MID-CONTINENT BANKER

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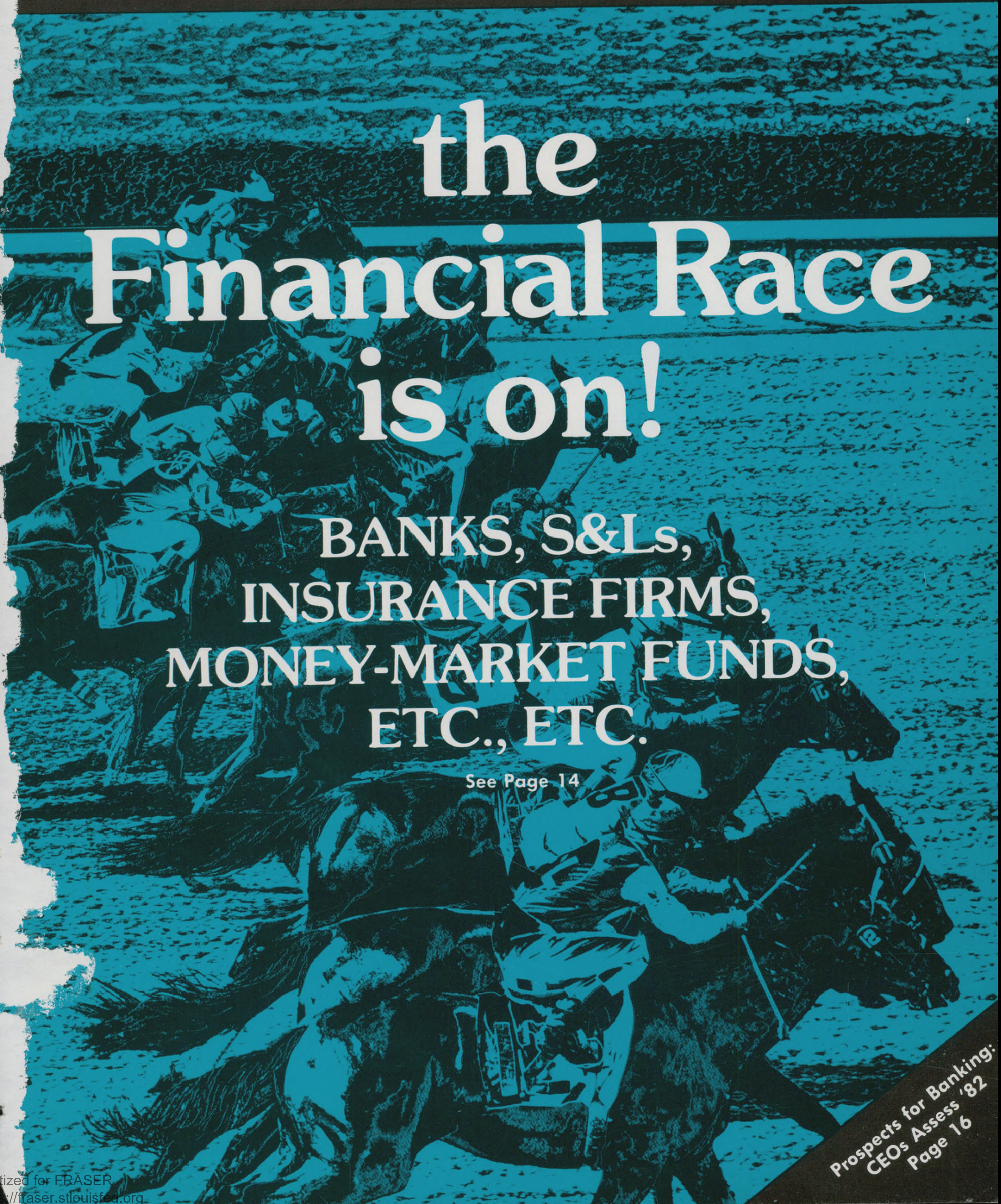

the Financial Race is on!

BANKS, S&Ls, INSURANCE FIRMS, MONEY-MARKET FUNDS, ETC., ETC.

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Prospects for Banking: CEOs Assess '82

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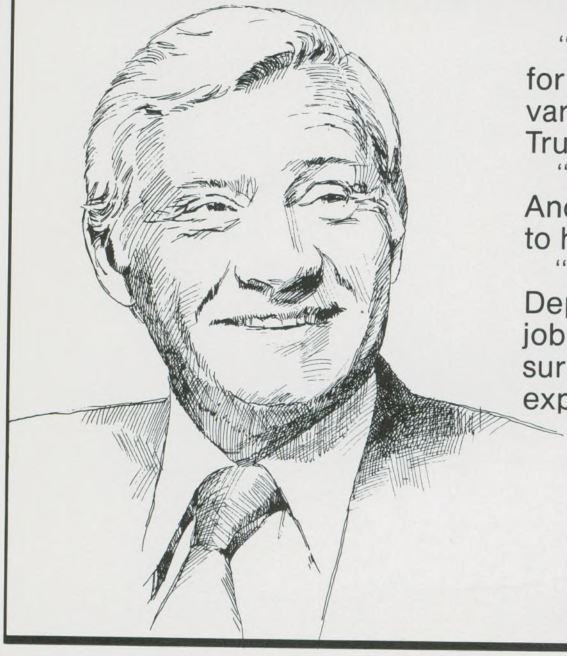
"They don't just do the job, they go the extra mile for us. What more could you want?"



"Liberty has been our correspondent bank for more than ten years now. We use a wide variety of services, including their Trust Department.

"When we call, they respond — quickly. And they always seem ready, willing, and able to handle our business.

"We're very high on the Correspondent Department. When people not only do their job, but go the extra mile with you to make sure it gets done right, what more could you expect or want?"

Don Donaldson
President
Union Bank and Trust
Bartlesville, Oklahoma

Some people look at their jobs as just that — jobs. Liberty's Correspondent Bankers look at their jobs as an opportunity to help people. So they don't turn on at eight o'clock and turn off again at five.

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OUR CUSTOMERS CALL IT SUPERIOR SERVICE. WE CALL IT BUSINESS AS USUAL BECAUSE... WE CARE ABOUT YOU.

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MID-CONTINENT BANKER

The Financial Magazine of the Mississippi Valley & Southwest

Volume 78, No. 1 **January, 1982**

FEATURES

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"Letters to the Editor"

To the Editor:

I read, with interest, the report on our usury/variable-rate workshop in Mount Vernon in *Mid-Continent Banker* for November, 1981. I wish to thank you for the coverage. However, after reading the article, I had to ask myself did I really say that. I am not contesting that you did not fairly report what you heard, I am saying that I don't think I intended to say what you reported.

It is true that our interest act is a "mess of pottage." However, I am not sure there is any way we could get ceilings removed other than the method used. When you represent voters who believe they can put their money in money-market funds and receive unlimited rates on the deposit, yet at the same time expect to borrow money from the community bank at a limited rate of interest or usury limit, you know you have problems in drafting needed legislation. It would be nice to get clear-cut and easily interpreted legislation. However, in the usury area, I don't think this could ever occur.

My basic problem in the meeting had nothing to do with the removal of usury limits. As far as the new act is concerned, there are no limits. Bankers can establish any rate they wish, or the borrower will accept. The big difficulty presented at the seminar had to do with variable-rate loans. There are two places in the present interest act in which the legislature has prohibited a variable-rate loan. Under one condition, the law prohibits a provision providing for a change in the rate of interest contingent on a change in the law. The other restriction was the subject of most of the meeting — the limitation on variable-rate loans secured by residential mortgages.

Most bankers are opposed to variable-rate deposit instruments. Their opposition is for the same reason that borrowers oppose variable-rate loans. Each is subject to a sense of unpredictability.

What I was trying to say in the seminar is this: Variable-rate loans can be made under this act. Aware, however, of the expressed legislative disdain for variable-rates — and the borrower's disdain — lenders must move with great caution in this area. In case of

(Continued on page 70)

Does your correspondent banker handle each loan request personally?

Ours do — start to finish.

How many times have you heard this? "Sorry, I'll have to refer you to our loan committee. Nothing personal, mind you."

Mercantile decided long ago our correspondent banks shouldn't have to put up with that. So we gave our account officers the authority to approve loans.

We found it saves a lot of running around and wasted time. Especially for you.

Not just on commercial loans, either. Each officer also takes care of personal and agricultural loans, plus loans for bank stock and mergers and acquisitions. He'll even help you form a syndicate, if needed.

As you might expect, this places a big responsibility on the shoulders of our account officers. So we try to make sure they stay at top form. Each officer attends seminars on credit and finance to keep him up-to-date on the latest trends.

Furthermore, each officer has 1600 Mercantile people backing him up all the way. But he knows the full responsibility for your satisfaction falls squarely on his shoulders.

So why not call a Mercantile Banker today? He's one guy who won't pass you on to some committee.

We're with you.

MERCANTILE BANK

Correspondent Banking Division
Mercantile Trust Company N.A.
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The Banking Scene

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

Defining a Banker in the Year 2000

FOR THE last year or so I have been working on a manuscript about budgeting, forecasting and planning for banks. In it I have tried to provide some insights on what banks would need in determining their future.

I was reminded of a scroll near the office of Marcus Nadler, who once was director, Institute of International Finance, which I served as a research associate. Marcus Nadler was the father of Paul Nadler, banking authority associated with Rutger's University.

Financial services available to the public in the future will be more diversified, due partly to domestic innovation but also as a result of more penetration of the American market by foreign institutions.

The scroll bore the title "What is a banker?" It included this statement: "A banker is 50% accountant, 50% attorney, 50% financial counselor, 100% a gentleman, 50% a marketing individual, 50% a human relations authority." The fact that these figures total several hundred percent indicates that a banker must be larger than life. The concluding sentence was, "Anyone less is a pawn broker."

Those rather inspirational lines had a lot of truth in them back then. It's fascinating to conjecture if that definition of a banker would need to be modified to fit the banker of the year 2000. I suspect it would.

One of my early books on banking defined a bank and money. In a subsequent edition, I noted that the previous definitions had been relatively well accepted when first published, but that significant changes had occurred and that no longer could one be as precise in defining the terms.

Today the wide use of NOW accounts, credit cards and money-market funds by savings banks and S&Ls has made the distinction between financial intermediaries less precise. Bankers whose opinions I value highly stress that the years ahead will be characterized by greatly intensified competition due to the homogenizing of financial institutions.

Authorities point out that the number of financial institutions in the years ahead probably will be down sharply from the present figure. I am tempted to agree, but I would add that while the number of institutions may be down, the number of facilities and services will be up. That is, financial intermediaries, including banks, will not fail in the conventional sense, but for the most part will be absorbed by stronger or more vigorous institutions.

Financial services available to the public in the future will be more diversified, due partly to domestic innovation but also as a result of more penetration of the American market by foreign institutions. Unit bankers will support the concept of geographic limitations on the spread of banking, especially across state and national frontiers. Still, it is likely that these restraints will be penetrated by innovative financial and non-financial institutions such as Sears, Roebuck.

In a similar context, a generation ago banking's major expense was for labor. The next highest expense was for interest paid on deposits. For some years now, this has been reversed. It's evident that banks are responding to this reversed situation by more explicit pricing of services, which, some authorities point out, stimulates competition and market shopping. This undoubtedly holds true for larger commercial accounts. However, convenience probably will persist as the major reason for opening an account in a financial institution and maintaining it there.

But, "convenience" may take on a somewhat different meaning in the year 2000. Geographic convenience may change to technological convenience provided by ATMs and POS terminals. Major price breakthroughs will occur in devices that can link together television, telephone and other transmitting devices that will contact not only the bank but other sources of service, such as merchants, news vendors and sporting informa-

Giant banks, such as Continental Illinois National in Chicago, are experimenting successfully with locating some employees at remote sites from which they can conduct the bank's business electronically.

tion services.

Banking has been described as a "peoples" industry, where face-to-face transactions between bankers and customers are the rule. By the year 2000, much banking will not be consumated by direct contact between the bankers and the depositor or borrower. Such technology is not for the Buck Rogers era, but is possible today.

A likely development is a reversal of the trend toward early retirement. Whereas now approximately two-thirds of the population retire before age 65 — frequently at age 60 or 62 — it's likely that the impact of inflation on social security and private pension plans will move the retirement age upward, possibly beyond 70 years.

Banking is an industry in which women have commanded a higher proportion of positions than males. It's

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Trying to Agree on Deregulation Definition

MORE often than not, winning an argument is a matter of being in a position to define the terms of the argument. That axiom of politics certainly is being proved true in the battles over deregulation of the financial industry.

As Congress struggled toward adjournment in December, and as the regulatory agencies wrestled with the essential issues of implementing deregulation, it became painfully clear there are at least as many different definitions of deregulation as there are financial trade groups.

For the specialized thrift institutions, and especially for the S&Ls and their cheerleading regulatory agency (the Federal Home Loan Bank Board), deregulation means holding on to their deposit interest-rate differential while absorbing escalating increments of bank-like powers. In this endeavor, thrifts have not hesitated even to use fear of failures resulting from their own weaknesses to attempt to leverage a widening of their powers.

On another front, the securities industry has a few worries of its own about deregulation. From a banker's point of view, that industry operates virtually without competitive restraints and enjoys an enviable flexibility in developing new products and services to attract funds from every city and hamlet in the nation. The chief concern of the securities industry is that banking not be deregulated too quickly — in fact, the longer it takes, the better.

Thus, until recently, any and all attempts to broaden banks' powers to offer their customers more investment opportunities were resisted fiercely by the securities industry. The latest development is word that the securities industry has decided that on two points — underwriting revenue bonds and offering bank mutual funds — it is prepared to yield, but only if granted to banks under terms of an Administration proposal that probably will tie the legislative process in knots for years.

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

Generally, the belief in Washington is that this new attitude from the securities industry represents an effort to head off any wider deregulation of banks' options in the offering of investment services and to delay these limited new options for bankers for a long time. So the securities industry's definition of deregulation appears to be yielding as little as possible as slowly as possible, while presenting a procompetitive demeanor.

With money-market-mutual funds approachng the $200-billion mark, and continuing to grow at nearly $3 billion per week, the question is how long regulated depositories can afford to remain in disagreement on the necessity of deregulation.

On the other hand, the credit-union industry remains a staunch voice in favor of more complete deregulation. Led by its federal regulatory agency, that industry is far ahead of all other depositories in terms of deposit-interest-rate deregulation. Independent of the Depository Institutions Deregulation Committee, the National Credit Union Administration moved on its own in November to remove all interest-rate ceilings from individual retirement accounts and Keogh accounts.

For the American Bankers Association, the definition of deregulation was set some years ago by the 400-member Banking Leadership Conference and has been reaffirmed frequently by that group. Deregulation is seen as a broad process. First and foremost, deregulation should encompass removal of deposit-interest-rate ceilings; this is the vehicle for eliminating the interest-rate-differential advantage that has been unfairly enjoyed by the thrift industry.

It also is apparently the only way to achieve the level of flexibility in terms of design of deposit products and services that depository institutions must have to compete with all the near-banks — insurance companies, securities firms, big retailers and even gasoline chains.

Second, deregulation should include creation of new competitive options for any institution that chooses to take advantage of them. Such options should include the opportunity to offer bank mutual funds, to underwrite revenue bonds and to offer additional types of insurance coverage — to name just a few examples.

Next, deregulation should remove competitive constraints that limit banks' ability to serve their customers. This category of reform must include total removal of usury statutes and a federal override of state prohibitions of due-on-sale clauses. Both sides of the ledger must be freed.

And finally, deregulation should include removal of costly and unnecessary compliance burdens imposed on financial institutions — unnecessary overlapping of the Community Reinvestment and Home Mortgage Disclosure acts, the excessively burdensome provisions of the Financial Institutions Regulatory Act, the continuing morass of the Truth-in-Lending Act and a host of others. Equally important, the adversary atmosphere and attitudes that characterize compliance examinations must be turned around, and the entire examination process should be returned to a proper first emphasis on safety and soundness.

Ironically, while disagreements on the correct definition of deregulation remain within the regulated financial industry, most of those operating outside banks' constraints profess a strong belief in deregulation of all aspects of financial competition.

The ABA's approach to deregulation as the road to competitive equity was the explicit assumption underlying the 1980 Depository Institutions Deregulation and Monetary Control Act. That law's actions on the competitive front basically encompassed a trade-off of certain limited bank-like powers for

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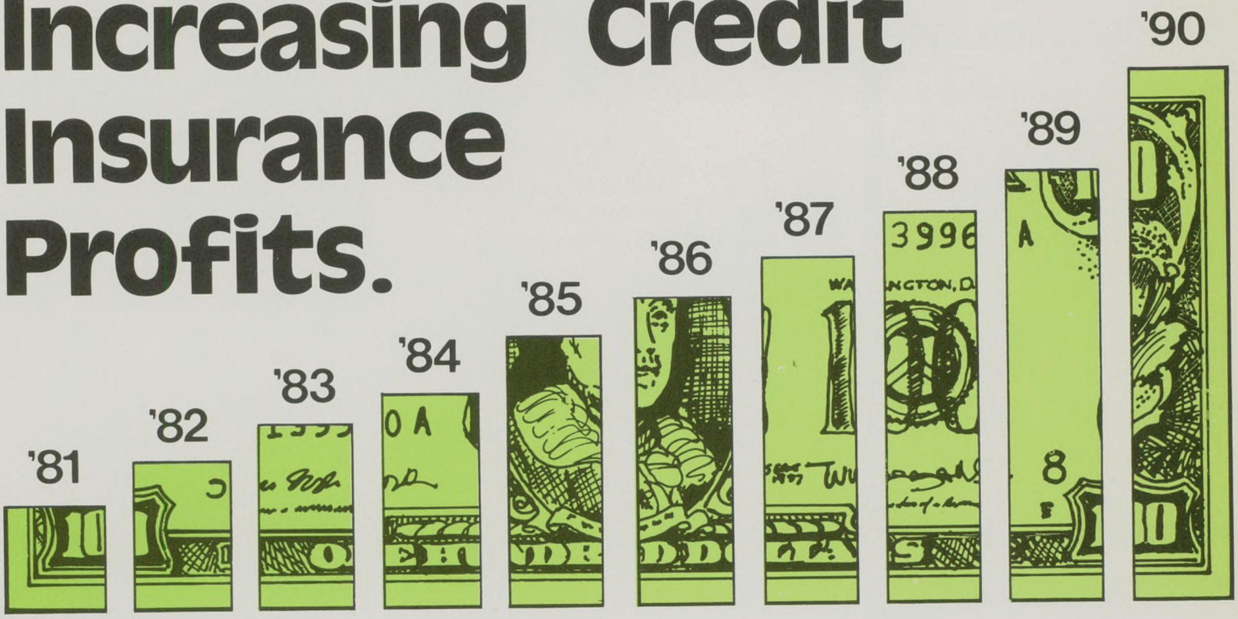
Volunteer, America's Specialists in Increasing Credit Insurance Profits.



The narrowing interest margins in today's financial community have prompted banks to look with concern to increasing their market penetration in "non-interest" income areas such as credit insurance.

Increased "non-interest income" from credit life sales can be accomplished without additional capital, without risk, and without additional personnel.

Volunteer has developed a loan officer credit sales training program that is second to none. This training, so important today as lending and products become more sophisticated, is the key to profitability in credit insurance.

The Volunteer combination of product innovation and loan officer training strengthens your competitive position in consumer lending.

What better way to increase your "non-interest income" and profits than through increased credit insurance sales?

If this is your objective . . . Volunteer is your specialist. Call or write on your letterhead for details to: Keith Wallace, Vice President, Credit Insurance Sales, P.O. Box 1369. Chattanooga, Tennessee 37401, 615-756-2887.

Volunteer State Life
Insurance Company

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.

Questions About the Truth-in-Lending Policy Guide

Q. Will reimbursement be required on demand loans when the variable-rate feature has not been disclosed and the rate is increased?

A. Yes, reimbursement will be required if the financial institution has not made the variable-rate disclosures, provided the consumer has not been notified in writing of the rate change on or before the date of the change.

Each time the rate is changed and the customer is not given written notification of the new rate, the period(s) will be treated as if no APR was given, and the Policy Guide will apply. The rate on the most recent notification to the customer will serve as the contract rate.

Q. Will reimbursement be required for demand loans with disclosures based on a half-year maturity (one year after September 30, 1982) when the demand loan contract calls for periodic payments that will amortize the loan over a definite time period?

A. Yes, a formal amortization schedule recorded in the demand-loan contract is, for the purpose of disclosure, equivalent to an alternate maturity date, and disclosures should be based on the amortization schedule.

Q. Will reimbursement be required on demand loans when there is no alternate maturity date but the finance charge disclosure is based on less than the half-year period (one year after September 30)?

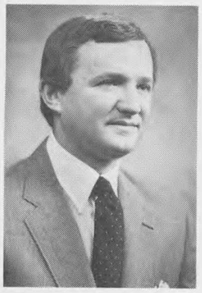
A. The actual finance-charge disclosure should be based on the prescribed disclosure period (one-half year now, one year after September 30), not on some period less than that required when the instrument has no alternate maturity date. (Refer to Section 226.4(g) of current Regulation Z and 226.17(c) (5) of new Regulation Z).

Reimbursement will be required if, after taking appropriate tolerances into account: (1) the disclosed finance charge is less than the actual finance charge for the initial required disclosure period, and (2) the demand loan has been on the institution's books past the period for which finance-charge disclosures were made.

Reimbursement will be calculated for the required disclosure period only. The amount reimbursed to the consumer will consist of the dollar amount of the actual finance charge paid less the finance charge disclosed to the consumer.

This concept applies to both straight and variable-rate demand loans whenever the disclosed finance charge is less than the actual finance charge.

NEWS OF THE BANKING WORLD



McMAKIN

FOWLER

Jim Fowler has been named to a new post as customer-service representative at the Federal Reserve Bank of Kansas City. Mr. Fowler is a veteran of nine years in the correspondent banking division of Commerce Bank, Kansas City. He also worked with the U. S. Department of Commerce and as a private management consultant before joining the Kansas City Fed.

Ronald A. McMakin has been promoted at First National, Louisville, from commercial credit officer to senior correspondent services officer. He calls on banks in Kentucky, Indiana, northern Tennessee and West Virginia.

Northern Trust Corp., Chicago, has filed applications with regulatory agencies to permit Security Trust Co., Sarasota, Fla., to become a full-service commercial bank. Security Trust is one of Northern Trust's Florida subsidiaries. Security Trust was chartered as a national bank in 1977, but its organizers limited the firm's activities to those of a commercial bank's trust department. The new action would remove the restriction on Security Trust's powers and enable it to operate as a commercial bank in addition to its trust functions.

BankAmerica Corp., San Francisco, has signed a letter of intent with Charles Schwab Corp. under which the HC would acquire the parent of Charles Schwab, the nation's largest discount securities brokerage firm. Charles Schwab has 38 offices in the U. S. and had revenues of $42 million in the year ending September 30, 1981.

New ABA Rate Number

WASHINGTON, D. C. — Effective bank maximum interest rates on CDs can be learned immediately now by bankers who call 1-900/210-RATE (1-900/210-7283) from 8 p.m. Monday through noon Tuesday eastern standard time. The service began January 4 and costs 50¢ a call.

The ABA communications council offers this new service in response to requests from bankers for easy, hassle-free access to rate information.

Included in this service are the weekly six-month money-market-CD rate, the biweekly 30-month rate and the all-savers rate, which is based on results of Treasury 52-week T-bill auctions.

Rates are announced for the six-month and 30-month CDs from 8 p.m. Monday to noon Tuesday (EST) each week. All-savers-CD rates are announced from 8 p.m. every fourth Thursday to noon the next day.

These rates previously were announced on the toll-free 800 Washington Wire service.

Corporate News Roundup

WARF

DENNIS

SCHNORR

• **Brandt.** Joseph L. Schnorr has been named sales administration manager, with responsibility for customer relations, sales order processing, price-book maintenance and sales data recording. He has 10 years' experience in general accounting systems, data processing and financial reporting.

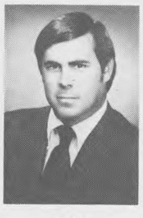
• **Diebold.** Alben W. (Al) Warf has been appointed vice president/general manager/engineering, bank systems division. He has divisional management responsibility for the engineering/research/development activity and for coordination of corporate engineering functions. He formerly was with NCR Corp.

• **LeFebure.** James B. Dennis has been appointed sales specialist at the Denver branch, which serves the counties of west Texas and southern New Mexico. He resides in El Paso.

• **Bank Building Corp.** Myron A. Carpenter and Harvey B. Leaver have been promoted to corporate vice president/finance, Bank Building Corp. (BBC), and corporate vice president/president, Manufactured Buildings, Inc., respectively. Manufactured Buildings is a BBC subsidiary with plants in Florida and New Mexico. BBC also has promoted Richard C. Alt III to sales manager, Depositec, a BBC division. He formerly was new business development manager for the midwestern division of BBC's financial facilities group. Mr. Carpenter joined the St. Louis-based BBC in 1972; Mr. Leaver and Mr. Alt have been with the firm since 1977.

CARPENTER

LEAVER



ALT

• **Westcap Corp.** S. David Arnspiger has been elected chairman of this Houston firm. He formerly was first vice president/co-manager, bond department, Underwood Neuhaus & Co. Before, that, Mr. Arnspiger was senior vice president, Rowles, Winston & Co.

• **John H. Harland Co.** This Atlanta-based check printer has opened a plant in San Antonio, Tex., to serve financial institutions in southeastern Texas.

The Financial Race Is on!

Who Will Win — Who Will Lose The Financial Institution Competition Race?

By Carl W. Olson, Senior Vice President/Marketing, Northwest Bancorp., Minneapolis

INTRODUCTION: *Predicting the future in the financial markets is a somewhat hazardous occupation at best. Most "crystal-ball gazing" at the beginning of each new year normally is restricted to the "year ahead." In this case, the author, perhaps a bit facetiously, peers into the clouded, distant year of 1987!*

Mr. Olson, who has offered his projections in a number of speeches around the country, seeks to hammer home results of actions (or inactions) by various segments of the financial industry. He seeks to find answers to the questions: Who wins? Who loses? Who stays in business? Who winds up serving the interests of the financial consumer?

Admittedly, his answers are conjectural. Nonetheless, every bank in the nation will be answering his questions in one manner or another. Will your institution be a winner or loser in 1987? — The Editors.

* * *

ANTICIPATING and *managing change* — that's our most significant opportunity. Change is not new; it's a normal part of our business. What

is new is the pace of change, now so rapid that it's becoming increasingly difficult to respond properly.

What is needed is an ability to anticipate change and manage it to our advantage as it occurs. This is easy to say, but hard to do; particularly in view of the major environmental impacts concerning: 1. Energy. 2. Legal and regulatory change. 3. Cultural and demographic shifts. 4. Interest-rate volatility.

The net of it all is that we must become adept at operating in an environment in which *change is the only constant* and uncertainty the only certainty.

This brings me to the first section of this article where I will try to provide some perspectives on the future with what I call "*future* hindsight." After all, nothing improves vision like 20/20 hindsight.

It's the year *1987*. There has been a revolution in the financial-services industry during the past seven years. Within that industry, there have been some winners and some losers. Let's use some "future hindsight" to examine what the winners did right and what the losers did wrong or didn't do at all.

First, from our 1987 vantage point, let's look back at the list of significant regulatory changes:

- Nationwide NOW accounts authorized in 1980.
- EFT terminals and devices are ruled not to be branches in 1982.
- Regulation Q phased out by 1984.
- State usury laws eliminated in 1985.
- Reciprocal agreements between contiguous states permits holding-company expansion in 1984.
- This is followed by national interstate banking in 1985.

Other environmental impacts also combine to bring revolutionary changes:

- Dramatic increases in energy costs — gas, $3.75 per gallon.
- Double-digit inflation becoming a way of life — 15% annually.
- Volatile changes in economic conditions and in money-market interest rates — prime rate ranges from 12% to 18%.
- Dramatic technological breakthroughs of all kinds.
- Life-style changes brought about by energy shortages, high inflation rates and dramatic shifts in attitudes.

