MID-CONTINENT BANKER

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The Financial Magazine of the Mississippi Valley & Southwest
DECEMBER, 1982

Commercial Finance/Leasing Issue

Leasing Can Be Attractive Alternative
Page 48

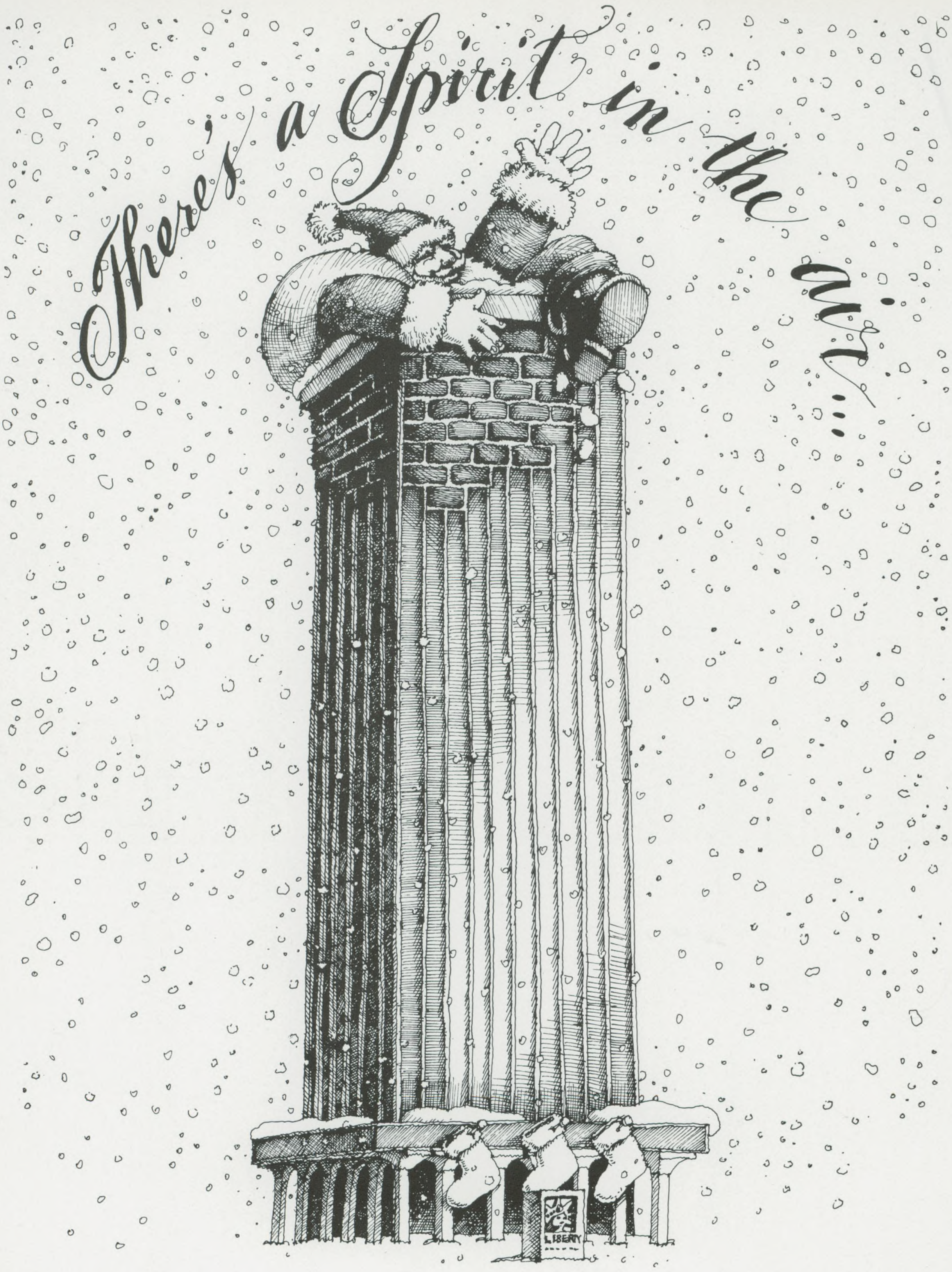
Making 'Unbankable' Loans 'Bankable'
Page 36

Money-Market Accounts Arrive December 14
Page 56

Check-Clearing Business Could Be Won by Fed
Page 27

Changing Times Affect Correspondent Policies
Page 26

Illinois Bankers Approve Merger
Page 58


There's a Spirit in the air...
LIBERTY

MID-CONTINENT BANKER

The Financial Magazine of the Mississippi Valley & Southwest

Volume 78, No. 12 — December, 1982

FEATURES

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STATE NEWS

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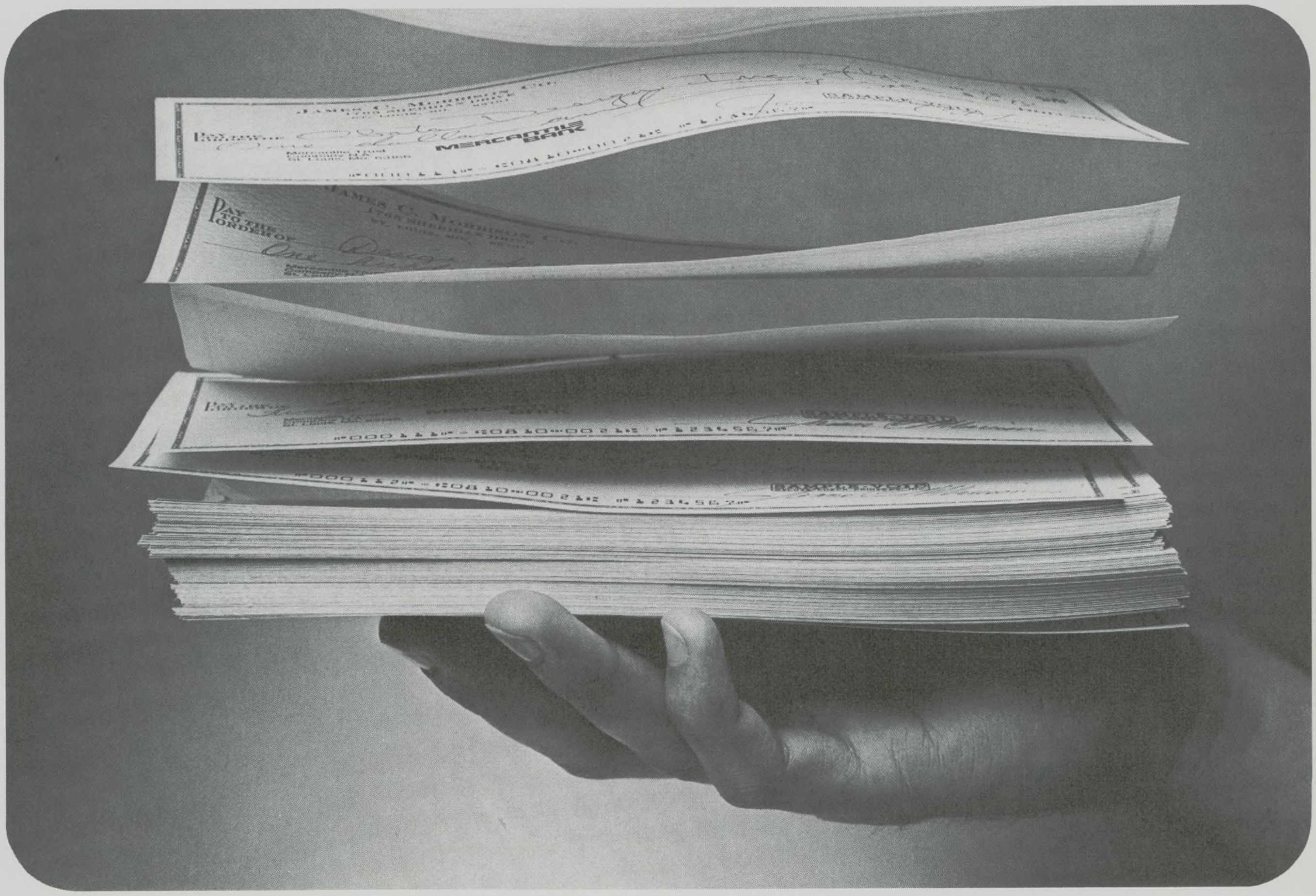
Convention Calendar

Jan. 23-26: ABA National Trust Conference, Atlanta, Atlanta Hilton.
Feb. 6-9: ABA Telecommunications/Financial Networks Workshop, Kissimmee, Fla., Hyatt Orlando.
Feb. 8-11: ABA National Insurance/Protection Conference, Orlando, Fla., Sheraton-Twin Towers.
Feb. 13-16: ABA Conference for Branch Administrators, Denver, Fairmont Hotel.
Feb. 20-24: Bank Administration Institute Bank Auditors Conference, San Francisco, St. Francis Hotel.
Feb. 22-25: ABA Bank Investments Conference, Dallas, Hyatt Regency.
Feb. 27-March 2: Bank Administration Institute Conference on Bank Security, New Orleans, Fairmont Hotel.
Feb. 27-March 2: Bank Marketing Association Community-Bank CEO Seminar, Scottsdale, Ariz., Marriott's Mountain Shadows.
Feb. 27-March 2: Bank Marketing Association EFTS Marketing Conference, Houston, Four Seasons Hotel.
March 2-5: ABA Corporate/Commercial Marketing Conference, Washington, D. C., Capital Hilton.
March 6-9: ABA Community Banks Executive Conference, New Orleans, Fairmont Hotel.
March 7-8: Consumer Bankers Association Government Relations Forum, Washington, D. C., Loew's L'Enfant Plaza.
March 13-15: ABA National Credit/Correspondent Banking Conference, New Orleans, Fairmont Hotel.
March 13-16: ABA Trust Operations/Automation Workshop, New York City, New York Hilton.
March 13-16: Bank Marketing Association Consumer Business-Development Training Workshop, Nashville, Radisson Hotel.
March 17-20: AIB Leaders Workshop, Little Rock, Excelsior.
March 20-23: ABA Western Regional Bank Card Conference, Dallas, Fairmont Hotel.
March 23-25: Dealer Bank Association Annual Meeting, San Francisco, Fairmont Hotel.
March 23-27: Independent Bankers Association of America Annual Convention, San Diego, Town & Country Hotel.
March 27-30: Bank Marketing Association Advertising Conference, Chicago, Hyatt Regency Chicago.
April 5-7: ABA International Banking Symposium, Chicago, Hyatt Regency Chicago.
April 5-8: Bank Administration Institute Check-Processing Conference, Chicago, Marriott Hotel.
April 7-10: AIB Leaders Workshop, Nashville, Hyatt Regency Nashville.
April 10-13: ABA National Installment Credit Conference, Atlanta, Hyatt Regency Atlanta.
April 14-17: Louisiana Bankers Association Annual Convention, New Orleans, New Orleans Hilton.
April 17-22: Bank Marketing Association Management School of Bank Marketing, Athens, Ga., University of Georgia.
April 17-22: Robert Morris Associates Loan Management Seminar, Columbus, O., Ohio State University.
April 17-27: ABA National Commercial Lending School, Norman Okla., University of Oklahoma.
April 24-27: Bank Marketing Association Research/Planning Conference, Arlington, Va., Hyatt Regency Crystal City.
April 24-27: Independent Bankers Association of American Seminar/Workshop on One-Bank Holding Company, Phoenix, Camelback Inn.
April 24-30: ABA National School of Bank Card Management, Pomona, Calif., Kellogg West California State Poly University.
April 27-29: Dealer Bank Association Compliance Seminar, St. Louis, Marriott's Pavilion Hotel.
May 1-4: ABA National Conference on Real Estate Finance, San Francisco, Hyatt Regency.
May 1-4: Bank Marketing Association Public Relations Conference, Boston, Copley Plaza.
May 2-3: Consumer Bankers Association Annual Leasing Conference, Dallas, Lincoln Hotel.
May 2-5: Premium Incentive Show, New York City, Coliseum.
May 3-6: Bank Administration Institute Accounting/Finance Conference, Dallas, Amfac Hotel.
May 4-7: Alabama Bankers Association Annual Convention, Huntsville.

Does your correspondent bank minimize float in check clearing?



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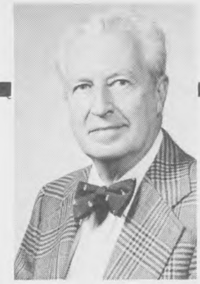
The Banking Scene



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

Do Directors' Fees Reflect Their Abilities?

WHO SETS the fees of bank directors, or for that matter, directors of any corporation?

The salary of a bank's president is decided by the board; salaries of the bank's official staff frequently are suggested by the president and confirmed by the board, and salaries of clerical staff people probably are determined by the personnel department, subject to ratification by top operating management in compliance with board guidelines.

Only directors determine their own fees.

Some students of corporate governance would like to see shareholders of institutions have a voice in setting directors' fees. Most others consider the idea to be unworkable.

More than once when I served as a panel member on a program for bankers, I heard regulators say that they consider some directors' fees to be excessive, and, thus, a problem needing attention. When I had an opportunity for rebuttal, I pointed out that, for the most part, when comparing bank directors' fees to fees paid to directors of similarly sized manufacturing firms, the fees of the former typically have been substantially lower than those of the latter.

This is true even when one considers that the size of the typical bank board is somewhat larger than that of boards of manufacturing firms. Also, nonbank boards have more inside directors than do most banks, and these insiders generally don't receive fees. I then pointed out that the standards by which bank directors are evaluated by regulators are much higher than those of industrial-corporation directors and, for that reason, it's logical for bank directors to receive higher fees.

I don't think I convinced the examiners.

The recently released functional cost analysis for 1981, compiled by the 12 Federal Reserve district banks, provides some interesting information in this area. The extracted data are shown in Exhibit 1. The exhibit shows that directors' fees are higher at smaller institutions as a percentage of operating expenses than at large banks. This is to be expected because smaller institutions are mandated as to a minimum as well as a maximum board size. Thus, by invoking at least the minimum, the smaller banks are proportionately staffed with a higher number of directors than larger banks.

But the really interesting part of the exhibit shows that, without exception, fees of directors of high-performance banks are significantly higher than fees of directors at average-performance banks.

The interpretation I make is that higher-performing banks have been able to attract directors of superior ability to their boards. These individuals, in turn, not only provide superior policy for the bank, but, in their watchdog function, are able to make sure their banks are performing in a superior manner.

A leading management-consulting firm recently issued a study on directors' fees. It showed that such fees had gone up more than the consumer price index, compared with the previous study in 1980. One explanation was that new directors are being selected more for their superior ability than for other considerations. It went on to state that rejections of offered directorships had increased and higher fees were offered to offset this development. This is not to imply that a bank that has directors' fees lower than those shown in the exhibit automatically has a low-performing board. As with any large sample — in this case, 643 banks — there are bound to be exceptions.

I'm reminded of an incident that took place a few years ago at one of the Assemblies for Bank Directors in which one of the leading bankers of a southwestern state — a wealthy man — said he would rather not receive any fees for his board service. He contended that when he received a fee he felt a great compulsion to perform, and when he didn't receive a fee his con-

(Continued on page 78)

EXHIBIT 1

DIRECTOR FEES — 1981

Directors' fees as a percentage of operating expenses as shown by the Federal Reserve Functional Cost Analysis of 643 responding banks and high-earning banks. High-earning banks are the upper-quartile averages of the participating member banks.

Dollar volume of available funds in millions	*High-Earning Banks* Percentage of Operating Expenses %	*All Participating Banks* %
Up to $25	1.97	1.64
$25 to $50	1.97	
$50 to $75	1.35	
$75 to $100	1.27	1.00
$100 to $200	1.03	
$200 to $500	.60	.45
Over $500	.55	

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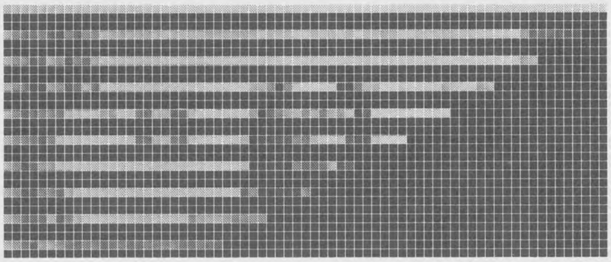
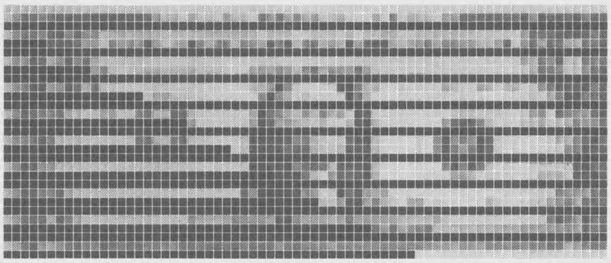
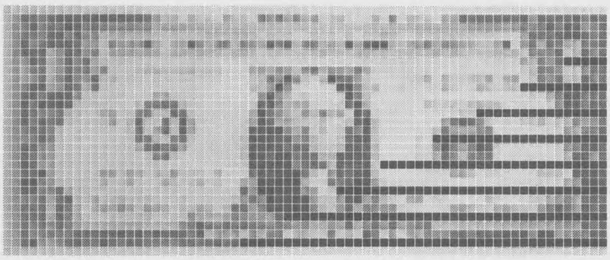
Money management. It's a matter of transferring the right amount to the right account at the right time. It's one of the things we do best at Commerce Bank.



The money management specialists at Commerce deal in a large volume of transfers averaging about one billion dollars a day. We have handled as many as one thousand transfers in a single day.



In a business where millions of dollars change hands each hour, you can't afford a bank that makes mistakes. In some cases we'll follow a wire transfer up with a phone call to make sure that funds have been deposited to the proper account. And, if there is a problem, it is resolved quickly, usually within the same business day.



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Same-Day Settlement Facility for Banks

A NATIONWIDE payment system that allows banks to settle their accounts with one another electronically at the close of each business day now is in operation.

Called CashWire, it provides domestic banks a "same-day"-settlement facility that formerly had been available only through the Fed's Fedwire network. With settlement, says a CashWire spokesperson, banks can make funds available to their customers more rapidly and with greater accuracy and certainty than ever before.

The CashWire system is owned and operated by a banking-industry cooperative called BankWire, which has run electronic-funds-transfer networks since the early 1950s, but never with the settlement feature.

CashWire began live operation September 17 in a limited first-phase effort involving 12 banks throughout the U. S. It now is handling $50 million a day in payments traffic, and that volume is expected to grow to many billions of dollars a day within the next few years.

The 12 member banks taking part in the phase one start-up program are: Citibank and Manufacturers Hanover Trust, New York City; Suburban Bank, Bethesda, Md.; Harris Bank, Continental Bank and First National, Chicago; Mellon Bank, Pittsburgh; Marshall & Ilsley Bank, Milwaukee; Bank of America and Security Pacific National in California; National Bank of Detroit and Interfirst Bank, Dallas.

Suburban Bank, the only member of BankWire not also a member of the Fed, sent the first CashWire message to Manufacturers Hanover September 17.

CashWire uses the existing BankWire II communications network that has been in operation serving domestic banks since 1978. To it have been added a "fault-tolerant" computer and sophisticated software and control functions that make CashWire "technically unmatched among payment systems in the world," according to Bernhard W. Romberg, president of BankWire.

The system has been in development five years, at a cost of about $5 million to the banking industry. It currently interconnects 40 bank computers and 200 bank terminals throughout the U. S.

The same-day settlement feature gives CashWire vital payment-system parity with FedWire, says the CashWire spokesperson, because it assures banks of both an availability of funds as well as the ability to use them immediately on receipt of a CashWire message.

In addition, CashWire provides operating advantages it says are not found in other domestic or international-payments mechanisms. They include:

- *Simplified reconcilement*, made possible by a daily-transaction journal that lets banks detail every message by time and other control codes.
- *Intra-day balance and status reporting* that improves significantly the ability of banks and their customers to track every type of message and its status within the network. More than 20 types of messages are offered on CashWire.
- *Intra-day credit management*, a feature that allows each bank to establish and monitor automatically operating lines, or credit, that it makes available to other banks within the payment system — a timely new credit-management tool said to be available only on CashWire.
- *Expanded internal-automation facilities*. CashWire-payment messages are highly structured, enabling banks to automate transmission, receipt, tracking and processing of messages with more accuracy and precision than ever before, using a variety of computers and terminals available for interconnect to the system. The BankWire organization will assist users in developing custom interfaces and techniques to encourage their broader internal automation, says Theodore Tomaszewicz, BankWire's senior vice president/systems and communications.
- *Improved accuracy/security*. Test keys, sequence numbers and other codes make CashWire more secure than other payment systems, its spokesperson maintains. Advanced authentication and encryption are in development now to add more security.
- *Alternative delivery paths*. CashWire is the only payment system that connects to other data networks to assure transmission if line outages occur. Both dial-up telephone and TWX/Telex interconnections are provided. These are especially useful to smaller banks because they can use one low-cost network to do several types of data communications.

CashWire payment-management features, says Mr. Tomaszewicz, are in addition to existing BankWire II administrative and correspondent-bank funds-transfer capabilities, which remain intact and available to all BankWire users.

A major motivation in developing CashWire is the desire by the banking community to have a payment-system alternative to FedWire, which has grown to enormous size because it has been the only system serving banks nationwide. FedWire has more than 1,100 on-line users within the U. S., compared to about 200 for BankWire.

"CashWire is the fulfillment of a vision and the beginning of a new era in banking-industry cooperation and autonomy," says Robert L. Bergman, executive vice president, Mercantile Trust, St. Louis, and chairman of the 180-member BankWire organization.

"CashWire is a real payment sys-

ATM Directory Published

The Bank Administration Institute has published "The 1982 ATM Directory," a catalogue of new equipment and after-market product and service suppliers.

The 108-page publication lists more than 250 firms in 380 separate service/product entries. Included in the directory is information about alarm systems, armored-car services, system controllers and processors, enclosures and buildings, maintenance and repair services, paper suppliers, plastic cards and embossing/encoding equipment, security systems for access and identification, software, line-encryption devices and terminals and related equipment.

Cost of the publication is $5.

tem," comments Saymour R. Rosen, vice president of Citibank, "not just an instructional facility that advises one correspondent bank to transfer funds to another's account. It finally has given bankers a real choice of nationwide payment systems."

CashWire is important, says Joseph F. Zabas, senior vice president, Manufacturers Hanover, "because it brings to banking a nationally available facility through which banks can offer more personalized, more customized and more responsive customer services."

The original BankWire, which had been a computerized correspondent-bank funds-transfer system, was expanded in 1978 with the addition of BankWire II's advanced networking capabilities and now handles about $15 billion a day in administrative and funds-advice messages. CashWire was added to the network early last summer after lengthy negotiations with the Fed, the crucial settlement capability. After extensive testing, the system went live in September.

BankWire is a cooperative owned by about 180 leading banks in the nation. Members come from each of the 12 Fed districts and include most money-center and many small- and medium-size banks. A 22-member board is elected to staggered two-year terms. Directors are elected from each Fed district, and voting is based on message traffic within each district.

Headquarters for BankWire are in New York City. The permanent organization has approximately 40 full-time employees responsible for both management and future development of BankWire II and CashWire networks.

New EFT Package Made for Banks By Mellon Bank

PITTSBURGH — Mellon Bank has announced a multifaceted national electronic-funds-transfer package designed to provide financial institutions a comprehensive, state-of-the-art EFT system.

The first product in the package is CashStream, a new, shared-ATM network, which initially will provide financial institutions access to more than 100 ATMs throughout western Pennsylvania. A CashStream logo will be affixed to all machines in the new system, and all subscribing institutions' customers can conduct banking transactions at a CashStream machine 24 hours a day.

Second, Mellon Bank will offer its correspondent institutions membership in Cirrus, a nationwide ATM network, which will provide customers access to more than 3,500 ATMs in 37 states, beginning in 1983.

Third, the bank now will offer a new systems product, which will allow any bank in the U. S. to be a switch operator for its own local ATM network, with or without sharing those machines with CashStream or Mellon Bank.

The fourth facet of the package is an enhanced ATM-support service. It will provide any bank in the U. S. software and systems support necessary to operate its own ATM system.

Lastly, Mellon Bank now will provide a complete turnkey service to financial institutions that want to join an ATM network, whether it is regional or national in scope.

Shared-ATM Network Focuses On Meeting Customer Demands

COMPETITIVE advantages of offering Bankmatic automated teller machines (ATMs) to consumers was discussed at a recent seminar on "The Shared Network: Meeting Customer Demands Affordably." Commercial National, Kansas City, Kan., was the host.

Bankmatic, operated by Commercial National, is one of the largest and fastest-growing shared-ATM networks in Kansas. Bankmatic card holders, regardless of bank affiliation, have complete access to all Bankmatic ATM locations. Card holders may make deposits, withdrawals, loan payments, obtain account balances, transfer funds or receive cash advances.

Bankmatic's growth since its beginning in January, 1976, was traced at the seminar by David Rankin, the bank's data processing senior vice president. It started with one location — an on-line ATM at Commercial National's facility at 82nd and Parallel Parkway — has grown to its present 16 locations, and Mr. Rankin forecasts, the network will offer 40 locations with approximately 25 ATMs in Johnson and Wyandotte counties.

Robert Chenoweth, Commercial National's senior vice president/administration, said the network also will become involved in a regional switching network developed by Credit Systems, Inc. (CSI), headquartered in St. Louis. This network will be operating by January, 1983, and will link Bankmatic into additional ATM systems owned and operated by other major Kansas City banks. Mr. Chenoweth said banks participating in the Bankmatic network will be buffered from many costs related to switch transactions.

Marketing the network was addressed by Robert Longmire, the bank's marketing director, who said the shared-ATM concept offered participating banks a competitive advantage over proprietary programs. He cited research that identifies locational convenience as the primary consumer concern in selecting a bank. Wide distribution of the Bankmatic network, he continued, offers consumers proportional advantages relating to convenience. Banks have demonstrated their confidence in the ATM as a competitive retail product, he said, adding that in 1973, only one in every 40 households was using an ATM. As of January, 1982, that ratio had changed to one in every three households using ATMs. He attributes this growth to the fact bankers have made the product widely available in the marketplace. About 70% of people using financial institutions now have ATMs available for their use, he pointed out.

Consumers are finding the product convenient, as reflected in their heavy usage, said Mr. Longmire. He cited a recent survey in which consumers were asked what would make the ATM more appealing. More than half the respondents indicated an ATM network would offer added convenience.

Mr. Longmire talked about a network-wide marketing program that will be undertaken at the beginning of the year so that banks participating in the Bankmatic network will have a say as to how Bankmatic is presented to consumers. The overall objective in marketing the network, he said, will be to make the Bankmatic card the preferred card in the marketplace. ••

FISI Reaches Agreement To Be Marketing Arm For Teller ATM Network

Financial Institution Services, Inc. (FISI), Nashville, and Publix Super Markets, Inc., have reached an agreement under which FISI becomes Publix's primary marketing arm for financial institutions seeking access to the Publix Teller ATM Network.

By the end of the year, Publix will

(Continued on page 62)

ARE YOU WORKING FOR THE OTHER GUY ?

Selling your competitors' travelers cheques?

Using your competitors' "gold" charge card?

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The New Direction in Employee Benefits

By RONALD L. VARLEY

THE NEW direction in employee benefits can be described in two words — employee contributions. Pension planning has been thought of as a three-legged stool consisting of social security benefits, private pension-plan benefits and personal savings. Unfortunately, however, personal savings in this country have failed to materialize to any significant extent. The original idea was sound, but currently one leg of the stool is dangerously weak.

