MID-CONTINENT BANKER

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The Financial Magazine of the Mississippi Valley & Southwest

JULY, 1981

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Low-Cost Deposits — Page 30

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Christmas Planning Issue

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MID-CONTINENT BANKER

The Financial Magazine of the Mississippi Valley & Southwest

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FEATURES

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Harold Colbert Dies; Was Long-Time Member Of MCB Editorial Staff

ST. LOUIS — Harold R. Colbert, former president/CEO, Commerce Publishing Co., publisher of MID-CONTINENT BANKER, died June 20 following a lengthy illness. He was 73.

HAROLD COLBERT

Mr. Colbert joined Commerce Publishing Co. in 1929 as an assistant editor of MID-CONTINENT BANKER. He remained with the firm for more than 42 years, retiring at the end of 1972. In the interval, he occupied many of the editing and publishing posts of the firm and held corporate responsibilities. He served as associate editor of MID-CONTINENT BANKER and as assistant editor, associate editor and editor of the firm's two national monthly insurance publications, LIFE INSURANCE SELLING and THE LOCAL AGENT (now AMERICAN AGENT & BROKER). He later served as assistant publisher, associate publisher and publisher of all the firm's magazines.

At the corporate level, he served as vice president, was named executive vice president in 1962, president in 1967 and CEO in 1968. He also was a director and president of Director Publications, Inc., a subsidiary of Commerce Publishing that publishes The BANK BOARD Letter. He was a member of the board and vice president of Bankers Publishing Co., Milwaukee, publisher of MID-WESTERN BANKER.

Long active in the Methodist church, he served as chairman of the board of trustees of Grace United Methodist Church. At the time of his death, he was vice president of the Missouri United Methodist Foundation, Inc.

He is survived by his wife, Lydia McDaniel Colbert; two sons, Lawrence W. Colbert, assistant to the publisher of MID-CONTINENT BANKER and a vice president of Commerce Publishing Co., and William C. Colbert, Memphis; and six grandchildren.

NEWS OF THE BANKING WORLD

Richard L. Thomas, president, First National Bank and First Chicago Corp., Chicago, has been elected chairman, Association of Bank Holding Companies. He succeeds Paul Mason, president, First United Bancorp., Fort Worth. Donald L. Rogers, Washington, D. C., was re-elected president of the association; H. Furlong Baldwin, president, Mercantile Bankshares, Baltimore, was advanced to chairman-elect; Will F. Nicholson Jr., president, Colorado National Bankshares, Denver, was elected vice chairman; and John W. Woods, chairman, AmSouth Bancorp., Birmingham, Ala., was reelected treasurer.

THOMAS

Enis Alldredge Jr. and Thomas M. Hoenig have been promoted to vice presidents at the Kansas City Fed and Robert W. Allen and John C. Vandermade were promoted to operations officers. Mr. Alldredge has been transferred to the Denver Branch and Mr. Vandermade has moved to the Omaha Branch.

Dorothy Cosgrove, administrative assistant/data processing division, Commercial National, Kansas City, Kan., has been installed as president, Kansas City (Kan./Mo.) AIB Chapter. She succeeds Judy Benjamin, vice president/manager, credit department, First National, Kansas City, Mo. Other new officers from the latter city are: first vice president, Patrick Boyle, vice president/bank card division, United Missouri; second vice president, Dev Strischek, vice president/manager, commercial credit department, Commerce Bank; secretary, Marilyn Andela, administrative secretary, Red Bridge Mercantile; treasurer, William M. Smith, cashier, Livestock National; directors, Jeannel Hall and Robert Campbell, KC Fed, and Dale Rapp, vice president, First National, Liberty. New directors from Kansas City, Kan., are Vickie Hurst, MidAmerican Bank, Roeland Park, and Stephen Robertson, auditor, Shawnee State. Mary Lou Baca of the office staff has been promoted from administrative assistant to education/administrative coordinator.

J. Rex Duwe, ch., AIB educational div., ABA, presents Dorothy Cosgrove with gavel symbolic of her election as pres., Kansas City AIB Chapter. She is admin. asst./data processing div., Commercial Nat'l, Kansas City, Kan. Mr. Duwe, former ABA pres., is on board of Commercial Nat'l and is ch. of several Kansas banks, including Farmers State, Lucas.

Jean Oebermann, assistant vice president, Gravois Bank, St. Louis, has been elected president, St. Louis AIB chapter. Other new officers include John W. Rowe, senior vice president, First National, St. Louis — first vice president; G. Thomas Andes, executive vice president, First National, Belleville, Ill. — second vice president; Ruth Doerner, assistant cashier, Boatmen's National, St. Louis — associate vice president; and Robert Helfrich, vice president, Landmark Northwest Plaza Bank, St. Ann, Mo. — treasurer.

Certain Exceptions Expedited On Interlocking Management

WASHINGTON, D. C. — The Fed is amending its rules of delegation of authority to allow its general counsel to expedite certain exceptions to rules against interlocking managements of depository institutions.

Such exceptions are provided for under the Depository Institution Management Interlocks Act when one of the institutions — usually a small nonmember — is in particular need of management expertise. In such cases, the Fed relies on advice of the primary supervisor of the institution in need of assistance in determining whether an exception should be made to allow management from a member bank or bank HC to lend such assistance.

Delegation of authority to the general counsel is meant to speed up the granting of exceptions where the Fed is not the primary supervisor. The Fed will consider other requests for exceptions.

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.

The following questions and answers relate to some changes in disclosures brought about by Regulation Z Simplification.

Q. On a direct loan to purchase an automobile, is the "total sale price" disclosure required?"

A. No. The definition of "credit sale" means a sale in which the seller is the creditor. In the case of a direct loan for the purchase of any property, if the credit is not payable to the seller of that property there would be no credit sale, thus no "total sale price" disclosure would be required.

Q. May the components of the finance charge be itemized?

A. No. The regulation requires the disclosure of finance charges as a single-dollar amount, using the term "finance charge," with a description similar to "the dollar amount the credit will cost you." There is a prohibition against itemizing the elements of the finance charge in the segregated required disclosures.

Q. If a note is on demand with interest payable monthly, must the amount of those interest payments be disclosed?

A. No. In a demand obligation with no alternate maturity date, the creditor has the option of disclosing only the due dates or periods of interest payments for the first year.

Q. Must the assumption clause be included in mobile home credit disclosure?

A. Yes. If the mobile home is part of a residential mortgage transaction, a statement whether or not a subsequent purchaser of the dwelling may be permitted to assume the remaining obligation on the original terms must be included in the disclosures.

Q. What disclosures are to be made on the assumption of a mobile home?

A. For transactions qualifying for assumption, disclosures must be based on the remaining obligation. Items which would be required include unpaid balance of the obligation assumed, total charges imposed by the creditor in connection with the assumption, the annual percentage rate originally imposed on the obligation, the payment schedule, total of payments and all other applicable disclosures.

Telephone Network System Seen Impractical by ABA

The ABA has decided to terminate its feasibility study for implementing a nationwide shared telephone system for banks.

"The more we study the project, the more we recognize that we don't want to lock the banking industry into a fixed communications network while technology continues to move forward so rapidly in voice and data communications," said Lois C. Martin, chairperson of the research and planning committee of the ABA's operations and automation division.

The study was begun in 1978 and involved creating a shared-voice network for bank-to-bank communications among the more than 13,000 domestic ABA-member banks. Sixteen vendors responded to an ABA request for information on such a network.

"The majority of vendors couldn't offer the assurance of continued flexibility for integrating new voice and data communications technology into the system," said Miss Martin, who is vice president, First Bank, St. Paul, Minn. "Others offered services that appear to be substantially available to the industry today.

"While the concept envisioned the possibility of stabilizing the rapidly escalating telephone cost through a truly industry-oriented telephone network, our research indicates that the industry might build a network and quickly find it inflexible and not price competitive," she said.

"We also recognize that most large banks now have installed least-cost routing systems for their telephone services and a number of banks have negotiated contracts with common carriers for dedicated telephone network services. In either case, a new network wouldn't be cost effective for these banks."

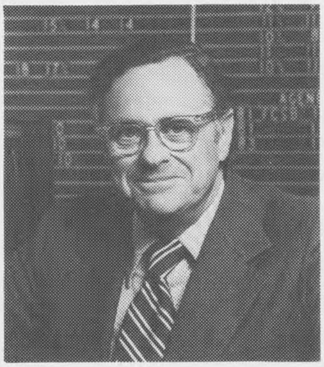
Merc to Sell Mortgages

Mercantile Trust, St. Louis, plans to sell most of the loan servicing contracts of its subsidiary, Mercantile Mortgage Co., to Citicorp Person-to-Person, St. Louis.

Mercantile Mortgage was acquired by Mercantile Trust in 1963, is headquartered in St. Louis and has 12 offices in five states. Its loan portfolio totaled $1.18 billion on March 31, 1981.

Although the transaction will not have a material effect on Mercantile's continuing operations, it is anticipated the sale will result in a significant gain.

The Investment Professionals.



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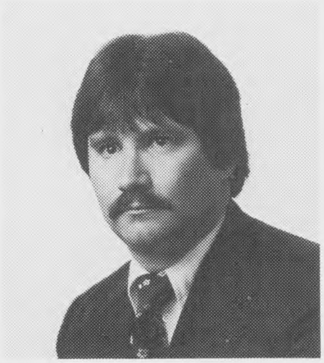

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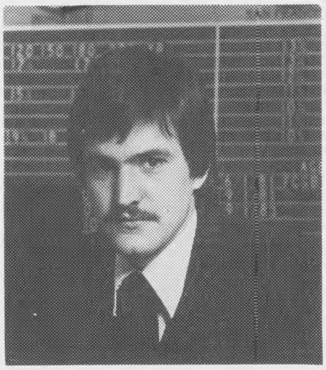
Bond Investment Representative



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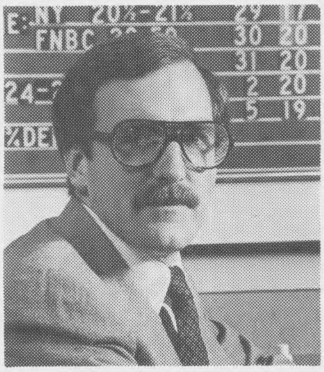
Bond Investment Officer



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In-House Automation for Branches

ADMINISTRATIVE functions of branch banking can be automated within the branches, relieving their personnel of manual writing, typing and calculation efforts, thanks to a new software product called ADTRAN (*ad*ministrative *tran*saction). This equipment was unveiled by Bunker Ramo Corp.'s Information Systems Division at the ABA's national operations/automation conference held in New Orleans in May.

Also, by automating these functions within a branch, Stephan A. Grosky, Bunker Ramo division vice president/banking and commercial systems, says that branch staffs have instant availability of necessary documentation and file data. For most operations, he adds, this is done without need to access the bank's host computer. As a result, according to Mr. Grosky, another advantage is gained: The host's data processing load and communications links are unburdened considerably.

ADTRAN can computerize loan operations, record changes, bookkeeping and new accounts and report printing and personal-banking functions in the platform and operations areas of branches.

Also announced in New Orleans were several hardware additions that complement ADTRAN software's features. These devices include a high-capacity rigid data-storage disk, a letter-quality forms printer, a line printer, a plug-in math processor and an advanced memory-expansion feature for Bunker Ramo's standard in-branch programmable control unit (PCU) minicomputer. ADTRAN software and its associated hardware peripherals operate under control of this minicomputer, which, in turn, is interfaced on-line to a bank's central mainframe computer when required.

The new software package is an outgrowth of Bunker Ramo's System 90™, which has automated teller operations in about 5,000 banking offices. ADTRAN can operate either on its own or coexist with BANKTRAN®, System 90's teller-application software. It combines the operation of current System 90 components, including video terminals, floppy disks and the PCU branch minicomputer with the newly announced hardware devices. The in-branch ADTRAN software and associated hardware also interface on-line with a bank's central mainframe computer, although off-line local operation and on-line batch transmission also are supported. In addition, System 90 ties in Diebold automatic teller machines (ATMs) to many banks' central processors.

In typical System 90 installations, a direct communications link to the host computer normally is retained for systems that support teller terminals or ATMs. With ADTRAN, the link is used for on-line reference to central files not maintained locally, for off-hour batch transmission of branch data to central files and for central-system reports to a branch.

ADTRAN software is made up of five applications modules. A bank can choose among these modules depending on its needs and later add others as requirements grow. Basic functions of these applications modules are: display forms, records, document print, calculations and batch print.

ADTRAN's Hardware. Video-display terminals with a 960-character, nine-inch screen, or a 1,920-character, 12-inch screen, both with full alphanumeric keyboard, and a letter-quality forms printer are used for platform operations, such as loan applications and personal-banking functions.

For back-office operations — bookkeeping, report printing, record changes — the same type of video-display terminal is used in conjunction with medium-speed printers of 60 or 120 characters a second or a line printer that operates at up to 300 lines a minute.

Controlling the branch function is the Bunker Ramo PCU minicomputer with integral program memory of up to 256K bytes. It now offers the new plug-in math processor to accelerate local calculation and the advanced memory-expansion feature, which increase overall throughput by about 20%. The minicomputer also serves as a control unit for communications with the bank's mainframe computer, when access is required. Mass storage for operating data is provided by a floppy disk unit or the new Winchester-type rigid disk.

Initial deliveries of ADTRAN applications modules will begin in the fourth quarter of this year and will be offered on a license-fee basis. ● ●

CORRESPONDENT QUIZ

1. Who has the fastest-growing Correspondent Bank Department in the South?

2. Who was the first to offer seminars on new banking regulations and laws featuring leading national advisors and government officials?

3. Who continues to offer those seminars and regular updates on how to maximize profits at no cost to correspondents?

4. Who offers correspondents special insurance programs at low group rates?

5. Who is big enough to handle every correspondent need, yet small enough to handle each one of them, one at a time, with expert personal attention?

6. Who gives you senior experience and expertise on everything…from transit, data processing, Visa and MasterCard, draft collection, investments, federal funds, safekeeping, credit assistance, loan participation, trust services, wire transfers and business referrals…to seasoned advice on advertising, marketing, personnel training and even the design and supply of bank facilities?

7. Who are you going to call at the following numbers? 1-800/582-6277, in Tennessee

1-800/238-7477, in other states

MEMPHIS BANK & TRUST

TO: Correspondents

FROM: Lynn Hobson, Gus Morris
Jim Newman

RE: Meeting your needs

Thought you might be interested in this. Remember, only one bank has all the answers…

Lynn Gus Jim

Fifth-Anniversary Party Held for 'Dimension 60'

More than 3,000 people attended the recent fifth-anniversary celebration of the Dimension 60 Club, an organization sponsored by First Midwest Bancorp., St. Joseph, Mo., for customers who are age 60 or more.

Club members gathered at the new Civic Center arena to witness a presentation by "Up With People," a 90-member, world-traveling singing and dancing troupe. A buffet reception also was held.

Jacob M. Ford II and Roger Hegarty, chairman and president, respectively, of First Midwest Bancorp (FMB), presided over a formal champagne-toast ceremony for Dimension 60.

A survey that showed the bank HC's market area to have a large number of persons over age 60 first sparked the idea for the organization back in 1976, according to Gary Mowrey, FMB marketing director.

To qualify for membership, any person age 60 or older must have a savings account or CD at any of FMB's eight facilities in the St. Joseph area. Membership entitles a customer to free financial services, educational seminars, travel packages and discounts on merchandise through more than 130 participating retail outlets.

Club membership has increased steadily over the past five years, Mr. Mowrey says, but the special fifth-anniversary celebration and an "advertorial" page printed in the local newspaper after the event boosted interest even more. An advertorial is a full-page ad that's made to appear as a page of editorial matter — all articles deal with Dimension 60 Club activities. The club now has more than 6,600 members.

"We held this special anniversary at the arena to show our members how much we apreciate their participation and to demonstrate to everyone that we plan to support this group for a long, long time to come," said Mr. Mowrey.

Jacob M. Ford II (l.) ch., First Midwest Bancorp., St. Joseph, Mo., offers toast to celebrate Dimension 60 Club's fifth anniversary. Assisting are Gary Mowrey, marketing dir., and Virginia Stephens, marketing dept.

Portion of more than 3,000 Dimension 60 Club members attending recent fifth anniversary celebration of club in St. Joseph, Mo. Inset shows "Up With People" troupe that entertained club members.

NOW-Accounts Seminar Is Offered by ABA To Be Used by Banks

Selling NOW (negotiable-order-of-withdrawal) accounts is not easy, as many banks are finding out. And the blame doesn't lie only with thrifts and Regulation Q, as the ABA points out in announcing an in-bank training program designed to help educate customer-contact employees on NOWs. It's called "NOW-Accounts Seminar for Customer-Contact Personnel."

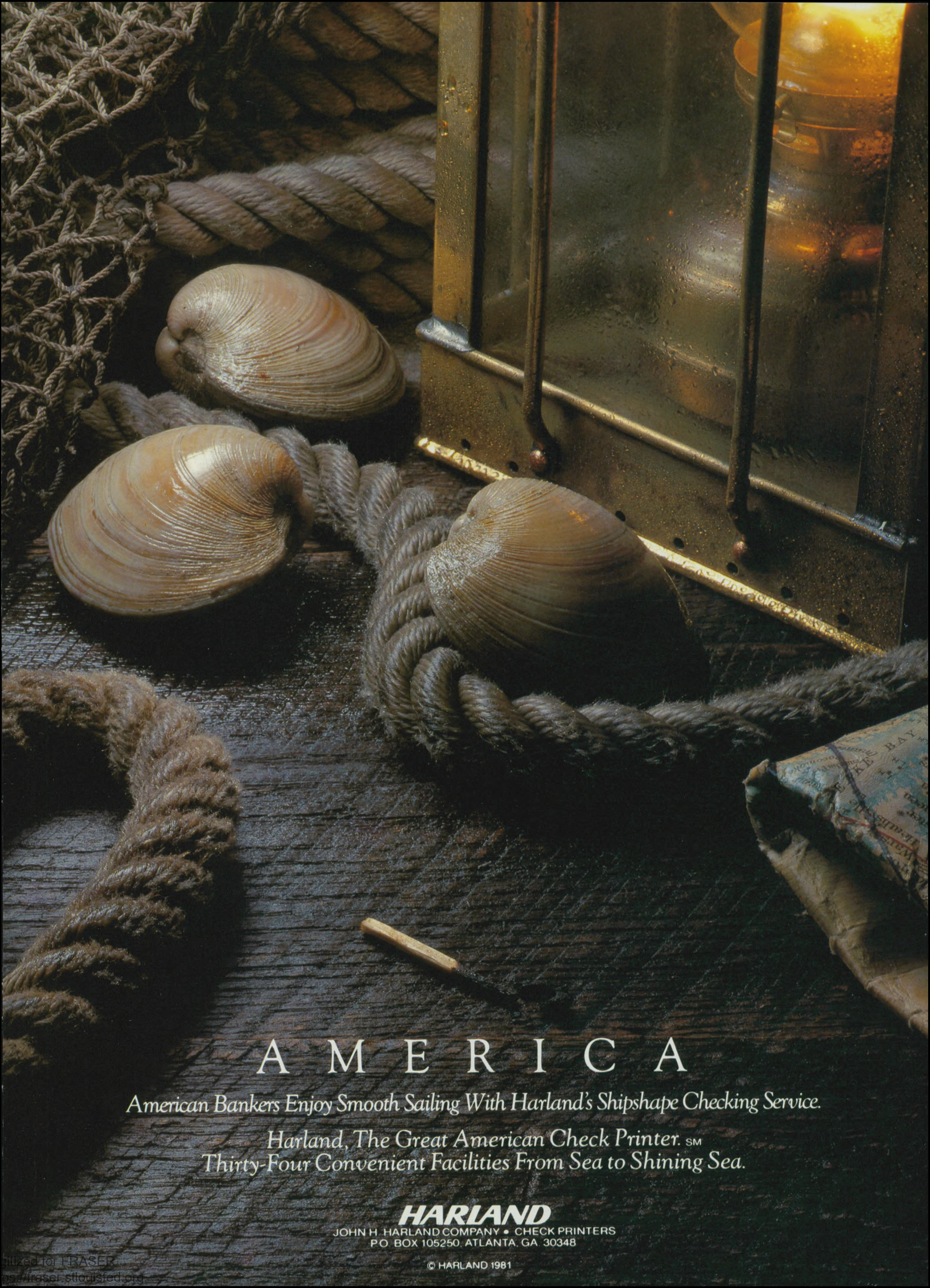
Bank customers, says the ABA, rely on customer-contact personnel to explain bank services, but if a bank's front-line employees don't understand NOW accounts fully, the bank and its customers stand to lose.

The three-hour seminar's objective is to help front-line bank employees increase their understanding of NOW accounts so they can better explain the service accurately and effectively to bank customers. The program provides a historical and legislative overview of NOW accounts and explains federal requirements, pricing and the impact NOWs have on a bank's operations and marketing functions. Student materials also feature commonly asked customer questions and sample answers and practical self-study questions to help employees learn specific bank policy and procedures.

The seminar, a complete in-bank training program, may be incorporated into a bank's teller-training program. The ABA also encourages bankers to contact their local AIB chapters to see whether they plan to sponsor the seminar.

The seminar leader's guide contains a lecture outline, role-play exercises, reference materials and a bibliography. To order this guide, request publication No. 626201 from the ABA's order-processing department. The cost is $7. Student handbooks, publication No. 626200, are $3 each.

For additional information, write: Kathy Fedge, Education Policy/Development Group, ABA, 1120 Connecticut Ave., N.W., Washington, DC 20036.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Survey Charts Trends in Installment Lending

CERTAIN TYPES of consumer loans face an uphill battle in gaining the favor of a good portion of bankers participating in a survey taken at the 1981 ABA installment credit conference by Financial Underwriters, St. Louis.

The survey revealed that 21% of respondents state their banks will never offer simple-interest indirect consumer loans, that 17% will never offer variable-rate direct consumer installment loans, that 27% will never offer variable-rate indirect consumer installment loans, that 37% will never offer direct leasing, that 29% will never offer indirect leasing and that 53% will never offer revolving credit installment loans in place of closed-end credit.

Credit unions were seen as banking's biggest competitor for installment loans during the next two years, followed by S&Ls, other banks and finance companies.

Thirty-nine percent of the bankers polled expect that up to 5% of their bank's installment loan portfolio will be in second-mortgage loans by the end of 1981, with 23% expecting that situation to develop by the end of 1982. However, 32% of the bankers expect the percentage of their installment loan portfolio in second-mortgage loans to be between 11% and 20% by the end of 1982.

Financial Underwriters asked the following questions of participating bank loan officers.:

1. Will your bank have simple-interest (non-credit card) direct consumer loans by the end of 1981, the end of 1982 or later?

Fifty-one percent of the bankers said their banks already have such loans, while 15% expect to have them by the end of 1981, 13% expect to offer them by the end of 1982, 11% expect them at some later time and 8% will never offer such loans.

2. Will your bank have simple-interest (non-credit card) indirect consumer loans by the end of 1981, the end of 1982 or later?

In reply, 29% said they already have such loans, 9% will have them by the end of 1981, 15% expect to have them by the end of 1982, 19% will offer them at a later time and 21% will never have such loans.

3. Will your bank have variable-rate direct consumer installment loans by the end of 1981, by the end of 1982 or later?

Twelve percent of the banks have such loans now, while 14% expect to have them by year-end 1981, 30% expect them by year-end 1982, 25% will put them off to a later time and 17% will never offer them.

4. Will your bank have variable-rate indirect consumer installment loans by the end of 1981, the end of 1982 or later?

Only 5% offer such loans now and only 9% expect to offer them by the end of this year. But 21% expect them by the end of 1982, 33% will offer them at some indefinite time and a large 27% will never offer them.

5. Will your bank have direct leasing by the end of this year, the end of next year or later?

About one-fifth of the responding bankers said they offer direct leasing at the present time, 6% expect to add the service by the end of this year, 10% expect to start the service next year, 23% will put that service off until later and 37% will never offer the service.

6. Will your bank have indirect leasing by the end of 1981, the end of 1982 or later?

Thirty-eight percent of the bankers said their institutions offer this service at the present time and 9% will add it later this year, with another 6% expecting to add it by the end of 1982. Thirteen percent will offer it at some later time and 29% will never offer it.

7. Will revolving-credit installment loans replace closed-end credit at your bank by the end of 1982 or the end of 1984?

Only 3% of the bankers said their institutions already have seen this change, 12% expect it to occur at their banks before the end of 1982 and 18% expect to see it before the end of 1984. Eleven percent said it could come later and a whopping 53% said their banks will never make the switch.

The final question asked of bankers was, What percentage of your installment loan portfolio will be second mortgage loans by the end of 1981 and by the end of 1982?

By the end of 1981, 39% expect up to 5% of their bank's installment loan portfolio to be second-mortgage loans, 20% expect from 6%-10% to be in second-mortgage loans, another 20% expect from 11%-20% to be in such loans, 10% expect from 21%-30% to be in second-mortgage loans, 5% expect from 31%-50% to be in such loans and 1% expect more than 50% to be in such loans.

