bankers with a certain amount of doom and foreboding.

I don't agree with that assessment. I feel rather strongly that if we can all play on the same field, with the same equipment, under the same rules, with non-biased referees, commercial banks are going to come out on top.

Take the checking account, for example. Who has had more experience dealing with demand accounts for so many different types of customers — businesses, consumers, governmental organizations, nonprofit institutions — than commercial banks?

I'm glad I'm not an S&L executive, with no background or experience in demand-account processing, who must now perform in the NOW-account arena. Equipment needed, training of personnel that's required, the very logistical hassle of dealing with all those paper items are second nature to commercial banks, but it's a matter of real concern to S&Ls and credit unions.

And what about installment lending? We make auto loans, home-improvement loans, vacation loans and small-business loans. Our people have been in the installment-lending business for years. We should have no fear about competing with S&Ls, including many that have never made anything but a home-mortgage loan.

The point I'm trying to make is that with any change in the marketplace — whether that change is in consumer lifestyles, technology or regulation — there are going to be winners and losers.

Who is better positioned for the winners' circle than the commercial bank? Unless, of course, that commercial bank has not followed good marketing practices, for that's where the winners are going to be separated from the losers in the months and years ahead.

The marketing-oriented institution is accustomed to following the rigorous discipline that good marketing practice forces on us. That's the discipline that tells us to research our market thoroughly, determine the financial needs of our marketplace and design products and price them in a way that they will return a profit to our banks.

The marketing-oriented institution is not going to try to be all things to all people in the new environment. Instead, it's going to find its marketing niche — whether it's small businesses, upscale consumers or working women — and it's going to design a package of financial services designed to satisfy the needs of that "niche" better than any other institution around.

In short, the outlook for marketing-oriented banks is an exciting one, indeed. ● ●

Ronald E. Hale is pres., Bank Marketing Assn., and e.v.p., City Nat'l, Bryan, Tex.

Small-Town Banks *Do* Have Futures

By Thomas F. Bolger

A CHICAGO banker and bond market consultant, Milton J. Hayes, who writes on economic subjects in his monthly *Independent Banker* magazine column, spoke recently at the Breakers Hotel in Palm Beach, Fla., to the annual convention of the Independent Bankers of Georgia.

That evening, a banker from an under-2,000 community approached Milt and confessed he was tempted to

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sell his bank and quit banking.

"Don't you like being a banker?" Milt asked.

"I *love* being a banker, serving my customers and town, and I think I do it well!" he replied.

"Well then, stick to it," was Mr. Hayes' advice. "Banking that serves people on a first-name basis certainly is an honorable and gratifying profession. Don't be influenced by the gloom talkers. You have much to look forward to."

This good counsel was just what the wavering banker needed, and he went home with a new appreciation of his role and a more positive attitude toward the future.

Independent bank executives cannot afford to indulge in an irrational apprehension about the future. They have impressive assets of intimate knowledge and trusting friendships to ensure performance that prospers.

A significant force of change now moving through the financial community is the Depository Institutions Deregulation and Monetary Control Act of 1980, signed into law by President Jimmy Carter March 31, 1980.

The law is characterized by Lewis I. Markus, Washington, D. C., staff economist of our association, as the most sweeping reform of the financial industry since passage of the Federal Reserve Act of 1913. It will have significant effects on competition banks will face for demand deposits; increasing operating costs stemming from the requirement that reserves be maintained at the Fed and the requirement that the Fed explicitly price its services. Introduction of these major changes at a time when the economy is plagued by volatile interest rates sustained by high inflation rates has given rise to predictions of a rising rate of attrition of the nation's small banks.

Articles in recent issues of the *Wall Street Journal*, the New York *Times* and *Business Week* have forecast that many of the nation's 14,700 banks will not be able to survive the changes in the nation's financial system. But, unfortunately, sources of most of the gloom-and-doom statements in these articles are officials of the nation's biggest banks who anticipate congressional action to remove barriers to interstate branching. This would permit them to compete with small banks across state lines. However, the issue is so controversial that President Carter withheld for several months the release of a congressionally mandated report on the subject. Nevertheless, bank holding companies, anticipating a change in the law in 1981, are drafting plans for takeovers of banks and bank holding companies across state lines. By spreading the psychology of fear of the future, small banks can be frightened into seeking a big-bank purchaser.

There really is no basis in fact to support the fear hysteria created by the financial press and the big banks. Small, community-oriented banks can survive the drastic changes that will flow from legislation enacted in 1980. This is not a new phenomenon. Rumors of the disappearance of the small bank have surfaced at the beginning of each decade since the 1920s.

The 1980s are going to be more difficult for bankers than the 1970s. Sharp new competition from nonbank entities and thrifts, phaseout of Regulation Q, energy shortages and deeply imbedded inflation will account for much of the difficulty. Nevertheless, the well-managed community bank that is responsive and alert to the changing environment will continue to be successful and survive. While the community banker will have a harder time in the 1980s, that does not mean his day is over by any means. The community banker can give his local market far better and more prompt service than a big-bank competitor. He has a faster reaction time to local market changes and more customer loyalty. In addition, the chief local business people are members of the bank's board as well as borrowers.

To help small banks meet the stresses of changing market and regulatory conditions, the Independent Bankers Association of America is undertaking programs of proved practical value. A project now underway will help small banks adapt by providing them with a system to determine their interest-rate spreads on a more timely basis and a set of guidelines for making prompt adjustments of assets and liabilities under volatile interest-rate conditions.

We believe the nation's small banks are sufficiently well managed and adaptable to survive the added competition resulting from drastic changes in financial laws. We believe reports of the early demise of small banks are premature and probably designed to serve interests that would seek to gobble them up.

Those interests are doing a disservice to the thousands of communities small banks serve because those interests are discouraging investors in these banks from holding on to their investments or adding to them for fear of the future and thus are limiting the growth of these banks and their ability to meet credit needs of their communities.

I wrote the New York *Times* editor recently to say he sized up the small banking world from the viewpoint of money-center banks, and that was like asking the fox how to safeguard the henhouse. The *Times* writer, seeing darkly as through a money-center glass, described small banks primping to attract acquisition-hungry larger banks.

Melancholy statements by big-bank voices clearly aim at changing federal laws that now wisely keep giant banks from competing for small-bank deposits across state lines.

Spreading the psychology of fear is a ploy of self-fulfilling prophecy intended to stampede small banks into the corrals of big-bank purchasers.

Again, we echo the call to the courageous: we have only fear itself to fear. ● ●

Thomas F. Bolger is pres., Independent Bankers Assn. of America, and pres., McHenry (Ill.) State.

Managerial Ability Challenged by Regs

By N. Berne Hart

SINCE the November election it has become apparent that the federal government finally will begin to seriously assess the appropriateness of much of its regulatory intervention in the banking industry.

The incoming Reagan Administration and its supporters in both the House of Representatives and Senate have stated their intentions to subject each of the major regulatory requirements to the test of a cost/benefit analysis. This procedure should reveal the extent to which many of the regulations, in their present formulations, fail to provide a net positive benefit to society as a whole. Of course, this scrutiny of existing requirements is not a result of disputes over the intent of many of the national policies set forth and laws resulting in regulations such as civil rights and consumer protection, but rather the belief that the stated goals of such policies can be equally attained in a much less costly manner.

Through a recent study conducted for our lead bank, United Bank of Den-

N. Berne Hart is ch., Bank Administration Institute, and pres./ch./CEO, United Banks of Colorado, Denver.

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ver, we were able to draw some important conclusions relating to the impact of government regulations on costs in the banking industry. The research was conducted by Jerome C. Darnell, professor of finance, University of Colorado, and was submitted to management in January, 1980, in a report entitled, "A Study of the Costs of Complying With Government Regulation." This study was done so that costs could be better managed and so that the bank could participate in an informal way in national benefit discussions.

Study Methodology. All components (divisions/groups/services) within the bank were asked to supply information on cost of compliance with regulatory requirements in their respective areas. Data were collected for direct labor costs, both officers and non-officers, and other types of direct expenditures. Direct labor costs were classified further into time devoted to policy and procedure formulation necessary to interpret and implement regulations and time required to prepare and submit routine, periodic forms to various government agencies. All other non-salary, non-interest expenses were specified for each major component of the bank. Indirect expenses of support areas were allocated on the basis of 48% of total direct labor and other costs.

Total Cost of Compliance. During 1979, the bank incurred a total cost of $12.3 million in satisfying government regulations. Distribution of the cost was as follows:

Direct Labor Cost		
Policy and procedure formulation necessary to interpret and implement government regulations		
Officer/manager labor cost	$ 585,000	
Non-officer labor cost	1,275,000	
		$ 1,860,000
Preparation of periodic reports		$ 194,000
TOTAL DIRECT LABOR COST		2,054,000
Project development, data processing services		$ 92,000
Other direct costs (examination fees, assessments, audits, printing, materials, communications, etc.)		$ 2,046,000
TOTAL DIRECT COST		$ 4,192,000
Indirect cost (48% of Total Direct Cost)		$ 2,012,000
TOTAL DIRECT AND INDIRECT COST		$ 6,204,000
Earnings on reserves ($55 million @ 11%)		$ 6,050,000
TOTAL COST OF COMPLIANCE WITH GOVERNMENT REGULATIONS		$12,254,000

Comparisons. To place the significance of the cost of government compliance in better perspective, we made several comparisons with the bank's income and expense items.

1. Total direct and indirect costs of government compliance are equivalent to 33.2% of before-tax income and 47.5% of after-tax net income of the bank.

2. Total direct and indirect costs are equivalent to 110.4% of the applicable income taxes of the bank for 1979.

3. Total direct and indirect costs were the fourth largest expenditure of the bank, ranking behind interest expense, salaries and benefits and data processing costs.

4. Total direct and indirect costs represent 5.2% of total operating expenses.

5. Total direct and indirect costs are equal to 5.8% of total interest and fees collected on all loans.

6. Compliance with consumer-oriented regulations amounted to $2.646 million. Based on average volume of consumer loans outstanding, the cost of consumer compliance is equivalent to 1.32 percentage points of the interest rate charged on consumer loans.

7. Total direct and indirect costs represent 77 basis points of overall yield on all loans of the bank.

There are other interesting findings of this study. An analysis of the direct labor cost revealed the highly disturbing fact that the typical bank employee is devoting, on average, about 48 minutes of each eight-hour day to satisfying government requirements. Or, stated another way, roughly one out of 10 employees is devoting full-time to government compliance. And remember that our study assessed only partial "opportunity costs," specifically those associated with idle reserves. If there were a way to measure the full impact of lost opportunity necessitated by these regulations, the picture would look even bleaker.

The value of this study is not merely knowing the magnitude of the expense; the study is indicative of a major issue for our industry that challenges our managerial ability. It is clear that a major difference in bank performance is in the ability of management to manage these expenses in a cost-effective manner. Of paramount importance to our industry in the future is that, as an industry, we must provide leadership to national cost/benefit analyses of legislative and regulatory initiatives. We must be able to discuss both sides of the equation in a factual and supportable manner. If we cannot, we leave our industry open to regulation by default. ● ●

Interstate Banking Will Come Closer

By Paul Mason

THE TOPIC of interstate banking, always one to evoke considerable debate among banking executives and regulatory authorities, promises to be no less volatile an issue as we begin 1981.

Indeed, many commercial bankers, industry analysts and state and federal authorities see interstate banking coming ever closer in practice, if not in name, presenting a clear opportunity for traditional banking institutions. The Association of Bank Holding Companies (ABHC) in June, 1980, expressed clearly its support for legislation that would allow bank holding companies to cross state lines for the conduct of business, and the association's membership will actively seek adoption of such legislation in the coming session of Congress.

It is our view that a limited, gradual approach to interstate banking, by regulating acquisitions of holding companies rather than individual banks, is preferable to the existing situation. In short, our proposal seeks a sensible method of meeting competition that increasingly permeates today's financial marketplace.

This competition comes from many kinds of services, some regulated, others unregulated; savings and thrift institutions, rapid growth of money-market funds, credit unions, finance companies and, perhaps most importantly, foreign banks. Such a solution is necessary if commercial banks are to retain their ability to attract depository accounts, which are the mainstay of any institution's lending activities.

The association's proposal, actually an amendment to Section 3(d) of the Bank Holding Company Act of 1956, would allow acquisition of one holding company in *contiguous* states during the first five years following enactment. More specifically, a $500-million HC could acquire only one holding company in a neighboring state in the first five years of the law. A smaller (under $500-million) company could acquire others until the $500-million ceiling is reached.

Several elements of this proposal, which was adopted by overwhelming

(Continued on page 66)

Paul Mason is ch., Association of Bank Holding Companies, and pres., First United Bancorp., Fort Worth.

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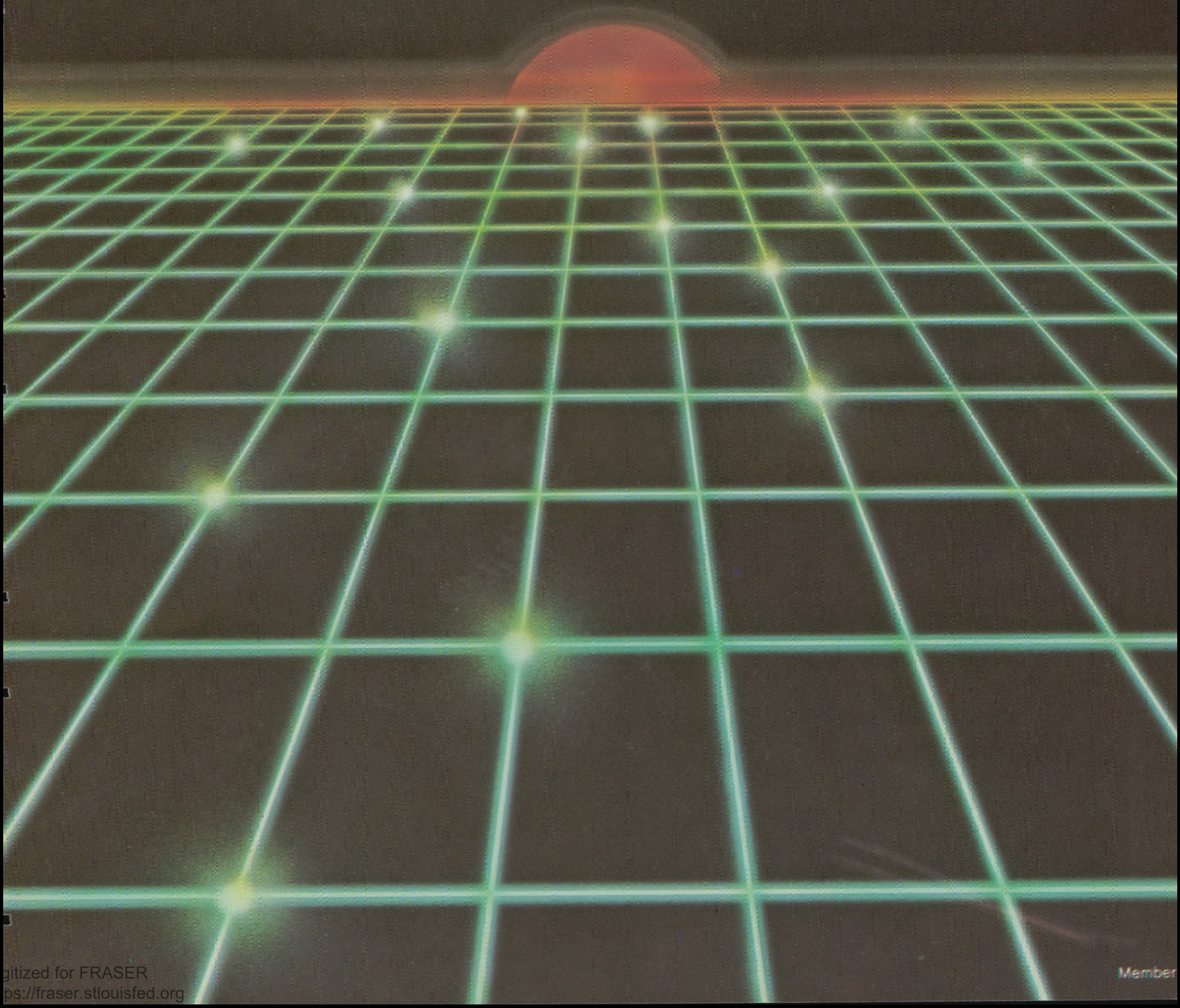

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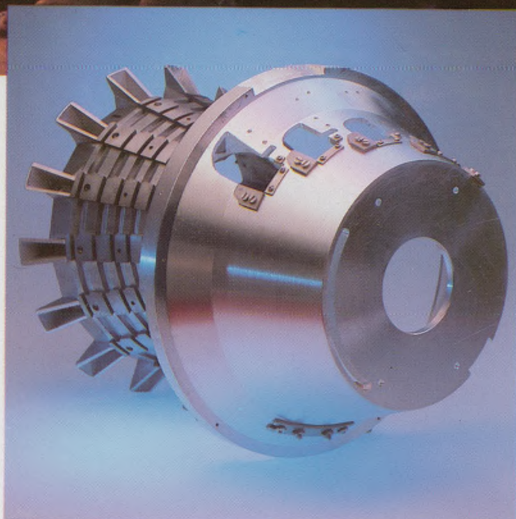

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Enormous New Credit Demands Expected This Year Due to Inflation, Economic Recovery

Almost 100% Rise in Bank Loans/Investments Predicted

ENORMOUS new credit demands, totaling a record $412 billion, will be generated in the U. S. this year, according to a new study by Salomon Brothers, investment banking research firm. These demands will result in growth in total loans and investments at domestic commercial banks from $57.6 billion in 1980 to $106 billion in 1981, the study states.

Pushed by a continuing high rate of inflation and economic recovery, these credit needs, breaking the 1978 high of $400 billion, will be approximately one-third above 1980 levels, the report states.

Besides inflation, estimated at about 10% in 1981 for the GNP deflator, the economic recovery faces unusual noncylical challenges this year. Monetary authorities, coping already with heavy federal borrowings that will be inflamed by an early tax-cut enactment, confront an unprecedentedly quick resumption of borrowing, leading to potentially obstreperous gains in bank credit and monetary aggregates, the report says.

It's improbable that financial footings in the private sector — which are not what they should be for the start of a business recovery — will show such progress as occurred in the first few years of previous recovery. In addition, the economies of most major industrial trading nations still will be in recession.

As a consequence, authors of the report expect the following:

- A rise in real GNP in the U. S. of about 1.5% this year on a year-to-year basis.
- An increase in nominal GNP, reflecting inflation, of more than 11% to $2.87 trillion.
- A rate of increase in real federal government expenditures that will outstrip modest gains in household consumption.
- A bounceback in residential construction, with housing starts rising to about 1.5 million units.
- A gain in plant and equipment expenditures, in real terms, of about 3%, or 12% in nominal terms.
- Lower than usual household and corporate sector savings.

In looking ahead to the economy's credit needs in 1981, the report states that business corporations' external financing needs will soar to a new record $125 billion; households will leverage personal income gains to make larger investment in tangibles and financial assets; the U. S. Treasury, jostling private borrowers in the market, will finance a budget deficit and off-budget outlays of $75 billion; and state and local government gross tax-exempt bond issues will reach a high of about $50 billion.

Interest-rate implications, the report noted, are that rates will remain historically high and be extremely volatile. Long-term rates are likely to show on balance an irregular upward bias, because the economy in generating large net new borrowing needs, will provoke the Fed into periodic attempts to cap fresh inflationary impulses. In addition, there is a sizable pent-up corporate demand for long-term funds.

In meeting business firms' external financing needs of $125 billion, or 18% above 1980 levels, the report anticipates an unusual reliance on commercial banks and the commercial paper market for the first year of a recovery. This represents an important shift in corporate financial strategy because in 1961, 1967, 1970-71 and 1975-76, corporations raised huge amounts of long-term money in order to repay short-term liabilities and rebuild liquidity.

At an estimated $20.5 billion, net new bank term loans to corporations will surpass 1979 record levels and contribute one-sixth of corporate external needs. Another increase in gross stock issuance — to a $31 billion record from the $26.6 billion sold in 1980 — is anticipated. In 1980, the sharp gains in equity sales were spurred by the increase in stock market values and the need to restore balance sheet equity positions.