There have been two important recent legislative developments that are likely to change this situation dramatically: 1. Extension of the IRA program under the Economic Recovery Tax Act enacted in August, 1981, which now permits deductible voluntary employee contributions to employer-sponsored pension plans (often referred to as "inside" IRA arrangements, meaning inside the employer-retirement plan). 2. Proposed regulations published in November, 1981, on 401(k) plans.

Both these developments will be particularly helpful to employers who want to improve their retirement programs, but find their benefits budgets already strained. It is, in fact, possible to have both these types of deductible employee-contribution arrangements under the same qualified employer-retirement plan.

Similarities of IRAs/401(k). The two types of plans share some common characteristics. They both provide tax relief on employee contributions to retirement plans. (The IRA contribution is a pretax contribution for income-tax purposes only; the 401(k) contribution is made in the form of salary reduction and is, therefore, a pretax contribution for purposes of payroll as well as income taxes.) In both cases, distributions are not permitted before age 59½ without some restrictions or penalties.

In addition, there are similarities in the plans' vesting requirements. IRAs must be 100% vested. Employee contributions under a 401(k) plan must also be 100% vested. Beyond this, however, the similarity between these two types of arrangements ends.

Ronald L. Varley is a principal in the St. Louis human resources consulting practice, Peat, Marwick, Mitchell & Co., and has charge of employee-benefits consulting activities in areas served by the firm's offices in St. Louis; Decatur, Ill.; Louisville; Nashville and Memphis. A chartered life underwriter (CLU), Mr. Varley is involved in the design, implementation, administration and communication of pension, profit-sharing, group insurance and executive deferred-compensation plans for a variety of organizations in both the private and public sectors.

What Are the Differences? The maximum deductible contribution an employee can make to an IRA is the lesser of $2,000 or 100% of his compensation. Under a 401(k) plan, employer and employee contributions are tax deductible as long as they do not exceed 15% of the covered compensation of all plan participants.

Another difference is that "inside" IRAs are set up on an individual basis — some or all or none of the employees in the plan may elect to take advantage of the "inside" IRAs; i.e., employees control the IRAs. On the other hand, 401(k) plans are controlled entirely by the employer, and they must operate under all rules affecting qualified employer-retirement plans including coverage requirements, which means a nondiscriminatory cross section of employees must participate.

Employees must pay social security tax; the employer must pay social security tax, and the employer must pay unemployment-compensation payroll taxes on all contributions going into an IRA plan. But these taxes are not payable on contributions that go into a 401(k) plan. This unique advantage of 401(k) plans can result in sizable savings in these payroll taxes. Thus, the 401(k) plan is a retirement plan that helps pay for itself through tax savings more than any other retirement-plan arrangement.

Taxation of Distributions. The plans differ also in the manner in which distributions are taxed under the Internal Revenue Code. Under IRA plans, the employee does not get the special 10-year forward-averaging break on calculation of the tax on a lump-sum distribution. Under 401(k) plans, this special tax calculation is available. This is another key reason employers will be interested in 401(k) plans. Exhibit I illustrates the significance of this difference. In this illustration, the tax is 66% less under the 401(k) plan.

Timing of Contributions. IRA contributions must be made by the employee's tax-return due date. However, under a 401(k) plan, employee contributions must be made within 30 days after the end of the plan year. This is seen as a troublesome feature of the proposed regulations. Both employer and employee contributions under a 401(k) arrangement are deemed to be employer contributions. And all contributions to 401(k) plans are dependent on the employer's profits (401(k) money-purchase plans are not permitted). It may be difficult for employers to know what their profits are going to be within 30 days after the end of the fiscal year and, thus, difficult for all contributions to be made to the plan within that 30-day period. It is possible, however, that this requirement may be changed in the final regulations.

What Are the Drawbacks? Consistent with the Internal Revenue Service philosophy that anything worthwhile should not be easy to come by, there are troublesome aspects to 401(k) plans. To begin with, the regulations still are only proposed. But even though they are not yet in final form, this should not be a deterrent to employers. The IRS has announced it will approve 401(k) plans based on the proposed regulations and, if they are changed significantly in final form, the IRS will "grandfather" those plans that rely on the proposed regulations.

Withdrawal Restrictions. There are other drawbacks that require more se-

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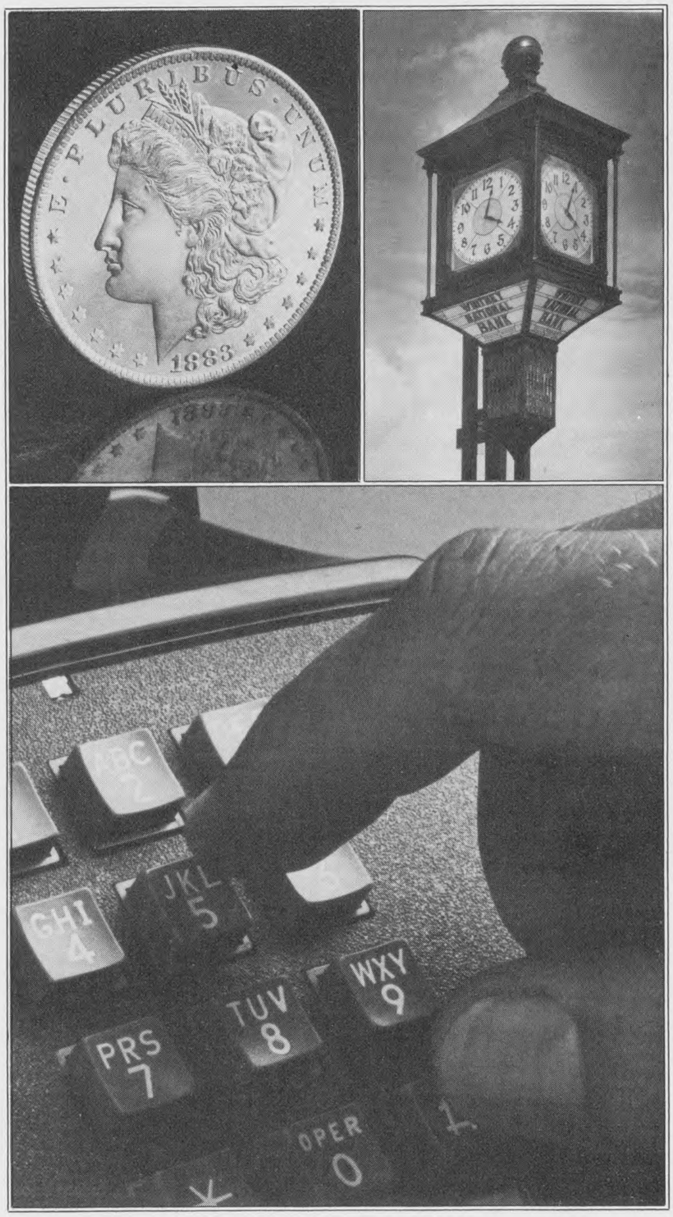

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EXHIBIT I
Taxation of Distributions
IRA versus 401(k)

	IRA	401(k)
$2,000 annual employee contribution accumulated at 8% for 25 years	$157,900	$157,900
Tax on lump sum distribution	$ 78,950 (1)	$ 27,120 (2)

(1) Based on ordinary income tax and a 50% tax bracket.

(2) Based on 1984 tax rates and 10-year forward averaging.

EXHIBIT II
Nondiscrimination Test

	High 1/3 Max Rate	
Low 2/3 Rate	2.5/3% Rule	1.5 Rule
1%	2.5%	1.5%
2	5.0	3.0
3	6.0	4.5
4	7.0	6.0
5	8.0	7.5
6	9.0	9.0
7	10.0	10.5
8	11.0	12.0
9	12.0	13.5
10	13.0	15.0

Exhibit III
Benefit/Cost Comparisons
Thrift versus 401(k)

	Conventional Thrift Plan	Thrift Plan with 401(k)
Annual contributions: employee - $2,000; employer - $1,000 accumulated at 8% for 25 years	$236,860	$236,860
Net after tax employee cost (assume average 50% tax bracket)	50,000	25,000
After tax value of distribution	202,250*	188,250*
Employee's benefit/cost ratio	405%	753%

*Based on 1984 tax rates and 10-year forward averaging.

rious consideration. For instance, there are in-service withdrawal restrictions under 401(k) plans that are not required under conventional employer-qualified plans. The 401(k) plans require that participants demonstrate an "immediate and heavy financial need that cannot be reasonably met from other sources" to qualify for withdrawals. Under other employer-qualified plans, employees have relatively easy access to their contributions and the vested portion of the employer-contribution accounts.

On the other hand, some employers may welcome restrictions under 401(k) plans. Such restrictions will cut down on withdrawals some employers see as a needed measure to encourage thrift among employees. In fact, if the third leg of the three-legged stool is to materialize, forced savings is imperative.

An alternative employers can offer employees in place of a withdrawal provision is a loan provision. There is nothing in the proposed regulations that prohibits employees from obtaining loans from 401(k) plans.

Nondiscrimination Test. Another troublesome feature of 401(k) plans is a special nondiscrimination requirement which must be satisfied. This requirement says the employee group must be divided into two parts: 1. The highest-paid one-third of the employees. 2. The lowest paid two-thirds of the employees. Then, actual rate of deferral of both employer and employee contributions is computed for each employee in each of the two groups, and these rates are averaged. Employer contributions can be used only to the extent they are vested.

This average percentage rate for the highest paid one-third must satisfy one of two rules. The first rule requires that the average percentage rate not be more than 2½ times the average percentage rate of the lowest paid two-thirds of the employees as long as the spread is not more than three percentage points. The other rule says the average percentage rate for the highest paid one-third can be up to 1½ times the average percentage rate for the lowest paid one-third. Exhibit II shows how these rules apply and which rule to use for optimum results (see area inside rules).

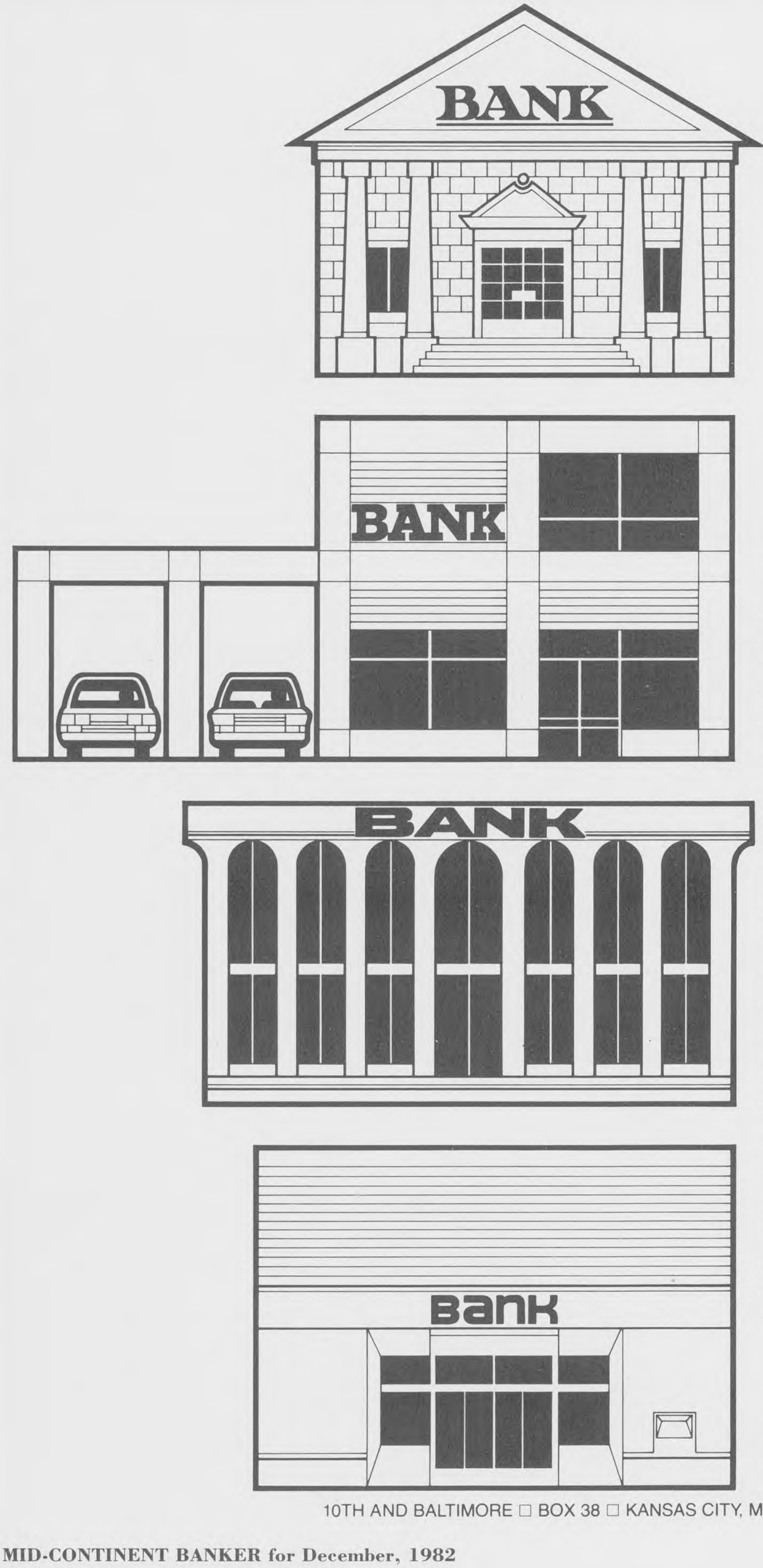
These rules sound more complicated than they really are, but nevertheless they represent some administrative problems. For example, the higher-paid group will need to wait until the end of the year after the lower-paid group has made all its contributions to determine their maximum contribution limit. This could be difficult to administer, particularly for a large employer.

Another possibility would be for all employees to contribute whatever amount they wish and then determine at the end of the year whether the safe-harbor rule the IRS has established has been satisfied. If excess contributions were put into the plan by the higher-paid employees, the plan could provide that those excess contributions be allocated automatically to either "inside" IRA accounts or to voluntary nondeductible employee contribution accounts under the plan. It is expected by many that final regulations will permit this kind of automatic re-characterization of these excess contributions.

Effect on Other Plans. Contributions employees make to a 401(k) plan in the form of a salary reduction will affect other benefit plans where benefits are related to pay. Under life insurance and long-term disability insurance, for example, compensation should be redefined to include gross compensation before the salary reduction. Social security benefits also may be affected. To the extent that employees reduce their contributions to social security, there will be a reduction in their social security benefits. However, if they invest the difference in an IRA, for example, benefits derived from those IRA accounts probably will more than offset the loss in social security benefits.

Finally, redefining or reducing compensation will have an effect on pension plans where benefits are based on compensation. The IRS issued a general-information letter July 6, 1982, stating that compensation deferred under a 401(k) salary-reduction agreement cannot be used in defining compensation for a separate defined

(Continued on page 62)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Automated CD Exchange Praised

AN AUTOMATED national exchange for negotiable federally insured jumbo CDs that began operations in September is meeting with considerable praise on the part of participating organizations.

The exchange — called CDx — enables insured depository institutions to list the amount of CDs they desire to sell in a central computer by telephone. The exchange integrates new listings with current ones and makes them available in packages of $1 million or more to money-market funds, trusts, corporations and other investors.

Since only one CD in each package is issued by any single depository institution, full FDIC or FSLIC insurance applies.

The New York office of Boston's State Street Bank is the issuing agent for all CDx transactions. Purchasers pay no fees for the service. Issuers of CDs pay a fee for each completed transaction of $47 plus one basis point per maturity month.

CDx doesn't guarantee that issuers will sell their CDs. The interest rate and maturity are set by the issuer. Sellers can offer CDs at rates they wish to pay for 14, 30, 60, 90, 180 or 360 days and can change listings at any time.

When purchases are made, the CDx computer can automatically exclude from consideration the CDs of any issuer or group of issuers whose exclusion has been requested by the buyer. The computer also excludes CDs of issuers whose CDs are currently in the buyer's portfolio in order to assure complete federal insurance coverage.

One of the first financial institutions to sign with CDx is Citizens Deposit Bank, Vanceburg, Ky. Jim Gibson, vice president, says his bank is both a purchaser and issuer of CDs. "We're one of the few banks doing it on both sides," he says. "All of our transactions with CDx have been handled professionally and we have found it to be a beneficial source for both investing and obtaining funds."

Mr. Gibson says CDx gives a bank additional avenues for obtaining and investing funds at better rates than normally are available.

"We did calculations on whether CDx could be profitable," he says. "We determined that it could be profitable, and, so far, we're very pleased with the program."

"CDx is a service that financial institutions can use; a service that really hasn't been explored very much in the past. It's a good concept; more institutions will become involved to some degree in the future."

Citizens Deposit uses CDx daily. "We have bids in daily and we plan to continue using the service. As CDx adds more issuers and purchasers, it should develop into a tremendous nationwide program," Mr. Gibson says.

Citizens Deposit — with $65 million in assets — had a volume of $2.2 million with CDx as of late October.

"The service still is in its infant stages," Mr. Gibson says. "Once it gets larger, it will be very beneficial to all participants."

Rio Grande Valley Bank, Albuquerque, with $90 million in assets, has posted a volume of about $2.8 million with CDx, according to Cathy A. McCorkle, vice president.

"At first, we had trouble finding purchasers for our CDs through CDx," she says. "It was due to the rate situation. You have to bid a little higher than what you're used to bidding in order to have a transaction occur.

"What's difficult is attempting to match liabilities with short-term assets — to get both sides to come in at the same time when you're funding loans with these deposits. We try to make the match so we can have a built-in spread, which is sometimes difficult," Ms. McCorkle says.

"I think CDx is a service that financial institutions can use; a service that really hasn't been explored very much in the past. It's a good concept; more institutions will become involved to some degree in the future."

Rio Grande Valley Bank received a mailer about CDx and the chairman and executive vice president flew to Washington, D. C., to talk to the CDx people. The bank signed up with CDx about a week after the service started.

"CDx is a simplified way to sell jumbo CDs," says John Borland, market research director, Dixie Federal Savings, New Orleans, an issuer of CDs with CDx. Dixie Federal has assets of $340 million.

He says the thrift has sold as much on the exchange as it could. Volume has been held back by a lack of purchasers, but the situation is expected to improve over time. Mr. Borland says CDx has projected transaction growth to $25 million per day by the end of this year.

"CDx will be a great boon to us; it simplifies our operation greatly," Mr. Borland says. He likes CDx's "purchasers' guidelines" which state what the CD rate should be on a given day. By using the guidelines, "we don't have to play games with the rate." He adds that the local rate sometimes is higher than the guideline rate.

Dixie Federal has used CDx since its inception. Mr. Borland considers CDx to be a service that benefits every participant.

Reliable Life Insurance Co., St. Louis, has purchased several million dollars worth of CDs through CDx since the exchange opened in Septem-

(Continued on page 63)

When it comes to customer preference,* other travelers cheques don't stack up.

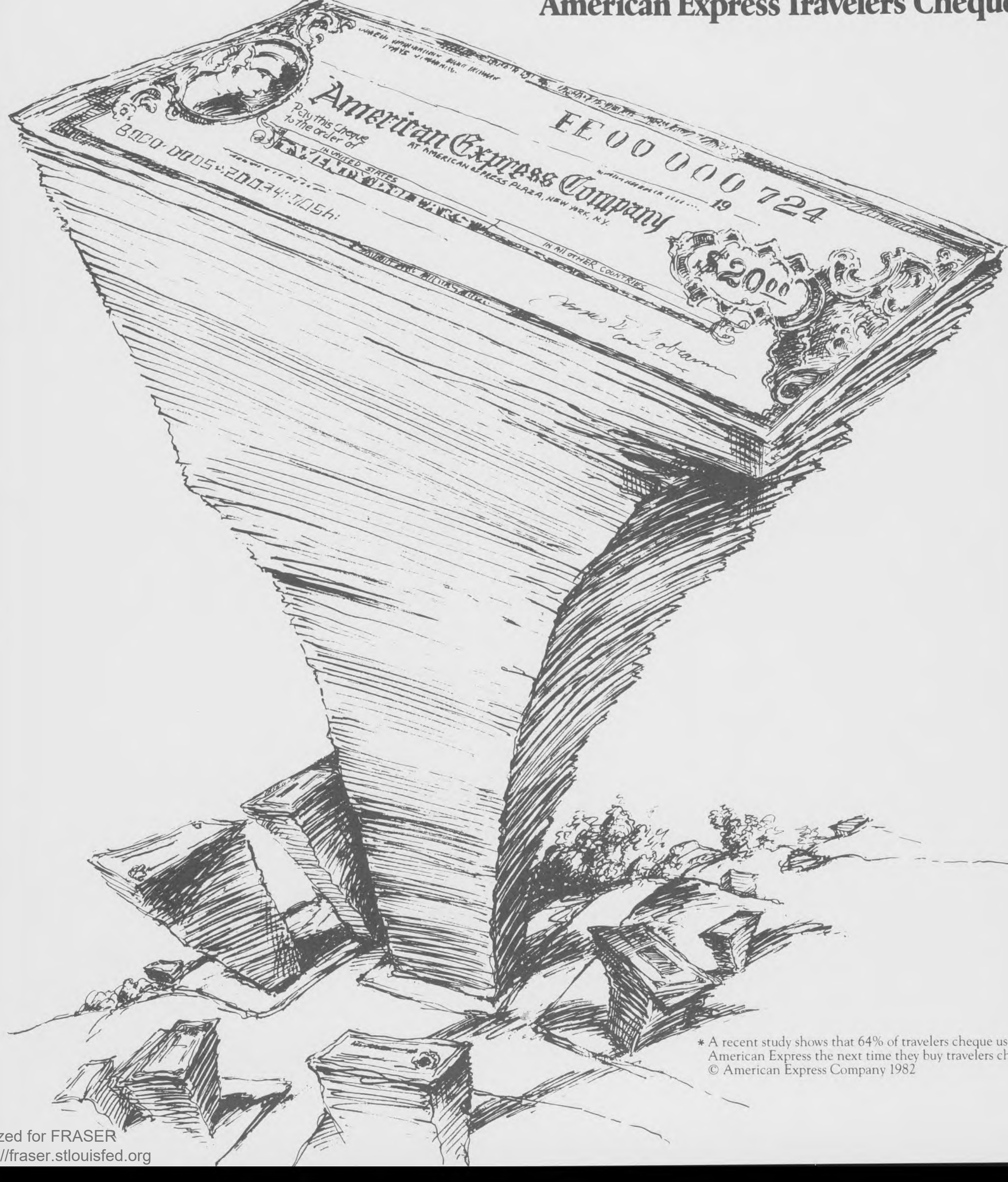
In fact, they don't even come close. In a recent national survey, a majority of travelers cheque users said they want American Express® the next time they buy travelers cheques.

Which isn't surprising when you consider that only American Express offers five special services to help protect your customers' vacation if their travelers cheques are lost or stolen. We can help cancel lost credit cards, issue a temporary ID, and cash a personal check for up to $200. We even have a 24-Hour Travel Service Hotline if your customer needs help changing travel plans. And an Emergency Message Service if they want to send a message home.

Combine all that with our 60,000 refund locations and nearly 1000 worldwide Travel Service Offices and you'll see why most travelers cheque users feel American Express is the best brand.

So don't settle for less. A majority of travelers cheque users want American Express. And if you don't have them, they may sta[rt] asking around.

American Express® Travelers Cheques



* A recent study shows that 64% of travelers cheque users want to buy American Express the next time they buy travelers cheques.

NEWS OF THE BANKING WORLD

• **Northern Trust Corp.** of Chicago's trust subsidiary, Security Trust, and its Edge Act subsidiary, Northern Trust Interamerican Bank, have been merged into a new federally chartered bank — Northern Trust Bank of Florida, N. A. The latter bank offers a full range of domestic, commercial and international banking services, as well as trust/asset management services. Security Trust was established in 1938 and acquired by Northern Trust in 1971. Barry G. Hastings, its president since 1981, now is president/CEO of the new bank. Joaquin P. Viadero, who was president, Northern Trust Interamerican Bank since 1974, is vice chairman of the new bank, with responsibility for international/domestic banking operations.

• **Donald L. Hunt,** president/CEO, First National, Marissa, Ill., has been elected to a second term on the board of the St. Louis Fed.

• **Burton P. Allen Jr.,** president, First National, Milaca, Minn., has been appointed 1982-83 chairman of the American Institute of Banking (AIB). He succeeds Thomas R. Smith, president, Fidelity Brenton Bank, Marshalltown, Ia., a former ABA treasurer. Mr. Allen headed the Minnesota Bankers Association in 1973-74.

• **The National** Conference on Competition in Banking has been renamed the National Conference on Financial Services (NCFS). The change was made, says Thomas Higginbotham, the group's policy committee chairman, because more and more institutions are joining commercial banks in offering bank-type services, and an organization should represent all these financial-service providers. Mr. Higginbotham, senior vice president, Mellon Bank, Pittsburgh, adds that the NCFS will work to eliminate non-market barriers to free competition among financial-service providers. Management of the group remains with Golembe Associates, Inc., Washington, D. C., where the NCFS is headquartered. Richard M. M. McConnell of Golembe is NCFS executive secretary.

• **Robert V. Ahrens** has been named director/special projects by Comptroller of the Currency C. T. Conover. Mr. Ahrens, with the OCC since 1964, formerly was deputy regional administrator/examinations in the Chicago office.

Richard P. Patterson, senior vice president, InterFirst Bank, Dallas, has been elected president, Dealer Bank Association. New vice president is Robert D. McKnew, senior vice president, Continental Bank, Chicago; and secretary/treasurer is John W. Rowe, senior vice president, Centerre Bank, St. Louis.

Corporate News Roundup

• **Thunderbird Automation Group, Inc.** This firm recently was created by Thunderbird Financial Corp., Shawnee, Okla., after the latter firm bought the computer-consulting practice of Rubottom, Skaistis & Associates, Inc., a Tulsa-based consulting firm. Bruce E. Skaistis has been named president of Thunderbird Automation, also located in Tulsa. He formerly was a senior vice president/group manager, Bank of Oklahoma, Tulsa, where his responsibilities included systems, data processing, retail banking and marketing. He also was with the management consulting division of Arthur Andersen & Co., six years. James C. Harris is executive vice president of Thunderbird Automation. He also was with Bank of Oklahoma, where he was vice president/group data processing manager, and with the management consulting division of Arthur Andersen & Co.

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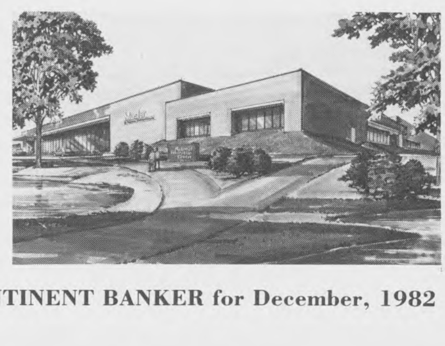
• **BarclaysAmerican/Business Credit, Inc.** This firm, headquartered in East Hartford, Conn., has relocated its Dallas region office to more spacious quarters than before. This region includes Texas, Oklahoma, Louisiana, Arkansas and New Mexico. In that office, Abe T. Salih has been named telephone marketing representative. He will conduct a telephone-marketing program reaching prospective clients throughout the Dallas region. Mr. Salih formerly owned a computer products sales company in Dallas.