OK, now it's 1987, and because 20/20 vision is possible with future hindsight, let's think about everything we wished we'd done during the last seven years. It's all brought about by a comprehensive article that appears in

Tips to Make Your Bank a Winner

- Take a big-picture view of future opportunities and threats
- Build your bank's planning capabilities to prepare for the future
- Strive to help your respective institutions to be winners, not losers, in the challenging '80s

one of the national publications, such as *Fortune*, *Business Week*, *Forbes* or *Wall Street Journal*. The journalist who wrote the article was given the assignment to research causes behind the financial-services-industry revolution, which resulted in a mass consolidation of financial institutions, with a final reduction of 40% in number of banks and 50% in number of S&Ls.

The reporter's editor said, "Tell our readers what strategic and tactical decisions contributed to the success of the winners and demise of the losers."

After exhaustive research, the journalist reported:

- Winners defined their business as one of providing customer-satisfying financial services.
- Losers said, "We are in the banking business. Why do we have to define our business any further than that?"
- Some losers equated success with overall large market-share position.
- Other losers concentrated on short-range profits to the detriment of market share.
- Winners made detailed market assessments and, based on realistic opportunities, established a balance between profit and growth objectives.
- Winners elected to grow in a controlled fashion so they wouldn't outstrip their financial and human resources to digest and manage their growth.
- Some losers were not able to grow at all — they lacked the vision to see new opportunities and ability to innovate and compete effectively.
- Other losers were innovative, but their go-go philosophy toward growth eventually caught up with them. They just couldn't lose money on every transaction and make it up on volume.
- Losers thought they were financial department stores and tried to be all things to all people.
- Winners segmented the market and aggressively pursued those segments characterized by profit and growth potential.
- Losers identified market segments based solely on geographic or demographic categories. Winners defined market segments according to *common needs*, *values* and *ability to pay*.
- Losers defined marketing as advertising, and they relied primarily on mass media.
- Winners used marketing as a busi-

(Continued on page 58)

"The challenge for bankers as I see it is to take this future hindsight and change it anyway they like if they don't agree with me, but to use it to help develop their banks to be winners in the '80s. They also must realize that all strategic and tactical actions taken by winners in my future-hindsight scenario had to be based on thoughtful analysis and planning."

Merrill Lynch, Do You Support the Local 4-H?

The following letter was written by William W. Watson, president, Bank of St. Joseph, La., to the president of Merrill Lynch. It is reprinted with permission from *Louisiana Banker* magazine.

Dear Sir:

As your firm is now soliciting deposits from our trade area, we felt certain you would want to take your share of civic responsibility here in St. Joseph and actively participate in all the things that make our economy prosper, resulting in the production of the funds you solicit.

Since a large corporation such as yours undoubtedly operates on a strict budget, I am taking the liberty of assisting you in preparing your 1982 budget by chronologically listing the activities you will want to include in your 1982 program.

January

1. Year's subscription to 10 newspapers for the nursing home.
2. Cocktail party for farmers in conjunction with equipment dealer.
3. Annual dues for Rotary Club, Development Association, Farm Bureau and other civic associations for your officers.
4. Annual contribution to local boy scouts.
5. Contribution to Cotton Producers' Association to aid them at their annual convention.
6. Donation to high school band uniform fund raiser.
7. Donation to local DAR chapter.
8. Purchase 10,000 suckers for children of customers.
9. Send several officers to seminars to learn about the Community Reinvestment Act.

February

1. Sponsor local child in beauty pageant.
2. Prize for local school fund-raising carnival.
3. Donation to local VFW chapter.
4. Prize for cleanest city poster contest at kindergarten.
5. Send officer to agricultural seminar to be better able to serve farm customers.
6. Bingo gift for charitable fund raiser.
7. Cocktail party for customers in conjunction with agricultural chemical company.

March

1. Donation to local school fund raiser for athletic program.
2. Donation to local United Fund.
3. Donation to volunteer fire department.
4. Donation to 4-H Club.
5. Furnish speakers for program at various civic clubs.
6. Donation to Little League baseball program.
7. Donate scoreboard for local school gymnasium.

I suppose you understand what I am writing about by now, so I won't spend any more of my time on this. I have to get busy with my program for the Rotary Club and be prepared to answer a lot of questions about money-market mutual funds.

Yours very truly,
William W. Watson, President
Bank of St. Joseph, La.

Editor's note: Mr. Watson says he has received no reply from Merrill Lynch. ● ●

CEOs Assess Banking Picture for '82

Competition Is Primary Issue Facing Banks in New Year

Legislative Reforms Needed To Enable Banks to Compete

By James D. Berry

TO PLACE the extent of nonbank competition in the financial-services industry in perspective, recall that in 1946 commercial banks accounted for 57% of the country's financial assets; in 1980, commercial banks' market share declined to approximately 38%, and it continues to shrink.

Money-market funds, credit-card issuers, such as Sears and American Express, and commercial-paper issuers are just a few of our nonbank competitors operating on a national scale without reserve requirements, similar interest-rate limitations, capital-adequacy restrictions and the myriad other constraints under which commercial banks operate. In addition, large bank holding companies achieved interstate expansion through acquisition of consumer finance, mortgage, leasing and factoring companies. For example, while the domestic branches of Bank of America are limited to California, BankAmerica's consumer-finance subsidiaries operate throughout the nation. The key point is that nationwide banking is, in fact, a reality throughout the U. S.

In an era of deregulation of the financial-services industry, there are several key legislative and regulatory reforms needed to enable banks to compete equally with other financial-service providers. One is the ability to pay market rates on deposits that presumably will come about by 1986 as a result of the Omnibus Bill — but only at a pace that likely will cause banks to lose additional market share. Fundamental also is that all institutions participating in the financial-services industry be subject to the same administrative and regulatory rules so as to provide a "level playing field."

The Depository Institutions Deregulation Committee (DIDC) at the federal level potentially is one mechanism for progressive change in the industry. In the near term, the DIDC could be effective by granting banks permission to offer depository instruments competitive with those of other financial institutions. This need is greatest in the short-term financial market where we are not allowed to pay competitive rates for deposits of less than $10,000, which causes our

(Continued on page 18)

Mr. Berry is chairman, Republic of Texas Corp., Dallas.

Piecemeal Response to Change No Longer Affordable to Banks

By Jordan L. Haines

MANY BANKERS cling dearly to the idea they are competing today within the confines of something narrowly defined as the banking industry. Such a perspective is naive, however, as a much larger competitive arena has developed, namely, the financial-services industry. No longer can banks make decisions and develop strategies without considering the activities of the swelling throng of competitors within this larger industry. Protective regulations and legislation that enhanced banking's growth and stability ironically now have become the factors limiting its growth and stability in a changing competitive environment. Nonbank competitors have seized on their lack of regulation to the fullest extent and have been effective at using this advantage to address the needs of the marketplace.

Because it is not just an economic issue, but a significant national political issue, the complete reform of banking and saving-and-loan legislation and regulation has been avoided. The approach to date is analogous to treating the symptoms of an illness rather than prescribing and administering a cure. In an attempt to respond to the unregulated competitors, a few new services have been authorized. The success of these programs for the most part has been limited and less than dramatic. NOW accounts drew some attention, but were hard pressed to compete with money-market-mutual funds, which have paid more than three times the rate authorized for NOWs. The NOW account effectively raised the cost of funds and did not serve as a new source of funds. As the aggregate totals for money-market funds climb past the $170-billion level, it's obvious that more of the market is being captured by unregulated competitors.

The all-savers certificate was billed by some as the instrument that would bring attention and balances back to banks and thrifts. Overall, the response to the all-savers certificate has been less than expected by many within the industry. There has yet to be a clear indication of the reasons, but possibly it results from the numerous other tax-exempt or tax-deferral programs available from unregulated competitors.

Another specific program authorized to provide the banking industry more latitude to respond to unregulated competition was the new 18-

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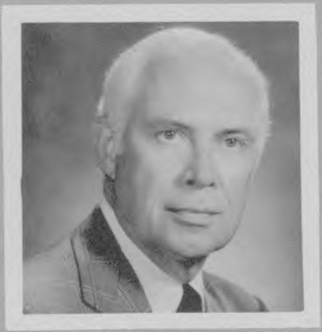
Mr. Haines is president, Fourth National, Wichita.


James D. Berry


Jordan L. Haines


Nat S. Rogers


D. Eugene Fortson

Adequate Advance Warning Preceeds Banking Changes

By Nat S. Rogers

YOU don't have to be a Cassandra to foresee many of the banking changes that will take place in the next few years. That's because, in large measure, they will be determined by directions already set.

In this regard, I'm a gradualist. Seldom has the banking industry faced important changes in the operating environment without considerable advance warning. And I don't think it's likely to in the future, either.

Not that the industry five or 10 years hence won't be different from what it is today. It will be. But the process will be evolutionary.

What changes can we foresee?

First, there will be more and tougher competition — not only from regulated institutions, but from the market at large. Certainly today, we're more aware of who our competition really is. Wherever you look, you'll see out-of-state and foreign banks moving in. Houston has 20 Edge Act corporations and 53 foreign banks — at last count.

Thrifts are offering NOW accounts, credit cards, installment loans — and they can branch where many banks can't. Richard Pratt, chairman of the Federal Home Loan Bank Board, has asked Congress to authorize S&Ls to offer many other commercial services — to be banks in everything but name. Of course, he wants to preserve all tax, reserve and Reg Q advantages.

Finance companies are getting ATMs. Credit unions are paying higher rates and are conveniently located near workers.

We all know about Merrill Lynch's CMA account. And money-market funds are snowballing in size. Insurance companies likewise are getting into the act with IRA and Keogh accounts. And something called "Universal Life" with money-market rates is being advertised daily in the *Wall Street Journal*.

And now there's the new American Express-Shearson combine and Bache-Prudential coming at us. And our customers also are turning to collectibles — antique cars, porcelains — you name it.

Geographic boundaries will fall from within the industry. Both domestic and foreign banks will be expanding

(Continued on page 68)

Mr. Rogers is chairman, First City National, Houston.

Public Defines Competition; Bankers Must Pay Attention

By D. Eugene Fortson

WE AS BANKERS cannot decide who our competition is. Even our regulators don't define competition for us. Admittedly, deregulation helps expand competition while current regulation makes it difficult to compete. But ultimately the customer decides the competition question. The customer tells us who our competition is and in what arenas we had better be competing. If we don't pay attention, we'll end up like the railroads who thought they were in the railroad business instead of in the transportation business. Of course, railroads are still with us, but our economy is no longer centered around them, and in fact, many railroads are struggling for survival.

Twenty years ago, most bankers probably considered their competition to be the other banks in town. A few astute ones probably included a savings and loan or two. Unfortunately, far too many bankers still think this way — we're in the banking business, period.

The Financial Institutions Deregulation and Monetary Control Act of 1980 forced many bank administrators out of their tunnel vision. Savings and loans received wider powers and much was written about the fading of differences between banks and S&Ls. Most bankers then magnanimously expanded their competitive boundaries to include S&Ls and, yes, even credit unions.

All was safe again and we could get back to playing our games with rates and premiums with the bank across the street and, of course, the S&L farther down the street. We even worried about significant concerns like statewide and interstate banking and deregulation within our financial industry.

Our expanded vision was reassuring. And we were being eaten alive. Like it or not, our competition has become almost unlimited. As Citibank of New York City so urgently reports:

- Merrill Lynch with all its money funds equals the country's ninth largest bank in size;
- Six of the 10 largest California banks are foreign-owned;
- Greyhound Corp. (of bus fame) leases computers and equipment, sells insurance, insures mortgages and owns an investment company.
- American Express last year purchased Shearson, the second-largest securities firm in the U. S., operates its own insurance company and owns

Mr. Fortson is president, Worthen Bank, Little Rock.

and operates a big bank overseas.

• Reuters, the international wire service, has established a global-trading marketplace by placing video screens in 4,000 banks and foreign-exchange locations, thereby giving Reuters the capability to bypass financial intermediaries by matching bid and asked prices.

• General Electric has a large industrial loan company that offers commercial and residential real estate loans, equipment leasing and passbook thrift accounts.

• Sears, our newest competitor on the block, is the largest U. S. S&L holding company, the owner of a major insurance company and now the proud parent of the fifth largest stock brokerage and the largest real-estate broker.

The customer knows something good when he sees it, and that's where he puts his money. Unfortunately, much of that money is coming out of our banks. Only by watching our customers, anticipating their needs and defining our competition in the broadest terms can we stay on target in designing our products and developing the delivery systems that meet those needs. It's also the only way we will stay in business. • •

Berry

(Continued from page 16)

customers to seek more attractive investment returns from nonbank, noninsured institutions.

While these are changes we are anticipating in the future, let me comment on the effectiveness of three new depository instruments, starting with the individual retirement account (IRA). The strength of this instrument is due to the combined effects of expanded eligibility for IRAs to people already covered by pension plans and permission for an 18-month maturity instrument with no interest-rate ceiling. Through the IRA, we have the opportunity to offer a competitive deposit instrument that should provide a stable, long-term source of funds. It is our intention to offer this product through a systematic savings system, possibly through a payroll-savings plan, in addition to the lump-sum contribution that was the norm under the old law.

We favor paying market rates on consumer deposits, and we were disappointed recently at not being permitted to raise our savings-account rates. Although NOW accounts allow us to pay 5.25% interest on our customers' demand deposits, this is not a competitive instrument because the 10%-rate differential between NOW accounts and money-market funds is too high a premium for the convenience of a NOW account. Competition for NOW accounts has been strong with some institutions "buying market share" by pricing services below cost.

The all-savers certificate may prove to be the least effective of the new deposit instruments. While the all-savers certificate was expected to benefit thrift institutions, early returns on this product indicate acceptance far below many people's expectations. All-savers is a complicated, one-year instrument with no means of "automatic" renewal. Should Congress allow this instrument to be retained beyond its December, 1982, cutoff date, the effectiveness of the instrument as a long-term-funding source would be enhanced with automatic renewal.

A final issue of importance is the potential consolidation of thrift institutions. These institutions have been severely impacted in an era of inflation from rate-sensitive liabilities that generally fund fixed-rate assets and from disintermediation caused by the advent of money-market funds and other competitive instruments. Expansion of thrift powers will not afford immediate relief from their earnings and capital problems, and merger with strong commercial-banking or nonbanking organizations could prove necessary.

Considering the wide range of issues we have reviewed, it is obvious the banking business is in a fast-changing era. Republic of Texas fully accepts the challenges presented by deregulation, and we have every expectation of continuing to be a high-performing institution for our customers and stockholders. • •

James D. Berry Honored

James D. Berry, ch., Republic of Texas Corp., Dallas, was one of eight Oklahomans inducted into the Oklahoma Hall of Fame November 16.

During an Oklahoma City banquet, sponsored by the Oklahoma Heritage Association, about 1,500 witnessed the ceremony. John Connally, former Texas governor, made the introduction and citation, and Mr. Berry's induction was carried out by Oklahoma Governor George Nigh.

Mr. Berry, a native of Sapulpa, Okla., is CEO of one of the 25 largest financial institutions in the U. S. He also has served three years on the 12-member Federal Reserve Bank advisory council.

Haines

(Continued from page 16)

month deregulated individual-retirement-account (IRA) time instrument. It is questionable whether the industry can adapt itself to a deregulated mode quickly enough to compete against brokerage firms and insurance companies for the vast market that opened up January 1, 1982. This unregulated group of competitors merely has to aim its existing arsenal at a new target.

The issue of deregulation is complex and does not lend itself to easy answers. There are reasonable and well-founded concerns about banking moving into a deregulated environment. Such an environment will place substantial demands on the management of banks, regardless of size. Additionally, it will create new sets of problems for the various supervisory authorities. Understandably, deregulation is viewed with apprehension by the banking industry, but the alternative is unthinkable. That alternative is to allow the banking industry's position to erode further as more competitors offer more services to the market while banking's hands remain tied. The alert nonbank competitors are not courting customers to sell a single-service offering, but instead are positioning themselves to secure total financial relationships of these customers. While some in the banking and thrift industries have been lobbying to preserve an antiquated regulatory system, unregulated competitors continue to develop services and territories.

The lesson we should have learned from what is continuing to happen in the marketplace is that we cannot afford to piecemeal our response to the competition. Hastily conceived programs that are reaction to the aggressive unregulated competition not only fail to provide the competitive response needed, but because they are not well planned, their lack of success is damaging the image of banks as a whole. Bankers must be provided the opportunity to plan and innovate on a consistent, ongoing basis. Proper mechanisms to protect the public, while meeting the needs of customers, will have to be integrated into the guidelines for the whole financial-services industry. A regulatory environment must be created that will allow banks to compete. Those that have the resources, capacity or desire,

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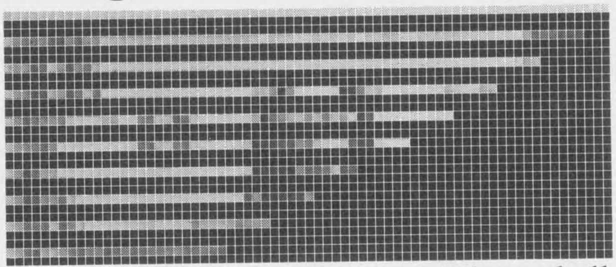

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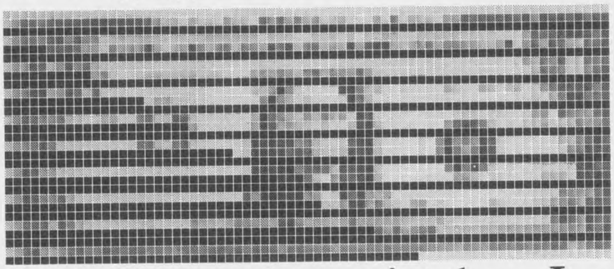

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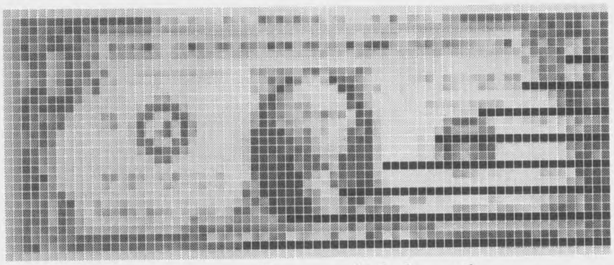

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Forecasting C&I Loans in 1982: An 'Iffy' Proposition for Bankers

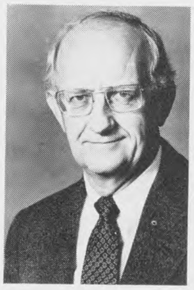
By John D. Mangels, President, Robert Morris Associates

IN THE PAST, the task of providing a reasonably accurate forecast of commercial and industrial (C&I) loans for the banking system has been *relatively* easy when compared to some of the more unstable indicators of our business. Now, even that forecast has joined the ranks of strongly qualified predictions that must be preceded by the word "if" reiterated a number of times.

For example, tax legislation enacted earlier this year constitutes a radical change in treatment of corporate depreciation and other incentives so that cash-flow projections may be altered considerably. Obviously, this has implications for business borrowing from banks, as does the prospect of a substantially more attractive *leasing* outlook, particularly for those companies only marginally profitable. One estimate indicates that next year, depreciation changes alone will add $20.7 billion to nonfinancial cash flows, in contrast to only $3.6 billion in 1981.

Another "if" factor is the present level of interest rates. Although rates have come down appreciably from historic highs in recent months, as of this writing in December, they still represent an abnormal margin over the current inflation rate. We probably are witnessing right now the usual cyclical process of corporations funding out of short-term debt (bank loans and commercial paper) into medium- and long-term bonds. Cost of financing these instruments (and mortgages), however, still is relatively expensive compared to "under-prime" lending rates; thus, volume of such debt-maturity switching remains uncertain. If November, 1981 ($7 billion), constituted a guide, many bank loans will be paid off from this source in coming months.

Third, the market for commercial paper and bankers acceptances has grown so huge in recent years, and so many new entrants are using this form of financing, it's a problem to know how to divide up 1982's total estimated demand for short-term credit between bank loans and these other instruments.



John D. Mangels has been with the $5.9-billion-asset Rainier Nat'l, Seattle, since 1950 and has been its president since 1976.

And, finally, complicating the ability to forecast is the highly ambiguous percentage of such loans being granted by nonbank subsidiaries of bank holding companies. There certainly is much financing being made available to business that does not come through the orthodox channels of a loan made directly from a bank.

As a starting point in looking at 1982, we need first to estimate the 1981 volume of C&I loans for all commercial banks. One could just use business loans of the weekly reporting banks as a proxy for the whole system. Through November, 1981, such loans had been increasing at a 9.3% annual rate. However, we at Rainier tend to think money-center banks are receiving a greater proportion of C&I loans than many of the medium and smaller-size institutions around the country and that the increase is misleading. A more likely range is somewhere between 7½ and 9%. Using average-for-the-year figures, this means such loans will be up someplace between $23 billion and $27 billion (or, going year-over-year from December, around $32 billion). We tend to be a bit conservative, believing that C&I loans will have shown a definite tapering off in the fourth quarter of 1981 after a surge in the second and third quarters, and that we'll end up at around a 7% gain.

As we move into our estimate for 1982, we are working from an economic outlook that forecasts little or no growth for the first three months and then a rather modest increase in the second quarter of 1982. It doesn't appear the economy is going to pick up steam until the last half of the year. Our interest-rate scenario indicates that both mortgage rates and long-term bond yields will be conducive to a much larger volume of corporate and personal borrowing as we move into the third quarter. This quite possibly could give a significant boost to all forms of commercial-bank lending not including the business category.

But, candidly, what we don't know how to assess in regard to that period is how personal tax cuts are going to be handled by individuals in either reducing outstanding debt or adding to various types of savings accounts. Other and newer forms of savings such as individual retirement accounts (IRAs) and all-savers certificates could add considerably more funds, alleviating pressure on interest rates even if banks experience higher loan volumes.

What this all adds up to, all qualifiers considered, is that this form of business credit should increase much more slowly than it did during the second and third quarters of 1981. Our projected range for 1982 is between 5½ and 8½% growth, with a "best-guess" estimate of around 6½%, with individual banks more or less depending on their aggressiveness and indi-

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American Express Travelers Cheques, American Express Plaza, New York, N.Y. 10004 212-323-3226 vidual pricing strategies. Such a percentage growth is just slightly less than the anticipated underlying rate of inflation in 1982, so that the real volume of such loans would probably decline modestly.

It goes without saying there will not be an even quarter-by-quarter pattern developing over the year. We see most of the growth coming in the last six months of the year, quite possibly hitting an annualized growth rate of 10% in the last quarter.

In conclusion, let me say, lest you think we are chagrined at all the variables and the increasing difficulty in forecasting virtually anything, that nothing could be further from the truth. These are extremely exciting times for bankers. Uncertainty has a way of stimulating innovation and competition, from which our customers benefit. And the best and the boldest will be the most profitable. ● ●

What Will Be Effect on Savings Of Economic Recovery Tax Act?

WITH the approach of a new year, editors of MID-CONTINENT BANKER asked two economists what they foresee for 1982, particularly as a result of passage of the Economy Recovery Tax Act of 1981 (ERTA). What will be its effect on Americans in general and on banking in particular? Here are their comments:

ERTA's main thrust, says *James A. Byrd, economist, First International Bancshares, Dallas,* should be to increase business investment in new plant and equipment and other facilities. To the extent this new investment increases productivity, says Dr. Byrd, we will be better off. However, he adds, because of construction times that are to be involved, effects of this new investment will take time — several years, in fact.

"Even so," he believes, "the *important* effect of the Tax Act is to reduce the federal government's share and to increase the private sector's share of the economy in the future from what they otherwise would have been. Any downward interest-rate effects will be bonuses."

Dr. Byrd also points out that a casual look at history shows clearly that there's only a loose linkage, at best, between interest-rate movements and interest-rate levels on the one hand and savings rate of individuals and businesses on the other. Even in recent years while interest rates were moving upward (in some cases sharply), he continues, the savings rate continued to decline or to remain low. It still is.

Richard S. Peterson, senior vice president/economist, Continental Bank, Chicago, believes that while there's little doubt that incentives built into ERTA will increase savings more than what normally would have occurred, not all facets of the legislation will have equal impact. He cites as an example the all-savers certificates, which did little to increase net new savings — a result, he says, that hardly surprised anyone. Perhaps the biggest surprise, according to Mr. Peterson, was how few certificates were sold and how much of the funds went into commercial banks rather than into thrift institutions, the legislation's biggest proponents.

> **"Tax advantages of the new individual retirement accounts (IRAs) to income earners in virtually all tax brackets could have a dramatic impact on new savings."**

On the other hand, he points out, tax advantages of the new individual retirement accounts (IRAs) to income earners in virtually all tax brackets could have a dramatic impact on new savings. Some estimates are that as much as $50 billion will go into these accounts this year, making them a greater contributor to savings than the less-than-$30 billion that has gone into the all-savers certificates. Also, he says, because the amount deducted from 1982 income need not be invested until April 14, 1983, some individuals may want to delay opening an IRA until that time. Nevertheless, says Mr. Peterson, these funds are more likely to represent new net savings that will grow each year.

"More difficult to assess is how individuals will use benefits accrued through tax deductions — whether they will spend or save," he stated. "Undoubtedly, some of both will occur. However, current broadened investment opportunities at market-interest rates and further reductions in the inflation rate should provide an environment conducive to increased savings.

"Effects of the Tax Act on business are more complex. Certainly, the current depressed state of economic activity and high levels of unused resources are likely to overpower the stimulative effects of the tax cuts on short-run business investment. At the same time, however, the tax benefits will improve internal corporate cash flows. Once the economy recovers, the climate for renewed investment and consequent gains in productivity should be greatly improved." ● ●

Controlling Labor Costs Part of Inflation Battle, Continental Economist Says

A continuing slowdown in business activity has substantially reduced the rate of increase in inflation, but lasting benefits will come only through a further reduction in cost pressures, according to Robert F. Dieli, industrial economist at Continental Illinois National, Chicago.

Writing in the bank's economic newsletter, Mr. Dieli said, "Labor costs have been a contributor to the inflation rate. And still open to question is the outcome of pending major bargaining agreements that could lead to more stable price patterns in the future."

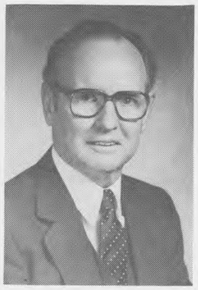
He noted that the present situation in labor costs is, in part, due to the combination of lagging wages and the heavy collective-bargaining schedule in 1979, which produced large settlements and multiple-year contracts with liberal cost-of-living adjustments.

"While the present low levels of employment, capacity utilization and corporate profits would be enough to produce very different contract settlements from those of 1979," he said, "major structural changes in industries like auto, steel, airline, railroad and trucking also will have a significant effect on bargaining positions."

Mr. Dieli added that negotiations, specifically in the auto, trucking and airline industries, this year will likely take into consideration factors such as job security and profit sharing in addition to wage-and-hour concerns.

"Smaller wage increases and a conscious effort to increase productivity, both through negotiated changes in work rates and the introduction of new equipment, eventually will lead to lower unit-labor costs," he said.

Competitive Effects of Change Can Benefit Community Banks



By Thomas F. Bolger

Mr. Bolger is president, McHenry (Ill.) State. He is a past president, Independent Bankers Association of America, and currently is treasurer, Illinois Bankers Association.

SMALL commercial banks will be facing many turning points as decisions are made to deal with increased competition for banking business, but there is *really only one* basic decision that counts: Will I greet the new competitive challenges by throwing my hands in the air and moaning about the good old days, or will I recognize my strengths as a community bank and respond creatively and positively as each new challenge arises?

The future has many changes in store; we cannot operate a bank today as we did 20 years ago — or as we did yesterday, for that matter. But that does not mean that community banking itself has suddenly become old-fashioned or out of date. Regulatory agencies report that applications to charter new community banks are arriving at a record pace, and it's no wonder. A recent Federal Reserve study showed that since 1977, in spite of intense competition and erratic economic conditions, small banks not only had a higher growth rate and return on assets than bigger banks, but their performance improved steadily. If we let ourselves get talked into believing gloom-and-doom speculations about small banks' future, rather than believing the proved record of small banks' high performance and profitability, then we have only ourselves to blame — not the competition — if we fail to survive.