In the federal sector, the U. S. government's unified budget deficit for calendar 1981 is projected at about $55 billion, while off-budget outlays are projected at $20 billion. Total U. S. Treasury borrowing from the public in 1981 is estimated at $70 billion. After Fed purchases of about $5.6 billion, the balance of nearly $65 billion will need to be absorbed by foreign and private domestic investors, compared with $72.5 billion in 1980 and $31 billion in 1979. All the borrowing this year will be through the sale of marketable obligations, with $50 billion in the coupon area and $20 billion in net new Treasury bill financing, or about one-half this year's $40 billion. In addition, a record $54 billion in net new federal agency and agency guaranteed debts will be issued this year, an increase of 12%.

"Continued heavy federal financing means that commercial banks, other financial institutions and households will all have to be persuaded to invest heavily in U. S. Treasury and federal agency markets again in 1981," the report states.

A significant resumption in consumer installment and mortgage borrowing is anticipated for this year, according to the report. Net increase in consumer credit is projected at $33 billion, compared with $2.1 billion in 1980, while net increase in home mortgage credit is estimated at $107.5 billion, compared with $80 billion in 1980. Rising personal income and an expected federal income tax cut will boost per-

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sonal savings from $81 billion to $92 billion this year. Reflecting the accelerating change in the manner in which households invest, a growing number are expected to turn to high-return investments such as money market and municipal bond funds and savings certificates.

The gross volume of municipal bond offerings, at nearly $50 billion, will easily be a record, the report states, and net new issuance at $33 billion will marginally exceed 1977 and 1978, previous record years.

Because both commercial banks and property liability insurance firms will reduce net takedowns of tax-exempts this year, the market will need to appeal to individuals to a far greater extent than in any previous year.

Among suppliers of credit, all thrift institutions combined in 1981 are expected to show a modest recovery, gaining $50 billion in net new savings compared with $42.6 billion in 1980.

At domestic commercial banks, growth in total loans and investments should accelerate from $57.6 billion in 1980 to $106 billion in 1981. The unusually quick return of heavy borrowing pressure — in contrast to net repayments in previous early business recovery periods — means that banks' scope for needed restoration of liquidity will be limited.

The Salomon Brothers report, entitled "1981 Prospects for the Financial Markets," was written by Henry Kaufman, general partner; James McKeon, vice president, and David Foster, research associate. ● ●

Banking Scene

(Continued from page 6)

as to the worthiness of a bank attempting to borrow at the window. In other words, legitimate banks had to come hat-in-hand to defend their need for advances from the Fed even though most of the basic reasons for the need for discounting probably can be traced to inept monetary and fiscal policy by monetary authorities and the federal government.

Of course, acts of nature, such as floods and drought, are considered valid reasons for banks to approach the discount window. Furthermore, the nature of seasonal crop production means that institutions active in the agricultural area are more likely to have a seasonal pattern of surplus funds when crops have been harvested and a shortage of funds when crops are being planted and grown.

The Fed has come to recognize that this is an area where agricultural and seasonal banks are legitimate in calling for seasonal accommodation, especially where crops are subject to some variation due to rainfall and other climate conditions. However, the small country bank typically isn't a Fed member and those that have been have not been aggressive in using the advances of seasonal credit which, incidentally, are available for periods of up to nine months.

There are three things that non-Fed-member banks should do now. One is to obtain from their Federal Reserve Bank the document mentioned at the beginning of this article. It should provide some preliminary information, some of which may be taken with a grain of salt. Since timing of the need for use of the discount window is not always fully predictable, it's desirable for a bank to obtain an appropriate corporate resolution from its board. This should be incorporated with an executed borrowing agreement, which should be on file with the regional Federal Reserve Bank.

Further, arrangements should be made for collateral in advance on a standby or if-needed basis. Thus, banks have the option of using the discount window should there be a need. The Fed emphasizes that, in this context, it's going to be functioning as a lender, not having any supervisory authority or responsibility for nonmember institutions. This may be viewed as a disclaimer and a form of window dressing. The Fed's willingness to accommodate an institution will be a good test of its non-supervisory commitment.

In view of the uncertainties ahead, it would not be inappropriate for any bank to have gone through the motions of a dry run for using the discount window. Then bank management should feel more comfortable about using the discount window should the need arise. ● ●

Higher Bank Earnings Seen for '81 By Bankers Attending Conference

ALMOST HALF the bankers attending the correspondent conference sponsored by First National, Chicago, last November expect 1981 earnings to be higher than 1980 earnings, according to a poll taken at the conference.

The survey found that 25% think earnings will be lower and 28% think they will be the same, while 46% predict profits will be higher in 1981.

The survey showed that 59% of the bankers feel the phaseout of Regulation Q is too slow, 12% think it is too rapid and 22% said the phaseout is undesirable.

Seventy-seven percent of those polled think President-Elect Ronald Reagan's plan to cut individual tax rates by 10% a year for three years and index tax brackets thereafter is necessary for growth. But 21% said the plan is too drastic and the remainder said the plan is too small.

Approximately 62% of the bankers polled said that an effective plan to reduce inflation should emphasize reduced federal spending. Another 26% said the emphasis should be on federal deficits and 19% said monetary policy should be the main point of emphasis. Some respondents voted for more than one solution.

The new Administration's plan to deal with inflation was judged to be partly effective by almost 80%, quite effective by 16% and ineffective by slightly over 2%.

The annual inflation rate was projected to be between 8% and 10% next November by 56% of the bankers polled, while 37% thought it would be between 10% and 12%. About 40% think the Dow Jones industrial average will hover around the 900 to 1,000 level in late 1981. Long-term interest rates were projected to be between 10% and 12% by 53% of the bankers.

Almost half the bankers felt the unemployment rate would fall to between 7% and 8% while 41% thought it would fall as low as 6% in 1981. The prime rate was forecast to be between 10% and 12% next fall by 48% of the bankers.

Some of the projections made in 1979 proved to be off the mark. Almost 90% of those attending the 1979 conference predicted a prime rate for November, 1980, at below 14% and only 5% of those polled in 1979 felt the price of gold would be more than $500 an ounce. ● ●

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Legislative Battles Loom For Bankers in Several States As Lawmakers Begin '81 Sessions

Structure, Usury, Bankruptcy Relief Have Priority

By Jim Fabian
Associate Editor

STATE legislators in the Mid-Continent area will be dealing with numerous bills affecting banking this year, with the exception of Kentucky, where the legislature doesn't meet in odd-numbered years.

The action is expected to be especially heated in states where legislative halls will be battlegrounds for bank structure issues. Those states include Tennessee, Illinois, Indiana, Alabama and Arkansas.

Perhaps the most emotional arena will be Tennessee's legislature, where proponents of statewide branching will be making attempts to influence legislators to resist overtures by independent bankers to either extend or make permanent a prohibition of statewide branching and de novo expansion of bank HCs that is set to expire at the end of 1981.

Independents and HC bankers have been debating banking structure in the state for a number of years, but other issues have postponed the showdown until this year. Late in 1980, the bank structure committee of the Tennessee Bankers Association (TBA) came up with a compromise proposal that would have phased in statewide branching over a 10-year period. The proposal was presented to the TBA membership during a series of meetings in late November and opposition ran so high that the TBA board voted not to take any actions for or against the proposal, a move that killed the proposal for the time being and made it a sure thing that Tennessee's bankers will not present a united front to the state legislature this year when it considers bank structure.

So the stage is set for representatives of each side to lobby at the statehouse for its views. Independent bankers are expected to make a proposal to extend the prohibition of branching or to do away with the possibility of branching altogether. The big-bank fraternity is expected to lobby for a status-quo situation, which would pave the way for the prohibition to expire at year-end, resulting in the institution of statewide branching and de novo entry in 1982.

"Tennessee bankers generally have been positive and aggressive," said Jack Weatherford, chairman, Murfreesboro Bank. "They normally have worked out their problems within the state association. But at this particular time things have become emotional and members have chosen not to take the usual route.

"I'm sorry we didn't amend the structure committee's recommendations to make them acceptable to the TBA membership so we could have presented a united posture at the legislature when it considers bank structure this year," Mr. Weatherford said. "Now the two factions will be vying for legislative attention, which will not be good for banking as a whole. Anytime banking goes to the legislature divided, those of us in the industry suffer somewhat."

Mr. Weatherford thinks a formal split in the TBA will not develop over this issue. "There's a strong desire to have a split not take place," he said, "but when emotionalism and extreme postures overrule wisdom, there's always the danger of a split."

Ben Kimbrough, vice chairman, Commerce Union, Nashville, said the members of the TBA structure committee weren't prepared for the organized opposition to the committee's proposals. He compared the situation to be "an impasse similar to that in Illinois and other states that's not going to be resolved easily."

The big-bank fraternity intends to do everything it can to prevent a continuation of the prohibition of de novo entry, Mr. Kimbrough said. "We intend to prevent any legislation to be passed that would extend the prohibition." He said the legislature traditionally is more amenable to defeating legislation than to initiating legislation, which places the big banks in "a pretty strong position."

Frank Woods, president, United American Bank, Nashville, and a proponent of prohibition, said he anticipates that the state's independent bankers will work for a new bank structure law that will be similar to the current act that prohibits statewide branching and de novo entry by HCs.

"The present law has worked well. We're not trying to penalize the bank HCs," he said, "we just want to keep the present restrictions."

Another legislative issue that might arise this year is a possible move to reverse legislation enacted last year to substitute state regulations regarding bankruptcy for federal regulations.

Alabama

The Alabama Bankers Association expects to support resubmission of two interest-rate bills in this year's legislature. According to C. A. Avinger, Ala.BA executive vice president, both bills were passed last year, but each carries a sunset provision that makes it effective for only a short period.

The first bill, which "sunsets" in mid-1981, has three provisions relating to interest rates that are of interest to bankers: (1) it permits a 2% interest surcharge up to $20; (2) it provides for open-end credit of 1¾% on the first $750 and 1½% thereafter; (3) and permits a charge of not more than two percentage points over prime at the time a contract is executed.

These provisions are vital to Alabama bankers, Mr. Avinger said, and

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bankers hope to make the rates permanent this year. The 1980 version was passed with a sunset provision so the rates could be tested before they were made permanent. It's possible the renewal of the legislation can be accomplished by resolution, Mr. Avinger said.

The other rate bill provides that usury ceilings don't apply on certain types of loans of $5,000 and over made to individuals. This bill will expire by year-end if it is not renewed, Mr. Avinger said. It's been helpful to bankers, especially in granting auto loans, he said.

A bill is expected to be introduced to provide for branch banking of some sort. Provisions of such legislation haven't been made public and the Ala. BA is neutral on the issue.

Arkansas

The Arkansas Bankers Association will support legislation to protect banks from the federal bankruptcy law's provisions by substituting state provisions. The association also probably will support legislation to impose CRA-type regulations and disclosure provisions on money-market funds by nonbanks.

If legislation is introduced by thrifts to get state retirement funds placed into mortgages in the state through financial institutions, the association will support the inclusion of banks, since one-third of all loans involved in housing are made by banks in Arkansas.

A bill to define the business of banking and terminology that may be used — or not used — by banks and investment houses is expected. And an "all-out attack" by S&Ls to get all types of public funds at the municipal and county levels at their rate advantage, bidding across state lines, will be opposed.

It's possible that support will be given to a public referendum on interest-rate ceilings in the state, a spokesman for the Ark. BA said. The referendum is expected to be scheduled for 1982 and will give bankers and other grantors of credit another opportunity to take the usury ceiling out of the state constitution.

A bill has been pre-filed to remove all restrictions from multi-bank HCs and a bill may be introduced to permit state-wide branching by merger across state lines. The Ark. BA is neutral on these issues.

Illinois

Limited multi-bank HC legislation remains the most volatile issue affecting banking in Illinois. A bill authorizing limited multi-bank HCs passed the Illinois house last year, but didn't make it through the senate. This marked the first time such a bill had gone beyond committee consideration.

A similar bill is expected to be introduced this year, supported by the Association for Modern Banking in Illinois (AMBI) and, as usual, strong opposition is promised from the Illinois Bankers Association (IBA) and the Independent Community Banks of Illinois.

The makeup of the Illinois legislature has changed since last year due to the election, so it's difficult to predict the outcome of AMBI's new attempt to change the state's banking structure statutes.

A number of other bills affecting banks are expected to be introduced in the new legislative session, but only two have the support of both AMBI and the IBA at this writing.

One is an attempt to eliminate all usury ceilings and the other is an attempt to delete the requirement that school fund deposits be collateralized.

Legislative issues supported by the IBA include an attempt to curb visitorial powers of state agencies in connection with unclaimed property and an attempt to curb exemptions from bankruptcy allowed under state law, according to John T. Ryerson, IBA director of research.

AMBI has formulated a legislative advocacy program that will push for the amortization of bond premiums and the deduction for expenses incurred in generating income from state, local and municipal bonds; authorization to permit safety deposit boxes at limited-service facilities; authorization to allow bank security guards to carry weapons off premises; establishment of regulations for the procurement and use of debit cards; authorization for billing the state for expenses incurred by a bank in the inventorying of safe deposit boxes; and addition of a provision under the Revolving Loan Authorization Act to allow for the securing of revolving credit with an equity interest in real estate.

Indiana

The Indiana legislature will consider a multi-bank HC bill, too, this year. The League for Economic Development (LED), headed by Dennis Cheatham, president, Pendleton Banking Co., is expected to reintroduce a bill that passed the state senate last year but was defeated in the house.

The bill would have permitted an HC to acquire four banks a year with no HC permitted to acquire more than 12.5% of the total deposits in the state. It would have provided that HCs couldn't establish new banks outside their home county or buy banks less than five years old.

The 1981 version of the bill is expected to be similar to last year's and the Independent Bankers Association of Indiana (IBAI), which opposes the bill, is prepared for a tough fight, according to Gerald W. Reese, president, Decatur Bank, and IBAI president.

The LED, according to Mr. Cheatham, had been an informal organization in the past; however, it now has the support of about 85 of the

Predictions Made at First of Okla. City Economic Forum

An inflation rate of 10% throughout 1981 and a prime rate of 14% by the end of the year were predicted by James H. Byrd (l.), economist for First International Bancshares, Dallas, at a recent economic forum hosted by First Nat'l, Oklahoma City. Also on program were Dale E. Mitchell (c.), host bank president, and Robert M. Baylis, managing director, First Boston Corp., New York City. About 300 bank customers and community leaders attended the forum.

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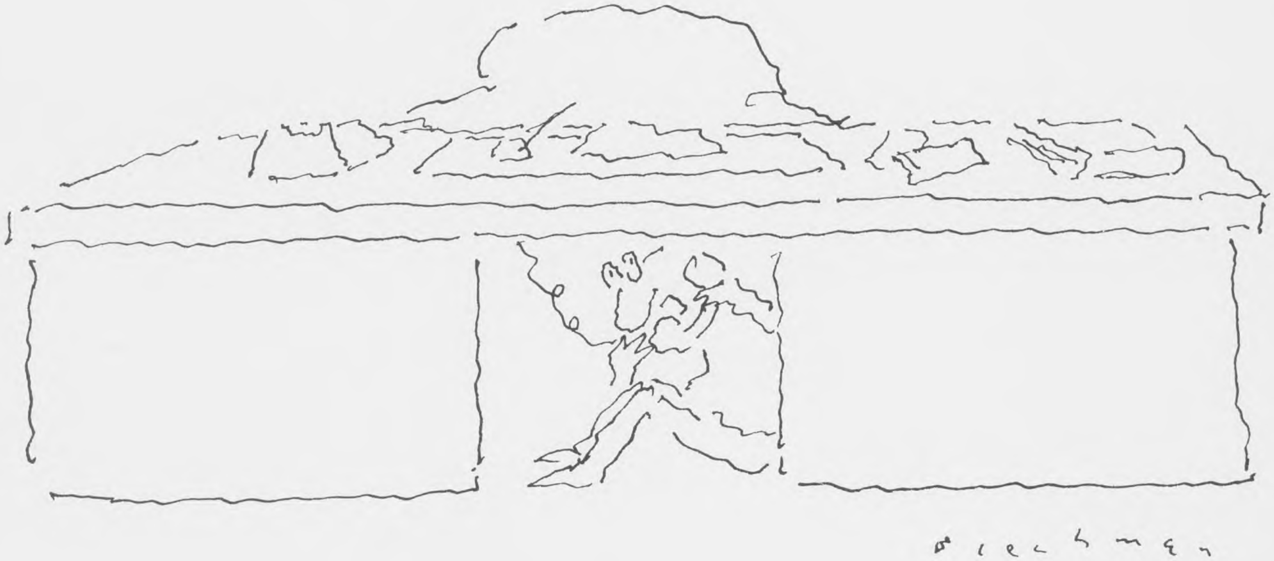

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state's 400+ banks, including six of the state's 10 largest institutions. The Indiana Bankers Association (IBA) is neutral on the issue.

The IBA will seek legislation to exempt first mortgage loans from the usury statute and to increase maximum rates under the Uniform Commercial Credit Code. The association also expects to propose legislation to extend the term to over 30 years for rollover mortgages and include farm loans in the present variable rate and rollover mortgage statute.

An effort is expected to be made to exempt banks from paying fees to the consumer finance division of the Indiana Department of Financial Institutions and a proposal will be made to increase loan limits for officers of state-chartered banks so such limits will be on a par with, or higher than, those for national banks.

It Pays to Speak Up!

Recently, when the Comptroller's Office announced its proposal to eliminate 50% of reserve for bad debts and subordinated debt from its statutory count of bank capital, it asked for comments. And comment the banking industry did! More than 800 comments were received from banks around the country. Only the issue of bank premiums drew more comments.

Unofficially, this publication has learned that about 500 of the comments concerned the Comptroller's ruling on subordinated debt. Another 600 comments were concerned with elimination of the 50% of reserve for bad debts.

Apparently, the Comptroller's Office was impressed not only with the quantity of the response but the quality and rationale behind bankers' arguments against both proposals. As a result — and this is unofficial — the Comptroller will do some further study on the subordinated-debt proposal, and it may go to Congress for clarification. Also, at least for the moment, the Comptroller will continue to count the 50% of reserves for bad debt toward bank capital.

So, the banking industry has been heard and it does show that "it pays to speak up!"

Kansas

Several key issues involving the banking industry are expected to be considered in the 1981 Kansas legislature, according to Gary Reser, director of member relations of the Kansas Bankers Association (KBA).

The leading issue probably will be the investment of public funds at the state and local levels. The thrift industry will be seeking legislation to permit its members to bid on state inactive accounts and local government idle funds. A policy decision that the legislature will be called on to resolve is the impact such legislation would have on the state's agricultural economy and the municipal bond market.

An effort to eliminate the July 1, 1981, sunset date for the 18% maximum interest rate for consumers on credit sales and loans is expected. Legislation to continue the existence of the state banking board also will be introduced as the board is scheduled to be "sunsetted" under current law. There also will be a bill to create reserve requirement uniformity for Kansas banks regulated by federal and state agencies.

Numerous bills involving technical changes in the Uniform Commercial Credit Code and the bankruptcy laws and consideration of recommendations of the governor's commission on state investment practices are expected. Among these bills are ones changing the repurchase agreement bidding procedure and the structure of both the pooled money investment board and the Kansas public employees retirement board.

Louisiana

At this writing, the picture for banking legislation in Louisiana is unknown; however, the Louisiana Bankers Association is on record as having no legislative plans for 1981.

Mississippi

Issues expected to be introduced in the Mississippi legislature include: increasing the salary of the commissioner of banking, mandatory FDIC coverage, permitting free-standing ATMs as branches, a change in state reserve requirements to accommodate the new Federal Reserve requirement, designation of bankruptcy exemptions by the state to supercede federal exemptions, an improvement in the garnishment statute and a provision to provide realistic rate ceilings for borrowings of counties and cities.

Missouri

The legislative program for 1981 to be sponsored by the Missouri Bankers Association (MBA) will concentrate on preventing the general assembly from reimposing the usury ceiling for mortgage loans and the following other issues:

- A request to change the name of the Small Loan Act to the Consumer Finance Act. The MBA wants the legislature to establish a $15 loan origination fee, establish a more flexible repayment schedule, develop ways to recoup costs incurred by credit card services and authorize a drop in late charges to $5.
- The MBA doesn't want the legislature to consider late charges on home mortgage loans as interest, but does want it to permit a minimum interest charge of $10 and authorize a most-favored-lender position to state banks in anticipation of regulation of rates by federal agencies to insure equal treatment.
- Authorization of a tax credit for subsidizing bus fares.
- A request to extend the renewable period of UCC-1s from five to 10 years.
- Assurance that original loans take precedence in mechanics liens.
- A request to incorporate the wording of Kansas law into Missouri statutes regarding safe deposit regulations so banks in Kansas City, Mo., can compete more effectively with banks in Kansas City, Kan., for safe deposit business.
- A request for authority for bank officers to have lines of credit for 12-month periods to clarify the present situation in this area.
- Resubmission of a bankruptcy bill to give state exemptions precedence over federal exemptions.