• **Mosler Safe Co.** This Hamilton, O.-based firm has announced plans for construction of a multimillion-dollar, 90,000-square-foot National Education and Display Center. The structure that will house the center will be located adjacent to Mosler's National Warehouse and Distribution Center on an 80-acre tract in the Southwestern Ohio Industrial Park in Hamilton. Completion is set for next summer. A large area of the new building will be devoted to displays of electronic and physical-security and remote-transaction products manufactured and sold by Mosler. Mosler's state-of-the-art security-communications system, COMSEC, will be displayed. In addition, the building and its contents will be protected by a COMSEC that will monitor all fire and security devices. Also, the COMSEC system contains energy-management devices that will regulate the heating/air-conditioning systems. In addition, the building will house several sales, installation and service-support groups, including the marketing communications department. The facility will be used to conduct extensive training of Mosler's technical service representatives. Classrooms and laboratories will be equipped with advanced demonstration and test equipment. Laboratories and classrooms also have been designed to accommodate customer training.



Comptroller to Reorganize Regional Structure

A PLAN to reorganize the regional structure of the Office of the Comptroller of the Currency was announced recently.

The Comptroller's 12 regions will be merged into six districts with headquarters offices in New York City, Atlanta, Chicago, Dallas, Kansas City and San Francisco.

The change will be implemented over an 18-month period that begins on January 1, 1983.

"The financial marketplace has changed considerably since the Comptroller's regional structure was established in 1962," said C. T. Conover, who serves as Comptroller. "This reorganization allows us to manage our resources more effectively in light of changes in financial markets, technology, economic conditions and government's role in the financial sector."

Benefits expected to be produced by the reorganization include the following:

- More examiner availability for bank-supervisory work.
- Better use of technology.
- More district input into policy development.
- Increased delegation of duties.
- More efficient use of administrative staff.

District offices will perform administrative functions similar to those carried out previously in the regional offices. Each district will be headed by two senior executives, a deputy comptroller and a district administrator. District offices also will include a district counsel and directors for administration, bank supervision and analysis.

The reorganization calls for establishment of 23 field offices in major financial centers. Directors of these offices will have substantial bank-supervisory responsibilities and will supervise examiners within their geographic areas. Mr. Conover said the field offices will enhance the Comptroller's supervisory capabilities by directing more resources to bank supervision and examinations.

Field offices will be located in the following cities: Atlanta, Boston, Chicago, Cincinnati, Cleveland, Dallas, Denver, Houston, Kansas City, Los Angeles, Memphis, Miami, Midland, Tex., Minneapolis, New York, Oklahoma City, Omaha, Philadelphia, Richmond, Salt Lake City, San Francisco, Seattle and Springfield, Ill.

The Comptroller also announced the following appointments to senior positions in the district offices:

- Northeastern District (New York City) — Thomas W. Taylor, deputy comptroller; Ralph W. Gridley, district administrator.
- Southeastern District (Atlanta) — Robert J. Herrmann, deputy comptroller; John F. Downey, district administrator.
- Central District (Chicago) — Michael A. Mancusi, deputy comptroller; Larry T. Gerzema, district administrator.
- Midwestern District (Kansas City) — Dean S. Marriott, deputy comptroller; Peter C. Kraft, district administrator.
- Western District (San Francisco) — Billy C. Wood, deputy comptroller; Rufus O. Burns, district administrator.
- Southwestern District (Dallas) — Clifton A. Poole Jr., deputy comptroller; district administrator to be announced. • •

Regulation O Amendments Issued by Fed Reserve

The Fed has announced amendments to its Regulation O — which deals with loans by member banks to executive officers, directors and principal shareholders — to conform to provisions of the recently enacted Garn-St Germain Depository Institutions Act of 1982.

The amended regulation, in conformity with the new statute:

- Removes the dollar limit on the amount a member bank can lend to its executive officers for the education of their children and for home purchase, construction or improvement.
- Reaffirms on a temporary basis, the following:

The limit of $10,000 that may be outstanding at any one time for loans by a member bank to executive officers for other purposes, and

The requirement for advance approval by a majority of the board of the bank for loans amounting to $25,000 or more in the aggregate made to the bank's executive officers, directors or principal shareholders and their related interests.

'Buy America' Reduced Loan Rate Promotion Is Popular in Kentucky

MORE THAN 30 financial institutions in Kentucky participated in a "buy America" program recently that was designed to "get the economy rolling again."

The concept was initiated by labor groups in the state and was picked up by Charles E. Cowan Jr., chairman/executive vice president, Monticello Banking Co.

Seven out-of-state financial institutions also participated after their managements saw what the Kentucky banks were doing to stimulate the economy.

According to Mr. Cowan, Monticello Banking Co. earmarked $1 million in loan funds at a 12% interest rate for a one-month period. The funds could be used by customers in the bank's trade area for homes, autos, farm equipment and other purchases, as long as the products were American made. In the case of new homes, the rate was guaranteed for 12 months; all other loan categories carried the 12% rate for the length of the loan.

The bank published full-page ads in the local newspaper to announce the promotion and a good deal of the funds were committed prior to the first day the low rate was available, Mr. Cowan says.

More autos were financed during the period the low-cost funds were available than during the entire previous year, according to Mr. Cowan. Even a houseboat was financed during the promotion! Nine home owners also took out loans.

Mr. Cowan says the $1 million was spoken for in just seven days. "It really worked!" he exclaimed. The bank was featured on national TV during the promotion and more than 30 bankers called for details.

First City Bank, Hopkinsville, also participated. However, it took a while for word to get out about the offer, according to Donald R. Mabry, senior vice president of the $90-million institution.

The bank loaned $900,000 of the $1 million provided and the last $100,000 would have been spoken for if the promotion had lasted just one additional day, Mr. Mabry says. More than 100 loans were arranged, 97 of them for autos.

The bank didn't advertise the promotion, but news stories appeared in the local newspaper. Loan terms extended up to four years except for homes. Mr. Mabry says no one asked for a home loan under the reduced terms. Loan terms mandated a minimum of $2,000 and a maximum of $100,000. Applications could be made at the bank or at any dealer that had financing arrangements with the bank.

National Bank, Cynthiana, also participated in the reduced-rate-loan promotion, but it offered auto loans only. Clyde Cockrell, executive vice president/cashier, reports that 25 auto loans were made, all for 36 months. At the time the 12% loans were made, the bank's regular rate was 16%. ● ●

Marketing Tip of Month*

Giveaways often are confined to items that are used up, thrown out or tucked in a pocket or purse to be forgotten until cleaning day. How about something a bank can offer that will provide a useful service, generate goodwill and get free publicity for the bank to boot?

As part of its "Customer Appreciation Day" promotion, an Ohio bank in a mid-size city offered holders of its ATM cards free bus rides on the bank.

In lieu of payment, all the card holder had to do was show the ATM card to the bus driver, who used a paper ticket to keep tabs on the number of passengers taking advantage of the offer.

Granted, the bus company had to keep track of the number of free riders and bill the bank; but in return, the public transportation system that day had nearly 3,000 additional passengers, who potentially could become regular riders.

The bank promoted the event by creating a full-page, two-color ad stressing that public transportation could play an important role in cutting fuel consumption. One result was that the bank got generous free press coverage of the event.

The program cost the bank less than $3,000 for bus fares, plus the cost of the newspaper ads, but it provided a memorable "freebie" for many of its customers.

** For more information, contact Sandra Carcione, division of communications, Bank Marketing Association, Chicago.*

Small-Business Consulting Offered by KC Bank

A new service for commercial customers now is available at Kansas City Bank. It's called small-business consulting and is being offered to all commercial customers of the bank.

The new department is headed by Douglas Gleason, who will analyze small and medium-sized businesses' overall financial conditions and provide them with specific business plans or profiles. The service is designed to give owners and managers a clearer picture of the current financial standing of their businesses and provide bases for forecasting and decision making.

Part of the new service is organization of financial statements. The bank believes this also will help local businesses by expediting commercial loans by reducing loan-approval time through reprocessing information necessary for loan approval.

Mr. Gleason most recently was a self-employed Kansas City financial/business consultant. A graduate of Washburn University Law School, he has held several posts, including that of president/treasurer/director, Newspaper Electronics Corp.

Seniors' Seminars Sponsored By Citizens Fidelity Bank

Citizens Fidelity, Louisville, recently sponsored two financial seminars designed especially for senior citizens.

The first seminar was entitled "Financial Services for Senior Citizens" and topics discussed included banking services for senior citizens, direct deposit and wills.

The second seminar bore the title "How to Make Money and Keep It." This session included information on trusts and investments.

The seminars were given in conjunction with Senior House.

Bank Gains New Customers With 'Exchange It' Ads

Year-old Exchange National, Tulsa, is making an effort to establish name recognition through a direct-mail and advertising promotion that focuses on consumer prospects.

Headlines and illustrations carrying the theme "Exchange It" are being used in a series of seven display ads for newspaper, two 30-second radio spots, outdoor painted bulletins and T-shirts in addition to the original direct-mail piece.

The direct-mail campaign resulted in more than 200 responses within 15 days. Requests for information continue at a rate of 20 per day.

Clarence Houde, newly elected bank president, says the focus on the bank name has left the impression that a great many more ads have appeared than is actually the case.

The bank's primary market is young and mobile couples who are interested in basic banking services.

One of series of seven newspaper ads for Exchange Nat'l, Tulsa, that emphasizes convenience of bank as well as bank's name.

Bank Starts Program To Provide Services For Handicapped

The physically handicapped, deaf, blind or partially sighted and the mentally handicapped now can transact banking business easier than before if they are customers of Cincinnati's Central Trust.

The bank has initiated a 12-component program, which ranges from special training classes in sign language for bank employees to closed captions in all new TV advertising, increased awareness programs about drive-up ATM machines and installation of a special telecommunications device for the deaf (TDD).

For the blind/partially sighted, Central Trust offers enlarged checks with embossed lines and raised numbers alongside floor numbers on elevators.

For the mentally handicapped, bank managers act as resource and contact persons as requested by professionals who work with the mentally retarded. Training-department staff members have attended a session at a sheltered workshop for the mentally retarded/emotionally disturbed to learn ways to recognize mental and emotional handicaps.

In addition, customer-contact-personnel training programs now include training toward awareness of handicaps and sensitivity in dealing with handicapped customers.

The bank reports local reaction to the program has been extremely positive. For instance, the Reverend John Bok, director, St. Rita's School of Deaf in Cincinnati, says, "The program Central Trust has put together shows real progress on the part of the bank in recognizing the needs of the deaf and hearing impaired."

The Central Trust effort was initiated by an employee. The bank researched services that could be provided and set up a task force of Central Trust personnel to respond to needs of the local handicapped community. Several task-force members were either physically handicapped themselves or had close contact with handicapped persons.

The bank received direction from local sources, such as the Mental Retardation Association, Cincinnati Association for the Blind, Clovernook School for the Blind and St. Rita's School for the Deaf. With their input and that of the task force, Central Trust developed its program.

According to Edward G. Harness Jr., group vice president, the new program is designed to: 1. Improve communications between bank representatives and handicapped customers. 2. Give these customers an opportunity for greater independence and convenience associated with their financial activities.

Bank Creates Its Own Park To Serve Its Community

DO BANKERS whose institutions have their own parks have more fun? Yes, and their institutions can receive an awful lot of free publicity!

Ask A. J. Collins, chairman, Hutchinson (Kan.) National. The bank turned a vacant lot adjacent to the bank into a park. Polaris Park (named after the bank's star logo) was created two years ago and was professionally landscaped and furnished. The park was expanded this year — a gazebo and other amenities were added.

This past summer, the bank sponsored weekly picnics in the park, organized and coordinated by Skip Patton, the bank's marketing officer.

Each Wednesday, the public was invited to brown bag their lunches in the park, with the bank furnishing soft drinks and entertainment.

Crowd sizes varied according to the type of entertainment and the weather, but at least 200 people appeared each Wednesday from May through August and on occasion the attendance passed the 1,000 mark.

Entertainment events included quilting and spinning demonstrations, fashion shows, square dancing, musical programs and a magic show. The largest crowds were attracted by big-name professional entertainers.

The picnics have resulted in continuous publicity for the bank from the media, including newspapers, radio and TV. ● ●

Ronald McDonald performs during picnic-lunch session at Polaris Park, owned and operated by Hutchinson (Kan.) Nat'l. Bank provided entertainment weekly throughout summer months.

Bank Sponsors Showcase For Civic Organizations

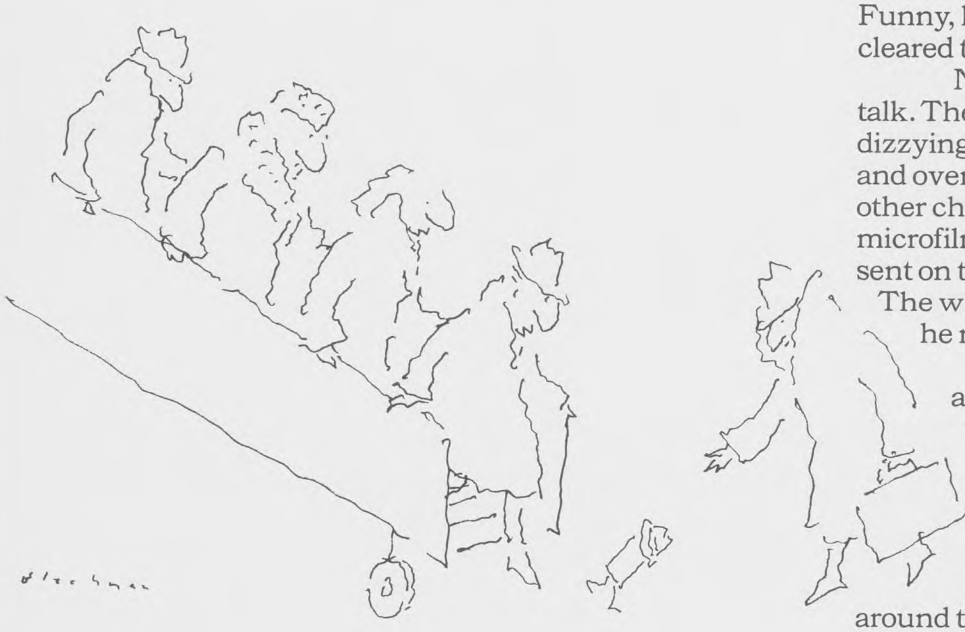
A showcase of the varied endeavors of greater Kansas City civic and charitable agencies was held recently in the parking lot of Kansas American Bank, Overland Park.

Title of the one-day showcase was "Kansas American Bank Civic Organization Day — Get Involved in Your Community."

Each participating group staffed a booth that offered handicrafts, art objects and educational materials for sale.

Hourly door-prize drawings were held and live jazz music was provided.

The check who came in from the cold.



When people ask how good our check processing is, we tell them the story of the check who came in from the cold:

The check arrived at 6 a.m. Continental Bank couriers met his flight. He hadn't expected that. He was still half-frozen from his ride in the plane's cargo hold. He thought he'd have time to relax, warm up. But no.

They whisked him by helicopter to the processing center. Funny, he hadn't expected to be cleared till late morning.

No one had time for small talk. The pace they worked at was dizzying. In the space of an hour, he and over one hundred thousand other checks had been captured, microfilmed, endorsed, sorted and sent on their way. And the kicker? The whole thing happened so fast he never had time to thaw out.

It was as buttoned-up an organization as he'd ever come across. And he'd come across plenty. He'd come in cold and skeptical. He left mighty impressed.

If your cash letter's turnaround time is less than impressive, call E. Gerald Gale at (312) 828-6781. Get the heartwarming facts about how good our turnaround is. How good yours could be.

CONTINENTAL BANK

125th ANNIVERSARY

Continental Illinois National Bank and Trust Company of Chicago, 231 South LaSalle Street, Chicago, Illinois 60693

Atlanta • Chicago • Cleveland • Dallas • Denver • Detroit
Houston • Los Angeles • Minneapolis • New York
San Francisco • Seattle • White Plains.

Changing Times: How They Affect Correspondent Policies, Relationships

THERE'S little doubt that developments in the banking industry in recent years have affected policies and relationships between upstream and downstream correspondent banks.

For instance:

- The Penn Square failure in Oklahoma City has caused some banks to make abrupt policy changes, including demanding more documentation for participations.
- Competition from the Fed in check processing has tended to cause divided loyalties among correspondents.
- Demands for new technology to enable banks to keep abreast of the times have strained some banks' capacities to provide the kinds of services correspondents want.

But are things as negative as they seem on the theoretical plane? In an attempt to find out, MID-CONTINENT BANKER surveyed a select number of correspondent banks — both upstream and downstream — to get a reading on the correspondent-bank situation.

This article deals with responses from upstream banks. They were asked a series of 10 questions covering the areas of credits, mergers and acquisitions, small-business financing trends, loan policy, operations and the Fed's influence.

Following are some of the responses:

1. In view of the problems experienced in upstream loans by correspondents who purchased loans from Penn Square Bank, has your bank made any changes in its credit qualifications for overlines? Is it asking for more documentation?

From a bank in Cincinnati. "No, we always have been very selective in buying participations."

From a bank in San Francisco. "Not really — we always have made our own independent decisions and have required all pertinent documentation."

From a bank in Memphis: "We have initiated no new procedures."

From a bank in St. Louis: "We analyze participations to the same degree as we do a direct-loan request. Copies of the note, loan agreement, filings and other pertinent information are required."

From another bank in Cincinnati: "No, we always have been tough!"

From a bank in Atlanta: "No. We are continuing with previous requirements for sufficient financial information and documentation. Our respondents are required to have a minimum of 10% in each transaction."

From a bank in Arkansas: "One area that should be given more inspection is the financial condition of the upstream bank, along with the quality of management, capital adequacy, loan-loss history, etc."

2. What do you consider to be alternative funding sources for the future that might replace some overline commitments by correspondents?

Cincinnati: "Problems in this area will lead to more opportunities for the good correspondent bank and underline the necessity for close relationships."

Cincinnati: "No good sources other than other regional banks in the area vs. upstream money-center banks."

Atlanta: "We have not participated in a substantial number of overlines, but expect to find ourselves in that position in the future. We have used large money-center and foreign banks to date."

(Continued on page 28)

Dangers of Correspondent-Banking Success Detailed

"Correspondent-banking success too often gets measured in terms of the expansion of the customer base and product usage," said Douglas E. Ebert, executive vice president, Manufacturers Hanover Trust, New York City. "Unfortunately," he added, "this market share mind-set can lead us down dangerous (and self-destructive paths) if not tempered by a sound concern for a proper level of return."

Speaking at the First International Conference on Correspondent Banking, Mr. Ebert pointed out that "as correspondent banking has assumed increased attractiveness, especially in contrast to increasingly risky asset-intensive businesses, it has become subject to a dash for market share by both established players and new entrants." Mr. Ebert counseled that "instead, sound competition should revolve around quality of service and overall value for money."

Moving on to discuss the effects of technology on correspondent banking, Mr. Ebert cautioned that "we are dealing with a sharp two-edged sword here, because for the first time, banks throughout the world now can manage the balances they keep with their correspondents in a precise and timely manner." "And this," he added, "raises the question: Can a sound international correspondent network be maintained if we all press the reduction in balances to the limits of what is technically feasible?"

Noting that the global environment for international banks is increasingly difficult, Mr. Ebert said, "Exposure of bank capital in facilities to other banks must have a justification. We want our own foreign business done efficiently at a reasonable price," he continued, "and we want a healthy profit on the work we take in from abroad. So it really becomes a question of mutual self-interest to pay for value given. By doing this," Mr. Ebert concluded, "we help assure the continued availability of the services we require at an acceptable level of dependability and quality."

Fed Will Get Check-Clearing Business If Price Is Right, Bankers Say

A SURVEY of trends and policies in correspondent banking from the viewpoint of downstream correspondents reveals the following:

- The Fed will get the lion's share of check-clearing business if its pricing is right.
- Fees will replace balances, for the most part, as compensation for correspondent services.
- Downstream correspondents are not feeling a tightening of credit qualifications for overlines because of the Penn Square situation in Oklahoma City.
- Most banks are satisfied with the scope of services they receive from their correspondents.

A series of 10 questions was posed to a selected number of downstream correspondents by MID-CONTINENT BANKER last month. Responses were received from banks in a dozen Mid-Continent states.

Following is a breakdown of the results:

1. In view of the problems experienced in upstream loans by correspondents that purchased loans from Penn Square Bank, has your upstream correspondent made changes in its credit qualifications for overlines? Is it asking for more documentation, etc.? Are you in agreement with these changes?

The majority of respondents reports no changes in this area. A banker in Louisiana noted that "most upstream banks carefully check out loan participations they buy."

A banker in Kansas says: "Our bank, when selling participations to our correspondent banks in the city . . . has them well documented and supported and, therefore, we have not had any change (in policy) since the Penn Square failure."

Only one bank reports it is being asked for more documentation, and the respondent adds that the bank's management is not in agreement with the upstream correspondent's change of policy.

A bank in Texas reports it has taken the initiative in asking for more documentation from borrowers. "I am in agreement with tighter reins on participation purchases," the banker states.

A banker from downstate Illinois added this comment to the question: "We have never had much luck with large city correspondents on overlines. They generally feel that we do not know how to evaluate credits despite their third-world-country loans, Penn Square loans and their bond-house loans."

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2. Is your upstream correspondent providing your bank with data-processing packages that provide information as well as process work? What improvements in data-processing services would you like to see from your correspondent bank?

The majority of responding banks report they either don't need data-processing services from their correspondent (because they have their own capability or use a different source for the service) or their correspondent doesn't offer the service.

In the area of improvements of such service from correspondents, a Chicago bank said it wanted to see a price reduction for the service. An Oklahoma bank asked for more budget capability for asset/liability management services.

3. How are bankruptcies and workouts affecting your correspondent loans?

Almost every responding bank said there was no problem in this area; some because they have no outstanding loans with correspondents.

An Alabama bank says bankruptcies and workouts are "our worst problem all across the board." A Louisiana bank reported the "recession and bankruptcies are causing the most problem loans ever." An Oklahoma bank says bankruptcies and workouts are increasing in number and volume. "We are increasing valuation reserves accordingly to cover potential losses."

4. In what ways is your upstream correspondent assisting your bank in mergers and acquisitions? Does it require more data? Is it advising a "go-slow" attitude?

This question was not pertinent to most respondents, but one bank says it has received no word from its correspondents on this topic so the bank has gone to other banks to get information. A bank in Tennessee reports that it determines its own course in this area after meeting with investment bankers. No bank reports its correspondent advising a "go-slow" attitude.

5. What changes has your upstream correspondent made in its overline policy?

Again, most banks report no change in this area, although a few banks said upstream correspondents are tightening collection efforts, are more strict, are making more careful credit evaluations and increasing collateral requirements. A banker in Texas says its correspondents "sell us sub-prime loans often."

6. What are your views on the topic of fee income vs. account balances? Which method do you see being predominant 10 years from now?

The general consensus is that fees will predominate, but that balances will not disappear as a means of compensating for correspondent services. One reason fee income will predominate is that there is more resistance on the part of downstream correspondents to maintaining balances, a banker in Oklahoma says. A banker in Kansas says fee income facilitates accounting. A Kentucky banker writes: "I see interest-margin reductions. Fee income, from present and new services, MUST cover 100% of non-interest expense."

7. Is it your bank's policy to keep its correspondent balances at a mini-

mum? Has this policy caused friction between your bank and its correspondents?

Almost all responding banks say they are keeping balances at a minimum, and the majority of these banks say there has been no friction in connection with such policy. But about one-third of the banks that keep their balances low report there has been friction. Some banks have not yet reduced their balances to a minimum, but intend to do so in the future.

A bank in Chicago says there is no friction because the upstream correspondent bank wants to be competitive and the downstream bank keeps required balances on deposit with the correspondent. A banker in Kansas writes: "We always have followed the policy of having adequate balances in our correspondent bank accounts so that our correspondent banks can make a reasonable profit on our business. We have never tried to have them handle our work for nothing."

8. What new or recent services from your correspondent have been most beneficial to your bank's operation?

A bank in Alabama reports that it appreciates upstreaming high-cost CDs; a Kentucky banker likes seminars that are timely and that reflect changes in banking; another banker makes good use of the asset/liability model supplied by his correspondent.

9. What percentage of your check-clearing is done by the Fed? By correspondents? To what extent do you see this ratio changing in the near future?

Most respondents favor doing business with their correspondent bank over the Fed, but there appears to be a trend toward giving the Fed more business in the future.

An Oklahoma banker reports that all his bank's business goes to the correspondent now, but the future will see the business going to "wherever it is cheaper in net dollars (including cost of balances)." Another Oklahoma banker says the correspondent gets 90% of the business now, but the Fed probably will get all that business in the "near future."

A northern Illinois banker says his bank currently gives 75% of its check-clearing business to the Fed and that the ratio won't change in the future. A Texas bank currently gives 40% of its business to the Fed and sees a greater percentage going to the Fed in the future.

An Illinois bank currently sends 5% of its check-clearing to the Fed and says that, in the future, the institution giving "the best price break and the best service" will get its business. A Tennessee bank says percentage figures constantly change. "We consider availability and price." One bank in Kansas is sending 75% of its check-clearing business to the Fed, while another Kansas bank gives 100% of its business to its correspondent bank.

10. What additional services would you like your correspondent to offer?

"Help with longer-term real-estate-loan marketing to maintain liquidity and compete with mortgage lenders," says a bank in Oklahoma. "International services," says a bank in Illinois. "More help with trading in credits; more expertise in investment credits; and more concern for independent-bank economic problems," says an Alabama bank. A Kentucky bank would like information on mergers and acquisitions. An Illinois bank would like some advice on "how to handle the new money-market fund and other offerings, including information on pricing."

Respondents were encouraged to share their thoughts on the correspondent-banking system.

A Kansas banker says, "Basically, we have had little, if any, difficulty with our correspondents. I think they have done a reasonably good job for us."

A banker in Texas: "Correspondent banking will become tougher and more competitive. We'll be competing with the Fed for correspondent business and there will be more emphasis on fee income."

An Indiana banker reports that his bank is starting a small correspondent department of its own and it is "very pleased with the results."

A banker in Tennessee says: "We find that upstream correspondent banks are helping us less and less." — **Jim Fabian, senior editor.**

Fed Governor Says Capital Adequacy Is 'Bottom Line of Bank Soundness'

HENRY C. WALLICH, member of the Fed's Board of Governors, spoke recently at the annual meeting of the Boston Fed. He discussed such subjects as international lending, legislation, interest sensitivity and purchased funds. Then, he closed with comments on capital adequacy, which he describes as "the bottom line of bank soundness." Here is what Mr. Wallich said about capital adequacy:

". . . Personally, I always have thought there is a better way of protecting bank creditors than to require each bank to have a large capital. That better way would be more comprehensive insurance. But that is not the direction in which events have gone. Therefore, I believe the present regulatory push in the direction of greater capital adequacy, especially for the largest banks, is necessary. The climate in one respect is favorable: Diminishing inflation is slowing growth of bank assets and liabilities and in that sense makes it easier to achieve adequate capital. The preceding thinning out of bank-capital ratios was the result not only of expansionist bank policies, but also of an inflation for which they were not responsible. There are opportunities for capital improvement now, even though there also are difficulties.

"Banks can improve their capital ratios through a variety of channels. They can sell securities; they can slow down the growth of their assets; they can try to widen profit margins, and they can limit dividends. Some of these are more feasible at this time than others, and some are more in keeping than others with the improvement in economic conditions in which banks have a stake."