Small banks' decision-making for the future can be simplified into a few do's and don'ts.

Do keep a cool head as competition intensifies. That means we don't sell out to the first buyer who kindly offers to relieve us of the supposed burdens of guiding our banks through these challenging times. There are many reasons for owners to want to sell a bank, but I have never understood how one of these reasons can be the commonly heard complaint that "banking just isn't fun anymore." Change brings small banks more than just headaches; it brings new opportunities for business, new roles in community leadership and all the other special joys and challenges that make operating a community bank so satisfying.

Do respond to competitive challenges with your bank's scale in mind. We do not have to become Sears to compete with Sears' financial services. We can pick and choose among competitive innovations as they develop, while maintaining the strong community identification that always has been our trump. That does not mean that small banks can sit back and wait out the competitive challenges as if they were some storm that will blow over. But we should determine our hardware and services based on what our customers actually need and desire and not feel pressured to respond in kind to every move a competitor makes.

Don't permit frustration with short-term problems determine long-term decisions — you'll just end up with long-term problems. A good example is deposit instruments. The Depository Institutions Deregulation Committee (DIDC) has mismanaged its job of deregulating interest rates so badly — and unregulated money-market-mutual funds have grown so rapidly — that some bankers are ready to give up on rate ceilings right now just to be done with it. But interest-rate ceilings

(Continued on page 44)

By Arch G. Mainous Jr.

Mr. Mainous is president, Citizens Union National, Lexington, Ky., which he joined in 1958. He currently is treasurer, Independent Bankers Association of America.

CHANGE is inevitable and a continuous process. How we mold and direct change for the betterment of man is each person's individual responsibility.

Let's look at some of the specific trends of change and their competitive effects.

Community-Depository Intermediaries. Independent community banks have served as community-development-depository intermediaries, placing the basic needs of the community they serve as a first priority for use of their depository funds. Excess funds not needed locally have been used within the state and in the national economy. Local banking customers have benefited through reinvestment of local funds by having local costs for all banking services, whether they be fees or rates charged on credit. The trend today is to subject all depository funds to money center-dictated, international money-market rates, thereby removing allocation and pricing options from local commercial banks. Increasingly, they must seek money-center rates or investments to pay savers and certificate-of-deposit investors the money-market rate. This factor and the nonbanking competition allowed for bank deposits are producing a flow of funds from local communities to money centers, and this is intensifying daily. Continuation of interest-rate deregulation and addition of proposed vehicles, such as bank money-market mutual funds, serve to greatly accelerate this trend and further reduce availability of funds that may be used at the local level. Community banks, it appears, are no longer to serve primarily as community-development-depository intermediaries, but will become money-market intermediaries. These developments increase the cost of all bank services and place smaller, local customers at a competitive disadvantage with multinational giants.

Credit for Community-Bank Customers. Availability of credit, cost of credit and fluctuations in interest-rate markets are serious matters to individuals living on salaries or other fixed income and to small businesses. In addition, as banks are required to maintain an increasing percentage of their deposits in short-term, money-market-interest investments, they no longer will be able to continue to satisfy long-term borrowing needs of farmers, small businesses or home owners. I have yet to see any competitive alternative that is reasonable and affordable that will meet these needs. Movement of funds from local communities into money-market centers is a major concern to community banks because their financial vitality and, in fact, survival are dependent on the economic health of the local community. This does not appear to be a temporary situation, as there is a worldwide shortage of capital, and foreign markets undoubtedly will bid whatever price is necessary to attract capital from the U. S.

Commercial Banks/Monetary Policy. Until recent years, the Fed depended primarily on commercial bankers to implement monetary policy in a constructive manner. During recessionary periods, additional reserves would be made available in the banking system and bankers would be encouraged to develop business opportunities in their areas. During inflationary periods, when the economy was beginning to show speculative tendencies, commercial bankers had a responsibility to allocate a reducing amount of credit to their customers who would be most productive or that would serve basic needs of customers in their area. Particular responsibility was directed to rejecting credit applications for speculative projects which, along with increases in cost of credit, would cause a reduction in economic activity and a cooling of the economic business cycle.

This system is not effective today for two reasons:

First, emphasis on competing for deposits at maximum national money-market rates brings bankers under pressure to lend to speculative projects willing to pay the highest borrowing rate. Interest-rate deregulation will escalate this factor.

Second, regulatory authorities have allowed unregulated competition to compete directly for banking deposits and thereby remove these funds from the direct influence of monetary policy. This is unfair competition and amounts to a government monopoly.

I view both of these situations with concern, as they are affecting the stability of the banking system and growth potential of smaller customers as well as the cost and availability of funds for basic community financial needs.

Federal Fiscal Policy. Excessive federal-spending deficits monetized through the banking system since the Vietnam War have had a devastating effect on our country and every phase of economic life. This is the epitome of unfair competition for funds by government through an inflation tax. I see little hope for financial stability until this root cause of universal inflation is brought under control. The natural necessity of every phase of business and political life to adjust and attempt to offset unsustainable inflation simply is the product of the basic problem. It would appear that there are those who are taking advantage of this situation and view it as an opportunity to bring about changes to the basic financial system that would be of specific benefit to their vested interests.

Deregulation, originally supported as finally turning off the salt machine of costly, unnecessary regulation, suddenly was redefined as dismantling the existing banking system. Deregulation of interest rates seems to eliminate competitive options of borrowers or investors to do business with a money-center financial-services institution at "prime-rate" prices *or* with a local bank at "local" prices. All institutions obtaining deposits at money-market rates will have to charge money-market borrowing rates to maintain a positive spread. Banking is a quasi-governmental service industry on which the public expects and needs stability and, therefore, requires reasonable regulation.

". . . Regulatory authorities have allowed unregulated competition to compete directly for banking deposits and thereby remove these funds from the direct influence of monetary policy. This is unfair competition and amounts to a government monopoly."

Savings — Investment — Speculation. In recent years, there has been a reassessment of the basic concepts of savings and investment. Savers traditionally have been defined as those who had a primary interest in safety of their principal *and* safety of their interest, even though they may not be obtaining the highest yield available in the investment market. Investors are those on a scale from very conservative up through speculative to outright gambling who are willing to assume relatively higher risks for their principal and/or interest income in order to have the potential for earning a higher yield on their investment or high capital gains. Most bank savers do not intend for their funds to be converted to an investment category that assumes a higher risk.

The federal government, through depository insurance programs, is, in effect, assuming a higher risk against its insurance funds by encouraging banks to pay investment-market yields on savings, and, in turn, seek to earn investment-market yields from their borrowing customers or other earning assets. It appears to me that the brokerage industry has encouraged a redefinition of "saver" to "small investor" to obtain a direct access to these deposits with, of course, a fee for their service, but without banking's community responsibility, as reflected by the Community Reinvestment Act. Money-market mutual funds are a prime example of this approach and also serve as an example of how community-reinvestment funds are diverted to money-market centers and out of the local allocation process of monetary policy through community banks. This trend definitely is increasing, and even many small bankers across the country now are calling for money-market-mutual-fund powers within the bank in order to "compete." The question is, will their borrowing customers and consumers they serve be able to "compete" with the attendant higher prices and market fluctuations?

Banker — Financial Services Competition. Many community bankers have been trained and conditioned to view their professional services as a "fiduciary" relationship. They may find it difficult to adjust their thinking in order to effectively compete in the market, in the short run, with someone who may be thinking, "let the buyer beware." The prospect of predatory, high-risk competition could be disruptive to a stable banking system.

Money-Market Risks. As commercial banks assume the obligation to pay money-market rates on their deposits, they must, in turn, seek money-market rates from their borrowing customers and other investments with a positive-yield spread. This trend currently is a fact of life, and great emphasis is being placed on new ideas, methods and technology to deal with yield-spread management. As we become more "deregulated" and yield-oriented to fluctuating international money markets, banks will, of necessity, need to convert their loans to variable rates. This has proved to be an overwhelming problem for some institutions that have, ironically, provided exemplary service under their charters by making long-term home-ownership loans or long-term loans to family farmers, only to have their deposit base converted to high, short-term obligations with a negative yield spread.

For most commercial banks, however, enough flexibility has been maintained to pass along money-market risks to their borrowing customers. Over the past year or so, borrowing rates have been at unsustainable levels, bringing the possibility of a substantial increase in defalcations of small businesses, which would pass the risk back to commercial banks, many of whom would then find themselves in a distressed situation. It's easy to proclaim that borrowing customers should pay the "going rate." However, the danger of a general economic crisis brought about by an unsustainable cost of credit priced to be competitive with foreign markets or extreme volatility needs to be considered carefully. A money-market risk could become a political risk. A political risk may involve personal freedom.

Many community bankers have been trained and conditioned to view their professional service as a "fiduciary" relationship. They may find it difficult to adjust their thinking to effectively compete in the market . . . with someone who may be thinking, "Let the buyer beware."

Diversification of Ownership/Control. The current trend is for fewer, but much larger, financial-service institutions. This will have a tendency to displace and concentrate, not only ownership and control but, importantly, economic and political power in the hands of a few. In addition, there is a serious question as to whether competition is increased or, in fact, decreased by drastically reducing the number of independently managed financial institutions.

Regulatory Authorities. There is a strong trend to consolidate regulatory authorities governing financial institutions. However, it's difficult to reconcile this trend with lack of control over nonregulated businesses competing directly for bank deposits. Deregulation of interest rates and deregulation of specialized functions of financial institutions viewed together, however, would tend to explain this, but Congress must pass specific laws in order to confirm and ratify this trend. Once again, a question is raised as to the level of competition that would exist after deregulation, where there are a

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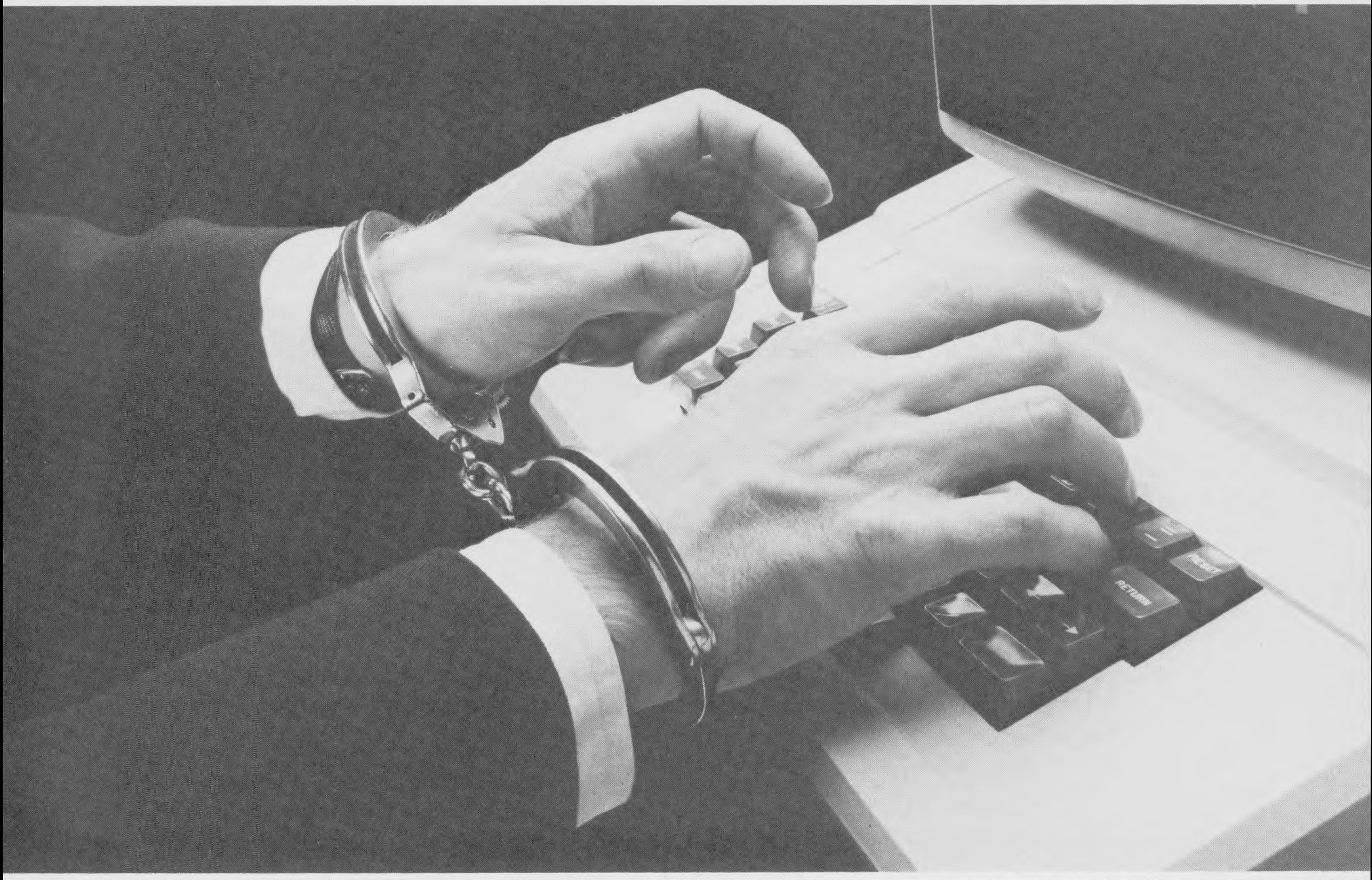

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Banking Is Ripe For Structural Change, Says Chase Executive

THOMAS G. LABRECQUE is with Chase Manhattan Corp. and its principal subsidiary, Chase Manhattan Bank, New York City. At the latter, he became chief operating officer June 25, 1980, and was given the additional title of president last April 21.

Mr. Labrecque joined the bank in 1964 as a member of the management training program and worked in various groups and held various titles, including vice president/manager of correspondent bank portfolio advisory, before being named executive vice president/treasury department executive in 1974. He joined the management committee in 1976.

He was the Chase representative on the team that worked out financial arrangements associated with the release early in 1981 of American hostages from Iran.

NONBANK COMPETITION and structural change in banking were discussed by Thomas G. Labrecque, president, Chase Manhattan, New York City, at two different meetings late last year. One was the ABA's annual correspondent bank conference in Kansas City; the other was the annual fall conference of Robert Morris Associates in New Orleans.

Everywhere, said Mr. Labrecque, traditional divisions of the financial structure are crumbling. While others are allowed to enter the traditional banking business, commercial banks continue to be prohibited from entering these competitors' businesses and are precluded from competing in an unrestricted way in their own.

Clearly, he continued, the financial-services industry and the banking industry in particular are ripe for structural change.

The broad policy issue confronting bankers today, he said, isn't *whether* change will happen, but *when* and *how*.

Mr. Labrecque believes the answer to when change will take place is sooner than most bankers think, that structural change is close. As to when it will happen, he admitted he does not know, but then outlined the broad areas where he thinks changes are mounting rapidly:

"*First*, in widening banking powers: We want to meet the competition in a broader range of products and services.

"*Second*, change should eliminate geographic barriers: We should be allowed to compete with Sears and Equitable in their geographic markets.

"*Third*, antitrust regulation, as it affects banks, should be refined: We want to make our system more subject to market forces and to reflect benefits of service networks and economies of scale."

Widening Bank Power. In terms of competitive powers, said Mr. Labrecque, banks are at a serious disadvantage today. Put simply, he continued, they lack the power to compete with other kinds of financial-service firms by offering consumers a fair and competitive return on their money. In his opinion, banks are stymied by regulations that impose arbitrary legal ceilings on deposit rates.

He illustrated this point by discussing money-market funds, which have gone over the $170-billion mark, more than double their assets since the beginning of 1981. Even introduction of the all-savers account, he went on, has failed to slow significantly the growth in money-market funds.

"I don't believe bankers should want the money-market funds stopped; we should seek the authority to offer competitive products and services," he said.

Turning to the wholesale side, he said banks are losing their market positions there, too. Nonfinancial commercial paper, not subject to reserve requirements, has grown to more than $55 billion. Moreover, he said, insurance companies and investment firms have joined the short-term credit fray to serve corporations' long-term needs. Banks competing in much the same marketplace must maintain reserve balances at the Fed — a cost, he said, much like a tax, and not one borne by competing corporate lenders.

Mr. Labrecque also listed other areas banks cannot enter: the insurance business, underwriting municipal bonds, expanding their trust and fiduciary powers. By contrast, he said, nonbank competitors are allowed to compete in these areas.

Again, he emphasized, he does not want to regulate the competition. Rather, competition must be a two-way street, and the solution is not for banks to rid themselves of the invaders on their turf, but to be allowed to compete more fully in the market territory.

Eliminating Geographic Barriers. Again looking at banks' competitors, he noted that they are everywhere, but banks are restricted geographically. Such a restriction, he said, denies the existence of several real factors:

1. Reality of competition from outside a bank's territory.

2. Reality of national markets.

3. The opportunity consumers should have to take advantage of more efficient service, lower costs and great-

(Continued on page 62)

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Cutting Budget Deficit Is Vital To Stabilizing the Economy

By Irwin L. Kellner
Senior Vice President/ Economist
Manufacturers Hanover Trust
New York City

THE STAGNATION that has characterized the U. S. economy since early 1979 has taken a new turn. Whereas business activity rebounded in mid-1979 and mid-1980 following declines in each year's second quarter, it has apparently failed to do so in 1981. After falling at an annual rate of 1% to 1½% in the second quarter, the gross national product (GNP) adjusted for inflation fell one half of 1% at annual rates in the third quarter, according to the Commerce Department's estimates.

This negative turn of events has prompted a Presidential declaration of recession. In a statement reminiscent of one that Jimmy Carter made in July, 1979, President Reagan voiced his belief that the economy has entered into a recession. Like President Carter's statement, President Reagan's remark is a most unusual admission from an incumbent Administration. Previously, administrations didn't like to talk about recessions — even after they were officially certified by the umpire of the business cycle, the National Bureau of Economic Research.

Many consumers and businessmen in the "real world" believe that the recession got under way in early 1979 — and is still with us. The real GNP is only a touch higher today than it was in first-quarter 1979, while industrial production and the coincident indicator index are lower. Plainly, we have been experiencing over much of the past three years a definite departure from the business cycles of the past.

Since early 1979, the economy has encountered a series of stops and starts, rather than regular, clearly defined ups and downs in economic activity with their usual effects on interest rates, the rate of inflation and so on.

Given this new environment, it's hardly surprising that economists have had great difficulty in forecasting. Traditional business cycle analysis no longer offers clues to the longevity of a slump or an expansion. Interest-rate forecasting — a hazardous undertaking under the best of circumstances — has become virtually impossible without clearly defined business cycles, not to mention the advent of the Fed's new regime of monetarism. The net result is confusion in the money and credit markets, as well as on the part of consumers, businessmen and policymakers.

The new energy equation. What caused this? Why, after decades of regular cyclical ups and downs has the economic rhythm changed? The way I see it, three major developments are responsible. The first has its roots back in 1973-74, when the Organization of Petroleum Exporting Countries slapped an embargo on exports of petroleum to the West and raised oil prices significantly. Although consumers and business soon adapted to higher-priced energy by purchasing smaller cars, insulating their homes and offices and changing thermostat settings, their enthusiasm for conservation gradually waned as the nominal price of oil held steady in the wake of continued inflation, thereby driving down oil's "real" price.

It took the second "oil shock" of early 1979 that followed in the wake of the revolution in Iran, to permanently change attitudes toward energy use. Those changes resulted in a shift in the basic structure of the U. S. economy. Industries that either used large amounts of energy in the production process or that produced goods that used large amounts of energy soon found themselves in difficulty.

Autos were among the first to be affected as consumers sought smaller, energy-efficient vehicles that Detroit was not yet equipped to produce. As a result, those industries that depended heavily on automobiles — the so-called smokestack industries such as steel, copper, rubber, etc. — began to suffer a decline in orders and shipments. Housing was the next to be affected because the increase in energy prices made the cost of running a home significantly higher than in the past, pricing some people out of the market.

On the other hand, industries that either used relatively little energy in the production process or, more importantly, were engaged in the exploration, production, transmission or savings of energy, found their fortunes much improved. In other words — the U. S. economy became highly segmented, no longer moving as a monolith, with all industries expanding during good times and contracting during bad times. The economy was able to bounce back from the decline in second-quarter 1979 because the pluses outweighed the minuses. However, overall growth soon slowed.

Monetarism becomes a factor. The next development approached center stage in October, 1979. This was the Fed's break from its traditional

To Stabilize the Economy . . .

- Tighten fiscal policy to reduce pressure on the money and credit markets.
- Postpone the July 1 tax cut and levy a value-added tax.
- Limit business tax incentives to firms engaged in energy-saving projects.
- Continue the Fed's recent move toward somewhat easier money.
- Give first priority to reducing the budget deficit.

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method of conducting monetary policy. Previously, the Fed focused on attempting to stabilize money-market conditions by regulating short-term interest rates. In the process, however, it accommodated inflationary shocks to the economy by producing more money than was consistent with real economic growth. This, in turn, led to ever-higher rates of inflation as the economy emerged from the various postwar business cycles, along with ever-higher interest rates.

In October, 1979, the Fed began to pay more attention to the money supply and less to money-market conditions. It was expected that this monetarist type of monetary policy would result in more fluctuations in day-to-day levels of interest rates. This is because regulating the supply of money without taking into account changes in demand would produce fluctuations in its price in the same way that regulating the price of money by accommodating changes in demand resulted in fluctuations in growth of its supply.

No one was prepared for the amount of volatility that actually occurred in interest rates — especially at the short-term end. Since October, 1979, month-to-month movement in the key federal funds rate has averaged approximately seven times the size of the average monthly change in this rate during the previous two years.

Because financial-market participants became so uncertain over the cost of money, hence their ability to generate a profit on a bank loan, securities investment, etc., they tended to demand higher interest rates to compensate. This spilled over into the long-term markets and as rates rose in these markets, corporate financing tended to dry up. This, along with the high cost of money for those that did borrow in the bond markets, discouraged business investment, leading to declines in another wave of industries — those dealing with capital goods.

Needless to say, high short-term rates once again affected the housing and auto sectors, sending them down in early 1980 for the second time in two years.

For a while, most companies were able to adapt to these circumstances because the "real" cost of borrowing was negligible. Monetarism notwithstanding, nominal interest rates were barely above the rate of inflation in the opening months of 1980 — and plunged well below the rate of inflation in the wake of the steep decline in economic activity in last year's second quarter and the Fed's effort to arrest this by injecting reserves into the banking system. This was subsequently followed by a rise in interest rates as the Fed sought to reverse the rise in money growth that followed.

Interest rates remained high through the beginning of 1981 even though the rate of inflation had begun to slow under the pressure of a slower-growth economy, flatness and eventual decline in oil prices and falling prices of food and industrial commodities. This resulted in a rise in the "real" cost of borrowing money to levels not seen in recent memory. The belief that adhering to monetarism would eventually bring lower rates of inflation and interest, along with the hoped-for positive results of the Administration's planned economic program, encouraged people to overlook these high real costs of borrowing money. Unfortunately, many found that they could not — witness the 40% jump in business failures in the first three quarters of 1981.

Mr. Kellner joined Manufacturers Hanover Trust as an associate economist in 1970. He was elected vice president in 1972, named deputy chief economist in 1973, promoted to senior vice president in 1978 and appointed chief economist in 1980. Prior to joining the bank, he was assistant business outlook editor for *Business Week*, senior research analyst with William Esty Co. and research analyst for Philip Morris, Inc. He is a member of the Conference Board's economic forum. He recently completed a term as president of the New York Association of Business Economists.

Fiscal policy pushes business down. The economy thus managed to adapt to monetarism as well. After falling sharply in second-quarter 1980, the aggregate measures of business activity subsequently bounced back. However, the third development, the Administration's fiscal program, was apparently too much for the economy to bear. This is ironic, because it was intended to improve business. The cuts in personal and business taxes engineered by the White House were supposed to boost expectations, stimulate savings and encourage business investment in new plants and equipment. Accompanied by significant increases in defense spending, with only belated cuts in nondefense spending, this provided a hefty dose of fiscal stimulus to the economy. It was supposed to generate optimism on Wall Street as well as Main Street, but when people got down to the arithmetic, they concluded that it could not work.

Cutting taxes and increasing defense spending before putting into effect offsetting reductions in nondefense outlays amounted to a substantial widening of the budget deficit — regardless of what the Administration's classroom results might have suggested. Since the Fed has adapted a policy of trying to slow the growth of the money supply to noninflationary proportions, Washington's increased financing needs could come only at the expense of funds available to the private sector.

Total federal borrowing, direct and guaranteed, has already risen at a substantial rate over the years, accounting for a bigger and bigger share of all the funds raised in the financial markets. The belief that this trend will continue finally put the kibosh on economic activity, preventing business from recovering from last year's downturn.

The road ahead looks equally rocky. It will take a long time for the economy to adjust fully to the changed energy environment. Until it does, those industries that have been negatively affected by the sudden jump in the price of energy will continue to be so affected. More important, the combination of a loose fiscal policy and a tight monetary policy will prevent the private sector from mounting any kind of a sustained, healthy recovery.

There is one bright spot, however, and that is the prospect for further improvement in the inflation rate. The three major price indexes have decelerated noticeably from their early 1980 highs. The pain of economic slump, by making it more difficult for business to raise prices and labor to raise wages, will ensure a further slowing in the inflation rate.

The more financial participants see inflation dampened, the more likely they are to believe it is "permanent" and the sooner interest rates will come down. While there is always the possibility that huge federal financings will interrupt this decline and push rates up for a while, I don't look for rates to rise to new record highs.

This is not necessarily because I have any great faith in the ability of Washington to get its budget deficit down. Rather, I feel that interest rates at present levels are already proving onerous to the private sector and, unless accompanied by a sudden turnaround in inflation, any increase simply would cause more companies to go under, thereby reducing the demand for funds and offsetting increased pressure from the federal government.

Recommendations. I recently called for a tightening of fiscal policy to reduce pressure on the money and credit markets without the Fed resorting to monetary ease. Events of the last few months suggest that such a development is more important than ever.

I think the Administration should postpone the second-stage tax cut now scheduled to take effect on July 1. What is more, I think other sources of revenue should be looked for, including a value-added tax. I think the Administration should be more realistic about how much it is going to get in the way of further cuts in non-defense spending while defense spending is permitted to grow.

I believe in tax incentives to encourage business investment, but at the moment these should be limited to firm's dealing with new energy-saving machines, processes, etc.

On the monetary side, I think the Fed should continue its recent move toward somewhat easier money. This is not to say that its growth targets for the various money and credit aggregates should be elevated. Rather, in the case of the money supply M1-B, the Fed should try to get this aggregate to grow a little faster so that it will be within the target range, rather than below it.

It's clear that a loose fiscal policy combined with tight money only can serve to depress economic activity and not the reverse. No matter what incentives may be written into the tax law for individual saving and business investment, when the federal government crowds out the private sector by driving interest rates up, throwing businesses into the bankruptcy courts and individuals out of work, it's clear that neither will take place.

Perhaps the time has come to try the opposite — that is, a tight fiscal policy and a *relatively* easy monetary policy. This will reduce pressure on the credit markets coming from Washington while at the same time making more funds available for individuals and business to use in their buying and investment decisions. Provided that the Fed doesn't go overboard with growth in money, I think this might lead to a healthier economy.

There will be plenty of time to talk about reducing tax burdens once the budget gets into balance and stays there. For the moment, however, cutting the budget deficit must be the first priority and it must be done quickly.

Recession to Be Sharper Than Expected, Says Economics Expert at Bank Seminar

THE U. S. is headed into a recession much sharper than had been expected, predicted economics expert Bruce Bartlett at a recent economics seminar sponsored by St. Joseph Valley Bank, Elkhart, Ind.

The recession, he added, is throwing the budget out of whack, as unemployment rises and output falls. Unemployment on a nationwide basis is expected to reach 9% by the end of the year.

On the subject of interest rates, Mr. Bartlett predicted that long-term rates could be down to less than 12% by spring, and below double-digits by the end of the year.