The MBA also plans to support legislation to change the Section 108 facility statute to enable a bank to place a facility anywhere in the county instead of within 15 miles of the bank when the facility is being located in a community that is without banking services and has a population of 1,550 or less.

A bill will be introduced to permit banks and trust companies to locate an unrestricted number of ATMs and POS terminals in the state as long as they are no closer than 400 feet to an existing bank or facility. The units would not be considered branches, but sharing would be mandatory. The legislation would enable banks to compete effectively with thrifts and credit unions, according to Richard H. Mason, MBA director of governmental affairs.

The MBA also plans to introduce a bill to enable banks to replace replevin bonds with bank funds pledged against U. S. government securities on deposit at a correspondent or other bank.

(Continued on page 42)

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The purpose of this legislation, according to Mr. Mason, is to enable banks to eliminate bond fees. The amount pledged must be equal to that covered by a replevin bond.

New Mexico

Usury is the primary problem affecting banks in New Mexico and the board of the New Mexico Bankers Association (NMBA) has adopted a policy of removing all mention of bank direct loans from the state's installment loan statute, of changing the name of the Bank Installment Loan Act of 1959 to just the Installment Loan Act; to remove all mention of banks from the Residential Home Loan Act and place all direct bank lending under the general usury statute. In addition, the bankers will lobby to obtain a rate ceiling exemption to that statute that will result in eliminating the usury ceiling for bank loans. The association also favors legislation that will require banks to make direct loans on a simple-interest basis effective September 1, 1982, which will eliminate the Rule of 78s and the add-on method. In the indirect loan area, the association wants to provide banks with the option of computing interest on either a simple or an add-on basis.

Another objective of the association's legislative policy is to harmonize holiday observances in the state. At present, according to Mark Douglas, NMBA's government relations director, banks are required to remain open on federal holidays and close on state holidays in cases where a holiday is observed on different dates by federal and state authorities. The NMBA favors giving the financial institutions director of New Mexico the authority to close banks on federal holidays when the date doesn't agree with the date celebrated by the state.

The NMBA also seeks to expand director eligibility requirements by permitting a bank to elect directors from counties adjacent to the county of the bank's domicile. At present, directors must reside in the county of the bank's location.

The association also will seek exemption from interest-rate ceilings for municipal bond offerings. The current 8% ceiling makes it difficult for municipalities to even get bids on their bond offerings, Mr. Douglas says.

Oklahoma

The Oklahoma Bankers Association anticipates a rebuilding year with the state legislature due to the large number of new legislators being seated this year. Introduction of a "housekeeping" bill is expected that would include implementation of penalty for debit card fraud and a change in state law that would permit stock held in a one-bank HC to serve as qualifying shares for directors of a bank owned by the HC.

Legislation may be introduced to authorize multi-bank HCs in Oklahoma, but details of such a bill were not available at this writing.

Texas

In Texas, primary attention will be given to raising the state's usury ceiling this year, according to Sam O. Kimberlin, executive vice president, Texas Bankers Association.

Secondary attention will be given to bank taxation, as an attempt is made to settle the issue raised by a ruling by the intermediate court in Dallas that applies the Montana Supreme Court decision theory to capital stock taxes in Texas. The Montana ruling includes U. S. government securities in the base for computing bank shares tax. The ruling and appeal have resulted in the issue of bank taxation being "up in the air." The ruling, if kept in force, would make Texas banks pay more than their fair share of taxes, Mr. Kimberlin said. • •

Fewer Banks, Lower Profits Seen

A SOLID majority of community bankers are pessimistic about the ultimate results of the Depository Institutions Deregulation and Monetary Control Act of 1980, predicting that the act will promote a reduction in the total number of financial institutions in the U. S. Considerable displeasure with the act is evident because it's believed that it will lower bank earnings.

These views were registered by respondents to a telephone survey on the effects of the act made by the community bank department of the Bank Administration Institute.

Other survey results indicate that nearly 70% of the 100 community bankers polled are in favor of more uniform reserve requirements and 60% approve phasing out Regulation Q.

When asked their position on NOW accounts, nearly 60% registered disfavor of the product, although 77% said their banks will offer NOWs. Another 17% registered a "wait and see" attitude about NOWs.

Almost 60% of the CEOs surveyed said they are planning to match competitors' pricing strategies on NOWs, while another 18% expect to charge more than the competition.

Almost a third of the bankers believe \$1,000 to \$1,500 is an appropriate minimum balance for NOWs. Another 25% expect to require a minimum of only \$500 while 10% will require balances in excess of \$2,000. Most CEOs believe NOWs cannot compete effectively with money-market funds.

When asked which type of institution poses the greatest threat to banks in the future, CEOs placed S&Ls in the top spot, followed by brokerage houses and money-market funds, credit unions, other banks and retail chain stores.

Bankers said planning was the number one internal problem bothering them, followed by data processing, training and marketing.

CEOs interviewed were selected at random from a list of all banks with less than \$100 million in assets, the majority being rural oriented.

• **Richard K. Yowell** has been named director of the community bankers division of the ABA, a new position. Mr. Yowell comes from Culpeper, Va., where he was president, Second National. "The number of major issues and the expansion of existing programs in the area of community banking have clearly indicated the need for a full-time director to run the day-to-day operations of this ABA division," said Willis Alexander, ABA executive vice president. Mr. Yowell has participated in all facets of community-banking activities, including operations, lending, funds management, investments, compliance and personnel. While a banker, Mr. Yowell served the ABA as director, community bank CEO program; member of the community bankers division's executive committee, the operations committee, the advisory board and several community bank task force projects.

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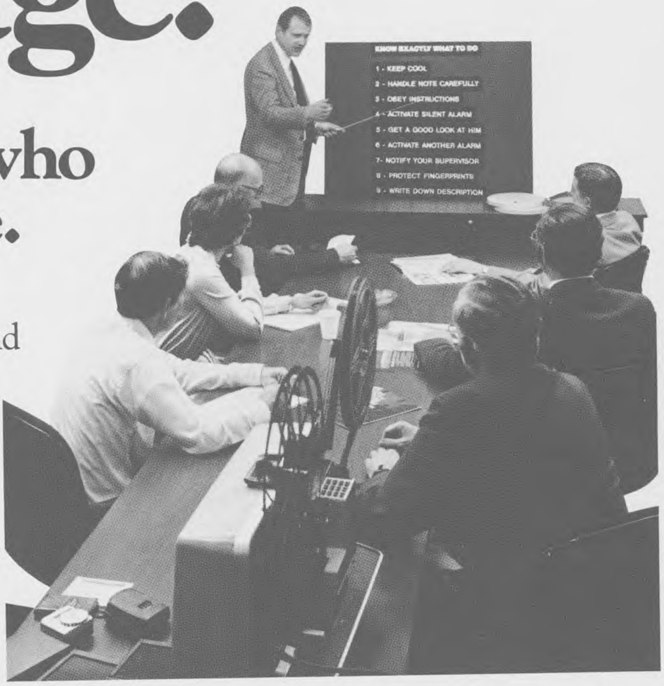

For more than 20 years, Mosler's Anti-Crime Bureau people have provided security and law enforcement officers, tellers, security system installers, as well as insurance investigators with the latest, most comprehensive, anti-crime programs in the world.

In short, there's never been anything exactly like our anti-crime seminars, security officer training schools and teller security training programs.

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Fed Decides on 16% Pricing Markup To Prevent Undercutting Fees Banks Charge for Services

Banks Expected to Criticize New Figure

IN A MOVE that isn't expected to please bankers, the Fed took steps last month to set its service fees for 1981 at cost plus a 16% markup. The action was taken in an attempt to keep the Fed's prices for services from undercutting those of private industry.

However, the banking industry, led by the ABA, had asked the Fed for a 20% to 30% markup. Anything lower than such a figure would mean that the Fed would continue to, in effect, subsidize services and would thwart competition from private industry, according to the ABA.

A major exception to the 16% markup is automated clearing house services, which the Fed will continue to support financially for up to five years.

The Fed approved a formula for setting the markup which resulted in a 15.4% figure, which was rounded to 16%.

The markup will be reviewed annually.

The original markup proposed by the Fed last summer was 12%. That figure was supposed to reflect the expenses that private industry has, such as taxes and profits that the Fed doesn't bear, being a government agency.

The Fed also turned down requests from member banks for relief from what has been considered a competitive advantage in the Fed's pricing plan for nonmember banks. Most member banks commenting on the Fed's original pricing proposal issued last summer pointed out that they will continue to bear a higher reserve burden than nonmember banks for eight years, the time frame designated by the Depository Institutions Deregulation and Monetary Control Act of 1980 for a leveling of reserve fees among existing and new Fed-member banks. The member banks complained that costs for Fed services will be the same for both types of institutions by the fall of this year, even though nonmembers will have lower reserve requirements to maintain.

The Fed says this inequity would be slightly eased by postponing scheduled access to nonmembers and pricing in two services: check processing and coin and currency transportation.

Last summer, the Fed proposed pricing and opening its check processing services to nonmembers in April of this year. Requests for a delay from the banking industry prompted the Fed to tentatively move the deadline to July 1; however, due to difficulty on the part of two Fed-system banks in meeting that deadline, the startup was further delayed to August 1. The delay is expected to save member banks an estimated $30 million because they would continue to have free access to the service for an extra month. The Fed also moved the deadline for access and pricing for ACH services to August 1 to keep it in line with check clearing.

Member banks also will benefit from a delay in another service, although it won't be as significant as with check clearing. Pricing and nonmember access to coin and currency transportation services will be postponed from the scheduled startup time of October, 1981, to January, 1982. Cash transportation services are expected to cost member banks about $40 million annually.

The Fed also agreed to work on a separate fee for returned items in its processing system. However, the cost for returned items will be bundled into the pricing structure for check clearing until 1982. After a separate fee for returned items goes into effect at that time, real costs for processed checks are expected to go down, the Fed said.

Under the Fed's plan, institutions with a low or zero required reserve balance must maintain a clearing balance with the Fed if they desire services. These balances will earn a yield that's tied to the Fed-funds rate and this yield can be used only for purchasing services.

The Fed adopted a policy that deficiencies in clearing balance requirements in excess of 2% will be penalized by 2% per annum. If the deficiency exceeds 20%, the penalty would rise to 4%.

The Fed also adopted a policy that will spread development costs for its services — except ACH — over future years.

Fed staff people are working on a new plan that would use surcharges or discounts to reduce peak work loads in its processing system. A proposal is expected by spring on this issue and, if the Fed accepts it, a system of surcharges or discounts could be incorporated into 1982 fee schedules.

Final approval has been given by the Fed to instituting uniform billing cycles for its services, instead of leaving the billing system to the discretion of

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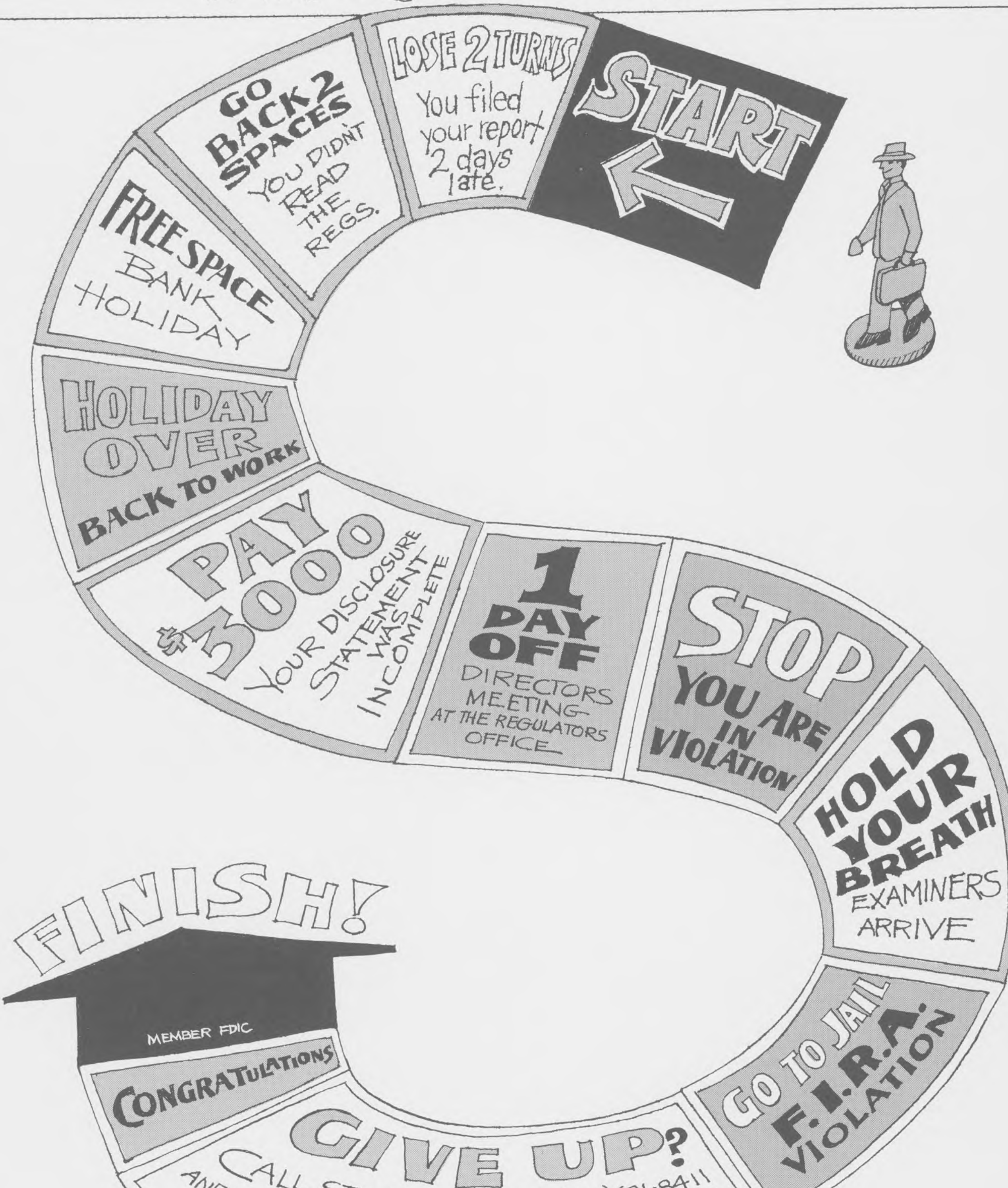
COMPLIANCE

The new board game for bankers that will test your nerve in a battle for survival in the Regulation Jungle



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each reserve bank. Some institutions told the Fed that if the procedures varied among the Fed's 12 districts, lenders in one district might have an advantage over lenders in other districts. Two dry runs for the billing system are expected before the Fed begins levying fees.

Non-member access and pricing for wire transfer/net settlement services is set to begin on January 29 and reserve banks will use their own systems to bill for those services until the uniform billing cycle plan is effected.

Details of the uniform billing procedures are expected to be announced by February 16.

The Fed has decided that when the ACH service is opened to non-members on August 1, fees will be imposed on the receiver of an ACH credit. In the 11 Fed districts other than New York, the fee for debits originated and credits received intra-ACH will be one cent. For inner-ACH items, the fee will be 1.5 cents. For the New York district, fees will be 0.3 cents and 1.2 cents, respectively. These fees may change in January, 1982.

Charges for ACH services will be imposed through the ACH association unless an individual institution requests direct billing.

The Fed also softened the guidelines it proposed last summer under which the services will be priced. The move was seen as an effort to allay banking industry fears that the Fed will continue to subsidize its services. ● ●

Frank A. Plummer

(Continued from page 19)

ment of the loan portfolio.

The writer foresees little comfort in the future script for interest rates until the underlying problem, fear of inflation, is curbed. The Federal Reserve, with well-recognized limitations, is making a valiant effort through control of monetary aggregates. This program will not succeed until better expertise is developed that can produce timely, accurate statistical data from which an orderly relationship between aggregates and Gross National Product can be developed.

In the meantime, continuation of the volatile money markets of 1980 can be expected in the coming year. This volatility will place a premium on bankers developing the required flexibility to adjust rapidly to changing markets to avoid being hung with fixed rates.

The majority of bankers appear to be encouraged with the dramatic change on the Washington scene. It will be interesting to observe the success of the Executive and Legislative branches as they attempt to overcome the inertia of an entrenched bureaucracy.

The constructive resolution by the Association of Bank Holding Companies recommending new limited permissiveness for interstate banking has captured the attention of both investment and commercial bankers in the Southeast. It might be well to temper the enthusiasm of individuals who expect this development overnight. It is true that, down the road, some form of interstate banking is inevitable because of basic economic trends in the marketplace; however, in real time frames, the legislative process can be tedious and frustrating. Assuming permissive legislation, holding companies will have a confrontation with capital, marketing and regulatory problems before mergers are *fait accompli*.

During the interim, we probably will observe an accelerating pace of bank acquisitions by holding companies. Smaller institutions are becoming more sensitive to the "unlevel playing field," cost of operation, regulatory burdens, uncertainties of the marketplace and availability of management. ● ●

Renewed Economic Decline Seen By Harris Economists for '81

ECONOMISTS at Harris Trust, Chicago, say that the economic outlook for 1981 reads like chapter two in a continuing saga. They predict a renewed economic decline.

"The fundamental direction of the economy is down; it has been down since early 1979 and it's going to continue to be down as we go into 1981," said Robert J. Genetski, vice president and economist, last month.

He said the financial market already has accepted the downward trend as fact and some economists are realizing this as well. He said the trend has not been obvious because abrupt swings in monetary policy have disguised the fundamental weakness by pumping money into the economy to prevent a slowdown.

"The Fed has permitted the money supply to grow at a 15% annual rate for the last six months," said Herbert E. Neil, vice president. "This is highly inflationary and the most expansive policy since World War II."

Dr. Genetski said the next move, once again, has to be toward a sharp slowdown in the money supply, which in turn "should dump the economy back down as we go into 1981."

He said he sees a 1% to 2% decline in economic activity in the second and third quarters, assuming the money supply grows at a 5% annual rate for the next two quarters, and at a 7% annual rate for the following two quarters.

Dr. Neil projected a more severe drop. "There's a greater risk that the slowdown in the economy will be sharper because the Fed will have difficulty interpreting the numbers around the turn of the year and into early 1981. My guess is that it will overdo it on the squeeze side."

The Fed is likely to receive unprecedented coaching from the White House when President-Elect Ronald Reagan and his monetarist advisers take over, said Beryl W. Sprinkel, executive vice president and economist.

The remarks were made on the December "Harris Sound of Business" cassette tape distributed monthly by the bank to subscribers to the service.

Supervisory Training School Plans Two Sessions in '81

Two sessions of the Louisiana Banking School for Supervisory Training have been set for this year to accommodate growing demand for courses geared for those who supervise others in banks. The first session will be May 17-22 in Lafayette. The second session will be June 7-12 in Baton Rouge.

Nearly 1,300 bankers from Louisiana and nine other states have participated in the school during its nine-year existence. Last year's registration of 311 was up 88% over the registration for 1979. In addition to bank supervisory personnel, management trainees and candidates for supervisory positions have attended the sessions.

The 1981 sessions are open to bankers from outside Louisiana.

Enrollment information is available from the school at Box 17390, Baton Rouge, LA 70803.

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Why we changed our name to Westcap!

The Westcap Corporation is the new name for securities distributor Hibbard, O'Connor and Weeks, Inc.

And not only the name is new:

Senior management is new.

The controlling stockholders are new.

The attitude is new.

The point of view is new.

Leading the new forces of this rejuvenated company is Clifton Iverson, Jr., President and CEO.

In September 1979, Mr. Iverson took charge of a company beset with problems. In one year's time, he and his management group made many critical, needed and desirable changes.

Now he answers some questions about Westcap:

Why the name change?

"When the company was acquired a year ago and the new management team put into place, the firm had serious problems. During the past year, with strong support from members of the investment community and our stockholders, we have solved or corrected all of the serious problems. What remains is mainly housekeeping.

"We pointed the company in a different direction. We changed the basic business philosophy of the firm. By changing the name, we symbolize the changes that have taken place and our break with the business philosophy of the prior management.

"The name change also makes clear that Messrs. Hibbard, O'Connor and Weeks have no current connection with the firm."