By the end of 1982, 23% expect up to 5% of their bank's installment loan portfolio to be second-mortgage loans, 19% expect from 6%-10% to be in such loans, 32% expect from 11%-20% to be in second-mortgage loans, 9% expect from 21% to 30% to be in such loans, 11% expect from 31%-50% to be in such loans and 1% expect more than 50% to be in second-mortgage loans.

Donald R. Brown, president, Financial Underwriters, predicts the survey results should serve as a barometer of the attitudes and directions contemplated by an overall large segment of the American lending community. • •

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IF IT TAKES US OVER 3 DAYS TO CALL YOU WITH AN ANSWER, WE'LL APOLOGIZE OVER A FREE LUNCH.

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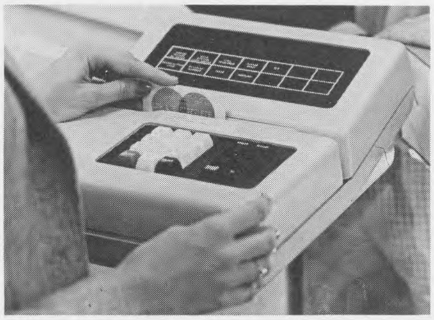
Credit-Card Authorizations Speeded Up

CREDIT-CARD authorization and check-guarantee systems designed to expedite service and enhance security in retail-business transactions have been introduced by St. Louis' Mercantile Trust. The systems are being marketed nationwide as Check-Point and Check-Point II by Mercantile to local, regional and national retail operations.

According to the bank, Check-Point and Check-Point II are major advancements in electronic-banking services that go beyond traditional telephone-operated check-guarantee services. They include authorization and verification of MasterCard and Visa accounts established at any financial institution and of Diner's Club, American Express and Carte Blanche credit cards. The operation originates from a point-of-purchase terminal at a retail business and interconnects to local and national data banks of credit-card verification and authorization and check-guarantee centers.

Of the two, says Mercantile, Check-Point offers greater speed and sophistication. For completion of a retail transaction, the retail clerk inserts the customer's credit card into the microelectronic reader of an electronic cash register at the specially designed Check-Point terminal. The reader transmits the credit-card information to the data control center as the cashier keys in the purchase amount. Within six to 12 seconds, the system responds with authorization and verification information.

Customer with credit card is spared long wait in line when retail store uses Mercantile Trust of St. Louis' Check-Point system, according to bank. In-store terminal offers equally efficient and effective guarantees for payments by personal checks, Mercantile adds.



With Check-Point, Mercantile Trust of St. Louis' new card-authorization system, retail clerk inserts credit card into microelectronic reader, keys in purchase amount and receives necessary purchase-authorization information within six to 12 seconds. Guarantees of personal checks are handled with Check-Point II.

Check guarantees are handled similarly, except that the clerk keys in the purchase amount and the customer's driver's license or state-issued personal identification number.

Check-Point II, Mercantile continues, affords the retailer and customer equal accuracy. It incorporates an electronic encoding and voice-response operation. Check-Point II credit-card verification and check-guarantee responses occur within 20 or 30 seconds. Check-Point II has been designed for the merchant who receives a low monthly volume of sales by checks or credit cards.

To the retailer, Check-Point and Check-Point II, says Mercantile, eliminate risks of financial losses in accepting checks and credit cards, speed point-of-purchase transactions and ensure accuracy.

The systems operate 24 hours a day, seven days a week, and information in the data banks is updated regularly.

"For instance," says C. Philip Johnston, vice president and head of Mercantile's credit card division, "when the data centers receive information of a lost or stolen credit card, it's entered into the computer immediately."

Mercantile says the consumer also benefits because the systems eliminate time-consuming review of credit-card "hot sheets" by the retail clerk. Mercantile points out that use of Check-Point and Check-Point II also conveys to a good customer that his or her checks and credit card are readily acceptable at a retail outlet.

Check-Point and Check-Point II are registered trademarks of Mercantile Trust and are marketed by the bank's credit card division. ● ●

Answer Switch of Illinois Signs Bank in Pekin

Answer Switch of Illinois, said to be the first fully operational electronic banking processor to provide shared switching services to proprietary networks in Illinois, has signed up Herget National, Pekin.

Answer Switch provides financial institutions in Illinois with computer support to enable them to offer their customers EFT services. It is jointly owned by Illinois National and Springfield Marine National, both in Springfield, Ill.

All transactions of participating banks through ATMs are switched by Answer Switch through an on-line system with information processed in Springfield. The same data processing equipment is serving the three-county ANSWER Network with its 15 member institutions and 100,000 debit card holders.

Answer Switch was established in October, 1980, and is compatible with other statewide and nationwide EFT systems.

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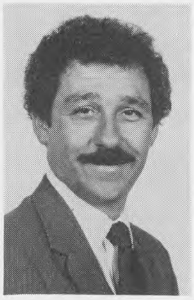
Corporate News Roundup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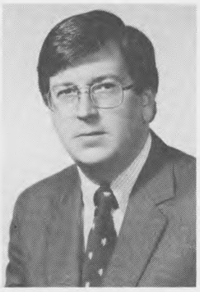
HERRICK

• **LeFebure.** James H. Crouse Jr. has been appointed regional sales manager of LeFebure's Indianapolis Branch. He will supervise sales and service in portions of Indiana, Kentucky and Illinois. He previously was a sales engineer for the firm.

• **Brandt, Inc.** William F. Kraemer, vice president/manufacturing, has been named vice president/general manager of a newly established coin products division, formed in accordance with the firm's plan to decentralize management and manufacturing responsibilities according to product categories. Mr. Kraemer joined the firm in 1955.

• **Christmas Club a Corp.** Joseph Macher has been appointed controller. He joined the firm in 1974 as a cost accountant and has been assistant controller for the past year.

• **Associates Commercial Corp.** David F. Herrick has been appointed senior vice president of the business loans division of this Chicago-based subsidiary of Associates Corp. of North America. He is responsible for marketing planning and development activities, including advertising and public relations. He formerly was with Barclays American Business Credit, Hartford, Conn.

• **Westcap Corp.** Lea S. Novak has been named vice president/general counsel/corporate secretary of this Houston-based firm. She formerly was staff attorney, American General Capital Management, Inc., and corporate secretary of its subsidiary companies.

• **Bank Building Corp.** Promotions at this St. Louis-headquartered firm include Rex Dunlap to senior vice president, Bank Building Corp. (BBC), and executive vice president, Financial Facilities Group; and Gerald L. Radloff to vice president, BBC Supply Affiliates Group. New to the firm is Melvin L. Lindsey, appointed a consultant services manager for the Midwest division. Peter J. Bruck has been appointed president, Bank Building Midwest, succeeding Allyn D. Raymond, who has been named corporate vice president, executive sales. Mr. Bruck formerly was president, Depositec, a BBC division, and has been succeeded in that post by A. D. Shiach, who also is senior vice president, consulting, for BBC.

• **Republic Money Orders.** Robert M. Tillinghast has been promoted to assistant vice president in the travelers check and financial institution money order sales division of this Dallas-based firm, a subsidiary of Republic of Texas Corp., multi-bank HC.

• **American Express.** A new worldwide operations and communications center for the Travelers Cheque Division of this firm now is under construction in Salt Lake City and is scheduled to open in the third quarter of 1982. The $35-million facility will handle all processing for American Express travelers cheques and house the telephone refund service center. The center is located on a 52-acre site and will include three buildings.


BRUCK SHIACH LINDSEY DUNLAP RAYMOND RADLOFF

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

Creative Financing of Student Loans

THE TRACK record of federally financed and even state-financed student loan programs is far from a happy one. While the overall record is dismal in that hundreds of thousands of recipients have defaulted, the record is even worse in Texas and California.

To set the scene, until recently there has been a feeling that the education of college students should be subsidized; that is, students should receive a lower than normal interest rate and the subsidy should be picked up by either the federal or state government — which means us, eventually.

A subsidy tends to be a subjective evaluation that a certain education or occupation is more in the public interest than other occupations.

A paradox exists in that many of those paying taxes and thus subsidizing student loans didn't to go college and are, through their taxes, subsidizing better-educated citizens. This is especially true if thought of in terms of certain occupations, such as the medical or dental profession. Incomes received by medical doctors and dentists are many times the average salary earned by most college graduates, and many more times the average income of non-college people. Thus, why should the education of individuals who will be in the upper decile of personal income be subsidized?

Some people think, however, that since college-educated people will be earning above-average incomes, they will be paying above-average taxes. Therefore, over their lifetimes, they will reimburse the government and society for subsidies received.

A subsidy tends to be a subjective evaluation that a certain education or occupation is more in the public interest than other occupations. Yet a study of subsidizations shows that quite frequently subsidization is a politically motivated pandering to certain interests, generally to the detriment of the average man or woman.

College-education costs have been going up faster than real disposable income. Some medical schools now are charging in excess of $15,000 a year. (Incidentally, that is almost as much as the cost of keeping a felon incarcerated in a federal penitentiary.) While the cost of other types of college education isn't as high as that of medical schools, still it's substantial. I personally know of several instances where professors have advised college students to apply for subsidized loans even though their family income or wealth was such that a loan wasn't needed. The young people were instructed to borrow aid funds and invest them at high interest rates in the market. Many college students have done this.

Many who have graduated and become employed have found that collection efforts by creditors have been so minimal that there has been no compulsion to make loan payments. A scandal in the Department of Health, Education and Welfare developed a year or so ago when it was learned that many HEW employees had reneged on payment of their student loans.

Let's face it, the student-loan program, as it has operated in the past and as it currently is operated, is a disaster. Is there a better way of handling such an operation? I think so. But before mentioning the system I advocate, I will note that there is little likelihood the government would support such a program. However, for what it's worth, here it is.

The typical student wanting financial assistance would apply to the student loan officer at his/her college. The student would sign a standard type of agreement that had some additional features. One would tie the interest rate on the loan to some index so it would fluctuate along with prevailing rates. The second — and perhaps most controversial aspect — would be a voluntary request by the student to instruct the Social Security Administration (through a to-be-formed subsidiary) to provide that, on the student's employment, his/her salary be garnisheed by a reasonable amount. The amount of garnishment would be collected along with the individual's social security tax payments.

The student loan also would be tied

The fact that loan payments would be accelerated should a student drop out of college could be a strong motivator for serious study.

to a series of insurance policies, including credit life and accident and an employment-contract policy. Premiums would be paid by the student in the same way the payment of principal and interest would be made on the loan.

Loans could be packaged in denominations that would be attractive to many classes of investors. Because the loans would be competitive with the market rate and tied to the automatic garnishment provision and supported by appropriate insurance, they should be attractive in the free market place. The endowments of many colleges could be tapped to buy these earning assets. Thus, universities wouldn't be subjected to diminishing endowments but, rather, with endowments that would be growing at a compound interest rate commensurate with prevailing rates.

There would be some additional safeguards that opponents probably

(Continued on page 70)

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Bankers Assail Regulations That Prevent Competition on 'Level Field' With Firms Offering Financial Services

WAS it only yesterday that commercial banks saw as their biggest competitors S&Ls, mutual savings banks and credit unions? Was it only yesterday that commercial banks were demanding "a level playing field" on which to compete with these other financial intermediaries?

Such worries seem obsolete now in light of the advent of money-market mutual funds (MMMFs), which are taking billions of dollars out of the commercial-banking system.

Then, more recently, competition took a new — and to some bankers, more frightening — turn in the form of an announced merger between American Express and Shearson Loeb Rhodes, acquisition of the Bache Group by Prudential Insurance Co. and Equitable Assurance Society's request to the New York state insurance department for permission to offer a "broad-based cash-management system."

All these developments, when and if consummated, will open the door to banking to the firms involved. Yet, as many bankers are quick to point out, commercial banks are restricted from climbing over their regulatory walls into areas such as municipal revenue bonds and MMFs.

A St. Louis banker, Neal J. Farrell, president, Mercantile Trust, pointed out — at his bank's 26th annual correspondent banking conference — that external forces, not free competitive-banking practices, are reshaping the financial and capital markets and systems of our nation. This is being done, he continued, with little or no recognition or definition as to what the ultimate effects of these profound changes will be on the national economy or on a single individual's personal management of his own financial affairs.

Then, he recounted the following:

- American Express and Shearson Loeb Rhoads' announced merger, which will give the two firms combined assets of more than $6.6 billion and combined services of charge cards, travelers checks, travel agencies, cable TV (including two-way cable TV capable of handling retail banking and other financial transactions), magazines, money orders, insurance, retail-banking services for wealthy customers and corporate and investment-banking services from American Express.

He said this new entity's channels of distribution will include 10,000 independent agents selling insurance, 736,000 cable subscribers in 27 states, a phone order-taking service handling 8,000,000-10,000,000 calls a year and a credit-card-processing network handling 12,000,000 accounts for 3,800 financial institutions of American Express.

- Prudential's $385-million acquisition of the Bache Group. Prudential, the world's largest insurance firm, has 25,000 agents in 1,200 offices. Bache, said Mr. Farrell, has 3,000 brokers in 200 offices and $284 million in capital.
- Equitable Life Assurance Society is ready to go nationwide if it receives the requested permission to offer a cash-management system. Mr. Farrell said Equitable already has an electronic clearinghouse network to collect premiums automatically from about 300,000 life insurance policyholders, and it runs a cash-management system for company use. Last fall, the firm entered the MMMF business.

"Now, don't misunderstand," Mr. Farrell told the correspondent bankers. "I am not saying these new financial products and services or the nonbanking institutions that offer them are, in themselves, bad or dangerous. Quite the contrary. Many, if not all, provide new opportunities for financial service and meet the needs of countless individuals, corporations and institutions.

"The point is, the commercial-banking system, by legislative, regulatory and, if you will, political forces, is being prevented from offering, or even from considering offering, similar new services and products to its customers and the banking public on anything resembling an equal basis with our nonbanking competitors."

In discussing these new mergers and acquisitions with representatives of MID-CONTINENT BANKER, Mr. Farrell compared them with the throwing of a rock into a lake. Right now, he said, bankers can't tell how big the rock is nor how wide the circle of waves it is creating. He believes the rock is small at the moment because these firms don't want to stir up Congress to the point of passing restrictive legislation on their "bank-like" activities. Ultimately, though, he continued,

> ". . . the commercial-banking system, by legislative, regulatory and . . . political forces, is being prevented from offering, or even from considering offering, similar new services and products to its customers and the banking public on anything resembling an equal basis with our nonbanking competitors." — *Neal J. Farrell.*

they will be throwing big rocks; that is, they will be offering more and more bank-like services, which will create ever-widening waves. He believes these waves, in turn, will upset an increasing number of boats (banks) unless the latter can compete with nonbanking firms on an equal basis.

As Mr. Farrell put it in his speech at the correspondent banking conference, "Why is the commercial-banking industry being hamstrung and severely handicapped in helping to provide new services and new products to new and existing markets? And, especially, why are we virtually being excluded from this process when the public need for new and innovative financial services is more critical than perhaps ever before?"

Mr. Farrell believes this new challenge to banking will be met, but the question is how it will be met. He added that the future well-being of the national economy requires a strong commercial-banking system as an intermediary for total economic progress. He warned that bankers cannot permit a breakdown in this vital cog of our economic machinery.

"We can start," he advised, "by making an individual commitment to make our unified voice heard more strongly and effectively than ever before. Our resolve and ability to do just that are the basic issues facing banking today."

Scorecard Needed. In today's financial ball game, it's hard to tell the players even with a scorecard. That's the way Walter B. Wriston, chairman, Citibank/Citicorp, New York City, put it in a speech he gave to the Securities Industry Association in New York City. He said that yesterday's image of a financial-services business bears little relationship to today's reality.

"Actual events of the financial world," said Mr. Wriston, "are confused with the image of what used to be. The image is that banks are places to deposit money and get loans; that brokerage firms are places where securities are bought, sold and distributed; that thrifts are places to maintain savings and obtain mortgages. Yet the reality of the actual events taking place is that computers, satellites, electronic funds transfer mechanisms, microcircuitry and high-speed optical telephone lines are eliminating constraints of time, geography and volume in financial transactions. A man in Texas takes his money out of an S&L, calls a toll-free telephone number in Arizona, and his money ends up in a money-market fund in Boston — or anywhere else on the globe.

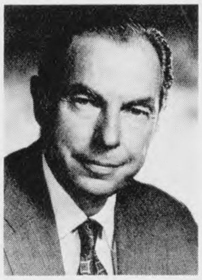
"The financial marketplace today is everywhere, any time. Parties to transactions could be anyone with the ability to punch in the right numbers anywhere. Financial transactions now are being performed in living rooms via cable TV or through a terminal in a corporate treasurer's office. What will be the value of a seat on the New York Stock Exchange or a brick-and-mortar bank branch in an environment where every home has access to the Dow Jones and its bank accounts instantaneously? In that kind of world, electrons have become money, credit, securities or savings and are more real than places."

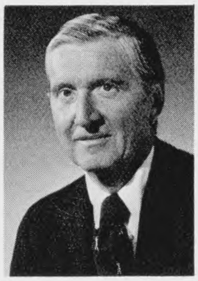
Mr. Wriston pointed out that people down on the farm are withdrawing their money from savings accounts and buying money-market funds. These funds have done away with isolated pools of liquidity, since they invest not only in Treasury and U. S. government agency securities, but also in large negotiable CDs, commercial paper and Eurodollar CDs. Deposits, according to Mr. Wriston, are crossing state lines and international boundaries and ending up in other banks, whether McFadden likes it or not.

Mr. Wriston said that money-market funds — essentially high-interest bank accounts for small savers — are the unique offspring of the marriage between Reg Q and the toll-free telephone, with inflation and technology serving as matchmakers. He illustrated these funds' growth by saying that it took Citibank 114 years to accumulate $1 billion in deposits, but in January and February, 1980, money-market-fund assets grew at the rate of almost $8 billion a month and in May of that year by more than $9 billion.

In another speech, Mr. Wriston said legislation created years ago by Glass and Steagall "and their friend McFadden" as a wall to keep people out of

Legislation created years ago by Glass and Steagall "and their friend McFadden" as a wall to keep people out of banking's fort today is serving an entirely different purpose. All it does now is keep bankers locked inside while everyone else with imagination and drive harvests cash crops growing beyond the stockade. — *Walter B. Wriston.*




Bankers speaking out on competitive lockout on these pages include (from l.) Neal J. Farrell, president, Mercantile Trust, St. Louis; Walter B. Wriston, chairman, Citibank/Citicorp, New York City; Martin C. Miler, chairman/CEO, Hibernia National, New Orleans; John H. Perkins, president, Continental Illinois National, Chicago; and Frank B. Hower Jr., chairman, Liberty National, Louisville.

"The marketplace is unremitting in its quest for innovation of desirable services, price competitiveness and reward. That marketplace, like water, seeks the fastest, shortest and least resistant route to sea level and will not be denied by regulations and restraints that are unnatural inhibitors to the free and compelling force of its desires and needs." — *Martin C. Miler.*

banking's fort today is serving an entirely different purpose. All it does now, he continued, is keep bankers locked inside while everyone else with imagination and drive harvests cash crops growing beyond the stockade.

"What is harder to understand," Mr. Wriston wondered, "is why, whenever parts of the wall show signs of crumbling, bankers themselves are first on the scene to mortar it up. And no one ever seems to notice that the circumference of Fortress Banking keeps getting smaller and smaller. In 1946, we had a 57% share of financial assets of the country; in 1979, it had shrunk to about 38% — and it is still shrinking."

People on the outside of the wall — Merrill Lynch, Sears, G.E. Credit Corp. — are doing only what a market economy demands, said Mr. Wriston. All they are doing is giving the ordinary consumer a competitive return on his money, and there's nothing wrong with that. Mr. Wriston believes that what's wrong is the government's attempt to prevent it. And, he added, if bankers encourage these attempts, as many have, then, as Pogo said, "The enemy is us."

"All attempts to protect our Fortress Banking will fail," he prophesied, "because new technologies like telecommunications and data processing have provided the means to give everyone equal access to the free money markets, and inflation is furnishing the incentive to go there. That's what plastic credit cards and toll-free 800 numbers really are all about. The trend cannot be halted because the public, in this age of consumerism, no longer will accept the inequities. Banks cannot be sheltered from this competition; they can only be banned from participating in it. Indeed, it is useless to anticipate, if we are forbidden to act. And if we do not participate, we are finished as financial intermediaries. It may not be an exaggeration to say that our very survival in the year 2000 may entail giving up our banking charter, if our laws and regulations do not change."

Mr. Wriston sees the question as we enter the 1980s as not how many people will climb over the wall into what bankers believe is "their" market, but whether bankers will allow themselves to climb over that wall, out into the sunlight where the customers are.

"Prince" or "Frog." Martin C. Miler, chairman/CEO, Hibernia National, New Orleans, believes events such as the announced mergers of American Express/Shearson Loeb and Bache/Prudential are precursors of highly galvanic changes in store for the financial-services industry.

As he puts it, "The 1980s are the decade when that snoozing prince will awaken. In 1990, you will know whether you have a handsome stalwart or a bleary-eyed frog.

"Such mergers, as symptoms of these changes, should be highly beneficial to banking providing bankers themselves and legislators do not prevent it from being so. Bankers might prevent it, in part, because of their tragic paranoia against change and against competition. Legislators may do it because they either refuse to face the tide of change or are held hostage by special interests that seek to erect a concrete edifice as a shrine to the status quo."

Mr. Miler believes that if the status-quo bankers and legislators prevail, the banking industry will hemorrhage and thrash like a beached whale that has fallen victim to the harpoons of change.

"If they prevent *intrastate* banking, as they have in Louisiana," Mr. Miler continues, "and *interstate* banking on a regional and national scale, then the American financial landscape will be littered with corpses of banks run by bankers who repudiated change and competition and unwittingly forced annihilation of their institutions.

"The marketplace is unremitting in its quest for innovation of desirable services, price competitiveness and reward. That marketplace, like water, seeks the fastest, shortest and least resistant route to sea level and will not be denied by regulations and restraints that are unnatural inhibitors to the free and compelling force of its desires and needs.

"Deregulation of artificial-rate constraints and geographic competitive restraints is required, along with the right to operate and advertise investment money funds, to underwrite revenue bonds and to compete in the financial arena with both hands free. These clearly should be some of the ambitions of bankers. Sadly, too many bankers choose instead to say, 'Stop the changes,' 'Handcuff those predatory innovators' and 'Stop allowing such competition.' This hardly is the behavior expected of princes and is much more on the order of frogs that are on the verge of being gigged, after which their legs are ceremoniously devoured."

Mr. Miler closes by warning that if his words seem direct and harsh, "they are nothing compared to the reality of the 1980s, if bankers fail to awaken both themselves and legislators by acting like princes instead of proclaiming 'ribbit' from their respective lily pads."

Recognizing the modern truth. Freedom from constrictive and ineffective regulation is proposed by John H. Perkins, former ABA president, and president, Continental Illinois National, Chicago, as a solution to the competitive situation banks find themselves in.

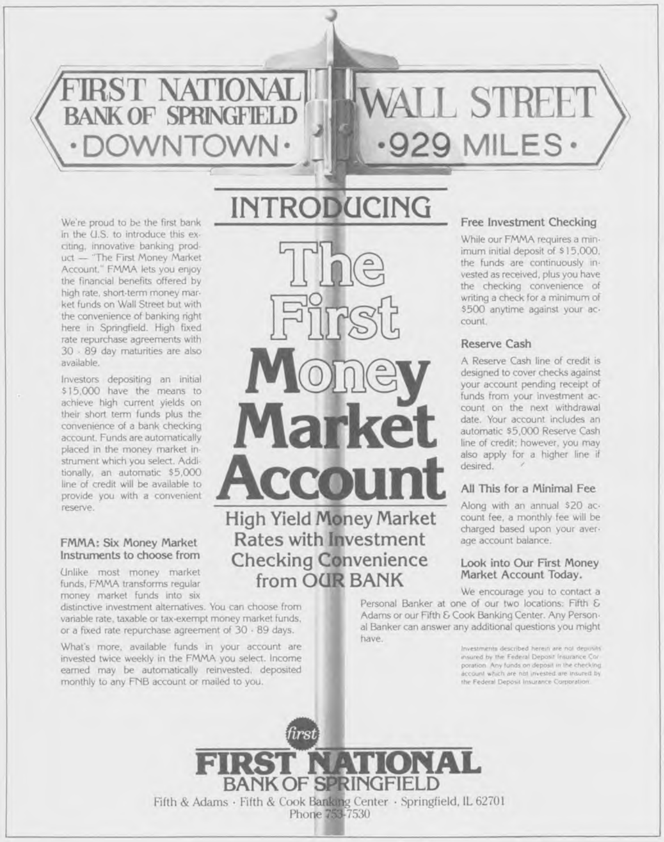
"Too often we tend to see competition as a dark cloud, when we should be concentrating instead on the brighter lining it carries in the form of potential benefits for commercial banks," he said.