Mr. Bartlett believes the greatest factor influencing interest rates is the actions of the Fed, which controls the nation's flow of cash. "It seems clear to me that inflation and high interest rates are essentially functions of monetary policy, not budget deficits. The only way the Fed can lower interest rates is by stopping inflation. And it can only do that by keeping money growth in a range consistent with the economy's real output."

Summing up the principles of Reaganomics, Mr. Bartlett said, "The hope and promise of supply-side economics has always been to stop the economy's downward spiral by increasing the incentive to work, save and invest through a marginal tax cut. Then we can achieve our goal of reducing spending and ultimately achieve a balanced budget."

Below double-digit long-term interest rates were predicted by Economics Expert Bruce Bartlett at economics seminar sponsored recently by St. Joseph Valley Bank, Elkhart, Ind.

Mr. Bartlett, who is author of "Reaganomics: Supply-Side Economics in Action" and deputy director of the joint economic committee of Congress, was critical of David Stockman and the Office of Management and Budget (OMB).

"In recent months, Dave Stockman has become an obsessed budget balancer — even at the expense of higher taxes," Mr. Bartlett said. "In fact, the OMB has done more to undermine supply-side economics in the last few months than all the Democrats in Washington put together."

He claimed recent news stories about the federal government facing budget deficits of $100 billion to $300 billion were planted deliberately by Mr. Stockman's office. The idea was to exaggerate the size of the deficit to scare Congress into making further budget cuts and tax increases.

While admitting that President Reagan's recently enacted tax package reduced revenues and thereby increased budget deficits, Mr. Bartlett pointed out a number of other factors that he says have contributed to the rising deficit: The bumper crop that resulted in lower farm prices last year, requiring larger than anticipated outlays for price supports; oil prices that rose less than expected, which cut revenue from the windfall profits tax; and an easing of inflation, which means more people are remaining in lower tax brackets.

Mr. Bartlett's appearance was part of a continuing series of economics seminars sponsored by the bank and designed to help area business people gain insight into the state of the economy. ● ●

● **Wells Fargo Corporate Services.** Arnold T. Grisham has been promoted to vice president in the Chicago regional office of Wells Fargo Corporate Services, a subsidiary of Wells Fargo & Co., San Francisco. Mr. Grisham also has been named deputy manager of the Chicago office's regional banking division and manager of a new heavy equipment and machinery deal/distributor group. He joined the firm last year.

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Structure, Usury, Bankruptcy Issues Continue as Major Legislative Topics

Bankers Want Freer Hand in Setting Rate Policies

BANK structure, usury ceilings, and bankruptcy continue to dominate legislative issues in the Mid-Continent area. But numerous other topics of vital interest to bankers will be considered by state senators and representatives this year.

Following is a state-by-state rundown on issues expected to be considered by 10 of the state legislatures in the Mid-Continent area this year.

Alabama

The following bills are expected to be introduced in the Alabama legislature this year:

• Corporate name. This bill will provide that a banking corporation organized under the laws of the state must use the words "bank," "banking" or "bankers" in its corporate name and is not required to use "corporation," "incorporated" or an abbreviation thereof.

• Joint-account survivorship. This bill would amend the Code of Alabama 1975 as amended relating to deposits in Alabama banks made in the name of two persons, so as to provide that on the death of one the money will be paid to the other.

• Exemption of interest on all-savers accounts from Alabama income tax.

• Privacy. This bill establishes the conditions on which a corporation can disclose financial records of its customers and shareholders pursuant to lawful requests of state government, and provides for reimbursement to the corporation of the cost of such disclosure.

Indiana

The Indiana Bankers Association has a five-point program planned for this year's state legislature.

• An increase in the ceiling on open-end credit from 18% to 20%.

• Authority for pre-payment and late-payment charges on simple-interest loans.

• Granting of certain tax concessions for international banking facilities.

• A bill to clear up some bankers' acceptances problems and to eliminate

the requirement for HCs to obtain annual voting permits. Both items involve Title 28 of the Indiana Code. The IBA wants to retain authority for HCs to conduct examinations.

• An omnibus bill with four parts involving changes to the Uniform Consumer Credit Code (UCCC).

1. Relief from rights of rescission.
2. Elimination of consumer-related portions of UCCC.
3. Clarification of the definition of minimum finance charges.
4. Clarification of a statute on closed-end credit interest rates.

A bill has been prefiled by the League for Economic Development to obtain authority for multi-bank HCs in Indiana. This bill, which isn't supported by the IBA, is introduced at every legislative session.

Kansas

The following issues will receive legislative attention in the 1982 Kansas legislature:

• Revision of the Uniform Consumer Credit Code finance charge brackets that would allow for an increase in the average rate that would be charged on consumer loans and closed-end credit sales.

• Repeal of the current usury ceiling on real estate mortgages so as to make Kansas adjustable-rate mortgages acceptable in secondary markets.

• Revision of the current local government public funds statute to allow S&Ls to bid on unlimited amounts of idle funds.

• Revision of the balloon-payment section of the UCCC to eliminate language relating to interest-rate restrictions.

Kentucky

Issues expected to be taken up in the Kentucky legislature this year include establishment of credit card fees and rates; higher rates on loans under $15,000; multi-bank HC authority; several revisions in Kentucky banking law; and a proposal by the governor that will affect the investment of state funds.

Mississippi

Three issues affecting banks are expected to be taken up by the Mississippi legislature this year:

• A bill to make permanent the state's usury law ceiling of 5% above the Fed discount rate. The current temporary ceiling expires June 30.

• Legislation giving parity for state banks with national banks.

• Enactment of specified exemptions to the bankruptcy act so federal exemptions will not apply.

Missouri

A five-point program is being supported by the Missouri Bankers Association in this year's legislature:

• An attempt will be made to amend the exemption portion of the federal bankruptcy code seeking to reduce exemptions allowed in the federal law.

• Usury reform that seeks to eliminate all restrictions on rates lenders can charge for loans, including elimination of all rate and fee restrictions on motor vehicle time sales, general usury, consumer finance act, a second-mortgage act and retail credit sales act.

• A bill to allow a lender to pledge federal government securities it has on deposit with its correspondent bank in lieu of purchasing a replevin bond when foreclosing on collateral.

• A bill to require the Department of Revenue to require that space be made available to record liens on boat titles.

• A bill to reverse current Missouri law that provides that mechanics and materialmens liens take precedence over the original loan made by a lender.

New Mexico

The New Mexico legislature is expected to address the administration and investment of public funds. The state's growing severance tax permanent fund is expected to be the subject of legislative debate as differing investment options for these monies are discussed.

The legislature also is expected to address financial problems created by federal cutbacks. Municipalities want to see the state supplement those areas most severely affected by federal spending cutbacks.

Oklahoma

The big issue this year in the Oklahoma legislature affecting banking isn't a new topic. It's banking structure; namely, should banks be allowed some form of branching and should HCs be permitted to enter the state and buy state banks?

Supporters of branch banking and multi-bank HCs see 1982 as a golden opportunity for legislative change, but advocates of Oklahoma's current banking structure claim the legislature's rural domination virtually ensures preservation of the unit-banking status of the state's banking structure statute.

The Oklahoma Bankers Association has not yet finalized its legislative package and other banker groups are waiting until legislation is introduced before making their official stances known. The Independent Bankers Association of America continues to call for preservation of present structure, with a few modifications. Oklahomans for Better Banking continues its support for structure change to permit multi-bank HCs and branching.

Tennessee

The Tennessee Bankers Association is backing a bill that would allow banks to charge an interest rate equivalent to the rate charged under the Retail Installment Sales Act on open-end loans. It also would codify all credit-card statutes and allow Tennessee banks to charge their out-of-state customers an interest rate equivalent to that charged in Tennessee, provided laws in the other state permit charging a lower interest rate.

Two pieces of legislation affecting structure are pending in the legislature. (All bills filed in the 1981 session and not disposed of during that session automatically rollover into the 1982 session, since each session extends for two years.) The first piece of legislation would allow merger of banks that have been in existence for five years. The second would reduce restrictions on HC acquisitions and branching.

Pending legislation detrimental to banking includes the following:

• A revision of garnishment laws to the detriment of creditors. The bill would allow garnishment only of alternate pay periods, eliminate filing of a list of property to be claimed as exempt and hold the garnishee liable for paying any incorrect amount.

• Another bill revises foreclosure laws to the detriment of creditors. One provision allows the establishment of a pay-back procedure for a mortgagor who is in default but is on a fixed income or below poverty level.

• Another bill would place a $5 limit on the amount banks can charge for bad checks. It has passed the state senate.

• Another bill would prohibit "due on sale" clauses in residential mortgages.

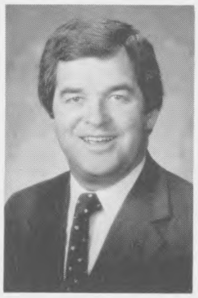
Tennessee bankers also are concerned about possible passage of a bill that would outlaw the use of the Rule of 78s.

Texas

The Texas legislature doesn't convene in regular session this year, so it looks like clear sailing for bankers in 1982. ● ●

Banks Must Make Unified Effort To Meet Nonbank Competition

OLSON



By Mark W. Olson
President
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EDITOR'S NOTE: There's no subject hotter in banking today than nonbank competition. At meetings, conventions, seminars and in articles in banking journals such as MID-CONTINENT BANKER, *much has been said and written on the subject. One philosophy often expressed is that commercial bankers must agree among themselves on how to meet such competition before Congress or regulators can provide a climate in which all financial-service institutions can compete on an even plane.*

In the following article, Mr. Olson discusses this lack of consensus and how important it is for bankers to come together and decide what kind of regulatory climate they do want.

* * *

ALL BANKERS and even mildly attentive bank customers are well aware of the growing nature of nonbank competition. As a result, two re-occurring questions are being asked. Traditional bank customers, fully aware of the investment opportunities and convenience offered outside the banking industry, are wondering why banks are not offering identical products. Bankers, increasingly frustrated by strong customer acceptance of nonbank products (witness the money-market-mutual-fund phenomenal growth), wonder why businesses offering bank-like services are not subject to bank-like regulation. Answers to these questions do not come easily.

An important reason for lack of easy answers is that bankers feel the impact in varying degrees. As a result, each of us views the threat of nonbanking competition differently. The famous World War II cartoonist, Bill Mauldin, depicted his two characters, Willie and Joe, sitting in a foxhole, one saying to the other, "The hell this ain't the most important foxhole in the world, I'm in it." Many bankers today feel much the same way. We find it hard to focus on the growing competitive threat from nonbank sources while faced with the immediate daily reality of an aggressive savings-and-loan or credit-union competitor offering strong competition. Because changes are coming rapidly and because they are affecting each of us differently, we have a lack of consensus as to the appropriate solution.

Our lack of a consensus could be costly. Nonregulated businesses have been able to react more quickly to changes in consumer demand than have banks. Should this trend continue, they may enjoy a greater share of the new markets created with these new products. The banking industry does not need to concede these new areas, but will be hindered by existing regulation that nonbank competitors do not have. Any hope that Congress will react to this competitive imbalance by imposing additional regulations on nonbank types should be dismissed quickly. The banking industry received a strong rebuff to its recent request for imposition of reserves on money-market funds. A strong negative reaction from the news media and general public was accompanied by a near-unanimous lack of sympathy from Congress. The possibility of a congressional solution on this issue is similar. We can expect Congress to react only when a consensus exists in the financial community.

While considering possible solu-

tions, it's important to look at how Congress reacts to these types of changes. It is not the nature of any elective body to anticipate and provide for great change. Instead, it moves from crisis to crisis, putting out fires and reacting only when it senses a positive response from the general public. For a parallel, we need only to look to our nation's current and continuing energy crisis. When Gerald Ford was President, he introduced emergency legislation to create an energy policy. Six years and two presidents later, Congress has yet to produce anything that could be considered an energy policy. The inability of Congress to create such a policy results from lack of consensus in the nation on energy issues.

If we as bankers look to Congress for solutions, we must be mindful of two facts. First, warm feelings still exist in Congress toward the S&L industry. Efforts to help that industry still are considered to be efforts that will improve housing, which remains synonymous with apple pie and motherhood. The banking industry will receive no statutory relief that is not either preceded or accompanied by a "solution" to the problem of the ailing thrifts.

Second, if we as bankers are to be successful in our efforts, we must reach a general consensus on the type of regulatory climate we want to achieve. A splintered banking industry may help keep legislation from happening for a time, but only a unified banking industry can create a successful legislative effort. ● ●

The Banking Scene

(Continued from page 6)

estimated that approximately seven out of every 10 bankers is a woman. Most of these women are employed in subordinate positions. However, due to their educational attainments and career choices in taking business education courses, it appears that women will move up the managerial ladder in substantial numbers.

Though the number of individuals available to enroll in higher education will diminish, it's quite likely the proportion of people continuing on to college will increase. Thus, more women will be trained in business-management subjects. However, the remarkable technological changes in banking still will call for a great deal of in-house as well as academic education, although workshops and seminars outside the bank will decrease in frequency. It's likely that many training devices for education will be adapted for in-bank training programs through the use of computers and cathode-tube displays.

The nuclear family of the 1940s, in which the husband was the wage earner, the wife the housekeeper and one or two children were the norm, has already changed, with the woman being a second wage earner. This trend is anticipated to accelerate in the years ahead, encouraged by the inability of the average family to afford a house on a single wage.

Some types of mobility actually are reduced rather than increased when there are two wage earners in a household. This situation could result in less rotation of jobs between the head office and branches. In the poem "Invictus" is the statement "I am the captain of my fate, I am the master of my soul." While that statement will remain true for certain exceptional individuals, it appears that many persons will not have the discretion they had in the past in terms of career selectivity. This is partly due to the exponential growth in knowledge and information.

This dramatic explosion of information can be reflected in a simple statistic. The Federal Register now is publishing about 80,000 pages of regulations per year. Information has been exploding dramatically and will continue to do so. However, the other side of the coin is that information retrieval has gone through a dramatic growth period. Now, information on a credit-card transaction can be transmitted across much of the world in a few seconds; a generation ago it would have taken days.

Giant banks, such as Continental Illinois National in Chicago, are experimenting successfully with locating some employees at remote sites from which they can conduct the bank's business electronically. Some bankers have no need for face-to-face contact with bank customers or other employees. This could very well result in some tremendous psychological implications of which we cannot guess at this time.

What would appear on a scroll with the heading "What is a banker in the year 2000"? Those features on Dr. Nadler's scroll probably will continue to be essential qualities for a banker. However, undoubtedly we would add others. The banker of the year 2000 will need a much broader understanding of computers, communication systems, economics and interpretation of government regulations and education in many areas, such as demographics and human-resource management. This means that while a person may be well educated in a liberal arts sense on entering banking, there will be a continual need for on-site and off-site education in a multitude of areas related to banking.

If the Federal Register continues to expand at the rate it has in the past 10 years, it will publish more than 100,000 pages annually by the year 2000! Would it be too sanguine to hope that the trend will reverse itself in that area by the year 2000? ● ●

Bankers Forecast '82 Economy

THE PRIME will be in the 12%-14% range by November, according to 43% of the bankers polled by First National, Chicago, during the bank's recent bank correspondent conference. Nearly 34% expect the prime to be under 12% and the remaining 20% pegged it at more than 14%.

By 1984 the federal budget deficit will be under $50 billion, forecast 45% of those polled. About 40% expect the deficit will be between $50-$100 billion.

Management of the money supply by the Fed was judged to be "about right" by 73% of the bankers; "too restrictive" by 20% and "too easy" by the remainder.

On the issue of returning to the gold standard, 67% said "no" and 26% said "yes."

The annual inflation rate was projected to be between 8%-10% for 1982 by 50% of the bankers participating in the survey, while 34% thought it would be between 6%-8%. Approximately 35% thought the Dow would be at the 800-900 level, while another 34% projected it to be between 900-1,000 by November, 1982.

The long-term interest rate was projected to be between 10%-12% by half the bankers. Forty-one percent felt the unemployment rate would be between 8%-9%, while 36% expected it will be between 7%-8%.

New Year Brings 'Everyman' IRAs; Banks Were Last to Announce Rates

Nonbank Competitors Get Early Start With Payroll Plans

By Jim Fabian
Senior Editor

PERHAPS the most troublesome question nagging bankers about IRAs as the New Year dawned was this: "Will I get my share of IRA accounts?"

Banks, for the most part, held off announcing details of their IRA offerings, especially the interest rate to be paid, until the startup date was on them. Bankers whose institutions had fully developed IRA plans were loath to announce them lest their competitors learn their rates and offer something a little more appealing to the public.

Other banks delayed setting rates until the deadline, either not knowing what they would pay or not being able to reach a consensus as to what the market would bear.

If IRAs were limited to banks, this procedure probably would not cause concern; yet, while bankers were making last-minute rate decisions, nonbanks were broadcasting their IRA plans — complete with rates in most cases — to the public through all types of media.

One area in which nonbank competition enjoyed a head start is signing up employees of firms for payroll IRA plans. Insurance firms were especially adept in this area since they often already had a foot in the door through administration of pension and profit-sharing plans. Solicitation of payroll deduction signups is a relatively economical way of building up IRA business, since employees can be solicited on the job, eliminating advertising expense because a firm's employees constitute a captive audience.

Most of the larger banks have been active in this area, too. Typical may be Harris Trust, Chicago, which announced its "Harris payroll deposit IRA" in December. Harris touts its company IRAs as "an important benefit to your employees' package with minimal extra cost or effort on your part." The bank says employees will appreciate having their IRA deposits deducted from their paychecks. Harris offers to set up IRAs through an existing corporate-benefit plan.

New York's Citibank has been marketing its IRA program to corporations nationwide. The bank touts its service as desirable because employees want the security of a bank for their IRAs. Also, a bank spokesman says, employers prefer to deposit retirement money with a bank over a money fund because employees tend to be conservative and would not be comfortable with their retirement funds in a speculative money fund.

Huntington National, Columbus, O., also has been soliciting corporate IRAs. The bank promotes the fact that IRA deductions are made prior to calculating federal withholding taxes so employees have full use of their tax savings throughout the year rather than having to wait until they file income tax returns to realize their tax deferment. The bank offers fixed-rate and variable-rate 18-month certificates. A bank spokesman said the only competition its solicitors had in the corporate area was brokerage firms.

Here's a rundown on what banks planned to offer consumers opening IRAs starting January 1 (some plans were tentative at press time):

- First National, Kansas City, said it would offer two 18-month plans, one with a fixed rate, the other with a variable rate completely competitive with money funds. The bank is stressing the fact that it offers insured safety for IRA funds while money funds do not.

Customers have the option of splitting a $2,000 IRA deposit between the two types of accounts. Interest is compounded and added to the funds on a daily basis at the rate earned by each account.

- First Tennessee Bank, Memphis, offers "Money Shelter" IRAs at either a floating or fixed rate. The floating-rate account is indexed to the Fed funds rate and is equal to 100 basis points below that rate for the previous week. Minimum deposit is $100; however, no minimum is required for preauthorized drafts, transfers or payroll deductions. Additional deposits of any amount can be added at any time and interest is compounded and credited quarterly.

The guaranteed-rate account requires a $500 minimum for each deposit and the interest rate is announced weekly and is fixed for the 18-month term of the deposit.

IRA Materials Offered

"A Legislative and Regulatory Review of the New IRAs" and cassette tapes from a recent IRA workshop are available from the ABA's marketing division.

The review explains changes in the IRA law authorized by the National Economic Recovery Plan last year. The booklet was used at the well-attended ABA workshops held last fall in Atlanta and Kansas City. Cost: $7 for members, $10 for nonmembers.

The cassettes were made at the workshops and cover topics such as "Structuring and Promoting IRAs," "Marketing Research," "High-Balance IRAs, SEPs and Rollovers," "Data Processing Implications" and "ABA National/Local Advertising." Cost: $9 per tape.

"The "ABA Banker's Guide to IRAs" is expected to be available shortly. The revised manual includes information on marketing strategies as well as current IRA operations aspects.

Orders can be placed with Antoinette Weldon, ABA, 1120 Connecticut Avenue, N. W., Washington, DC 20036.

Thrift Bids for IRA Deposits Prior to January Startup Date

AN attractive "come-on" effort to generate IRA accounts prior to the January 1 startup date was made in December by St. Paul Federal Savings, Chicago, with its "Retire With a Million" plan.

The thrift offered potential IRA account holders 13% interest on IRA-designated funds prior to January 1, plus a cash bonus of 1% of the amount on deposit on December 31.

The funds were automatically rolled over on January 1 into FSLIC-insured 18-month IRA CDs earning "market rates." Should a customer decide not to keep the funds in an IRA, he had a week's grace period (the first week in January) to notify the thrift of his change of mind in order to receive a refund with no penalty.

The thrift requires no minimum deposit for its IRAs and the floating rate now is one-half of 1% above the higher of the current six-month T-bill rate or the average of the rates of the prior four weeks. The rate changes every Tuesday.

Financial institutions report that, generally, efforts to secure IRA-designated funds prior to startup of the accounts proved unsuccessful. ● ●

St. Paul Federal's newspaper ad includes chart showing growth of IRA funds when left on deposit until age 65. A 20-year-old depositing $2,000 per year to age 65 at 14% interest would have almost $7 million at retirement! Ad promised 13% on funds prior to January 1 plus 1% cash bonus on December 31.

• Bank of America, San Francisco, offers a "fixed-rate accumulation investment" account with a maturity of 18 to 24 months. Additional deposits can be made at any time without extending the maturity date or altering the interest rate established when the account was opened.

• Marine Midland banks in New York offer fixed- or variable-rate options. The fixed-rate plan extends for 18 months and is set each month for accounts opened during that month. Variable-rate-plan interest changes monthly along with market conditions. The rate is one-quarter of 1% above the average of rates set at the four consecutive 26-week T-bill auctions held immediately preceding the first day of each month.

There is no minimum deposit for IRAs opened by payroll deduction, automatic transfer from Marine checking accounts or simplified employee pension IRAs used by employers. Interest is compounded daily and paid quarterly.

• Commerce banks of Missouri are offering 24-month accounts paying one-quarter percent more than the six-month T-bill rate. The floating rate is adjusted quarterly.

• Mercantile Trust, St. Louis, is offering CDs with two-year maturities and rates that were expected at presstime to be indexed to 52-week T-bills. Continuous deposits are permitted. If rates increase, an IRA depositor can freeze his first CD and start a second at the higher rate at the end of the first year.

Mercantile is offering three mutual funds — a growth stock fund, a more volatile stock fund of smaller firms and an intermediate maturity fixed-income fund.

Mercantile requires a minimum IRA deposit of $50 a month or $500 a year. Deposits can be divided among investment options; there is a $25-per-month minimum deposit for each option chosen. Mercantile offers its IRAs through the trust rather than the banking department.

• Mark Twain banks, St. Louis, offer two 18-month CDs for IRA customers, one with a fixed rate and one with a floating rate. The fixed-rate CD is available for a minimum deposit of $1,000 and pays the same rate as the bank's 30-month CDs. The floating rate account requires a $500 minimum and additional deposits can be made in $100 increments. The rate is tied to the money-market CD rate, determined by either the most recent weekly Treasury auction or the average of the previous four auctions. ● ●

Premiums, Profiles Pique Interest Of Potential IRA Customers

INNOVATIVE ways to sell IRA accounts include the use of premiums and computer profiles.

The premium approach is being used by Bank of Hawaii, Honolulu, to attract IRA customers away from the bank's competitors. Starting January 1, the bank offered 20 free silver dimes to the first 1,500 customers contributing at least $200 toward an IRA. The coins are pre-1964, which makes them valuable to collectors due to their silver content. The U. S. Mint stopped using silver in dimes after 1964.

The bank, which is the state's largest, doesn't usually give premiums, but the dimes, which had been in the bank's vaults for almost 20 years, seemed a natural for IRA customers, especially since the bank's competitors — primarily thrifts — were offering premiums.

According to James M. Boersema, the bank's public relations manager, the bank offered premiums for IRAs because they would encourage prospective customers to wonder why the bank was so eager to solicit IRAs. "We believe the IRA is one of the best deals to come down the pike for both customers and banks," he said. "And we figured that the fact that we are offering a distinctive premium would signal consumers that we are committed to this account and think it is a boon."

The bank began advertising its dime offer at the end of November through posters in its 60 branches, direct mail brochures to customers and TV and newspaper ads.

First Huntington (W. Va.) National is using computers to profile potential IRA customers to show them how their financial fortunes will soar once they sign up for an IRA.

Ads in local newspapers contained coupons requesting consumers thinking about opening IRAs to submit their names, addresses, ages and ages at which they wish to retire along with the amounts they expect to contribute annually to IRAs.

The profile measures the projected computations of an individual's "IRA-bility," enabling the individual to see how an IRA will grow based on the choice of contribution and interest paid. Monthly income potential and tax savings also are projected.

The program computes the projected profiles using three different rates, the lowest possible of which is the 9% floor the bank has imposed, the current money-market rate and a rate somewhat higher than the current rate. The projection also indicates how much a consumer would receive at ages 60, 65 and 70.

The bank has been profiling the public since the end of November and had drawn in about 200 responses by mid-December. Four staff people assist in explaining and servicing customers who want IRAs. The bank will send a personal representative to visit individuals who request more information about the retirement accounts.

The educational program is expected to continue for some time, according to a bank spokesman. ● ●

Bank Offers IRA Hotline

Worthen Bank, Little Rock, started a toll-free IRA hotline service last month to enable consumers to query the bank about IRAs. The toll-free phone service was available throughout the state of Arkansas.

Questions were fielded by the bank's IRA specialist, Ed McCulloch, a bank officer and Worthen employee for 18 years.

The hotline received 390 calls the first week it was in operation, an average of about 65 calls per day, according to Patrick O'Sullivan in the marketing department. The greatest number of calls was received on the first day of the service.

According to Mr. O'Sullivan, about 55% of the first week's callers had general questions about IRAs, 35% inquired about interest rates, 10% had questions about IRA rollovers and 5% wanted information about when "everyman" IRAs would be available. Those wishing rate information were advised to watch for newspaper announcements later in the month.

Among the callers, Mr. O'Sullivan said, were some bankers.

The service was set up to operate only during December, but there was a possibility it would be extended into January if conditions warrant, Mr. O'Sullivan said.

Government-Relations Forum Set by Consumer Bankers

The Consumer Bankers Association's third annual retail banking government-relations forum will focus on legislative and regulatory developments of importance to the retail banking industry in 1982.

The forum will be held January 25-26 at the Crystal City Mariott Hotel, Arlington, Va.

Among the featured speakers will be Senator Richard G. Lugar (R.-Ind.), a member of the Senate Committee on Banking, Housing and Urban Affairs. His topic will be the Credit Deregulation and Availability Act of 1981, which would preempt rate ceilings on all consumer credit.

Participating effectively in the legislative and regulatory process, deregulation of deposit services, usury, bankruptcy, the new payments code and the Financial Institutions Restructuring and Services Act of 1981 are among the other issues to be covered by congressional and bank regulatory agency policymakers, attorneys and retail banking industry leaders at the forum.

Bolger

(Continued from page 24)

are not the culprit; they can be indexed at a high enough market level so that banks are not disadvantaged in competition with money funds. Removal of interest-rate ceilings overnight primarily would help the go-go banks or the hard-pressed S&Ls, which might gamble on predatory rates just to capture market share. The rest of us would just be trading new problems for old.

Don't sell your competitive abilities short. Small banks are potentially light on their feet and can cut and try services with an ease financial giants must envy. We also are smart enough to recognize when basic changes in the marketplace make certain banking practices obsolete regardless of how comfortable and longstanding they have become. We know that new flexible loan and deposit instruments are the only types compatible with a climate of roller-coaster interest rates. We know we must apply a sharper pencil to our costs and the charges we make to meet them. We know we must broaden our access to credit markets, explore shared facilities, reduce system costs and gain any possible competitive advantage larger institutions may have — without surrendering the virtues and responsibilities of serving the financial needs of the people of our communities.

Do remember that you are not alone in facing these new competitive challenges. Over 90% of the banks in this country are community banks with common business goals and frustrations. We should rely on one another for resource information so that each of us does not need to reinvent the wheel each time we develop a new service. There's no shortage of political issues we might resolve if community bankers as natural allies concentrate their common energies by working together to reduce the burdens of over-regulation, to ensure the orderly process of deregulation, to develop first-class consumer services and to encourage regulators and their examining agents to work *for* us instead of against us.