Why now and not a year ago?

"Ours is a business of trust. To conceal, or even attempt to conceal, a problemed past without first correcting the ills of that past, violates principles we consider paramount.

Clifton Iverson, Jr., President and CEO of The Westcap Corporation: "We operate a different type of business than H. O. W. did!"

"We chose, instead, to achieve our own reputation—to prove again to the business community and to our customers, that this new company had the ability to survive and thrive. I think we have achieved this."

What were the problems you refer to?

"The major problem was financial. The old company had engaged in speculative transactions for its own account and lost a great deal of money. They dealt extensively in forward GNMA and FNMAC securities with extended settlement dates. In order to close out these positions, it was necessary for us to borrow additional funds. Then to repay them, which we did.

"Also the old company never clearly decided what they really wanted to be. They were part investor, part speculator, part dealer and part broker. They fragmented their efforts and wound up in difficult straits."

What is this new philosophy?

"First of all, it's not new. It is only new to this company. Our first objective is to provide our customers with superior service and do our best to satisfy their needs. If we do that, we will enjoy a good reputation. Growth, and ultimately profits, will naturally result from this priority.

"Also we have much more carefully defined our place in the market. We are not going to try to be all things to all people. We have neither the capital nor the ability to do so.

"We are, specifically, a regional distributor of certain types of fixed income securities to small and medium sized financial institutions. We intend to excel in that and only that."

Is it working?

"Remarkably well. For example, last year we opened 547 new accounts. Also, we were working with more major security dealers in September 1980 than we were in September 1979. This demonstrates the trust we've earned in the financial community.

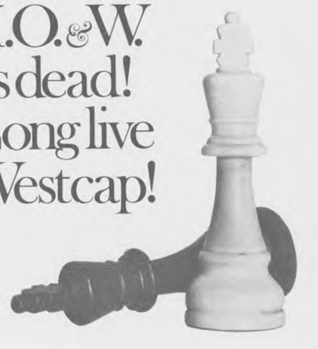
"And we have made money, doing it our way."

"Our capital of more than $3 Million, as noted in our 1980 annual report, was a larger capital base than the firm ever had. And we earned more than $600,000 that first difficult year."

What's ahead?

"More of the same. The same steadfast dedication our management has shown this year. Westcap operates a different type of business than H. O. W. did. *Now we have to let everybody know it!"*

H.O.&W. is dead! Long live Westcap!



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'80s Will Bring Increased Competition, Bankers Told at First Alabama Forum

MORE THAN 500 bankers from throughout Alabama attended First Alabama Bank of Montgomery's 34th annual bank forum last month.

Frank A. Plummer, chairman/CEO, First Alabama Bancshares, told the group to be prepared for increased competition during the 1980s. "We must realize that competition for banks will come not only from the traditional areas, but from some non-traditional areas, such as large retailers," he said. "We have no choice except to get ready to meet that competition," he added.

Mr. Plummer said that "it is difficult to predict any major upturn in the economy in the short term." He urged bankers to develop flexibility in their loan rates. "We cannot be tied to fixed rates. We must have some flexibility in order to cope with the volatility of changes in the economy," he said.

Mr. Plummer told the group that "rates are not going to come down until demand comes down in both the private and public sectors. Reduction of public spending is necessary if inflation is to be controlled.

"The 1980s will test our abilities as bank leaders," he continued, "because we must look even harder for loan opportunities." Mr. Plummer told the bankers that he was optimistic about the coming years and encouraged by the positive outlook expressed by those present.

"NOW accounts are just the tip of the iceberg in the changing bank industry," said Lynn H. Mosley, president, First Alabama Bancshares. "The Deregulation and Monetary Control Act of 1980 will change the protected industry status of banking over the next few years," he added. "The NOW account is not a product which will substantially increase a bank's market share. The key to a successful NOW account is thoroughly trained personnel," he said.

Mr. Mosley told the audience that one of the reasons the NOW account has become so popular in the public's mind is because customer needs are changing. "Today's customer is interested in cash management services, more specialized services and new credit services," he said. "In order to meet these needs we must continue to staff our banks with professionals and give them ongoing training which will allow them to stay current with the latest developments," he added.

Jerry L. Wynne, president, First Alabama Leasing, addressed the group about the sometimes overlooked profit potential in leasing. "Leasing sometimes allows a customer to benefit from the use of equipment that he otherwise would not be able to obtain without an extremely large capital investment," he said. He cited examples of opportunities in the agricultural field, the medical field and other areas requiring highly technical equipment. "In today's economic environment, the leasing of equipment will become even more important to you and your customer," he said.

Paul E. Norris, senior vice president, First Alabama Bank, Montgomery, spoke to the group about some of the recent changes in regulations affecting loan rates. "Each day we find it more difficult to say with any certainty exactly which regulations we are required to adhere to," he said. "It is extremely important to look at each request on an individual basis and be certain you are working with the regulation which is most beneficial to your customer and your bank," he added. "There does not appear to be any way, at least in the foreseeable future, to avoid some conflicts between federal and state regulations."

W. Wyatt Shorter, president, MacMillan Bloedel, and a director of First Alabama Bank, Montgomery, told the bankers about the importance of Alabama's forest resources. "There are 21.3 million acres of commercial forest land in Alabama, which ranks third in the nation," he said. In 1977, forest industries directly employed 42,500 people with an annual payroll of more than $500 million and an annual gross income exceeding $3 billion, he continued.

Mr. Shorter also touched on the need for additional incentives for small land owners. "Some forest-product companies have acted on their own and now sponsor landowner assistance programs where they operate," he said. These programs are having a limited degree of success according to Mr. Shorter, "but in reality, many of the important decisions concerning forest lands will be made in the legislative chambers of Montgomery and in the Congress.

"There is an important part that you play and that is an awareness of the importance of forestry to the Alabama economy," he said. He urged bankers to "make it a point to know what the forest industries mean to your town or city, your county and to Alabama."

Pictured at bank forum sponsored by First Alabama, Montgomery, last month are (from l.) A. G. Westbrook, ch./pres., Commercial Nat'l, Demopolis; James S. Gaskell Jr., ch./CEO, host bank; Wilbur B. Hufham, pres., host bank; and James B. Striplin, ch./pres., Bank of Prattville.

Credit Law Summary

The National Consumer Finance Association has published an updated and revised "Summary of Consumer Credit Laws and Rates." The summary includes listings for every state on consumer credit laws, rates and state regulatory bodies plus comments on and explanations of maximum rates, maximum maturities, precomputation, add-ons and discounts, default deferment conversions, rebates, principal charges, insurance provisions and convenience and advantage provisions relating to the opening of new offices.

The summary is available to NCFA members at $3.50 and at $7 for nonmembers from the Central Order Desk, National Consumer Finance Association, 1000 16th Street, N. W., Washington, DC 20036.

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Left to right in photo: Jack L. Ames, Charles R. Hoschouer and Paul J. Osterfeld

"A strong local service team—that's the important difference in Diebold's ATM program..."

...Jack L. Ames, Chairman of the Board and Chief Executive Officer, First National Bank, Dayton, Ohio

"...We were seriously disappointed in another company's ATMs — and in their lack of service support. So, when we made the change, we didn't base our decision on blind trust. Diebold's people have substantiated every claim they made."

Mr. Ames' staff made these observations about their second ATM program:

"We knew we needed highly reliable hardware, backed by a dependable service support program. We looked for a supplier who could provide that program. Diebold provided not only the assurances but the vital follow-through. In the first week our Money Center™ units were up, customer usage surpassed what it had been in our best week with the other ATMs."

...Charles R. Hoschouer, Executive Vice President and Cashier

"We have 11 Money Center units. Two Diebold service representatives were with us during the entire installation. They helped us establish our own response teams to handle maintenance procedures and made sure we were all thoroughly trained. It's comforting to be prepared — and to know that the experts will be here on short notice if necessary."

...Paul J. Osterfeld, Assistant Vice President and Project Manager

At Diebold, the largest dedicated staff of service specialists in the industry is ready to help you establish and maintain a successful ATM program. Your local sales office can give you more information about the important difference Diebold's Total ATM Support can make for your institution.

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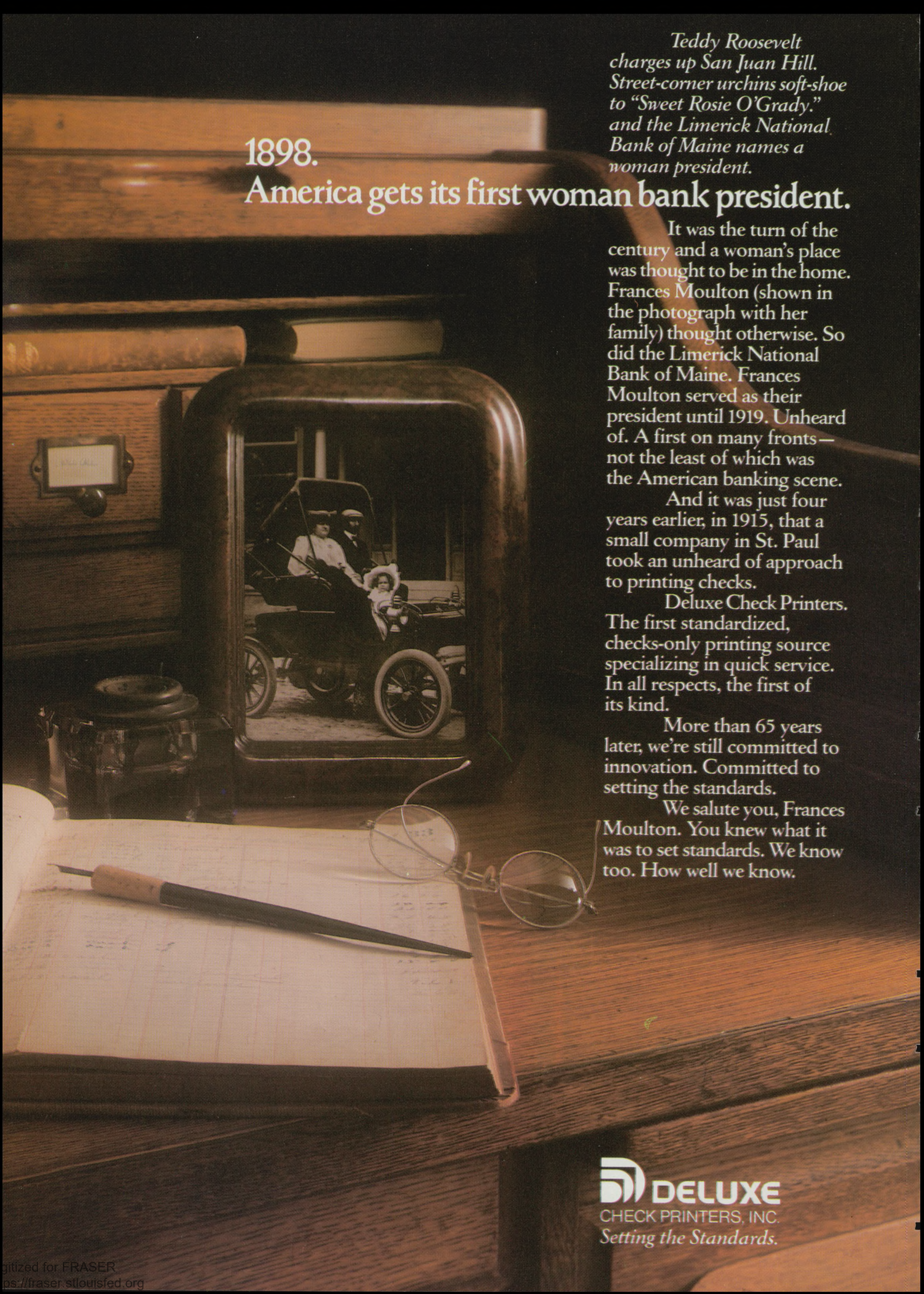

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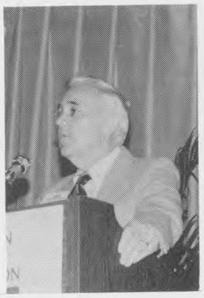
At Correspondent Conference:

Interstate Banking, Fed Pricing Are 'Hot Topics'



Jack O Weatherford, ch./CEO, Murfreesboro (Tenn.) Bank, moderates panel discussion during ABA's 1980 nat'l correspondent banking conference in Atlanta.

By Lawrence W. Colbert
Assistant to the Publisher

A PLEA for removal of barriers to interstate banking was made at the recent ABA national correspondent banking conference in Atlanta by Thomas I. Storrs, chairman, NCNB Corp. and North Carolina National, Charlotte.

However, at the same conference, ABA President Lee Gunderson, president, Bank of Osceola, Wis., promised there will be no ABA position on interstate banking until a long period of study and deliberation has been completed.

Another current "hot topic," Fed pricing of services, was discussed by E. Gerald Corrigan, president of the Minneapolis Fed.

Pro Interstate Banking. In arguing for interstate banking, Mr. Storrs said he believes "it is essential that these restrictions be eliminated or substantially modified if we are to achieve an equilibrium in which the regulatory framework is both internally consistent and consistent with economic realities of the marketplace. The system established in the 1930s had such integrity for approximately 30 years — but no longer does.

"As legal limits on interest rates are eliminated and product-line competition increases between thrifts and banks, I believe we will see a dramatic shift in attitude toward interstate banking on the part of most banks and thrifts. The new competitive environment will force a reduction in the number of deposit-taking institutions. Interstate-banking possibilities will increase the number of bidders for firms that choose to sell. The necessary consolidations cannot occur in a sound and orderly fashion unless financial institutions can participate in markets broader than single locations or even single states."

According to Mr. Storrs, studies conducted by several federal agencies conclude that elimination of geographical constraints on banking will increase competition and provide better banking services to many local communities. He said this conclusion is particularly clear in studies of states that have relaxed branching restrictions in recent years. Broader branching authority, he continued, has led to an increase in number of banks in rural areas, with no decrease in metropolitan areas. More importantly, he went on, statewide branching appears to have resulted in higher deposit interest rates, lower rates on loans, a higher proportion of bank assets in loans and lower bank profits. These findings suggest, Mr. Storrs believes, that interstate banking would provide further benefits to local banking markets.

As a further argument for interstate banking, Mr. Storrs cited broader branching authority as improving the efficiency and competitiveness of the banking industry in nonlocal markets. Businesses with multistate operations can be served better by banks that also operate interstate, he said, and competition in the wholesale banking market will increase as the number of large banks increases.

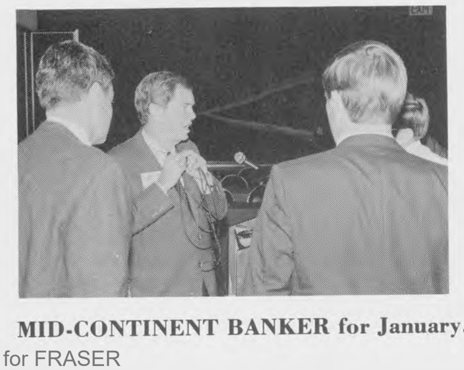
He admitted that the academic evidence on economies of scale in banking is less clear. Current research suggests, he said, that slight economies of scale appear to diminish rapidly with the increasing size of the expanding company. If this is true, he continued, economies of scale would not argue for removing barriers to interstate banking.

"Community banks — even small banks — will continue to exist and prosper," said Mr. Storrs. "They will depend, as they have in the past, on personal service, close ties to their communities and active support by

LEFT: William T. Dwyer (c.), e.v.p., Profit Technologies Corp., Chicago, prepares to lead round-table discussion on "Inter-Bank Lending" during ABA correspondent banking conference.

CENTER: During conference, panel on "Correspondent Services — Expectations for the '80s" was made up of (l. to r.): John H. Hamby Jr., pres., Glastonbury (Conn.) Bank; Robert W. Renner Sr., pres., Citizens State, Hartford City, Ind.; Robert E. Knight, pres., Alliance (Neb.) Nat'l, and Jack O. Weatherford, ch./CEO, Murfreesboro (Tenn.) Bank. Mr. Weatherford was panel moderator.

RIGHT: Press conference during correspondent bank conference was conducted by (l. to r.): Michael N. Harreld, s.v.p., Citizens Fidelity, Louisville; Thomas P. Rideout, pres., Savannah (Ga.) Bank; Wayne G. Hansen, s.v.p., Chase Manhattan, New York City, and Alan F. Munro, e.v.p., Greenwich (Conn.) Research Associates.



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their boards. Somewhat larger banks are likely to be more severely impacted, but the well-run $100-million bank also can prosper, provided it continues to receive help and support from its correspondent institutions. Our own planning at NCNB takes this factor into account.

"Certainly, we expect to continue to provide correspondent-banking services as a significant part of our business. In fact, we recognize that interstate banking and deregulated competition will create new pressures on our correspondent-banking customers, and we will have to provide them with additional services to meet those new demands. In some areas, such as check clearing and safekeeping, we expect to compete even more aggressively than in the past. With explicit pricing of Fed services as a part of the deregulation process, we anticipate new opportunities for well-run correspondent check collection."

Mr. Storrs said he supports the proposal that interstate banking be accomplished through holding-company expansion rather than through bank mergers. He pointed out that one of the advantages of multi-state, multi-bank HCs is that state bank regulators' prerogatives are preserved by requiring individual banks to be limited to a single state. Such a system, he said, would allow a degree of local control while permitting economic efficiencies and enhanced competition to be achieved.

The ABA's Stand. Addressing himself to the issue of possible changes in the future in the area of the geographic structure of banking, ABA President Gunderson emphasized that the association simply does not take a position on any issue until the Banking Leadership Conference (BLC) has met and studied, debated, considered and acted on all arguments that can be made for and against any position. And, he added, on the interstate-banking issue, the BLC has not yet reached any position.

He explained that what the BLC has been doing for some has been to look at the entire picture of financial competition. The goal of this effort is to pick out factors that have contributed to the long-term decline of banking's share of the market. When the banking leaders have done that, they will move to the next step of recommending changes to correct the situation and rebuild banking's competitive viability — changes that all of banking can support.

"Will those recommendations include changes in the structure of banking?," Mr. Gunderson asked. "First, I can tell you that no one — no one at all — could forecast what those recommendations will be, or whether they will have anything to do with structure. It just is too early in the process to tell.

"Second, I can tell you also that whatever the Banking Leadership Conference agrees on will be a position the vast majority of all banks can live with and prosper under."

According to the ABA president, it's obvious to all who have participated in the association's policymaking process that there will be no ABA position on interstate banking until a long period of study and deliberation has been completed.

Mr. Gunderson then turned to other issues facing the ABA, including what he called "unrealistic usury laws, particularly in the consumer-loan field," as well as possible changes in the Glass-Steagall Act and development of new deposit instruments and services that will enable banks to compete more equitably than they do now with non-bank financial institutions.

"Above all," he concluded, "the ABA is committed to helping all its members take advantage of the new level playing field the Omnibus Banking Law has started to create. That is the most important challenge before bankers today."

From the Fed. In his discussion of Fed pricing, Mr. Corrigan said the fact that no one seems particularly happy with the Fed's prices — big banks say the prices are too low, and small banks say they are too high — might mean the prices are about right.

Mr. Corrigan said some believe the Fed's approach to pricing is designed to ensure a continued operational presence in all areas of the payments mechanism. In some circles, the point has been made that the Fed will even go so far as to use its rule-making authority to guarantee that result. He personally rejected both of those views.

The Fed's proposed approach to pricing, he continued, is not designed or intended to maintain volume levels consistent with existing levels of resources at Reserve banks. In fact, he said, it is the other way around. The fee schedule — subject to some technical questions such as the private sector markup where there may be legitimate grounds for some debate and updating of prices — reflect precisely what the laws require, the Fed's direct and indirect costs, plus a markup, for providing priced services. If volume changes over time, he added, the resource base will and, indeed, must be adjusted.

Mr. Corrigan said he didn't want to leave the impression that the Fed thinks it's faced with an insurmountable problem in developing final rules and prices that are consistent with the law's intent and sensitive to comments received from bankers. He hastened to add that he doesn't think a comprehensive "cookbook" can be written as this time that definitely will answer all questions. The reason: In part because the master chef — in this case, the marketplace — will need some time to adjust the recipe as the pricing program proceeds.

He then turned his attention to some of the act's longer-run implications and began by describing the "cast of characters" on the banking scene — about 15,000 banks, 5,000 S&Ls and 500 mutual savings banks in the U. S., along with about 22,000 credit unions, which also share in the new market powers.