He pointed out that nonbank financial intermediaries have shown consumers a most impressive array of services and they operate with virtually no geographical or regulatory impediments. He added that the well-worn recital of what these unregulated competitors are doing hardly needs repeating. "With artificial restraints on depository institutions, market forces have taken over and moved ahead with such new devices as money-market funds.

"At the same time, large banks, oil companies, retailers and others are issuing credit cards nationwide. Many banks are opening loan production units and Edge Act offices. Foreign banks are entering all major cities en masse, much as American banks went abroad a number of years ago."

This evolving competitive picture, he said, carrying with it structural changes in the industry, is making it more and more publicly evident that

(Continued on page 71)



First Nat'l, Springfield, Ill., is using this ad to tell public about its "First Money Market Account" (FMMA), high-yield instrument bank created to compete with money-market-mutual funds.

Banks Create Programs To Compete Against Money-Market Funds

By Rosemary McKelvey, Editor

A SURVEY of money-market-mutual funds (MMMFs) conducted for the ABA by the Unidex Corp. showed that 70% of respondents invested funds in MMMFs that otherwise would have been held in deposit instruments; 46% said the primary source of the money invested in such funds was money that would have been held in regular savings accounts. This survey, consisting of 1,643 telephone interviews of consumers nationwide, was made between April 21 and May 31, 1981.

In a similar survey made in June, 1980, almost 55% of respondents said their primary source of MMF investment money was deposit instruments. This, says the ABA, would tend to indicate that much of the recent growth in MMF assets has been at the expense of depository institutions. Further, as answers to one of the questions indicate, 47% of respondents said they would have kept more funds in bank-deposit accounts if they had not invested in MMFs. On the other hand, continues the ABA, only 17% of respondents cited investment in stocks/bonds as the source of funds, casting doubt on the investment company industry's claim that MMFs are primarily a "parking place" for funds between investments.

This survey reinforces what most commercial bankers have known for some time: They are losing deposits to these funds, and, as a result, money invested in MMFs is leaving their communities.

However, bankers are not just lying down and playing dead. Instead, many of them are starting to fight back with money-market-type accounts, money-market notes, cash-management accounts.

For instance, First National, Springfield, Ill., has introduced a new investment account that allows customers to invest funds automatically at high current short-term rates in either a variety of money-market funds or in a fixed-rate repurchase agreement. Chicago's Continental Illinois Corp. has proposed a public offering of $100 million of money-market notes, a new type of floating-rate-debt security. City Bank, in President Ronald Reagan's boyhood hometown of Dixon, Ill., and Landmark Bancshares, St. Louis, have begun offering CDs of $100,000 or more with interest rates tied directly to the prime rate. Bank of Ravenswood, Chicago, has introduced a high-yield account with interest rates tied loosely to short-term Treasury-bill yields. Still another Illinois bank, Morton Community Bank, offers a money-market-type account.

First of Springfield. This Illinois bank now offers the First Money-Market Account (FMMA). With an initial investment of $15,000, a customer can select one or more variable-rate, taxable or tax-exempt money-market funds or a fixed-rate repurchase agreement with a maturity of 30, 60 or 89 days. The account also includes the convenience of writing a check for a minimum of $500 against the account at anytime and has an automatic $5,000 reserve-cash line of credit.

The bank's chairman/CEO, Walter R. Lohman, points out that deposits in FMMA are not insured by the FDIC; however, deposits in FMMA accounts not invested are insured by the FDIC.

Investments are made twice weekly — Tuesday or Thursday — in a money-market instrument the customer selects. Additional investments can be made in $100 minimums.

The repurchase agreement represents a fixed rate for a specified number of days and is collateralized by a Treasury or federal agency security. The bank, as issuer, agrees to repurchase the security on the specified date or surrender the security. Subsequent deposits can be made in $1,000 minimums or repurchase agreements.

Customers may withdraw funds merely by writing a check for a minimum of $500 against their accounts anytime. There's no charge for the first five checks written during the month. However, the customer would pay a

(Continued on page 56)

One-Stop Shopping, Animated Display Make for Abundant Goodwill For Boatmen's Affiliate at Christmas

IT ISN'T every bank that offers one-stop shopping for the family at Christmas time — in addition to providing a charming setting for gift transactions, one that is practically guaranteed to thrill all members of the shopper's family.

But this is what Boatmen's Bank of Concord Village, Mo., did last year, and, in so doing, made a lot of customers and non-customers happy, helping to put them into the right mood for Christmas festivities. The bank is an affiliate of Boatmen's Bancshares, St. Louis-headquartered HC.

It was appropriate that the items the bank offered shoppers had to do with money — crisp bills — the bank's stock and trade. But the gifts weren't just ordinary items that were purchased by the bank and sold to its customers. These gifts were difficult to find anywhere else and it took some doing on the part of bank employees to offer them because each was hand made by an employee!

In order to know how to make these gifts, bank employees had to learn the art of origami, a Japanese word meaning "paper folding." The bank offered its customers a choice of six origami gifts, each of which was folded on-site by employees who had studied a book from the public library on the art of paper folding.

Sign includes samples of each of six Christmas gifts made of folded currency offered by Boatmen's Bank of Concord Village, Mo., last December. Jumping frog and bikini swim suit (Nos. 1 & 4) were most popular items. Gifts also were available at bank's facility.

Customers had a choice of a bow tie, a string tie, a decorated Christmas tree, a ring, a bikini swim suit or a jumping frog. The Christmas tree was adorned with bits of glitter decoration from a local hobby shop and the frog jumped because it was folded in such a way that it hopped after its backside was depressed and released by a human finger.

Each gift was made from a piece of new currency of any denomination. Surprisingly, few customers wanted gifts made from $1 bills; rather, they chose ten and even one hundreds, according to David V. McCay, president/chief operating officer, who thought up the idea for the gifts. Some customers requested five hundred- and one thousand-dollar bills, and were surprised to learn that such bills are no longer printed by the Fed, thus, can't be obtained wrinkle-free.

Boatmen's announced the availability of the gifts right after Thanksgiving and offered them through the month of December. More than 500 were purchased at a cost of $2 each, plus the amount of the denomination of the bill used in making each gift.

Six employees were kept busy making the gifts in the board room during slack moments, Mr. McCay says. Customers were asked to wait one week for delivery, to assure adequate time to fill their orders. Mr. McCay hopes to cut down on the waiting time this coming Christmas season and feels this can be done now that the bank has a track record on how popular each gift is.

The bikini swim suit and the jumping frog were the best sellers. The bikini came in two pieces. Each gift came

Overall view of Christmas display in lobby of Boatmen's Bank of Concord Village, Mo. Two bear cubs on teeter totter at left are featured on cover of this issue. They stole the show! Display was lighted at night and could be seen from busy highway.

"My Club...don't leave 1981 without it!"

"It's a happy theme—with everything happily going for you! All the materials are ready right now for the launching of your 1982 Christmas Club. It's not so far away, you know! You can get this colorful folder full of coordinating materials just by writing today, or call toll free.*"

Your 1982 *Christmas Club power pack* includes Coupon Book, Carol Book, Cut-out Application, Member Envelope, Christmas Club Check, Window Envelope, Soft-sheet Poster, Statement Enclosure, Shopping & Christmas Card List, Application Folder, Teller Badge, Easel Display Cards, Pocket Calendar...selected and market tested Premiums.

Christmas Club a corporation
The Original

P.O. Box 20, Easton, Pennsylvania 18042

*Ms. Renée Brett: (800) 523-9334 New York, New Jersey, Maryland, Delaware; (800) 523-9440 all other states except Pennsylvania; (215) 258-6101 Pennsylvania residents.

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This coordinated collection was specially selected to excite. Inspired by the magnificence of French cuisine, our collection includes three proven performers:

Beautiful and fresh Spring Blossom fine china; sparkling French lead crystal with faceted accessories; and finally, Corning ware® French White™ cookware.

At Salem, we're prepared to offer you a variety of programs tailored to meet your needs and designed to target your particular objectives. Whether it be to generate low interest deposits, Money Market Certificates, or N.O.W. accounts, we have more proven complete programs to choose from and more promotional experience to depend on.

Let us plan a program for you from our French collection. We can help you combine flair with savoir-faire.

For more information write or phone Jay H. Keller

The Salem China Co.
1000 SOUTH BROADWAY, SALEM, OHIO 44460 216/337 8771

in a gold box bearing a Boatmen's seal.

It's difficult to secure fresh bills from the Fed during the holiday season, so Mr. McCay had the bank stockpile fresh currency during the months before the gift offer was made.

A large ad was published in the St. Louis daily newspapers and in shopper weeklies throughout the promotion. The promotion paid for itself, due to the $2 charge, Mr. McCay says.

An animated Christmas display featuring three Christmas trees, Mr. and Mrs. Santa Claus and a number of lifelike animals, dominated the bank's lobby throughout the month of December. The display was obtained through a floral supplier and was placed inside the bank's large windows that face a busy highway, attracting people as they drove by. Families came in groups to see the display and kids were thrilled to stand and watch every part of it.

Mr. McCay isn't one to do things without a bit of fanfare. The bank's Christmas promotion was launched outside the bank in the parking lot of the shopping center in which it's located.

Santa arrived in a helicopter that attracted lots of attention — of course, the public had been alerted to his arrival. Santa officially opened the Christmas season at the shopping center and he naturally made a point of leading the public into the bank to see the Christmas display and promote the folded-money gifts.

Mr. McCay says all the merchants in the shopping area are pleased to cooperate with the bank in staging special events of this nature.

It's usually difficult to measure the benefits of a Christmas promotion, but Mr. McCay says new account activity was "tremendous" during December and the bank lobby was never busier.

It's no wonder that the bank plans to repeat its Christmas promotion this coming December! ● ●

Capsule Comment: Financial institutions are expected to continue to push hard to create new debt as interest rates rise, said Henry Kaufman, executive partner, Salomon Brothers, New York City, at a recent talk to the National Press Club in Washington. He also said he expects the securities industry to use all its ingenuity to develop many new credit instruments to drive the credit-creation mechanism forward. As a result, he said, "the gap between classically defined money and debt and nominal GNP will widen until an excruciatingly high interest-rate level crunches the operating decisions of some in the real world."

Kid's-eye view of portion of animated Christmas display in lobby of Boatmen's Bank of Concord Village, Mo., last December. Display will be featured this coming holiday, too.

Christmas Clubs Provide Low-Cost Funds For National American, New Orleans

ON THE COVER

Office of Nat'l American, New Orleans, was decorated for Christmas in middle of summer so TV commercials could be filmed for bank's Christmas Club promotion for following year. Announcer holds placemat premium that bank offered to those signing up for Christmas Club accounts for 1980.

LOW-COST FUNDS are the dream of every banker in these days of rate volatility. The problem facing many bankers is how to turn their dreams into realities.

National American Bank, New Orleans, knows how. It expects an estimated $3.8 million in lower than passbook-rate funds to flow into its vaults this year from almost 18,000 individuals who have signed up as Christmas Club account holders for 1981.

"We've found one of the best ways to get low-cost funds is to establish National American as the leading Christmas Club commercial bank in the New Orleans area," says Frank Castagna, vice president. And National American has been working hard to be on top in that category.

Total dollar amounts for Christmas Club accounts for the past few years have been impressive — and growing. For instance: the 1979 total was $3.3 million; the 1980 total was close to $3.4 million. The estimated figure for 1981 — if achieved — will be a record-setting $3.8 million, an approximate 12% increase over 1980.

Total signups for the 1981 year hit a new high — almost 18,000, about 1,400 more than last year, amounting to better than an 8% increase. According to a representative of Christmas Club a Corporation, National American Club deposits rank among the largest in the southern region.

But how does a bank go about gaining the top spot in the Christmas Club category, especially when every financial institution is actively soliciting low-cost deposits? National American's promotion begins each year about October 15 with an initial mailing of about 20,000 statement stuffers calling attention to the establishment of new club accounts for the coming year, Mr. Castagna says. All previous customers are solicited and certain portions of the bank's trade area are targeted for direct-mail promotion.

About a month later, a second mailing goes out and, when the current year's Christmas Club checks are mailed, each recipient receives a third announcement promoting the coming year's club.

Mr. Castagna estimates that the first week's free payment and the expense of the free premium cost the bank an estimated 3.7% for approximately $3.4 million in Christmas Club deposits last year. National American offers Christmas Club accounts in six categories: $2, $4, $6, $10, $20, and $40 semi-monthly. More than half the bank's customers choose the three highest categories.

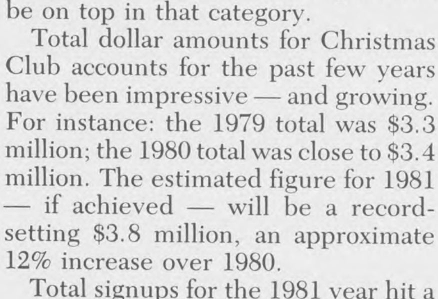
"Christmas Club customers are loyal to the concept and to the bank promoting them," Mr. Castagna says. Despite the fact that most financial institutions in New Orleans and surrounding areas were vigorously promoting NOW accounts during the signup period for the 1981 clubs, National American established a new high in club account signups, he says.

"Christmas Club accounts at National American have become a tradition among our customers," says Mr. Castagna. "Families, neighbors and others simply pass the word along each year and this provides enough momentum to keep the program not only viable, but growing," he adds.

To be on the safe side, however, the bank budgets about $20,000 for media promotion, utilizing radio and television. "We pay the first week for you . . . absolutely free!" say the ads. A teller is pictured handing a $10 bill to a customer so the customer can use the bill to make the first week's payment.

The bank also touts the traditional free gift for those signing up for Christmas Club accounts. During the most recent promotion, the gift was a crystal design petal bowl suitable for holding fruit or serving salads, chips or dips.

"Christmas Club accounts are a dependable source of low-cost funds," Mr. Castagna says. ● ●



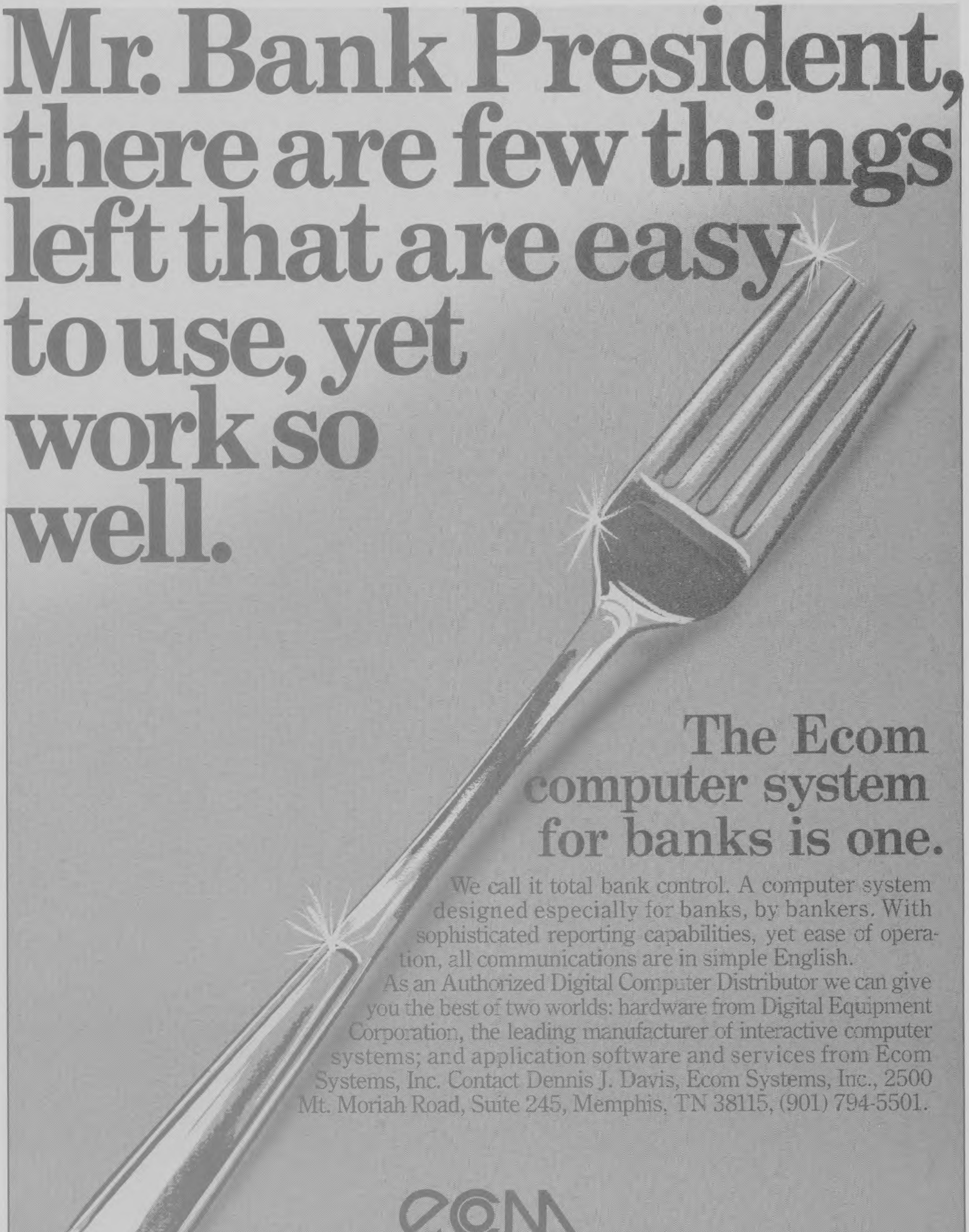
This crystal design petal bowl was last year's Christmas Club premium offered by Nat'l American, New Orleans. Bowl is suitable for holding fruit, serving salads, chips or dips.

Santa Claus plays a prominent role in the Christmas season festivities at National American Bank, New Orleans. He's been on hand — albeit behind the scenes — at the bank for a number of years to give kids a shiver of excitement via the U. S. mails.

National American operates a Santa's post office to enable bank customers to arrange for children to receive a letter from Santa bearing a postmark from Santa Claus, Ind.

Anyone coming to the bank or one of its branches can select one or more letters from several on display, address and stamp matching envelopes and "post" them in a special mail box at the bank. Daily, the letters are gathered, bundled and sent to Santa Claus, Ind., where they are postmarked and remailed.

It's National American's way of helping its customers and friends say a special Merry Christmas to children!


Mr. Bank President, there are few things left that are easy to use, yet work so well.
The Ecom computer system for banks is one.
We call it total bank control. A computer system designed especially for banks, by bankers. With sophisticated reporting capabilities, yet ease of operation, all communications are in simple English.
As an Authorized Digital Computer Distributor we can give you the best of two worlds: hardware from Digital Equipment Corporation, the leading manufacturer of interactive computer systems; and application software and services from Ecom Systems, Inc. Contact Dennis J. Davis, Ecom Systems, Inc., 2500 Mt. Moriah Road, Suite 245, Memphis, TN 38115, (901) 794-5501.
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Christmas Club Potential Business For Banks Cited by Unidex Survey

TWENTY PERCENT of people not presently participating in a Christmas club are interested in starting one. And, one out of four in the 18-34 age group — banking's future customers — have signified an interest in Christmas clubs.

These are two of the conclusions reached by a 1980 Unidex survey conducted for Christmas Club a Corp. The survey also verified that although Christmas clubs aren't the most profitable service for financial institutions, they are propagators of more profitable services.

The average banking customer, excluding the Christmas club saver, uses an average of 1.3 bank services. The Christmas club saver presently avails himself of an average of 3.3 bank services.

These figures supported and strengthened the results of previous studies conducted in 1976 and 1978. Since 78% of all club savers prefer to make their payments in person, the program reinforces cross-selling opportunities. Thus, the Christmas club saver uses more than one-and-one-half more services than his counterpart.

Each 1,000 Christmas club customers is said to represent 924 checking accounts, 894 savings accounts, 419 CDs, 515 installment loans and 649 bank credit card accounts. The survey also shows that the Christmas Club saver is a loyal customer. Eighty percent have been with the same financial institution for six years or longer as opposed to only 60% of non-club savers.

At present, 24 million people save $6 billion annually in Christmas clubs. This study indicates a remaining potential of an additional 46 million people saving $11.5 billion. The study also indicates that a person earning $30,000 a year is just as likely to have a Christmas club as someone earning $10,000. Also, a professional is as likely to participate as a non-professional and all age groups have almost the same incidence of club membership.

It's been estimated that approximately 35% of the total population expresses interest in Christmas clubs, but that only a fraction of that percentage actually has been translated into club accounts.

Christmas Club Brochure Available

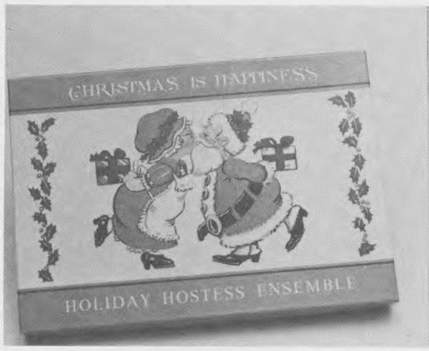
A "Christmas is Happiness" brochure is available from Christmas Club a Corp. that presents details and illustrations of supporting products available to financial institutions. Basic components are the coupon book with a member envelope and the Christmas Club check and window envelope, all imprinted with Mr. and Mrs. Santa Claus in red, white and green.

A cut-out application is available that can be used as a statement enclosure, mailing piece or to promote premiums. There also is a shopping and Christmas card list and a book of Christmas carols that can be given to customers, schools and churches

Financial institutions can promote clubs with a combination of statement enclosures, soft-sheet posters, application folders, calendar cards, currency holders and tellers' badges that personnel can wear as reminders to join the club.

Also available is a group of premiums, such as tree ornaments, hostess sets, Christmas candles, porcelain mugs, note paper and pads and pens. All advertising products can be scented with pine or holly berry fragrances.

Write: Christmas Club a Corp., P. O. Box 20, Easton, PA 18042.



Hostess Set

Candle

Ornament

Messages

Mug

Note Pad

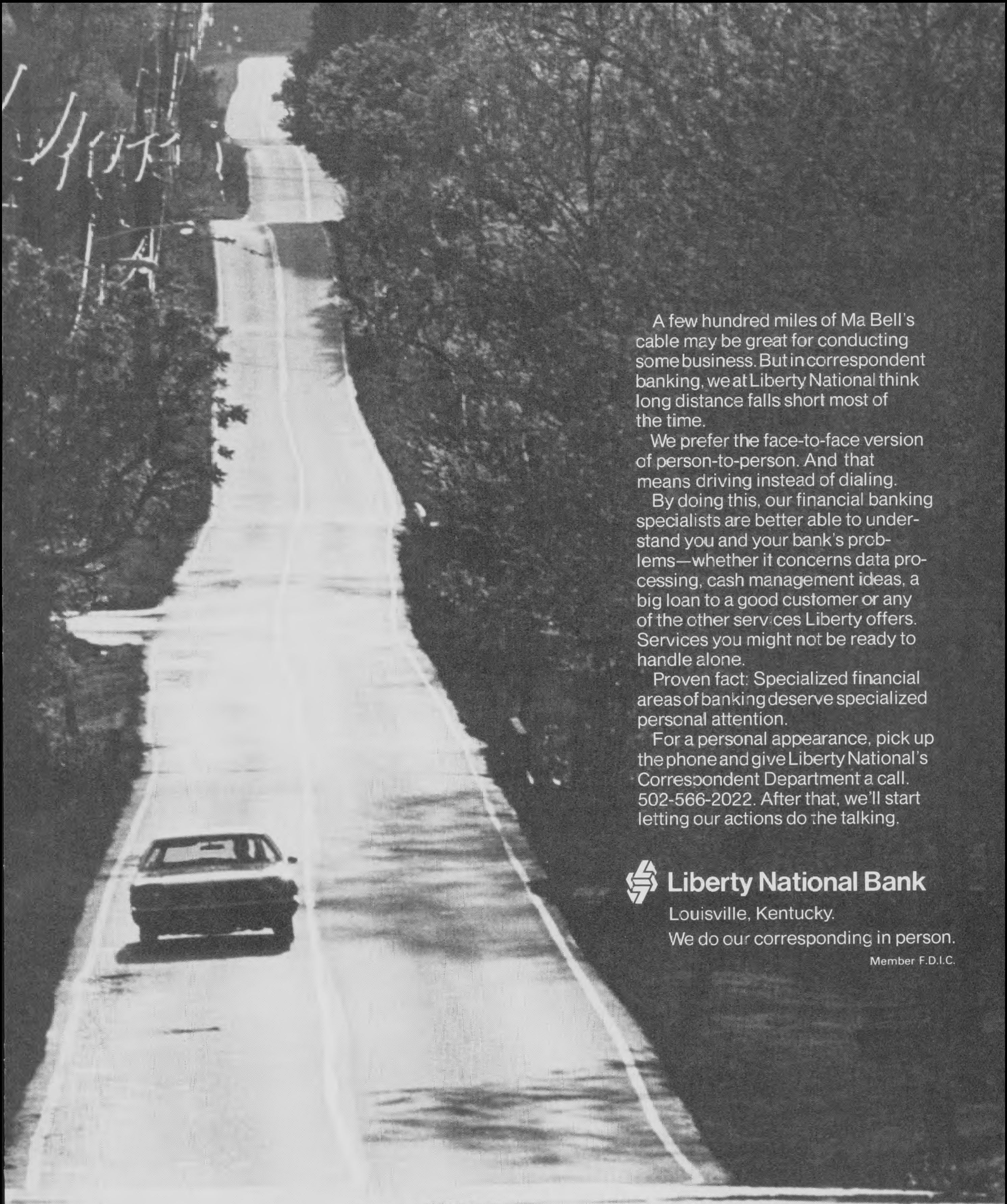
Needy Families Helped By Bank Employees

Employees at Commerce Union Bank of Rutherford County, Murfreesboro, Tenn., made a special effort to make their new bank building attractive last Christmas, since it was the first Christmas the bank had use of the building.