Correspondent Survey I

(Continued from page 26)

Arkansas: "One way to replace overlines is to pursue potential loans (direct) outside of your trade area in growth areas where, for example, you have oil, gas or energy-related growth."

3. Bankruptcies and workouts — how are these affecting your correspondent loans?

Cincinnati: "No effect."

San Francisco: "Some, but not an excessive, effect."

Memphis: "We are being more restrictive and conservative. We require greater margins, etc."

St. Louis: "Our account officers work their own problem loans and, due to the increased demand on their time caused by these problems, there is less opportunity to cultivate new business."

Cincinnati: "We give closer scrutiny

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Atlanta: "We have not seen a significant upturn in either area; however, we would anticipate the need to watch this area, particularly loans secured by agricultural real estate and timberland."

4. Are you actively aiding your correspondents in the area of mergers/acquisitions or are you requiring more data or advising a "go-slow" attitude?

Cincinnati: "We provide full service to our correspondents."

San Francisco: "We are cautious in this area."

Memphis: "We are actively aiding our correspondents in this area."

Cincinnati: "We are aiding, but we require significant data before advising on a go or no-go decision."

Atlanta: "We are serving correspondents with advisory services, cash-flow models and term financing. In our state, this subject is being discussed more frequently."

Arkansas: "We are advising a 'go-slow' attitude."

5. What thoughts do you have on the topic of small-business-financing trends for your correspondents?

Memphis: "We advise our correspondents to be careful of venture-capital loans."

Cincinnati: "We advise close scrutiny in this area."

Atlanta: "We are encouraging usage of our asset-based lending group. Small-Business-Association-type loans are not being encouraged from correspondents."

6. Have you made major changes that are affecting your overlines and have you informed your correspondents? If not, will changes come soon?

Cincinnati: "No changes have been made and are not expected to be made."

Cincinnati: "We are changing participation agreements to allow the purchaser more right to 'take over' the lead position if the credit deteriorates."

Atlanta: "No. We don't expect changes in this area. In our long history of correspondent banking, we have experienced almost no losses on overlines."

Arkansas: "No immediate changes are anticipated. We don't have problems with our overlines."

7. What service areas are being developed that can help your correspondents with data processing, microcomputers, sweep accounts, discount brokerage, etc., that will develop business locally for your correspondents and thus provide a much needed service?

Cincinnati: "We currently provide all the mentioned services."

San Francisco: "We are in the early stages of providing these services."

Memphis: "We currently have combined our data sales area into the correspondent division. We are selling our own asset/liability model, discount brokerage service, etc."

Cincinnati: "We currently sell data processing, sweep account and discount brokerage services to our correspondents."

Atlanta: "We intend to downstream retail services; i.e., discount brokerage, sweeps, mortgage brokering. However, data processing is a service we don't offer, but may offer it in two years."

8. What implications for correspondent banking do you see in the future in "talks" about interstate banking?

Cincinnati: "We see a decreasing number of accounts with an increasing individual opportunity; i.e., fewer, but larger, relationships."

Memphis: "We see an open market for mergers and acquisitions. Therefore, an abundant opportunity exists to fund HC loans and capital loans for mergers and acquisitions."

Cincinnati: "We see stability for correspondent banking but slow growth for regional banks. Credit-related services are most important at this time."

Atlanta: "Despite interstate banking, which probably will be regional in scope initially, we see a slow decline in the need for correspondent services."

Arkansas: "We see correspondent banking performed by large regional (lead) banks and the number of banks that are heavily involved in correspondent banking reduced drastically because of merger, acquisition and interstate banking."

9. What effect is deregulation having on correspondent banking, its products and its service competition?

Cincinnati: "Deregulation will make relationships more important."

San Francisco: "Deregulation will force banks to join forces with others to become bigger players."

Memphis: "Deregulation will result in more developing of and researching new products, making bank management more difficult and challenging and requiring correspondent bankers to become more knowledgeable."

Cincinnati: "Deregulation is responsible for such things as Fed check-clearing implications."

Atlanta: "Smaller and medium-sized banks will have substantial needs for information to enable them to cope with deregulation. Many of these banks will not survive."

Arkansas: "Deregulation is causing correspondents to keep less and less money in non-interest-bearing demand accounts. These banks are 'working' their money harder than ever and have become more aware of availability of funds."

10. Is the Fed competing fairly with its pricing policy? Do you foresee any rules changes that would be advantageous to the Fed and disadvantageous to the correspondent field?

Cincinnati: "Of course the Fed is not competing fairly! We believe there will be a period of confusion followed by one where correspondent bankers will once again capture the profitable part of the business."

San Francisco: "The Fed has stacked the advantages in its favor already!"

Memphis: "The Fed is not competing fairly. Noon presentment is an example of changes that are advantageous to the Fed and disadvantageous to the correspondent field."

Cincinnati: "The noon-presentment rule would hurt severely."

Atlanta: "We should vigorously oppose the Fed's unfair advantages as competitor-regulator in check clearings. We expect oversight hearings to force the Fed to follow provisions of the Monetary Control Act of 1980." — **Jim Fabian, senior editor.**

Training Program Offered

A micro-computer-based training program for bank customer service representatives was introduced by the Bank Administration Institute at its first micro-computer conference, held last month in Dallas. The program is said to be the first of its kind.

Designed for financial institutions, the program, entitled "First Contact," consists of more than 50 half-hour lessons for independent study.

The program covers bank terminology, check negotiability, endorsements and clearing, personal and commercial accounts, safe deposit boxes, billing, IRA and Keogh accounts, CDs, credit cards, overdrafts, collections and other new-account functions.

It also offers an historical perspective of banking in a course titled "Fundamentals in Banking" and special lessons in cross-selling bank services and transaction management.

A detailed trainer's guide that explains how to use the program in conjunction with existing bank training programs also is provided.

The program is designed to run on the Apple II Plus system, but the training package will be adapted to be compatible with other microcomputers in the near future.

Cost is $2,000.

Banks to Cut Back On Unsecured Business Loans

By Norris S. Griffin

MANY major financial institutions are likely to adopt a far more cautious approach than before to potential or existing borrowers over the foreseeable future. Having been burned badly from Oklahoma to Poland, U. S. banks will tend to be a lot choosier and undoubtedly will tighten their credit standards, given the economic climiate in which we are operating. This should create a vacuum our industry is admirably equipped to fill.

This is not to suggest, of course, that banks will turn off the money taps to foreign countries or lend only to solid, domestic blue-chip corporations. To adopt such a course would be an exercise in fiscal irresponsibility. The banking community simply cannot afford to precipitate an international financial crisis by slashing lending, which undoubtedly would be perceived as a lack of confidence in the world's financial system. Furthermore, if foreign countries were unable to borrow funds from the U. S., trade would dry up, with adverse consequences for the free world.

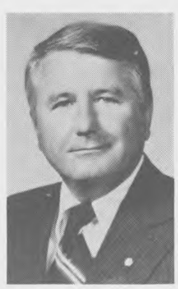
Now let's see where our industry fits into this muddled business environment. For one thing, our industry has long thrived in all kinds of business climates. Flexibility and adaptability to ever-changing conditions are the keys to our success. The current scene should prove to be no exception.

Our industry is well positioned to take advantage of the more restrictive credit standards our unsecured lending counterparts are likely to impose on their borrowers. As I see it, our commercial-banking friends will comb their portfolios with much more regularity than in the past. Consequently, many borrowers will gravitate to our secured-lending discipline. And in my judgment, the bulk of these credits—when placed on a secured-lending basis—will be eminently workable and profitable for lender and borrower alike.

I am not speaking here of inferior credits. I refer to quality companies, companies of considerable size and resources that simply will not meet the more stringent credit criteria likely to be imposed by unsecured lenders in today's nervous business climate. Nor do I see this shift from unsecured to secured lending as a temporary phenomenon. I believe firmly that our industry will assume and *retain* an ever-growing number of bigger and better accounts from our unsecured-lending friends.

Consequences for our industry are obvious. Our loan portfolios will be upgraded, and our loans to such borrowers are likely to be larger, thus more economical. We will see individual asset-based loans in excess of $50 million. On the factoring side, we already are doing business with companies whose sales volumes exceed $100 million. And even larger, top-rated corporations that never before considered factoring their receivables will turn to us in increasing numbers. For good reason. Battered by rashes of credit losses, many corporate giants need help — and *now*. In fact, some already are combating their credit problems by taking advantage of our industry's vast credit and financing expertise.

In addition, growing numbers of middle-market companies, which in the past also failed to use our brand of financing and services, will move toward the asset-based financial-services industry — for similar reasons. These new-found clients soon will realize how asset-based lending, with its extreme flexibility, enables borrowers to capitalize on new and perhaps undreamed of business opportunities, in both good and bad times.



This article is based on the keynote address Norris S. Griffin gave at the 38th annual convention of the National Commercial Finance Conference in New York City in October. Mr. Griffin served the NCFC as chairman for two terms, 1980-81 and 1981-82. He is senior vice president/factoring group, Associates Commercial Corp., Charlotte, N. C.

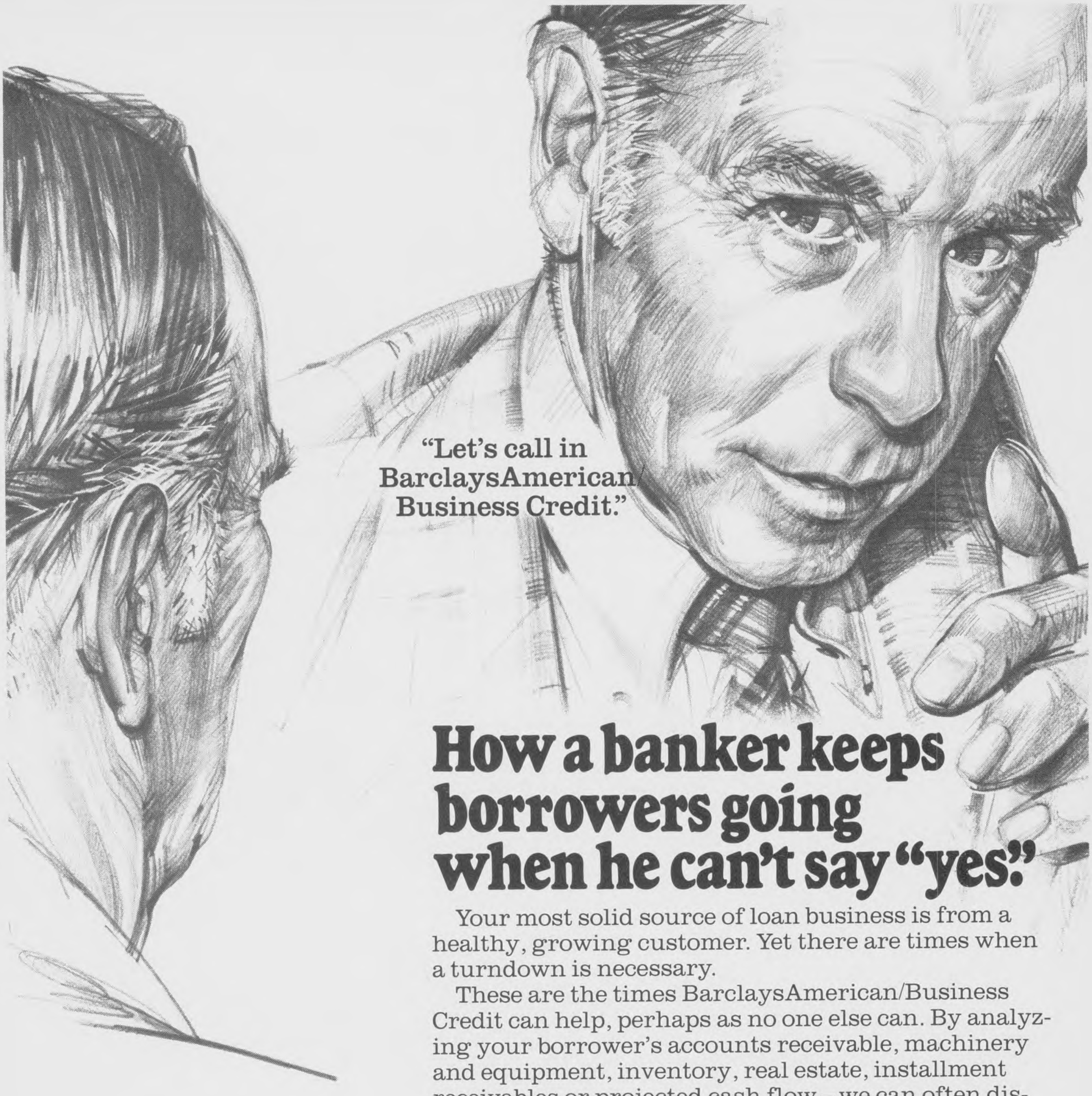
In my judgment, that's what stamps our industry as superior lenders. We always have been in the forefront in devising new and unusual types of financing, which subsequently have been copied — but not as well, I believe — by other lenders. The industry's many innovative leveraged buy-out deals attest to this creativity.

Consider, too, something even as mundane as floating rates, which have been a way of life in our industry from its inception. The rest of the lending world now has come to adopt our stance and tends, for the most part, to shun fixed-rate lending like the plague. I believe the concept of floating rates will prevail for years to come in virtually every type of loan transaction. The thrift industry provides a glaring example of how locked-in rates can cripple an industry.

But like our companions in the unsecured-lending field, the asset-based financial-services industry has not been unaffected by the turbulent times in which we are operating. Continuing high rates continue to play havoc with our clients, especially those businesses that cannot pass their increased costs on to their own customers. That's why it is so crucial for all of us — the government, industry and labor — to work in concert to defuse permanently the notion that high inflation — and its kissing cousin, high interest rates — are part and parcel of the American economy. Government can help tremendously by displaying fiscal responsibility and leadership, but a working coalition between industry and labor to hold a lid on prices and wages is equally crucial.

In the near future and the years ahead, our industry will continue to prosper on its own, and not just from the assumption of solid accounts from our unsecured-lending brethren. We will grow in several areas, primarily because of our innovative financing techniques.

Opportunities will continue to



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abound in leveraged financing as spin-offs accelerate. Companies today generally want to stick to what they know and do best. So companies that in past years purchased businesses to diversify into new and unrelated fields will, in many cases, be selling units back to the original owners. And who knows better how to put these deals together, as our many successful case histories attest? In fact, probably 40% to 50% of our industry's outstandings today are the result of acquisition and buyout financing.

Last year, I said to look for growth from adopting a "hands-on" approach to previously "hands-off" industries. I referred specifically to the service industries and to such "sunrise" industries as high technology, solar energy, computer companies and the like. I see no reason to retract that assessment, particularly given our industry's historical determination to tap new sources of business.

Shrewd managements within the asset-based-financing field also will be looking outward to foreign shores. In fact, within the past year, the NCFC has formed an international trade services committee to explore foreign business opportunities. As growing numbers of less-developed countries come to know the amenities of living we take for granted, a need for American products and services will proliferate. And the astute lender will — or should — be positioned to capitalize on financing exports to these new markets or even financing embryonic industries abroad. Pie-in-the-sky? I think not. Bear in mind our well-deserved reputation for creative lending.

While looking outward to more exotic or unusual financing, we cannot, of course, neglect the heart and soul of our business — accounts receivable and inventory lending. But our industry cannot hang out the "business-as-usual" sign. With everything in a state of flux, failure to recognize that point can prove costly or even disastrous. What do I mean? I mean simply that these are trying times and we have to exert extraordinary care in policing our loans with the utmost diligence. And in putting new loans on the books, it behooves our industry to make fair and proper appraisals of collateral behind the loan. Rose-colored glasses should be worn only on the beach. Superior managers recognize fully that their job is to protect the company's assets and to ensure an adequate return on assets. One cannot be successful in the quest for profits and return on assets if the criterion is to add loan volume indiscriminately.

Talking about profits brings us into still another area that demands our attention. I refer to the factoring arm of our industry. It's no secret that, overall, the current year probably has been the worst in the history of the factoring business. Perhaps lulled by years of ever-increasing volumes of purchased receivables and excellent profits, factors received a rude jolt this year. With clients failing at an unprecedented rate, due primarily to chaotic conditions within the textile marketplace and overall depressed business conditions, the factoring industry itself is suffering a severe profit drain this year. In large measure, it's our own fault.

As I cautioned last year in my keynote address, segments of our industry were extending substantial loans that were not being paid down on a regular and agreed-on basis. In effect, they were extending capital loans and that's simply not our business. Now the industry is paying a hefty price, as many of these companies are floundering in Chapter XI. This "no-pay-back" loan situation currently is being addressed forcefully, though belatedly, by many of us. However, there remains within the industry another situation that has been unaddressed for years — net return on investment. The factoring industry *must* improve its return. And I stress must.

Consider our credit-checking and collection fees. As factoring veterans know, the fee range for purchased receivables is well below what it was 10 or 12 years ago. Do you know of any other product or service that can be purchased today below 1970 prices? I don't, with the possible exception of the electronics field.

In the meantime, our own costs have skyrocketed. Think of the salaries paid today. The rent. The electricity. Scores of other overhead items that continue to soar. The current recession, which triggered a big drop-off in receivables volume, has forced us to face a cold, hard economic fact — factoring fees for much of the industry are insufficient to generate an adequate return on our investment. We simply must get a better handle on the relationship between costs and revenues. If we don't, look for additional withering within our industry.

Skeptics might hold that any increase from yesteryear fees is unwarranted, pointing to our bigger-ticket items, burgeoning use of the computer in credit analysis and collection and the overall switch from labor-intensive, manual operations. All these things are a reality. But if you'll pardon the expression, "So what?" Other industries have upgraded facilities, know-how and efficiency and show no signs of holding 1970 prices. And most importantly, our industry has markedly expanded and improved client services. Justice dictates that clients pick up a fair share of the tab. If factors are to survive as a viable, healthy force in meeting the expanding credit, collection and financing needs of its many clients, net return simply must be upgraded to more realistic levels. ● ●

New NCFC Officers

NEW YORK CITY — Melvin E. Rubenstein was elected chairman and Stephen C. Diamond president of the National Commercial Finance Conference (NCFC) at its annual convention here late in October. The NCFC is the association for the asset-based financial-services industry. Messrs. Rubenstein and Diamond will take office January 1.

RUBENSTEIN

DIAMOND

Mr. Rubenstein, executive vice president, Rosenthal & Rosenthal, New York City, will succeed Norris S. Griffin, senior vice president, Associates Commercial Corp., Charlotte, N. C. Mr. Rubenstein has been NCFC president the past two years.

Mr. Diamond is president, Chase Commercial Corp., Englewood Cliffs, N. J., and senior vice president, Chase Manhattan Corp., its parent company. He was NCFC first vice president this year.

Carl A. Modecki has been appointed executive vice president, Consumer Bankers Association. He comes from the Massachusetts Bar Association, where he was executive director. Prior to that position, he was with the American Automobile Association. He replaces Richard K. Slater, who left the CBA recently to join a bank in Maryland.

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How Asset-Based Lenders Can Help Banks Help Their Business Customers in 1983

Banks and Finance Firms Can Encourage Business To Streamline Operations

By David Hooker

ALTHOUGH the economy may show signs of recovery, many businesses continue to be hard hit by the recession. Even an economic upturn might not help them recover financial health. In fact, many economists agree that it could take up to two years for a recovering economy to fully benefit a great number of these firms.

Balance sheets may not be healthy enough to warrant additional unsecured credit, but working capital is necessary if these businesses are to streamline operations and survive. It is critical, particularly now, that lenders respond appropriately to the needs of such businesses, which often are essentially sound, yet hampered by recent losses.

Banks and asset-based lenders can work together to help them.

Obviously, banks must scrutinize existing lending arrangements and new loan requests cautiously. Increasingly, banks are calling on asset-based lenders such as BarclaysAmerican/Business Credit to participate in loans where specialized expertise is required.

Bankers are aware that participations with asset-based lenders have several benefits. They enable banks to maintain customer relationships and reduce exposure while generating income without incurring additional administrative costs. Borrowers benefit from availability of additional credit. They also benefit when bank and secured-lender rates are "blended," resulting in lower interest costs.

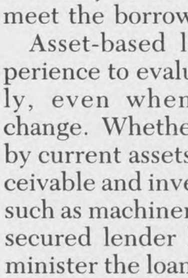
Key ingredients of a partnership between banker and asset-based lender are the ability to respond quickly and flexibility to design a loan package to meet the borrower's needs.

Asset-based lenders have the experience to evaluate collateral properly, even when values constantly change. Whether the loan is secured by current assets, such as accounts receivable and inventory, or fixed assets, such as machinery and equipment, the secured lender has the ability to administer the loan and monitor collateral through regular on-site inspections, receivables verification, inventory monitoring, auditing and periodic equipment appraisals. This is vital to keep lender exposure within reasonable limits.

Asset-based lenders are sensitive to time pressures on businesses and are aware that loan decisions must be made quickly. At BarclaysAmerican/Business Credit, for instance, the en-

(Continued on page 43)

David Hooker is v.p./business-development mgr., BarclaysAmerican Business Credit, Dallas.



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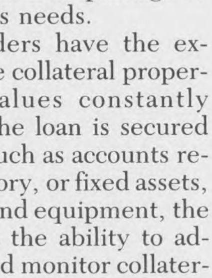


PREBLE

Opportunities, Pitfalls Face 1982 Participations Of Banks, Finance Firms

By Allen A. Preble

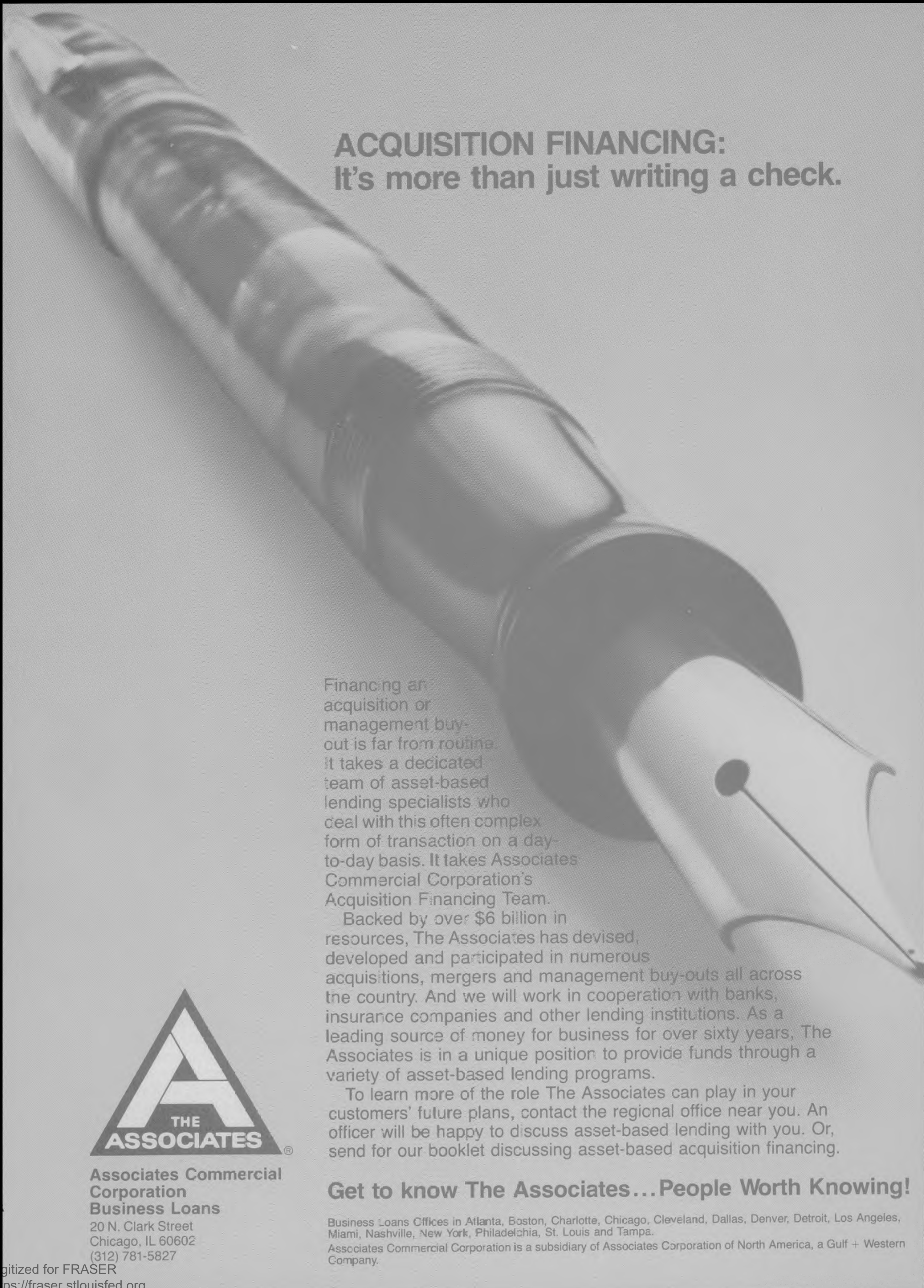
THERE will be more opportunities in 1983 than ever before for banks and commercial finance companies to join in participations in the commercial-loan field. However, there will be plenty of pitfalls scattered around those opportunities.

What all this means is the increasing number of companies in the commercial-loan field will have to exercise strong disciplinary behavior to avoid problems and still maintain acceptable growth rates. The high interest-rate environment of the past three years, coupled with the severe slump in most markets and the recent trend toward disinflation, has caused severe deterioration of assets in many cases. That ultimately will mean there will be fewer credits that will meet the stringent qualifications most asset-based lenders insist on.

In recent years, many banks have been retaining deteriorating credits far too long, and as a result, there has been a trend in the asset-based-lending field to approve fewer and fewer bank referrals. We used to approve at least seven out of every 10 participation deals that banks would present to us, but now we are approving only three out of 10 credits offered to us.

(Continued on page 44)

Allen A. Preble is v.p./regional mgr., Business Loans Div., Associates Commercial Corp., Chicago.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Asset-Based Lenders Eager to Assist Banks To Reduce Loan Risks

By William Davis

COMMERCIAL banks are entering the asset-based-lending arena with confidence in the market and the ability of their staffs to manage collateral they are relying on for repayment of the funds advanced.

But can loan service departments really provide the monitoring and current information necessary, allowing the lender to control the loan rather than react to a situation after the fact? In the current economic environment, commercial lenders and asset and liability managers know every effort should be made to reduce the bank's risk in a lending transaction.

Let's look at what control options are available to the bank. In-house personnel can periodically audit accounts receivable as well as inventory. The danger may be a lack of time and staff, which leads to infrequent visits by bank personnel and reliance on unverified reports provided by the borrower. In any event, the support staff necessary to manage secured lines of credit in an active bank is expensive and constant.

Use of an outside collateral management firm offers several advantages, such as periodic examination and continuous monitoring services pioneered by Collateral Control Corp. In effect, you order the information you need at intervals you want. This can take the form of pre-loan examinations or regularly scheduled collateral reports, as often as daily, supported by physical examinations every four to six weeks that are tailored to the lender's needs.

Our firm recently responded to a request by a bank to get an assessment of the volume and value of inventory for a major secured credit. The bank had asked an accounting firm for assistance. However, the cost involved was several thousand dollars, and the work would have taken three to four weeks. But the lender needed the information within a week to support the request by his customer for additional funds.