Don't accept dire predictions about small banks' future as gospel or the advent of massive changes in banking as inevitable. The perennial tune sung by the prophets of small banks' doom is self-serving and can become self-fulfilling by spreading a psychology of fear designed to frighten small banks and make the battle seem lost before it's even been contemplated.

Next time you read an article predicting interstate banking and its fall-out for small banks, check the sources cited. I'll wager that in nearly every case the bankers interviewed represent money-center interests rather than a cross-section of the banking industry. Independent studies such as one done in 1981 by the Fed have concluded that small banks are not only viable in the face of increased competition, they actually have outperformed larger banks in profit and deposit growth and have done so consistently over the past decade. To give some perspective, I have a copy of another article from *Business Review* entitled, "Small Bank Survival: Is the Wolf at the Door?" It's dated almost 10 years ago.

Each new crop of bankers probably believes it is facing competition for banking business that has never been more severe or challenging. Maybe it's true. But competition in banking is not like a sporting event where there always is one loser for every winner. The banking market can and will contain many winners, large and small, each surviving and prospering beside the others. ● ●

Mainous

(Continued from page 26)

few large multipurpose financial-service corporations, rather than thousands of individual, specialized financial institutions competing on behalf of the special needs of their customers.

Restrictions on Geographic, Functional Expansion. The trend is to eliminate restrictions on geographic expansion and barriers that prevent institutions from performing a variety of financial services, such as banking, brokerage, insurance, etc., across state lines. The present system was established on a constitutional model, whereby states would have the right, through their voters, to determine what form and system of banking are best suited to meet their economic and social systems. A federal government override of this authority, whether by overt action or by passive acquiescence, does not appear to be in line with the checks, balances and rights of states, as guaranteed by the U. S. Constitution. Responsive competition between federal and state systems appears slated for termination under "deregulation."

Public Considerations. Changes that affect the safety, stability and responsiveness of financial institutions to the general public are of great concern and should not be taken lightly. One basic effect of current trends is a competitive system that tends to elevate substantially the cost of all banking services, whether they be checking accounts, safety deposit boxes or credit. Will small customers have institutions competing for their business? Would giant institutions have a tendency to divert usable funds to large corporations and international business? What control will regulatory authorities have on allocation of these funds?

Basically, it appears that local bankers may no longer continue to have authority to allocate funds to local communities as they have for the past 50 years. Competition for funds to the local level probably will increase, while competition for allocation of use of funds at the local level may decrease.

Finally, commercial bankers must use their influence now to bring about decisions they consider to be best suited for their customers as people. As a bank's customers prosper, the bank and its shareholders also should prosper. ● ●

Focus Groups Review IRA Options; Help Bank Determine Its Product

By M. Carl Sneeden
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SUCCESSFUL bank-marketing strategy relies on the ability to understand the needs and concerns of prospective customers so products — such as individual retirement accounts (IRAs) — can be positioned by their characteristics and uses. The job of advertising is to communicate salient benefits that satisfy those needs.

In common with consumer and industrial-product companies, banks must deal with such questions as:

- What population segments, in terms of demographic life-style and user characteristics, are potential customers for IRAs — or any product being offered?
- What features of IRAs will provide recognizable benefits to which consumers?
- Are there any negative components that must be eliminated or minimized?
- What appeals have the best chances for stimulating product awareness, creating enough involvement to get the consumer to open an IRA?
- Does the product fit the perception of the sponsoring institution so positive attitudes and feelings are enhanced?

An integral part of the new-product-development process at Third National is the employment of qualitative research to obtain answers to these and other marketing-related questions so that marketing strategy can be formulated with confidence that the product will meet with widespread consumer understanding and acceptability.

The vehicle often used to provide the necessary consumer input is a series of focus-group interviews conducted regularly by Donald A. Chase, president, Chase Research, Inc., an Atlanta-based consulting firm that specializes in research and planning activities for financial institutions.

As Dr. Chase says, "Focus-group interviews are designed to explore in depth the perceptions and feelings of individuals from selected population segments that seem to represent the best customer potential for the product being developed. Such information gives us insights into 'how' and 'why' people are likely to behave as they do and helps to determine their underlying thought processes about the product concept being fashioned by the firm."

A focus group usually includes from eight to 12 participants, individually recruited by phone, who meet around a conference table for two hours. Using a discussion guide prepared in advance, the group moderator selects topics for discussion and encourages the interchange of ideas among participants. Compared with other data-collection techniques, the focus-group atmosphere tends to produce a great deal more candidness due to the social situation and the emphasis on a single subject for an extended period. The opportunity to interact with others helps participants verbalize their attitudes and beliefs. One of the moderator's responsibilities is to create an environment that encourages acceptance of each person's expressions without the necessity of holding back or defending a position because of his or her accustomed social roles or proprieties.

Typical focus group in session to review options of a new product to be offered by Third Nat'l, Nashville. Sessions are conducted for bank by Atlanta-based consulting firm.

By virtue of the moderator's participation in the study — and a reminder provided by tape recordings of the interview sessions — the analysis utilizes the specific expressions used by participants in describing their feelings and reactions. Since any single group can develop tangents, a series of two or more interviews provides the analyst with a chance to compare the output of different sessions in arriving at valid study conclusions.

Critics of the focus-group technique often point out its unrepresentativeness of the total population base. Yet, as Dr. Chase points out, "Focus-group research is intended to be used as an exploratory procedure, providing a body of data that must be quantified if the intent is to project study findings to a larger universe. By themselves, results of group interviews should be used cautiously as providing a number of hunches that must be confirmed by further research using an appropriate sampling design."

Because of previous successful application of focus-group research to the marketing of automatic teller machines, evaluation of new services for special segments of the market and their employment for the examining of the meaning of advertising themes and copy approaches, Chase Research was contacted to perform a similar study. The purpose: to help Third National define the market for IRAs and, by better understanding consumer feelings about the concept, help the bank position its IRA program to optimize the likelihood of success.

Three focus groups were assembled for the IRA study, two of which consisted of white-collar job holders and the third of blue-collar workers. Participants' ages ranged between 28 and 62 years and each had an annual personal income of $25,000 or better.

At the outset, interviews were used to determine the awareness level of IRAs among participants. Because most people probably would be relatively unfamiliar with provisions of present programs, a description of the federal law governing IRAs was distributed to participants to elicit their levels of understanding, initial interest in the concept and perceptions of specific benefits or disadvantages.

From the interchange among participants, it was concluded that:

- IRAs offer an interesting plan to supplement retirement income. Income is eroding due to inflation and pension provisions are inadequate to maintain expected life-styles because of problems with Social Security.
- A significant benefit is the opportunity to defer some taxable income until income is reduced so that less tax must be paid.
- There is considerable merit in a plan that is individual — rather than employer — controlled.
- Through payroll deductions, employees will be provided with a relatively painless way to accumulate retirement savings.

As the concept of IRAs became more familiar, blue-collar workers voiced considerably more enthusiasm, citing concerns about job security and their ability to meet financial commitments after retirement. The need to make continuous regular contributions to a retirement fund is believed a necessity but difficult to accomplish unless a payroll-deduction program is offered by employers. The plan also should allow reasonable deposit amounts.

Among white-color participants, there was less immediate endorsement of IRAs and more emphasis on being provided with detailed comparative proof that IRAs would appreciate their income as well or better than other investment instruments. White-collar workers displayed considerably more confidence in their own ability to manage their personal resources. While considering an IRA plan, they likely will investigate differences between alternative sources, looking for competitive advantages before arriving at a purchase decision. Their responses to IRAs were more noticeably analytical compared with the emotional responses of the blue-collar group.

In the process of providing initial reactions to IRAs, participants were encouraged to voice their feelings about the selection of a financial institution. Presently, there is substantial agreement that banks and credit unions are attractive institutions for investments due to their conservative orientation, frequency of business contacts with the customer, ability to transfer funds readily between accounts and federal-insurance protection. When maximum appreciation of funds is considered, brokerage houses have a decided perceptual advantage, but they are seen as riskier. Some participants believe banks are essentially monetary-exchange institutions, therefore are less likely to be resourceful in the management of assets.

Recently publicized losses by S&Ls make a long-term investment at a thrift appear risky, the groups felt. In an unregulated environment, banks seemed to them to offer more security and dependability.

Insurance companies are perceived as often employing agents who have limited knowledge in this field and thus may confront customers with difficult-to-understand programs. Real estate has lost its perceived glamour as an investment vehicle due to persistently high interest rates and the necessity of foregoing possibilities for immediate liquidation.

Participants say that inflation has caused them to reassess spending priorities so, in effect, they are saving small amounts today in spite of compensation increases. Yet they share concerns about insuring their future well-being by setting aside funds to augment other retirement income. In this context, they see IRAs as a logical necessity for every employed person.

When participants directed their thoughts to benefits associated with IRAs, in order of their priority, the most important considerations were described as: amount of appreciation in annual percentage interest rate, terms offered, provisions for short-term liquidity, incentive of deferring taxes, security of invested funds, amount of individual risk, institutional stability, degree of perceived financial-management expertise, convenience of business locations and opportunities to be accorded courteous personal treatment.

The interest rate is a key factor in motivating consumers to actively seek out an investment opportunity. With rapid fluctuations in interest rates over the past few years, consumers are wary of being locked into a fixed rate for a long term. When asked if they favored a variable or fixed rate for IRAs, the majority selected a varying rate on a weekly basis so they could take advantage of any rate increases. When reminded that interest rates could fall as well as rise, participants were not unduly concerned, because rates tend to reflect overall economic conditions. However, the idea of a guaranteed floor below which interest rates would not fall provided an important but essentially psychological benefit that was appreciated by participants, even if the interest floor was pegged as low as that for demand-deposit accounts.

The perception of attractive rates depends on term length. If the instrument is an 18-month certificate, a few participants modified their views to endorse a variable rate, but fixed for the length of the term with a renewal or conversion option at the rate prevailing at certificate maturity.

When the moderator suggested that the interest rate might be tied either to weekly Treasury-bill auctions or to money-market rates, personal involvement in the IRA concept increased noticeably. The proposition suggested IRA sponsorship by a brokerage house since consumers have become conditioned to lower interest rates being offered by banks and S&Ls. With the realization that a bank could conceivably be thinking of such a product benefit, attitudinal expressions continued favorably. Such a provision would seem to combine maximum security with low risk in a familiar institution already frequented regularly.

Blue-collar participants placed an emphasis on the amount of the minimum opening deposit and wanted assurance that subsequent deposits could be made in small increments, preferably by payroll deduction. White-collar employees felt their company would welcome presentations by IRA sponsors because of the employer's interest in the future well-being of its employees. They visualized employers being able to accommodate payroll deductions as they do for insurance and charity donations.

(Continued on page 53)

Kane Cochairs Fund Drive

Named cochairmen to raise $425,000 for the Nashville Symphony Association's 1982 support drive are Charles J. Kane (l.), ch./CEO, Third Nat'l, Nashville, and Richard Hanselman, pres./CEO, Genesco.

After 1871 Chicago fire, this building housed first predecessor of Continental Illinois Nat'l — Merchants' Savings, Loan & Trust Co. Located on northeast corner of Madison and Dearborn, structure was site of bank from 1872-1881.

This building, which housed Illinois Trust & Savings Bank, stood at LaSalle and Jackson from 1897 until being torn down in 1923 to make way for what is now Continental's world headquarters. This structure was designed by Daniel Hudson Burnham, winner in national competition, and cost $600,000.

Continental's present quarters, with its six ionic columns, was built for its most important predecessor, Illinois Merchants' Trust Co. This photo was taken in 1924 as building — then tallest structure in Chicago — neared completion. In background is old Board of Trade Building, which was razed in 1928 to make way for present Board of Trade building.

In Chicago:

Continental Bank Looks Forward To 125th Birthday

A MILESTONE ANNIVERSARY — its 125th — is being observed by Chicago's Continental Illinois National by focusing on the people responsible for the bank's longevity, its employees. The celebration, which began in October and will stretch into mid-1982, is centered on the theme, "Building on Basic Strengths."

Illinois' oldest and largest bank is planning these key events: an 1857 employee lunch on January 28, the anniversary date, at that year's prices, distribution of anniversary mementos to all employees and pensioners worldwide and joint observance of the anniversary with city and state officials.

Also, a special image brochure and film will be produced, and the 125th-year theme will be applied to countless regular bank items and events, including new-office openings, various employee parties and periodical bank reports.

Banners commemorating the occasion were hung at all customer banking centers the first week in January. At the 1857 employee lunch January 28, all employee dining areas will be decorated and food-service staff will be dressed in the style of the day.

The meals will cost employees what they would have paid for similar fare in 1857, and musicians playing selections from that period will entertain diners.

In addition, Continental personnel around the world will observe the anniversary in keeping with local requirements and preferences.

The Bank's History. Continental's family tree, which has many branches, began growing January 28, 1857, when its earliest predecessor, Merchants' Savings, Loan & Trust Co., was established by a group of Chicago businessmen, who subscribed $500,000. In contrast, last September 20, the bank had $29.8 billion in total deposits and about $44.6 billion in total assets, making it the seventh largest commercial bank in the country.

The 1857 bank was created as a conservative institution in an era of "wildcat" banking. Its name was modified in 1881 to Merchants' Loan & Trust Co., and its location was changed several times as it and the city's business cen-

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5075 Wayzata Blvd., Minneapolis, MN 55416 ter grew. It was located in its first home — on the northwest corner of South Water and LaSalle streets under the Board of Trade rooms — until 1860, when the bank was moved to the Dickey Building at Lake and Dearborn streets. The great Chicago fire of October 9, 1871, caused another move. While many buildings were still smoldering piles of rubble, the bank's president, Solomon A. Smith, set up temporary quarters in his home at 414 Wabash Avenue.

By the way, the fire did not result in any depositor losing a penny, although all the bank's records were destroyed. Fortunately, cash and securities remained untouched by the flames, and bank officials decided to honor the word of their depositors as a guide in paying out funds. Ultimately, the bank charged off losses of only about $55,000, a small percentage of its total resources of $3.7 million (as of December 30, 1871). This was done rather than take court action to adjust and settle each claim satisfactorily.

The first Chicago bank to use "Continental" in its name was Continental National, chartered in 1883. This bank and Commercial National were combined in 1910 to form the city's largest bank, Continental & Commercial National. A trust and savings affiliate, Continental & Commercial Trust & Savings Bank, was set up at the same time.

In succeeding years, the bank moved and changed its name several times. In 1900, it had erected its own building at Adams and Clark streets. In 1923, Continental's oldest antecedent, Merchants' Loan & Trust Co., was merged with Illinois Trust & Savings Bank. The latter was founded in 1869 as Sterling (Ill.) Bank and was moved to Chicago in 1893, and its name was changed. With the 1923 merger, the word "Illinois" became a part of Continental's name for the first time. In 1924, Continental moved to its present quarters.

In 1927, Continental & Commercial National and Continental & Commercial Trust & Savings Bank were merged to form Continental National Bank & Trust Co. Two years later, Illinois Merchants Trust was merged with it, creating Continental Illinois Bank & Trust Co. This merger gave Chicago its first billion-dollar bank, with capital funds of $140 million and total resources of $1,162,000,000. In 1932, the present institution, Continental Illinois National Bank & Trust Co., came into being when it was issued a national charter. The most recent merger occurred in 1961, when City

Solomon A. Smith was one of the founders of Continental's original forerunner, Merchants' Savings, Loan & Trust Co. (1857) and was its third president from 1860 until his death in 1879. During Chicago fire in 1871, he removed bank's valuables to his home.

National was merged into the Continental family.

Since 1969, Continental has been the wholly owned subsidiary of a one-bank HC created to allow diversification into other financially related service areas. Originally called Conill Corp., the parent company's name was changed to Continental Illinois Corp. in 1972. Last September 30, the HC had assets of $46.2 billion and deposits of $29.6 billion.

In 1976, a major reorganization of Continental's corporate-banking activities in the U. S. and overseas was initiated to enhance the bank's responsiveness to the evolving needs of corporate customers. The commercial, international and newly formed financial services and multinational banking departments were brought under the single heading of general banking services to provide coordinated management direction.

Last February, the new U. S. banking and special industries departments were developed as part of general banking services. Taken together, these two new departments comprised what previously had been commercial banking services.

In December, 1980, Continental announced it was leasing 260,000 square feet of space in New York City for the purpose of relocating and consolidating all of its New York operations in a single building. The latter, called Continental Illinois Center, will be ready for occupancy this year. ● ●

Milo Hopkins Dies

Milo B. Hopkins, 80, former e.v.p., and head, national div., Manufacturers Hanover Trust, New York City, died recently at his home in Fort Lauderdale, Fla. At the time of his retirement in 1966, he supervised the bank's business with more than 1,500 industrial and corporate customers outside the metropolitan area of New York City and some 4,000 correspondents of the bank. He joined Central Hanover Bank, predecessor of Manny Hanny, in 1940.

ABA's Marketing Meeting Set for March 10-12

The ABA's corporate/commercial marketing conference is set for March 10-12 at the Hyatt Regency Hotel, San Francisco.

Product management, officer-call programs, pricing corporate services and cash management are topics for concurrent sessions that will be repeated with different speakers on each day.

Among the speakers set for the conference are ABA President Llewellyn Jenkins, vice chairman, Manufacturers Hanover Trust, New York; James Shennan Jr., president, S & O Consultants, San Francisco, speaking on corporate identification; John Grundhofer, executive vice president, Wells Fargo Bank, San Francisco, discussing marketing segmentation; and Dennis Evans, president, First Bank Minneapolis, who will speak on marketing planning and asset/liability management.

Washington Wire

(Continued from page 8)

thrift institutions in return for a guaranteed end of the interest-rate differential and deposit-interest-rate ceilings no later than 1986.

That trade-off was agreed to by all parties involved when the law was enacted. The disconcerting fact as 1982 opens, however, is that many of those groups purporting to speak for regulated depository institutions in Washington have not yet been able to agree on what deregulation means. Reaching such an agreement is the paramount priority.

Absent such an agreement, the only certainty is that less-regulated financial intermediaries will continue to attract a larger share of the deposit market. The new Sears fund is expected to join other new entrants in the market in the near future. With money-market-mutual funds approaching the $200-billion mark, and continuing to grow at nearly $3 billion per week, the question is how long regulated depositories can afford to remain in disagreement on the necessity of deregulation. ● ●

Centerre — A Unique New Name Appears in Missouri Banking

WHEN a bank decides to change its name, the action is not done overnight, nor is it done lightly. This can be attested to by the former First National in St. Louis, which, along with its parent firm, First Union Bancorp. and the HC's other subsidiaries across Missouri, adopted the name *Centerre* effective January 4.

On that date, First Union became Centerre Bancorp.; its lead bank, First National in St. Louis, became Centerre Bank; St. Louis Union Trust Co. became Centerre Trust Co. of St. Louis, and each of the affiliate banking members in Missouri's largest HC became Centerre Bank.

"Our new name," says Clarence C. Barksdale, Centerre Bancorp. chairman/CEO, "is a positive response to some significant changes in our banking environment."

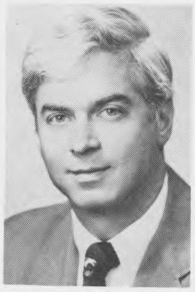
According to Mr. Barksdale, the HC and its affiliates, operating under the Centerre name, enjoy three distinct advantages:

"The name Centerre, a bold and unique name, will more strongly associate us with the Mid-America markets we serve and better position our company as the preeminent regional banking organization serving that area.

"Secondly, a common name for all our affiliates will provide a common banner and basis for a more synergistic marketing effort in Missouri.

"Finally, a new name will eliminate confusion by differentiating our company from other banking companies with similar names and from other banks using 'First' in their corporate identifications."

BARKSDALE



FORD

Clarence C. Barksdale is ch./CEO, Centerre Bancorp., St. Louis, formerly First Union Bancorp. Richard F. Ford is pres. of HC and of its lead bank, Centerre Bank in St. Louis, formerly First Nat'l.

Mr. Barksdale further notes, "The Missouri legislature is considering changes in our state's banking laws that will permit statewide banking, and Congress is moving toward passage of more flexible interstate banking laws that will enable us to acquire banks and offer banking services across state lines. We must be ready to respond to these changes when they happen. Our goal is to become Mid-America's bankers, and our new name will help us do that."

Research. The decision to change the names of the HC and its member institutions was made after years of consideration and, more recently, extensive study and research. The actual name-development process began more than 18 months ago, when a special bank committee established precise criteria that would have to be met if the bank were to change its name. The new name would have to be fresh, original and easily recognizable. It would have to be linked strongly to the bank's regional heritage and would have to communicate a modern, professional and progressive image.

In light of these criteria, more than 1,000 potential names were generated. During lengthy sessions, individual names were examined by the bank committee and ultimately discarded if they did not meet established criteria or were found to be unavailable for various reasons. The list of candidates finally was narrowed to 25 names.

These 25 semifinalists were subjected to an intensive trademark search to ensure each name's legal availability. Ease of pronunciation also was tested and a language specialist engaged to remove from the list any name that carried negative connotations in foreign languages. At this point, the list was narrowed again until, finally, two names remained.

Before a final choice was made, the two candidates were submitted to extensive consumer testing. Reactions to the finalists were recorded during phone surveys and hundreds of personal interviews. The research sample included retail customers and members of the business and investment communities.

The unanimous choice after all this? Centerre, a name, says a bank spokesman, that echoes the word "center" and is descriptive of markets served by the HC.

Centerre President Richard F. Ford notes, "It's a creative name — distinctive and stylish. It does an effective job of relating our organization to the marketing territory we serve."

First Union Bancorp. directors approved the new name last June 12,

CENTERRE BANCORPORATION
CENTERRE BANK
CENTERRE TRUST COMPANY

These are logos for renamed First Union Bancorp. (now Centerre Bancorp.), First Nat'l (Centerre Bank) and St. Louis Union Trust (now Centerre Trust Co.), all in St. Louis. HC's affiliate banks throughout Missouri also now bear Centerre name.

This is future headquarters for Centerre Bank in St. Louis at One Centerre Plaza. Some departments now are moving into building, and grand-opening ceremonies are scheduled for this April.

and its shareholders followed suit August 26.

To communicate the new name to the 4,000 Centerre employees in Missouri, the bank commissioned a special film, which was shown at all 21 bank locations during September. After each showing, employees received a cassette tape of the sound track, composed entirely of original music and lyrics.

In addition, an intensive media campaign is being aimed at what the bank describes as its key publics. The campaign is using TV, radio, magazine, newspaper and outdoor advertising across the state. It also is being used nationally in publications like *Business Week* and *Wall Street Journal*. Other means of communicating the new name include mailings to customers and the HC's 1981 annual report.

"Operating under the banner of Centerre," says Mr. Barksdale, "we are confident our strong reputation for quality service will be maintained. As Centerre Bancorp., we look forward to meeting the challenge of the future."

Credit Seminars Set

Two commercial-credit analysis seminars will be held at Louisiana State University, Baton Rouge, this year. The first will be February 7-10, the second, May 2-5.

The seminars were scheduled after a similar seminar last year proved so popular that bankers were turned away. Each seminar is limited to 60 individuals, according to William F. Staats, Louisiana Bankers Association professor of banking at the university. Dr. Staats said the heavy demand for the seminars reflects the increasingly competitive environment in which bankers will be operating in the years ahead.

Information is available from the Banking Center at the College of Business Administration at Louisiana State University, Baton Rouge, La.

Third National

(Continued from page 47)

While attitudes toward IRAs were essentially positive, a few disadvantages were cited. Tax laws are unpredictable, so there is no guarantee that deferring taxes now will mean lower tax payments later, although most participants were willing to concede that law changes would be unlikely.

Personal plans call for retirement at different ages. Early retirees would want some income before age 59½.

Interest earned might be greater if the same funds were invested in money-market certificates. A long term at a fixed rate would erode appreciation over time, particularly if the plan does not allow interest earned to be credited to the principal, at least periodically.

A penalty for early withdrawal of six months' interest and a 10% excise tax on the amount withdrawn seems excessive, but when participants were reminded of the intent to preserve funds for retirement, even this barrier to early withdrawal became viewed as less a penalty than a means of protecting the user from easy access to his funds. The idea of a no-withdrawal penalty after the initial investment term seemed an acceptable modification.

Following this discussion, several scenarios with the various options being considered by Third National were presented for consideration by each group. The merits and disadvantages of each were carefully weighed so product preferences could form the basis for those characteristics that best represented the product capable of stimulating purchase behavior.

In accordance with participant ideas, feelings and interests, the optimum product for Third National's IRA would contain the following provisions:

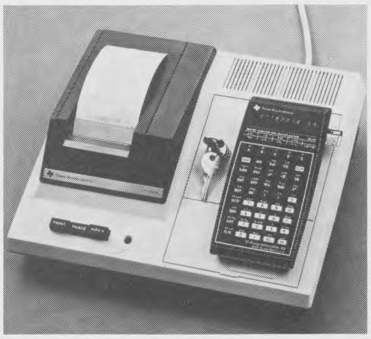
- A short-term 18-month certificate that provides consumers with the possibility of short-term liquidity, a feature of importance to them because of the uncertainty of the economic climate.
- A $20-per-month minimum deposit made either individually or by automatic-payroll deduction.
- Larger deposits made at any time to permit individuals whose earnings are received periodically to be

IRA Marketing Tool

A bank in New England that is aggressively promoting IRAs is encouraging individuals to phone the bank on a toll-free line to arrange for an investment analysis.

The banker answering the phone asks three questions:

- How much do you think you can save each week or month in an IRA?
- How many years to the date when you plan to retire?
- How much would you like to have in monthly payments on retirement?



This Texas Instrument TI-59 computer with banking software by Money, Time & Data Management enables banks to handle multitude of computations.

That same day a crew of bank computer operators punches the data into a desktop Texas Instrument computer, adapted with software marketed by Money, Time & Data Management, Inc., Chelmsford, Mass. The next day the bank mails an investment estimate based on the figures provided by the prospective customer.

The analysis also includes instruction on how to open an IRA at the bank.

According to a spokeswoman in the bank's marketing department, about 100 inquiries came in the first week the investment analysis was offered. It takes less than three minutes for the analysis to be made and the bank hopes to be able to track any follow-through on the part of prospective customers asking for the service.

accommodated by the plan.

- Conversion privileges every time the 18-month certificate matures, with a 10-day grace period. While automatic rollover is assumed for most accounts, the opportunity for withdrawals or reinvestment in other instruments allows for changes in personal or economic conditions.
- Interest rates tied to Treasury-bill auctions or to money-market funds to offer the customer a competitive rate, thereby encouraging continuance of the account.
- Provision for a floor below which interest rates would not fall. While recognized as largely psychological, a floor was felt to be important to customers during periods of falling interest rates.
- No withdrawal penalty after maturing of the first 18-month certificate. As the account accumulates funds, the customer is rewarded with greater management flexibility.
- Funds in the account insured to $100,000. Security is an important inducement, especially for an expected long-term investment. Consumers expect all their funds on deposit at banks and S&Ls to be insured to this amount.
- A statement issued annually and at certificate maturity. Consumers do not want to be made aware too frequently of their account balances.

In spite of increasing prices, shrinking dollars and other priorities, these participants are firmly convinced they must help themselves insure their own futures through a regular savings program. In this context, IRAs appear a logical and necessary program for every employed person. ● ●

State Bank Directors Elected by IBAA

The following state bank directors have been elected by the Independent Bankers Association of America (IBAA) in Mid-Continent-area states:

Arkansas — Amos David, chairman, Caraway Bank/Bank of Imboden, Caraway; Louisiana — L. J. Folse, president/CEO, Terrebonne Bank, Houma; Oklahoma — Jack M. Dickey, president, First National, Custer; Texas — Ruben H. Johnson, chairman/CEO, United Bank of Texas, Austin.

Elections for state representatives to IBAA's executive council are held annually in one-third of the states in which the association has memberships. Terms are three years; however, Mr. Dickey will serve one year to fill a vacancy.