It was decided that employees would sponsor one needy family by soliciting donations of food, clothing, toys and money from their peers. They also decorated the bank and arranged for a bank employee to portray Santa.

The response for items was so great that two families were sponsored and Santa himself delivered the Christmas gifts to the needy children.

Bank-employee Santa helps child enjoy new wagon as Christmas gift from employees of Commerce Union Bank of Rutherford County, Murfreeboro, Tenn.



A few hundred miles of Ma Bell's cable may be great for conducting some business. But in correspondent banking, we at Liberty National think long distance falls short most of the time.

We prefer the face-to-face version of person-to-person. And that means driving instead of dialing.

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Louisville, Kentucky.

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How our correspondent department makes long distance calls.

Christmas Ideas That Work!

A potpourri of promotions any bank can use

Leftover Premium Items Put to Use As Gifts to Needy at Christmas

IF THOSE stuffed animals, wrist watches, clock radios and luggage left from your bank's promotions are gathering dust somewhere, give them and some of the Christmas spirit away this year to those who'll really appreciate them.

That's what First National, Louisville, started doing several years ago and what the bank continues to do, only in a much bigger way. Last year, for example, 85 needy Louisvillians, many of them children, as well as residents of several retirement homes, benefited from the bank's generosity.

First National's Christmas giving began when marketing employees decided that the flashlights, warming trays, baseball caps and coin banks left from the bank's promotions could be put to better use than just taking up storage space.

So they gathered up the items, wrapped them as gifts, added some food and offered the items to families they had "adopted" for Christmas. Continuing their Christmas tradition last year, employees helped to raise nearly $300 for baskets and Christmas gifts.

And the bank made a generous contribution to the Salvation Army for the purchase of additional Christmas baskets for the needy.

Christmas giving has spread bankwide at First National, not just through fund raising, but also through various departments gathering clothing, toys and other items and giving them to "adoptive" families.

Take the collections department as an example. Last Christmas, the 85 employees there collected "to give," noted Robert Thornton, a credit officer in the department.

They gathered and stockpiled food, clothing, money, toys, among other gifts, and distributed them to a man and his two young sons as well as to 20 other families.

The man's two sons also received other gifts, including a shopping spree for clothing, a tour of the bank and a visit with Santa.

"We like to help families who are trying hard, but just aren't making it," explained Mr. Thornton, who noted that the bank helps people whose needs are verified by Louisville charities. "These people just haven't gotten a break yet."

Several other bank departments, including the estate tax division, also saw that needy families shared in the spirit of Christmas.

For the second year, employees of the division pulled together to help five families, according to Pat Proctor, estate tax officer.

Recipients included an 86-year-old woman and a couple in their '70s.

"The 86-year-old woman was fun," she remembered. "She put on the bright red coat that had been given her, and wouldn't take it off. She just loved it."

Adopting families for Christmas is worth all the effort, Miss Proctor says.

"You see the whole spirit of Christmas, and you see that you do make a difference in people's lives. That's a nice feeling."

And for First National, Christmas giving is a way to get useful promotional items out of storage and into the hands of those who can make the most of them. ● ●

Representatives of marketing, estate tax and collections departments at First Nat'l, Louisville, select items remaining from bank premium promotions to be used as Christmas gifts for Louisville's needy.

Bank Employees Fete Kids

Each year, employees of Nichols Hills Bank, Oklahoma City, give a Christmas party to residents of nearby Baptist Children's Home. Included are dinners and gifts presented by Santa. Employees pick up tab with bank supplying supplemental financial support if necessary. Children are in 9-12 age group and are shown here opening their gifts.

Tree of Lights, Decorations, Toys, Music Permeate Mercantile Trust for Holidays

THE TRAPPINGS and spirit of Christmas were in evidence at Mercantile Trust, St. Louis, last holiday season. The bank's 1,900 employees observed the holidays in a number of ways, including dressing up the bank inside and out and filling it with sights and sounds of the season.

The most dramatic evidence of the holiday was the Salvation Army "Tree of Lights," rising 50 feet in front of Mercantile Tower. The tree, which is made of 300 trees mounted on a metal frame, provided a highly visible way of keeping track of corporate and individual contributions for the needy. Funds donated to illuminate the lights on the tree are used to purchase and distribute food and clothing to families in need, along with toys to about 35,000 children. The Salvation Army also provides dinners for thousands on Christmas.

Employees of Mercantile Trust, St. Louis, members of toy and doll committee, prepare to visit United Way agencies to deliver items to disadvantaged children. They are (from l.) Charlotte Coker, Bill Akers, Dennis Smith (Santa), Denise Browing and Donna Sens (seated).

Mercantile Trust President Neal J. Farrell chaired the "Tree of Lights" campaign in 1979, when more than half a million dollars was raised — the largest amount ever up to that time.

Inside the bank, carollers donated their lunch hours for several weeks to visiting various bank departments to sing seasonal favorites. In the main lobby, beginning early in December and continuing through Christmas Eve, an organist played Christmas music and requests from customers during the middle part of the day.

Many departments made their own Christmas statements with trees, wreaths and decorations; and the main lobby featured a large tree and newly redesigned decorations, as well as displays of toys and dolls for disadvantaged children.

Dolls were dressed and toys purchased with money collected from bank employees. The toy and doll committee broke a few records in 1980: It raised almost $1,500 and dressed almost 800 dolls, the largest number in the history of this bank tradition.

Committee members chose a number of area United Way agencies as recipients of the gifts and visited two of them to present toys and dolls to the children. ● ●

Christmas Kitchen to Observe 25th Year

This Christmas kitchen at Bank of the Southwest, Houston, has operated in the bank's lobby for the past 25 years, dispensing hot gingerbread cookies (50,000 last year!) and hot wassail to passersby. Ruby Goodson, a bank retiree, has served as kitchen hostess since its inception. Furnishings are authentic to the turn of the century.

Christmas Sign Restored To Perpetuate Tradition With Assistance of Bank

Fort Wayne (Ind.) National played an important part in reinstating a holiday tradition in the downtown area last Christmas. A huge 40-year-old electric sign depicting Santa and eight reindeer was mounted on the exterior wall of the bank and relit for the first time in 22 years.

The sign had been constructed in 1940 under sponsorship of a department store and had been a regular holiday attraction for 18 years — minus two years during World War II. When the store moved to a new building, the sign was placed in storage, where it deteriorated for 21 years.

It was "discovered" in a warehouse

in 1979 and was gradually restored by volunteers. A single reindeer was mounted and illuminated on the bank's wall on Thanksgiving, 1979, and a second deer was added before Christmas. But it wasn't until the 1980 holiday season that the entire sign was ready to be displayed.

At the time it was constructed, the sign was reported to be the second largest lighted display in the nation. Large it still is — it's 155 feet long, weighs 5½ tons and contains almost 25,000 light bulbs!

Bank officials are modest about taking much credit for the restoration. However, they do admit that the bank was "more than a little involved in forming, maintaining and coordinating the unique alliance that made it all happen."

Employees Spread Goodwill During Christmas Season At Bank of Oklahoma, Tulsa

It's often been said that employees make the difference, and there's no better time to test the validity of that statement than during the Christmas season!

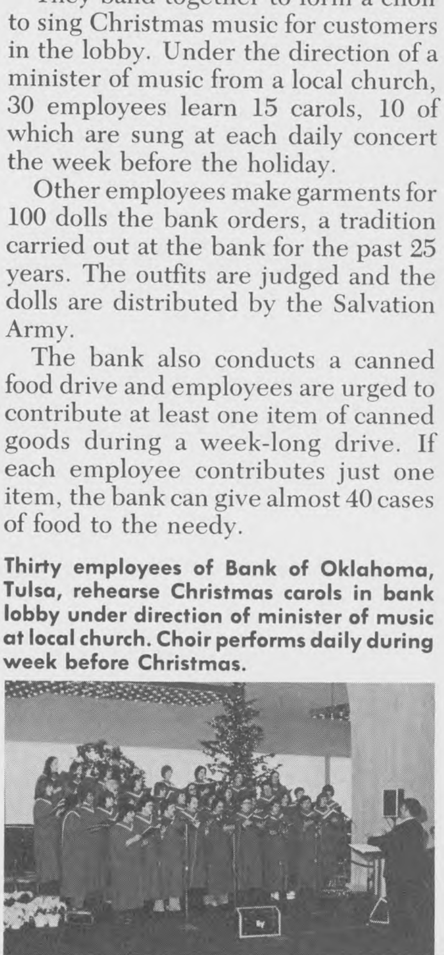
At Bank of Oklahoma, Tulsa, employees participate actively in several projects that fill the bank with the Christmas spirit.

They band together to form a choir to sing Christmas music for customers in the lobby. Under the direction of a minister of music from a local church, 30 employees learn 15 carols, 10 of which are sung at each daily concert the week before the holiday.

Other employees make garments for 100 dolls the bank orders, a tradition carried out at the bank for the past 25 years. The outfits are judged and the dolls are distributed by the Salvation Army.

The bank also conducts a canned food drive and employees are urged to contribute at least one item of canned goods during a week-long drive. If each employee contributes just one item, the bank can give almost 40 cases of food to the needy.

Thirty employees of Bank of Oklahoma, Tulsa, rehearse Christmas carols in bank lobby under direction of minister of music at local church. Choir performs daily during week before Christmas.



Dress-Doll Winners Honored by Bank

Judges selected these 10 dolls as 1980 winners in annual dress-a-doll competition sponsored by Farmers & Merchants Bank, Centre, Ala. Bank orders four dozen dolls each year and local women create outfits for them. Two dozen toy log truck kits also are ordered and given to local Boy Scouts for assembling. Dolls and trucks are distributed in time for Christmas.

FROM FIRST C
TO THE LA

Selling travelers cheques is good business.

But if handling travelers cheques results in administrative hassles, harried employees and disgruntled customers, then it's bad business.

That's why you should carry BankAmerica Travelers Cheques. We've spent over fifty years perfecting our sellers' program so that today it's a model of convenience, efficiency and personal service.

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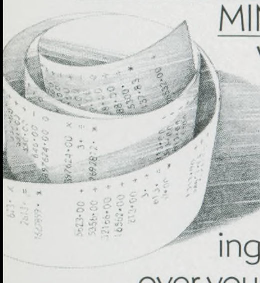

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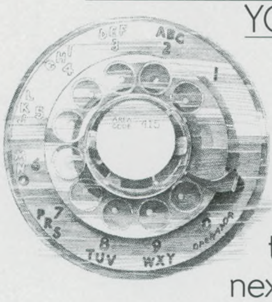

Our 24-hour toll-free number provides direct access to our account and sales representatives. So if any problems or questions arise, you don't have to wait for the next day. Or the next week. You get action when you need it. Now.

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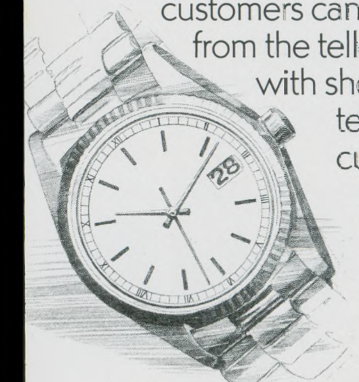
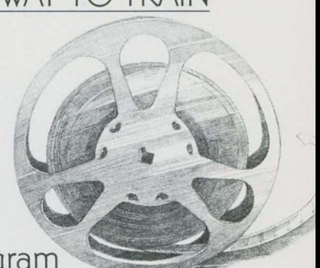
WE'RE GOING A LONG WAY WITH TIME-SAVING PROCEDURES.

With our new purchase agreement, your customers can sign their cheques away from the teller station. So you wind up with shorter lines, more efficient tellers and happier customers.



WE'RE GOING A LONG WAY TO TRAIN YOUR EMPLOYEES.

To do their job right, your employees should be more than just informed, they should be interested. So we provide you with a personalized training program that includes a first-rate film, printed materials, and our newly expanded annual teller incentive sweepstakes.



WE'RE GOING A LONG WAY TO GET YOU STARTED.

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Our totally self-contained modular units can help you maximize space utilization and flexibility while achieving a bright, open atmosphere in your entire bank. Unlike adding or moving walls, the cost of modular units can give you additional advantages such as investment tax credits for capital equipment, and provide you with office space that changes easily when your needs do.

We'll be happy to send you information on modular systems or visit with you personally.

So give us a call or visit our showroom. Let us show you what Arrow Business Services can do for you and your bank, no further away than here in Memphis.

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CHRISTMAS IDEAS

A gift of $25,000 to the Salvation Army's annual "Tree of Lights" program was made last December by Hampton Metro Bank of St. Louis. The more than half a million dollars collected in the Salvation Army program each year is used to support a variety of Christmas programs for families unable to afford them.

The bank donated 25¢ to the project for each visitor who entered its 25th anniversary drawing or its new facility's grand opening drawing over a three-day period.

"We wanted to do something to recognize the contribution our customers have had in our growth," said James R. James Jr., chairman/CEO, Metro Bancholding Corp. "That's why we decided to make a donation to the Tree of Lights in the name of each of the entrants."

The Tree of Lights has been a local tradition at Christmas for more than 30 years. It takes a $1,000 contribution from a corporation to light a single blinking bulb on the 50-foot high tree that is assembled on a downtown street corner each December.

A "12 Days of Christmas" program was sponsored last year by State Bank, Rensselaer, Ind., that featured a local organization displaying and demonstrating a craft, hobby or talent in the bank's lobby on each of 12 days early in December. Each participating organization received a $25 donation to its treasury from the bank.

The first day featured the local art league and four artists showed and demonstrated paintings in oil, acrylic and watercolors. On following days residents displayed tatting, knitting, crocheting, quilting, stained-glass making, sketching, fly tieing, candy making, spinning, cornhusk doll making, ceramics and cake decorating. Cake and coffee were served during the cake decorating demonstration. Each demonstration took place between the hours of 10 a.m. and 2 p.m.

Santa Claus visited on two Saturday mornings and photos were taken of children in Santa's lap and were given to parents. A decided increase in lobby traffic was noticed during the program and stained-glass making and cake decorating drew the largest crowds.

Derby (Conn.) Savings Bank went all out to promote a lead crystal vase that was offered to customers signing up for new Christmas Club accounts. A special newspaper ad was prepared titled "The 12 Ways of Christmas." A series of 12 photos showed how the vase could be used in a dozen ways, ranging from holding yarn and knitting needles to a receptible for kitchen utensils to an attractive gift for someone at Christmas.

The bank features a "perpetual passbook" in connection with its Christmas Club accounts. Once a customer opens an account, it's perpetual. The same passbook is used year after year and there's no need to reopen the account each year.

Hundreds of students and musicians were involved in last year's Christmas Festival of Music at American Bank, Baton Rouge. Two programs a day for three weeks were held in the bank's plaza at noon and 5:30 p.m. Participants were from local schools and churches.

Eight angels made of heavy wire outlined with tiny white lights were suspended about 35 feet above the plaza to decorate the setting, giving the appearance at night of a heavenly host hovering over the performance area. Stereo Christmas music was broadcast in the plaza each day from 6 p.m. to 10 p.m.

Halfway through the observance, a special evening program was presented that featured a string band, an adult choir singing excerpts from Handel's "Messiah" and a hand-bell ensemble. Types of music performed on other days ranged from barbershop singing to selections by a tuba quartet.

Employees of Merchants & Planters Bank, Camden, Ark., always get the Christmas season off to a good start by decorating a float for the annual downtown Christmas parade. Employees also decorate trees in the bank's downtown lobby with handmade ornaments and they serve refreshments to customers during Christmas week.

Santa visits each of the bank's four branches each year and children visiting him can register for a bicycle that's given away at each branch. Customers are given gifts, too, including ice scrapers, ballpoint pens, Christmas package name tags, children's tops, suckers, candy canes and calendars.

Flocked trees, wreaths, candles, teddy bears and stockings made up the decor on each floor at Fourth National, Tulsa, last holiday season. On the bank's public floors customers were offered gingerbread men and hot wassail while a local organist provided Christmas music.

Customers of Brentwood Bank, St. Louis, know when Christmas is near when they see an old fashioned popcorn wagon in the bank's lobby! Each year the replica of an antique popcorn wagon, circa 1890, is rolled into the lobby and bank employees pop and serve hot popcorn to customers.

The brightly trimmed and polished wagon has a candy-striped canopy, yellow spoked wheels and brass ornaments. It includes a peanut roaster and special attachments for steam power.

About two bushels of corn are popped on the premises each season.

About 100 underprivileged children make Christmas ornaments each year and use them to decorate a tree in the lobby of Southern National, Houston, during the bank's annual Christmas party for children. After the tree is trimmed, the children are treated to luncheon and are given gingerbread men to take home. Then they visit with Santa, who gives each child a gift.

How to Use *People Relations* at Christmas

By Orville Goerger
Contributing Editor

This article is based on material contained in "How to Give Yourself Profit-Building Ideas for Bank Christmas Promotions," published by Commerce Publishing Co., parent firm of MID-CONTINENT BANKER.

PEOPLE may seem cold and hard-boiled 364 days out of the year. But on Christmas everyone becomes a softie.

Your bank may seem the same way to some people — most of the year. A building where mysterious things happen to their money. A cold-blooded computer. Even your banker-like reserve may seem a bit frightening.

That's why Christmas — with its great opportunities for building "people relations" — is so important to banks. Even the biggest institutions in that season can step out of bankish character and prove that underneath it all are a lot of nice people.

How is this done? By simply doing the kind of things people do at the holiday season — in short, to act a bit like the softies most of us become at that time.

By being extra nice to those we meet and do business with. By making life a bit more pleasant for people. By doing things for them. By giving them something — a gift, a favor, extra enjoyment — without asking a commercial favor in return. In short, by living the true spirit of the season.

Results in this area can't be measured in dollars and cents or new accounts. The PR dividends are intangible, but they are there. It is a great balancer for any bad impressions that may have been made during the year. It strengthens even more all the good qualities people are aware of when they bank with you.

You'll even find "people-relations" opportunities inside your bank. Your staff is made up of people. They become softies, too. And, when their working environment reflects the spirit of Christmas, their ties with the rest of the banking family become even stronger.

On the budget side, you'll find most "people-relations" ideas cost little. Nor do they, in most part, require a lot of space or personnel. The most important requisite is an idea — and the small bank has the same opportunity as a big bank to come up with a great one.

These points are not unknown or overlooked by most bankers. In fact, the great majority make at least some effort to warm the Christmas spirit in their institutions. Because there are so many things that can be done in this area — and because so many banks are making such efforts — a variety of ideas can be found in this field.

• **Christmas Poetry Contest for Children.** First Alabama Bank, Montgomery, has enjoyed great success with a Christmas poetry contest for elementary school children. Public school children, third to sixth grades, were invited to write original Christmas verse, with prizes for first-, second- and third-place winners in each grade.

Hundreds of poems were submitted and awards were presented at the public library and last school day before the holidays. Volumes of children's stories and verse were given as prizes.

The public library director and a college English instructor served as judges.

Public-relations dividends were numerous. During December, the public library scheduled an exhibit of "Christmas Poems by Montgomery Children." The daily newspaper, the two weeks before Christmas, ran a daily column featuring all the prize winners and some of the runners-up. Newspaper photographers gave great coverage of the winners and the awards presentation.

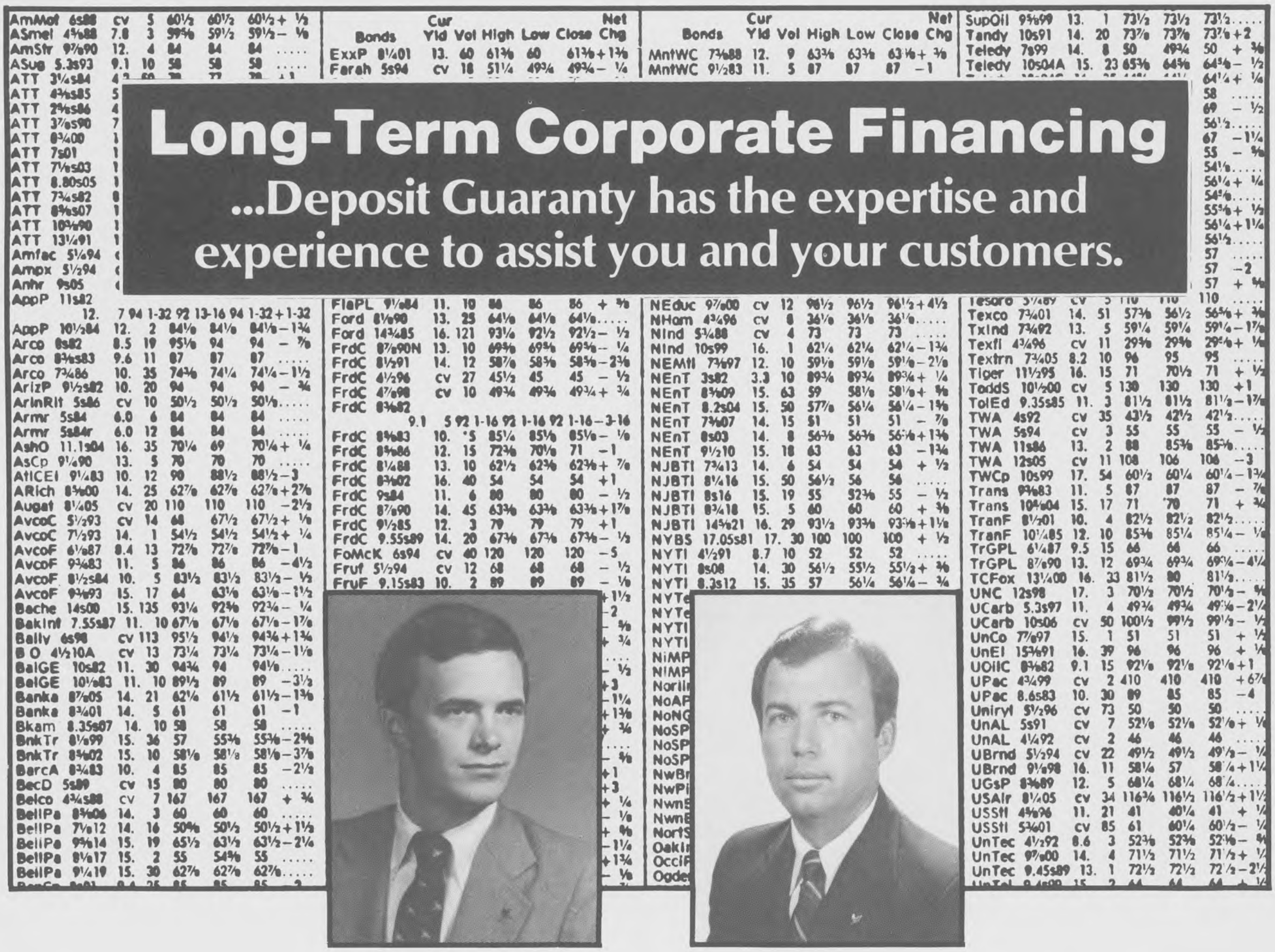
• **Cookies and Coffee, Anyone?** One of the simplest and perhaps most widely appreciated Christmas gestures by a bank is serving free coffee and cookies in the lobby. With shoppers busy bustling around, a coffee break at the bank warms both the stomach and the heart.

If space permits, set up the coffee bar near the Christmas club display or whatever other bank feature you want noticed. To enhance the holiday spirit, have an attractive girl in a Santa hat or costume serving the coffee.

• **Sponsor a TV or Radio Special Program.** Each season, radio and TV media assemble a number of Christmas specials. Some are syndicated packages featuring various holiday-type entertainment; others are specially produced by a station and primarily use local talent. A number of banks, for goodwill purposes, act as sponsors of these programs. Some radio stations, especially the all-music type, offer a 30-hour all-Christmas-music program, with one sponsor having exclusive rights to the broadcast. These programs start at 6 o'clock Christmas Eve and run until midnight Christmas Day.

Incidentally, during these hours, commercials should be limited to goodwill messages in keeping with the spirit of the day.