Apart from automatic-teller outlets, said Mr. Corrigan, in 1979, there were 52,000 commercial-banking offices, 20,000 S&L outlets, 3,500 savings-bank offices and more than 22,000 CU offices. In short, he said, depository institutions had almost 100,000 offices spread around the country. To put that in perspective, Mr. Corrigan said there are one-third more banking offices than there are franchised fast-food restaurants in the U. S.

Long before the Omnibus Banking Bill of 1980 became reality, he pointed out, market forces had begun to blur some of the historical distinctions among these classes of institutions. Now, with the stroke of a Presidential pen, those market and competitive forces will be unleashed with a new thrust of energy. He believes nationwide NOW accounts, broadened asset powers for thrifts and phaseout of Reg Q can only work in that direction. Indeed, he said, that is the fundamental premise of the legislation — "let the markets work," which is a sentiment and philosophy all financial institutions can embrace.

". . . Even if adjustments are made with the adroitness that will be required," he said, "it does seem likely that some institutions will be facing the prospect of narrowing spreads that could impair the growth in their profitability. Any tendencies in that direction can and, in many instances, will be offset and overcome by countervailing forces of increased efficiencies via new technology and innovation, improved operations and improved pricing on both the asset and liability sides of the balance sheet." ● ●

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Lee Gunderson

(Continued from page 23)

choose between accepting a partial solution to a regulatory problem or achieving no solution at all. In spite of our frustrations, we will have to be careful not to overstate our case, or to raise needless fears among other groups that we are attacking over-regulation with a meat-axe instead of a scalpel.

Perhaps the recent buzzword "deregulation" is not exactly the best word to use. "Re-regulation" may be a better description of our goal.

We do need to stop the steamroller that has been piling laws on laws, each followed by regulations and rules. We must take a good look at what we have and what we want from government. Bankers know what burdens Regulation Z and the various "truth-in" and "fair-to" laws have become. On the other hand, we know that the stated intent of these laws — to protect our customers — is an honorable one.

We need to "re-regulate" these areas and find a common ground where our customers will feel safe and comfortable (as they traditionally have felt), and bankers will be able to conduct their business of serving as a conduit for community investment with greater dispatch and efficiency.

The regulatory pendulum has reached its farthest point and is starting to swing back. We, as responsible bankers, need to show our concern by saying that we are willing to steady that pendulum at a fair halfway point.

Sometimes the regulatory powers of our unelected officials can be used in imaginative and constructive ways. Last year, the Comptroller of the Currency proposed rules to change the definition of the type of funds a bank may use as capital, as a means of beginning debate on this issue.

The banking industry needs to seriously ask the question, "What is bank capital in the first place, and what is the proper level of capital?" The ABA also has taken the lead in this area. One month before the Comptroller announced his proposed regulation, the ABA commissioned a study of the capital-adequacy issue by one of the nation's "big eight" accounting firms.

The ABA welcomes the Comptroller's encouragement of a dialogue among bankers, the public and the government. It is now up to all bankers to join constructively in the debate over capital ratios and lending limits that have frustrated many of us for a long time. At present there is no unanimity among regulators, economists or even bankers about the proper definition of bank capital or proper ratio of capital to a bank's assets. The ABA believes its study will provide valuable assistance to regulators in this matter.

With these issues, as with all others, the ABA relies on you, the professional banker, for direction. Major policy questions, such as inflation, regulation and capital ratios, are debated by the Banking Leadership Conference. The Leadership Conference consists of 400 bankers from every part of the country and from every size and type of bank who meet as major issues arise — anywhere from three to eight times a year. From the bankers who make up the conference comes the "agenda for change" — a statement of policy and priorities to be followed by the ABA staff. The Banking Leadership Conference is one of the most democratic processes that I, as a professional banker and ABA member, am proud to be involved with.

On all these issues and opportunities, one of the prerequisites to progress will be active, constructive involvement by bankers and the American Bankers Association. ● ●

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At Boatmen's Conference:

Forecasts Are Made For Banking, Autos, Energy and Airlines

By Rosemary McKelvey, Editor

Pictured at Boatmen's Nat'l of St. Louis' eighth annual business forecast conference last month are (l. to r.): Baine P. Kerr, pres., Pennzoil Co., Houston; William H. Danforth, chancellor, Washington University, St. Louis, and Donald N. Brandin, ch./CEO, Boatmen's Nat'l and Boatmen's Bancshares. All three spoke at conference.

William H. T. Bush (l.), pres., Boatmen's Nat'l, St. Louis, visits with Michael Pulitzer, pres./chief exec., Pulitzer Publishing Co., and associate editor, St. Louis *Post-Dispatch*, prior to Boatmen's business forecast conference. Mr. Bush, brother of U. S. Vice President-Elect George Bush, gave welcoming address at conference.

A PERIOD of dramatic change for the banking industry was predicted last month by Donald N. Brandin, chairman/CEO, Boatmen's Bancshares and Boatmen's National, St. Louis, at the bank's eighth annual business forecast conference.

Representatives of four other fields — airlines, energy, auto and education — also spoke at the conference.

Mr. Brandin said that deposits from banks and other regulated institutions were being siphoned off by such unregulated parties as Merrill Lynch, Sears and American Express. Congress, he believes, eventually will face this situation, and walls barring interstate banking will begin to tumble.

"The meek do not inherit the earth in the banking industry any more than they do in the rest of the corporate world," Mr. Brandin warned, "so look to the better-situated and managed banking organizations to adapt and survive. The so-called regional banks have been unrecognized and unappreciated growth companies that have shown remarkable resiliency. Earnings for these organizations in 1980 will top industry averages despite the weak economy that has prevailed, and the outlook for 1981 is reasonably good despite what we anticipate will be a flat year, with a 0-1% real GNP growth. It cannot be expected, however, that earnings will match the strong performance of 1980."

Mr. Brandin discussed the yo-yoing prime rate (which hit 18½% the day of the conference) and the past four-year period, which produced a heavy load of banking legislation, which he described this way: "Most of it unnecessary, some of it bad and all of it adding to the cost of service, paid for, as usual, by the customer in the form of higher interest rates and higher service charges."

He also spoke about the Depository Institutions Deregulation and Monetary Control Act of 1980, how it will change the way financial institutions do business and how all this will result in higher costs for banks.

"For banks with a good base of commercial business or for broadly based banking organizations like ours," he predicted, "the increased costs can be absorbed and compensated for at least in part by pricing adjustments. For some smaller retail banks, there will be some erosion of earnings; while for many S&Ls, however, it will be a serious additional blow to an already weakened financial condition."

Autos. The early months of 1981 will be a bellwether of the auto industry's health, James W. McLernon, president/CEO, Volkswagen of America, Inc., Warren, Mich., said at the conference. He pointed out that, although Volkswagen and its competitors have products right for the times, and there's a demand in the market for fuel-efficient transportation, much depends on availability and cost of credit.

He said the nation must address the inflation problem and also produce a workable national energy policy. Emphasizing the latter, Mr. McLerndon forecast a gasoline price of $1.75 to $2 a gallon by the end of 1981.

Oil/Gas Industry. Banking is not the only industry lamenting the many government regulations pertaining to it. Baine P. Kerr, president, Pennzoil Co., Houston, said the oil and gas industry's problems have been exacerbated by a maze of governmental regulations and excessive intervention, not only as to prices, but as to allocation of supplies, suppliers and customers as well. This regulatory nightmare, he said, will not end until crude-oil prices finally are decontrolled next October.

Mr. Kerr believes the new Reagan Administration is dedicated to a program of speeding up efforts to produce more oil and gas to offset — to the degree possible — the declining rate of existing production. Such action, he continued, would seek to develop new sources of energy, while drastically reducing burdens of over-regulation.

One of the first of President Ronald Reagan's decisions, said Mr. Kerr, will be whether to speed decontrol of crude-oil prices. This doesn't require legislation and will not, in his analysis, have any lasting effects on inflation. This step, he told the audience, would eliminate the most burdensome and unworkable regulatory apparatus and would virtually dismantle the Department of Energy.

Airlines. The industry's domestic traffic in 1980, said C. E. Meyer Jr., president/CEO, Trans World Airlines, New York City, is on its way to a decline of about 5.6% from 1979's, and a sluggish 1981 will combine with the effect of fare increases to produce a falloff from the 1980 level of some 6.3%.

In terms of earnings performance, he said, the airlines industry has nowhere to go but up — after a 1980 in

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	Feature	Issue:
JAN.	Brazil	Jan. 15
	Austria	Jan. 19
	100 largest Savings Banks at yearend	Jan. 30
FEB.	ABA Bank Investment Conference	Feb. 9
	BAI Nat'l Conference on Bank Security	Feb. 10
	ABA National Trust Conference	Feb. 17
	300 Largest Savings & Loans at yearend	Feb. 20
MAR.	300 Largest U.S. Commercial Banks at yearend	Mar. 6
	International Banking Annual	Mar. 20
	ABA National Credit Conference	Mar. 23
	ABA National Installment Credit Conference	Mar. 24
	Bank Performance Issue	Mar. 27
	First 5,000 Banks at yearend	Mar. 31
APR.	100 Largest Bank Holding Companies	Apr. 21
	New Jersey Bankers Association	Apr. 28
	Edge Act Corporations at yearend	Apr. 30
MAY	Association of South-East Asian Nations	May 1
	100 Largest Credit Unions at yearend	May 4
	Yugoslavia	May 5
	MBA National Mortgage Banking Conference	May 7
	National Association of Mutual Savings Banks	May 11-12
	Pennsylvania Bankers Association	May 18
	ABA National Conf. on Real Estate Finance	May 19
	Venezuela	May 22
	Benelux Countries	May 27
	Bank Executive Remuneration	May 28
JUN.	ABA National Marketing Conference	Jun. 1
	New York State Bankers Association	Jun. 2
	ABA National Operations & Automation Conf.	Jun. 1-3
	West Germany	Jun. 11
	Finance Companies Review	Jun. 17
	Japan	Jun. 19
	France	Jun. 23
	United Kingdom	Jun. 26
	Trust Management Review	Jun. 30
JUL.	Argentina	Jul. 2
	Singapore	Jul. 7
	Italy	Jul. 10
	World's 500 Largest Commercial Banks as of Dec. 31, 1980 deposits	Jul. 29
AUG.	100 Largest Savings Banks at midyear	Aug. 7
	World's 300 Largest Savings Banks at yearend	Aug. 7
	300 Largest Savings & Loans at midyear	Aug. 14
	300 Largest U.S. Commercial Banks at midyear	Aug. 21
SEP.	Scandinavia	Sep. 10
	Bank Marketing Association	Sep. 14-16
	Savings Banks Association of New York	Sep. 21
	ABA Bank Card Conference	Sep. 22
	World Bank—International Monetary Fund Conf.	Sep. 28
	Korea	Sep. 29
OCT.	AMERICAN BANKERS ASSOCIATION ANNUAL CONVENTION—five days in San Francisco	Oct. 3-7
	ABA International Banking Section	Oct. 7
	BAI National ATM Conference	Oct. 13
	Nigeria	Oct. 16
	Mexico	Oct. 20
	National Commercial Finance Conference	Oct. 22
	Mortgage Bankers Association of America	Oct. 26-27
	Arab Banking and Finance	Oct. 30
	National Foreign Trade Conference	Oct. 30
NOV.	Greece	Nov. 5
	U.S. League of Savings Associations	Nov. 9
	Bank Administration Institute—Annual Conv.	Nov. 10
	Spain	Nov. 13
	Correspondent Banking Annual	Nov. 16
	Robert Morris Associates Convention	Nov. 17
	Turkey	Nov. 20
	Portugal	Nov. 24
DEC.	National Association of Mutual Savings Banks (Midwinter Conference)	Dec. 7
	Chile	Dec. 10
	E.E.C. (European Economic Community)	Dec. 16
	Australia	Dec. 18

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which it may lose as much as $500 million. He added that his own carrier, TWA, will show relatively better results than its competitors in 1980, but it, too, will have a deficit for the year.

For the plane-riding public, Mr. Meyer had this unhappy prediction: "Planes may become more crowded, last-minute space harder to obtain and airports hard-pressed to keep wide-body passenger loads moving smoothly through ground portions of their travels."

Education. A discussion of universities as ongoing corporations, as financial operational marketing and production entities was given by William H. Danforth, chancellor, Washington University, St. Louis.

Dr. Danforth said that his university, in the latest fiscal year, had expenditures and mandatory transfers of just over $180 million. About 60%, or $110 million, were expenditures of the east or medical campus, the remainder, the west or hilltop campus. He added that the hilltop campus is financed largely through tuition, student fees, endowment income and gifts, and the medical campus is financed largely through the health sector. He pointed out that the hilltop campus' annual growth rate the last five years has been 7%, while on the medical campus, the rate has been 14%. Both growth rates, he said, are similar to those of other universities.

Dr. Danforth discussed the high cost of maintaining an institution such as Washington University, why it costs so much and whether these costs can be controlled. He pointed to salaries as absorbing most of the money, but added that it has been notoriously difficult to be more efficient in teaching. He said the university was planning for success and working as hard as it knows how to ensure that it continues to draw the students and resources it needs.

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The New Congress

(Continued from page 16)

rocal banking between agreeing states and institutions headquartered in states that would enter such compacts.

As to the first variation on the interstate theme, it is safe to say the McFadden Act will not be repealed in the foreseeable future.

Much more frequent discussion and more probable attention will be devoted to possible modification of the Douglas Amendment. As an example of activity in this area, I would point to the 1979 policy formulation by the Association of Bank Holding Companies on changing Douglas. That group, after much study and full discussion, proposed a change to Douglas along the following lines: Federal law would be modified to permit a bank HC in one state to acquire a bank HC in an adjacent or contiguous state. In response to the ever-present claim that such acquisition activity would concentrate economic power in the hands of the largest institutions, a provision is made that would restrict acquisition activities of HCs whose size is a half-billion dollars or more to one acquisition per contiguous or adjacent state during the first five years after the proposed law is enacted. Smaller bank HCs would not be burdened by the one acquisition per neighboring state. Another feature of the proposal calls for legislation authorizing emergency acquisition of a failing bank HC outside the potential acquiring state. The possibility for such an emergency acquisition exists in the future.

For reasons perhaps unique to the technologies involved, and because an automatic teller machine somehow is distinctly different from a brick-and-mortar branch, electronic banking has been treated differently from traditional branching. As evidence of that approach, I would cite a recent letter from outgoing Banking Committee Chairman Proxmire to President Jimmy Carter concerning his McFadden study. In that September, 1980, letter, Senator Proxmire stressed that the branch-banking issue "is enormously controversial both within the banking community and Congress and that unrestricted branch banking will lead inevitably to the demise of our smaller, independently owned banks and to a far greater concentration of credit resources in the hands of a few money-center banks." Having aimed the cannon at the White House prior to its release of the study, the senator then went on to say, "There may be a case for interstate deployment of electronic teller machines within a single market area such as an SMSA, and the next Congress might be prepared to move in this regard."

I am not predicting early relief of McFadden in terms of EFT, but it must be noted that Senator Proxmire's remarks clearly confirm the unique — non-McFadden — perceptions concerning electronic banking.

Let me mention again the interstate issue of reciprocal-banking agreements. Currently, only Maine authorizes reciprocal banking. Introduced into the assemblies of California, New York, Michigan and Illinois were proposals for reciprocal banking. By way of example, the bill introduced in Illinois would have allowed a New York-based bank to establish or acquire a bank in Chicago, and, assuming the assembly of New York reciprocated, a Chicago bank could have a presence in New York City. In the case of the three states mentioned, only the New York legislature seriously considered, but did not enact, such a proposal.

There is, however, some sentiment for reciprocal-banking arrangements in certain areas of the country. Recently, FDIC Commissioner William Isaac encouraged individual states to review this possibility. Mr. Isaac correctly noted a potential legal issue surrounding reciprocal-banking agreements — such compacts may violate the commerce clause of the Constitution, since they are restrictive in nature, but he felt such difficulties could be resolved, if necessary, through federal clarifying legislation. The difficulty here is that the language of the Bank Holding Company Act establishes a general federal prohibition on acquisitions across state lines. The only authority granted to states is authority to create exceptions to the general prohibition, that is, to permit expansion of banking across state lines where it otherwise would be federally prohibited. If the act does absolutely nothing for the states except to allow them to permit entries of out-of-state bank HCs, can a state restrict such entry to bank HCs from states that have reciprocal legislation?

Next, to interstate banking. The entire field of what activities will be permitted for bank HCs or banks is expected to be the subject matter of congressional debate in the years ahead. What activities should be prohibited (and if prohibitions are enacted, they usually provide for some grandfathering) or what new activities should be permitted will be a continuously re-

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viewed issue during the '80s. What specific issues comprise the larger debate might be identified in terms of the following rhetorical questions:

Should authority be granted banks to underwrite and deal in revenue bonds so that local governments may improve their financing capabilities, or would such permission be a competitive disadvantage to those who currently enjoy this authority, namely those in the securities industry?

We know at this stage that prospective House Banking Committee Chairman St Germain has not been a supporter of this authority. Senator Garn has indicated that, although the Senate acted favorably on this matter twice in the 1970s, the Senate Banking Committee should conduct hearings and study the matter before acting again. Clearly, Congress never has found comfort in trying to resolve a fight between two industries — banking and securities.

Another permissible-activities issue is found in the question:

Does bank involvement in formation, management and ownership of export trading companies violate the separation of commerce and banking?

Senator Stevenson effectively managed such a proposal through the Senate last year, but the legislation became bogged down in the House Banking Committee. Under that legislation, banks would have been permitted to make limited investments in trading companies. What made the matter controversial was the bank-involvement feature. Because the proposal was supported strongly by the Carter Administration, it would appear that no early consideration of this legislation will be forthcoming, since the Reagan Administration may want to formulate its own policy on how best to increase this country's export capabilities.

As to insurance activities, the question is: Should bank HCs be prohibited from offering credit-related insurance, or would a continuing of this authority result in the demise of the independent insurance agents or result in alleged abuses of tie-ins by the lender/insurer on the borrower/insured?

The insurance prohibition considered by Congress generally would have prohibited bank-HC activity in the property and casualty insurance business. Still permitted would be credit life, accident, health and employee insurance. Congress considered grandfathering current activities and did provide, at the request of the Independent Bankers Association of America, an exemption for HCs under $50 million in assets.

The insurance-prohibition bill came as close to passage in the 96th Congress as most legislation can. It passed the House overwhelmingly and was well on its way to Senate passage when the bill became more controversial with the addition of numerous amendments. Both the House and Senate sponsors, Representative James Hanley of New York and Senator John Durkin of New Hampshire, respectively, will not be members of the new Congress. This issue will not go away, but clearly some of the momentum for prohibiting bank involvement in this area has been lost.

In summarizing issues for the '80s, let me call your attention to the outline for possible change as developed in September by the American Bankers Association. ABA leadership felt that attention must be given to those laws or regulations that limit the ability of banks to function in a free-market economy. Included in this category are usury and accelerating the phaseout of Reg Q.

Limitations on abilities of banks to serve the needs of their customers include issues of expanded mortgage-lending capabilities, underwriting of revenue bonds and authority to offer commingled-agency accounts.

A third category for change looks at those current regulations or laws that inhibit banks from delivering existing services on a competitive and cost-effective basis. Reg Z (Truth-in-Lending), Reg E (EFT laws), disclosure requirements on home-mortgage lending, etc., are subject matters in this category.

The ABA feels there should be consideration of laws, or absence of laws, that provide competitors with decided advantages that are inequitable and cannot be addressed by "pro-competitive" options for banks. Examples here would include the possibility of imposing reserve requirements on those that offer third-party-payment services to individuals, businesses or governments. Attention should be given to the loosely regulated lending activities by government itself or quasi-governmental lending activities such as the Farm Credit System, Bank for Cooperatives and Energy Bank. The ABA also believes the Fed and Federal Home Loan Bank Board must price their services on competitive bases.

Finally, laws or regulations that restrict the ability of banks to attract and keep directors or personnel should be the subject of congressional attention. There should be changes in many restrictions contained in the Financial Institutions Regulatory and Interest Rate Control Act (FIRA) or enforcement policies of the Equal Employment Opportunity Commission (EEOC).

Having concluded with the ABA agenda for the 1980s, I will close by emphasizing two points as we look at banking's future in Congress.

First, history has shown us that the legislative process involves and works best when there is a balancing. Second, the 97th Congress will be more deliberative and more orderly than was its predecessor when it devotes its attention to banking issues.