We agreed to reconcile the physical inventory to the company's perpetual records and check historical cost by a review of selected invoices at three different locations for about one-third the cost and within the one-week time frame needed by the lender. As a result, the lender was able to substantiate available collateral, adjust the borrowing base and provide the needed funds to the client.

(Continued on page 45)

William Davis is v.p./regional mgr., Collateral Control Corp., Dallas.

BROWN

DAVIS

Banks Should Participate With Commercial Lenders To Avoid Denying Credit

By Melvin F. Brown

INFLATION and high interest rates have challenged the nation's small-business community and, for many companies that were traditional bank credits, produced decreased liquidity and increased financial leverage. Increasingly, when faced with such a situation, banks are utilizing resources of a dependable commercial finance company rather than refusing credit to a potentially valuable customer.

Secured-lending participations with a commercial finance company can solve several problems that could have led to complete loss of potentially valuable customers. This occurs when: 1. Customers' needs exceed the bank's legal lending limit. 2. Customers' financial requests are more than the bank is willing to lend on an unsecured basis. 3. Collateral for the loan involves monitoring and control the bank is not staffed to provide.

Secured-lending partnerships with commercial finance companies also can increase a bank's opportunities for growth by expanding the range of customers it can serve.

When a secured loan is structured and administered by a commercial finance company, not only can the bank participate at a reduced risk in financing companies that offer long-range potential, but the bank also has the benefit of minimal operating expense on its investment. As the customer's financial condition improves, the participating bank has placed itself in an excellent postion for taking over all the customer's financing needs.

With few exceptions, there really are no particular industries for which asset-based or secured lending is not suitable. Certain elements are common in most secured-lending portfolios: 1. Companies generally are small to middle market, with sales ranging from $2 million to $50 million. 2. Loans range from $250,000 to $20 million, with an average size of approximately $1 million to $5 million. 3. Companies are experiencing an expanding sales base with good cash-flow potential and usually are leveraged 4:1 or higher.

Underlying elements, however, that must be present in each of the

Melvin F. Brown is pres., ITT Diversified Credit Corp., St. Louis.

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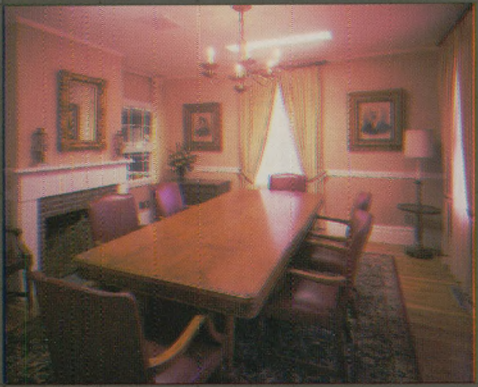

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portfolios of candidates for a commercial-lending partnership are sound management and adequate controls, which enable lending to proceed with minimal management direction.

If after their initial analysis, the bank and commercial finance company agree the account has potential, an audit is performed. This is to provide data necessary for thoroughly analyzing underlying collateral (in quality and quantity) and the borrower's potential for success. After the audit, if final approval of credit is granted by both the bank and the commercial finance company, the necessary financing and security agreements are executed between the borrower and the commercial finance company.

In the current economic environment, many bankers are finding participations with commercial finance companies increasingly attractive and useful. This is reflected in ITT Commercial Finance's own portfolio. Approximately 20% of the portfolio is in participation with banks. This trend is expected to increase in the future. ● ●

Major Participation Areas Projected for New Year For Banks, Finance Firms

Editor's Note: Answers to the following questions on asset-based-lending subjects asked by MID-CONTINENT BANKER *editors were supplied by Leonard I. Morris, executive vice president, James Talcott Financial Services, New York City.*

MORRIS

Q. What major areas of participation with commercial banks do commercial finance firms have this year and project for 1983?

A. "Major areas of participation between asset-based lenders and banks are, of course, loan participation, financing supplemental to balance-sheet ratios or financing simply as an alternate source where banks have reached their policy limits.

"In these volatile times, a smart banker probably has several ongoing asset-based-lender relationships. This provides him and his client greater flexibility. In the long run, it also provides the opportunity to grow current customers, even if they temporarily are outside conventional balance-sheet ratios.

"The banker who is hesitant to call in an asset-based lender to finance a customer's growth could find that customer turning to a larger or more aggressive bank or financial institution, with the resultant loss of a relationship that may have taken years to build.

"In many areas, commercial banks do not have asset-based-lending departments. We think it would be wise for them to develop relationships with asset-based lenders in 1983 to help control standard collateral loans secured by accounts receivable, plant and equipment. It also might be advisable to use factoring as the insurance factor against credit losses.

"To the degree a small or medium-sized commercial bank can't offer these services, their customer base is at risk. Many of these banks could benefit from a joint-venture type of relationship with an asset-based lender."

Q. How are asset-based lenders working with banks in the areas of mergers and acquisitions?

A. "Even though interest rates have dropped dramatically in recent weeks, we continue to caution against the pitfalls of leveraged acquisitions. By calling in asset-based lenders to participate in loans for mergers and acquisitions, banks are able to charge a lower-than-contract rate of interest and also be assured that funds employed are administered properly."

Q. How can asset-based lenders work with commercial banks in the area of problem loans?

A. "We feel commercial banks can be protected from substantial losses by calling on secured lenders for help. Experience still is the best teacher, and commercial finance firms generally have extensive experience working with problem loans.

"This is particularly true in this difficult economic climate, where collateral values can change quickly and receivables can convert to offsets and adjustments of so many types it boggles the imagination.

"Ways in which asset-based lenders can help banks in these problem areas include participation in loans, managing loans and helping banks establish broad guidelines under which to operate. And in the event of bankruptcy, commercial finance firms will step in and protect the bank's position by liquidating the loan."

Q. In a liquidation situation, how can everything be worked out to the satisfaction of asset-based lenders, banks and the firm being liquidated?

A. "These times demand a return to basics, since even the most credit-worthy companies can become insolvent overnight. Therefore, it is imperative that all lending institutions be vitally concerned with *character*, *capacity* and *credit*. And I would place the utmost emphasis on *character*.

"In addition, lenders need to modify inventory advances from their former euphoric levels. It would seem foolhardy today to advance substantial dollar amounts against inventory unless there are strong controls, such as field warehousing.

"On the matter of real estate loans, we feel it is essential to obtain up-to-date appraisals from competent, independent appraisers. In fact, I would advise receiving "puts" from appraisers as further protection in questionable real estate financing." ● ●

Encourage Business

(Continued from page 36)

tire loan-approval process, from initial contact to funding, can take less than three weeks.

This does not mean that decisions are made without proper analysis. The type of business, collateral quality, management capability and borrowing needs are examined. A report is prepared that reviews financial condition and history, analyzes inventory and fixed assets, reviews and verifies accounts receivable and examines accounts payable and tax status. This report also looks at the prospect's business plan, projected cash flow (including debt service) and profitability. In addition, fixed-asset appraisals are made and information is obtained on industry trends and the prospect's products.

Another key ingredient of a successful asset-based turnaround loan is flexibility. An example:

Recently, our Dallas Region Office structured a loan to meet the needs of an Arkansas company engaged primarily in road and bridge construction.

Founded almost 50 years ago as a partnership, the company had been consistently profitable and had evolved into a corporation with two wholly owned subsidiaries operating five rock quarries and eight asphalt plants. Because of the lagging economy and the depressed construction business, however, sales had been declining over the past several years. The company showed a loss during the most recent year and projected a loss for the coming year.

In need of working capital to turn the company around, management turned to BarclaysAmerican/Business Credit when its existing lender was unwilling to expand its credit line. Based on collateral strength, particularly machinery and equipment, proved management capabilities and definitive plans for turning the company around, we were able to structure a $5.5-million credit line. This enabled the company to refinance certain machinery and equipment, pay off unsecured credit obligations and increase working capital.

Machinery and equipment secured the major portion of the loan. More than 650 pieces of construction equipment provided almost $5 million at a full 100%-of-value advance rate. The remainder of the $5.5-million line was secured by inventory of excavated sand, rock and gravel at a 25% advance rate, accounts receivable at a 75% advance rate and by a second mortgage on farm property owned by the company.

The entire line of credit was structured as a five-year term loan with no principal payments required during three months of the year when business traditionally is slow. The loan substantially strengthened the borrower's balance sheet because much of the debt service on the loan was moved from a current liability (as listed under the previous lender) to long-term debt. This enabled the firm to maintain good standing with its bonding company.

Several months after the secured loan was funded, the borrower's local bank entered the arrangement in a 50% participation.

In this case, our flexibility in structuring the loan to meet the seasonal and balance-sheet needs of the borrower, as well as our ability to respond quickly and fund the loan promptly, were of great benefit to the borrower.

The company now has the time required and working capital necessary to weather these difficult times. Every indication is that the borrower is successfully effecting a turnaround.

Assisting businesses such as this to rebuild financial strength is an important role for today's lenders. And participations between banks and asset-based lenders will be increasingly useful as the economic climate improves.

Opportunities, Pitfalls

(Continued from page 36)

However, in a trend that seems to be growing, we're seeing many of the type of loans banks have made in the past on an unsecured basis being offered to commercial finance companies on a participation basis — due mostly to the uncertainty of the economy. That trend should continue since asset-based lenders have the capacity to monitor and control loans, allowing us to spot financial deterioration much faster than a bank, which normally can't look beyond the balance sheet and profit-and-loss statement.

Recognizing the unique capabilities of asset-based lenders, banks are becoming more willing to share these credits, and they are willing to share a larger portion of the credits as the double-digit inflation of the past few years has created a need for bigger loans and higher leverage.

As various firms face the harsh economic realities in today's marketplace, they may find they are not meeting their projections; inventories may be out of line; accounts receivable may have grown or they may be experiencing a first-time loss. Whatever the cause, working capital and borrowing power usually are stretched to the limit. All these things are an obvious cause of concern for bank officers who must make lending decisions based primarily on balance sheets — cash flow, ratios and P&L statements.

However, asset-based commercial lenders, like the Associates, do not base loans solely on these factors. As collateral lenders, many times we are able to approve a credit that would be classified as a problem loan by a banker. A surprising number of companies having financial difficulties still have a positive net worth — still have enough muscle — to be able to survive if they obtain the assistance of an asset-based lender that will work with them and offer advice and guidance. Asset-based lenders often act as interim lenders — doctors of sorts — that come in and nurse a company back to health and then are taken out when the company is fully bankable.

However, we are not miracle workers. No smart commercial finance company goes around buying problem loans from banks. We only buy loans for companies that are not terminal, sick companies that need help to recover. We can't get involved in hopeless problem loans. We want to help companies with futures to realize their goals. We want to help companies regain their financial independence.

It is important for bank officers to realize that the sooner they call in an asset-based lender when trouble develops, the better the chances the company will survive. Too often, bank officers wait too long to call in a commercial finance company, only to find that nothing can be done. Assets have deteriorated in value; cash flow and profits have been reduced or even disappeared, and the company is in deep trouble.

When we are called in early enough, we can help a company improve efficiency and, in most cases, stop deterioration of its assets. We spot the problems much more quickly because we work with the companies on a daily basis, monitoring their collateral and their entire operations. When a bank officer feels he can no longer service the client and feel comfortable with the loan, he should call in an asset-based lender to look at the credit. The proper time to call us in is at the first sign of losses or break-even figures. Waiting an extra quarter or for year-end results often can turn a workable situation into a hopeless problem. If a bank officer waits until the 11th hour, there may be no way left to help the customer and the bank may be forced to take losses.

I must stress to all bank officers that the key to helping a company in financial trouble is to call us the moment they first feel there is a problem. A commercial finance company will be able to investigate the problem thoroughly and determine whether it will be able to help.

In those few instances when a participation does end in liquidation, the key to success for all parties is cooperation. By definition, somebody if not everybody will lose when a liquidation is the only alternative. However, the amount of the loss can be significantly reduced if everyone — the bank, client and asset-based lender — cooperates. If everyone does cooperate, and if everyone keeps the interests of all parties in mind, chances are more dollars will be recovered.

In reviewing bank portfolios, I have found many companies being financed by banks that probably should be financed by asset-based lenders. On the other hand, commercial finance companies seldom have loans on their books that are fully bankable. It's important that we work together, because working in tandem, banks and commercial finance companies normally provide a much better loan package than either can provide by itself.

Next year will bring untold opportunities for banks and commercial finance companies to work together. The acquisition and merger market is expected to remain strong, and businesses will need plenty of working capital for expansion as the economy recovers from the recession. Banks and commercial finance companies will share the prosperity if they work together. ● ●

Asset-based Lenders

(Continued from page 38)

Where required, the collateral management company actually can control collateral guaranteeing the validity of accounts receivable and existence of the inventory through certification. In those instances where title documents are required, such as domestic storage for eligible bankers' acceptances, a field warehouse can be established.

An important element of the lender's servicing cost is the expense of managing the loan. If you are auditing borrowers on a regular basis, that expense includes the auditor and support staff, which is constant. With the collateral management firm, the bank turns the cost on or off at will, allowing the lender the luxury of knowing in advance the cost of servicing the loan and managing the collateral. By using an independent third party with no financial interest in the loan, you are assured of objective, accurate reports. Further, the field examiners are experienced professionals. Their job is collateral control and management information.

If the bank auditor does not perform or makes an error resulting in a loss, the bank absorbs that loss. If a collateral management company doesn't perform, you have an avenue of recovery on all certification and warehouse accounts. For example, our firm is underwritten for up to $50 million per occurrence with a minimal up-front deductible, which provides the comfort needed when you rely on an outside service company.

Why use a collateral management company?

- Accurate, objective information.
- Cost effectiveness — turn the cost on or off at will.
- Periodic or continuous examinations.
- Objectivity — an independent third party.
- Control of collateral through certification and field warehousing.
- Financial responsibility.

The time has come for secured, or asset-based, lending. Opportunities are open to all who are willing to commit the resources and efforts to handle this type of lending. Portfolio quality, intelligent pricing, information and collateral management will govern the success or failure of an asset-based lender. ● ●

Bank Observes Textile Week

Farmers & Merchants Bank, Centre, Ala., observed National Textile Week recently by inviting textile plants in the area to provide displays in the bank's lobby. A number of firms responded, according to Mary George Jordan Waite, F&M ch./pres.

Imagine getting only bare walls when, for the same price, you could have had a beautifully built, elegantly furnished bank.

"It just about happened to us," says Henry Kinberger, president of Security 1st National Bank, in Alexandria, Louisiana.

"We listened to not one, but a number of proposals for an important building project for our bank. One from an architect, another from a leading plan-design-build firm. Both would have offered us far less than the solution we got from HBE."

"A lot more value for the dollar."

"Instead of remodeling our old building, HBE showed us how we could build a brand-new building that would be much more functional, for about the same cost, on the same site, without any interruption of business. And the HBE price included a spectacularly beautiful, finished interior, not just bare walls."

"Other bankers couldn't believe how much we got for the price."

"When many of our banker friends visited us, they were amazed. One of them said, 'I came here expecting to be disappointed. I can't believe my eyes.'"

"What they saw were things like floor-to-ceiling solid-oak doors, marble floors, really nice furniture and the like. All included at the square-foot price they thought would have been bare walls only."

"They didn't try to boss us around."

"We enjoyed an excellent working relationship throughout the project. HBE listened to our thoughts and responded to what we wanted to do. There was never any attempt to impose formulas or rigid sets of ideas on us. And we liked that."

"Everything about it works better for us."

"We have such nice touches as an exceptionally fine heating and air-conditioning system with a lot of zone controls and real energy savings. Better departmental and work flow arrangements. And an employees' patio on our drive-in roof. All the site work was included, too. So was demolition of our old building. Even vault and security equipment. Plus new sidewalks, fountains, and so on. And throughout, HBE stayed with us, directing all phases and weeding out anything that proved inefficient."

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Henry Kinberger, president of Security 1st National Bank, is shown here in the lobby of their beautiful new facility planned, designed, and built by HBE.

Pressures on Traditional Banking Make Leasing Attractive Alternative

New Tax Legislation Makes Lease Financing Attractive to Bankers

By William F. Stites

THE COMPLEX nature of leasing has caused many small banks to avoid it in the past, but with the new tax laws, narrowing margins and increased competitive pressure on traditional banking, many are beginning to look at lease financing. I would like to offer some suggestions on subjects that need to be considered by a bank entering leasing for the first time.

Tax Leasing. The capacity or volume a bank can maintain in tax-equipment leases is restricted to the bank's ability to use tax incentives such as investment-tax credit and accelerated depreciation. This restriction is a direct result of the bank's profit or lack thereof. In times of narrowing margins combined with the broad variety of other tax-incentive programs within the bank, it becomes necessary to establish a tax committee, even if it is only the chairman and a CPA, to sort out in advance the proposed tax budget for the next few years.

Too often, overly aggressive loan officers can promise to support good customers with large equipment-lease needs only to discover they have outstripped the bank's ability to use the tax incentives. Also, it is important to point out that what often looks like a good tax year in the first or second quarters can slip into a poor year in the third and fourth quarters, causing a carry-forward of those tax incentives, resulting in a reduced yield for the bank. A bank must remember tax-equipment leasing offers tax incentives for more than just the first year of acquisition and, therefore, business written in 1982 will affect tax returns of the bank in 1983 and 1984. This means the bank's tax committee needs to review the impact of tax-equipment leasing as it applies to the bank tax return over the full term of the lease instead of its impact only in the year of acquisition. If the total tax burden is removed because of tax leasing in one year, volume of leasing in the second year must go down to accommodate the second-year effect of the first year's leases.

Equipment Selection. Banks traditionally have approached lending according to cash flow or credit standards. Many banks have taken a posture on equipment leasing that if they do not price a value to the equipment at lease termination, the risk is minimal and can be addressed from a credit standpoint. Banks tend to forget they are owners of the equipment and, therefore: 1. If they have leased their equipment from a vendor-generated transaction, and the vendor and/or manufacturer goes out of business, the bank may have to make good on manufacturers' warranties, vendor guaranties or equipment performance. 2. Product liability may exist if the manufacturer elects to require a call-back to repair a defective part and notifies the owner (the bank), and, because of a lack of internal controls, this information is not forwarded to the lessee. 3. The restricted tax appetite of the bank means the most profitable selection of business would not be tied to high credit standards exclusively, but also tied to marketability of leased assets at termination. An example: Would you prefer to own — five years from now — a D-10 Cat crawler or a built-in telephone system? 4. Equipment use has a major bearing on the life cycle and value of that piece of equipment, and, without investigation regarding intended use, the term of lease or the residual value could be in error. 5.

(Continued on page 52)

William F. Stites is s.v.p./merchant banking administration, First National, Louisville.

Commercial Customers Rate Equipment Leasing High as Bank Service

By George A. Thorson

WHILE arrival of the Tax Equity and Fiscal Responsibility Act (TEFRA) virtually has eliminated many "windfall" transactions that major banks, corporations and finance and leasing companies found in great demand following creation of safe-harbor leasing in 1981, most banks still find equipment leasing a service desired by commercial customers as a financing alternative.

Pre-Safe Harbor. Commercial banks have been adding "direct-lease financing" to their service portfolios at a rapid pace since the mid 1970s. They discovered that not only were higher yields possible, but that leasing could be beneficial to all types of customers using all types of equipment and for a variety of reasons beyond the tax benefits. Typically, this was "true leasing," where the lease was a full payout non-cancellable transaction, the customer having the option to purchase the equipment for "fair-market value" at the end of the lease term. The bank would depreciate the equipment for tax purposes while the customer expensed his rental payments. Investment tax credit was negotiable; the bank could keep it or pass it to its customer.

ERTA and TEFRA. The Economic Recovery Tax Act of 1981 (ERTA) opened the door for pure tax-benefit transfers through "safe-harbor" leasing. No longer was there a need to have an underlying, income-producing, finance transaction to transfer

George A. Thorson is sales mgr., Dallas Region, Collateral Financial Services, Inc., Houston.

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tax benefits. But for most banks, leasing still was offered primarily for financing. The advantage the safe-harbor alternative provided was the ability to offer a written purchase option, eliminating uncertainty as to the customer's cost should he want to purchase at the end of the lease term. In addition, ERTA increased the value of the tax benefits, helping banks offer lower effective rates, while improving yield over an equivalent term loan.

The Tax Equity and Fiscal Responsibility Act of 1982 put a damper on increased tax-benefit values should the safe-harbor option be taken. Depreciation (cost-recovery) periods are lengthened; investment tax credit is spread over five years, and limits have been placed on both lessor and lessee. Safe-harbor leasing will end entirely after 1983. Beginning in 1984, a new category, "finance leasing," is created, in part to provide for limited written purchase options.

Effect of Changes. The result is a return to conventional equipment leasing under pre-safe-harbor rules. Leasing remains an important financing alternative to many borrowers with tax, economic or accounting objectives. A bank still can increase its yield without increasing the customer's payment. While a written purchase option could be given by electing "safe-harbor" or later on "finance-lease" treatment, increasing cost to the customer to offset TEFRA restrictions will be likely. More importantly, a bank can use leasing for tax shelter while expanding and developing its commercial base.

Knowledge Is Essential. Many banks were dismayed by both major tax-law changes because of high costs of retraining, new documentation and increased legal and accounting fees. Bank customers are quick to ask questions, to review their alternatives. A new requirement, such as the interest and dividend withholding that TEFRA brought about, can tie up a bank's entire administration staff.

A participation lessor, such as Collateral Financial Services, Inc., acts as a bank's back office by providing complete lease administration and training, marketing and advertising assistance with a low profile. When laws change, the "back office" is able to adapt documentation, management-information reports, internal rate-of-return programs and provide retraining so the bank's loan officers are knowledgeable enough to review leasing alternatives with their customers. For example, within three weeks of

(Continued on page 52)

Lease Financing Seen As Innovative Strategy For Commercial Banks

By George S. Contarsy

SUBURBAN and rural banks often face a tough, competitive environment when attempting to generate quality commercial loans. To meet this challenge, each bank must develop innovative lending strategies. Lease financing is a strategy that has worked well for Bank of Lincolnwood, a $120-million suburban Chicago bank.

For over five years, Bank of Lincolnwood has been providing nonrecourse loans to lessors of a wide variety of equipment. This form of lending has assisted Bank of Lincolnwood in reaching and exceeding its profit goals. For the last two years, the bank has placed in the top 25 banks in Illinois when ranked on a return-on-assets

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basis. In this article, I will outline the basic concepts used in this type of lending and how your bank could participate with Bank of Lincolnwood and other institutions acting as a primary debt source for the leasing industry.

As a preface to my discussion of participation in lease financing, I feel it would be worthwhile first to review the basic aspects of this type of lending. Sound lease financing begins with the same basic tests we use in any loan request. First, we get to know our borrower. Even though this type of financing normally is done on a nonrecourse basis, the character and capability of our borrower continue to provide us with the cornerstone of each transaction. The term "nonrecourse" is applied only to the risk of the lessee not paying the lease payments due to the lessee's financial failure. All other risks are borne either by the lessor, our

George S. Contarsy is v.p., Bank of Lincolnwood, Ill.

borrower or the lessee. The lessor is making important representations and warranties to us when he pledges the lease and the leased equipment as collateral for the loan.

Notwithstanding the high credit rating of the lessee, the bank might suffer a loss if the lessor is careless or less than honest. We ask questions. How long have they been in business and what is their background? We carefully check bank and trade references. We review the lessor's financial statements. With a qualified attorney, experienced in leasing transactions, we review all of the borrower's lease documents. We pay particular attention to provisions for termination, casualty loss, default and attorney's fees. We have a concise, detailed checklist that is used at each closing, and we have developed forms to assist our customers in completing our document requirements properly.

Just as you can buy a participation in an ordinary commercial loan at another bank, you can buy a participation in lease loans from Bank of Lincolnwood and other lenders doing this specialized lending. Participation documents are almost identical to those used to sell a participation in an ordinary bank loan. The originating bank collects the monthly rental and prorates payments among participants based on their respective shares. The originating bank does all the credit, legal and documentation work, providing participants with a complete copy of their file. A participant's task is to compare the yield from the participation with what he would have earned in an alternative commercial loan with a credit of equal quality. When making this comparison, he should consider cost of originating and servicing the alternative loan.

Bank of Lincolnwood expects to have lessees that are rated by Moody's and Standard & Poors at investment-grade levels or that are major public institutions, such as large regional hospitals. These lessees will have a history of certified financial statements and will have demonstrated positive cash flows and a continuing ability to service their obligations.

Rates available on these loans vary with credit quality and maturities. Bank of Lincolnwood can offer participants a range of ratings and yields. Each participation is an individual lease. Each participation is at a fixed rate for the term of the loan. The most common term for these transactions is 60 months, so the average maturity is about 2½ years, not an unreasonable time for a fixed-rate transaction. Yields

in lease-financing transactions move together with other market rates with similar maturities. Bank of Lincolnwood and other originating banks will charge a nominal fee for handling. Often, there is lead time of up to 90 days between the time the originating bank must commit to financing and the takedown of the loan. These lead times cause a rate lag in loans of this type.

Participations are sold to reduce concentrations, blend rates and cover overlines. For example, Bank of Lincolnwood has only a $1-million legal lending limit, while many requests are for financings that require more than that amount. ● ●

Commercial Customers

(Continued from page 50)

passage of TEFRA, we were able to reprogram our lease-analysis system to provide lease analyses to our network of participating banks under all new options available. Most banks are unable to respond this quickly.

Other benefits of the leasing partnership can include flexibility to change each lease in accordance with the bank's tax appetite or to vary participation in accordance with liquidity or lending limits.

Banks are continuing to retrieve their market share of the $150-billion leasing market by offering leasing to customers at rates that enhance the true benefits of leasing. While laws have changed the tax-benefit-transfer applications for leasing, it remains a valuable, profitable service most banks should offer to their customers as a viable financing alternative. ● ●

Tax Legislation

(Continued from page 48)

Ownership of the equipment requires additional staff to maintain insurance risks and guarantee proper payment of property tax and use tax.

Pricing. Many banks find the complex nature of equipment lease pricing unnecessary and, therefore, make estimates of the range of benefits and provide pricing accordingly. Too often, pricing does not take into account the impact of delivery date, equipment values, method of payment or tax timing, causing the pricing mechanism to be 300 basis points off intended yield, both positive and negative. Also, rebate of investment tax credit, proper evaluation of residual values and tax timing cause early termination or payoffs to be figured improperly without a computer-software program specifically designed for tax-equipment leasing.

Improper dating of lease documents or improper invoicing for title transfer can easily cause the bank to lose tax incentives that were priced into the transaction, thereby reducing yield with no restitution from the customer.

Computer-software programs are available, and even though the cost of these systems would appear to be prohibitive in the early stages, they generally are considered a must for proper pricing.

Documentation. Too many small banks have adopted the lease documentation of their local leasing companies or documentation picked up from outside counsel. While documentation may appear to be sufficient, rarely does it address difficulties arising from: 1. Return of equipment. Without proper language identifying whose responsibility it is to crate the equipment or dismantle the equipment, residual values can be in jeopardy. Fair-market value may indicate the value is sufficient to cover the residual. However, the high cost of preparing the equipment for moving or retrieving it from the bottom of a mine can cause a charge-off due to unrealized residuals. 2. Recent changes in tax laws have, for the first time, indicated lawmakers' preference to make tax laws retroactive, therefore requiring tax-indemnification clauses in lease documents to be more tightly worded to protect against loss of tax incentives. 3. Equipment-lease documentation invariably handles more than one piece of equipment just as collateral on a loan, but banks forget that because the equipment is to be used in the performance of a business, there is a high probability that certain of the pieces either will be terminated early or suffer a casualty loss. Unlike a loan, this will require addendums to the lease and a complete restructuring of the transaction, as opposed to a minor reduction in principal. Equipment leases should be designed separately for each piece of equipment with a separate payment schedule and invoice. 4. Documentation should contain statements to the bank from third parties who may have made outlandish claims as to equipment performance or longevity. 5. To protect the bank's interest, documentation requires proper insurance because of the ownership position the bank holds and allows for the bank to acquire insurance if default occurs. 6. Also, documentation needs to cover use and location of equipment to maintain proper records for property-tax and use-tax payments.