• **Santa Loves a Parade.** Some communities, to open the Christmas season, stage a parade of floats by business



Alan Walters, Assistant Vice President and Manager of Deposit Guaranty's Corporate Finance Department, and Bob Hardison, Industrial Investment Representative.

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houses and organizations. If the opportunity presents itself, a bank float makes a colorful addition to whatever holiday promotion is being planned.

If possible, involve the bank staff in the design and construction of the float. Perhaps offer a prize in a design competition. If the float will carry people, use representatives from all departments — and include the CEO or president.

To add longer life to this promotion, take photographs of all the floats in the parade and display them in your lobby as part of your Christmas decorations.

• **Santa Loves Christmas Music.** So do customers and visitors to your bank. One of the simplest ways to create interest and build goodwill is with organ concerts in the bank lobby. About three or four weeks before Christmas — whenever your Christmas club campaign opens.

If possible, hire a well-known local organist. He has a built-in following, and his friends and fans will drop by to visit him. Tell him what kind of music you wish — 100% Christmas, popular favorites of the day or a mix of both.

One caution: If his concerts will include show music or other copyrighted material, get clearance in advance from your local representative of the American Society of Composers and Publishers (ASCAP). Also check the volume of the music; keep it loud enough to be heard as background, but not so loud it interferes with normal business operations.

• **Don't Forget the Carol Singers.** People never grow tired of hearing the beloved old Christmas carols. So put a little glow in their hearts by arranging concerts by carolers throughout the pre-Christmas season. One of the best ways is to organize a choral group among employees and give them appropriate recognition when they perform in the bank. It's another way of subtly publicizing the "we're people, too," image of your bank; it also provides an excellent employee activity and makes a contribution to the bank's internal public relations.

Outside choral groups also can be used. Almost every school, church and organization has a chorus eager to perform. Invite them to provide a lunch-hour program in your lobby. If there are enough groups available, you can schedule a different chorus each day to attract a number of audiences.

If desired, some banks combine these carol concerts with an opportunity for listeners to make voluntary donations to some designated local charity. In the same vein, your bank choral group, if practical, can go "on tour" — singing carols at hospitals, retirement homes and the like.

If your bank uses Christmas organ music and/or carolers, remember to drop a word to that effect in your radio, TV and print advertising; you won't get maximum credit for your good deeds if you hide your light under that proverbial bushel.

• **Toast Customers at a "Merry Dairy" Drink Bar.** Everyone likes eggnog at Christmas. When Mercantile Trust, St. Louis, set up a dairy bar in its lobby — with (nonalcoholic) eggnog provided by the St. Louis District Dairy Council — over 2,000 came by for a free drink. Over 50 gallons of eggnog were consumed, and each visitor received a leaflet containing holiday recipes. This public-relations activity cost the bank virtually nothing, made 2,000 customers a bit happier — and delighted the Dairy Council.

• **Cut Charities Into Christmas Savings.** Christmas is a timely moment to donate money to charity. Here's how a bank can make a charitable donation serve as a stimulus to savings-account deposits.

For the month before Christmas, announce that the bank will donate an amount equal to 1% of new savings deposits, from $500 to $99,999, to the charity of the saver's choice. Thus, the customer can increase his personal savings while giving others a helping hand.

All recognized tax-exempt U. S. organizations, except political groups, are eligible to receive these donations. All new deposit money, as well as additions to existing accounts, qualify. (Though given in the customer's name, they are not allowable as individual tax-deductible donations.)

• **Give the Kids a Christmas Party.** Santa and bankers seldom forget the kids at Christmas — and they remember them in a number of ways.

Some banks buy out a nearby theater and invite all the neighborhood kids to be their guests at the movies. Tickets are distributed through local schools. In addition to admission, each child receives a gift piggy bank or other appropriate gift.

Frost National, San Antonio, Tex., throws a party in the bank's restaurant for children from various welfare-supported homes. Refreshments are served; children and bankers participate in a sing-along of carols, and Santa pays a visit with a toy for each child.

Toys for tots are gathered in many ways. One bank (with a sizable lobby) set up a small Santa's workshop on the premises. Craftsmen, taking the part of Santa's elves, were provided materials and tools to build toys during banking hours. This provides an interesting "living" lobby display and attracts much attention. At Christmas, the toys that have been made are distributed to needy children.

• **Lend a Holiday Hand to Local Churches.** Most churches arrange special Christmas programs ranging from carol singing to tableaus, pageants and special holiday displays. All would like

(Continued on page 55)

Christmas Customs Displayed At Bank by Ethnic Clubs

Nine different county ethnic organizations participated in Terre Haute (Ind.) First National's annual Christmas around the world exhibits last year.

Beginning early in the year, the bank contacted various clubs and organizations to invite them to participate in the exhibits, which are presented during the month of December. Last year, the second time the exhibits were presented, each of the bank's nine locations was decorated to represent the yuletide traditions of countries such as Sweden, Mexico, Germany and Russia.

Highlight of the exhibits is the Friday before Christmas, when participating organizations serve refreshments native to their country. Last year, foods included Swedish gingersnaps and lucia buns, Russian kiffles, baklava and koulich cake, Mexican wedding cakes and German simtsterne (cinnamon stars), spritzgebak (pastry) and speclazius (almond cookies).

Cash prizes are awarded for the best exhibits and judging is done by a panel of community leaders who look for creativity, originality and accurate depiction of each nationality's yule customs.

Exhibit depicting Christmas customs of Italy was displayed at branch of Terre Haute (Ind.) First National during holiday season, courtesy Francis Vigo Italian American Club. Exhibit tied for fourth place prize given by bank.

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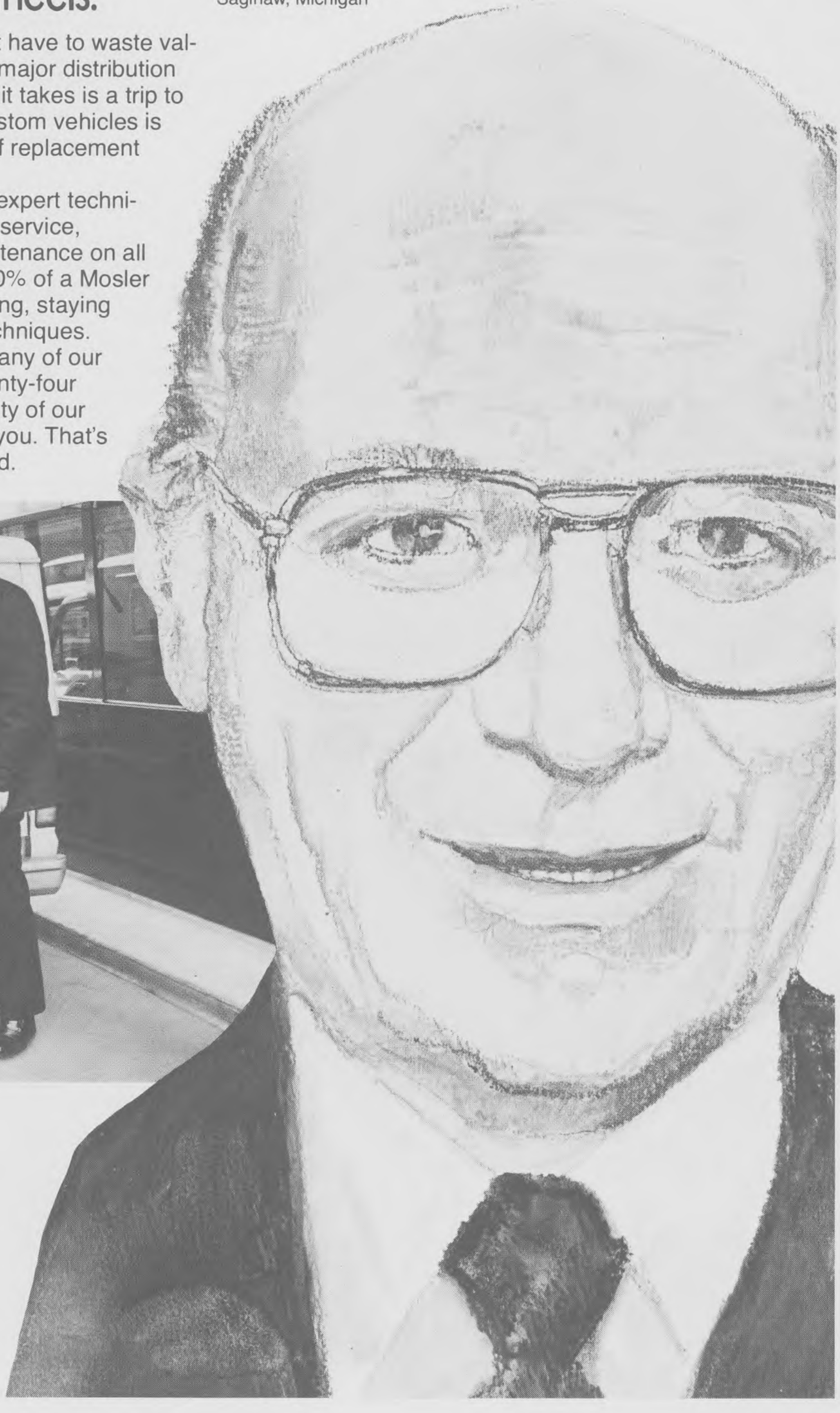

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Ethics for the Loan Officer

How to Avoid 'Make-It' Loans, Extending Credit To Relatives, Friends, Affiliated Companies Of Bank Officers and Directors

By Gilbert E. Coleman
President
Security Bank & Trust Co.
Mt. Vernon, Ill.

ONE OF THE most critical areas dealing with unethical and illegal practices in banks is insider transactions. There probably is no greater cause of bank failures than wrongful use of banking privileges by insiders.

One problem we frequently run into is pressure to use insurance, legal, appraisal and other services owned or operated by directors and senior officers.

Another problem is "make-it" loans — when top management takes a loan to a loan officer and says, "Make it." The loan officer is faced with a predicament if the loan does not appear to have merit. He can refuse to make the loan and risk top management's ire or he can make the loan, realizing it isn't a bankable credit. This situation also includes granting large overdrafts and uncollected-funds usage to friends or associates of directors and/or top management.

Loans to affiliated companies of bank officers and directors have caused severe problems. Here again, undue influence sometimes is applied to force the loan officer to make loans to companies owned or controlled by directors and top management.

There's another area of insider transactions where the loan may be small, but nevertheless problematic. This is when the loan officer extends credit to relatives and friends. It can be a disadvantage to a banker when he's a loan officer in his hometown. A loan officer may have a tendency to grant preferential terms, conditions or interest rates to people he knows and/or loves. This is called the "hometown syndrome." I'm sure many loan officers handle this problem capably. It can be lessened or avoided by asking another loan officer to deal with these relatives and friends, many of whom are known only as bank customers to other bankers.

Performing duties and responsibilities on bank time and premises for director-affiliated companies has been another problem for bank examiners and the bank itself. Shareholders are entitled to receive any stock or cash dividends issued and to vote their shares at any shareholders' meeting, but the bank's responsibility to directors and/or stockholders should end there. Keeping bank expenses in line is difficult enough without providing undue and expensive services to insiders' affiliated companies.

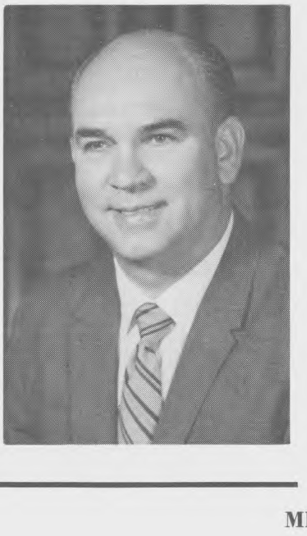
Some bank directors approve loans on street corners. All of us hope directors will generate loan and deposit business; however, application for and approval of a loan should be done inside the bank by loan officers. When a customer sits down at a loan officer's desk and says, "Director so and so said I could get a loan here," the loan officer should ask, "Did director so and so indicate he would guarantee the paper?"

When directors are approached outside the bank, they should encourage the potential borrower to go to the bank with the necessary supporting papers and should assure him that he will receive fair treatment — not that he will be granted the loan based on a street-corner conversation.

Employees should be encouraged to go to loan officers when they have legitimate borrowing needs. We should remember, however, that loans to employees are not a fringe benefit. Employee loans should be as good as or better than other loans. It's difficult for a loan officer to evaluate an application objectively when he has worked with an employee for 10 years and enjoys a friendly relationship. If the employee can get better terms or conditions at another bank, he should be encouraged to do the best he can for himself. Interest rates and terms for employees should be the same as for any other customer in similar financial circumstances.

One reason loans to employees should not be a fringe benefit: It's likely that only 30% to 50% of a bank's employees may be loan customers. Giving preferential interest rates provides them with a benefit not available

Gilbert E. Coleman gave the talk on which this article is based at the Illinois Bankers Association's commercial credit conference. He entered banking in 1958 at Washington (Ind.) Nat'l and, before taking his present post in 1975, was an officer of one Missouri bank and two Illinois banks and a bank HC. Mr. Coleman served the IBA as pres., Group 10, 1980-81, and v. ch., commercial credit commitee, 1979-81.

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to non-borrowers. Many banks handle this situation by directing only one loan officer to extend these credits.

Another ethics consideration deals with banker-customer relations. One example involves loan-fee kickbacks. Unfortunately, there are situations in which a loan officer receives a fee for getting a loan through the loan committee or for making the loan himself. It not only is unethical, but illegal for a bank lending officer to accept fees for making any loan other than those authorized by the directors.

Another problem is noncash gifts from customers. Some borrowers will use this method to encourage a loan officer to make loans he ordinarily should not make. Examiners and top bank-management people have no objection to a free dinner or a small gift when the value does not exceed $10-$15, assuming the officer would not be compromised by a small gift. The problem arises when the gift is of substantial value.

An auto dealer gave gift certificates to installment loan officers, supposedly as a goodwill gesture. The certificates were for $150 suits of clothes. In that instance, management required the certificates be returned to the dealer.

It is a good practice for top management to require that a list of all gifts and their values be submitted annually. This situation surfaces most often during the Christmas season.

Purchasing goods and services from bank customers at favored prices is another area of contention. When we purchase an automobile or some other major item, we would hope to get the best price possible. However, if the auto dealer or other retailer offers lending officers a deal well below any rational sale price, loan officers' positions are compromised. It's almost certain the retailer will demand a return favor, and it may be something the bank cannot live with.

Sometimes, bank officers are placed on customer companies' boards because of the oversight needed by the bank. Problems in this area arise when loan officers are asked to become members of boards of small, closely held firms. A bank officer certainly should get his own bank board's approval before joining a company's board. Also, any credit relations should be transferred to another loan officer.

Several years ago, an officer was offered shares of stock in a computer company that was serving his bank. One can see the possible conflict of interest if the bank decided, or was trying to decide, whether to change processors. The officer owning the computer stock would hold a conflict-of-interest position in making this determination.

Other areas of bank-customer relations need scrutiny. These include honoring overdrafts, holding cash items and allowing companies to draw against uncollected funds. The loan officer should not have complete control over any company's or customer's account balances if he is dealing with that person or firm on the loan side. He may have some input on whether these special privileges should be granted, but he should not have the final say over granting these privileges.

Sometimes, when a bank goes to one of its correspondents to get help on an overline loan, the latter will ask for additional balances before it grants an extension of credit to the respondent's customer. This practice is dangerous and illegal. A bank would be foolish to enter into such an arrangement.

Making political donations and acquiring public funds sometimes create a situation that results in unethical or illegal behavior in banks.

Under the Federal Election Law, there's a $1,000 limitation for any individual giving to a national candidate. In addition, the name, address, amount given and contributor's profession must be listed.

These election laws are being violated. The most common violation is when officers make donations in their names and then recover their donations by putting expense items through their banks' books, listing some other use. There also are instances where a bank will increase salaries of officers or directors, with the requirement that the extra funds be used for political donations. This is illegal.

Some instances have been reported where certain fee collections within a bank are diverted to a checking account and these funds, in turn, given as political donations. A few cases have emerged where credit-life-insurance commissions were used to make political donations through dummy corporations.

One bank had an arrangement with the local radio station and newspaper — one was Republican and the other Democrat. These media would bill the bank on fictitious invoices and the funds were funneled to the two parties. It would be just as simple to handle political donations correctly and aboveboard. It certainly would take the heat off the CEO. Donations would be made by requesting political contributions from directors and officers for various candidates the CEO may want to support.

Many banks rely heavily on deposits of public funds, both checking accounts and time deposits. Some banks are quite heavy in public funds while others have little. The size of public-fund deposits may indicate how good a politician you are *or* what favors you are willing to grant to officeholders. There have been instances where low-interest loans or even loans without interest charges were made to officeholders. Sometimes, higher interest rates were paid for CDs from public depositories to get checking accounts.

In the Chicago metropolitan area, a county treasurer was offering public-fund deposits to any bank in neighboring counties that would make him a personal loan. This definitely is a conflict of interest, and the county treasurer was indicted.

Bankers should have the right and privilege to be active in politics. If they desire, they should be allowed to serve on political committees, and many are serving as treasurers. Bankers involved in these activities need to be extremely careful in serving in these capacities. Their actions must be beyond reproach.

There has been considerable publicity in the last few years concerning bank officers receiving credit-life commissions and operating insurance companies inside their banks. All income from insurance activities should go through the bank's books. If the directors choose to give a bonus for selling credit life, that's fine, providing it is

RMA Directory Available

RMA's 1981 "Directory of Credit Information Personnel" now is available. It contains the names, phone numbers and mailing addresses of more than 5,000 bankers involved in the exchange of credit information on commercial customers — foreign and domestic.

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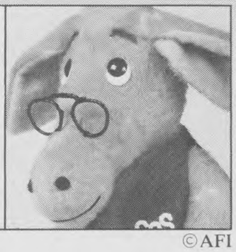

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Edited by Dr. Lewis E. Davids
Editor, The BANK BOARD Letter

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spelled out in the minutes and handled aboveboard. In all instances where insurance is sold inside the bank, the bank should be reimbursed for all supplies, postage and facilities used for selling insurance.

I moved into one situation where the officers had been splitting credit-life commissions for years, unknown to the directors. I felt it was my duty to inform the board of this practice. There was some justification for the officers receiving the commissions because their salaries were extremely low. I requested that all income be reported through the bank's books and that we grant bonuses to the officers until salaries could be readjusted. Many abuses arise when a loan officer gets direct benefits from insurance companies.

Often, especially in smaller banks, a general insurance agency is operated inside a bank, sometimes with bank personnel doubling as insurance people. The FDIC has issued cease-and-desist orders on this type of operation unless both directors and shareholders are fully aware of the circumstances. Payment for supplies or employees' time should be made to the bank, and rent should be paid by the insurance agency.

Sometimes, loan officers may work for outside appraising firms and be paid for their work. I have no objection to this as long as bank time and funds are not used. There are many other instances where bank officers are engaged in oil production and other income-producing activities that may affect their performance as loan officers. The board should be aware of these outside activities and should approve them. It may be distasteful to have our outside activities restricted because we work in a bank. However, there are many potential conflict-of-interest problems, divisions of attention and energies and outright detriments to the bank as a result of these activities.

Banks have engaged in numerous other unethical or questionable loan activities. These include loans made under the Farmers Home Administration, Small Business Administration and other government agencies. While these agencies provide vehicles for making good loans, if they are used heavily and if the bank pursues these agencies to guarantee loans, there is a problem with acquiring questionable credits and servicing problems that a small bank may not be able to handle. I don't want to give the impression that making loans guaranteed by these agencies is wrong. However, overconcentration and tendencies to direct questionable credits under these guarantees do present problems for some banks.

No Interest Prepayment

WASHINGTON, D. C. — Prohibition of prepayment of interest remains in force. The Depository Institutions Deregulation Committee (DIDC) considered the request of Bank of Boulder, Colo., that the DIDC revoke its regulation on interest prepayment, but decided not to accede to the request.

According to Normand Bernard, the DIDC's executive secretary, the committee believes retention of prohibition against prepayment of interest is desirable to avoid potential unfair comparisons among promotional programs of depository institutions. This rule, says Mr. Bernard, ensures that all depository institutions will be able to compete on equal terms for deposits.

Other questionable loan activities may include large concentrations of credit in one business or industry. This is not unethical, but it presents problems when this business concentration is hit with bad economic conditions.

I might use as examples the practice of financing aircraft and over-the-road trucks. Some banks have tried to specialize in these types of credits in large amounts and invariably find themselves in trouble because of the special handling required and special problems that develop within those industries.

Reciprocal loan agreements with officers and other banks sometimes have produced embarrassing results. Many officers don't want to or cannot borrow from their own banks because of certain policies or restrictions. Problems arise when officers establish personal understandings that "I will lend you from my bank if you will lend me from your bank." These arrangements may lead to questionable loan approvals.

Then, there are "straw" parties. This occurs where a fictitious name or a non-borrowing name is used, but the funds are diverted to other persons or corporations. This is done, in many instances, to avoid creating an overline with any one entity. It is a dangerous practice and examiners will tie those extensions together if they become aware of the situation. The problem also arises when there is only one source of repayment on the loans, and, if that source has difficult times or takes bankruptcy, there is no other place to go for repayment.

Anyone who has been in the lending business for as long as three years probably has encountered the practice of loans being requested and encouraged by brokered deposits not pledged by third parties. On the surface, such a loan may look good to an officer bringing a $300,000 CD into his bank. However, if the deposit results in the making of a questionable loan without security for repayment, that loan will be in jeopardy.

Examiners long have harped on the idea of not making out-of-area loans. Under the Community Reinvestment Act, banks are required to define their primary lending areas. We should stay within our basic lending areas, depending on the sizes of our institutions. There are rare instances when out-of-area lending might be appropriate: If the borrower lives in the bank's area, but has his business outside the area; or if the borrower lives outside the bank's area, but the property on which the bank seeks to take a lien is in its area.

Bankers should be careful about participation loans with other financial institutions. There have been times when such loans have been repurchased because of credit difficulties even though the loans were sold without recourse.

If a loan is sold to another bank with an agreement to repurchase at the buyer's request, that loan should be carried as a contingent liability on your bank's statement the same as repurchase agreements or irrevocable letters of credit. When we participate with another bank, or it participates with us, the credit should be accomplished without recourse and we, the purchaser, should take the same risk as the loan's originator.

Another point of concern is where a small bank is the lead institution on an extension of credit that far exceeds the bank's lending limit. Many of us run into this difficulty with our lower lending limits, and so we sell participations. However, participating banks should be lined up and confirmed before the note is signed.

How can bankers deal properly with these problems to keep themselves clear of any charges of incriminating or unethical actions?

First of all, the loan officer, through reading and education, must know what practices are considered ethical and unethical and what ones are considered legal and illegal. The loan officer's honesty, integrity and professional status are more important than any one job. Do not feel the job you hold is the only job you will ever want or need, and do not feel you will do anything to keep it.

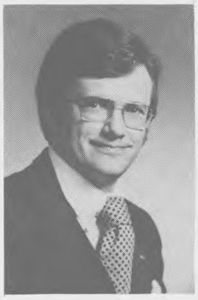
All your actions, especially those thrust on you, should be documented, not only in the loan file, but in copies that are kept in your personal file. Write down your understanding of the credit, who referred it to you, who had input into the credit decision other than you — and keep a copy for yourself.

Report immediately any discrepancies and unethical or illegal requests that are made to you from another bank employee, director or customer. This should be reported in writing to the next higher authority in your bank (again, keep a copy). If the next higher authority is involved in the unethical credit request, that closes that door to you. There must be someone in management — your auditor or your directors — with whom you can level.

If this avenue appears to be unworkable, turn to the regulator who examines your bank. Go to, or notify, the FDIC, the state commissioner's office or the Comptroller of the Currency when major loan problems occur in your bank. They will give you anonymity insofar as they can.

You may want protection from involvement if the loan situation in your bank blows up. Remember, your defense for taking some unethical or illegal action cannot be that you merely were following your superior's orders. We are old enough to determine right from wrong, and we must make that determination even though it may have an immediate adverse effect on our job longevity. ● ●

Wilson New AIB President; Will Continue Reorganization During Bank Deregulation


WILSON

Ronald G. Wilson, assistant vice president, Valley National, Phoenix, was elected president of the American Institute of Banking at the institute's convention in Kansas City recently. Mr. Wilson succeeds B. Mott Jones, vice president, First Tennessee, Memphis.

Mr. Wilson emphasized that education is a lifelong process and pledged that the AIB will continue to meet the changing educational needs of the country's full-service bankers during the deregulation process.

He said he will continue to "press for the recognition AIB deserves and to continue reorganization efforts that will strengthen the institute's position as the leading educator of bankers.

"With deregulation blurring the distinctions between financial service institutions, educated and informed bankers could be one of the most deciding factors in a commercial bank's ultimate success," he said.

He outlined several programs he plans to initiate during his term, including a five-year planning process, a balanced budget and blanket liability insurance for all chapters. He stressed that AIB will continue to explore alternate learning formats so bankers will have a wider range of educational offerings to choose from, including more seminars, workshops and short-term programs.