F. Lee Clayton has been elected president, Gulf Southern National, Houston. He succeeds Roger B. Dickey, who now is president, Galleria Bank, Houston. Both banks are affiliates of Texas American Bancshares. Mr. Clayton formerly was a senior vice president at Galleria Bank, which he joined in 1976.

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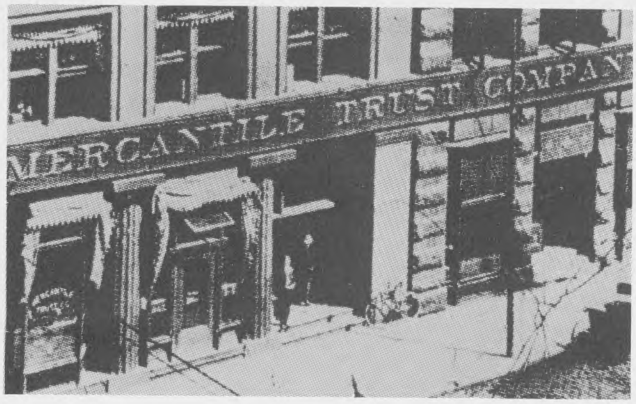

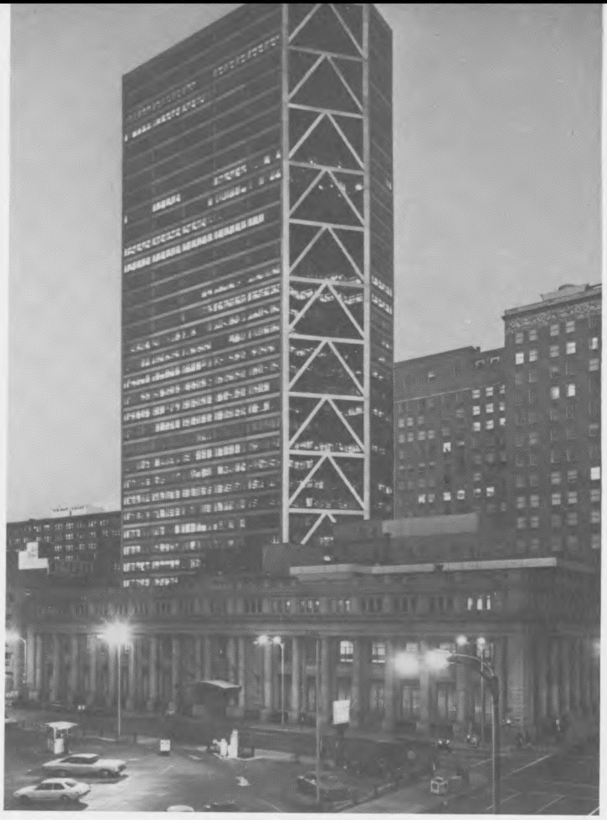

ABOVE: This was original Mercantile Trust location on southeastern corner of Eighth and Locust streets in St. Louis. Bank, founded in 1899, is one ancestor of present Mercantile Trust, whose history dates to December 7, 1855.

RIGHT: Present home of Mercantile Trust and headquarters of Mercantile Bancorp. are located at northeastern corner of Eighth and Locust. Building in foreground was erected shortly after turn of century, while skyscraper behind it was completed during 1970s.

For St. Louis' Mercantile Trust:

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WHEN St. Louis' Mercantile Trust celebrated its 125th anniversary December 7, it looked back on a beginning as a financial institution in a rented one-room office with capital of only $8,500. As of last September 30, Mercantile's parent holding company, Mercantile Bancorp., reported assets of $4.40 *billion*. In 1855, all deposits in U. S. banks totaled only $190.4 *million*.

Mercantile's founders were nine St. Louisans, who were granted a charter from the Missouri General Assembly to open the State Savings Institution. Its modest quarters were located at Main and Vine, a site near which the north leg of the Gateway Arch now stands on the Mississippi River front.

Just two years after its founding, the State Savings Institution weathered a national financial panic and was one of two St. Louis banks that never suspended payment of specie during the crisis. Financial panic was followed by political crisis and war.

Despite the tumult of its early years, however, Mercantile's predecessor bank had grown strong enough to lend the Union Government more than $100,000 during the first six months of the Civil War.

After the war, St. Louis resumed its role as the gateway to the West. The State Savings Association (formerly State Savings Institution) provided financial services to individuals and firms involved in trade with the developing western and, particularly, southwestern territories.

During the postwar growth period, the institution's banking quarters were expanded and its name changed again to State Bank of St. Louis. In 1929, the bank — then called State National — was merged with two other banks. One was Merchants-Laclede National, which had been founded as Merchants Bank only two years after Mercantile's predecessor opened. The other was Mississippi Valley Trust, founded in 1890. Its name was preserved in the merger.

In 1899, another Mercantile Trust ancestor, the first to bear the present bank's name, opened. The founder and first president of the original Mercantile Trust was Festus J. Wade, a native of Ireland, who had become president of his own real estate company by the time he was 29.

Mr. Wade's newly organized bank originally was quartered in his real estate offices on the southeastern corner of Eighth and Locust streets. However, the institution grew rapidly, and, shortly after the turn of the century, a bank building was constructed on the northeastern corner of Eighth and Locust. That structure, which has been expanded several times, continues to be the main building of Mercantile Trust.

Mercantile Trust also was involved in a 1929 merger. Mr. Wade's bank and National Bank of Commerce were joined to form Mercantile-Commerce Bank & Trust Co. In 1951, Mississippi Valley Trust and Mercantile-Commerce were consolidated into today's Mercantile Trust.

Four years later, Mercantile Trust celebrated the 100th anniversary of the founding of State Savings Institution. On April 12, 1955, a special centenary flag was raised in a ceremony outside the bank's main entrance.

During the past 125 years, the various institutions comprising the ancestry of Mercantile Trust account, collectively, for a sizable portion of the over-

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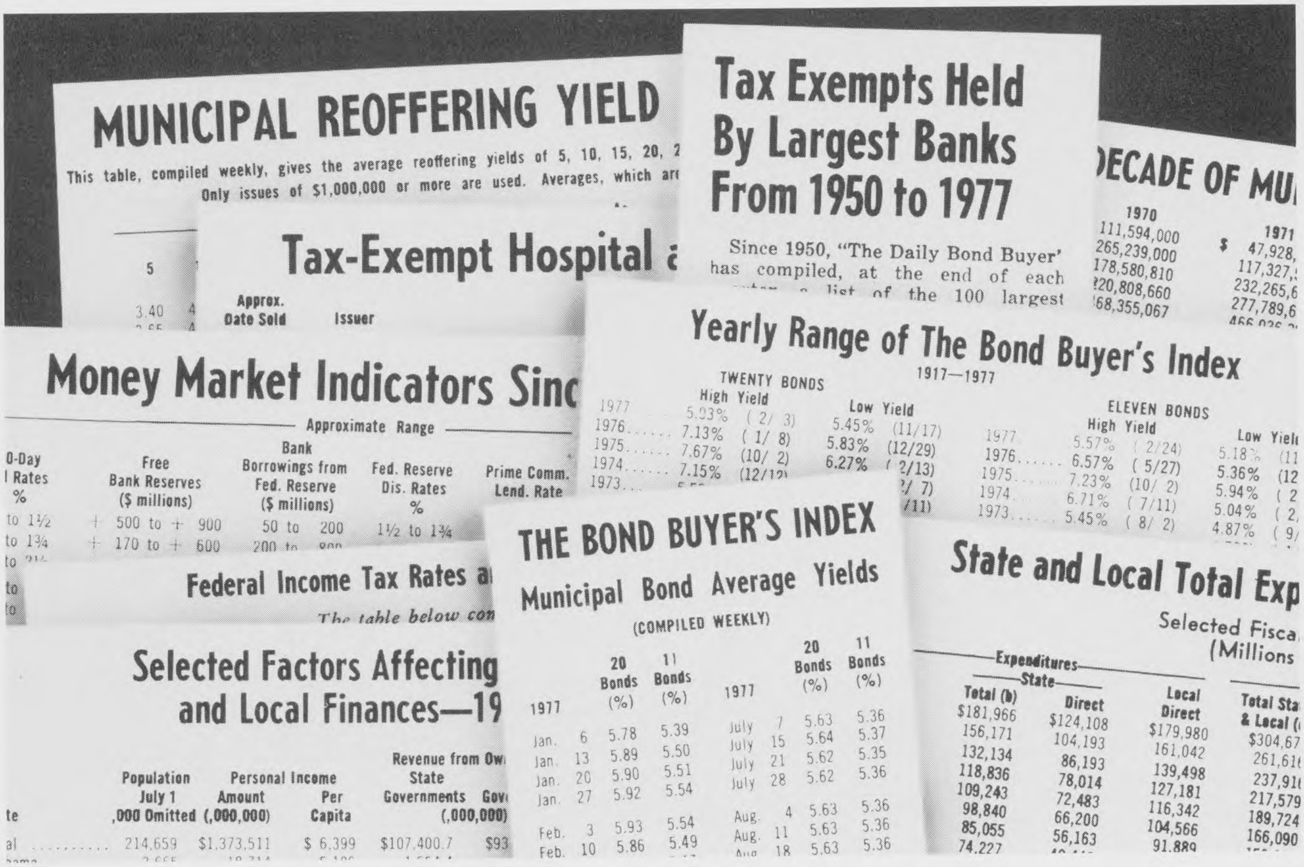

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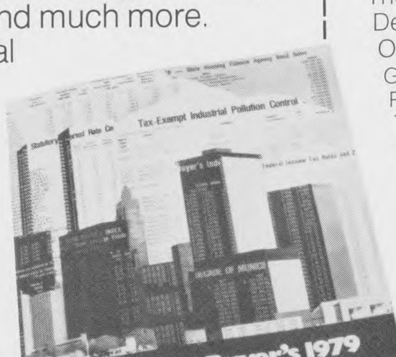

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all commercial history of St. Louis. For instance, Mississippi Valley Trust planned financing for the St. Louis World's Fair of 1904. The bank also was chosen to store valuable gifts presented to the city by the British royal family during the fair.

Julius Walsh, one of the bank's organizers, was a prominent organizer of the fair, and David R. Francis, an officer and director of the bank, was the fair's chief official. Mr. Francis also was President Grover Cleveland's Secretary of the Interior, a Missouri governor and ambassador to Russia.

A $15,000 loan to help finance Charles Lindbergh's historic solo flight across the Atlantic in 1927 was made by an officer of State National, which merged with Mississippi Valley Trust in 1929.

Ten years ago, Mercantile Bancorp. was founded. The HC, whose principal subsidiary is Mercantile Trust, has 29 affiliate banks operating from 57 offices across the state. ● ●

Zahner Observes 50th Year In Bond Business in KC

KANSAS CITY — Victor Zahner, president, Zahner & Co., recently observed his 50th anniversary in the bond industry.

Mr. Zahner started in the bond department of the old City Bank, now United Missouri. In 1939, with Leo Farrell and Mark Lucas, he organized a municipal bond firm, which became a casualty of World War II. In 1945, Mr. Zahner organized the Soden-Zahner Co., and one of the earliest employees was Joe Luby. In 1952, with John Fogarty and two other minor stockholders, Mr. Zahner formed his present firm, which is one of the few companies in the entire country that handles only municipal bonds.

ZAHNER

Zahner & Co. handled the first sewer revenue bonds in Missouri — for Warrensburg — and the first combined water and sewer revenue issue for Maryville. In addition to pioneering these municipal financings, Mr. Zahner often has been a financial adviser to Kansas City, especially on the auditorium garage and new airport financing. He also was financial adviser to the Kansas Turnpike Authority and, for many years, to New Mexico and many cities, school districts and counties.

Productivity Conference Scheduled by BAI in Jan.

"Productivity: The View From the Top" is the theme of the Bank Administration Institute's productivity through automation, technology and humas resources conference, set for January 18-21 at the Fairmont Hotel, Dallas.

Work measurement, productivity control, data processing, telecommunications, office automation and planning strategies will be among the topics discussed at the three-day conference. One session will feature an in-depth examination of managerial/professional productivity improvement and the results of a pilot study designed to improve staff productivity at a bank in Chicago will be presented. A computerized preference poll will be taken, designed to evaluate current productivity and automation issues.

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Director Responsibility, Board Procedures Explained at Ill.BA Director Seminars

By Jim Fabian
Associate Editor

MORE THAN 300 downstate Illinois bank directors taxed the facilities of the Hilton Hotel in Springfield last month to attend the first annual bank directors seminar sponsored by the Illinois Bankers Association.

The meeting was the second of two — the first was held in the Chicago area — to acquaint directors with responsibilities and procedures of boards. A larger-than-expected turnout was experienced in Chicago, too.

Chairing the sessions was James White, president, State Street Bank, Quincy. Topics for the morning plenary session were the business of banking in the next decade and what banks and directors should expect from each other.

Paul Nadler, professor of finance at Rutgers University, got the seminar off to a rousing start. His themes were several: the 1980s will be the decade of the saver, not the borrower; the main objective for bankers is to survive in the face of increasing competition from several quarters; and "if it's not profitable, don't do it."

He cautioned bankers and directors to be prepared "to dance fast because savers are dancing fast." They're more sophisticated than ever and are going to patronize the institution that does the most for them. He also said that independent bankers have nothing to fear from state-wide branching or the creation of holding companies (both of which are anathemas to IBA members) because community banking isn't dead nor is it dying. "They have everything going for them if they're willing to serve the community," he said.

He said it's time that banks get away from the "security from change" syndrome. He predicted that the prime would fall to 14% by next spring and that a shakeout is coming for stocks, although stocks will do well if purchased and put away.

Everett L. Althiser, an outside director at First National, Barry, explained the attitude a director should have toward his bank. He said that any

Jack D. Lemmerman (l.), IBA pres., and ch., Nat'l Bank, Monmouth, chats with Seminar Ch. James White, pres., State Street Bank, Quincy, during IBA directors seminar luncheon. Mr. Lemmerman reported on his recent trip to Washington, D. C., and warned bankers that he detected a move to reverse abolishment of Regulation Q. He also said bankers can expect support from Sen. Jake Garn (R.,Utah), who will head the Senate Banking Committee in the new Congress. He said one benefit of the big change in Washington is the departure of legislative personnel who have been writing bank regulations that have proved odious to bankers.

bank that keeps the financial needs of its customers paramount and strives to fill those needs will grow because growth is the result of dedication of a bank's directors to the bank's customers. He said the biggest contribution a director can make is in understanding customers. The board that approves every loan application is doing its community a disservice; a great deal of a director's time and attention must be given to advising loan applicants that it would not be in their best interests to be granted loans if there is a likelihood that the loans will end up in default.

Mr. Althiser explained how he makes calls on potential customers and said the director's function is to convince the customer that the director's bank is a good one and the place to go for loans. The director, he emphasized, is not to consummate a transaction in the field; rather, he sells the bank so the customer will go to the bank where a loan officer will service his needs.

The afternoon program featured workshop sessions on the anatomy of board meetings, innovations in the boardroom and an overview of insurance protection.

Speaking to the first topic was Robert L. Walton, president/CEO, Farmers & Merchants State, Bushnell. He outlined three main points of director usefulness: 1. They are a sounding board for management. 2. They set the direction the bank is to take. 3. They make sure their policy is carried out.

A board, he said, should be composed of leaders in the community. They should be winners, not losers, he added, and they should represent the various facets of the community.

The CEO has ample opportunity to learn the thinking of his bank's officers through day-to-day contact, he said, but he should be looking for input from outside directors at board meetings. A

(Continued on page 65)

Workshop speakers at IBA directors seminar included (from l.) Robert L. Walton, pres./CEO, Farmers & Merchants, Bushnell — anatomy of a board meeting; Lyle Campbell, ch., Mount Greenwood Bank, Chicago — innovations in boardrooms; and Norman Clark, v.p., Alexander & Alexander, Chicago — overview of insurance and protection.

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Transfer Payments: Euphoric Road to Doom

By John R. Aaker
Senior Vice President/Senior Investment Officer
First Bank & Trust Co., South Bend, Ind.

ACCELERATING growth of transfer payments funded with mounting federal deficits inevitably will lead to rampant inflation.

Transfer payments include a mixed bag of social programs including old-age and health benefits, unemployment insurance, veterans' benefits, retired persons' payments, families with dependent children and other programs making up about 20% of the total.

It is vitally important to realize that the bulk of these funds are earmarked for middle-income recipients; the programs are not keyed to the acutely needy. With transfer payments accounting for 40% of federal outlays, it's apparent their primary effect is redistribution of wealth, not solely assistance to the orphaned, crippled or aged.

The problem with such payments is neither their social need, nor the country's ability to accommodate just needs. The problem is the almost uncontrolled growth rate of outlays now far exceeding growth of the total economy. Such expenditures should have been paid for out of governmental receipts — but they were not. The inflationary impact of such nonproductive payments could have been offset by a courageous monetary policy — but they were not.

In the decade of 1950-59, when more common sense ruled the government, transfer payments grew only moderately faster than Gross National Product (GNP), 6.6% annually versus 6.1%. Money supply nudged up at a sensible 2.6%. The net result was that the GNP deflator increased a pleasant 2.6%.

TABLE I

COMPOUND GROWTH RATE

	GNP	TRANSFER PAYMENTS	M_1B	ANNUAL AVG. DEFLATOR
1950-59	+ 6.1%	+ 6.6%	+ 2.5%	+ 2.6%
1960-69	+ 7.1	+ 9.7	+ 4.0	+ 2.5
1970-79	+10.3	+13.6	+ 6.6	+ 6.7
1979-80E	+ 8.3	+18.0	+ 6.0	+ 9.3

TABLE II

	BILLIONS OF DOLLARS		
	Change In GNP	Transfer Payments	Federal Budget Deficit
1950-59	+ 200.3	181.8	+ .3
1960-69	+ 429.6	432.9	- 19.7
1970-79	+1,386.4	1,594.4	-278.5
1980E	+ 197.1	297.6	- 50.5

A similar comfortable scenario occurred in the following decade even though transfer payments were showing ominous growth trends.

The explosion of transfer payments came in the 1970s, when shortsighted political motives shunted the tough farsighted financial practices that for 200 years guided our country's economic growth. The GNP, inflated by rising prices, climbed at an average rate of 10.3%, but payments soared to a 13.6% rate. Spoon fed by a 6.6% money growth, inflation zoomed to 6.7%. With these three decades of history, can anyone still deny some relationship of money growth and inflation?

In the 20-year "low" inflation period, 1950-59, GNP, expressed in dollar terms, grew $629.9 billion, or about equal to the $614.7 billion distributed as transfer payments. The accumulated federal deficit was a mere $19.4 billion.

The economic disaster of the 1970s saw transfer payments outstripping GNP growth by 15% or $208 billion, an amount funded by the decade's budget deficit of $278.5 billion. Deficits created to fund nonproductive programs are 100% inflationary.

All these destructive long-term trends are continuing in calendar year 1980. Payments will be 18% more than last year compared to a GNP rise of only 8.3%. The federal deficit will soar to $51 billion, the deflator to an unbelievable 9.3% and the Consumer Price Index to 13.4%.

The brutal trends discussed above lead to one conclusion — the United States is in trouble, deep trouble. For years our leaders have been giving us lip service of fiscal and monetary control while practicing spending profligacy. As recently as last spring, with great breast beating, Washington authorities vowed to put our financial house in order. Today, the vows forgotten, the steady slide toward economic chaos continues.

For 1981 the federal Office of Management and Budget in its mid-session review projected that the GNP deflator would climb to 10% from its 9.4% estimate for 1980. The federal deficit this year may be of the same magnitude as 1980 or higher depending on whose estimate one uses. Transfer payments will leap another 15% this year, well in excess of an 8.3% GNP growth.

The long-term bond and mortgage markets are badly wounded. Holders face immense paper losses as new issue rates have soared to offset inflation. Many former buyers have dropped out of the market with no intention of re-

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turning. The name of the game is to stay short.

The little saver enticed by cradle-to-grave federal benefits and soaring prices feels little necessity nor has the capacity to double his savings rate. Those dollars will not be available to finance capital expenditures our economy desperately needs.

The signals are loud and clear. None of the debilitating factors, transfer payments, federal deficits or money supply have slowed, much less reversed, the trend since their explosion in the 1970s. They became worse last year, and some will be worse in 1981. (The jury is still out on the probable success of the Federal Reserve Board's meeting its own growth goals.) Confidence in our government's ability to control inflation and the hope that a dollar saved will buy the same loaves of bread in the future continue to fade with each passing year. Rampant inflation is but a breath away.