Tax leasing can be profitable and an excellent new product for banks today, provided it is entered into cautiously and slowly. I highly recommend that any bank thinking of going into leasing, without the benefit of prior knowledge, contact the American Association of Equipment Lessors or the American Bankers Association for information on seminars, books and consultant support. By doing this, banks will make sure their exposure is satisfactory. ● ●

Tax-Exempt Leases: A Cost-Effective Way To Finance Equipment

By Steve Jacobson

MUNICIPAL lease-purchase agreements (sometimes referred to as tax-exempt leases) have, until recently, been ignored by public-sector entities as a financing alternative. But with financial pressures and demands straining the limits of the more traditional funding arrangements, both state and local government units are discovering that the municipal lease purchase can be an attractive, efficient and cost-effective way to finance their growing equipment needs.

The municipal lease-purchase agreement basically is an installment-sale or conditional-sales contract. The contracting community generally gains immediate use and title to the equipment, with the "lessor" filing appropriate liens against the equipment. Installments are paid over the term of the transaction, which usually is seven years or less. Then, at expiration of the term, the community acquires clear title — either with no additional consideration or for a nominal amount.

State and local governments have used the municipal lease purchase to finance equipment ranging from fire-fighting apparatus, law-enforcement vehicles and road and highway equipment to computers and communication systems.

As I have indicated, a municipal lease is synonymous with a tax-exempt lease — as the interest component of

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each payment is exempt from federal income taxation under Section 103 of the Internal Revenue Code of 1954. Essentially, this provision excludes from federal taxation interest received from any state, territory or possession or any of their political subdivisions. In some locales, interest payments are exempt from state and local income tax as well. This tax-exempt characteristic makes the municipal lease more attractive to the lessee than either conventional bank borrowings at commercial interest rates (which are considerably higher than the interest rate inherent in a tax-exempt transaction) or the more common approach to municipal financing, bond offerings.

While the interest attributable to a municipal-bond issue is tax exempt, there are disadvantages. Bonds often are paid over 10- or 20-year periods. When used to finance equipment, this generally means payments will continue long beyond the useful life of the equipment financed. Using a 15-year bond issue to finance a computer — which today can become obsolete in less than five years — quite clearly is interest wasteful. The term of a municipal lease, on the other hand, generally is more closely related to the useful life of the equipment. In addition, a municipal lease is considerably simpler and less time consuming to conclude than a bond issue. There is no need to seek a referendum or incur expensive underwriting, legal, rating and printing costs.

Another important advantage of leasing is that it does not affect a community's debt ceiling or credit rating. A lease obligation is not considered debt in most states because the lease agreement contains a "non-appropriations" or "fiscal-funding" provision. This clause provides that the community's obligation to continue making payments under a lease is subject to the annual or periodic appropriation of funds by the lessee. In other words, if the government entity leasing the equipment does not appropriate for payments that pertain to the lease, the lessee may return the equipment to the lessor and cancel the transaction without any additional obligation. (Risk of non-appropriation is reduced by a careful choice of equipment as discussed below.)

A properly structured municipal lease provides the lessor, usually a bank, insurance or finance company, with an excellent return (generally 150-175 basis points above a comparable municipal bond rate) and at the same time mitigates the major negative consideration, namely risk of non-appropriation.

Risk of non-appropriation is reduced by several factors. First, since a municipal lease has a relatively short maturity — generating a steady stream of periodic payments that include principal as well as interest — the lessor's investment generally is returned well before the end of the lease term.

Careful selection of equipment also is an important consideration. Most lessors insist the equipment being financed serve an essential purpose and function of the community, thereby further diminishing risk of non-appropriation. Obviously a fire truck or refuse-removal vehicle is essential to a community, and it is safe to assume that funds will be appropriated throughout the lease term. A pool table for a public recreation center, however, would not qualify.

In weighing risk of non-appropriation, many lessors also consider collateral value of the equipment throughout the lease term. So long as the value of the equipment exceeds the unpaid balance of the contract throughout the term, risk of non-appropriation is obviated.

Most lease-purchase agreements also contain a "non-substitution"

(Continued on page 58)

DIDC Issues Money-Market Account Rules; Banks Can Offer Accounts December 14

Deregulated-Rate Accounts Require $2,500 Opening Deposit

BANKERS will get their principal Christmas gift early this year — December 14 to be exact.

Congress played Santa by giving bankers the gift for which they had been clamoring for some time — a money-market account that enables them to compete with mutual funds. The new account, which is deregulated as far as interest rates go, was mandated by Congress as part of the Garn-St Germain Act, known officially as the Depository Institutions Amendments of 1982.

The bill established a no-interest-rate ceiling, no-interest-rate differential, insured, deregulated account with transaction capability that is competitive with money-market mutual funds. The new account was to be established within 60 days after the signing of the bill by President Reagan.

The DIDC created the new account at a special meeting in Washington, D. C., on November 15 and voted to reconvene on December 6 to discuss acceleration of the entire deregulation schedule.

In creating the new account, the DIDC addressed the following topics:

• *Denomination of the new account*. The legislation states no minimum denomination, but congressional debate discussed a minimum no higher than $5,000. The ABA recommended no figure, but requested the DIDC to permit "the greatest possible flexibility for depository institutions to establish competitive balances necessary for their individual market conditions."

The DIDC set a minimum of $2,500 for the account.

• *Maturity*. Statutory language doesn't clearly require that the account have no minimum maturity. The statute prohibits the imposition of transaction-account reserves if no more than six transactions — three checks and three pre-authorized or automatic transfers — occur monthly. The ABA said there should be no minimum maturity if the account is to be directly equivalent to the money-market funds, which generally have no minimum maturity requirements. The ABA suggested that, even though the new account permits limited transaction capability, depository institutions should be required to retain the right to require seven days' notice of withdrawal "to clarify the fact that the new account is not a demand deposit."

The ABA strongly opposed placing any maximum maturity or limitation on the period for which a rate can be guaranteed on the account.

Highlights of DIDC Regs

The DIDC has authorized a new money-market deposit account with a $2,500 minimum balance that is free of interest-rate ceiling. The new account, mandated by the Garn-St Germain Depository Institutions Amendments of 1982, becomes effective on December 14.

The account contains these features and restrictions:

• No minimum maturity, but banks must reserve the right to require at least seven days' notice prior to withdrawal.

• No restriction on account availability.

• If the average balance over a month falls below $2,500, the NOW-account maximum rate applies for the entire month.

• Up to six third-party transfers per month are permitted, no more than three of which can be effectuated by draft. No restrictions were made on the size and frequency of withdrawals by mail, phone, messenger or in person.

• No minimum denomination of drafts or transfers unless required by the bank.

• A specific rate can't be guaranteed for longer than a month.

• Loans to meet the minimum balance are not permitted.

• There are no restrictions on additional deposits or sweeps from other accounts.

The DIDC placed no minimum maturity on the account, although institutions must reserve the right to require at least seven days' notice prior to withdrawal.

• *Minimum for drafts drawn on the account*. The ABA stated there should be no minimum on drafts drawn on the new account and, thus, it should be treated for cash-withdrawal purposes identically to savings accounts. The ABA urged that no limits be placed on in-person, over-the-counter, messenger or mail withdrawals, or withdrawals through ATMs.

The DIDC placed a maximum of six third-party transfers per month on the account, no more than three of which can be effectuated by draft. But there are no restrictions on the size and frequency of withdrawals by mail, telephone (to another account of the depositor or by check to the depositor), messenger or in person. It placed no minimum denomination of drafts or transfers, although minimums can be required by the institution.

• *Loans to meet minimum denominations*. The ABA supported permitting this practice.

The DIDC prohibits loans to meet the minimum balance.

• *Additional deposits*. The ABA supported permitting additional deposits "from whatever source, particularly by sweeps from other accounts. We would oppose any limitation on the size or frequency of new deposits," the ABA said.

There are no restrictions on additional deposits or sweeps from other accounts.

• *Overdraft credit*. The ABA opposed any restrictions on overdraft credit with the new account.

The DIDC ruled that the rate of interest and other charges imposed on an overdraft credit arrangement offered in connection with the new account must be no less than those imposed on overdrafts for customers who do not possess the new account.

Money-Market-Account Profits May Be Non-Existent, Say Teleconference Panelists

Advise Packaging Product for High-Balance Customers

MORE THAN 4,000 bankers attending a money-market-account "how-to" teleconference put on by the Bank Administration Institute last month learned the following:

- It will be extremely difficult for a bank to break even on the accounts with a $2,500 minimum balance.
- It will be extemely difficult for banks to enforce the limit of six third-party withdrawals per month without alienating customers.
- The money-market mutual funds aren't going to give up their $230 billion in deposits without a fight. They're preparing new sales pitches now.
- Any bank that hesitates offering money-market accounts will have to play "catch-up" for a long time.
- Pricing the account will be critical — it should not be considered a loss leader.

The teleconference was aired in 27 cities across the nation and featured a panel of four individuals: Moderator Robert P. Chamness, a Washington, D. C., attorney; Jonathan Lee Fiechter of the Office of the Comptroller of the Currency; and Robert M. Martindale and Michael R. Chy, president and vice president, respectively, Hughes, Martindale & Associates, bank consultants headquartered in the Chicago area.

The program was presented in an informal format that retained the interest of bankers in the audience during a five-hour period.

The panel fielded questions phoned in from the various satellite locations several times during the presentation.

Panelists based their presentations on guidelines for the accounts formulated at a meeting of the Depository Institutions Deregulation Committee (DIDC) held in Washington on November 15. Details of rules governing the account were not available, since supervisory agencies had not issued definitive regulations for the account at the time the teleconference was held. (The rules were finalized the following day. See article on page 54.)

Implications of the account were spelled out by Mr. Martindale:

- Don't sell just an "account" — sell a complete package that could include discount brokerage services, ATM access, line of credit, investment counseling, etc.
- The accounts will increase banks' costs due to the higher rates that will be paid to depositors.
- The accounts require monitoring/control on withdrawals on a monthly basis, since only six withdrawals are permitted per month (three by check and three by ATM or pre-authorization).
- Monitoring/control will be required on the minimum amount ($2,500) at all times (if the account is not maintained at $2,500, the rate falls to 5¼%).
- There is no interest differential between banks and S&Ls.
- It's a prestige account; therefore, it's not for everybody.
- Money-market funds are expected to offer improved products to keep their share of the depositors' funds.

Mr. Martindale also presented 10 principles for marketing money-market accounts:

- Don't follow the follower; it's not rewarding. Every financial institution faces a different situation in marketing the accounts. Each bank should do what's correct for itself. Competitors are likely to price their offering incorrectly; if banks follow their lead, they'll be like the blind following the blind.
- Sell more than just an account. "Plain vanilla" is OK, but it won't keep a customer. There's nothing in the regulations to prevent a customer from closing his money-market account the day after he opens it if he finds a competitor with a better deal.
- Aim your biggest guns at high net-worth target markets. Market segmentation is essential. Go after the high-balance customer and attract his attention through TV, direct mail, seminars and officer-call programs. Be careful to factor all marketing costs into the price of the account.
- Don't sell price, sell value. Stress the fact that return *of* money is more important than return *on* money. There's more to this account than the rate: Sell convenience and counseling, and take advantage of the fact that most people are comfortable dealing with a bank.
- Employees can't sell what they don't understand. For every minute used to develop the technical aspect of the account, spend a similar amount of time in training the staff to sell the account. Explain, train and retrain employees and reward those who sell effectively.
- Think of customers as clients; elevate their status. Be aware that almost 45% of people investing in money-market funds have said they would switch to a bank if a comparable product was offered.
- Lower outgo means higher income. Reduce costs as much as possible. Pay interest only on collected balances. Do not compound more often than monthly. Realize you will have increased operating expenses with this account.
- Competition never decreases, it always increases. Expect additional competition every year from firms such as Sears and Kroger. One way to combat competition is to stress the availability of funds in your money-market account.
- The short term drives out the long term. Asset/liability considerations are

important. Ask yourself: "Where are we going to invest these funds?" Look deeply into the future of banking and try to understand the larger patterns.

• Flexibility leads to profitability. Be sure you're doing the things that result in profitability for the bank. Position your bank as a flexible organization so opportunites to improve the bottom line can be acted on without delay.

Mr. Martindale added that internal preparation for the accounts includes creation of sales literature, holding employee meetings and thoroughly training new-accounts personnel. Role playing is one of the most effective ways of sales training, he said.

Customer notification should include letters to account holders announcing the new account, lobby notices and messages on statements.

External advertising should include newspaper announcement ads, direct-mail announcements to targeted audiences and media advertising. Personalized direct-mail efforts should be followed up with phone calls to prospects.

Prospects for money-market accounts include upscale-income retail customers, current NOW-account customers, money-market-fund customers, investors/trust-department customers, businesses and corporations, large CD customers, municipalities/school districts and regular savings customers of thrifts.

The point was made that many bankers are confused about this account because of a lack of the usual closed-end regulations — many factors are open-ended. Panelists advised that the accounts don't require opening and maintenance balances of $2,500; that amount is merely a floor. The maintenance balance can be an average balance; if the balance falls below $2,500, the bank can pay a maximum rate of 5¼% — but the rate can be lower. Tiered rates are permissible.

Bankers were cautioned about offering overdraft privileges with the account because the overdraft rate must be the same rate charged for overdrafts associated with other accounts at the bank.

The reason the account has a limited-transaction feature is to get around reserve requirements. It was a compromise, Mr. Fiechter said. The account carries no reserve requirement for personal customers and a low rate for commercial customers.

All sorts of problems are seen in monitoring the three-check withdrawal rule. Mr. Fiechter said the DIDC expects bankers to use common sense in monitoring this feature. However, action must be taken when a customer abuses the check-withdrawal privilege. Suggested policies include warning customers personally by phone or letter, imposing a high penalty for writing too many checks, or closing the account. Banks also can option not to offer the check-writing provision if their competitive situation permits. It was stressed that banks will not be required to dishonor checks that exceed the monthly three-check limit.

Premium rules do not apply, since there is no ceiling on money-market accounts. Mr. Martindale suggested that a bank give a customer a $10 bill as a reward if he opens his money-market account with a check from a money-market mutual fund!

Mr. Chy advised bankers to set goals for positioning the account that are "gut commitments." Bankers should ask themselves what they want the account to do for the bank; what market share the bank hopes to attain; how high-balance customers can be retained.

He said banks should position the account as a bank service, not as a money-market fund. Don't make a money-market-fund clone out of the account. The term "money market" is familiar to customers, he said, so it would be wise to use it when designating the account.

By all means, don't use the words "cash-management account," since that title belongs to Merrill Lynch, said Mr. Martindale.

The question-and-answer exchanges brought out the following facts:

• Banks can notify customers of interest-rate changes by posting notices, publishing advertisements, etc., but they do not have to notify customers at all — unless state law specifies that they do.

• The DIDC won't publish a sample deposit-agreement for banks. Wording can be picked up from existing agreements for other types of accounts.

• Separate interest rates are advised for commercial and non-commercial money-market accounts. Rates for commercial accounts should be pegged so the bank can recoup the reserve-requirement cost.

• Sweeps out of money-market accounts fall under the six-withdrawal rule; however, transfers out of money-market accounts are permissible, provided they are made in person. Unlimited sweeps *into* a money-market account are permissible.

• An index to determine the interest rate paid on money-market accounts is chosen by the bank. Any appropriate index is OK; it can even be tied to the prime. The most popular indexes are the 91-day T-bill rate and the seven-day average yield of money-market funds.

• Many banks plan to operate "hot lines" so customers can phone in for the current money-market-account rate.

• Don't use the word "guaranteed" when discussing rate. Rates do not have to be changed at any certain time,

Accounts Receive Mixed Reviews

THE NEW money-market account is expected to set off competition that will test the marketing, pricing and asset/liability management skills of financial institutions.

"Banks are going to have to look very hard at their pricing structures and reassess them," said Edward Furash, a banking consultant.

Banks must remember that the new instrument was intended to give them an added weapon against money-market funds, not against one another, Mr. Furash said. He singled out the recent success of the seven-day $20,000 minimum CD as proof that the right instrument can give banks a method to stop their deposits from being drained by mutual funds.

One banker who is not excited about the new instrument termed the account as "nothing more than a savings account with check-writing privileges" that could hurt banks' bottom lines.

The banker said the pricing of the new account, which regulators left up to the institutions, probably will be the most important factor in how a bank deals with the new instrument.

Many customers will be tempted to open a new account with funds from passbook deposits. At many banks, a majority of passbook accounts have more than $2,500 in them, which is enough to enable the account holder to open a money-market account, the banker said.

One banker who likes the new account had this to say about it:

"They (the DIDC) have given us what we've been asking for, more or less, to compete with the money funds." • •

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• Withdrawal options include the following: in person, similar to withdrawing from passbook accounts; by ATM, as long as it's not a third-party payment; by messenger, so the boss's secretary can make the withdrawal; by telephone, for transfers but not third-party payments.

• An overdraft fee can be charged on the seventh third-party withdrawal in a month as long as this policy is announced in the deposit agreement.

• The deposit agreement should contain all the basic rules, including how the rate is determined, any penalties and conditions, the seven-day reservation factor (which doesn't have to be observed), the number of transactions permitted monthly and announcement of the right to change the rate within 30 days.

• DIDC guidelines don't preempt state law; yet it was not the intent of Congress to make any rules of the money-market account illegal for state banks.

About 200 bankers attended the teleconference staged in St. Louis. Bankers contacted by this editor indicated that their plans for money-market accounts were close to the final stage; yet they appreciated the information provided by the BAI panel. **— Jim Fabian, senior editor.**

Tax-Exempt Leases

(Continued from page 53)

clause, which basically prohibits a community from acquiring any "like" or "similar" equipment until the *original lease term* has expired in the event that the community should fail to appropriate funds for the lease. This clause — coupled with the stipulation that only essential equipment be financed through a municipal-lease arrangement — provides excellent assurance to the lessor that the community indeed will adhere to terms of the agreement and not fail to appropriate funds. It should be pointed out, however, that enforceability of the "non-substitution" clause has not yet been definitely ruled on by the courts.

A final point, for the lessor to consider, is that historically there have been few instances of non-appropriation. Evidence overwhelmingly indicates that once a community enters into a lease purchase, it does indeed consider it the community's responsibility to provide for all rental payments.

If a lessor is aware of the problem areas of a municipal lease purchase — and acts prudently — risks involved can be effectively minimized, and the lessor will have placed his funds in an attractive investment. At the same time, he will have assisted the community by providing an attractive funding source for much-needed equipment.

The municipal-leasing alternative would seem to be an idea whose time definitely is now — for the clear advantages it holds for financial institutions and for the communities they serve.

Illinois Bankers Vote 3 to 1 to Merge At Special Convention in Springfield

MEMBERS of the Illinois Bankers Association "bit the bullet" at a special convention in Springfield last month to decide the future of the association. They voted three-to-one to merge the IBA with its break-away counterpart, the Association for Modern Banking in Illinois (AMBI).

The action put an end to the nation's first state banking association split, bandaging a wound that had been festering for the past 10 years.

None of the bankers speaking in favor of passage of the merger resolution in the crowded, standing-room-only ballroom indicated that he was completely pleased with the merger terms.

Robert L. Walton, president, Farmers & Merchants State, Bushnell, termed a favorable vote for the merger proposition "the lesser of two evils" in a statement favoring the merger. He added that the merger terms favor AMBI in some areas, but that no "better deal" is available. "AMBI has given (the IBA) all it will give — it's a take-it-or-leave-it issue" as far as AMBI is concerned. He termed a defeat of the issue a "death warrant" for the IBA. Mr. Walton is one of the founders of the Independent Community Bankers of Illinois (ICBI), which officially condemned the merger.

IBA President Donald R. Lovett, chairman/president, Dixon National, urged members to vote for the merger. He warned that the "freight train" of unification was rolling and it was too late to stop it. He pointed out that the IBA was able to change two provisions of the merger terms, the most important of which is that the largest banks in the state will not have permanent seats on the new IBA board, although five of the 30 directors will be selected by the state's 10 largest banks.

He assured bankers that the IBA faction will have control of the new board. "We have the numbers," he said. It will take 20 votes to change the new IBA board bylaws and Mr. Lovett expects the former IBA people to control as many as 25 board seats.

Of the 625 delegates voting on the merger issue, 463 voted in favor and 160 against. The two-thirds requirement for passage mandated that 417 affirmative votes be cast.

The merger vote was taken shortly after a preliminary vote that dissolved the IBA as a trade association and to create a replacement not-for-profit corporation. The measure passed handily, 473-152.

At a press conference following the convention, Mr. Lovett said it's important for Illinois bankers to be united so they can fight their common enemies, rather than each other. "There'll be no more looking over each other's shoulders to see what the other association is doing," he added.

Mr. Lovett termed the charge that the merger amounted to a "takeover of the IBA by AMBI" as merely a statement by the anti-merger factor.

The staffs of both organizations will be merged, said William Hocter, IBA executive vice president, but not every staff member will remain. Performance ability will be the determining factor.

An announcement of the selection of either Mr. Hocter or James Watt as IBA executive vice president is expected momentarily. Mr. Watt is AMBI's president. The selection committee consists of Mr. Lovett, Charles C. Wilson (AMBI chairman), C. C. Hope Jr. (former ABA president and vice chairman, First Union National, Charlotte, N. C.) and an industrial psychologist. Mr. Wilson is chairman/CEO, First National of Quad Cities, Rock Island.

Merger of the two associations is expected to be completed about January 1. Mr. Lovett will be IBA president in 1983 and Mr. Wilson will succeed him in 1984. **Jim Fabian, senior editor.**

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Retirement-Planning Seminars Establish Conduit To Employee/Corporate Accounts for Bank

RETIREMENT planning is a hot topic at National Boulevard Bank, Chicago. The bank started offering a new service to corporations last July called "Forward Financial Planning." The program was put together by William W. Thomson, financial services officer, who has had 18 years' experience in retirement-planning programs.

Purpose of the program is to develop banking relationships with employees of corporations and the corporations themselves. The program advises employees age 50 or over about retirement planning and encourages these people to begin investing their money so they will have "nest eggs" after they retire. As corporation managers listen in on retirement-seminar sessions, they often see the value of their firm establishing relationships with the bank in the areas of pension and profit-sharing plans.

"Corporations are finding that the present economic situation makes it appropriate for the bank's representatives to come in and give their employees information about financial planning," says Mr. Thomson. He adds that it's difficult for a bank to "get inside" a corporation that isn't already a customer, but that the retirement-planning seminars provide an excellent vehicle for the bank's people to gain entrance to a firm.

The fact that the firm invites the bankers in to conduct retirement-planning sessions lends credibility to the bank, Mr. Thomson says, which makes employees more willing to attend the sessions. As they acquire information about the importance of adequate planning for retirement, they look to the bank as the place to go to work out the details of savings programs. That's the bottom line of the concept.

The typical program consists of eight hours of sessions, divided into four two-hour meetings held on a weekly basis. The first session deals with an overall introduction to retirement planning and contrasts the bank's concept of "forward financial planning" with traditional thoughts about retirement.

Session number two deals with personal money management, including budgeting, supplementing income, considering social security and life insurance and life-cycle financial considerations.

The third session covers financial planning and deals with estate planning, maximizing financial security of dependents and minimizing taxes.

The final session advises pre-retirees how to prepare for the changes brought on by retirement.

Mr. Thomson says the sessions are geared to employees age 50 or over, but that when corporate managers learn about the content of the sessions, they often ask the bankers to conduct similar sessions for younger employees. These sessions deal with financial planning and budgeting to a greater extent than do those for older people.

William W. Thomson heads National Boulevard's "Forward Financial Planning" pre-retirement program. The Chicago bank began offering the service last July.

"The one thing I attempt to communicate to all employees is this," Mr. Thomson says: "Never before have so many people had so much opportunity to do so many things. Never in our history have so many older Americans been in a position to be creative in their forward financial planning and life planning. But never have there been so many obstacles or opportunities to procrastinate when it comes to retirement planning."

Many of these people are worried about the future, he says. Often they're intimidated by the traditional concepts of retirement planning. "This is where we come in. We work with them in a way that's conducive to establishing warm relationships. They come to trust us and rely on us to give them the information they need so they can determine what shape their finances are in so remedial action can be taken, if necessary, so they can stop worrying about the future."

The bankers are low-key about National Boulevard's sponsorship of the service. "We don't raise the National Boulevard flag at all during the program," Mr. Thomson says. "Generally, that's done by the corporation people when they introduce me and my associates as retirement-services officers from National Boulevard Bank. Many times corporation managers will permit me to suggest to employees that they can come by my office to talk to anyone there to obtain more details. Obviously, there's no way we can present the entire story during the sessions. Employees facing retirement appreciate the fact that they can come in to the bank to discuss details in private. And they come from relatively great distances."

One of the main thrusts of the program is to convince pre-retirees that National Boulevard has their interests at heart. "The people never would come down to the bank if this rapport was not established at the seminar sessions," Mr. Thomson says.

Sessions usually are held during working hours. This helps to show employees that their employers feel for them and understand their situations, Mr. Thomson says. "Employers are trying to gain from the sessions and we suggest that they participate with us in the program so they have an opportunity to communicate to workers information about the retirement benefits the company offers. Such a policy serves to establish a connection between the corporate-benefit department and employees.

Mr. Thomson says he finds that many pre-retirees are not interested in reading reams of information found in traditional retirement-planning brochures. So he recommends that they visit their local libraries and read current information about retirement planning in such publications as *U. S. News and World Report*, the *Wall Street Journal* and *Barron's*.

National Boulevard targets the service to firms that have payrolls that include from 15% to 20% of employees over age 55. Mr. Thomson says there

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are numerous firms in that category in the Chicago area. However, he is willing to deal with any firm that shows an interest in providing its employees with retirement-planning information.

Mr. Thomson says National Boulevard is the only bank in the Chicago area that is heavily involved in retirement planning. His experience includes service with Zenith Radio Corp. and Unity Savings in the Chicago area. He put National Boulevard's program together utilizing the experience he gained through the years.

"Our hope is that we'll be able to assist corporations with their labor relations," he says. "A happy employee is more productive — a better employee. The problem is that although most organizations do a marvelous job of building retirement programs for their employees, some employees don't understand what all the benefits mean. We serve as a conduit between the corporation and the employees regarding the meaning of these benefits." ● ●

Employee Benefits

(Continued from page 14)

benefit-pension plan. So there could be reductions in pension-plan benefits in some cases.

401(k)s in Thrift Plans. It's likely that within the next few years, there will be few thrift plans that do not contain 401(k) arrangements.

There are persuasive reasons this is going to happen. "Inside" IRA plans cannot receive mandatory employee contributions; 401(k) provisions can, thus making them natural candidates for inclusion in thrift-savings plans. Exhibit III illustrates benefits that would be derived from a conventional thrift plan compared with those derived under a plan with 401(k) provisions.