Mr. Wilson's service to the AIB includes a term as president of the Topeka chapter and board service on the Central Arizona chapter. He has been an associate councilman and a district council member.

Liberty Nat'l, Okla. City, Offers Health Care Plan

Nearly 30% of the employees of Liberty National Corp., Oklahoma City, have signed up for what has been called Oklahoma's first prepaid medical care program. Liberty made the program available to its more than 1,200 employees as an alternative to the HC's standard health insurance program.

The program is offered through PruCare of Oklahoma, a subsidiary of Prudential Insurance Co. PruCare was formed two years ago to organize and develop the state's first health maintenance organization. The plan contracts with a group of physicians to supply medical care for its enrollees.

Physicians in the program are in the Central Oklahoma Medical Group, with facilities in Oklahoma City.

According to L. W. Miller, senior vice president in charge of employee benefits for Liberty National Corp., advantages of the program include no deductibles or filing of claims. Medical care is paid for in advance through regular monthly fees similar to premium payments of regular health insurance.

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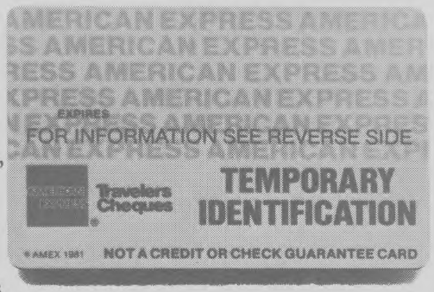

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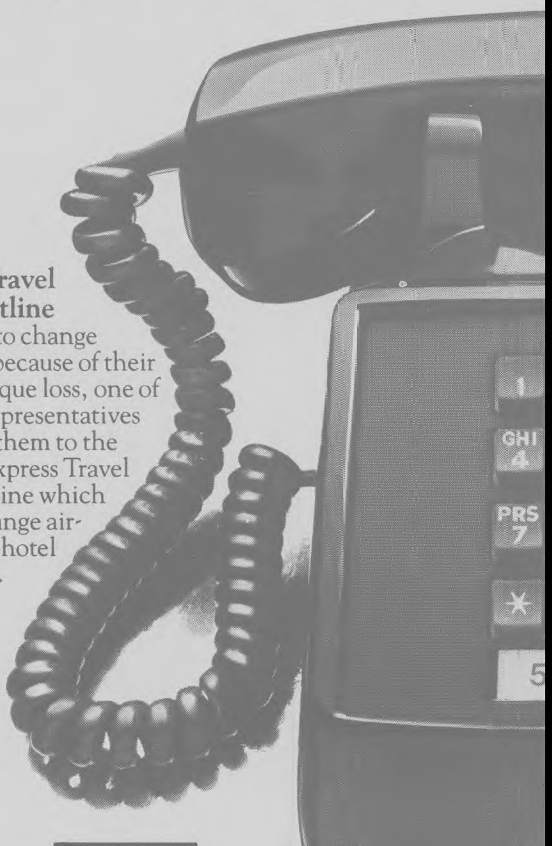
If they need to change travel plans because of their travelers cheque loss, one of our refund representatives can transfer them to the American Express Travel Service Hotline which can help arrange airline, car and hotel reservations.



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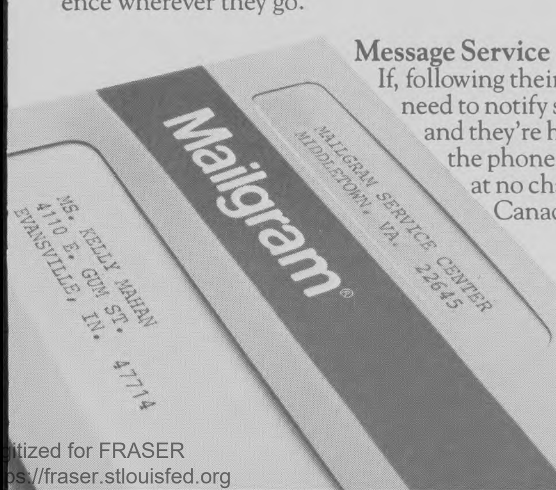

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S&Ls Fare Better Than Expected Against Banks In NOW-Account Competition; Survey Reveals Near-$1,800 Average Balance

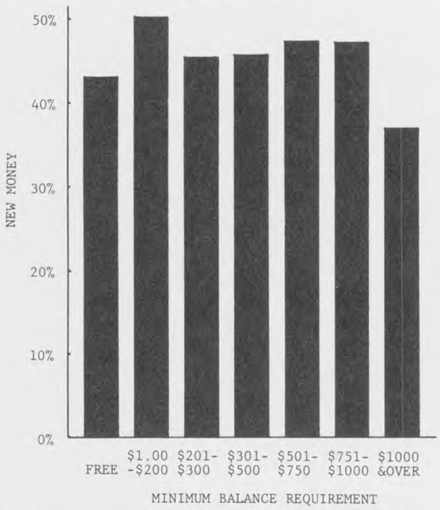
THE NATION'S S&Ls did far better than expected in the competitive scramble for NOW accounts during the first quarter of 1981, said William B. King Jr., chairman, Madison Financial Corp., Nashville-headquartered marketer of services to the financial industry.

Madison Financial recently released results of a two-part survey the firm conducted to monitor institutional response to the introduction of NOWs.

The most dramatic finding of the survey is that S&L NOW-account balances have exceeded even their own expectations. S&L NOW-account balances were thought to average about $1,200, with bank NOWs averaging about $6,000. The survey revealed the S&L average balance to be closer to $1,800 and the bank average balance to be slightly less than the targeted figure.

The survey revealed that 95% of responding institutions offer NOWs and that S&Ls are taking the aggressive lead in marketing the accounts. Banks based their marketing strategies on holding their own ground. Direct-mail solicitations to present customers and print media advertising, often emphasizing convenience and bank services, were the main marketing efforts by banks. S&Ls concentrated their NOW promotions along the same lines, but placed twice as many print ads as did banks.

Percentage of NOW Deposits New to S&Ls as a Function Of Minimum-Balance Requirement



Note: Two respondents with free NOWs indicated average balances of approximately $8,000 per account, which has weighted the results on this chart, giving a mean balance of approximately $1,700. Without the input of the two S&Ls, the mean balance in S&Ls with free NOWs is approximately $700.

The major difference between bank and S&L NOW-account policy was pricing. Most institutions used minimum balance or a combination of minimum and average balance requirements as the pricing mechanism. Banks, with a national mean minimum balance requirement of $976, require more than twice the S&L mean minimum of $435. "We feel that having the pricing edge in the NOW market is the main factor enabling S&Ls to report 46% of their NOW-account funds as new money," said Lawrence W. Kown, president, Madison Financial, "whereas banks report only 7% new money."

Banks claim that they are not being hurt by "run-off" as regular checking accounts are closed out in favor of NOW accounts at other institutions. By gearing up for NOWs with higher minimum balance requirements, the nation's banks fully expected to lose a number of low-range (under $1,000) deposit DDAs to their competition. Bankers viewed it for the most part as an equitable and worthwhile trade-off. The low-range accounts were viewed as marginally profitable at best, and in line with this strategy, the survey reports that only 8% of banks' first quarter account terminations had closing balances of $1,000 or more.

"We have found the figures on closing balances to be deceptive, since the survey indicates the money reported 'run-off' by banks is substantially less than the influx of 'new money' reported by S&Ls," Mr. King said. "Whereas banks are settling for transferring already captured monies into NOWs, if the figures reported by both hold true, the S&Ls apparently are prying new monies out of the market."

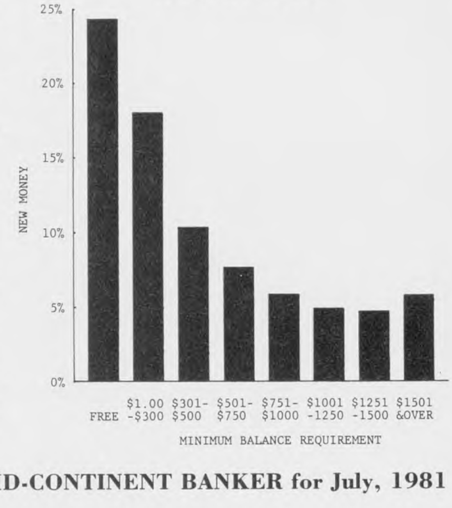
Speculation has it that many accounts closed out during the first quarter of 1981 at banks as low-range deposits (under $1,000) had in fact, been mid-range deposit accounts as recently as six months earlier.

"We suspect that customers are diversifying their accounts, maintaining balances with several types of financial institutions or money-market funds," said Mr. Kown. "We also believe that customers dispersing their funds in such a manner soon move to consolidate them. Their decision to close an account usually is preceded by a period in which they've allowed their account balances to dwindle. That's why we believe that many appear to be low closing balance accounts three to six months prior to termination. Banks may discover that they have been losing mid-range-balance customers who are capable of consolidating substantial balances and are prime candidates for future loan portfolios."

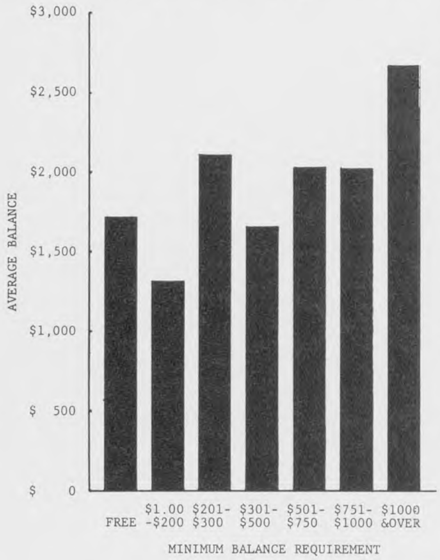
Factors listed by respondents determining NOW-account pricing provided no surprises. Retaining present deposit base, breaking even or making a profit and reaction to competitor's moves are ranked highest, in that order.

"What surprised us was that S&Ls

Percentage of NOW Deposits New to Banks as a Function Of Minimum-Balance Requirement



S&L NOW Average Balance As a Function of Minimum-Balance Requirement

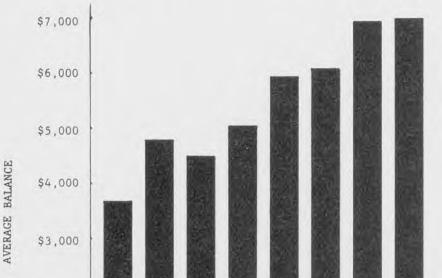


also ranked equally the factors of breaking even or making a profit and retaining present deposit base as their most important factor. It is interesting to contrast the difference in minimum balance requirements, since survey results indicate that the majority of both banks and S&Ls believe they have priced their NOWs at their break-even point. Also ranking high for S&Ls, as one might expect from their behavior in the marketplace, was a desire to aggressively attract new depositors," Mr. King said.

Every commercial bank, savings bank and S&L in the nation was invited to participate in the survey. Replies from 2,384 banks and 571 S&Ls gave researchers a 15% response to use as a data base. The survey was designed to gain factual and perceptual information from participating institutions as to the effects NOW accounts had on their market area and specifically on their particular institution.

"We believe the survey will be an important tool for officers of financial institutions to use in planning future NOW-account marketing strategies and tactics," said Mr. King. Institutions participating in the survey received copies of the report at no charge. ● ●

Bank NOW Average Balance As a Function of Minimum-Balance Requirement



People Relations

(Continued from page 44)

the largest possible attendance at such events; banks — with their varied communications channels — can lend an effective hand in helping spread the message.

A simple lobby bulletin board — listing events, locations and dates — brings this information to the holiday crowds visiting the bank. When practical, special announcements can be carried as a portion of the bank's newspaper, radio and TV advertising.

This is inexpensive. It can be very effective. It's a good opportunity for community public relations in the true spirit of Christmas.

● **Be a Depository for Christmas Fund-Raising Events.** Christmas is almost synonomous with a multitude of fund-raising events. Almost all require a depository for money collected. In many cases, by starting early enough, you can get some of these assignments for your bank.

Tell each prospect the features (hopefully exclusive) your bank can offer — money counting, packaging, storage, etc. In addition, add as many hospitality touches as you can think of. Mercantile Trust, St. Louis, sets up a special lobby counter where solicitors can turn in their collections, watch it be counted (in coin counters), and get an instant report on their success. A musical combo and a coffee bar add a festive holiday spirit to the occasion — all of which generates an enthusiastic spirit and warm goodwill — even among the bank's staff.

For the organization, this provides a valuable essential of its fund-raising campaign. For the bank, there is good publicity coverage by all media, a heightened image as a good neighbor in the community, possibly even some potential prospects for future business — all at little cost or effort.

● **Capitalize on Your Community's Heritage.** Want something out of the ordinary for your bank's Christmas? Look around. See what your area's most noted for or famous for. Then dramatize it in your lobby.

First National, Little Rock, is a perfect example of how to do this. Here, near the heart of the Ozarks, bank officials decided to stage a Christmas display with the theme, "Ozark Crafts of Christmas."

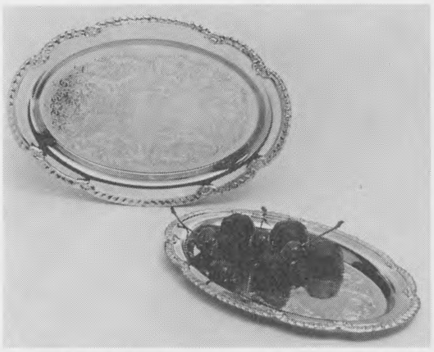
Craft people from the Ozark Folk Center in Mountain View were commissioned to create old-fashioned handmade ornaments for the trees. These included cornshuck dolls, handcarved wood trucks, woven baskets, spice balls and woven pieces. During the weeks before Christmas, craftsmen exhibited their handiwork skills and produced examples of their wares. The public watched in fascination as pottery, quilts and woodcarved statues were formed before their eyes.

In addition, native Ozark musicians attired in calico and jeans sang carols and played instruments such as banjos, dulcimers and autoharps. The public was enthralled and even groups of school children were brought in to see this innovative and educational entertainment.

Here, in capsule form, is a mix of what banks do at Christmastime to build goodwill. Some may work well for your bank. All can be idea stimulators when you seek a customized program of your own. Study your community. Consider the ways you might use the built-in goodwill of the Christmas season to help your image. Start planning early enough so you won't run out of time on some of the more ambitious ventures.

People open their hearts more readily at Christmas. So should you. Show the public and your customers that you and your employees, deep under your banker shell, are some of the nicest people they know. Isn't that what Christmas is all about? ● ●

Serving Tray Available



This serving tray, measuring about 9''x6'', is available from Redwood House, North Arlington, N. J., as a giveaway for financial institutions for customers opening Christmas club accounts or for other occasions. Its silver, non-tarnish finish never needs polishing.

Bank Programs

(Continued from page 25)

service charge of $5 for each check in excess of five checks. As Mr. Lohman explains, historically, MMFs don't generate much check-writing activity. For example, one well-known fund of this type indicates about one check is written per month per account holder.

FMMA also includes an automatic $5,000 reserve-cash line of credit, but the customer can apply for a higher line if desired. There's a $20 annual fee, charged at the time the account is opened. The money-market investment includes a monthly fee based on the average investment balance each month. This graduated fee ranges from a minimum of .025% monthly to a maximum of .075% monthly for an average balance of $15,000 or less.

Repurchase-agreement investments are charged at a rate of $10 per transaction, and there's no monthly fee.

Customers receive monthly reports of all investment transactions. They also receive monthly statements reflecting activities of their money-market accounts and income earned. In addition, they receive monthly statements reflecting checking and reserve-cash activity, as well as year-end tax information.

About two weeks after First National began offering FMMA, it had opened 17 accounts, with about $510,000 in invested deposits. Four of those accounts were new customers; the other 13 already were customers. Most of the money from the 13 came from First National's statement-savings account or NOW account, called "Smart Saver Checking." The reason for the low number of accounts, says Gary Hepburn, marketing director of the bank, is that, although there have been many inquiries about the account, people are holding off until their CDs mature, things of that nature.

All in all, Mr. Hepburn believes the new account is fulfilling its purpose: to keep money in Springfield that otherwise would go to money-market-mutual funds elsewhere.

The bank offers six different funds to FMMA customers: (all yields were as of June 11) Dreyfuss Money Market, yield of 16.97%; Fidelity domestic money market, 16.68%; Fidelity U. S. government, 16.94%; Dreyfuss Treasury agency, 15.18%; Dreyfuss money-market tax-exempt, 6.50%; and Fidelity money-market tax-exempt, 6.66%.

On the same date, for instance, Merrill Lynch's Ready-Asset account was yielding 16.91%, and so First of Springfield's FMMA was competitive.

Continental Illinois Corp. on June 1, Continental Illinois Corp., Chicago, parent of Continent Illinois National, filed a registration statement with the Securities and Exchange Commission for a proposed public offering of $100 million of money-market notes, a new type of floating-rate-debt security. The notes will be due June 1, 1988.

The notes will be offered in denominations of $1,000 and multiples thereof. Interest rates on the notes will be adjusted weekly and be equal to the one-month commercial-paper rate, quoted on a bank-discount basis by the Fed. Interest will be paid monthly. Notes will be redeemable in whole or in part at Continental's option at any time on and after June 1, 1983, at 100% of their principal amount plus accrued interest and will not have a sinking fund.

Continental's president, John H. Perkins, says the notes are designed to more closely meet current offerings in today's money markets and are available in smaller denominations. He explains that commercial-paper rates fluctuate continuously and that the weekly adjustment to Continental's notes will reflect these changes.

Merrill Lynch White Weld Capital Markets Group will manage the underwriting syndicate.

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

City Bank, Dixon, Ill. This bank has created a 90-day instrument, called "T-Minus-2," which floats at a daily rate of 2% below the prime rate charged by Chicago's Northern Trust. Minimum deposit for this instrument is $100,000. These deposits, says President Richard W. Durkes, will be used to fund floating-rate commercial loans.

The bank chose Northern Trust as a

Bank's Goal: Reverse MMF Drain-Off

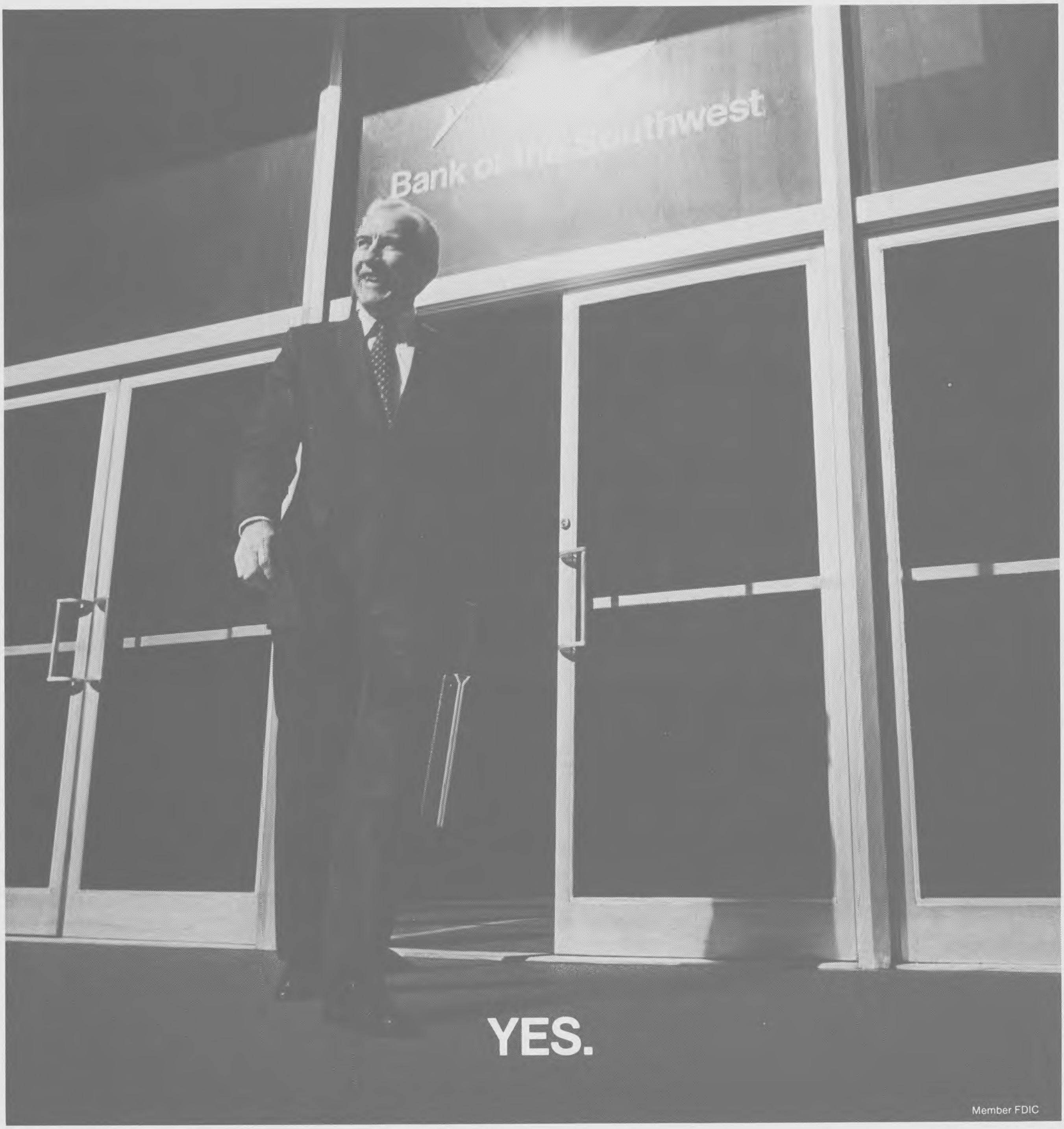
BANK of Ravenswood, Chicago, is one of an increasing number of banks that have created instruments or programs to enable them to try to compete with money-market-mutual funds (MMMFs). This bank offers "MoneySystem," a high-yield account with interest rates tied loosely to short-term Treasury-bill yields.

With MoneySystem, John D. Van Winkle, vice president, describes the bank's goal as "to slow and, hopefully, reverse the drain-off of financial-institution deposits to the money-market funds." The bank hopes this mechanism or one of many possible variations will be marketed quickly through the banking and thrift industries because, as Mr. Van Winkle puts it, "The sooner that happens, the sooner the regulatory inequities will disappear."

Continuing, Mr. Van Winkle says, "We are convinced that the prevalent lobbying thrust is misdirected. The general public, editorialists, consumer advocates and legislators simply are not going to buy the idea of throwing manacles on the money-market funds, and the image of banks and thrifts resulting from such a lobbying tack will be painted as self-serving and not responsive to consumer needs. All that approach will gain is bad press, without any likelihood of quick, equitable regulatory change. Better, we believe, that we assume the offensive; better for the industry and better for the general public.

"While the MMFs have taken on one major function of banking and deal from a position of strength afforded by their nationwide marketing networks, they do have some major problems. They cannot compete by themselves on a one-to-one basis in terms of check processing; they cannot offer broad credit and other banking services; they still represent an unfamiliar entity to the grass-roots populace; and, most of all, they are marketing a product that carries with it considerable investor risk.

"It is our belief that we can get close to the MMFs in yield, while providing more security and a broad range of services — and do so with adequate margins."



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peg for "T-Minus-2" because, says Robert Eaton, vice president/cashier, City Bank is using that bank's prime rate for some floating-rate loans and other uses. Thus, to maintain consistency, the bank chose Northern Trust for the new instrument.

Within about three weeks of its introduction, says Mr. Eaton, "T-Minus-2" had brought in about $300,000 in new money and $200,000 roughly in converted funds. He points out that his bank had tried an offering of a large CD in the local area some months back and was favorably impressed with the response. He adds that it takes a little time to "scrape $100,000 together" because people may have the money tied up in other instruments or accounts.

He illustrates the floating-rate part of the new instrument by pointing out that the rate was 17½% when "T-Minus-2" was introduced, then went up to 18½, and was back town to 18% as of June 11.

The new program is intended to benefit all parties, says President Durkes.

"For the investor," he continues, "it offers an extremely advantageous return, with the assurance of even higher gain if the prime should rise during the period of deposit.

"For City Bank, we will secure new lending power for commercial clients at a cost that is directly related to anticipated income from such loans."

Landmark Bancshares. A CD with a floating rate two points below the prime rate also was introduced last month by this St. Louis-based multibank HC. It is obtainable for a minimum of $100,000, and its interest rate is adjusted automatically the same day the prime rate changes. The CD is available with a maturity of six-18 months, with interest payable monthly, quarterly or at maturity, and is insured up to $100,000 by the FDIC.

According to S. Lee Kling, the HC's chairman, response has been beyond his expectations.

Bank of Ravenswood. This Chicago bank has created a $2,500-minimum-deposit, high-yield instrument, called "MoneySystem," with interest rates tied loosely to short-term Treasury-bill yields. It encompasses security-repurchase agreements, Bank of Ravenswood deposits and non-interest-bearing lines of credit. All funds in MoneySystem represent customers' ownership of either direct obligations of the U. S. or deposit accounts fully insured up to $100,000 by the FDIC. It grants holders check-writing privileges and doesn't impose service charges for regular personal activity.