Fortunately, there still is time to move off this euphoric road to doom. Our nation is similar to the young boy who eats too many green apples: The catharsis is uncomfortable, but the lesson long remembered. We must act today, not tomorrow. Doing without one program and reducing another, sharply reducing money growth and establishing, seriously, for the first time, the defeat of inflation as a national goal would be beginning steps in the return to national financial sanity. ● ●

Director Responsibility

(Continued from page 62)

CEO needs the views of businessmen because his bank is in the business of serving business.

Mr. Walton said the CEO's responsibility to his board is to keep directors informed; to educate them since they are not expected to know the intricacies of banking and to use the talents of directors correctly. The CEO can carry out his responsibility to directors by providing reading material that's pertinent to banking, furnishing copies of trade publications and encouraging directors to attend seminars and conferences sponsored by banking organizations.

A prime purpose of a board is to provide input to the chairman about how the bank is doing in its attempt to service the community, said Lyle Campbell, chairman, Mount Greenwood Bank, Chicago, who conducted the innovation workshop.

Among the innovations at Mount Greenwood Bank is the practice of fitting board meeting dates around the schedules of directors. Meeting dates are planned three months ahead and are held at whatever time best suits the majority of directors. February's meeting will be held in Florida, he said, since a number of his directors winter in that state.

He stressed the importance of every director attending every board meeting and said he encourages his directors to attend sessions put on by the Assemblies for Bank Directors.

Insurance expert Norman Clark, vice president, Alexander & Alexander, Chicago, discussed the multitude of risks banks and bankers face daily. He said it's important for directors to consider what risks are facing the bank and its personnel, what the degrees of such risks are, how risks can be controlled and how they can be financed.

When identifying risks, it's helpful to consider how a bank and its staff can be exposed to loss, he said. Then the severity and frequency of such losses should be evaluated and measured. Thought then should be given to eliminating or reducing risks, after which a pre-loss decision should be made regarding funding a loss should it occur.

Directors have a choice of self-insuring by setting up a reserve fund, non-insuring by eating the loss or transferring the risk through contractural arrangements. Some risks can be eliminated only by discontinuing a bank service that exposes the bank to the risk, which usually isn't in the best interests of the community, he said. The most-often-taken route is to transfer loss exposure to an insurance firm.

He advised directors to carry extortion coverage separate from the blanket bond. Separate coverage is better and often the cost is less, he said. ● ●

Bank Grants Scholarship

A $1,200 academic research scholarship has been granted to William H. Kelly, a student at the University of South Alabama, by First National, Mobile.

The award is given to an outstanding college student with a major or minor in economics who has maintained a 3.0 grade point average during the scholarship period. Mr. Kelly's average is 3.92. He is a sophomore working toward a major in computer science and a minor in economics.

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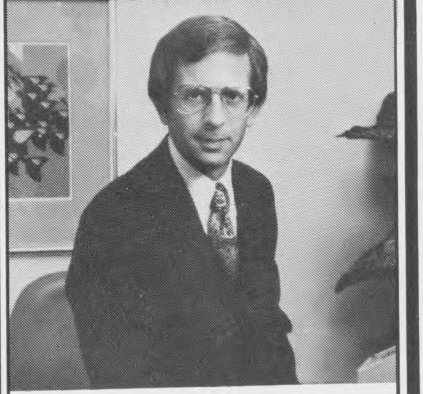

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Paul Mason

(Continued from page 30)

consensus of the association's 171 member companies (representing nearly two-thirds of U. S. commercial-bank assets), stand out in the midst of considerable rhetoric on all sides.

First, and foremost, the proposed legislation permits acquisitions of *holding companies only*, rather than individual banks. This precludes takeovers and possible closings of small banks, which might conceivably result in a monopoly. Moreover, it preserves this country's vital dual-banking system and, hopefully, allays fears of state regulatory authorities who face increasing federal preeminence in the regulatory arena. To further solidify the states' position, the ABHC proposal does nothing to alter current regulatory and examiners' relationships, since charters would not necessarily be changed. It likewise has no effect on current in-state, anti-branching statutes.

With the five-year moratorium in place, a state-to-state, land-rush-type expansion is avoided under the ABHC's recommendation. Only holding companies in contiguous states could be acquired for five years, and following that period, additional holding companies could be added in those contiguous states as well.

Our association's membership reaffirmed its support for granting the Federal Reserve Board authority to approve holding-company acquisitions of failing banks anywhere in this country. Currently, a holding company may step in to rescue a failing or troubled bank only when invited to do so by that state's authorities — not a likely occurrence under current Fed practices. As a matter of policy, American bank holding companies should be given fair opportunity, at least equal to that of foreign institutions, to rescue American banking institutions on the verge of failure.

It is a strange system that restricts interstate expansion of American-owned enterprises, yet gives unfair advantage to foreign-owned corporations. Foreign-owned banks in the U. S. operate under more lenient capital and reserve requirements than do their American counterparts, and their movements (and locations) are not nearly as closely regulated.

This disparity was noted by the U. S. General Accounting Office just last year, when the GAO reported that current U. S. banking and antitrust laws give unfair advantage to foreign banks, making them the only viable buyers of medium-to-large American banks or holding companies.

Lastly, the ABHC proposal calls on state legislatures to initiate reciprocal interstate-banking agreements, a remedy that now exists under the Bank Holding Company Act. This is viewed as a first step toward giving commercial banks fair and evenhanded treatment in today's financial market, without upsetting this country's long-established and politically sensitive system of state and national banks.

The end result, we believe, will be a stronger, more competitive American banking industry, free to respond to the changes and the challenges of a rapidly expanding marketplace. ● ●

John H. Perkins

(Continued from page 22)

markets as intermediate- and short-term lenders, and retailers have announced plans to issue notes to compete with current bank-deposit instruments. In addition, the Eurodollar market is providing foreign banks with a reliable source of dollars to lend to businesses in the United States.

Third, because these financial innovations taking form fall outside the consideration of current banking regulation, there is a blurring of traditional distinctions among types of deposits and among financial institutions themselves. The ground-breaking event in this respect has been the Depository Institutions Deregulation and Monetary Control Act of 1980, which mandates phasing out of Regulation Q, imposition of uniform reserve requirements, authorization of nationwide NOW accounts and pricing of Federal Reserve system services.

While passage of the act will give the banking system more freedom someday to manage its liabilities, the system will continue to face increased competition from institutions within and outside the banking industry. The rewards in this future environment will go to those institutions that develop sound and innovative management programs.

Over the past three decades, the focus of bank management has shifted from asset management, to liability management, to management of both assets and liabilities with primary emphasis on their interest-rate sensitivity. The critical purpose of such balance-sheet management is to provide adequate and profitable financing for all the bank's activities, and never before has the term structure of the bank's assets been so vital to maintaining profitable margins as it will be in the coming year.

During the past several years, money-center banks have developed the technique of interest-rate-sensitivity analysis to make better use of funds at an acceptable level of risk. The analysis involves precise tracking and management of interest-rate exposure of the balance sheet. Through analyzing the varying sensitivities of assets and liabilities to fluctuations in interest rates and studying the volumes involved in both categories, banks have a powerful tool by which they may predict earnings in various rate environments.

Within the rate-sensitivity-management approach, financial futures show considerable potential as a hedging mechanism for banks. Interest-rate futures allow banks to establish, in advance, the price of credit interest rates, and, in today's volatile rate environment, this can be a valuable management tool to banks of all sizes. We can expect their use to be more prevalent in the future.

The real and lasting goal for banks in 1981 will be no different from what it has been in the past, and that is the smart and disciplined performance in all decisions and actions that give meaning and continuity to the business in which we are engaged. The continuing fundamental challenge of banking will remain profitable employment of sources of funds at an acceptable level of risk — whether that risk

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be an interest-rate risk, credit risk, liquidity risk or business risk.

What has changed and will continue to change, however, are the methods employed to achieve those goals in a changing economic and financial climate characterized by high-level inflation and fluctuating interest rates. In these conditions, flexibility and creativity in balance-sheet management will be more important than ever. ● ●

Bank Club for Oldsters Sponsors Alaskan Tour

More than 30 members of "Dimension 60," a program for customers of affiliate banks of First Midwest Bancorp., St. Joseph, Mo., who are 60 years of age or older, participated in a 15-day tour of Alaska last summer, escorted by Gary Mowrey, marketing officer for the HC.

The tour made stops at Ketchikan, Juneau, Fairbanks, Mount McKinley National Park and Anchorage and included a cruise through Canada's inside passage.

Dimension 60 members are eligible for free banking services, merchant discounts, seminars and parties in addition to group travel events.

The photo shows Dimension 60 members examining a log cabin with a grass roof and an adjacent hut on stilts used for storage of food during the winter months. The stilts prevent animals from reaching the storage area.

Dimension 60 has more than 6,000 members and sponsors a number of travel events each year.

• **Sheshunoff & Co.** Two-volume studies of the S&Ls in each state are being offered by this Austin, Tex.-based firm. One volume analyzes S&L branch deposit growth and the second contains a financial analysis of every insured S&L in the state. The firm also is offering a new service entitled "Competing for Deposits," which provides five years of integrated growth and market-share data on all banks, S&Ls, mutual savings banks and credit unions in every state. Write: Sheshunoff & Co., P. O. Box 13203, Capitol Station, Austin, TX 78711.

Frank B. Hower Jr.

(Continued from page 22)

relief from the growing need for housing, but it is difficult to imagine the Reagan Administration subsidizing housing in the same manner as the Democrats have. The variable-rate mortgage is something virtually every bank is studying closely and doubtless will adopt once some guidelines or regulations have been formulated.

Equity-participation loans have just come into vogue and may offer a possible solution to the pent-up demand for housing that is ever increasing.

Productivity. It seems rather evident the time of relying on volume to achieve future growth in earnings is past. There obviously are limits to buying earnings growth with purchased funds. Therefore, we are left with maximizing the return on assets and all other resources — commonly called productivity. While it may be the new buzzword in banking today, productivity must reach beyond the traditional short-term approach of reducing expenses to fulfill its purpose. While expense control is important, there is only so much "cutting" people-intensive areas of the bank can tolerate.

The major effort to increase productivity in the '80s must be made on the basis of where the bank stands in the marketplace. Where are its real strengths? Where can it achieve the greatest return? We simply are going to have to become more selective to become more productive.

This trend toward concentrating on strengths and eliminating less-profitable peripheral activities already may be seen in the Wells Fargo decision to withdraw from the mortgage-lending business. In New York City, Bankers Trust is withdrawing from retail banking while Citibank is making a massive effort to increase its retail business. In our area, we see similar thrusts toward specific markets.

I suggest that the well-managed, profitable bank in the 1980s will be one that attempts to distinguish itself from the competition. The successful bank will be one that is able to carve out a niche by being more selective in the products and services it offers. ● ●

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News

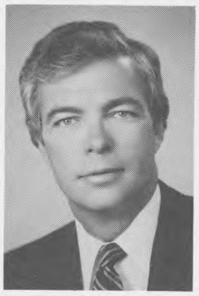
About Banks and Bankers

Alabama

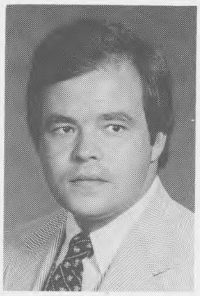
First National, Tuscaloosa, has promoted seven vice presidents to senior vice presidents. They are Gerald L. Busby, marketing; Jimmy D. Collins, consumer loans; A. D. Edwards, who also is cashier; Thomas P. Hester, commercial loans; Jim R. Kirby, branch administration; Henry A. Leonard, who also is senior loan officer, commercial loans; and Lowell A. Womack, who also is senior trust officer, trust division. Mr. Busby joined the bank in 1967, Mr. Collins in 1968, Mr. Edwards in 1960, Mr. Hester in 1951, Mr. Kirby in 1956, Mr. Leonard in 1975 and Mr. Womack in 1965.

Wilbur B. Hufham has been elected president/director, First Alabama, Montgomery. He joined the bank in 1963 and previously was executive vice president. He succeeds James S. Gaskell Jr. as president. Mr. Gaskell now is chairman/CEO. Promoted at the bank were Sam F. Malone to senior vice president and investment officer, Mary Jane Downing to assistant investment officer and Ken N. Sharpe to assistant cashier and branch manager.

D. Paul Jones Jr. has been named executive vice president, Central Bancshares of the South, Birmingham. He continues as general counsel/director. He formerly was a partner in a local law firm.



HUFHAM



BLACK

JONES

Jim B. Black Jr. has been promoted to vice president in the correspondent banking department at First National, Birmingham. He joined the bank in 1975 and had been an assistant vice president since 1978. New assistant vice presidents include Rodney B. Brittain, Wallace W. Graddick Jr., Troy McMichens and John W. McRoberts.

First National, Mobile, has promoted Rodney M. Farris, James E. Pollard and Paul P. Redmond Jr. to senior vice presidents; John W. McNichol Jr. to vice president; Jack F. Busby to assistant vice president; Vicki B. Roselius to marketing officer; and Joseph Matzenger to branch officer. Mr. Farris joined the bank in 1958, Mr. Pollard in 1956 and Mr. Redmond in 1952.

First Alabama, Birmingham, has named five new vice presidents, including Roy D. Birdwell, Ann B. Moody, Samuel J. Fisher III, Maclin F. Smith III and Charles J. Woodall.

Arkansas

National Bank of Commerce, Pine Bluff, has promoted Thomas W. Spillyards to vice president and David W.

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Faucett to auditor. Mr. Spillyards formerly was auditor and Mr. Faucett formerly was assistant auditor.

Commercial National, Little Rock, has promoted Ron W. Strother to vice president and real estate department manager and Joe L. Akers to vice president and consumer loan department manager. Mr. Strother has been with the bank for seven years; Mr. Akers joined the bank last summer.

Warren B. Argo has joined Worthen Bank, Little Rock, as manager, investment banking department. He moved to the bank from First Arkansas Bankstock Corp., parent HC of Worthen.

Illinois

Northern Trust, Chicago, has separated its banking department into commercial and personal banking divisions, to be headed by Stephen B. White and Jay K. Buck, respectively, both senior vice presidents. Within the commercial banking department, Perry R. Pero, senior vice president, is deputy department head and senior credit officer. Harold E. Hindsley, senior vice president, is administrative officer. New to the department is a special industries group with emphasis on natural resources, agriculture and commodities and commercial real estate. The metropolitan group has been expanded to serve the Chicago market.

BUCK HINDSLEY PERO WHITE

Continental Bank, Chicago, has named Joseph C. King, M.D., director, employee health service program. He is the bank's first full-time staff physician. He will consult with employees on medical problems, be a resource person to the bank's nursing staff and serve as a consultant on health issues.

Scott K. Heitmann has been elected executive vice president/chief operating officer, Northwest National, Chicago, which he joined in 1977. Mr. Heitmann is the son of Fred W. Heitmann Jr., bank president and a past president, Illinois Bankers Association.

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New AMBI School

SPRINGFIELD — The Association for Modern Banking in Illinois (AMBI) has announced plans for a two-year Executive Graduate School of Banking, which will be held for the first time July 11-23, 1982.

The two-week school, to be held annually, will be located on the University of Illinois/Champaign campus and will be open to member and nonmember banks, as are all AMBI educational programs.

According to AMBI Chairman Charles L. Daily, chairman, MidAmerica Bank of Edgemont, East St. Louis, the school's basic goals will be to provide concentrated, small-group, individualized bank-management training on the executive-officer level. However, he adds, it will complement, but not replace, other high-quality banking schools by providing a different classroom experience and structure.

Admission to the school will require that a student must have possessed bank-officer status for at least four years, be a college graduate or have equivalent experience and present a written recommendation from an immediate CEO.

National Boulevard Bank, Chicago, has named Charles E. Schroeder chairman, succeeding Myron Ratcliffe, 24-year veteran of that post, who has been named honorary chairman. Mr. Schroeder is president, Miami Corp. David J. Faron was promoted to vice president. He joined the bank in 1973 and was an assistant vice president.

SCHROEDER

Norman G. Murphy has joined Hawthorne Bank, Wheaton, as senior vice president. In banking for 34 years, Mr. Murphy formerly was with Villa Park Trust.

Died: Harold McMillan, 64, executive vice president, Woodford County Bank, El Paso. Mr. McMillan began his banking career with Union National, Macomb, and joined Woodford County Bank in 1960. He helped organize Bank of Carlock in 1971, and was vice president/director at the time of his death.

Indiana

Morris L. Maurer has been promoted to vice president, corporate development, Indiana National, Indianapolis. He joined the bank in 1975. Rex M. Craig and David A. Pedersen have been named corporate banking officer and assistant vice president, respectively. The Fed has granted approval for Indiana National Corp. to retain its Indun Realty subsidiary, which has limited authority to lease real property.

Irwin Union, Columbus, has promoted George H. Groves to senior vice president/consumer banking; Larry J. Shepherd to senior vice president/commercial banking; and Thomas D. Washburn to senior vice president/administrative services. Messrs. Groves and Shepherd joined the bank in 1977; Mr. Washburn has been with Irwin Union since 1976.

Citizens Bank, Jeffersonville, has added three assistant vice presidents: Rich Thomas, Vince Hyman and George Brenner. Pam Wilcoxson has been promoted to assistant branch manager.

American National, South Bend, has named Michael R. Oberholtzer vice president/mortgage loans, Joseph T. Kuzmitz assistant vice president/commercial lending and James R. Flahaven loan officer/commercial lending. William A. Matunas, vice president, has moved from the mortgage loan department to the commercial loan department.

Kansas

Gerald Shadwick, president, First National, Salina, has been elected vice president, Kansas Council on Economic Education, an organization dedicated to providing young Kansans with a better understanding of economic concepts and the economic system. Also elected were W. A. Smiley, chairman, First Security, Norton — treasurer; and W. C. Hartley, president, Miami City National, Paola — member, executive committee.

First National, Wichita, has promoted Carol L. Davey and Ramona L. Hughes to assistant operations officers and Betty J. Bruns to marketing officer.

C. W. "Clif" Gillenwater and Richard Custine have been named president and chairman, respectively, at Farmers & Merchants State, Derby, succeeding Elwood Jones, who resigned both posts to pursue other business interests. Luther O. Payne has been elected to the board.

Michael L. Cooney has been named assistant to the president, Industrial State, Kansas City. He formerly was with a construction firm.

Wendell Graham has been appointed assistant vice president, Douglas County Bank, Lawrence. He formerly was with First National, Larned, and is mayor of that community.

United American, Wichita, has promoted Kenneth Waegener to senior vice president, Joy Lowe to vice president/cashier and William Rogers and Diana Fisher to assistant vice presidents.

Stephen R. Page has joined Columbian Trust, Topeka, as vice president and trust officer.

Kentucky

Liberty National, Louisville, has named 15 senior vice presidents, including James T. McKenzie, correspondent division manager. Others are J. Page Walker and Sanford L. Peyton, commercial banking; Bill S. Brumback and Douglas Meredith, retail banking;

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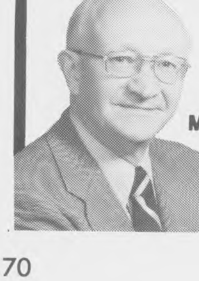

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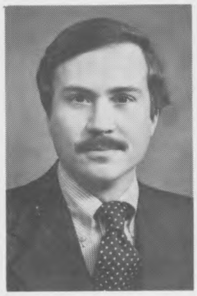
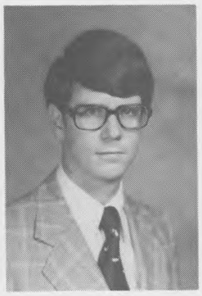


McKENZIE



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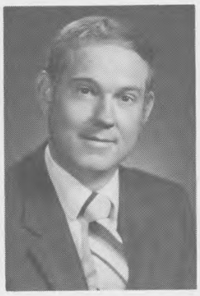

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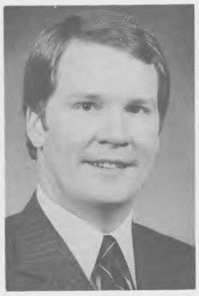
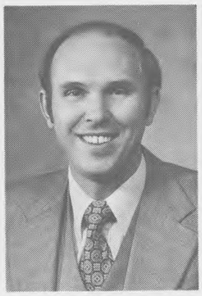


SIMMONS



COLLINS

BAAS

MANCUSO

James McDonnell, John Shaver and Phil Hunter, branch banking; Richard A. Bean, mortgage loans; J. E. Vittitow, leasing group; Donald L. Miller, Ronald L. Schartzer and Arthur J. Gerlach, operations; Paul Corrington, human resources; and Russell Zaino, marketing.