The benefit/cost ratio under the 401(k) plan in this illustration is about 86% higher than the benefit/cost ratio under the conventional thrift plan. The 401(k)-plan approach is further enhanced in that the employer will realize potentially substantial savings on his payroll taxes. Those savings, in many cases, will be more than enough to cover whatever additional administrative costs there may be in connection with the operation of a 401(k) plan.

Although the benefit/cost ratio for the thrift plan in Exhibit III is higher with the 401(k) feature than without, after-tax value of the distribution is less under the plan with the 401(k) feature. This occurs because employee contributions are made with pretax dollars to the 401(k) plan and with after-tax dollars under the plan without the 401(k) feature. Total benefit from the 401(k) plan is, therefore, taxable; whereas, only the amount in excess of employee contributions is taxed in the conventional thrift plan. Employees participating in a 401(k) plan should, therefore, be encouraged to put their tax savings to work for retirement purposes by putting these amounts into IRAs, for example.

Conclusion. "Inside" IRAs and 401(k) plans are new and refreshing developments in the employee-benefits area. The 401(k) concept in particular is a meaningful new benefit-plan arrangement. As a result of the availability of these retirement-planning techniques, retirement plans with tax-deductible employee-contribution features will likely become a trend for the future and provide the incentive to create the much-needed third leg of the three-legged stool. This will have several beneficial side effects, including taking pressure off the social security system, permitting more flexible benefits planning and enabling employers to give more benefits for less cost. ● ●

Accounting Group Formed To Aid in Disposition Of Bankruptcy Cases

MINNEAPOLIS — A new association — the National Association of Accountants in Insolvencies (NAAI) — has been formed here. Its objective is to improve disposition of bankruptcy cases for all concerned through improved technical and analytical accounting procedures.

"Because of revisions in national bankruptcy laws and the acceleration in number of business insolvencies," says Homer A. Bonhiver of Minneapolis, a certified public accountant and one of the NAAI's founders and its first president, "functions and skills of the accountant have become significantly more important in support of the legal and judiciary professions in cases of insolvencies. The purpose of the NAAI is to develop and share skills and information with which accountants can better serve all parties involved in insolvent situations."

Mr. Bonhiver identified another NAAI primary objective: to identify accountants trained and interested in serving in the specialized field of insolvencies and make background information and other materials about them readily available to the judiciary system, legal profession and other key parties involved in insolvencies.

A regular member of the NAAI must be a CPA, a licensed public accountant or a chartered public accountant and must attend an annual workshop and complete a specific number of hours of continuing education related to investigations, business reorganizations and liquidations. The organization accepts associate members, including attorneys, trustees and receivers. They may take part in all association activities and have all the rights of regular members with the exception of the voting right.

FISI Agreement

(Continued from page 10)

have installed ATMs in about 250 stores throughout Florida, thus reportedly making the Publix Teller program one of the largest shared-ATM networks in the state.

Any financial institution (banks, credit unions and S&Ls) can participate. Customers of financial institutions will be able to make cash withdrawals, deposits and balance inquiries 24 hours a day at most locations, with transaction fees varying from 5¢ to 60¢, depending on transaction type and volume. Howard Jenkins, vice president/research at Publix,

Howard Jenkins (l.), v.p./research, Publix Super Markets, Inc., and Bill Mardis, mgr./EFT division, Financial Institution Services, Inc. (FISI), Nashville, sign agreement whereby FISI is to market Publix Teller, statewide (Florida) shared-ATM network.

already has obtained either verbal or contractual commitments from 25 institutions in Florida to take part in the Publix Teller ATM Network.

In October, FISI began a campaign to actively market access to the network. Inquiries will be addressed to FISI for follow-up. FISI will be responsible for preliminary sales presentations and will coordinate detailed discussions between serious prospects and Publix.

"With the assistance of FISI to market our ATM network," says Mr. Jenkins, "we will be able to concentrate our efforts toward bringing our program up on schedule."

Besides marketing access to the Publix Teller Network, FISI will be offering other complete ATM-support services to financial institutions, including consumer-marketing campaigns, ATM-card services and card-enhancement products. FISI also will be marketing a service called "Remote-Authorization Processing" (RAP), which provides an alternative to accessing the Publix Teller Network.

"This concept," says Bill Mardis, manager/EFT division at FISI, "will provide an attractive economic approach for participation by smaller institutions that do not have the technical or financial resources to tie directly into the Publix data center."

Automated CD Exchange

(Continued from page 16)

ber.

Lisa Luehrman, assistant treasurer and chief financial officer, says she likes the service because it's convenient; so much better than soliciting banks individually for jumbo CDs. "The CDs are as secure as a Treasury issue," she says.

She also likes the fact that CDx rates generally are one-half point higher than rates given by local banks. In addition, she says, transfers and payments of maturity have been handled smoothly.

CDx was designed by Harvey Baskin & Co., a financial-services firm based in Washington, D. C. ● ●

Chapter Status Is Given To Three RMA Groups

The Southeastern Chapter of Robert Morris Associates has been reorganized into three separate chapters, two of which — Mid-South and Southern — are in the Mid-Continent area. The third chapter is the Florida Chapter, which encompasses only that state.

The Southeastern Chapter has been dissolved, culminating plans adopted by the chapter's board in 1979 to accomplish this mission.

Officers of the Mid-South Chapter are (its area covers Louisiana, Mississippi, Arkansas and the Eighth Federal Reserve District of Tennessee): president, Alfred Rath, vice president, Hancock Bank, Gulfport, Miss.; vice president, John Bateman, senior vice president, Louisiana National, Baton Rouge; secretary, Deborah N. Pitman, senior vice president, Union Planters National, Memphis, and treasurer, William C. Scholl, vice president, First National, Little Rock.

Officers of the Southern Chapter (covering Alabama, Georgia and Sixth Federal Reserve District of Tennessee): president, Thomas E. Boland, executive vice president, First National, Atlanta; vice president, Ernest Beazley, vice president, Third National, Nashville; secretary, Harry D. Henson, senior vice president, First National, Mobile, Ala., and treasurer, William Burt, executive vice president, Citizens & Southern National, Atlanta.

New Method of Maintaining Reserves To Go Into Effect Early in 1984

A CHANGE in the way depository institutions maintain reserves will become effective February 2, 1984. The change, approved recently by the Fed, will be from lagged to contemporaneous reserve requirements (CRR).

When the change takes place, medium-sized and larger depository institutions will begin posting reserves on transaction accounts with a one-day rather than the current two-week accounting delay. (Transaction accounts include checking, NOW, automatic-transfer and share-draft accounts.) Reserve requirements on non-transaction liabilities will be met on a lagged basis. Under the present lagged-reserve system, depository institutions must post their required reserves in any given week based on their deposit levels two weeks earlier.

The change, to take effect February 2, 1984, will be from lagged to contemporaneous reserve requirements (CRR). Medium-sized and larger depository institutions will begin posting reserves on transaction accounts with a one-day rather than the current two-week accounting delay.

The Fed acted after considering comments received on proposals published in November, 1981, and after extensive staff study during the past several years. The Fed decided in principle last June 28 to adopt CRR on transaction deposits, but left open for later decision questions of an effective date and whether reserve periods for different sets of institutions should be placed on a staggered basis, with half the institutions settling every other week. The Fed has decided against staggering settlement periods.

CRR is expected to improve implementation of monetary policy to a degree by strengthening linkage between reserves held by depository institutions and the money supply. The Fed noted that sizable slippages will remain between reserves and money, because short-run flows are inherently volatile.

The effective date was placed so far ahead to give both Reserve banks and depository institutions that will maintain reserves on the new basis time to make adjustments required in their administrative and data-processing procedures.

As adopted by the Fed, principal features of CRR are, for the most part, those proposed in November, 1981. These features are:

1. Contemporaneous reserve requirements will apply only to institutions reporting their deposits on weekly bases. (Certain institutions with $15 million or less in total deposits report deposits and calculate required reserves quarterly, and certain others, with reservable liabilities under $2 million, became exempt from reserve requirements on enactment of the Depository Institutions Amendments of 1982, or HR 6267.)
2. Reserves will be maintained over two-week periods that will continue to end on Wednesday.
3. All institutions subject to CRR will settle their reserve accounts on the same day.
4. Required reserves will be *computed* on the basis of average deposits over a two-week computation period ending on Monday. Reserves required to be posted against transaction accounts will be maintained in the two-week period ending Wednesday, two days after the end of the computation period. The two-day interval provides time for calculation of required reserves.
5. Required reserves for other liabilities against which reserves must be held — such as certain kinds of time deposits — also will be computed on the basis of average deposits over a two-week period ending Monday, but reserves required will be posted in the two-week maintenance period beginning 17 days later, on Thursday.
6. Vault cash eligible to be counted as reserves will be equal to vault-cash holdings during the computation period ending 17 days before the maintenance period begins.
7. To assist depository institutions in implementing CRR, the Fed adopted transition periods for the carryover of reserve-balance deficiencies or surpluses. During the first six months following CRR's start, reserve surpluses or deficiencies that may be carried over into the next reserve period will equal the greater of 3% of the daily-average level of required reserves (including required clearing balances) or $25,000. During the next six months, the permissible carryover will equal the greater of 2½% of daily-average required reserves or $25,000. Thereafter, the carryover will be the greater of 2% of daily-average required reserves or $25,000.

The effective date was placed so far ahead to give both Reserve banks and depository institutions that will maintain reserves on the new basis time to make adjustments required in their administrative and data-processing procedures.

These changes in reserve requirements will be made as amendments to the Fed's Regulation D — reserve requirements of depository institutions.

The Fed approved two other amendments to Regulation D:

- Dates on which nonmember depository institutions phasing in to reserve requirements of the Monetary Control Act over an eight-year period will be moved back one week. The objective is to avoid falling in the middle of a reserve-maintenance period under the CRR schedule.
- Depository institutions with less than $15 million in deposits and that are not subject to CRR will continue to have a one-week maintenance period, with settlement day on Wednesday. Their computation week each quarter will be shifted back two days from Wednesday to Monday to align with the computation period of institutions subject to CRR. • •

Standing: Joe Stout, Senior Vice President;
Carolyn Ryniker, Secretary;
Wayne Becker, Assistant Vice President.
Seated: Tom Potter, Senior Vice President;
Iris Ebert, Secretary

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Buy Municipals Before End of Year, Centerre Advises Correspondents

NOW is the best time to buy municipal bonds, because, beginning January 1, all new issues must be in registered form. This advice was given to 900 bankers attending the 36th annual conference of bank correspondents sponsored by Centerre Bank, St. Louis, last month.

Speaking was Albert W. Lauth, vice president in charge of the portfolio division of Centerre's investment banking department.

He advised his bank's correspondents that there will be a premium on all pre-1983 bonds next year because they don't have to be registered. He added that prices are right at this time — which means they're bargains, offering from 400 to 500 basis-point yields over Treasury bills.

Mr. Lauth said munis purchased this year will have a 100 basis-point advantage over bonds purchased in 1983. The registration provision of the tax act was termed "taxation via the back door" on the part of the federal government.

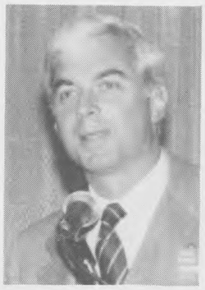
Mr. Lauth also commented briefly on the new DIDC money-market accounts that banks are authorized to issue beginning December 14. He termed the account a "new source of interest-sensitive liability that banks didn't have before." He advised bankers to monitor the account carefully so rate-sensitivity doesn't "get away from you."

Also commenting on the effects of the new account was Donald W. Moriarty Jr., first vice president, St. Louis Fed. He used slides to illustrate the effect high priced money-market deposits have had, and will have, on spread. He cautioned bankers that the Fed will be watching spread figures at member banks to make sure the banks aren't minimizing spread to the point that they are operating at a loss.

He said banks can compete better if they work to deregulate usury statutes, improve their asset/liability management skills, increase fee income, control operating costs and utilize new technology, especially computerization.

Other things they can do: Reduce brick-and-mortar facilities, people and paperwork, Mr. Moriarty said.

Perhaps the most popular speaker on the day-long program was Murray L. Weidenbaum, professor of economics, Washington University, St. Louis, making his comeback appearance at the conference after spending the last two years in Washington as chairman of the Council of Economic Advisers. He missed only one correspondent conference since he left for the capital shortly after the 1980 gathering.




Left: Richard F. Ford, Centerre pres., welcomed bankers to correspondent conference. Right: Clarence Barksdale, Centerre ch./CEO, hosted conference luncheon.

He predicted that the prime will drop to 10% in a few months, provided the Fed continues its policy of tight-money supply. "It's clear that the recent reductions in interest rates surely are a big plus for future business prospects," he said. "Those rates have come down in earnest." He praised the Fed for reducing inflation.

Centerre President Richard F. Ford reminded his audience that, after years of calling for change, it now is upon us. "We must prove that we can handle it in an industry that is undergoing changes," he said.

Just a few months ago, there was gloom and depair following the Penn Square and Drysdale problems. But almost overnight the pendulum has swung the other way, as evidenced by the decrease in interest rates and the stock-market boom. This has caused more talk about recession than depression.

Among investments panelists at Centerre conference were from l.: Kenneth A. Bretthorst, Albert W. Lauth, both v.p.s., and John W. Rowe, s.v.p.

He cautioned that the nation still is "on the brink" and no one can expect the dust to settle soon because traumatic events still are to come.

The banking industry, he said, is in the midst of a shakeout, "but this time we're in more control of our destiny." He termed the advent of money-market accounts a "giant leap" that will be a "true test of our asset/liability management skills."

Mr. Ford cautioned bankers not to use money-market accounts to compete with other banks but to compete with nonbank financial institutions. "We should use our resources to bolster the banking industry rather than to augment the portfolios of our nonbank competitors." One of banking's problems in the past has been its tendency not to act as a unified block when competing with nonbanks. "We must draw our forces together," he said. "The forces that weaken the banking industry are not our competitors, but our lack of insight."

He called for support for state and federal banking association efforts to establish a sense of unity in the industry. "If we can fight collectively, we can succeed. . . . We can be an awesome competitor if we are unified."

John W. Rowe, senior vice president, investment banking, said interest rates will remain volatile in the near future because of the impact of changing inflation rates, the Fed's policy change on monetary growth, the fact that the U. S. now is in a world money market rather than a domestic one, various attempts to improve asset/liability management, changing investor attitudes, the fact that money-market funds have transformed savers into investors and uncertainty in the money markets.

He said deregulation isn't a bad thing, but it makes things more difficult because so many instruments are flooding the market. And, he added, predictions are rife that deregulation will be speeded up; perhaps complete deregulation will take place within the next year.

He said all bankers must do better as funds managers. Fund managing is an art, not a science, but it would be much simpler if it were a science. "We can't borrow short and lend long consistently and remain in business," he said. "What's needed is some 'Kentucky windage' " so that gap ranges can be widened. He predicted that funds

Murray L. Weidenbaum (l.) professor of economics, Washington University, St. Louis, chats with Lewis E. Davids, MCB columnist and Illinois professor of bank management, Southern Illinois University, Carbondale.

management will become more conservative in the future.

Increasing deposit resources is one solution to the higher cost of interest due to deregulation, he said. "We can go broke in grand style by offering higher rates." Bankers must strike a balance between the desires of depositors for high interest and a bank's real ability to pay such interest.

He added that the investment department can be a key to increasing deposits. It's a good policy to make investment instruments available to depositors. Banks should be warehousers of funds and can be such by establishing relationships with upstream securities dealers.

Attending bankers were polled as to their economic and financial forecasts for 1983.

They rated President Reagan's record to date in terms of decisiveness/strong leadership as "excellent"; in terms of reducing government spending as "fair"; in terms of handling the economy as "excellent/good."

Nearly 80% of the bankers said business conditions will be better by the end of the second quarter of 1983; that the prime will be in the 10% to 13% range by the next conference and the Dow Jones will be in the 950-1,350 range next November. Housing starts will be up next year and the price of gold will be in the $400-$550 range.

More than 80% favor reducing the growth rate of social security benefits, while nearly 60% do not favor a cut in benefits from current levels.

Bank earnings in general will be up slightly next year, they concluded.—**Jim Fabian, senior editor.**

Railroad Station's Baggage Room Turned Into Branch of Bank

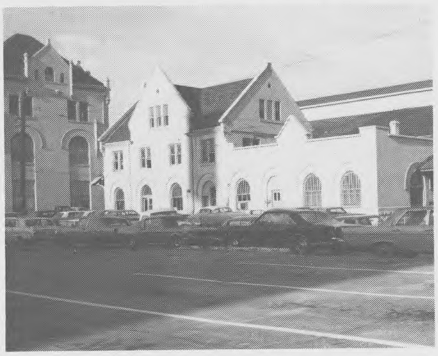
UNLIKE many unused railroad stations scattered around the country, the historic Union Station in Montgomery, Ala., still has a reason to exist, and a bank plays a big part in that purpose. The station's former baggage room now houses a full-service branch of SouthTrust Bank (formerly Southern Bank). The bank bought the baggage-room portion of the station in March, 1981.

What once was the main waiting room now is divided between corporate offices of a firm and a period restaurant. In the former express mail room, there is the Cradle of the Confederacy Railroad Museum.

SouthTrust Bank even has made use of the adjacent train shed, which, by the way, is 600 feet long (equal to two football fields) and spans three sets of tracks and platforms between the tracks. The bank operates a drive-up teller window in the shed area, which is only one of four remaining in North America.

The station, completed in 1898, was owned by the L&N (Louisville & Nashville) Railroad. The station building, which cost about $117,790 to erect, has Romanesque architecture, overlooks the Alabama River and is located in an historic district that's being revived. Many old warehouses there have been renovated for law and other professional offices, hotels and retail businesses. Materials used in construction of the station were brought from all parts of this country, and some were imported from various parts of the world. The brick exterior sits on massive granite foundation stones and is accented by terra-cotta trimmings.

The building's brick exterior was painted in 1966, but, during the latest renovation, the paint was carefully removed to reveal the original brick finish. The baggage room was completely remodeled, with the bare brick walls left exposed and its elaborate archways accented. ● ●



Here are three different photos of Union Station and its baggage room in Montgomery, Ala. SouthTrust Bank (formerly Southern Bank) now operates full-service branch in baggage section (building in right foreground in each photo).

TOP: Union Station complex looked like this in its early days.

SECOND FROM TOP: Coats of white paint had been added to both buildings by 1968, when this picture was taken.

BOTTOM: In latest renovation, paint was removed to reveal original brick finish.

Discount Brokerage Service Offered by Mercantile/Texas

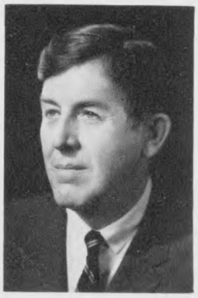
A discount brokerage service is being initiated for customers of Mercantile/Texas, Dallas, this month.

The service is called MPACT BROKERS and is said to be the first major discount brokerage service by a bank in the Southwest. The HC also will initiate its MPACT management account this month.

MPACT BROKERS will be offered to the 25 banks in the HC and to the 250 financial institutions that are members of the MPACT Automatic Teller Network in Texas and surrounding states of Oklahoma, Louisiana, Arkansas and New Mexico.

Hostile Bank Takeovers

By Gerald T. Dunne
Professor of Law
St. Louis University



HOSTILE bank takeovers, unheard of three years ago, now have come to the fore with the consequence that both news stories about, or advertisements embodying, appeals to bank stockholders over heads of management virtually have become a staple of the *Wall Street Journal*.

Why has this happened? There are three reasons. Significant surely may be the fact that the first wave of bank-holding-company expansion has spent itself so that the only bargains left are those banks where management disservice to stockholders has left the institutions sitting ducks for a skillfully orchestrated takeover effort.

Second may be the time in which we live, with some prominent economists suggesting that concentration or even cartelization may be the hallmark of a mature and stabilized capitalism.

Finally, and most important of all, perhaps, has been the behavior of government agencies charged with administering statutes governing bank acquisitions. Principally, these are the Bank Holding Company (BHC) Act and Change in Bank Control (CIC) Act.

Both laws require special permission before acquisition of 25% of a bank's stock. There the difference ends.

The BHC Act came first and seemingly set the pattern. Under it, the Fed (the administering agency) moved like molasses in January with something like a year usually intervening between initial application and final, dispositive permission. More importantly, parties legitimately interested in the proposed acquisition had important rights in terms of notification, intervention and standing to be heard, as well as judicial review.

Contrariwise, the CIC Act seems almost the direct opposite, with the result that, because of unprecedentedly speedy administration, a request for approval of an acquisition may be in, granted and out before a legitimately interested party finds out what is going on. For openers, there is no general rule whereby agencies announce receipt of a CIC (change-in-control) application in the way the Fed does in the case of the BHC Act. Moreover, there seems to be no generally available method to extract such information under the Freedom of Information Act.

Beyond that, contexts of the two application proceedings are radically different. Under the BHC Act, the Fed takes account of community needs and convenience, banking factors (financial/managerial resources, future prospects, etc.) and competitive factors that severely confine its discretion when monoploid factors intrude. Opponents of the acquisition have standing, as lawyers call it, to state their position on the consistency of the application and the statutory formula and, more than this, to appeal any decision that aggrieves them to the courts.

The CIC Act seems almost the mirror-image opposite. While many BHC Act provisions apply, the CIC Act stresses disclosure of the following items at least 60 days before acquisition as a condition of the banking agency's approval:

1. Identity, personal history, business background and experience of each person by or on whose behalf the acquisition is to be made, including material business activities and affiliations for the past five years, along with disclosure of legal and administrative proceedings involving such persons.
2. Financial statements of assets and liabilities of such persons (plus statements of sources and uses of funds) for the past five years and, in addition, like statements not more than 90 days before pre-filing.
3. Terms and conditions of the proposed acquisition.
4. Plans and proposals for liquidation, merger or sale of assets of the target bank and for major changes in its structure or management.
5. Identity and compensation of any person retained to solicit sales or make recommendations to stockholders.
6. Copies of tender offers.

In addition to veto via the "competitive" components of the BHC Act, the federal banking supervisor may disapprove any proposed acquisition on change-in-control grounds when:

1. The financial condition of any acquiring person may jeopardize the financial stability of the bank or the interests of its depositors.
2. Competence, experience or integrity of an acquiring person or proposed management indicate the acquisition would not be in the interest of bank depositors or the public.

Failure to submit the application triggers the $10,000-per-diem penalty for an unapproved acquisition effort and, of course, if no application is sub-

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He joined the St. Louis Fed from the general practice of law and successively became counsel, general counsel and vice president. In 1973, Professor Dunne took retirement from the Fed to become professor of law at St. Louis University, where he had taught part-time for many years. Later that year, in addition to his professorial duties, he was made editor-in-chief of the *Banking Law Journal*.

He is on the economic advisory council of Mark Twain Bancshares, Inc., St. Louis.

Professor Dunne has written three books: "Monetary Decisions of the Supreme Court," "Justice Joseph Story" and "Hugo Black and the Judicial Revolution." He also has contributed to the *Harvard Law Review*, *Yale Law Journal* and *Harvard Business Review*. He has been on faculties of Stonier and Central States (now Prochnow) School of Banking, Madison, Wis., and was visiting professor of law at the University of Missouri, 1970-71.

Professor Dunne has been selected for inclusion in "Who's Who in America" and "The American Catholic Who's Who."

mitted, no approval can be returned. Moreover, in the latter case, the agency may resort to a court to halt the acquisition itself. However, courts have split as to whether management of a target bank may resort to the courts to block the noncomplying effort of a raider. The latter circumstances raises the $64 question: What is a bank director to do when he or she learns that a hostile takeover is afoot, probably proceeding surreptitiously? Case law is clear enough as to what should not be done, and that is to fire up the bank president to write a letter to all stockholders denouncing the raider, the takeover effort and placing a conjectural dollar value on the bank's stock that is, of course, well above the raider's asking price.

To be sure, raiders and acquisition efforts are to be taken seriously, but to date the law seems clear that directors are *not* required to keep a "for sale" sign in the bank's window and, indeed, may commit themselves to a policy that the bank is *not* for sale and that while friendly takeover bids will be considered, hostile ones will be resisted.

Still a third datum, also clear enough to date, is that a director has no liability to a disgruntled stockholder for the amount of the inevitable fallback in the target's stock that occurs after a successful resistance effort to a hostile tender offer.

The first line of defense against such efforts would be to run the best bank possible with a view to enhancing stockholders' interests. Hopefully, this policy would, itself, secure an appreciation calculated to repel blandishments to stockholders. Beyond this, there are a variety of options a board may want to consider. These may range from procurement of a tender-offer-defense-expense insurance policy and retaining — in advance — tender-offer-defense legal specialists who may devise a "shelf" defense plan. Other defensive ploys that defense counsel doubtless may weigh are the possibility of fusing security-act violations with banking-law provisions, exploiting potential antitrust transgressions and bringing libel actions for improvident statements made in the heat of the takeover effort.

To be sure, from the famous Texas Gulf Sulphur case to the day of hostile takeovers, a bank director's job has increased in complexity and difficulty. The bottom line remains abundantly clear, and now, as then, the formula for success and safety remains the same — behaving with reasonable diligence and punctilious honesty and consulting counsel when in doubt. • •

Banking Products Managers Merge Their Association With BAI Research Arm

The Banking Products Managers Association (BPMA), a West Coast organization, has merged with the Center for Cash Management Studies at the Bank Administration Institute.

The BPMA was formed in 1981 to address the needs of banking professionals in the product-management discipline. Its members, representing major banks, now are operating as a standing subcommittee under the center's auspices.

The Center for Cash Management Studies, founded in 1979, provides research, education and reference facilities relating to the delivery of cash-management products and services by commercial banks to their corporate customers.

The former head of the BPMA, Christopher S. Winter, vice president/treasury management services, Bank of America, San Francisco, will be a member of the product-management subcommitee as well as the center's cash-management committee, an advisory group of senior cash-management bankers.

In addressing the education and information needs of product-management professionals, the subcommittee will explore subjects ranging from the organizational role of product managers to new-product development, market-research techniques and product-pricing strategies.

Assemblies for Bank Directors Changes January Meeting Site

The site for the January 13-16 session of the Assemblies for Bank Directors has been changed from Mexico City to Boca Raton, Fla.

The assembly will focus on critical issues facing the banking industry and its future in a deregulated environment.

Among the speakers appearing at the assembly will be H. Joe Selby, senior deputy comptroller of operations in the office of the Comptroller of the Currency; John G. Heimann, former Comptroller and now chairman/executive committee, Warburg, Paribas & Becker, Inc., New York City law firm; past ABA President Lee E. Gunderson, president, Bank of Osceola, Wis.; Gerald M. Lowrie, the ABA's executive director for government relations; and C. C. Hope Jr., vice chairman, First Union National, Charlotte, N. C., and a past president of the ABA.

Also scheduled to speak are Robert H. Boykin, Dallas Fed president; K. A. Randall, immediate past president of the Conference Board, former FDIC chairman and presently vice chairman, Northeast Bancorp., Stamford, Conn.; John J. Kendrick Jr., Dallas attorney; and R. Richard Rubottom, political science professor emeritus, Southern Methodist University.

Topics on the program will include the deregulation movement, the state of banking, the future of community banks in a deregulated environment, the outlook for banking legislation and challenges facing bank directors.

Site of the assembly is the Boca Raton Hotel and Club.