Loan Policy, Deregulation Discussed At First Alabama's Bank Forum

LOAN POLICY, the economy, deregulation and agriculture were all on the agenda of First Alabama Bank of Montgomery's 35th annual bank forum December 9-10. More than 450 bankers from all over the state attended.

Wilbur Hufham (l.) and Frank A. Plummer are pictured at First Alabama of Montgomery's annual bank forum in December. Mr. Hufham is bank's pres.; Mr. Plummer, ch./CEO, First Alabama Bancshares.

"No other single area has more impact on your bank than the lending area," Lynn H. Mosley, president, First Alabama Bancshares, told his audience. "In past years, many banks put too much emphasis on growth of their loan portfolios and not on quality growth."

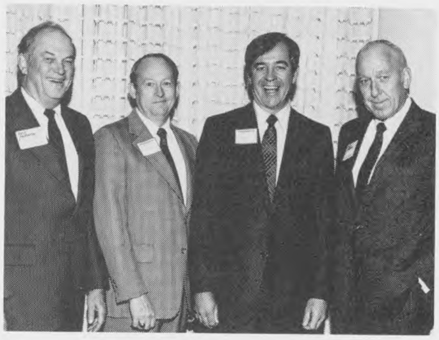
He added that "a written, well-defined loan policy is absolutely necessary. However, the written policy really is only the beginning of the effort to maintain a quality loan portfolio.

"We must recognize that a bank cannot be all things to all people. We must continue to review and update our written loan policy to be sure it is serving the needs of the market and the bank."

He also pointed out that well-trained people still are the key to a quality loan portfolio.

Banking Deregulation. The phased deregulation of banking was discussed by Wilbur B. Hufham, president, First Alabama Bank. He said that the effect already has been seen in all-saver certificates, 30-month certificates and the coming changes in individual retirement accounts (IRAs). He then detailed the major changes that were to take place in IRAs January 1.

"We no longer can measure corporate macho by size alone," said Mr. Hufham. "We must get back to reality and remember that earning power is the key to profits."



Shown at First Alabama of Montgomery's annual bank forum are (l. to r.): James S. Gaskell Jr., ch./CEO of bank; Ken McCartha, state supt. of banks; John Russell Thomas, ch./pres., First Nat'l, Alex City, Ala., and Lynn H. Mosley, pres., First Alabama Bancshares.

He went on to say, "The real source of liquidity for banks in the coming deregulated environment will be deposits. Banks must seek deposits aggressively, but also closely monitor costs."

In his concluding remarks, Mr. Hufham pointed out, "As we move daily toward total deregulation in March, 1986, bankers will be challenged not only by other financial institutions, but also by all manner of nonfinancial institutions. We cannot afford to be timid. We can and must meet this challenge with new and innovative ideas to serve our customers."

Reg Z Changes. Upcoming changes in Regulation Z (Truth-in-Lending) were described by Paul E. Norris, the bank's senior vice president.

"The changes are a simplification," he said, "but there will be considerable cost involved due to the necessary training and reprinting of forms.

"Every form now in use must be replaced by April 1, 1982, to conform to the new law." More recently, the date of enactment was moved back to October 1, 1982.

Mr. Norris also spoke about some of the specific changes affecting agricultural credit and treatment of mobile homes under the revised regulation. He cautioned bankers to "not wait until the last minute to get new forms approved by legal counsel and printed."

He concluded, "The new revisions are no utopia, but certainly are a big improvement."

Hostesses at First Alabama of Montgomery's annual bank forum last month were (l. to r.): Mrs. James S. Gaskell Jr., wife of bank's ch./CEO; Mrs. Wilbur Hufham, wife of bank's pres., and Mrs. Frank A. Plummer, whose husband is ch./CEO, First Alabama Bancshares.

Fiscal Responsibility. "A message was delivered at the polls about a year ago," said Frank A. Plummer, chairman/CEO, First Alabama Bancshares. "That message was fiscal responsibility."

Calling inflation the nation's No. 1 enemy, he continued, "While there are some favorable trends evident in the fight against inflation, the marketplace will not change overnight. He reminded his audience that before the economy underwent a substantial recovery, "it is inevitable that certain areas of the economy are going to be hurt. In particular, the automobile and housing sectors. We sometimes forget to learn from history. Remember that the alternative to this economic course could be an inflation rate that continues to rise uncontrollably.

"We must remain alert to our changing marketplace." Noting the increase in dual-income families, he said, "We must recognize that the financial needs of this market segment are different from other segments, and we must respond to those needs."

He advised bankers to quit *reacting* to change, but, instead, to *create* change. To create this change, he continued, "We must continually ask ourselves this question, 'How can I better serve my customers?'"

Agricultural Economy. "This past year will go down as one of the most frustrating years that agriculture has witnessed in a long while," said Dr. John C. Gamble, agricultural economist, First Alabama Bancshares. He then detailed price fluctuations of several key crops during the past year as an example of the way farmers must try to forward price their products.

"Managerial requirements for success in the agricultural sector have changed dramatically in the past 10 years," Dr. Gamble continued. Computer-generated pro-forma analysis of agri-production/marketing strategies "will provide much-needed risk-management tools in coming years," he predicted.

"Today, 20% of farmers are taking home 80% of the profits largely because they have developed superior market skills," he continued. He urged bankers to use "a little logic, a little reason, and make intelligent financial-management decisions consistent with your customer's financial position and his ability to absorb price risk.

He concluded by pointing out that if bankers are armed with adequate market intelligence and, most of all, a working desire, "success for you and your agricultural customer likely will be a profitable experience." ● ●

Kansas State, Wichita, has promoted Ralph Hudson to senior vice president/EDP head, Robert Pestinger and Julie Flynn to assistant vice presidents and Kathy Bassett, Regina Benn, Patty Mock and Gilbert "Barney" Oldfield to assistant cashiers. Elected vice presidents were Mickey Cowan and Virginia Harder.

Cloudy Business Skies Seen Until Mid-Year By Forecasters at Boatmen's Conference

By Jim Fabian
Senior Editor

LITTLE improvement in the business sector was seen before mid-year by a panel of businessmen appearing at the ninth annual business--forecast conference sponsored by Boatmen's National, St. Louis, last month.

Representatives of the chemical, retail, agricultural, entertainment and banking sectors presented their views on the fortunes of their industries for 1982. Only the entertainment representative was bullish.

This will be a tough year for agriculture, said Charles M. Harper, chairman/CEO, Con Agra, Inc., Omaha. "We're entering the year on the heels of record world grain production," he said. "However, production in 1981 was only 2% above the record set in 1978. World grain stocks are projected to increase from 11.8% of usage in mid-1981 to 13% in mid-1982, which still is somewhat short of a comfortable level if the world experiences adverse weather."

He predicted that world crop production in 1982 will be slightly below 1981 figures. Export potential will continue to feel the effects of the partial embargo of grain to Russia. Sluggish economic growth in Western Europe and Japan and Eastern Europe's constrained ability to finance imports will be limiting factors for U. S. ag exports.

He sees a significant increase in farm exports in 1982, due in large measure to lower prices stimulating demand. By the same token, he said, the increase in sales dollars probably will trail the increase in volume.

William H. T. Bush (l.), pres., Boatmen's Nat'l, chats with Wayne Brent, GMI Corp., St. Louis, at recent business forecast conference sponsored by Boatmen's Nat'l.

The near-term domestic outlook for ag producers is a gloomy one, he continued. Recession and weak discretionary income will limit demand for meat and other income-sensitive foods.

He expects the Reagan Administration's economic incentives and lower interest rates to have a positive impact on economic growth and demand by mid-1982.

He said a good demand base was building for meat products, but that improvement in grain markets will take longer to develop. Export demand at present is too fragile to support much upward price pressure and domestic livestock feeding isn't profitable enough to stimulate sharply higher grain prices. As a result, he said, the livestock producer may fare better than the grain producer in 1982.

"All in all, 1982 is shaping up as another challenging year for U. S. agriculture," he said. "The most efficient producers will reap some rewards — which won't be shared by less-efficient farmers and younger farmers who are burdened with debt. Net farm income will be hard pressed to surpass the depressed levels of 1981 unless the economy rebounds faster than expected or competitor exporting nations have severe crop problems."

He added that consumers will continue to see low food prices through at least the early part of 1982. However, that will change later in the year if livestock producers follow through with lower production. Even so, he added, price increases shouldn't be sharp in 1982. Retail food prices may be up 6% to 8%, the result primarily of higher packaging and distribution costs.

Mr. Harper concluded by stating that, although ag faces a tough 1982, he is "excited and bullish about the decade of the '80s."

Americans may have to get used to the fact that they can never expect to live without uncertainty, said Donald N. Brandin, chairman/CEO, Boatmen's, in his assessment of banking's prospects for 1982. "It behooves us to adjust our psychological approach to both our personal and business lives — to accept change as inevitable and prepare for it," he said.

Real GNP growth in 1980 was a minus two tenths of 1%, he said, and 1981 is expected to come in at a lackluster 1%-plus and 1982 is already being forecast as a flat year with nega-

Donald N. Brandin, ch./CEO, Boatmen's Nat'l, is flanked by two speakers who took part in bank's business-forecast conference last month — Francis T. Vincent Jr. (l.), pres./CEO, Columbia Pictures Industries, and John W. Boyle, ch., May Department Stores.

tive growth in the first and possibly second quarters.

Mr. Brandin predicted a 1% drop in the inflation rate for 1982 — from the 8.5%-9% rate expected for 1981. This will happen only if the Fed controls the money supply effectively.

The outlook for interest rates for this year includes some further moderate declines in short-term rates in the next several months, reflecting the recession. Although it's difficult to predict longer-term rates, he said, the pressure will be on the upside, despite progress on the inflation front.

"As the economy starts to recover from the present recession, as expected some time in the middle of 1982, credit demands should increase and this, coupled with pent-up long-term corporate demand and continued high levels of federal financing, will create a tight market and could start another roller-coaster ride. The Fed's reaction will be the key determinant."

The federal government continues to be the major culprit, he added. The Study of American Business at Washington University has published figures that indicate the federal government's use of available credit has gone from 30% in 1978 and 1979 to 43% in 1980 and 1981.

He predicted that the better managed, better situated banking organizations are coping well with competitive pressures. "While earnings of the industry will vary widely in 1981, the regionals like Boatmen's should again chalk up good records." He predicted an over-all growth rate of 10% for banking in 1982, beginning in the third quarter.

Francis T. Vincent Jr., president/CEO, Columbia Pictures Industries, said he is "guardedly optimistic" for the prospects of the entertainment industry in 1982.

"The entertainment industry has developed to the point at which it now plays an important role in our lives and in the lives of people around the world to whom we export both our nation's products and ideals. . . . I foresee for the entertainment industry in 1982 a continuation of that development. I foresee the continued integration of the industry's resources and skills into a relatively small number of multifaceted entertainment conglomerates whose reach will extend across the spectrum of product possibilities and across the age and interest groupings of our potential consumer," he said.

A bleak picture for the chemicals industry was painted by Raymond F. Bentele, president/CEO, Mallinckrodt, Inc., which recently has been acquired by Avon Products.

"The problems of the chemical industry are largely the same as they have been for several months: extremely poor construction and automotive markets, sluggish economics overseas and a strong U. S. dollar against certain foreign currencies," he said.

The few brights spots in the industry include the areas of paints, glass-container manufacturers, tire makers and some producers of other rubber and plastic products. However, he added, setbacks have pretty much outnumbered any gains realized.

The outlook for the full year of 1982 is not strong. The problems the chemical industry faces are not likely to disappear quickly. Any recovery during 1982 is not expected until the third quarter.

The retail picture was presented by John W. Boyle, chairman, May Department Stores Co. He said the current recession caught retailers by surprise. They are hoping that the final days of 1981 will see sales good enough to make the year profitable.

He predicted that the retail industry over the coming years will become slimmer, trimmer, more productive and more profitable. "We intend to participate in what we believe will be strong, economic growth in general and in retailing during the 1980s," he said. • •

Who Will Win

(Continued from page 15)

ness discipline that addressed all components of the marketing mix — assessment, goal setting and strategies covering products, distribution, delivery, pricing and promotion.

• Winners linked marketing and funds management.

• Losers failed to see the relationship of marketing to funds management.

• Losers were not effective in funds management, and because they couldn't manage both sides of the balance sheet, they incurred negative spreads.

• Winners, recognizing the full marketplace realities of a non-Reg Q environment, took steps to assure profitable margins through use of floating rates for their loans.

• Winners profitably matched liability categories in terms of cost and maturity with appropriate assets.

• Losers blindly followed the leaders on pricing liabilities to protect market share without benefit of an asset plan to ensure profitable employment of liabilities.

• Winners also made dramatic increases in non-interest income while losers seemed to ignore this area.

• Winners successfully pursued relationship banking to achieve multi-service relationships with customers — they organized around markets.

• Losers continued to utilize a compartmentalized structure organized around products.

• Winners provided financial-advisory services to help customers manage their financial affairs better and were paid for it.

• Losers failed to invest in developing systems and expertise to provide advisory services.

• Losers made extensive investments in EFT strategies. They achieved impressive technological successes, but unimpressive marketing flops.

• Winners used EFT technology successfully to enhance locational convenience and improve customer satisfaction in service delivery. They recognized that EFT was a technological tool and not a strategic goal in and of itself.

• Winners priced their services aggressively, preferring to compete on the basis of value.

• Losers competed on the basis of price and failed to properly recognize risk in pricing their loans.

• Many winners were not banks. They included firms such as Sears, Merrill Lynch, H & R Block, Prudential and some S&Ls.

• Almost all losers were banks and S&Ls.

• Winners developed systems to measure and evaluate market/product performance.

• Losers lacked managerial disciplines to set goals and track performance.

• Winners improved productivity significantly by increasing efficiency and lowering costs. They replaced inflation-prone, labor-intensive costs with capital investments in technology.

• Losers failed to address the need to concentrate on improving productivity. They conducted business as usual.

• Losers thought product management was only a buzzword or fad.

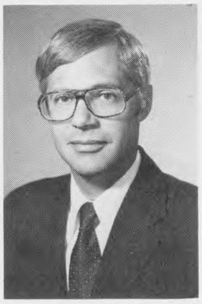
• Winners improved profitability of their major financial services through installation of active, ongoing product-management programs.

• Winners invested in people. They worked at attracting and developing

Conover Named CofC

WASHINGTON, D. C. — C. Todd Conover is the new Comptroller of the Currency, succeeding John G. Heimann, who resigned the post last spring. Mr. Heimann returned to the private sector.

Mr. Conover is one of the founding partners of Edgar, Dunn & Conover, Inc., a general management consulting firm headquartered in



San Francisco. Much of his consulting experience has been with commercial banks and other financial institutions, such as insurance companies and credit card organizations.

From 1974-78, he was with the management consulting group of Touche Ross & Co. in San Francisco, where he was a principal and a national services director for banking. Before that, Mr. Conover was vice president/corporate development, U. S. Bancorp, Portland, Ore. From 1965-72, he was a consultant with McKinsey & Co., Inc., and worked in the firm's offices in San Francisco and Amsterdam, the Netherlands. He began his business career with Seattle-First National as a management trainee in 1962.

Mr. Conover holds a master's degree in business administration from the University of California at Berkeley and a bachelor of arts degree from Yale University, New Haven, Conn.

high-caliber individuals.

- Losers did not pay competitive salaries or invest in training and developing their staffs.
- Winners were excellent planners at both strategic and tactical levels. They recognized problems in advance and took preventive actions.
- Losers were seat-of-the-pants-type planners and had to rely on hastily put-together contingency plans when major problems occurred.
- In the final analysis, winners produced consistent profits and were able to generate capital internally as well as to acquire outside capital.
- Losers had spotty to poor profit performance and could not generate or attract new capital. The result was numerous consolidations within the financial-services industry.

The challenge for bankers as I see it is to take this future hindsight and change it any way they like if they don't agree with me, but to use it to help develop their banks to be winners in the '80s. They also must realize that all strategic and tactical actions taken by winners in my future-hindsight scenario had to be based on thoughtful analysis and planning.

Therefore, my concluding remarks are:

1. Take a big-picture view of future opportunities and threats.
2. Build your bank's planning capabilities to prepare for the future.
3. Strive to help your respective institutions to be winners, not losers, in the challenging '80s. ● ●

ABA Workshop Feb. 7-10 On Telecommunications

The impact that deregulation has on future planning for telecommunications needs at financial institutions and the new Fed communications system, "FRCS 80," will be discussed at the ABA's bank telecommunications workshop, set for February 7-10 at the Century Plaza Hotel in Los Angeles.

Insights into AT&T's fully separated subsidiary "Baby Bell" and its impact on the banking industry will be presented by the keynote speaker, James E. Olson, AT&T vice chairman.

The major portion of the first day's program will be devoted to a series of concurrent and special-interest sessions covering basics of traffic engineering, network control, Bank Card and its directions, FRCS '80, WATS and its alternatives, opportunities in international communications, the automated office, network security and planning, budgeting and controlling.

The second day's session will feature a general session on deregulation with a panel discussion covering current views and issues on the topic. A series of rap sessions will cover such topics as interconnect, rates and regulation, security, dealing with the local operating firm, staffing and organizing a telecommunications department and systems network architecture distributor processing.

Home banking will be discussed by bankers on the third day of the workshop. Among the participants will be Thomas Sudman, president, United American Services, Knoxville.

Exhibits will feature telecommunications and electronic banking equipment and information.

Leasing Conference Planned on Autos, Personal Products

Analysis of leasing provisions of the Economic Recovery Tax Act of 1981 (ERTA) will be a major part of the Consumer Bankers Association's second annual automobile and personal-product leasing conference February 22-23 at Nashville's Hyatt Regency. The CBA describes the conference as an intensive two-day seminar designed to provide both experienced bank lessors and novices with specialized guidance on establishing and maintaining successful leasing programs.

Scheduled is an overview of the leasing industry, including a look at its history and projections for its future, as well as an update on the Federal Trade Commission's investigation into leasing activities, a review of the Fed's proposed commentary on Regulation M—consumer leasing and a discussion of efforts to incorporate leasing into the Uniform Commercial Code.

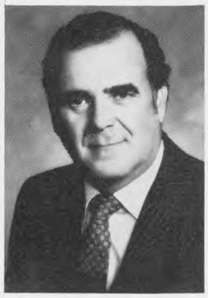
For the leasing novice, a practical, hands-on workshop will address the "how to" of establishing, marketing and operating a successful auto leasing division, including an introduction to the legislative and regulatory framework within which bank lessors must operate. For the experienced lessor, the conference will serve as a forum for exchange of ideas with others involved in leasing. Participants will learn new techniques to integrate into their own leasing departments and have the opportunity to compare their programs with others across the country, based on a 1981 survey of bank lessors.

For further information, contact: Susan Gowin or Deanna Belli, Consumer Bankers Association, 1300 N. 17th St., Suite 1200, Arlington, VA 22209.

New Orleans Bancshares, HC for Bank of New Orleans, was included on the National Association of Securities Dealers Automated Quotations over-the-counter market listing beginning last November 25. The HC's trading symbol is NOBS.

Lee Gunderson Named New President Of Prochnow Graduate Banking School

ABA COUNCIL Chairman Lee E. Gunderson has been named president of the Herbert V. Prochnow Graduate School of Banking at the University of Wisconsin/Madison. Mr. Gunderson, who is immediate past president of the ABA and president, Bank of Osceola, Wis., is the second banker to head the school, which was founded in 1945. Herbert V. Prochnow, a co-founder of the school, had been its only director until his retirement last September.



GUNDERSON

The school is sponsored by 16 state bankers associations composing the Central States Conference of Bankers Associations. Mr. Gunderson was the unanimous choice of a selection committee made up of bankers, faculty and trustees chaired by Robert C. Nelson, executive vice president, Indiana Bankers Association.

More than 12,000 bankers have graduated from the school, which had an enrollment of more than 1,500 students from 44 states, the District of Columbia and Puerto Rico last year. The school's faculty of more than 160 includes bankers, economists, educators and government officials.

Mr. Gunderson already has assumed his duties as the school's top official. His responsibilities include curriculum and faculty development and chief spokesman in promoting the school's objectives.

Mr. Gunderson graduated from the school in 1965. A native of South Dakota, he attended the University of South Dakota. He is a past president of the Wisconsin Bankers Association and chaired the ABA communications council from 1972 to 1977.

Commenting on his new position, Mr. Gunderson stated: "I am honored to be asked to head the Prochnow Graduate School of Banking. In my nearly 30 years in banking, I always have been aware of the fine reputation of the school and know, from my personal experience as a student, the value of the rigorous and relevant academic program developed by bankers for bankers. In recent years, as I toured the country, bankers from all areas spoke of the challenge of managing their banks to profitably and effectively serve their customers and their communities in a rapidly changing economic and competitive environment. As I see it, the school's role is to continue to present a course of study that will prepare bankers to meet that challenge, now and in the future." ● ●

Expanding Financial Services To Be Explored by ABA At 1982 Trust Conference

"The Financial-Services Market: An Explosion of Opportunities" and how bank trust departments can profit from such opportunities will be the focus of the ABA's national trust conference February 7-10 at the Hyatt Regency, New Orleans.

The conference is designed to answer the following questions: What do Sears, American Express and National Steel know about the financial-services market that trust bankers don't know? Why are these firms and others moving aggressively into the traditional preserve of trust banking? How are bank trust departments uniquely positioned to capture the lion's share of the new affluent market for financial services?

"Participants . . . will come away better prepared than before to develop and refine marketing strategies for their present customer base, as well as having better ideas for successfully increasing market share," says Joseph L. McElroy, conference chairman and executive vice president, Manufacturers Hanover Trust, New York City. He also heads the ABA's trust division.

In addition to formal talks, the conference will feature a series of workshops and special-interest sessions. Participants will examine investment strategies, bank mutual funds, sales management, new-business opportunities arising from the Economic Recovery Tax Act of 1981 and latest industry technological developments.

Customers Talk to Bank Via 'Tellus First' Units

Customers of banks belonging to First Bank System, headquartered in Minneapolis, now can "talk back" to their bank via a device known as the "Tellus Terminal," a push-button electronic unit for customer use in rating bank services.

'Tellus First' terminal is programmed to ask customers 11 questions about various bank-related topics. All questions can be answered in 30 seconds, according to First Bank System, Minneapolis HC, which has 10 machines in use. Distributor is North American Financial Services, Winter Park, Fla.

The device enables customers to respond to 11 questions by pushing the appropriate buttons. It takes no more than 30 seconds. Questions programmed into the equipment may be changed to gather customer information on use of bank services, advertising and marketing, employee performance, the bank's image in the community and strengths and weaknesses of the bank as perceived by customers.

The memory module of the device is operated on flashlight batteries and the terminal is lightweight so it can be moved to various locations around the bank — or from one bank location to another.

First Banks has 10 of the machines and is circulating them among the 147 offices of the HC's 92 affiliates in five upper Midwest states. The units usually remain in place for three weeks and are expected to be used indefinitely.

Questions can be geared to a given bank; therefore, they can be specific. Usage of the machines varies with location and is directly related to encouragement to use them on the part of customer-contact personnel.

Responses to questions are confidential; there's no way the bank can identify a respondent.

Structural Change

(Continued from page 28)

er product options that a truly competitive, nationwide banking system would offer.

He cited one area where there are opportunities for real progress toward nationwide banking, and it's in the separation of electronic banking — principally automated teller machines (ATMs) — from the issue of branch restriction. He believes a majority of bankers might support crossing state lines via ATMs provided they have access to the ATM network.

"I don't believe bankers should want the money-market funds stopped; we should seek the authority to offer competitive products and services."

"I do not believe financial institutions will seek to differentiate themselves through the access mechanism," said Mr. Labrecque, "but rather with the services available through that mechanism. In a period of general deregulation, banks sharing the same access mechanism will have the opportunity to significantly differentiate their products and thereby compete."

At the correspondent bank conference, he pointed out this would represent a significant opportunity for the correspondent-banking business.

Refining Antitrust Regulations. If banks are to become fully competitive with nonbank competitors, he continued, serious consideration must be given to applying the new market realities to outmoded and antiquated notions of antitrust policy, especially as they relate to banks. At present, he pointed out, giant foreign banks are allowed — with virtually no effective opposition — to purchase major American banks. He cited this example: In California, six of the 10 largest banks are foreign owned.

What of American banks, he asked, and answered that they are blocked from merging with other institutions because competitiveness in banking always has been measured by looking at a particular bank's share of the commercial-bank market. Such an approach now, especially in light of all the nonbank competitors in banks' markets, is an anachronism, he said.

"At the very least," he stressed, "Congress and the regulators must acknowledge that the *financial-services industry* — not the commercial-banking industry — is the real commercial arena with which we should be concerned when we look at the competitive environment.

"Indeed, our legislators ought to be concerned that U. S. commercial banks are being supplanted rapidly by the universal banks of Western Europe and Japan as the dominant financial institutions in the world. Many are heavyweight contenders with more reach and better defenses than their U. S. bank competitors. And I must admit to wondering about the desirability of having more and more of our domestic financial structure, which underpins so much of our national policy, reliant on institutions responsive to policy requirements of other nations."

Regulatory/Legislative Implications. What can we expect in the future? Mr. Labrecque's own view is that regulators and legislators won't allow the U. S. banking system to sink into a second-rate position in the world. He believes the need for immediate action is so compelling that the following steps should be taken soon to redress the imbalances in the financial system:

1. Action should be taken to expand powers and product capabilities of banks; Reg Q should be relaxed further, and banks also should be able to offer certain insurance products.

2. A modification of the Glass-Steagall Act is a definite possibility, and a logical first step would be to allow banks to underwrite municipal revenue bonds, to be followed by legislation to underwrite some kinds of domestic corporate-debt issues.

Furthermore, he continued, he would not be surprised to see the Douglas Amendment repealed or dramatically modified. A repeal of Douglas, according to Mr. Labrecque, would encourage value-added mergers of banks with complementary strategies and skills throughout the country. It would give shareholders the widest range of value for their holdings.

Moreover, he said, if the banking industry is to meet the competitive challenge before it, it will require financial strength, product diversity, excellence in service and technology and geographic reach. All these qualities, in his opinion, could be enhanced through strategic mergers. Within limits, he added, they will become an increasingly attractive proposition for banks of all sizes.

"However," he continued, "I don't think mergers would mean, as some have suggested, that small banks would be 'gobbled up' against their will by big banks. A small bank that serves its market niche effectively can remain successful, as many are in today's volatile economic and regulatory environment. Furthermore, no large money-center bank, in my judgment, has the human resources, let alone financial resources, to take over the financial-services industry. Repeal of Douglas would encourage a pooling of resources, both in terms of ownership and in terms of management focus. It would be not only desirable, but essential, for national-bank holding companies to have knowledgeable and market-independent operating management in the various locations in which they would operate.

". . . I don't think mergers would mean . . . that small banks would be 'gobbled up' against their will by big banks. A small bank that serves its market niche effectively can remain successful."

"Our business critically depends on people. Successful mergers will bring together institutions and management that recognize the strengths and mutual benefits that stem from a productive pooling of resources."

Conclusion. Mr. Labrecque said he realizes there is no consensus of bankers on subjects he has discussed. Yet, he warned, bankers' compelling, common interests have got to be greater than their differences. To compete effectively in the 1980s, he recommended that *all* banks be given broadened powers and scope.

"Together, we can hasten change," he concluded. "If we don't work together, we will obstruct change. How the nation resolves this issue will bear significantly on the future of banks, all users of financial services and on the ultimate strength of the U. S. financial system in the world at large." • •

Consider Selling Banks Now, Community Bankers Are Told

NOW is a good time to consider selling a bank, those attending the recent Bank Administration Institute convention in Honolulu were told. Why? Because of the current high value of community-bank stocks.

So said M. J. Swords, president, Swords Associates, Inc., Kansas City professional banking consultant firm. He further pointed out that on average, the market is good for control sales of banks.

"The reason community bankers should be thinking of selling is that throughout 1981, their price trends have been upward," continued Mr. Swords. "This has been a result of the high acquisition activity of bank holding companies (BHCs)."

He said BHCs' increased demand for community banks has created a seller's market, and BHCs also have sparked high prices for individual buyers of community banks.