First National, Louisville, has named the following senior vice presidents: Richard D. Hawkes, Max S. White and Jerry L. Fessel. Steven P. Friedman was named senior banking officer and Betty M. Berger was promoted to senior personnel officer. New vice presidents include Paul A. Como, Paul A. Kleehamer and Charles T. Owen. James C. Shircliff was named a vice president at First Kentucky Trust, an affiliate of the bank.

C. Lloyd Collins has been promoted to assistant vice president, correspondent division, at United Kentucky, Louisville. He formerly was an assistant vice president at Citizens Fidelity. William H. Davies Jr. and A. T. Bishop Jr. have been elected to the board of the bank and its parent HC, United Kentucky, Inc.

John S. Swift, first vice president, First Security National, Lexington, has been appointed Kentucky state director/Bank Administration Institute for a two-year term. He will coordinate membership activities for BAI member banks in the state and serve as liaison between local BAI chapters and the national board.

Liberty National, Louisville, has named Carl Weigel senior vice president and comptroller, succeeding Clarence R. Durham, who now is senior auditor. H. Scott Davis has been appointed senior vice president in charge of the money-management department.

George A. Collin Jr., senior vice president, Liberty National, Louisville, has been elected president of the Kentucky Industrial Development Council, an organization that encourages economic growth in Kentucky.

Louisiana

Roy F. Baas has been appointed senior vice president/manager, correspondent department at Bank of New Orleans. He formerly was a vice president and joined the bank in 1971. Russell G. Mancuso has joined the bank as correspondent bank officer. He formerly was with Century National, New Orleans.

Walter W. Schroeder Dies

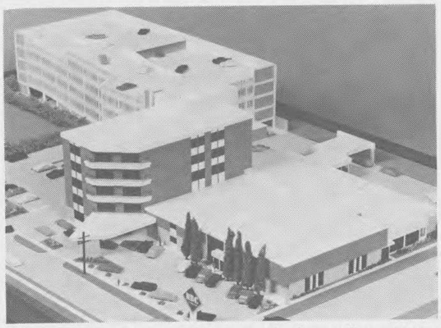
Walter W. Schroeder has died at 85. He headed the Louisiana Bankers Association in 1942-43.

Mr. Schroeder was with New Orleans' First Nat'l Bank of Commerce for 33 years and headed its correspondent bank department. He headed the same department at Dallas' First Nat'l, 1952-55, and, in 1956, became pres. and then v. ch., First National, Lafayette.

Mr. Schroeder helped organize the School of Banking of the South at Louisiana State University, Baton Rouge, in 1950.

H. Craig Davidson has been elected vice president in the commercial loan division at Fidelity National, Baton Rouge. He has been in banking for 15 years.

Work on Expansion Begun



Ground was broken recently for a five-story office building and parking facility adjacent to National Bank of Commerce in Jefferson Parish, Jefferson. The new building will add 52,000 square feet of space and will house operations and administration areas. The five-level garage will accommodate 249 cars. Completion is expected in mid-1982.

Hibernia National, New Orleans, has named James S. Dowdell a vice president and Walter K. Hartzell, Richard J. Noblett and Richard L. Siegel assistant vice presidents. Sal R. Lococo, vice president, has been named senior business development officer for the mid-city area of New Orleans.

Mississippi

Deposit Guaranty National, Jackson, has announced five promotions and a merger. Promoted were W. Stanley Pratt, W. Albert Simmons and Joe E. Sones to senior vice presidents and John R. Pittman and Paul T. Tsimortos to vice presidents. Delta National, Yazoo City, will be merged with Deposit Guaranty, subject to approval by stockholders of both institutions and regulatory authorities. Messrs. Pratt, manager/metropolitan department, and Sones formerly were vice presidents at Deposit Guaranty, and Mr. Simmons joined the bank in October from another Jackson bank. Mr. Pittman and Mr. Tsimortos were assistant vice presidents.

John R. Bryan has been named president/CEO, Mississippi Bank, Crystal Springs, and a member of the Mississippi Bank System advisory board. Mr. Bryan, a 14-year banker, joined Mississippi Bank, Jackson, in 1966, became assistant vice president/correspondent bank manager in 1972, vice president in 1975 and, prior to his most recent promotion, was a senior lending officer, commercial loan division.

Missouri

James E. Hook has been made chairman/CEO, United Missouri, Jefferson City. F. Michael Backer has been promoted from president to vice chairman, and E. J. (Bob) Robertson has joined the bank as president. John S. Kreighbaum has resigned as chairman to devote more time to his post of senior vice president/commercial loan division at United Missouri, Kansas

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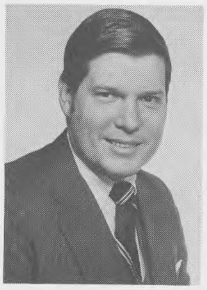

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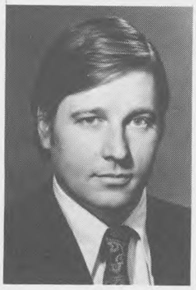

KEMPER

BERGMANN

FINK

ELFRANK

WEIS

City. Mr. Hook formerly was with Unitog, Kansas City, and played varsity football at the University of Missouri/Columbia. Mr. Robertson formerly was self employed as a business consultant. He was senior vice president/loan administration, United Missouri Bancshares, Kansas City, 1972-76.

Mercantile Trust, St. Louis, has named Charles A. Elfrank and Robert L. Bergmann executive vice presidents. Mr. Elfrank, formerly senior vice president, has overall responsibility for consumer banking, including credit-card, personal-loan, consumer-finance, retail and personal-banking services. Mr. Bergmann, also a former senior vice president, heads the bank's operations department. He is chairman, Payment and Administrative Communications Corp., and its subsidiary, Payment and Telecommunications Services Corp., which administers the BankWire EFTS system. In other action, Burdet W. Hoecker was elected a vice president of Mercantile Bancorp., parent company of Mercantile Trust, and Robert N. Beaird was promoted to assistant vice president of the HC. Mr. Hoecker remains vice president of the bank. Mr. Beaird formerly was with another St. Louis-area bank.

Boatmen's National, St. Louis, has appointed the following: to vice presidents, William W. Kling Jr. and H. Chandler Taylor; to assistant vice president, John W. McConnell; to assistant cashiers, Joan S. Reynolds and Rodney K. Kerner; to trust officer, David M. Diener, and to assistant trust officer, Russell W. Lipe.

Janet M. Fink has been named correspondent banking officer at Kansas City's Commerce Bank, which she joined in 1972. She formerly was a consumer banking officer. The bank also promoted James P. Kern and Martin E. Stanek to assistant vice presidents. Mr. Kern is head government bond trader, and Mr. Stanek formerly was an operations officer.

R. Crosby Kemper III, vice president/commercial lending and business development, United Missouri, Kansas City, has been elected an advisory director of the bank. James R. Taylor and Phillip A. Harris have been promoted to senior vice presidents of the bank. Mr. Taylor also was made data processing director. Mr. Harris supervises the commercial bank operations division. Also at United Missouri, the following were promoted to vice presidents: Burton E. Haskins III, Robert T. Browne, Doris Y. Hardesty, Al Boehr and Craig Swanson.

William O. Weis, head of the correspondent bank department, Columbia Union National, Kansas City, has been promoted from vice president to senior vice president.

American Bank, Rolla, has moved into its new quarters, which has a contemporary style. A colonnade supports a unique sloped brick canopy, which helps shield and cool the interior. Solar bronze tinted glass and bronzed aluminum frames were used to complement the brick color. Two of the nine teller stations in the lobby are sit-down type.

American Royal Winner

Richard King (seated), pres., United Missouri Bank, Kansas City, presents a $3,000 check to Brian Orth of Liberty for the purchase of the 1980 American Royal grand champion Hereford steer. Standing are Mike Fleming (l.), s.v.p., United Missouri, and Loren Jackson, American Hereford Association youth director. (Photo by American Hereford Association.)

Lynn H. Bealke has been promoted from vice president to vice president/senior trust officer, St. Louis County Bank, Clayton, which he joined last April. He formerly was with Curlee Clothing Co., Lexington, Ky.

Brick J. Porter has been named president/CEO and a director, Hub State, Independence. He succeeds J. C. Holtcamp, who resigned because of health reasons. Mr. Porter had been executive vice president. Hub State also promoted David E. Templeton from vice president to senior vice president/advisory director and James F. Holliday from vice president/cashier to senior vice president/cashier.

SCHMITZ RIVES RAU CHAPMAN

First National, St. Louis, has announced the elections of W. LeGrande Rives as a senior vice president, Senior Vice President Lawrence R. Chapman as manager of a new strategic planning and external affairs division in the bank and its HC, First Union Bancorp. and James J. Rau of the correspondent bank department as a vice president. In addition, First Union Bancorp. has named Walter D. Schmitz a senior vice president. Mr. Rives supervises bank operations for the bank and HC. Mr. Chapman has had responsibility for internal bank operations since 1975. Mr. Rau went to the bank in 1967. Mr. Schmitz has had responsibility for bank lending policy/administration since 1976 and, in his new post, will continue to handle this responsibility. In other action, First National named Jack J. Crawford, Barbara K. Williamson and Vernon P. Schmidt vice presidents.

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Richard C. Jensen has been named president/CEO, Plaza Bank of Westport, St. Louis County. He formerly was president, Mark Twain State, Bridgeton. The bank is a subsidiary of Plaza National Bancshares, which has reached an agreement in principle to be acquired by Boatmen's Bancshares, St. Louis.

William K. Carson, formerly vice president, First National, St. Louis, has joined Hampton Metro Bank, St. Louis, as executive vice president.

New Mexico

New NMBA Staffer

SANTA FE — Mark H. Douglas has been named government relations director, New Mexico Bankers Association. He had been staff vice president/communications and government relations, Iowa Bankers Association, Des Moines, since November, 1979. Before that, he was the IBA's public relations/marketing director for two years.

Judy Davis has joined Valley Bank, Farmington, as assistant vice president/consumer loans. A banker 15 years, Mrs. Davis formerly was assistant branch manager in Garden Grove, Calif., for Bank of America.

Albuquerque National was scheduling the opening of its 23rd branch for December 1. It's located in the Corrales area and has the bank's Amigo ATM.

Oklahoma

Central National, Enid, has appointed Ralph Kremeier to assistant vice president and trust officer. He joined the bank in 1957 and will be in charge of trust operations.

First National, Oklahoma City, has named the following vice presidents: Richard W. Godfrey Jr., Leroy Hair, M. Mike Johnson and John G. Robin Jr. New assistant vice presidents are: Barbara H. Brennan, Jerry L. Ford, Dan Harris and Winfred O. Ward. The bank's lending division has instituted two new groups: financial institutions and corporate. The financial institutions group includes correspondent banking and is headed by Jim Burgar, senior vice president. Richard Pralle, vice president, heads the correspondent department. The corporate group is headed by George Cook, senior vice president.

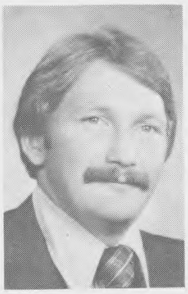
Laura N. Pringle has joined the Oklahoma Bankers Association as general counsel. She formerly was in private practice in Oklahoma City and at one time was assistant general counsel for First National, Oklahoma City.

Died. John M. Holliman, director/general counsel, Union Bank, Bartlesville, following a brief illness. He had been associated with the bank since 1953.

Tennessee

Al M. Sommers III has been named vice president and manager, transportation division, First Tennessee Bank, Memphis. The new division will deal with the financing of transportation industries such as barge lines, truck lines, railroads and airlines. Mr. Sommers had been in charge of the Midwest area of the bank's national division.

Third National, Nashville, has named John W. Clay Jr. first vice president, elected Edward C. Anderson and Rene A. Padilla vice presidents and David W. Estes and L. Wayne Whisman assistant vice presidents. Mr. Whisman is in the correspondent bank department and serves respondents in eastern Tennessee and Kentucky. He joined the bank last October.



WHISMAN

Unraveling Economics Mysteries

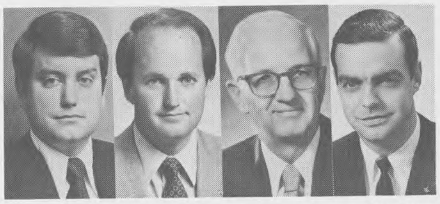
Third National, Nashville, hosted a luncheon recently to promote the unraveling of economics mysteries to the public that featured former U. S. Treasurer Francine Neff (2nd from l.), a member of the ABA's banking adviser program. Also pictured are (from l.) Paulette Whitworth, s.v.p., First American; Helen Miller, v.p., Third National; and Emmie McDonald, s.v.p., Commerce Union, all of Nashville. Mrs. Neff is v.p., Rio Grande Valley Bank, Albuquerque.

Shareholders of First Amtenn Corp., Nashville, have voted to change the HC's name to First American Corp. They also approved a charter amendment to increase authorized common stock from 10-million to 25-million shares. Names of affiliate banks are being changed to First American Bank with city designations, with the initials "N.A." added to names of national banks.

Texas

Mercantile Bank, Dallas, promoted C. Fred Ball Jr. to executive vice president; John F. Carson Jr., John K. Morrical and Jerry D. Powell to senior vice presidents; and the following to vice presidents: Ron Cockings, Bob Elliott, Dan Florence, Jim Fudge, Bobby Hashaway, Tom Hopkins, Bill Howland, Rob Ivey, George Lokey, Tony Lott, Theodore Lyons, Brenda Myers, Steve Owen, Mike Paulk, Russel Ruff, Frank Ruscitto, Jim Shields, Richard Trigger, Jim Wiggins and Carolyn Williams. Messrs. Hopkins and Ivey are in the correspondent department.

Robert F. Vontur, director/data processing planning, Frost National, San Antonio, has been promoted to senior vice president. He joined the bank in 1970 and has been head of the EDP department since 1979.



MATTHEWS HORTENSTINE DAVIS SAMMONS

Republic National, Dallas, has promoted Raleigh Hortenstine III to executive vice president to head the funds management department, succeeding Nicholas F. Roberts, who retired last month after more than 37 years with the bank. Succeeding Mr. Hortenstine as head of the money-market division is Philip C. Matthews, returning to the bank from Houston National as senior vice president. Ed E. Sammons Jr., senior vice president, has been named manager, securities division, and John S. Davis, senior vice president, has been named head of the bank's investment portfolio. Robert L. Crandall, president/CEO, American Airlines, has been elected to the board.

Paul Clinkscales, vice president, Fort Worth National, has been promoted to

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manager of the newly created convenience banking group, which includes the ATM and bank-card departments and EFT planning and development. He joined the bank in 1965.

Town North National, Longview, opened for business in November across from the Longview Mall. President/CEO is Bruce Morris, former vice president/cashier, Merchants & Planters National, Sherman. The bank opened with capital and surplus of $1.5 million each.

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Fed Answers Reg Questions

John W. Rosbrugh, examiner in the St. Louis Fed's consumer and community affairs department, answers common questions about federal regulations affecting most banks. Information given here reflects Mr. Rosbrugh's opinions, not necessarily those of the St. Louis Fed or the Board of Governors.

Q. Who may have a NOW account?

A. Under the statute, NOW accounts are available only to individuals and to qualifying organizations. Qualifying organizations must meet two separate tests of eligibility. First, they must be operated primarily for "religious, philanthropic, charitable, educational or other similar purposes. . . ." Second, they must not be operated for profit. Governmental units, even though not operated for profit, generally do not qualify to hold NOW accounts since they are not organizations operated primarily for a qualifying purpose. However, independent governmental entities that are separately constituted, such as school districts, most state university systems and local housing and redevelopment authorities, are eligible to hold NOW accounts since they are operated primarily for a qualifying purpose.

Q. Are there any advertising requirements for NOW accounts?

A. Yes. All NOW advertisements or solicitations by banks that currently are offering or preparing to offer NOW accounts are subject to advertising requirements. These basic advertising requirements appear in Section 217.6 of the Federal Reserve's Regulation Q with respect to all Federal Reserve System member banks, including all national banks, and Section 329.8 of the FDIC rules and regulations for all insured nonmember institutions.

Q. May holders of NOW accounts also have automatic transfers of funds from savings to checking (ATS accounts)?

A. No, not in all instances. ATS accounts are available only to individuals (including sole proprietors), or to accounts in which the entire beneficial interest is held by an individual or individuals. Unlike NOW accounts, ATS accounts are not available to non-profit organizations operated primarily for religious, philanthropic, charitable, educational or fraternal purposes.

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Everett Knight. President, Gallatin County State Bank, Ridgway, Illinois. Born: Rosiclare, Il., 1942. Education: Southern Illinois University, 1963. Recently coordinated and led small investor group in purchase of three Illinois banks.

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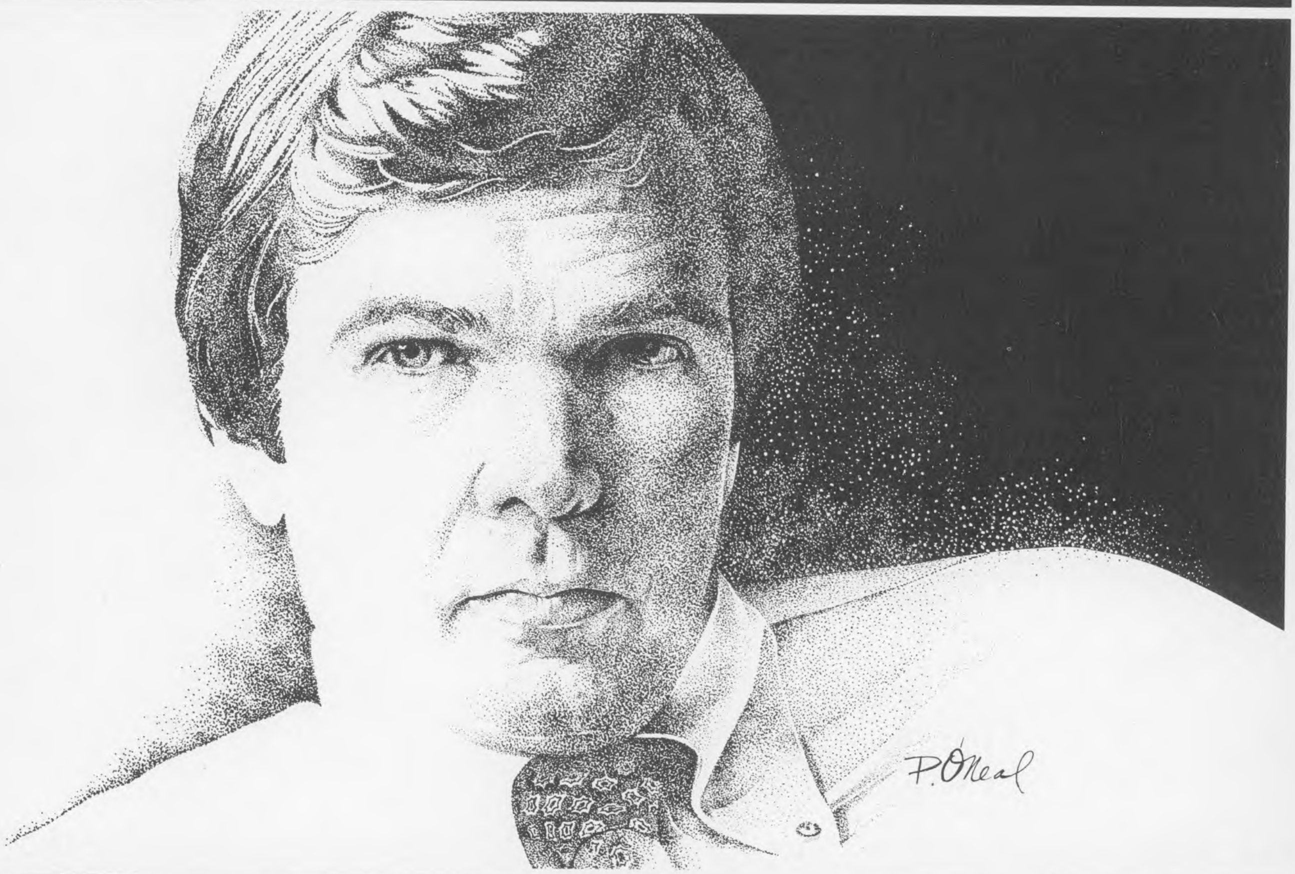

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