According to John D. Van Winkle, vice president, the bank perceived, about 1½ years ago, that some mechanism was needed, within the confines of existing regulations, to provide a safe high-earning, liquid vehicle that could compete with MMFs until laws are changed to allow commercial banks to compete in a more straightforward manner. In MoneySystem, says Mr. Van Winkle, the bank believes it has managed to offer customers an assurance of safety without involving them unduly in underlying complexities.

Morton Community Bank. Another bank that decided to try to stem the flow of money-market funds from its community is Morton (Ill.) Community Bank, which has created what it calls simply Money-Market Account. It offers customers: 1. Money-market interest rates. 2. Checking privileges. 3. Withdrawal anytime.

Additionally, customers are covered by FDIC insurance up to $100,000 and the security of local deposits, says the bank's president, Gordon Honegger, Ph.D., an economist.

Here's how it works: The bank enters into a combination deposit/line-of-credit agreement with Money-Market Account customers. When a customer makes a Money-Market Account deposit, the funds are placed in a NOW account, earning 5¼%. Simultaneously, the bank lends the customer additional funds to be placed in a savings account. These additional funds also earn 5¼% interest.

Assume the bank wants to net a 10% return to the customer in the Money-Market Account. The bank simply charges the customer enough interest for the money loaned to reduce the customer's total return to 10%. The transaction is expressed: Money-Market-Account interest = NOW interest paid + savings interest paid − loan interest charged.

"Getting all the problems solved has taken our accountants, attorneys and bank personnel and marketing agency nearly a year to complete," says Dr. Honneger in explaining how the bank created its Money-Market Account. "Thousands of hours have been invested, but now the package is complete and works quite well. Actually, it works so well it's our fastest-growing account by a wide margin. We've hired two additional persons to work exclusively on it."

He adds that promotional efforts have been minimal, and the bank has used only a small amount of direct mail because of the difficulty in handling the number of responses received.

The bank's employees, says Dr. Honneger, believe the product is so much more attractive to customers than the NOW account that they've nicknamed it the WOW account. ● ●

Christmas Stockings Available

Colorful Christmas stockings are offered as bank premiums this year by Anderson Premiums, Riverwoods, Ill. Made of heavy acrylic yarn, stockings come in two sizes: 13" at $1.95 each, and 19" at $2.50 each. Each stocking comes with personalized gift card bearing greetings from organization presenting it. Colors are red, green and white. Minimum order is 300 pieces.

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Economic Recovery, Inflation, Consensus Receive Attention at Indiana Convention

IT ISN'T often that a public official asked to give an official welcome to a bankers convention gives a mini speech, and one that's relevant to the banking industry! But that's what happened at last month's Indiana Bankers Association annual convention.

Indianapolis Mayor William H. Hudnut III put his weight behind President Ronald Reagan's economic recovery program, lauded Indiana BankPAC and praised the civic leadership of Indianapolis bankers.

He likened the U. S. economy to a boat on the brink of Niagara Falls and said it was time to turn it around under the guidance of the new Administration in Washington. In speaking about Indiana BankPAC, he told the audience that he would have appreciated such a means of financial assistance when he was a congressman. He stressed the importance of handing out funds discriminately — favoring those who support the free-enterprise system.

William H. Kennedy Jr., official candidate for ABA president-elect for 1981-82, and chairman, National Bank of Commerce, Pine Bluff, Ark., made his first appearance in the Mid-Continent area this year as a state bankers association convention speaker. He addressed the issues of inflation and deregulation, pointing to the progress bankers have made regarding those issues under the leadership of the ABA.

He said that President Reagan has given the nation a new opportunity to bring inflation under control with his economic recovery program. He termed the program anything but a quick-fix attempt to stabilize the economy. Rather, he said, the program promises a reversal of the trend toward big government that has stagnated the economy. He called on bankers to make their congressmen aware that the banking industry supports the President's program in its entirety.

William H. Kennedy Jr., (l.), convention speaker, and ch., Nat'l Bank of Commerce, Pine Bluff, Ark., and IBA Pres. Robert C. Laue chat in lobby of Indiana Convention Center, site of IBA convention. Mr. Kennedy is official nominee for ABA pres.-elect for 1981-82.

The ABA is determined to get deregulation accomplished, he said. Relief from the compliance burden is a No. 1 priority. Customers of banks don't evidence appreciation or a desire for the burdensome regulations that cost them so dearly. There's no evidence that regulations have made it easier for the public, but there surely is evidence that regulations have made it harder to conduct banking business, he said.

He also called for relief from government pricing of bank services. The laws don't change fast enough to keep up with changing economic conditions, and, because of this fact, they hinder the business of banking.

Mr. Kennedy said there's general agreement that Regulation Q ceilings must be removed and that new government instruments are needed to enable banks to compete effectively with money-market mutual funds. He decried the fact that these funds aren't restricted from reacting swiftly to changing conditions while banks can't react, due to inflexible regulations.

"Banks shouldn't be exluded from any markets in which they can participate," he said, "including the housing area." Thrifts are ahead of banks because they enjoy more liberal regulations.

"The New Economic Program — Will It Work?" was the topic chosen by Mark H. Willes, former president, Minneapolis Fed, and now executive vice president/chief financial officer, General Mills, Minneapolis.

It quickly became apparent that Mr. Willes knows his topic well and he shared new insights on the workings of the economy and the effect he anticipates the President's program will have on it.

"We don't know as much as we should about conducting economic policy or achieving better economic results," he said. He added that it's difficult to find a solution for an erratic economy when there's no general consensus on its cause. He said he's convinced that inflation is the root cause of today's economic problems and he reasoned that government deficits and the printing of dollars are the basic causes of inflation.

He said the U. S. has done the opposite of what it should have done to curb

New IBA officers are (from l.) Joseph W. Bibler — v.p.; Mark H. Caress — pres.; and Robert C. Rose — treas. They were installed at president's luncheon.

Speaker Mark H. Willes, e.v.p./chief financial officer, General Mills, Minneapolis, fields questions after presentation on prospects for President Reagan's economic recovery plan at convention business session.

inflation and turn the economy around. This is the result of tinkering with something that no one seems to understand. In other words, when you don't know how the economy works, you're at a decided disadvantage when you try to fix it!

In addressing the possibility of success on the part of President Reagan's economic recovery program, Mr. Willes said he admired the President's courage in tackling the issue in such a straightforward manner. Deregulation can be a positive force in the long run, but it can be "tough as nails" in the short run.

He cited the example of oil industry deregulation and said the move benefited the consumer even though it resulted in higher prices. This is because it also resulted in more incentive to conserve petroleum due to the higher cost. Also, new profit opportunities have resulted in more exploration and a resultant glut of oil, which has vastly improved the energy picture for the U. S. and the world.

He alluded to deregulation of the airline industry, stating that it's been tough on the carriers, but good for consumers. It will be good for the carriers, too, in the long run. He predicts a similar situation for banks when they are deregulated — a tough transition period will precede long-run benefits.

Mr. Willes criticized the Reagan tax-cut proposal as originally presented as being not well founded. The effect would have been negative because the tax cut was too large and would have resulted in a larger federal deficit and more inflation. The all-important point is that deficits are inflationary and must be reduced before any improvement in the economy can be achieved.

He said he was pleased that the tax reduction is being modified in Congress so deficits will be reduced and he predicted that a "happy and fortunate compromise" would take place.

He explained that the final tax cut must be slightly smaller than spending cuts on a year-by-year basis. He agreed with the President that the tax cut should be made over a three-year period. "It's the only way we can plan ahead," he said.

Mr. Willes predicted that the President has a 50% chance of success with his economic recovery plan. Once it is in place, confidence will grow, inflation will decline — and at a more rapid rate than expected. This will result in a significant decline in interest rates. 'The stakes are very, very high," he said.

A wide range of results was reported by John D. Weissert in a report on NOW-account activity in Indiana. Mr. Weissert, who is a member of the IBA's marketing committee as well as president, Peru Trust, said 60% of the 278 banks responding to the committee's survey are taking a defensive posture regarding NOWs; thus, they are not being innovative in marketing the accounts. That leaves 40% taking a more aggressive posture. Most banks zeroed in on converting existing

Derby pie was popular item with convention-goers. President's luncheon desserts were served in exhibit area in innovative move by IBA to bring bankers and exhibitors together.

accounts rather than attempting to attract new accounts.

Two responding banks opted to not offer the accounts until later and one bank converted every one of its eligible accounts to NOWs. The average minimum balance for a free NOW account is $1,000 and the average per-month service charge is $5. While most bankers appear to be content with NOW-account pricing, they are revising prices for other types of accounts.

Two-thirds of NOWs in Indiana came from existing savings accounts and one-third from existing checking accounts — which means there was little or no movement of funds among institutions. The average balance per account is $6,200.

Indiana's lieutenant governor, John M. Mutz, made a surprise visit to the convention to ask bankers to make use of a summary of 19 bills passed by the state legislature that will enable the state to attract new business and reduce unemployment. He stressed that a bill creating a network of development funds in the state is in no way competitive with banks. The legislation provides an incentive for investment capital to be channeled into small industries in the state, he said. He asked bankers to help "sell" industrial development in their areas.

IBA President Robert C. Laue, president, First Bank, Indianapolis, addressed the topic of competition.

"Those of you who are golfers know that, in match play, you play your opponent, and in medal play, you play the golf course. We have been trying to play the thrift, the broker, the retailer, the credit card company, the travelers check company, the insurance company and the other bank and we aren't winning many holes.

"We must never lose sight of our competitors, but perhaps we should give more thought to the market for services and match our game to that demand," he said.

Mark H. Caress, president, First National, Crawfordsville, was installed as IBA president during the convention, along with Joseph Bibler, chairman/CEO, Northern Indiana Bank, Valparaiso, as IBA vice president, and Robert C. Rose, president, American National, Vincennes, as IBA treasurer.

Elected to one-year terms as members-at-large of the IBA board were Thomas L. Dusthimer, president, First National, Elkhart; Thomas M. Miller, chairman/CEO, Indiana National, Indianapolis; and Robert O. Swaim, president, Citizens State, Marshall.

Don C. Stimpson, president, Peoples Bank, Lawrenceburg, and Charles W. Phillips, president, Floyd County Bank, New Albany, were elected to two-year terms on the ABA governing council.

Next year, the convention will return to French Lick. — **Jim Fabian, Senior Editor.**

IBA V.P. Mark Caress (l.) and Convention Ch. Ronald D. Seals, pres., Edinburg State, confer prior to opening of first business session.

Despite Possibility Of Multi-Bank HCs, Ill. Bankers Undaunted

Two association officials, Llewellyn Jenkins (l.), ABA pres.-elect, and Jack D. Lemmerman (r.), IBA pres., are pictured at IBA convention last month. Mr. Jenkins, v. ch., Manufacturers Hanover Trust, New York City, spoke at convention. Mr. Lemmerman is ch./CEO, Nat'l Bank of Monmouth.

THE NEWS from Springfield on the latest multi-bank HC bill (SB 578) was not good last month for the Illinois Bankers Association as it was holding its 90th annual convention in Chicago. At that time, the bill was on passage stage in the House. Within two days, the bill was passed.

However, officers, members and office staff were not discouraged about the future, even though it will bring multi-bank HCs to Illinois — something the IBA had fought against for years.

As William J. Hocter, IBA executive vice president, said in his convention report, the association now must develop aggressive leadership in other areas; it must be supportive of Illinois banks at the federal level; it should move into marketing areas and focus on expanding its membership (there now are 1,010 members). Mr. Hocter suggested that the IBA work to strengthen regional organizations, reach out to individual banks and get suggestions from those banks.

The IBA intends to remain a vital force in Illinois, he continued, and he asked conventioneers three questions: How do we market this association? How do we reach out and touch you? What will cause you to stay with us or to leave?

Bank structure was the subject of three of the five amendments to the IBA constitution adopted during the convention. Only one, Amendment No. 5, was not approved unanimously. However, it received the two-thirds majority needed for passage by being approved by 118 of the 172 voting delegates. The other 54 voted against it.

Amendment No. 5 speaks to the necessity of having to submit to the membership all issues on structure. Until the amendment was passed, the mail ballot was the only way to contact members. The amendment's sponsors pointed out that the fast-changing banking environment makes it necessary for the association's leadership to be able to act expeditiously as well as objectively on all banking issues, including bank structure.

This amendment preserves the mail ballot as one of three methods of changing IBA policy on bank structure. It provides two alternatives for making such changes — through conventions or by the council of administration.

The term bank structure, as defined in Amendment No. 5, means: (a) form or forms of bank ownership, including HCs; (b) number and types of facilities and additional offices, agencies or branches permitted or prohibited apart from the main banking house of a bank; (c) number and types of banking functions prohibited or permitted apart from the main banking house of any bank.

Amendment No. 2 continues to have IBA policy determined at conventions except in resolutions on bank structure; such resolutions must be submitted by the council of administration by mail to the membership. However, this amendment eliminates the mail ballot if the council determines by a three-fourths affirmative vote that the resolution: (a) is consistent with present association policy on bank structure or (b) is an emergency situation and, if so determined, the council may adopt policy relating to bank structure by a three-fourths affirmative vote. Other policy matters not inconsistent with any previous association policies may be determined by the council.

Bank structure was defined in the section on Amendment No. 5. Emergency situation is defined by IBA bylaws as any proposed resolution, policy or action dealing with bank structure that requires a prompt decision and immediate action as certified to the council of administration by the affirmative vote of seven members of the executive committee.

Amendment No. 3, also on bank structure, continues to allow the IBA

New IBA officers are (l. to r.): pres., James A. Fitch, Chicago; 1st v.p., Donald R. Lovett, Dixon; 2nd v.p., Kenneth A. Skopec, Chicago; and treas., Thomas F. Bolger, McHenry.

Representative Dan Rostenkowski (D.,Ill.), convention speaker, is shown with James A. Fitch, 1st v.p., IBA, 1980-81, and incoming pres. Mr. Fitch is pres., South Chicago Savings Bank. Representative Rostenkowski is ch., House Ways and Means Committee.

Senator Charles Percy (R.,Ill.) (back to camera) visits with IBA conventioneers before giving talk.

Howard K. Smith (c.), long-time TV newsman, talks with William J. Hocter (l.), IBA e.v.p., and James A. Fitch, IBA 1st v.p., during convention, at which Mr. Smith spoke.

president, if authorized by the council of administration, to submit any policy question by mail to the entire active membership. However, it also provides that resolutions on bank structure be submitted only if initiated by a two-thirds vote of the council present and voting or on receipt of a petition, signed on behalf of at least 50 active members, no more than 20% of which are located in any single IBA group.

Amendment No. 4, approved at the same time as Amendment No. 3, addresses IBA constitutional amendments, all of which must be voted on at conventions by two-thirds of delegates present and voting. Under Amendment No. 4, a proposed amendment must be submitted in writing to the council of administration no later than 60 days prior to a convention and signed on behalf of at least 50 active members, no more than 20% of which are located in any single IBA group. The council may, by a two-thirds vote of members present and voting, initiate proposed amendments without the requirement of active member sponsorship. The council must include a proposed amendment in its official notice of a convention, together with comments on it, if any. Any proposed amendment may itself be amended at the convention at which it's presented by a two-thirds vote of delegates present and voting.

Amendment No. 1 changes the name of the IBA's bank security committee to the bank operations committee. This amendment adds as members of the council of administration chairmen of the state legislative and federal legislative committees and appoints the executive vice president as a member of both the council of administration and of the executive committee. However, he is designated a nonvoting member of the council so as to be protected from undue pressure when there's a controversial or divided matter before the council.

Four speakers from the nation's capital talked exclusively or devoted part of their talks to President Ronald Reagan's economic-recovery program. They were: Representative Dan Rostenkowski (D.,Ill.); Charles L. Schultze, chairman, Council of Economic Advisers under former President Jimmy Carter, and now senior fellow, Brookings Institution; Senator Charles Percy (R.,Ill.) and Gerald Lowrie, executive director, ABA government relations.

IBA Pres. Jack D. Lemmerman (l.) is pictured with convention speaker, Charles L. Schultze, senior fellow, Brookings Institution, Washington, D. C. Mr. Schultze was ch., Council of Economic Advisers, under former President Jimmy Carter.

Representative Rostenkowski, chairman, House Ways and Means Committee, assured his listeners that he is for a tax cut, but not the three-year cut proposed by the President. He believes the Administration is basing its proposal on a "somewhat rosy" assumption that, by 1984, we will have a balanced federal budget, reduced inflation and lower interest rates.

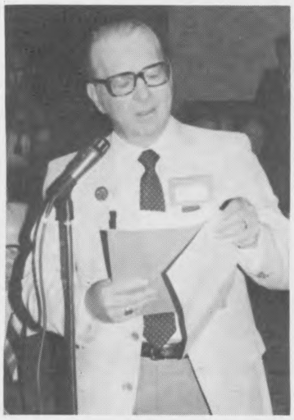
As a result, the Illinois representative said he will continue to fight for a 5% tax cut this year and 10% in 1982.

What he wants to do, he told conventioneers, is to create an atmosphere of investment so Americans will put their money in institutions of financial stability. In fact, Democrats must make it clear, he said, that they, too, realize government must shrink and that they want a tax package. His party would like a package that produces investment, savings and productivity.

Mr. Schultze also advocated that a three-year tax cut not be enacted. He added that a two-year cut, coupled with a reduction in government spending, would not unduly aggravate inflation because of the present slack in the economy.

He voiced pessimism that the new Administration would balance the budget by 1984, as it has promised, while reducing inflation by half.

Mr. Schultze suggested that the President postpone the last $45 billion on the $145-billion tax cut to see how the economy goes. If everything is all



Sponsors of various amendments adopted during IBA convention spoke on their amendments before votes were taken. L. to r. are: Arthur F. Busboom, ch., Gifford State, who spoke for Amendment No. 2; James Winningham, pres., State Bank of Arthur, Amendments Nos. 3 and 4; and Gilbert E. Coleman, pres., Security Bank, Mt. Vernon, Amendment No. 5.

right in a few years, he added, then go ahead with the last $45 billion. If not, the last $45 billion should not be cut.

Senator Percy told his fellow Illinoisans that he's totally devoted to enacting the Reagan program and that he hopes to have this legislation on the President's desk by August.

Because of his position as chairman of the Senate Foreign Relations Committee, Senator Percy devoted most of his talk to international matters. He said a bipartisan foreign policy is needed, backed by a strong defense posture, underpinned by a strong economy. He emphasized that he was fighting for rights of American companies, an effort aided by the fact that, in almost 25 years, he is the first chairman of his committee with an extensive business background (he was named head of Bell & Howell in Chicago at the age of 29).

He focused on Illinois, pointing out that it is the No. 1 state in export of agricultural commodities and the No. 2 state in export of manufactured goods. In Illinois, he continued, 80% of the land is under cultivation, and production of one out of three acres is shipped abroad.

The senator said a concerted effort must be made to re-establish consensus on principal elements of our nation's foreign policy: 1. Restore our economic strength. 2. Restore our military strength. 3. Have a more realistic and resilient attitude toward the Soviet Union. 4. Close ranks with our allies. 5. Create carefully differentiated policies toward the "third world," an area growing at the fastest rate in the world.

Senator Charles Percy (R.,Ill.) delivers IBA convention address. He is ch., Senate Foreign Relations Committe.

The ABA's Mr. Lowrie said the spending cuts, if passed as they were put together at the time of his talk, would not be President Reagan's package. He asked his listeners to actively support the President's program.

Turning to the plight of the thrifts, Mr. Lowrie said that because commercial banks are in the black, but some thrifts are in the red, banks may be penalized to help those thrifts. He urged bankers to start a crusade against this philosophy. He pointed out that on June 25, the Depository Institutions Deregulation Committee (DIDC) was going to meet and decide on several proposals, including reinstatement of the ¼% differential on six-month money-market CDs in favor of the thrifts.

He set these goals for banking: 1. Get inflation under control. 2. Get government out of the business of setting your prices. 3. Open up opportunities for banks to offer new services and products to customers. 4. Get rid of the layers of consumer-type legislation — the Community Reinvestment Act, Home Mortgage Disclosure Act, etc.

New Officers. James A. Fitch, president, South Chicago Savings Bank, moved up from first vice president to president of the IBA during the convention. Other new officers are: first vice president, Donald R. Lovett, chairman/president, Dixon National; second vice president, Kenneth A. Skopec, president, Mid-City National, Chicago; and treasurer, Thomas F. Bolger, president, McHenry State, and immediate past president, Independent Bankers Association of America. — **Rosemary McKelvey, Editor.**

Former IBA presidents were spotlighted during one IBA convention session. They are shown in row closest to camera.

Dolls Given to Charity

Jon Armstrong (l.), ch., SJV Corp. and St. Joseph Valley Bank, Elkhart, Ind., helps bank employee Teddy Steely (2nd from l.) present more than 100 dolls dressed by bank employees to representatives of Elkhart Salvation Army. Dolls are displayed in bank lobby before being distributed to disadvantaged children just before Christmas.

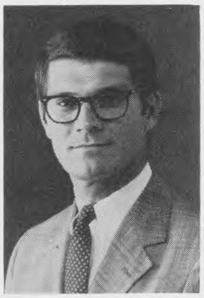
News

About Banks and Bankers

Alabama

W. Dan Puckett, president/CEO, Central Bank of Alabama, was named Alabama's outstanding young banker for 1981 at the Alabama Young Bankers convention in Biloxi, Miss., recently. Phillip N. Davis, vice president, Farmers & Merchants, Centre, was named Ala. Young Bankers president at the convention. Other new officers include John J. Mullins, president, Leeth National, Cullman — vice president; Robert Montgomery, vice president/correspondent division manager, Central Bank, Birmingham — treasurer; and R. H. Giles, vice president, First National, Scottsboro — secretary.

DAVIS



PUCKETT

AmSouth Bancorp., formerly Alabama Bancorp., is now listed on the New York Stock Exchange with the ticker symbol ASO. The HC is headquartered in Birmingham.

First National, Birmingham, has elected Victor E. Nichol Jr. and Frederick O. Newman executive vice president/trust division and senior vice president/trust officer, respectively. Mr. Nichol has been with the bank since 1969; Mr. Newman formerly was with American National, Chattanooga. A. Fox deFuniak III, senior vice president, has been promoted to head the branch administration department. He joined the bank in 1963 and had been head of the national banking and corporate services group since 1979. The group includes the correspondent banking department.

Stockholders of Southland Bancorp., parent of Merchants National, Mobile, have approved merger of the bank with First Alabama of Mobile County.

Willie F. Warren has been named president, Birmingham Trust National. He formerly was chairman/president, First National, Anniston, a post he held since 1978. Prior to that, he was with First National, Dothan. All the banks are affiliates of Southern Bancorp.

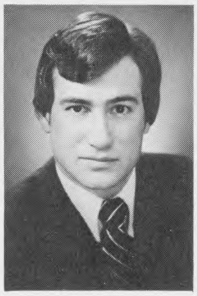
Arkansas

First Arkansas Bankstock Corp., Little Rock, has promoted Daniel C. Horton to executive vice president/chief financial officer, Fred C. Burns to vice president/secretary, Woodlief A. Thomas to vice president/treasurer and John Woodworth to director/FABCO human resources. Worthen Bank, lead bank of FABCO, has promoted David Boerner and Michael Fendley to vice presidents; Douglas Milligan, Patrick O'Sullivan, Dennis Redmon and James Whittington to assistant vice presidents and David Phillips to assistant cashier.

HORTON

Gordon E. Parker has been promoted from president/CEO, First National, El Dorado, to chairman/president/CEO. At one time he was a correspondent bank officer at the old Union National of Kansas City.

Wayne Harness has joined First State, Springdale, as vice president/manager of commercial and consumer lending. He formerly was with Worthen Bank, Little Rock.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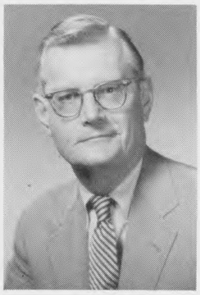
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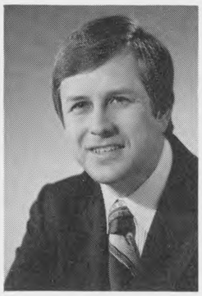
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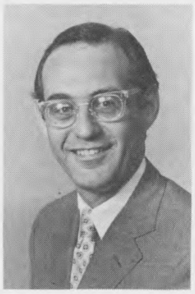

ZAPTON

Illinois

Daniel T. Zapton, vice president at Continental Illinois National, Chicago, has been named head of the Illinois division, succeeding John N. Fix, who now is head of global cash management in the financial services department. William F. Sanford, vice president, has been appointed manager of the bank's new securities lending division. Mr. Zapton joined the bank in 1967 and Mr. Sanford has been with the bank since 1970. New vice presidents include Theodore E. Bulow, Kenneth J. Fetzer, Thaddeus P. Vannice in bond and treasury services; Robert R. Ingersoll, G. David Maletta II and Gary L. Stone in the special industries department; Stanley R. Butcher and Michael J. Hamer in general banking services; John P. Davey and Andrew P. Siwulec in real estate services; Gary A. Spencer in financial services; Peter F. Meder in multinational banking services; Judith D. Domkowski in the U. S. banking department; William A. Saer in trust and investment services and Michael J. Kinney with Illinois Leasing Corp.