Mr. Swords traced these BHC activities to loosening of Fed guidelines in 1979. He said that previously, the Fed took two steps to decrease activities: In 1974, it tightened requirements for BHC acquisitions and, in 1977 — through its acquisition-debt guidelines — imposed a type of "margin" requirement to buy a controlling interest in a bank.

When the Fed eased the acquisition-debt requirements in 1979, he said, it stimulated a tremendous burst of activity because of pent-up demand. Now, he continued, with so many BHCs interested in acquisitions, community banks are in better positions to ask for higher prices.

Another reason for BHCs' heightened activity in acquisitions, according to Mr. Swords, is their anticipation of interstate banking.

"If the problem of the 'states-rights' issue is resolved," he predicted, "interstate banking will be permitted in the future."

The KC bank consultant tried to soften many community bankers' concern over increasing competition from large companies seeking to enter the financial-service field. He admitted that while the impact of such competition on community-bank prices could be significant at first, those banks can lessen the impact of such competition with aggressive marketing of their services. He warned community bankers that they can't sit still and let nonbanks take business away from them.

During his presentation, Mr. Swords described two innovative tools he said his firm designed to help bank analysts and researchers interpret bank-market activity. He calls them the "Community Bank-Stock-Valuation Index" and the "Acquisition-Impact Index."

In regard to the valuation index, Mr. Swords said an analysis of a community-bank sale traditionally has been oriented toward the price/equity or price/earnings ratio of a sale. The trouble with this approach, he told his audience, is that the sales price is unnecessarily divided into two parts, with no consideration given to performance of publicly traded bank companies. He believes his "Community-Bank-Stock-Valuation Index" solves both of these problems.

Turning to his "Acquisition-Impact Index," he said market forces determine the price of the community-bank stock as well as the price of publicly traded bank stock. Most emphasis of community-bank-sales analysis, he went on, is placed on the seller side of the transaction. He said his "Acquisition-Impact Index" measures the stock market's reaction to a publicly traded buyer's acquisition of a community bank with respect to the price paid for the bank.

In community-bank-seller strategy, Mr. Swords advised, cash transactions should be considered in lower price/equity ratio sales and stock-swap transactions should be considered in higher price/equity ratio sales. • •

Manufacturers Hanover Consumer Services, Inc., a subsidiary of Manufacturers Hanover Corp., has agreed to acquire about $15 million of consumer-finance receivables and other assets of Indiana Financial, Inc., consumer finance subsidiary of Bank of Indiana, Gary. Indiana Financial's 10 offices, receivables and specified other assets would become part of Manufacturers Hanover Consumer Services, subject to regulatory approval, joining 10 existing Manufacturers Hanover Consumer Services offices in the state.

Banks' Unusual Promotions Boost Employee Participation In United Way Campaigns

TWO BANKS in the Mid-Continent area held special promotions in connection with their most recent United Way campaigns and, as a result, increased their employees' contributions.

Third National, Nashville, chose "Be a Real Hero" as the theme for its United Way fund drive and commissioned Senior Vice President Gayle Gupton to personify the "hero" character.

In Houston, Fannin Bank, offered its employees an opportunity to be chosen as a "Millionaire Philanthropist" who gives one day's interest on $1 million to the United Way agency the winning employee chooses.

"A Real Hero." At Third National of Nashville, after an appropriate fanfare at the kick-off breakfast for bank officers, "hero" Gupton crashed through a "brick" wall (constructed of styrofoam blocks), handed out lapel stickers and then became serious and stressed the importance of the campaign and the good done by United Way. By the way, Mr. Gupton was appropriately dressed for his hero role in Superman-style cape, tights, etc.

TOP: Gayle Gupton, s.v.p., Third Nat'l, Nashville, strikes appropriately heroic pose at officers' breakfast held to kick off United Way fund drive for 1981-82. Mr. Gupton was symbol of bank's "Be a Real Hero" United Way campaign.

SECOND FROM TOP: Mr. Gupton, speaking at United Way kickoff breakfast at bank, brings smiles to (from l.): Charles Cook, pres.; Gene Southwood, v. ch., and Charles Kane, ch./CEO.

SECOND FROM BOTTOM: Susan Harrison of accounting dept., Fannin Bank, Houston, receives 500 crisp new dollar bills — 18% interest on $1 million — which she designated for Center for Retarded in bank's "Millionaire Philanthropist" campaign in connection with United Way campaign. Miss Harrison and Ernest Deal, bank pres., are shown with money bags representing millionaire-for-day's bank account.

BOTTOM: This quintet seems to be enjoying super banana split Dennis Young (c.) created for himself at Fannin Bank of Houston's ice cream party held to introduce latest United Way campaign. Taking samples are: Susan Morgen, Steve Shepherd, Blanca Cipriano and John McClellan.

He also stood on a street corner "in uniform" to hand out "Be a Real Hero" lapel stickers to downtown office workers as they arrived for work on the campaign's opening day.

Meanwhile, Third National set up a four-by-eight-foot jigsaw puzzle on the main banking floor of its downtown office and tracked the campaign's progress by completing pieces of the puzzle to correspond with the percentage of the United Way goal achieved.

Did the strategy work? The bank thinks so because it increased its contributions by 18% over the previous year, achieved 88% employee participation and attained 100% of its goal.

Gayle Gupton, Third Nat'l of Nashville's "super hero," circulates among crowd at United Way kickoff breakfast. He stimulated laughter — and excellent participation — in drive.

"Millionaire Philanthropist." Here's how the "Millionaire Philanthropist" program worked at Houston's Fannin Bank: Each employee who contributed to the United Way campaign was eligible to have his or her name in a drawing, the winner of which then could give one day's interest on $1 million to the United Way agency that had the most special meaning for the employee. The interest amounted to $500, figured at an 18% prime rate.

The winner, Susan Harrison of the bank's accounting department, chose the Center for the Retarded because she has a three-year-old retarded niece who will benefit from the gift.

Fannin Bank's employee campaign began with a two-day "banana-split" bash, where various flavors of ice cream and assorted trimmings were

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available. At this informal party, held in the bank's Criterion Club dining room, all employees were divided into groups. United Way and bank personnel met with each group for a discussion about United Way and its value to the community. Employees picked up their pledge cards at the party.

The opportunity to become a "Millionaire Philanthropist" was announced at staff meetings and publicized in the bank's employee newsletter, "Rapping Paper."

Culver Turlington, vice president/marketing director of the bank and the bank's United Way chairman, reports the "Millionaire Philanthropist" campaign was a success. Employee donations increased 74% over last year's totals as of this writing, and donations were still to come in. • •

Illinois Bank Sponsors 'Runs' For United Way Campaign

BECAUSE of the declining economy, Springfield Marine Bank — as a leading corporate citizen — anticipated last August that the annual United Way campaign would have difficulty in reaching its $2-million goal.

In addition to the bank's already strong support of the United Way, the bank's marketing department proposed an event to focus community-wide attention on the United Way fund drive as it was coming to a close. Springfield Marine's marketing people, recognizing the extreme popularity of the sport of running and the opportunity for a broad-based involvement this sport allows, conceived the "Run for the Money," a 10-kilometer footrace, and the "Fun Run Relay."

To produce the "Run for the Money" as an authentic 10-kilometer race, the bank sought the help of the Springfield Road Runners. This group provided trained volunteers to measure the course and provide advanced technical assistance. An entry fee of $5 per person, payable to the United Way, was set.

As in most county seats and state capitals, the Springfield area has an abundance of elected officials and professionals, as well as successful business establishments. According to the bank, such people and businesses could easily make added contributions to the United Way, given an event that allowed personal, professional and business exposure. With this in mind, the bank designed the "Fun Run Relay" for four-member teams, each contributing $150 to the charity. The relay was a lighthearted way to involve many people not in condition to run 6.2 miles.

In late August, letters were sent to preselected community leaders announcing the event and requesting sponsorship of relay teams. A logo was designed, brochures produced and mailing lists of runners secured. The first mailing of 3,000 brochures went out early in September. A local radio station was asked to cosponsor the event in exchange for promotional air time. Area distributors of Miller's beer and Pepsi Cola responded to the bank's request for donations of their products. Two community businessmen donated hogs to be converted into barbecue sandwiches. These refreshments were sold on race day, with all proceeds going to the United Way.

Requests for assistance from the mayor's office, traffic engineering and the city's police department resulted in enthusiastic cooperation.

The race was publicized via numerous newspaper articles, including an editorial. Billboards and two printed ads, along with public-service announcements on radio and TV, preceded the event. A final mailing to prime prospects suggesting clever team names generated numerous requests to extend the registration deadline.

On race day, 350 runners and 53 relay teams showed up, along with 2,000 to 3,000 spectators. Among the relay teams were: Hennessey Florist's "Creeping Phlox" passing a lavender lei; St. John's Hospital's "Delivery Team" in surgical fatigues passing baby dolls; a record-breaking 23-person "Human Centipede" and the "Springfield Spoke Jockeys," the local wheelchair basketball players. Several United Way agencies were represented by relay teams sponsored by area businesses.

Trophies were presented, special awards given, and the enthusiastic crowd enjoyed an exhilarating, fun-filled day. However, as the bank points out, the real winners are the hundreds of clients served by the 21 United Way agencies. The Marine Bank "Run for the Money"/"Fun Run Relay" raised more than $10,000 for these agencies.

According to a bank spokesman, its prize could not be measured. The visability and goodwill reached far beyond its defined market area, evidenced by the crowd's enthusiastic participation. TV news and front-page newspaper photos, the spokesman continues, are worth far more than the cost of underwriting the event. She adds that before the afternoon was over, the bank already was planning the "Run for the Money 1982." • •

Participants in Springfield (Ill.) Marine Bank's "Run for Money" line up in front of bank before taking off. Proceeds of event went to United Way fund drive.

• **BarclaysAmerican Business/Credit.** Kenneth J. Joerres has been promoted to regional vice president/manager of loan administration and Jim Goetz has been appointed loan officer, both in the Midwest Service Center, Milwaukee. Mr. Joerres joined the firm in 1968; Mr. Goetz is new to the firm. The Midwest Service Center serves Indiana, Kentucky, Missouri, Illinois and a portion of Kansas, in addition to other states.

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Rogers

(Continued from page 17)

across state lines. There are only 500 "Fortune 500" companies to go around, so the next foray for banks will be the launching of aggressive programs to reach quality middle-market companies. These companies will be offered advantages that historically have been reserved for their much larger brethren.

This will lead regional banks to be defensive in their markets and to seek more protected areas. I think you'll see them gravitating down to the lower middle-market companies. And I think you'll find some of the money-center banks quite active in this market, too.

Finally, a few major banks and many new nonbank competitors are invading the community banks' retail markets. The most extensive competition will be highly automated and intensely price-competitive.

All this suggests that margins will be narrowed because of increased competition. The two benchmarks of success will be delivering quality services economically and putting an emphasis on fee income. Intelligent costing and pricing are going to be much more necessary than in the past.

These trends will take their toll, and not every bank will be successful. The advantages of increased size will be more pronounced. It will lead to more mergers and larger units. No doubt we're some years away from national banking organizations, entirely free of geographic constraints. But we nevertheless will see a significant erosion of the traditional geographic boundaries and substantially larger organizations pursuing these expanded markets.

In order to command capital from investors, banks have learned they have to make their capital more productive. As a result, they are looking closely at available markets and asking questions.

First, where can they be viable and effective? And second, where can reasonable profits and margins be earned? To use the current buzzword, they're "segmenting" their markets. They're looking for their niches.

With few exceptions, this process of segmentation will leave banks with less than a full arsenal of services. Some have already concluded that retail banking is a risky business to be in and have curtailed services there.

The reasoning is that it is crucial to match the interest sensitivity of assets and liabilities. Since retail assets are largely fixed-rate, they present a problem. It's difficult to find fault with that line of reasoning if we assume that inflation and interest-rate volatility will continue.

During the next decade, more and more banks will be examining their markets and selecting those in which they feel they have an opportunity to assert strength — to remain in and not be driven out by larger banks or other financial institutions.

A banker today has to look beyond the banking arena. What we currently call banking involves two basic functions: processing transactions and intermediating credit. At one time, we had a virtual monopoly in these areas.

In 1948, banks controlled 63% of the financial assets of this country. That figure has shrunk over the years to less than 30% today. Virtually anybody can look like a bank today, though he can't call himself a bank. For example, Prudential is offering corporate cash management, and money-market funds are in the deposit business.

The individual bank will of necessity be more competitive, but in fewer markets. And the industry will continue to lose ground to favored and non-regulated competitors.

As for maintaining our monopolies of the past, we've lost that battle already.

Customer changes will require new marketing techniques. Not only have our competitors changed, but so have our customers. The individual customer is better educated and more comfortable with technology.

He's less future-income oriented than his predecessor. He's living for now, not leaving idle deposits in commercial banks. Money-market funds have given him a taste of market rates and he's unlikely to accept Reg Q ceilings in the future.

The corporate customer also is smarter. With interest rates hitting 20% and more at times, corporations have become adept at managing cash — cash that used to appear in banks as free deposits.

To achieve success in this new world, banks will have to create new marketing techniques — techniques specifically geared to the markets chosen. That's a major challenge facing every banker today.

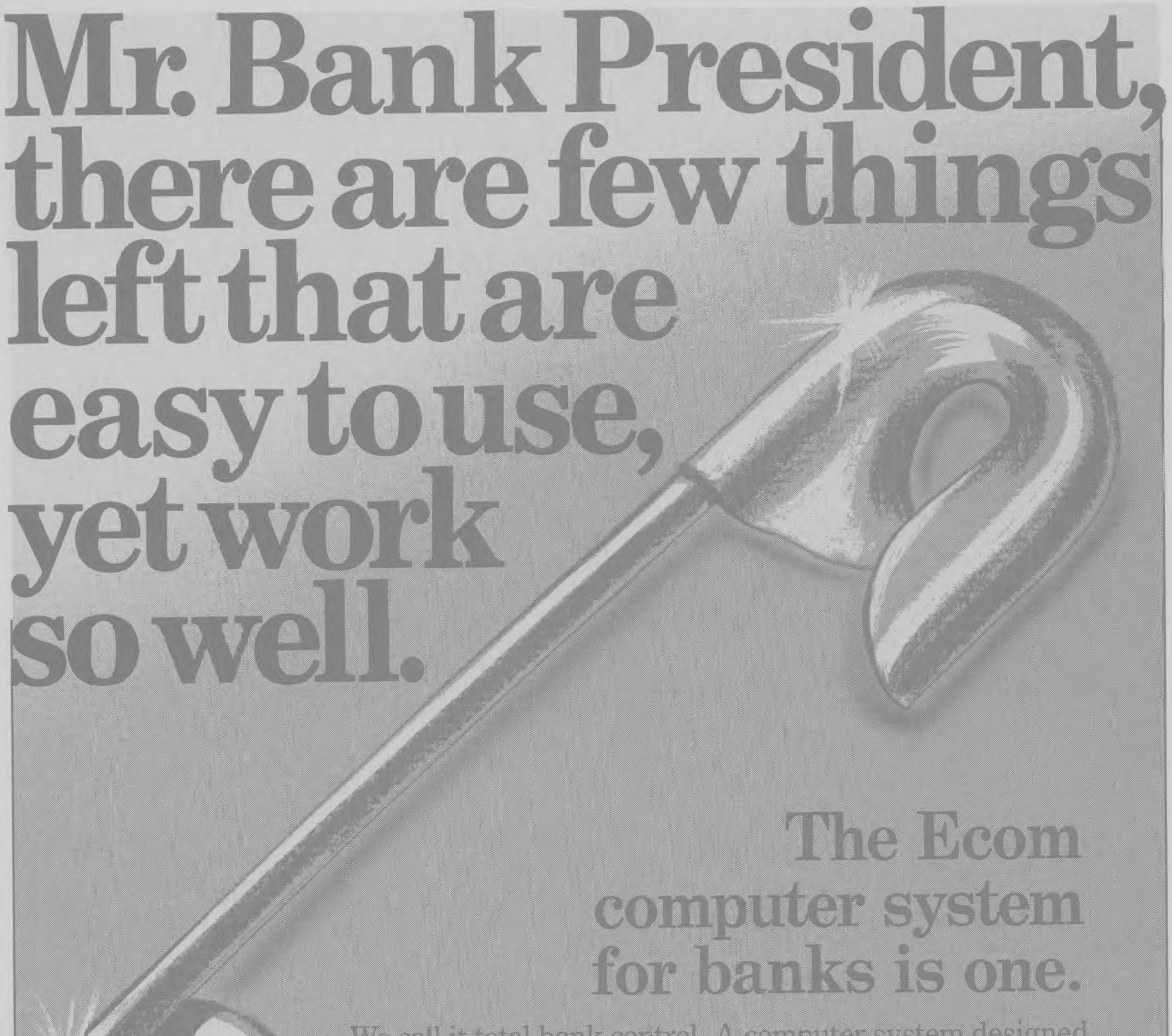
The specialized markets we're talking about will not ordinarily be susceptible to mass-media support because of the expense involved. There's too much wasted audience. So some of the marketing experts will need to find more effective ways to employ direct mail.

Technology's role will expand. The use of cable TV in marketing services looks promising. As the cost of home-dish antennas continues to drop, opportunities to deliver our services

(Continued on page 70)

Christmas Display Is 'Gift to Young'

This $50,000 Christmas display was featured by Fourth Nat'l, Wichita, in its nine-story glass-enclosed courtyard last month. The display, which viewers could walk through, was more than 30 feet high and includes approximately 20 animations. The display was a gift to the young and the young-at-heart of Kansas from the bank, a spokesman said. It is said to be the largest indoor seasonal exhibit ever mounted in Kansas and is expected to become a tradition at the bank.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directly into the home will multiply. The question becomes one of finding ways to get the customer to use these services.

The products we must develop and sell to succeed in this new world frequently will be technology-oriented. So marketers must become comfortable with technology and its unique vocabulary. We must understand the opportunities and the limits.

We must have better managers to cope with greater competition and lowered margins. That will call for significant improvement in training. It also will involve increased use of personal selling efforts. A major challenge will be development of effective management skills in product design and implementation and cost controls.

And, as key people move from training into positions of responsibility, compensation programs will have to be changed. If we are to keep these people, their compensation will have to be more reflective of their profit contributions. I expect to see some innovative compensation programs to address this need.

We must also focus more effectively on asset/liability management. Our industry has for a number of years experienced a decline in core deposits — personal checking and savings accounts. A corollary is a steady increase in purchased money. As part of that, we've seen the traditional emphasis on asset management — looking after loans and investments — cede much attention to liability management; perhaps too much in recent years.

But attention now has come full circle. We're realizing that we have to look at both sides of the balance sheet. The great concern has become how to match assets and liabilities in combinations that will ensure margins and preserve essential liquidity. One thing is sure: Both asset and liability strategies will be greatly formalized in most banks.

As we find ways to do this, the growth in non-interest expense will become the most sensitive cost any bank has. A great deal of our energy in the years immediately ahead will be devoted to finding ways to control non-interest expense — chiefly compensation, occupancy costs, equipment expense and costs of developing and marketing services. I see no way to avoid this reality.

Beyond market concerns, a new phenomenon has dictated new policies and attitudes on the part of banks. Thirty years ago, the overriding concern was conservation of assets and production of acceptable income.

The social problems of the last 30 years and the changing attitudes toward the obligations of business have been broadened so that most banks now have set social goals to benefit their communities. They face not only the requirements of equal opportunity in all its aspects, but the additional obligation to justify their existence as quasi-public institutions through reinvestment in the community.

This latter objective often is in conflict with the traditional objectives of keeping asset quality high, conserving capital and producing profits. But in the future, it will be necessary to reconcile these competing demands, or to compromise the conflicts in a manner that regulators, shareholders and the public can understand and accept. Bank marketing groups will bear the major communications responsibilities to gain this necessary acceptance from the broadened group of stockholders.

The environment I've described — more competition, market segmentation, changes in our customers, new marketing techniques, people development, asset/liability management and societal obligations — promises great challenges to banking professionals. ● ●

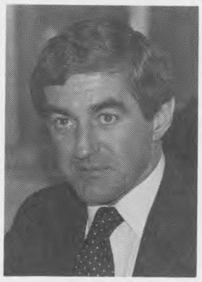
Haines

(Continued from page 18)

be they small or large, rural or urban, should have the opportunity to compete with those institutions that today are unregulated.

Public officials and elected representatives at both the federal and state level must acknowledge the competitive inequities that exist and resist the pressures of special-interest groups who oppose change. Every banker should enjoy playing on a level field whose sidelines have been widened to permit innovative new offenses. ● ●

Credit Conference Is Set For Los Angeles March 7-9


McNAMAR


BAKER

WASHINGTON, D. C. — Robert T. McNamar, deputy secretary of the Treasury, and James V. Baker, president, James Baker & Co., Oklahoma City, are among the speakers who will appear at the ABA's national credit conference March 7-9 at the Century Plaza Hotel, Los Angeles.

Keynote speakers will be Robert T. Parry, executive vice president/chief economist, Security Pacific Corp., Los Angeles, and John B. M. Place, president, Crocker Bank, Los Angeles. Mr. Parry's topic will be "The Economic Environment" and Mr. Place will review "The Competitive Environment."

Asset/liability management and its implications for commercial lenders will be featured on the program. Mr. Baker will provide an overview which will be followed by concurrent workshops organized by bank-deposit size.

Also on tap for the conference will be a discussion of loan pricing practices, sessions on asset-based lending, bankruptcy, project financing and standby letters of credit, a panel on loan quality, a talk on practical approaches to marketing credit and non-credit services and a presentation on "Attracting, Retaining and Compensating Loan Officers."

Information and registration materials are available from Sharon McGinnis at the ABA, 1120 Connecticut Avenue, N. W., Washington, DC 20036.

Letters

(Continued from page 4)

default and legal action, the borrower's attorney would be looking for any weak point available. The variable-rate loan provides him many opportunities.

In conclusion then, I would have to say that while the new law is not the best law, it accomplishes the purpose desired. Usury ceilings are gone, bankers can negotiate realistic loan arrangements with borrowers. However, in the case of variable-rate loans, move with caution.

Sincerely yours,
Donald X. Murray
Vice President/General Counsel
Illinois Bankers Association
Chicago

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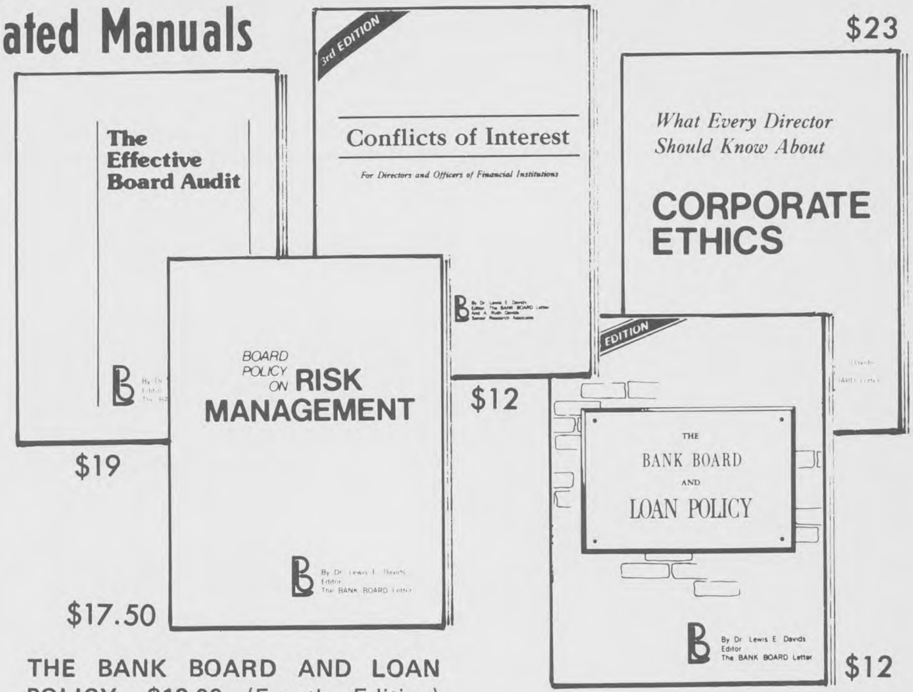

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News

About Banks and Bankers

Alabama

First National, Mobile, has appointed Ronald W. Eastburn assistant vice president/manager, product development in the marketing division and promoted Winifred R. O'Neal to assistant personnel officer.

The 19 affiliate banks of AmSouth Bancorp., Birmingham, will be merged into one bank with combined assets of $2.7 billion following approval of the boards of each affiliate. The merger is expected to be completed within 12 to 18 months. The resulting bank will have 102 offices throughout the state.

First National, Birmingham, has promoted Jeb S. Cloyd, vice president, to assistant manager/bond department, Susan S. Milewicz to assistant vice president and J. Ann Petrey to bond investment officer.

Central Bank of the South is the name of the new bank resulting from the merger of the 10 affiliate banks of Central Bancshares of the South, Inc., Birmingham. The year-end 1981 merger resulted in a bank with $2.1 billion in assets with 75 offices in 40 communities.

Lounell Usry has been promoted from vice president to senior vice president at Farmers & Merchants Bank, Centre. Mrs. Usry, who has spent her entire career at the bank, is past chairman, North Alabama Group, National Association of Bank Women.

Arkansas

Worthen Bank, Little Rock, has promoted James West, Richard Cheever and James Walker to assistant vice presidents; Holly Eddins to assistant cashier and Carol Hardwick to trust officer. Mr. West is loan review manager in the credit department and Messrs. Cheever and Walker are systems/programming managers. Miss Eddins is manager of Moneycard operations and Mrs. Hardwick is manager of the employee benefits department in the trust division.

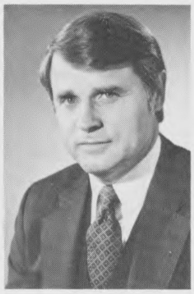
James E. Brantley has joined Farmers Bank, Clarksville, as senior vice president in charge of lending. He formerly was with Pulaski Bank, Little Rock, and, prior to that, was with the Arkansas State Bank Department.

The Fed has approved applications of First Fordyce Bancshares to acquire First National, Fordyce, and Brinkley Bancshares to acquire Bank of Brinkley.

Illinois

Continental Bank, Chicago, has elected John E. Porta and Caren L. Reed executive vice presidents. Both were senior vice presidents. Mr. Porta heads the multinational banking ser-

PORTA



REED

vice department and joined the bank in 1974. Mr. Reed heads the financial services department and has been with Continental since 1956. Promoted to vice presidents were Sharon A. Bond, Michael A. Crowe, Robert B. Evans, Roger F. Farleigh, Edward J. Halle and Paul F. Lawless — trust/investment services; Paul W. Boltz and Alan G. Jirkovsky — bond/treasury services; James M. Karis, William J. Moser Jr. and Don A. Resler — financial services; Mary P. Cloonan and Neile H. Coe Jr. — general banking services; Ronald L. Sapiro — international banking services; Nancy L. Kosobud — multinational banking services; Michael B. King — special industries department; J. Michael Baird and Jeffery M. Harbour — U. S. banking department; Evan L. Evans — corporate personnel services; William F. Anderson, William L. Walton and Kent E. Westerbeck — operations/management services; and Terry L. Francl and Daniel S. Shook — corporate financial services.

IBA Sets Up Meeting Of Various Groups As Step Toward Unity

In an effort to unify the various banking factions, the Illinois Bankers Association will hold a congress of all banking organizations in the state January 28-29 at the Marriott Pavilion in downtown St. Louis.

Those invited include leadership families of the IBA, Independent Community Bankers of Illinois (ICBI) and Association for Modern Banking in Illinois (AMBI), representatives of national-level associations, CEOs of money-center banks in Chicago and St. Louis and Fed directors in those two cities.

The meeting will be called a "Banking Issues Congress," says IBA president James A. Fitch, president, South Chicago Savings Bank. On the agenda will be critical banking issues of the day. According to Mr. Fitch, the IBA is soliciting many viewpoints to establish common ground in a rapidly changing banking environment.

IBA Executive Vice President William J. Hocter says, "Topics to be discussed at the congress will include federal legislative and regulatory issues and state legislative issues. We have invited a number of prominent speakers, including Murray Weidenbaum, chairman, President's Council of Economic Advisers, members of congressional banking committees and senior regulatory officials to address the bankers."

The IBA looks on the congress as the first step of a process to bring all Illinois bankers together to discuss issues important to Illinois and its people.

"There are many more positions we have in common than in division," Mr. Fitch concludes.

Illinois' Multi-Bank HC Law Ruled Constitutional

Illinois' new limited, regional multi-bank HC and third-limited-service-facility law has been ruled constitutional. The law became effective January 1.

A lawsuit challenging the state constitutionality of the law was filed last year by McHenry State, First National, Lacon, State Bank, Arthur, and Marquette National, Chicago.

In dismissing the suit, the judge ruled that multi-bank HCs are not branch banking, which is prohibited in Illinois. Additionally, the judge ruled that the new law received the three-fifths vote plurality necessary for passage by the general assembly. The judge also ruled that passage of the law was not an unconstitutional delegation of authority by the assembly as suggested by the plaintiffs.

Brent A. Baum has been promoted to assistant vice president/manager, Illinois Center Facility, National Boulevard Bank, Chicago.

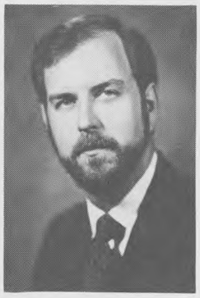
Harris Bank, Chicago, has elected Robert A. White and Mary D. Fieldman vice presidents. Mr. White heads the Los Angeles office and Mrs. Fieldman is in the personal trust development division. In other action, Harris Bankcorp. has announced its intent to acquire Argo State, Summit, from CPC International, a food-processing firm, at an estimated cost of $3.3 million.

New IBA Appointment

CHICAGO — The Illinois Bankers Association has named John D. Seymour legislative affairs director. Mr. Seymour, acting director, Illinois department of financial institutions, will take his new post the middle of this month.

Robert C. Shrimple remains active as IBA legislative consultant.

Mr. Seymour will be responsible for the administration of the IBA's Springfield legislative operation, including management of the legislative office and mobilization of bankers into a more effective political organization. He will be an active lobbyist and secretary of the IBA's state legislative committee. He also will provide professional input into formulation of state-legislative policies and positions. He will report directly to the IBA's executive vice president, William J. Hocter.



Before joining the financial institutions department, Mr. Seymour was legislative consultant for the Illinois Senate committees on Local Government and Finance and Credit regulations. He also served as staff director, Illinois Electronic Funds Transfer Systems Study Commission.

First National of the Quad Cities, Rock Island, has appointed Frank P. Clarke president/chief operating officer. He formerly was senior vice president. The bank changed its name from First National, Rock Island, last October.

Louis E. Tiemann and Dennis E. Bielke have been elected chairman/CEO and president/chief operating officer, respectively, at Belleville National. Mr. Tiemann moved up from president; Mr. Bielke formerly was with Mercantile Trust, St. Louis

Indiana

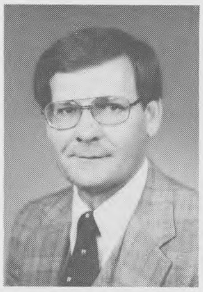
Larry J. Hannah has been elected president, American Fletcher Corp., Indianapolis, and Joseph D. Barnette Jr. has been named president, American Fletcher National. They succeed Harry L. Bindner, president of both firms, who retired last month. Walter W. Ogilvie Jr., former senior executive vice president of both the bank and HC, has been named vice chairman of both firms. Mr. Hannah had been executive vice president of the bank. Mr. Barnette formerly was president, Lake View Trust & Savings, Chicago.

Thomas Mensch has been promoted to vice president/corporate services division at Peoples Trust, Fort Wayne. He joined the bank in 1979.

Randolph F. Williams has been promoted to vice president/marketing director at Lincoln National, Fort Wayne. He joined the bank last September.

Kansas

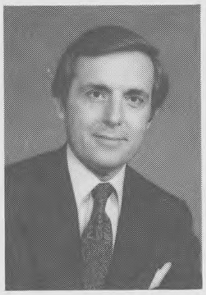
Fourth National, Wichita, has promoted three division heads to executive vice presidents. They are Leland F. Cox, operations/finance; Gary L. Gamm, investments; and Robert M.



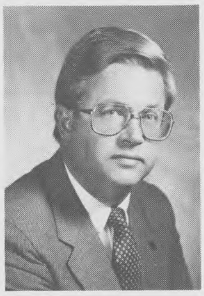
COX

GAMM

Smith Jr., loans. They were formerly senior vice presidents. Mr. Cox joined the bank in 1966 and Messrs. Gamm and Smith have been with the bank since 1969. Kurt Watson and Harry R. Pape were elected vice presidents in the marketing and BankCard divisions, respectively, and Kim R. Penner was named manager/consumer services in the marketing department. Mr. Watson formerly was with Lawrence National; Mr. Pape comes from NCR-Wichita; and Mr. Penner joined the bank last April.



SMITH



TEMPEL

William C. Tempel has been appointed senior vice president/trust division manager at Commercial National, Kansas City. He formerly was a senior vice president at Commerce Bank, Kansas City, Mo.

Charles Fisher has been elected assistant vice president in the full-service banking department at First National, Lawrence.

Kentucky

An international banking facility has been opened in the headquarters of First National, Louisville, to permit the bank to conduct its Eurocurrency business out of its home office as well as its Cayman Islands Branch. A recent ruling by the Fed made domestic international-banking facilities possible.

Merger Plans Announced

United Kentucky, Inc., and Liberty National Bancorp., Inc., Louisville, have begun negotiations toward the possible combination of the two HCs and their subsidiaries, United Kentucky Bank and Liberty National Bank. It's contemplated that United Kentucky stockholders would exchange their shares for a yet-to-be-determined number of shares of Liberty National Bancorp common stock.

Since negotiations are at a preliminary stage, no combinations have been agreed on and no agreement on any terms had been reached at press time.

First National, Louisville, has promoted Leslie H. London and Henry D. Ormsby from vice presidents to senior vice presidents and Thomas A. Ford from banking officer to senior banking officer. Kenneth R. Herp Jr. was promoted from associate correspondent services officer to correspondent services officer.

Steven E. Kocen has joined First Security National, Lexington, as a vice president in the marketing department. He formerly was with a bank in Virginia.

Louisiana

Fidelity National, Baton Rouge, has promoted Erik C. Jensen to senior vice president/commercial loan head and Karen A. Penny to assistant vice president/loan review head. They both joined the bank in 1978.

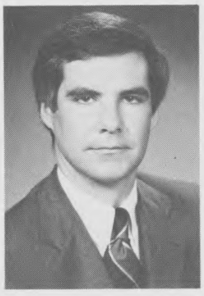
First National of Jefferson Parish, Gretna, has elected J. Stratton Orr and Grace Lawson vice presidents and Ronald A. Yancis assistant vice president.

Actions are being taken to merge Continental Bank, Harvey, into First National of Jefferson Parish, Gretna, and to form First Continental Bancshares, a one-bank HC, with Benton M. Wakefield Jr. serving as HC chairman and Elton A. Arceneaux Jr. as president. It's anticipated that present directors of both banks will be retained as directors of First National of Jefferson Parish.

Dennis C. James has been elected vice president at Central Bank, Monroe. Mr. James also is the bank's personnel director.

Mississippi

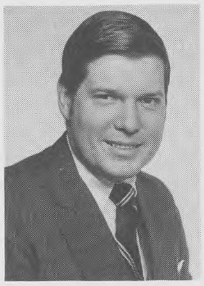
John B. Neville has been promoted to senior vice president at Deposit Guaranty National, Jackson. He heads the real estate department. Also promoted were John R. Jones and Alan H. Walters, both to vice presidents. Mr. Jones is a branch manager and Mr. Walters heads the corporate finance group.



NEVILLE

Missouri

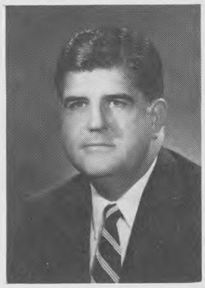
St. Louis County Bank, Clayton, has elected Robert C. Wolford vice chairman and Larry D. Abeln, Linn H. Bealke and Thomas M. Noonan executive vice presidents. They joined the bank in 1974, 1970, 1980 and 1973, respectively. In other action, the bank has promoted Michael C. Erb to vice president/trust officer. He joined the bank in 1980.



BEALKE

WOLFORD

ABELN



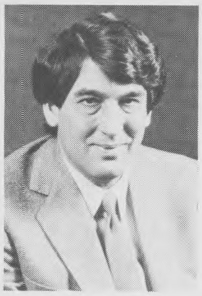
NOONAN

The Fed has approved the merger of County National Bancorp., Clayton, and T G Bancshares, St. Louis, to create County Tower Corp., which owns and operates nine St. Louis-area banks at 17 locations with total assets of almost $1 billion. The new HC is said to be the state's seventh largest banking organization and the fourth largest in the St. Louis area.

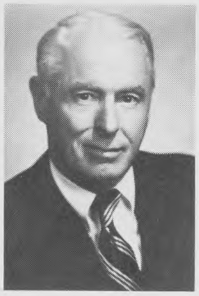
United Missouri, Kansas City, has acquired United Missouri Mortgage Co. from United Missouri Bancshares. In conjunction with the change, Marlin L. Koelling has been named president. He formerly supervised the real estate loan division of the bank.

David A. Kunze has been elected president/CEO at Bank of Crane. He formerly was executive vice president and succeeds Thomas Kinsey, who has moved to Bank of Kennett.

Mercantile Trust, St. Louis, has promoted Lona Wattenberg and Joseph F. Licata to assistant vice presidents, named Paul H. Garrison a trust officer and Elke E. Moses a personal



SALIGMAN

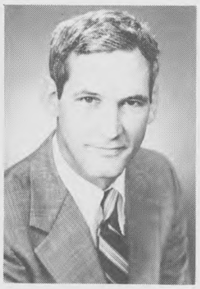


KUHLMANN

banking officer. Mercantile Bancorp. has received Fed approval to become an issuer of MasterCard travelers checks. Mercantile is said to be the first HC in Missouri to receive such approval from the Fed. The checks are available at Mercantile Trust in denominations of $20, $50, $100 and $500 and are sold in packages in multiples of $50. The bank has elected Fred L. Kuhlmann and Harvey Saligman to its board. Mr. Kuhlmann is vice chairman/executive vice president, Anheuser-Busch Companies, and Mr. Saligman is president/chief operating officer, Interco.

Centerre Bank, St. Louis (formerly First National) has elected William F. Sommer a senior vice president. He is the bank's controller and joined the institution in 1968. Wayne D. Muskopf has been elected a vice president of Centerre Bancorp. (formerly First Union Bancorp.) He formerly was vice president/personnel manager at First of St. Louis, which he joined in 1968.

COOPER



SOMMER

Claudyne V. Cooper has been promoted to senior vice president/manager, accounting and control, at United Missouri Bank, Kansas City. She has been with the bank for 39 years.

Commerce Bank, Kansas City, has elected Eugene L. Mahaffey and Russell L. Koos vice presidents and Stephen J. Freidell assistant vice president. Mr. Mahaffey is retail lending manager, Mr. Koos is research/development manager and Mr. Freidell is money-market manager.

Juanita R. Willer, vice president, Big Bend Bank, Webster Groves, has been elected chairman of the Metropolitan St. Louis Group of the National Association of Bank Women. Also elected were Lorraine H. Greene, First National, St. Louis — vice chairman; Gloria Brostoski, Cass Bank, St. Louis — treasurer; and Marcella C. Hoeflinger, Citizens Bank, Pacific — secretary.

Country Club Bank, Kansas City, has elected Eugene T. Cernich of E. T. Cernich Co. to its board.

First National, Kansas City, has promoted Craig L. Bouise Sr. to vice president/comptroller, David C. Rigg to vice president, Michele A. Manne and Mark T. Massey Jr. to assistant vice presidents and Nancy L. Booth, Dorothy Jetton, Darrell Smock, Mark A. Stutte and Charles W. Waide to assistant cashiers. Mr. Bouise joined the bank in 1975 and Mr. Rigg has been with First National since 1973.

New Mexico

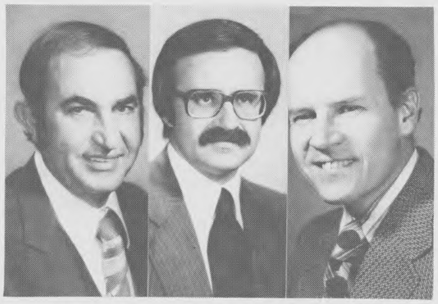
Reed H. Chittim, president/CEO, First National of Lea County, Hobbs, has been elected to the board of Security National, Lubbock, Tex. The latter recently was bought by a group of Lubbock and other west Texas investors headed by Sam Spikes. Mr. Spikes, a director of First National of Lea County, also is chairman of the newly acquired Texas bank. Mr. Chittim also is chairman of First City National, Carlsbad, and president/CEO, First City Financial Corp., a new multi-bank HC with corporate offices in Hobbs.

Ralph N. Lester, auditor, New Mexico Banquest Corp., Santa Fe, has been recognized as a chartered bank auditor by the Bank Administration Institute. He was one of 162 internal auditors to qualify for the CBA certificate in 1981.

Ruidoso State has signed a contract with Electronic Data Systems Corp. (EDS), Dallas. Under terms of the agreement, EDS will provide the bank total turnkey assistance for implementing service on the bank's computer, IBM's System/34. Additionally, EDS will give software-application support to the bank on a continuing basis, providing regulatory and system enhancements.

Oklahoma

Liberty National, Oklahoma City, has named three new senior vice presidents: Gary Burton, Liberty credit card center manager; Edward E. Korell, manager/installment loan department, and Raymond C. Reier, manager/loan administration department. Promoted to vice presidents were: Latricia Harper, operations; J. Michael McGee, commercial banking;



KORELL BURTON REIER

Jake Riley, corporate trust, and Millie Weaver, personal banking center. In other action, Liberty National elected seven new assistant vice presidents: LaWanda Chastain, international; Vickie Dilbeck and Luke Wigley, credit card center; James W. McIntyre, investment services; B. J. Schmidt, legal; Stuart B. Strasner Jr., investment services, and Robert Tackett, loan administration.

Bank Spokesman Honored

Principals at the recent fourth annual officer-call breakfast at Liberty Nat'l, Oklahoma City, included (from l.) Paul Strasbaugh, e.v.p., Oklahoma City Chamber of Commerce; J. W. McLean, ch., Liberty Nat'l, and Ed McMahon, TV personality and the bank's TV/radio spokesman. Mr. McMahon spoke on "Salesmanship — 1982 Style" at the breakfast. He was given Oklahoma City's "top hand" award and "hot brand" statuette by Mr. Strasbaugh.

Rex Horning has been named vice president/consumer loans, Central National, Enid, which he joined last June. He formerly was credit administrator, Agrico Chemical Co.

Ronald F. Shepard has been made district service manager for Diebold, Inc., Canton, O. He directs the firm's service activities in the Oklahoma City area.

Martin G. Istock, who joined Oklahoma City's Fidelity Bank in October, has been elected vice president/manager, investment trading, investment division. Two assistant vice presidents were named: Jay Hallman, director/credit card department, retail banking division, and Eleanor M. Deterich, commercial loan officer/commercial lending division.

Robert E. List has been elected president, Boulder Bank, Tulsa. He was executive vice president. William R. Shaw, who was chairman/president, continues as chairman.

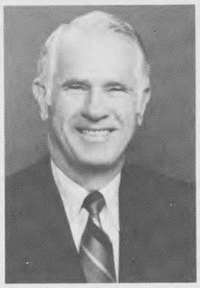
Tennessee

Robert E. Matthews and F. Ray White have been promoted to vice presidents at Nashville's Third National, and Donald Hudgins was advanced to assistant vice president. Mr. Matthews is manager/credit card center; Mr. White is in installment lending, and Mr. Hudgins is senior computer service representative.

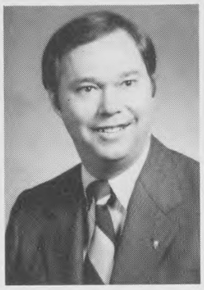
The Fed has approved the following bank-HC formations: Hardeman County Investment Co., Bolivar, through acquisition of Hardeman County Bank, Bolivar; Community Financial Services, Bolivar, through acquisition of Bank of Bolivar, and Germantown Bancshares, through acquisition of Bank of Germantown.

Texas

Ted Davis has been promoted from executive vice president to president, First National, Amarillo. He succeeds Gene Edwards, who retains the titles of chairman/CEO. Mr. Davis joined the bank as a vice president in 1969 after having spent seven years with First National, Dallas. Mr. Edwards joined First National in 1949, became president in 1964, CEO in 1969 and chairman in 1975. He headed the Texas Bankers Association in 1974-75. In other action, the bank promoted Don Powell to succeed Mr. Davis as executive vice president in charge of



EDWARDS



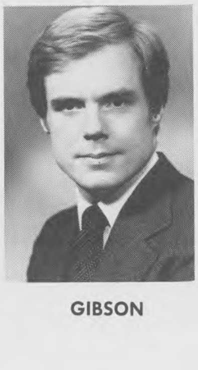
DAVIS

the lending division. He was senior vice president and also is a bank director. Senior Vice President Pete Dallas has been named head of commercial loans/lending division; Sharon Brown, head of customer services, was elected senior vice president; Senior Vice President Dick Harris now is responsible for industrial development and corporate services/lending division; Senior Vice President Jack Little was named head of the trust department/trust division, with Executive Vice President Kenneth Sloan remaining head of the trust division; Senior Vice President Joe Horn heads the newly created investment division; Vice President Don Handley was named head of business development/marketing division; Senior Vice President Bill Sewell continues as head of the marketing division; Assistant Vice President Margo Fields has been named head of the newly created marketing services department/marketing division, and Hershel Kime and George Reeves were named vice presidents. Mr. Reeves is in charge of electronic banking.

Robert H. Fillingim Jr. has been appointed manager of the new San Antonio regional office of LeFebure, Cedar Rapids, Ia. Mr. Fillingim supervises sales for a territory that includes much of west Texas. Previously, he was manager of LeFebure's Houston office.

William E. Gibson has joined Republic of Texas Corp. (RPT), Dallas, as senior vice president/chief economist. He most recently was senior vice president/economics and financial policy, McGraw-Hill, a New York City publishing firm. Before that, Mr. Gibson was first vice president/director of fixed-income research, Smith Barney, Harris Upham & Co. In the banking field, he once was vice president/monetary affairs director, Chase Manhattan, New York City.

FILLINGIM



GIBSON

Frost Bank, San Antonio, has named these vice presidents: Timothy P. Booker, note processing; Mike Gregory, systems support; Bryan A. Kendrick, auditing, and C. S. Plummer Jr., automated customer services. Irma Lawrence was named assistant vice president/credit collections.

Giveaway Van Promotes ATMs

This van was given away by First United Bancorp., Fort Worth, and 12 Moneycard member banks as part of a Moneycard automatic banking promotion. Contest was based on customer registration at participating banks. Goal of promotion was to increase public interest in ATM demonstrations and to achieve subsequent customer acceptance of Moneycard. Contest participation was said to be excellent and subsequent acceptance of Moneycard through an initial mailing exceeded expectations in terms of completed applications. Photo shows Gary Crenshaw (r.), v.p./ATM manager, First United Services, handing over van keys to winner.

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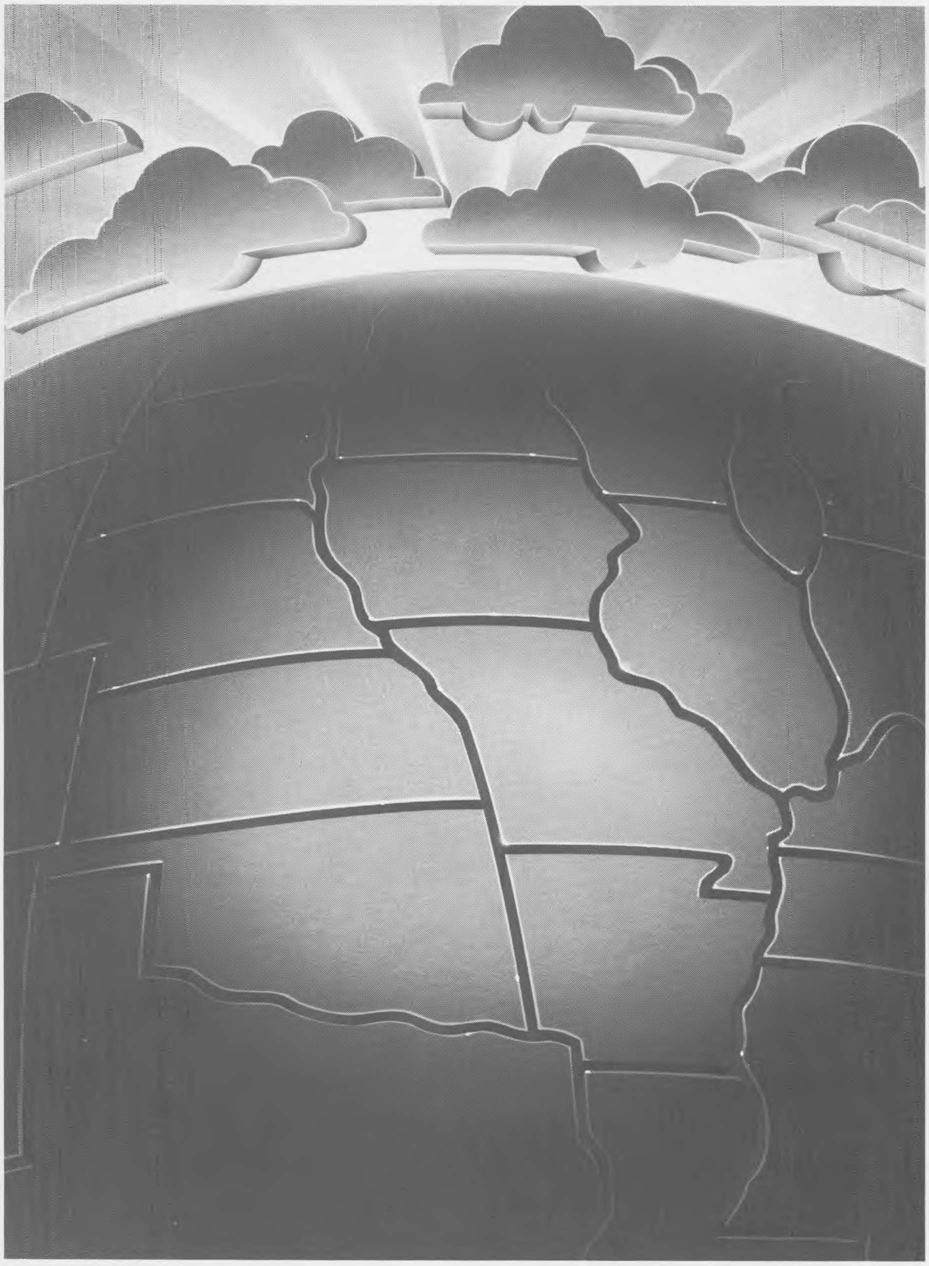
(Continued on page 78)

Convention Calendar

Jan. 24-27: Bank Administration Institute Bank Productivity Conference (PATH), Atlanta.
Jan. 25-28: ABA Insurance and Protection Conference of Financial Institutions, New Orleans, Hyatt Regency.
Jan. 27-29: ABA Construction Lending Workshop, Denver, Fairmont Hotel.
Jan. 31-Feb. 3: ABA Conference for Branch Administrators, Atlanta, Omni International.
Feb. 7-10: ABA Bank Telecommunications, Los Angeles, Century Plaza.
Feb. 7-10: ABA National Trust Conference, New Orleans, Hyatt Regency.
Feb. 7-19: ABA National Installment Credit School, Norman, Okla., University of Oklahoma.
Feb. 10-12: ABA Bank Investments Conference, San Francisco, St. Francis Hotel.
Feb. 23-26: ABA National Compliance Conference, Phoenix, Hyatt Regency.
Feb. 25: Bank Administration Institute Interviewing Skills Workshop, Nashville.
Feb. 28-March 3: ABA Community Banks Executive Conference, Dallas, Fairmont Hotel.
March 2-5: Bank Administration Institute Check Processing Conference, New Orleans, Marriott.
March 7-10: ABA National Credit Conference, Los Angeles, Century Plaza.
March 8-11: Robert Morris Associates Financial Statement Analysis Workshop, New Orleans, Marriott Hotel.
March 10-12: ABA Corporate/Commercial Marketing Conference, San Francisco, Hyatt Regency.
March 10-12: ABA Bank Planning Workshop, Denver, Denver Marriott City Center.
March 14-17: Bank Administration Institute Conference on Bank Security, Kansas City, Crown Center Hotel.
March 14-18: Independent Bankers Association of America Convention, Honolulu, Sheraton Waikiki.
March 21-24: ABA National Installment Credit Conference, Dallas, Loew's Anatole.
March 21-24: ABA Trust Operations/Automation Workshop, Atlanta, Hyatt Regency.
March 21-25: Bank Administration Institute Bank Auditors Conference, Hollywood, Fla., Diplomat.
March 22-26: Bank Marketing Association Essentials of Bank Marketing School, University of Georgia/Athens.
March 28-31: ABA Southern Regional Bank Card Conference, Atlanta, Omni International.
April 2-6: Louisiana Bankers Association Annual Convention, New Orleans, New Orleans Hilton.
April 3-6: Association of Reserve City Bankers Annual Meeting, Phoenix, Arizona Biltmore.
April 13-16: Bank Administration Institute Accounting/Finance Conference, Orlando, Fla., Hyatt Regency Orlando.
April 18-20: Conference of State Bank Supervisors Annual Convention, New Orleans, Fairmont Hotel.
April 18-23: ABA National Commercial Lending Graduate School, Norman, Okla., University of Oklahoma.
May 2-6: Alabama Bankers Association Annual Convention, Lake Buena Vista, Fla., Disney World, Contemporary Hotel.
May 2-13: ABA National Commercial Lending School, Norman, Okla., University of Oklahoma.
May 3-6: Annual Premium Incentive Show, New York City, Coliseum.
May 9-12: Oklahoma Bankers Association Annual Convention, Oklahoma City, Sheraton-Century Center.
May 9-12: Tennessee Bankers Association Annual Convention, Atlanta, Peachtree Plaza Hotel.
May 11-14: ABA Northern Regional Bank Card Conference, Chicago, Hyatt Regency Chicago.
May 12-14: Association of Bank Holding Companies Annual Meeting, San Antonio, Tex., Hyatt Regency.
May 13-15: Missouri Bankers Association Annual Convention, St. Louis, Stouffer's Riverfront Inn.
May 13-15: Texas Bankers Association Annual Convention, Dallas, Loew's Anatole Hotel.
May 15-18: Arkansas Bankers Association Annual Convention, Hot Springs, Arlington Hotel.
May 16-18: Bank Administration Institute Bank Tax Conference, New Orleans.
May 16-19: ABA National Conference on Real Estate Finance, Washington, D. C., Capital Hilton.
May 16-19: Bank Marketing Association Corporate Marketing Conference, Tarpon Springs, Fla., Innisbrook Resort.
May 17-18: ABA Insurance Industry Conference, Washington, D. C., Washington Marriott.
May 19-21: Kansas Bankers Association Annual Convention, Wichita, Wichita Royale Hotel.
May 20-23: Mississippi Bankers Association Annual Convention, Biloxi, Broadwater Beach/Biloxi Hilton Hotels.
May 23-26: ABA National Marketing Conference, San Francisco, Hyatt Regency Hotel.
May 23-28: ABA National Commercial Lending Graduate School, Norman, Okla., University of Oklahoma.

America's newest name in banking is right in the center of things.



First National Bank in St. Louis is now called Centerre Bank.

So is Columbia Union National Bank in Kansas City.

Don't worry. It's only a change of name. Not a change of service.

All the correspondent banking services you've come to count on from these banks are still available.

And the same experienced people are still on hand to provide them to you.

Centerre Bank. It's a new name. But we're not changing a thing about the way we handle your correspondent banking needs.

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