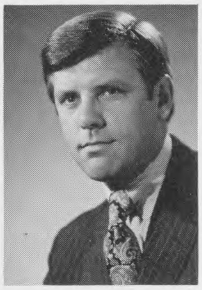
Robert A. Williams Jr. has returned to Northern Trust, Chicago, as senior vice president/trust department, and Donald L. Raiff, vice president/senior economist, has been named head of the bank's economic research department. Mr. Williams also is CEO, Nortrust Farm Management and, from 1974 to the present, was president, Northern Trust of Arizona. Mr. Raiff succeeds Robert G. Dederick, who recently became assistant secretary for economic affairs at the U. S. Department of Commerce. Among new promotions at the bank are Norman T. Rosson, vice president/trust department; Paul T. Orchart and Thomas E. Payne, second vice presidents in the international and personal banking departments, respectively.

First National, Belleville, has named Gary Hemmer administrative assistant and Robert Martin assistant vice president/data processing. Mr. Hemmer was formerly in the correspondent bank division at First National, St. Louis. Owen Steinweg was promoted to vice president/data processing and Steve Parrish was named assistant cashier/security officer.

Lewis G. Laughlin has been promoted to executive vice president, Illinois State Trust, Belleville. He joined the firm in 1979 as vice president.

70 Years in Banking!

Henry D. Karandjeff (l.), honorary chairman, Granite City Trust & Savings, was honored recently for his 70 years in banking. Award was presented by Drew Karandjeff, bank president and grandson of Henry, at bank's 20th annual awards dinner last month.



DAHLTORP

Bruce L. Dahltorp has been elected president/chief operating officer, Central National Bank and Central National Chicago Corp. Jackson W. Smart Jr. remains as chairman/CEO of both firms. He had been president since joining the HC in 1977. Mr. Dahltorp formerly was with LaSalle National, Chicago.

Indiana

Henry S. Faurest Jr. has been promoted to executive vice president at Floyd County Bank, New Albany. He joined the bank in 1966 as a lending officer.

Jon L. Walda has been appointed vice president/corporate division at peoples Trust, Fort Wayne. He's assigned to the commercial loan department.

Madison Bank has been acquired by Ohio Valley Bancorp., Madison.

Citizens Bank, Jeffersonville, has been acquired by CB Bancshares, Jeffersonville.

Kansas

First National, Derby, has named J. Bryant Green assistant vice president and Robert C. Ward consumer loan manager. Mr. Green formerly was with American National, Baxter Springs, and Mr. Ward formerly was with Boulevard State, Wichita.

David A. Inskeep has been appointed vice president/loans and assistant secretary at First Citibank, Olathe.

Kent S. McKinney has joined Union National, Manhattan, as assistant vice president/commercial loan officer. He formerly was with First National, Topeka.

Kentucky

Glenn W. Norman has been promoted from senior loan review officer to vice president at First National, Louisville.

Bank of Lexington has been acquired by Kentucky Bank-Shares, Lexington.

Leitchfield Deposit Bank has been acquired by Leitchfield Deposit Bancshares. The HC also has acquired the B. S. Alexander Insurance Agency in Leitchfield.

Downey M. Gray III has been installed as president, Louisville AIB Chapter. He is with Liberty National. Also installed were Betty M. Berger, First National, Louisville — first vice president; Jerry Fletcher, Bank of Louisville — second vice president; Betty C. Peters, United Kentucky Bank — treasurer; and Paula B. Cravens, Liberty National — secretary.

Louisiana

Bank of New Orleans and New Orleans Bancshares have elected James D. Cole, president/CEO, Newpark Resources, to their boards.

LARGUIER

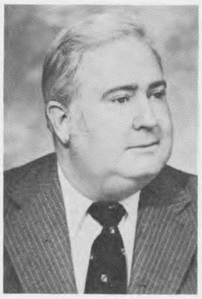
Sidney G. Larguier Jr., vice president, Whitney National, New Orleans, has been elected president, New Orleans AIB Chapter. Also elected were Shirley Favalora, National Bank of Commerce, Jefferson — first vice president; Malcolm Schwarzenbach, First National Bank of Commerce, New Orleans — second vice president; Jeanne Roche, Hibernia National, New Orleans — secretary; Fred Rittler, Whitney National, New Orleans — treasurer; and James Terrell, Bank of New Orleans — ex-officio officer.

Mississippi

Deposit Guaranty National, Jackson, has promoted Paul A. Carruba, E. Frank Fillingim Jr., I. Marie Love, Frank W. Martin Jr., Stephen D. Taylor and R. Mark Watkins to vice presidents. Mr. Carruba joined the bank in 1972 and is in the account service administration area. Mr. Fillingim has been with the bank since 1978 and is in the metropolitan department. Miss Love joined Deposit Guaranty in Greenville in 1963. Mr. Martin has been with the bank since 1964 and is in the loan review department. Mr. Taylor joined the bank in 1976 and is in the corporate planning and research department. Mr. Watkins has been with the bank since 1968 and is in state branch administration.

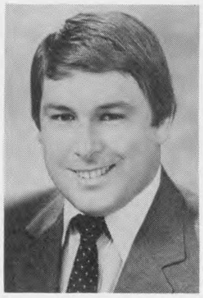
FILLINGIM TAYLOR CARRUBA LOVE MARTIN WATKINS

Missouri



FOX

BAUR

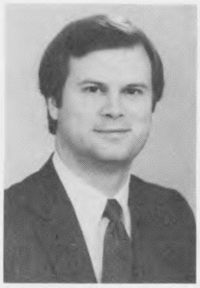


LANIGAN

WERNER

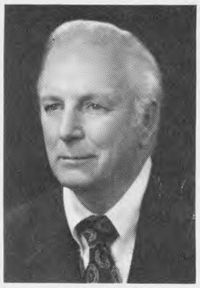
First Union Bancorp., St. Louis, will ask shareholders to approve a change in its name to Centerre Bancorp. at a special meeting August 26. The proposed name change also is subject to regulatory approval. If both groups approve, First National in St. Louis and each affiliate banking member of First Union will be renamed Centerre Bank. St. Louis Union Trust Co. will become Centerre Trust Co. of St. Louis. The changes would become effective next January.

R. Quinn Fox, who is in the correspondent banking department at St. Louis' First National, has been promoted from assistant vice president to vice president. Also elected vice president was James R. Lanigan, bond department. Named assistant vice presidents were John J. Dwyer Jr., commercial lending, and Bryan P. McWeeney, operations.



PORTER

ROSS



SANGUINET

George W. Porter, vice president, Commerce Bank, Kansas City, has been named manager of the bank's agribusiness department. Mr. Porter joined the bank in 1973. He also is the 1981-82 chairman of the Young Bankers Committee of the Missouri Bankers Association.

Andrew N. Baur has been elected chairman/president/CEO, St. Louis County Bank, Clayton, succeeding Merle M. Sanguinet, who has retired following 29 years of service to the bank. Mr. Baur formerly was president/chief operating officer, and joined the bank in 1978 as executive vice president/director. He formerly had been president/CEO, Commerce Bank, St. Louis, and prior to that had been a vice president at Mercantile Trust, St. Louis. He joined his first bank — First National, Atlanta — in 1967. Mr. Sanguinet will continue as chairman/president/CEO, County National Bancorp., parent of St. Louis County Bank. He joined the bank in 1952 as vice president/installment credit and was named chairman/CEO in 1975. He entered banking in 1936 at the old Mercantile-Commerce National, St. Louis.

First National, Kansas City, has promoted Dudley Alexander, David P. Ross and Darrell E. Werner to senior vice presidents. New vice presidents include B. Spencer Heddens III, Harry J. Kelly, Richard A. Marks and Philip T. Rogers. Laurel M. Crane and F. Kent Thieman have been promoted to assistant vice presidents; Lyle W. Brizendine and Jean F. Daniel were named trust officers; Penny J. Burton and Rhonda Holman were elected assistant cashiers; and Luann Bartkoski, Richard S. Jones and Mary A. Trabue were elected assistant trust officers.

Mercantile Trust, St. Louis, has elected Akbar Husain senior vice president and promoted Victor T. Zarrilli to assistant vice president. Mr. Husain joined the bank in 1977 and heads the international division of the corporate banking department. Mr. Zarrilli joined the bank's trust department in 1973.

Bart Thomason has joined Country Club Bank, Kansas City, as vice president/commercial loans and business development.

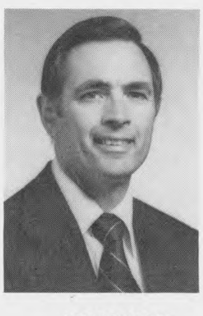
John V. Giddens has transferred from First National, St. Joseph, where he was vice president/data processing, to First Stock Yards Bank, St. Joseph. He also was promoted to executive vice president. Both banks are subsidiaries of First Midwest Bancorp., headquartered in St. Joseph. James M. Cox has succeeded Mr. Giddens as vice president/data processing, First National. He comes from First National, Salina, Kan.

First Mo. Elects Directors

Thomas C. Guyton, vice president, First National, St. Louis, and Dale Wolf, treasurer, Missouri Public Service Co., Kansas City, have been elected to the board of First Missouri Development Finance Corp., Jefferson City.

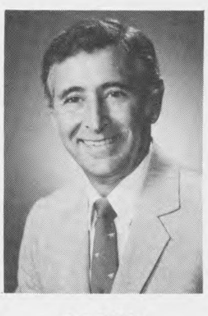
Steven J. Dust, director, Missouri Division of Community and Economic Development, was appointed by Governor Kit Bond to serve as ex-officio director.

First Missouri Development Finance Corp. has 240 member banks and has authorized in excess of $33 million in loans to Missouri business firms, helping to create or retain more than 6,500 jobs.

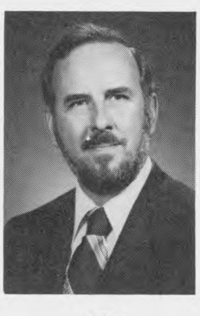


ALEXANDER

HUSAIN



GIDDENS



COX

Jerome Scott Jr. Dies

KANSAS CITY — Jerome H. Scott Jr., 58, died May 29. He was an advisory director, United Missouri Bank, which he joined in 1967 as assistant vice president. He moved up to vice president before being

named executive vice president in 1968. In April, 1971, Mr. Scott was elected vice chairman and, the following December, was elected president. He again assumed the vice chairman's post in 1979 and was named advisory director last January.

He also was director/secretary, United Missouri Bancshares, United Missouri Bank's parent HC.

United Missouri, Kansas City, is offering personal financial services, a new department to provide personalized banking assistance. Leone Park, senior vice president, supervises the department and Martha B. Peel and Frances S. Bentzinger staff the department as financial services officers.

Died: Virgil Shirley, 70, one of the founders of Hardin State, on May 26. A farmer/rancher, Mr. Shirley had been a director of the bank since helping start it in 1940.

New Mexico

Laura W. Fitch has been promoted to senior vice president/head, commercial lending division, at First National, Santa Fe. She joined the bank last October, following 24 years' service with a bank in California.

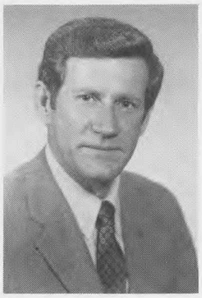
W. R. "Randy" Shipp has been appointed senior vice president/operations at First National of Dona Ana County, Las Cruces. He previously was examiner in charge of the Las Cruces sub-regional office of the Office of Comptroller of the Currency.

First National, Albuquerque, has promoted Noel D. Behne to senior vice president/commercial loans; James Purcell, Edward Brockman and William Piskorski to assistant vice presidents; and Joanne Schalbar, Marsha Douthett and Ruth Pellegrino to assistant cashiers.

Roswell State has changed its name to First Interstate Bank of Roswell.

Oklahoma

Josh C. Cox Jr. has been named president, First Oklahoma Trust Co., and senior vice president, First Oklahoma Bancorp., Oklahoma City. Among his duties are development of marketing programs and new products. He previously was president/CEO, Trust Co.



COX

of Columbus, Ga. First National, Oklahoma City, has named the following as vice presidents: William T. Berry, agriculture; Larry W. Coy, financial services; and Vincent G. Melashenko, trust. Named assistant vice presidents were David M. Jones, financial systems; Greg V. Tower, agriculture; and Richard S. Zalko, auditing.

Fourth National, Tulsa, has appointed Paul M. Giblon as assistant vice president/commercial loans. He formerly was with a bank in New Jersey. Karren Darrough, assistant vice president/personnel, has been designated certified compensation professional by the American Compensation Association.

D. Leonard Hope has joined First National Bank and First Bancshares, Bartlesville, as financial vice president. He formerly was on the faculty of the University of Kansas, Lawrence, and is a CPA.

Groundbreaking ceremonies were held recently for Commerce Center Office Park and its first building, to be occupied by Commerce Bank, Oklahoma City. The bank will occupy the first floor of the three-story building. Completion is expected by March, 1982.

Convenience Center Opened

Fourth National, Tulsa, opened its new East Lobby Convenience Banking Center last month. The facility is accessible from Sixth Street and includes two ATMs, a night depository, a new-accounts department and a walk-up teller station. $1,000 in cash was given away during the grand opening in connection with demonstrations to acquaint customers with ATM operation.

Tennessee

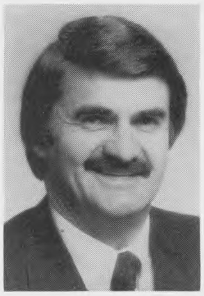
Joseph C. Nevins and Dennis O. Nilan were promoted to assistant vice presidents at Third National, Nashville, recently. Mr. Nevins is in consumer credit; Mr. Nilan is in bank systems.

Dan M. Laws III, vice president, Hamilton Bank of Johnson City, has been named head of the newly established retail credit administration group. Eddie W. Ward, assistant cashier, was named manager of the South Johnson City Branch.

Texas

Republic National, Dallas, has promoted Alex J. Eckensberger to senior vice president/installment lending and credit card divisions, and named Floyd D. Holland and Warren M. Newman

ECKENSBERGER



vice presidents in the funds management department. Anthony M. Padinha has been promoted to vice president/information systems and services and Douglas W. Graham has joined the bank's human resources department, moving from First National, Midland, where he was vice president/personnel director.

Frost National, San Antonio, has promoted Thomas E. Banks, Freddie

T. Jones and Charles Literati to vice presidents and named Norine Chamberlain, Donna Chapman, Willie Davila and Susan Taylor assistant vice presidents.

Kenneth T. Murphy, who was president, First National, Abilene, became president/CEO June 15. Walter F. Johnson, formerly chairman/CEO, continues as chairman. Ronald Fancher has joined the bank as executive vice president/director. He formerly was senior vice president, First National, Lubbock.

Creative Financing

(Continued from page 20)

would attack as being police-state tactics. They wouldn't be such because they would be voluntary. The student would be asked to submit his or her fingerprints with the loan contract. Fingerprints would be essential because of the high error rates in the social security program, said by the General Accounting Office to be in the 3% area. (Students who have looked at the data conclude that the figure probably is closer to 6%.) Thus, there would have to be a strengthening of social security internal controls that would be tied to handling the collection mechanics of the college student-loan program.

Because these loans have a rather extended payout ratio, they don't appear to be appropriate as investments for the typical commercial bank. However, commercial banks could participate in writing loans, packaging them and selling them in secondary markets. Then trust departments would find student loans attractive. Because interest rates would be tied to current prevailing comparable rates, there shouldn't be any loan discounts. As a matter of fact, if rates were tied to a spread somewhat above prevailing market rates, a premium likely would develop in the sale and purchase of these participations.

A secondary market would be available to provide liquidity to investors.

Many technical details would have to be resolved. At present, the Social Security Administration is adamant in not cooperating in anything as constructive as the above proposal. Legislation would be needed to force participation.

The interest rate charged college students would include an amount to cover the added costs to the Social Security Administration for running the program. The fingerprint requirement would be coordinated with the FBI, which maintains the nation's largest fingerprint library. Fingerprints would be used to establish the audit trail of not only the student loan but, subsequently, for drawing benefits from the social security system.

Note that, if a student became physically incapacitated or died, the insurance policy on the loan would automatically pay off. Similarly, there could be a policy coverage for unemployment. In this case, the unemployment period would be the determining factor on the amount of amortization of principal and interest on the student loan.

There would be provision for acceleration of payments if the student wished to pay off the obligation before its normal maturity. The actual maturity of the loans would be indeterminable in a finite sense; but, with experience, the actual time for average amortization should become established.

An immediate outcry would arise that such a plan would overburden our young people as they enter adulthood. They would be saddled with from $15,000 to over $60,000 in debt (the latter figure applies to medical students).

If we assume an annual garnishment of 10% of the loan from $15,000 to $60,000, a not unsupportable burden results.

There are two concepts of taxation. One is to tax those who are beneficiaries of the government's service and the other is more of a sumptuary concept in that the individuals or companies aren't the beneficiaries. The former historically has been a much more ethical, rational and logical concept of taxation.

It's probable that today some students cavalierly are taking loans with no strong intent to repay. They may not wish to assume the burden of repayment through the social security system. This is all well and good because it is their own free decision. For students who are sincere in their motivation for a college education, there should be no strong opposition.

The fact that loan payments would be accelerated should a student drop out of college could be a strong motivator for serious study.

Normally, I would prefer to have the private sector handle a student-loan program. However, with existing federal institutions in place serving basically as record keepers and collectors of tax payments of student loans, there will be a partnership arrangement whereby the private sector does the contributing of the funds, the placement of the loans and the like, but the federal government — through its social security subsidiary — provides a system whereby lenders have an assurance that the loans will be paid off automatically by the student. Through insurance of various categories, loans would be paid up in the event of any adverse situation. Insurance companies would be — and probably should be — privately operated and not agencies of the government.

As noted earlier, there is little likelihood that such a system would ever be considered seriously by the government. Still, it would be interesting to see how such a system would work. It could save taxpayers billions of dollars and provide a workable vehicle for serious students to have access to reasonable credit at reasonable terms from financial institutions. ● ●

"Letters to the Editor"

To the Editor:

There is an article in the May 15th issue of MID-CONTINENT BANKER which discussed the defeat of legislation to regulate money-market-mutual funds (MMMFs) in Kansas and Oklahoma. While most of the comments in the article are basically correct as to the chronology of events in the Kansas Legislature, there was one comment which deeply concerned me and other members of the KBA staff.

In the first paragraph, the reporter states that "both Oklahoma and Kansas bankers have suffered *humiliating* (emphasis added) losses at the hands of the pro-money-market-funds lobbyists." I strongly object to use of the word "humiliating," which implies that, in some way, the standing of the KBA and Kansas bankers was diminished by defeat of Senate Bill 131. There certainly is no indication that this was the case at all. To say that defeat of SB 131 was "frustrating" to Kansas bankers would have been more accurate. When one sees a massive media blitz of half-truths and innuendoes launched, during which the MMMF people spent more in four days than the KBA will spend in an entire session lobbying all legislation, it can prove to be quite frustrating.

Had this particular bill been a part of the KBA legislative program authorized by our state affairs commission (which it was not) and if the KBA had pronounced to the world that it would get such legislation passed no matter what the odds were (which it had not), then use of the term "humiliating" might have been appropriate, but given the circumstances surrounding the action on SB 131, that was a very misleading term to have used. I also am wondering why the term "humiliating" was used even if it had been the correct term. If the article had appeared in *New Republic*, I would not have been surprised, but in a magazine that speaks mainly to the banking community, I see little merit in using terms which place an association or banks in a bad light with their peers in the industry.

We have and will continue to have the highest respect for the quality of journalism MID-CONTINENT BANKER displays, and I realize that in the broad sweep of issues confronting the banking industry, this may seem like a petty issue. However, we hope that in future articles, your reporters will weigh carefully the adjectives used in describing reactions to legislative decisions.

Sincerely,
James S. Maag
Director of Research
Kansas Bankers Association

EDITOR'S NOTE: We recognize that the Kansas bankers took on a tremendous job in trying to impose regulations on money-market-mutual funds, and our choice of the word "humiliating" to describe their loss was an unfortunate one.

Banking leaders across the country have come to realize that any effort to curb MMMFs, either on state or national levels, is doomed to failure. Instead, they now realize it will be more productive for commercial banks to seek parity with MMMFs so that these banks can stop the tremendous outflow of funds from their communities.

Bankers Assail

(Continued from page 24)

Banks must work to increase productivity by improving operational efficiency, reducing operating expenses through technological changes and developing product management/pricing strategies. — *Frank B. Hower Jr.*

the markets have not only discounted but outraced "the hoary and outmoded rules and regulations that continue to limit the banking industry's ability to innovate and respond competitively. While it obviously is a difficult and complicated problem, the solution in my opinion is not to regulate the new competitors but to allow banks proper freedom to compete in the public interest."

Mr. Perkins stressed the point that it's not competition that is menacing the banking industry today but the artificial restraints and regulatory restrictions that are hampering it at the same time that such restrictions are powerless to prevent the rest of the market from moving ahead.

"We must look at the other side of the competitive cloud by carefully examining the structural developments that are taking place in the market and reevaluating industry policies to make sure they will meet the needs of the industry and those it would serve."

He said this process of examination already is occurring in the form of various current studies, including continuing discussions by the ABA's banking leadership conference. He said the ABA has taken no positions but is simply fulfilling its responsibility to examine significant issues to decide what, if anything, should be done.

"Banks are part of what today is a far more comprehensive financial services industry, with a growing number of aggressive nonbank competitors and a regulatory system that's 50 years out of date," Mr. Perkins said. "This is the modern truth that must be recognized.

"Our purpose should be to work individually and along with industry groups to keep abreast of current developments, appraise the issues responsibly and formulate policies that will support a healthy environment for commercial banking.

Funds to cause changes in banking. The staggering growth in money-market mutual funds (MMMF) and recent mergers and takeovers in the financial world unquestionably will cause changes in the banking industry, said Frank B. Hower Jr., chairman, Liberty National, Louisville, to MID-CONTINENT BANKER'S editors.

"We should expect more mergers in the future in an effort by brokerage firms and other financial entities to compete with Merrill Lynch, American Express/Shearson and Prudential/Bache. These mergers will, in turn, cause a proliferation of checking-type services and credit-card access services similar to those currently offered through Merrill Lynch's cash management accounts," he said.

"As I see it, three important factors will cause MMMFs to become less attractive in the future:

- It is the interest rate, and the interest rate alone, that has led to the success of the funds. Banks soon will be able to offer competitive instruments.
- The funds will have to overcome resistance by individual brokers, since no commissions are paid on these accounts.
- There is dissension in the brokerage industry as to the profitability of the funds. Better organizational operating and marketing capabilities must be developed if the funds are to remain successful."

Other clouds in the sky are suggested by past experience, Mr. Hower said. The insurance industry's attempts to cross-sell and integrate services have not been particularly successful. The one-stop shopping concept isn't new; it's virtually no further along than it was 10 years ago.

"The banking industry, however, can hardly sit by idly to see if the current scenario ends in success or failure. Steps in the right direction already

The "evolving competitive picture, carrying with it structural changes in the industry, is making it more and more publicly evident that the markets have not only discounted but outraced the hoary and outmoded rules and regulations that continue to limit the banking industry's ability to innovate and respond competitively." — *John H. Perkins*

have been initiated, and in the final analysis, there may be positive results for the banking industry."

One of the prime needs is the lifting of regulations that apply to banks but not to brokerage firm money funds, he said. The advantage this gives the brokerage industry is patently unfair, and as the current climate in Washington leans heavily toward deregulation, it's much more realistic to expect deregulation regarding rates and reserves than to expect restrictions on money funds.

"Both Visa and Interbank have taken steps to form money-market funds, which might provide banks with a conduit to compete on an equal basis," he said. "When — and I stress 'when' rather than 'if' — banks are allowed to compete on an equal basis, they will recapture deposits that have been lured away by the higher interest rates money funds currently are able to offer."

He added that the banking industry's position is strengthened by the fact that banks already have the tools in place and the experience to deliver checking and savings services to customers, and in the end, it is fairness and service to the customer that must be considered. The saver, as opposed to the investor, will look to the services of banks if regulations (or deregulations) permit banks to compete equitably.

"The time has passed, though, when a bank can look to increased volume as its prime source of earnings growth. Rapidly escalating costs of funds will put additional pressure on pricing products and services and there will be a need for development of new sources of fee income."

Banks must work to increase productivity by improving operational efficiency, reducing operating expenses through technological changes and developing product management/pricing strategies, Mr. Hower said. ●●

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