Arkansas Banks Win Big On Usury-Ceiling Issue

LITTLE ROCK — Arkansas voters made it clear that they favored increasing the usury-rate ceiling in their state at last month's election. They voted by a near-60%-40% margin to increase the rate from 10% to 17% for consumer loans. The vote also ensured that the rate for agricultural and commercial loans be pegged at five points over the Fed discount rate. The new rates become effective December 3.

Voters in 62 of the state's 75 counties favored the increase, says Ken Parker of the Arkansas Bankers Association. Mr. Parker credited the efforts of members of the Arkansas Farm Bureau for putting the vote over the top. Two years ago, a similar measure lost when only 45% of the voters were in favor of increasing the usury ceiling. At that time, the Farm Bureau did not support the issue.

An extensive advertising program was conducted during the campaign and both candidates for governor and the entire congressional delegation in Arkansas supported the increase, Mr. Parker says.

Guatemalan Indian Exhibit Featured in Bank Lobby

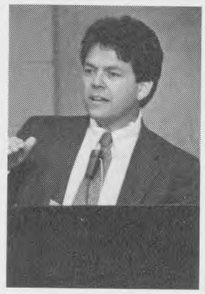
A four-week exhibit of folk life of Guatemalan Indians was staged recently in the lobby of Southern National, Houston. The exhibit included more than 100 hand-woven native textiles along with a collection of folkloric and religious items.

It was sponsored in cooperation with the Texas Cultural Alliance and contributors of Antiqua Guatemala and was a joint effort between the people of Texas and Guatemala.

The exhibit was endorsed by scholars of Central American culture in Texas and the Ministry of Education in Guatemala.

Bright Economic Future in Store For U. S., Says Arthur Laffer

IN the midst of all the economic gloom now permeating the nation, one economist — Dr. Arthur B. Laffer — has painted a bright future for the U. S. He spoke to about 250 bankers, businessmen and professionals at a seminar sponsored October 28 by First National, Salina, Kan. The presentation by Dr. Laffer was the first in a series of P.R.O.F.I.T. (professional responses on finances, investments and trusts) to be sponsored by the bank. The series is designed to benefit the community by providing timely and pertinent financial information to those participating.



Economist Arthur B. Laffer is pictured speaking at seminar sponsored by First Nat'l, Salina, Kan.

Dr. Laffer, professor of business economics, University of Southern California and Charles B. Thornton, professor of business economics, said the Reagan Administration's and many states' emphasis on strengthening private incentives through tax-rate reductions, if continued, will lead to an economic expansion starting in 1983 and accelerating in 1984. This expansion, he continued, will make the "go-go 1960s" look tame.

Dr. Laffer believes the key is in the return to private incentives for production, saving and investment. Such "growthist" policies will result in an expanding economy in which people on all income levels will benefit greatly. He contrasted this philosophy with the "redistributionist" ideas that have held sway since the late 1960s. By trying to tax more from some to give benefits to others, he contended, policies of the last decade have produced shrinking growth, high inflation and interest rates and rising unemployment. Although Congress kept the Administration from getting the tax cuts it wanted immediately, Dr. Laffer sees evidence in state and local government actions around the country that the political tide has turned toward lower taxes and, as a result, more growth in the economy.

In response to concerns about the large federal-budget deficit many fear as a consequence of tax cutting, Dr. Laffer argued that budget deficits are a result of a sick economy and misguided policies, not the cause. Citing as examples the period just after World War I and the 1930s Depression, he observed that high tax rates thwarted incentives and depressed the economy. Every 1% in unemployment, the professor estimated, causes a deficit of $25 billion to $30 billion because of reduced tax revenues and larger government expenses for benefits to the unemployed. In contrast, he pointed out, during the Truman Administration, there were strong growth and lower inflation after World War II, and the Kennedy years produced the 1960s' economic expansion. In all cases, he maintained, inflation was low, and the federal budget was nearly balanced or in surplus.

In answer to why the economy still is touching the bottom of the recession, Dr. Laffer said supply-side economics hasn't had time to work. Only a slight tax cut actually has taken place. Thus, production and spending are being delayed by many businesses and consumers until the 10% tax cuts scheduled for 1983 and 1984 become realities, providing the needed incentives and after-tax income.

He believes falling inflation and interest rates are healthy developments, but they also cause people to delay credit-financed spending decisions until they can get even lower interest rates they expect in the near future. In short, said Dr. Laffer, when interest rates level off and tax cuts are in place, the economy will boom.

As for inflation concerns, he pins his optimism on a new facit in monetary policy. His classical economic approach calls for the Fed to stabilize the value of money by using its policies to peg the price of one or more commodities. Slower inflation has resulted from the Fed's policy of slow growth of the money supply, but Dr. Laffer thinks this "quantity" approach can be dangerously misleading in these turbulent times. Instead, as detailed in his October 28th *Wall Street Journal* article, he sees the Fed beginning to follow a policy guideline of keeping the "spot commodity index" within a specific range. This is similar to fixing the price of gold, and Dr. Laffer contends this will result in stable prices and, with it, more stable interest rates. ● ●

Youngsters Break Ground; Find Money to Keep At Bank-Facility Site

When American Bank, Tulsa, made plans to break ground for its new drive-up facility, the bank decided to have children do the digging instead of the usual bank officers and civic leaders. To give the youngsters an incentive to wield the shovels, the bank "planted" envelopes containing $20, $10 and $5 and told the children that whatever they dug up they could keep.

The children, ages seven to 12, were from the Salvation Army Mabee Boys' Club (however, girls, too, were welcome). Miniature American flags indicated where the envelopes could be found.

"We chose to use the flags as landmarks," says John L. O'Brien, the bank's chairman/CEO, "in the hope that no one would go away empty-handed." Nevertheless, any youngster who didn't find an envelope did receive a five-dollar bill.

"Initially," Mr. O'Brien points out, "we had thought of having our employees participate in the ground breaking, but we wanted to make it more of a community event. Including the Mabee Boys Club in the celebration not only accomplished this, but, at the same time, allowed us to serve needy youngsters."

Unusual ground-breaking was held for new drive-up facility of American Bank, Tulsa, with children, instead of usual bank officers and civic leaders, wielding shovels. Youngsters were motivated by fact that envelopes containing $20, $10 and $5 bills were buried at site where they were to dig. Whatever they found, they kept.

News

About Banks and Bankers

Alabama

Senior Citizens Feted

Farmers & Merchants, Centre, recently held its annual '60-Up' party for senior citizens. Bingo, refreshments, entertainment and door prizes highlighted the afternoon event, which was attended by 135 '60 uppers.'

Brock Receives Award

Harry B. Brock Jr., chairman/CEO, Central Bancshares of the South, Birmingham, recently received the 1982 Birmingham Lions' Club community pride award.

Mr. Brock was selected because of financial innovations and changes he has been instrumental in bringing to the state and for generosity shown to the community through gifts of time and contributions to various charities and his church.

Central Bank of the South, Birmingham, has appointed five businessmen to its Mobile board: Donald G. Bigler, Gary L. Bornfleth, Jim Mattei, James Roger Payne and Ray J. Sumlin. They are presidents, respectively, of Teledyne Continental Motors, Aircraft Products Division; Datsun of Mobile; Bay Title Insurance Co.; James R. Payne, Inc., road-building firm; and Ray Sumlin Construction Co.

First Alabama Bank, Montgomery, has promoted O. Tony Pittman to assistant cashier/branch manager, David A. Turney to assistant branch officer and Clifton Norris Jr. to assistant cashier.

Arkansas

Shareholders Approve Merger Of Two Little Rock Banks

In separate meetings held recently, shareholders of Commercial Bankstock, Inc., and First National Bancshares, Inc., both in Little Rock, approved the merger of the two bank HCs and the related merger of their national-banking subsidiaries — Commercial National and First National, Little Rock.

Target date for completion of the equal-partner merger has been set for December 31, subject to approval of regulators.

Proposed name for the resulting bank HC is First Commercial Corp. The merged bank will be known as First Commercial Bank, N.A. The new bank will have about $60 million in capital accounts, including shareholders' equity and other capital resources.

Independent Bankers Assn. Organized in Arkansas

A group of community bankers from all sections of Arkansas met in Little Rock last month to form the Independent Community Bankers Association of Arkansas.

Serving as president of the association is Al Harkins, executive vice president, First National of Poinsett County, Trumann.

"We are not forming this group for the purpose of opposing all changes in bank structure, but I think we all realize that the time has come for the independent bankers of this state to have an articulate voice as the Arkansas Bankers Association and the state legislature begin discussions of bank structure. We do not intend to be a negative organization, but we will not sit idly by and let the interests of independent banking, which have so ably served this state over the years, be compromised away in the name of inevitability and progress," said Mr. Harkins.

Also serving the association as officers are Larry Kircher, vice president/cashier, Citizens State, Bald Knob — vice president; James Street, executive vice president, Bank of Cave City — secretary; and M. E. McCoy Jr., president/trust officer, Grant County Bank, Sheridan — treasurer.

The organization will have temporary offices at First National of Poinsett County, but a permanent office is expected to be opened in Little Rock when an executive director is hired.

National Bank of Commerce, Pine Bluff, has named James F. Stobaugh president and Carl F. Cooper vice chairman of the board and chairman of the executive committee. Mr. Stobaugh previously was executive vice president and Mr. Cooper had been president since 1980. They joined the bank in 1968 and 1963, respectively.

Illinois

First Colonial Bankshares Corp., Chicago, and Systematics, Inc., Little Rock, have signed a five-year contract under which Systematics will provide remote data-processing services to the HC. Under the agreement, which became effective November 1, Systematics will service the HC's three banks: Colonial Bank and All American Bank, both of Chicago, and Northwest Commerce Bank, Rosemont. The banks will operate totally on-line, transmitting by phone lines to Systematics' data center in Little Rock. They also will have a centralized proof operation using an NCR VIPS system and will be serviced out of Systematics' Little Rock financial center.

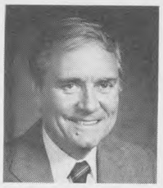
C. Paul Johnson (seated, l.), pres./CEO, First Colonial Bankshares Corp., Chicago, signs contract with Systematics, Inc., Little Rock, which will provide remote data-processing to First Colonial's banks for five years. Gerald D. Hailey, s.v.p./remote-services division, Systematics, is seated at right. Standing are Glen F. Marino (l.), v.p./finance, Colonial Bank, Chicago, and Raymond J. Oblinger, Systematics marketing mgr.

Northern Trust, Chicago, has promoted Gregg D. Behrens, Gerald P. Harbison and Norman J. Wohlken to vice presidents and appointed Charles B. Hintz a vice president. Northern Trust Corp., parent of the bank, has completed purchase of First Bank, Naperville, which has named Stephen E. Giere president/director. Mr. Giere is a former vice president at Northwest Commerce Bank, Rosemont. The bank will be renamed Northern Trust Bank/Naperville following regulatory approval.

First National, Belleville, has promoted Mel Weck to executive vice president and Byron Baker, Jan Gedda and Tom Litteken to assistant vice presidents.

First Bancshares Corp. of Illinois, Alton, will purchase Airport National, Bethalto. First Bancshares is parent of First National, Alton. The acquisition is expected to be consummated early next year.

National Boulevard Bank, Chicago, has elected Richard T. Merrill, president/CEO, Commerce Clearning House, to its board. The bank also has promoted James Cannon to assistant vice president/small-business group manager, Larry Schmidt to assistant vice president, Michael Jamieson and Carol Shiplett to assistant cashiers and Bruce Heniken to assistant trust officer.



MERRILL

Bank Changes ID

National Boulevard Bank, Chicago, is changing its name and logo to keep up with changing times. It's also redesigning its quarters.

The bank will be referred to as "Boulevard Bank" and a new corporate theme has been developed: "Earning you business every day." The theme is being carried in newspaper and radio ads.

The bank's two towers will be redesigned, beginning with the South Tower, which will be headquarters for all personal banking and teller operations. The North Tower will house executive banking and forward financial planning services.

The project is expected to be completed by spring.

Indiana

St. Joseph Valley Bank, Elkhart, and First National, Goshen, have merged and now are known as Midwest Commerce Banking Co.

Thomas M. Payne has been elected senior vice president/corporate banking at Midwest Commerce Banking Co., Elkhart/Goshen. He joined one of the bank's predecessors, St. Joseph Valley Bank, in 1973 and most recently was vice president/commercial loans.

Kansas

The Kansas Bankers Association has appointed Becky S. Tongish personnel coordinator and Kathie A. File education coordinator. Ms. Tongish formerly was with Merchants National, Topeka. She has been with the KBA for two years, serving as administrative assistant to the executive vice president, Harold Stones. Ms. File joined the KBA in 1980 and has been administrative assistant to the director of education and acting education/personnel coordinator.

Security State, Great Bend, will raze the bank-owned office building at 1615 Main Street. The building is immediately south of the main bank building. Plans call for construction of additional drive-up lanes and other services in the area occupied by the office building.

First National, Lawrence, has promoted David Bunker and Pete Adrian to assistant vice presidents. Mr. Bunker also is commercial loan officer and Mr. Adrian also is real estate loan officer.

Daniel H. Corman has been named

Investment Center Opened

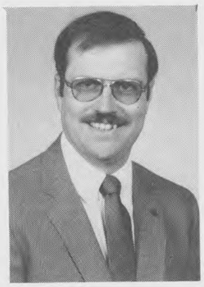
Commercial National, Kansas City, has opened its new investment center, which is designed to provide a variety of services to consumers, including correspondent bankers, trust customers, commercial lending customers and individual investors.

"Consumers now will have access to all investment officers in one physical location as opposed to having to visit a number of officers in different locations in the bank," said Bernard Ruysser, president.

Among the services offered at the investment center are bonds, CDs, money-market instruments, equities, fed funds, repos and trust investments.

president of First National, Derby. He joined the bank in 1979 as vice president/cashier and has been senior vice president/cashier since 1980.

Assaria State has opened a new facility that is six times as large as the former office. Decor features include a cashier's cage taken from the bank's original building, opened in 1902, lead crystal transoms and a wall hanging featuring brass wheat designs. An open house was held to exhibit the new building to the bank's friends and customers.



RICHMOND

Paul L. Richmond has joined Commercial National, Kansas City, as vice president/agribusiness lending division. He works closely with Commercial National's correspondent banks in coordinating agricultural-overline relationships, including livestock financing/agricultural-operational expenses. In addition, Mr. Richmond is a liaison between Kansas bankers and Commercial National's correspondent banking department. A Kansas banker 11 years, Mr. Richmond most recently was vice president/agricultural lending in a rural bank in the state. Before that, he was in the correspondent banking department of another major Kansas bank.

Kentucky

Citizens Union National, Lexington, has changed its name to United American Bank of Kentucky N.A. The bank has joined the United American Group, which is composed of five independent banks in Lexington and Somerset, Ky., and Knoxville, Memphis and Chattanooga, Tenn. Combined assets of the banks are more than $1.3 billion.

American Bank, Lexington, is upgrading the area surrounding its office in the Beauz-Arts Building. A building to the rear of the Beauz-Arts structure was demolished to make room for the bank's drive-in and a walk-up window. The bank also will regrade its parking lot.

Louisiana

Great American Corp., Baton Rouge, has announced the retirement of Max Pace as president/chairman, American Bank, and named L. Quincy McPherson vice chairman of Great American and president of American Bank. Ben W. Rawlins was named president of the HC and chairman of the bank. Messrs. Rawlins and McPherson formerly were with Union Planters Corp., Memphis, parent of Union Planters National. Mr. Pace will remain on the board of the HC and serve as a consultant to the bank.

First Guaranty Bank, Hammond, has elected Mary Ann Cefalu chairman and J. S. Mashburn vice chairman. Richard R. Blouin, cashier, was named board secretary. Frederick F. Carpenter Jr. has rejoined the bank as vice president; Ernest R. McCormick has been named assistant vice president/auditor; Elaine L. Grice has been promoted to investment officer, and Brad A. Martin has joined the bank as credit department manager.

Directors of First Commerce Corp. and New Orleans Bancshares, parent firms of First National Bank of Commerce and Bank of New Orleans, have approved a definitive agreement to merge the two banks. Shareholders of the two firms will meet in January to consider the merger and final regulatory approval is expected as early as March, 1983.

Mississippi

Brookhaven Bank has named Gloria Britt branch manager and Mary M. Smith, assistant cashier, as training director.

Bank of Falkner has been acquired by Falkner Capital Corp., a new HC.

Missouri

Centerre Bank, St. Louis, has named Paul L. Gibbons, Joel B. Miller and James J. Thole assistant vice presidents. Mr. Gibbons formerly was an investment banking officer. Mr. Miller had been with Union Commerce Bank, Cleveland, where he was vice president and manager/deposit services group. Mr. Thole joined Centerre as assistant vice president/internal cash manager after leaving EAC Corp., where he was controller/treasurer.

Thomas A. Wallingford has joined Kansas City's Commerce Bank as vice president and head of the personal trust department. He has been in banking 7½ years and formerly was vice president/trust officer at a Kansas City-area bank. Commerce Bancshares, headquartered in Kansas City, has elected Gene F. Hahn vice president in charge of loan administration and James L. Swarts assistant vice president with responsibilities for affiliate bank administration. Mr. Hahn had been vice president and manager/real estate department, Commerce Bank, Kansas City. Mr. Swarts had been an attorney for the holding company's legal department.

United Missouri, Kansas City, has promoted Bradley A. Bergman to vice president/personal financial services division; Janet K. Kelley to vice president/comptrollers department and David Swan to vice president/trust department. The bank also has a new director, Robert E. Gregory Jr., president, Lee Co., Inc. The bank's HC, United Missouri Bancshares, Inc., Kansas City, and First National, St. Charles, have mutually agreed to end efforts toward United Missouri Bancshares' acquisition of the St. Charles Bank.

CharterCorp., Kansas City, has received the Kansas City Fed's approval to acquire City Bank and American National, both in St. Louis. The two banks are being acquired through an exchange of shares, with CharterCorp seeking 100% of each bank's voting shares.

Mercantile Trust, St. Louis, has named these assistant vice presidents — Robert J. Allscheid, G. A. Williams, Adrian I. Dick and Patricia A. Fischer. Mr. Allscheid joined the bank in 1969, Mr. Williams in 1973 and Mr. Dick and Ms. Fischer earlier this year. In other action, Mercantile Trust named Assistant Vice President Sue T. McSwain head of the newly organized economic development/small business group. This unit will focus on financial needs of businesses with annual sales up to $5 million.

John Thiebauth has been elected executive vice president, Commerce Manchester Bank, St. Louis. He remains president, Commerce Bank, St. Louis.

Murray H. Davis, who was president/chief operating officer, Mercantile Bank, Kansas City, has moved up to vice chairman. Michael D. Wolfe, formerly executive vice president/senior lending officer, succeeds Mr. Davis as president/chief operating officer.

Safe-Deposit Purchase

ST. LOUIS — Centerre Trust has acquired the Safe Place, a safe-deposit-box center located in Frontenac, a St. Louis suburb. The company has been renamed Centerre Safe Deposit Co. and is a wholly owned subsidiary of Centerre Trust.

The facility is a maximum-security safe-deposit-box center open seven days a week, and it offers a wide assortment of private safe deposit boxes, including the largest in the St. Louis area, according to a trust company spokesperson. The boxes range in size from 5x10x24 inches to 30x60x32 inches.

Pinkerton guards are on the premises during the center's hours of operation, and sophisticated monitoring systems are in constant use. A dual-identification system ensures that security areas are entered only by the company's clients. The vault is humidity/temperature controlled, and heat and vibration sensor alarms are wired directly to the Frontenac Police Department. As an extra safeguard, a radar alarm alerts security personnel whenever the parking area is entered.

J. Douglas Hauser has joined Joplin's First National as a trust officer. He went there from CharterBank, Carthage, where he was vice president/trust officer.

Died: Alex Vetter, 79, on November 8. He joined Central Bank, Jefferson City, in 1918 as a mail clerk and rose to chairman before retiring in 1973. Mr. Vetter remained an advisory director until his death.

New Mexico

First City Financial Corp. has announced that its common stock has been listed for trading on the NASDAQ system under the symbol, "FCFN." The NASDAQ system is the computer-assisted quotation system of the National Association of Securities Dealers. In other action, the HC promoted J. Alan Hunton to executive vice president/secretary and John T. Porter to executive vice president/general counsel. Mr. Hunton has been with First City Financial and its affiliate banks since 1976, when he joined First National of Lea County, Hobbs, as assistant vice president. He has been with the HC since it was established. Mr. Porter joined the HC's staff last May, coming from a position as a partner in a law firm in Hobbs. First City Financial has affiliate banks in Hobbs, Carlsbad, Roswell, Ruidoso and Albuquerque.

Michael R. Stanford has joined First National, Santa Fe, as vice president/commercial lending for the bank and its HC, New Mexico Banquest Corp. He formerly was in correspondent banking at Colorado National, Denver.

Oklahoma

Edward F. Keller, chairman/CEO, Fourth National Bank, Tulsa, also has been named to those posts in the bank's HC, Fourth Financial Corp., Tulsa. Currently president, Oklahoma Bankers Association, Mr. Keller joined Fourth National last summer from Mercantile Bank, Tulsa, where he was chairman/CEO. In other HC action, Susan B. Brown was named secretary/treasurer. At the bank, Robert J. Roesler was named senior vice president/senior trust officer; Richard J. Miller senior vice president/commercial lending and manager/energy department; Rosemary Orth vice president/investments, and Rebecca A. Dooley assistant cashier/investment operations. Mr. Roesler joined the bank in 1978 and Ms. Dooley in 1979. Mr. Miller formerly was with George Rodman, Inc., an independent oil/gas producer in Oklahoma City. Ms. Orth has nine years of banking experience.

KELLER

Liberty National Corp., Oklahoma City, has announced a plan whereby its shareholders will be able to reinvest their quarterly cash dividends at a price 5% below current market value. Furthermore, any shareholder may invest — at the same 5% discounted price — additional amounts monthly up to $10,000 each quarter. The plan will be initiated with the next quarterly dividend of 25¢ a share, which is expected to be declared December 21 and paid January 19 to stockholders of record January 5. Also at the HC, Gregg Dery has been elected vice president. In addition, he has been named vice president/corporate planning at the HC's subsidiary, Liberty National Bank, which he joined last

August. He formerly was with the Comptroller of the Currency in Washington, D. C. The bank also elected Richard B. Forshee vice president/legal department; Claudia C. McMillin assistant vice president/commercial banking and William H. Nelson assistant vice president/correspondent banking. Mr. Forshee returned to Liberty after a two-year absence, during which he worked for Phillips Petroleum Co. and Penn Square Bank, Oklahoma City. Ms. McMillin went to the bank last August from Boatmen's Bank of Concord Village, St. Louis, where she was assistant vice president/commercial loan officer. Mr. Nelson has been with Liberty since 1979.

James L. Edwards has been named vice president and manager/stockholders accounting, First Oklahoma Bancorp., Oklahoma City. He joined First Oklahoma in 1980 from the Hertz Corp.

Edwin J. (Jody) Lippmann Jr. has been elected vice president, United Oklahoma Bank, Oklahoma City. He formerly was self employed as an independent petroleum land man. Before that, Mr. Lippmann was assistant vice president and loan officer/oil lending division, First National, Oklahoma City.

Skip Free has been promoted from vice president/cashier to senior vice president/cashier, First-Oklahoma Bank, Sulphur. She joined the bank in 1960.

Rick Litterell has joined Bartlesville's First National as assistant vice president/real estate and commercial lending. He has had several years' experience in real estate lending and other financially related activities.

Tennessee

Susan Norton has been promoted to assistant vice president, US Bank, Nashville. For the past three years, she has managed the bank's government-guaranteed loan program, specializing in small-business loans.

Joins NBC, Memphis

Thomas M. Garrott has been named pres., Nat'l Commerce Bancorp. and Nat'l Bank of Commerce, Memphis, effective January 1. He was formerly chief financial officer, Malone & Hyde, Inc., Memphis.

HCs' Merger Approved

Senior executives of Third Nat'l Corp. and its lead bank, Third Nat'l, both in Nashville, are shown with the approval total following a special meeting at which stockholders approved a merger with Ancorp Bancshares, Inc., Chattanooga. Ancorp shareholders approved the proposal in a simultaneous meeting at that HC's headquarters. Pictured (l. to r.) are: John E. Southwood, pres. of the HC and v. ch. of the bank; J. G. DeLacey, v. ch. of both the HC and bank; Charles J. Kane, ch./CEO of both; Charles W. Cook Jr., bank pres., and Clifford J. Harrison, bank v. ch.

Texas

Glenn Strittmatter has been elected vice president at First National, Fort Worth. He joined the bank last July and is assigned to the energy banking group.

Southwest Bancshares, Houston, has filed a shelf registration under Rule 415 with the SEC covering $100 million of debt securities that may be sold to underwriters for public offering. Proceeds will be used for corporate purposes.

Mercantile National, Dallas, has elected Stewart Elliot and Richard Hudak vice presidents and Mary A. Terry administrative officer.

Elaine K. Butler, vice president, Bank of the Southwest, has been elected chairman of the Houston Area Group of the National Association of Bank Women. First vice chairman is Ila K. Odom, assistant vice president, Pinemont Bank; second vice chairman is Rosemary LoDato, vice president, Capital Bank; secretary is Beatrice Rios, assistant vice president/cashier, Standard Bank; and treasurer is Beverly Sue Duncan, senior vice president/cashier, Bank of Harris County.

Gerald Andrews has been elected vice president/commercial lending at First City Bank, Humble.

Wells Fargo Credit Corp. has opened an office in Dallas, headed by Regional Vice President Gerry Taylor. The firm is a subsidiary of Wells Fargo & Co., San Francisco.

First City National, Houston, has elected John A. Fields, Bill D. Morgan and J. Pat Parsons senior vice presidents. Elected vice presidents were Jerry Graves, Lisa A. Head, Richard T. Hendee, Ralph D. Kirkland, Robert E. Long, Kathryn F. Martin, Kamala Raghavan and Gregory R. Talmadge.

Frost National, San Antonio, has promoted the following: to vice president/programming, Daniel Gonzales; to vice president/data communications, Fred Gonzales; to vice presidents/automated customer services, Rodney D. Haglund and David Sablatura, and to assistant vice president/auditing, Pat Patrick. New officers are Mike Noble, assistant vice president/trust employee benefits, and Harvey J. Pendleton, assistant vice president, corporate security.

First National, Amarillo, is forming a bank HC, which will be called First Amarillo Bancorp., Inc.

River Oaks Bank, Houston, has elected Kenneth W. Ostrowski vice president/trust officer and Bruce A. Fox trust officer.

Treasury Honors Banker

Paul Mason (c.), ch., First United Bancorp., Fort Worth, was honored recently by the Treasury Dept. for his role as 1982 savings bond campaign ch. in Tarrant County. Participation in the Payroll Savings Plan grew by more than 6,000 under Mr. Mason's leadership. At l. is William T. Smith, First United dir., who has been named 1983 ch. At r. is T. J. Morrow, district dir., U. S. Savings Bonds in Texas, representing the Treasury Dept.

Planters Bank, Salina, Kan., Dedicates Heritage Mural

Planters Bank, Salina, Kan., has dedicated a 30-foot mural that memorializes Salina history and decorates the bank's lobby.

The bank wanted to commission a painting of historic value as a gesture of thanks to the community, so it commissioned Ernst Ulmer, award-winning Kansas artist, to execute the work.

The work took four months and it portrays the visit of Buffalo Bill Cody's wild West show to Salina in 1900, the old city hall building which no longer exists, an electric trolly car, a steam locomotive, fields of ripening wheat, an early grain elevator, a farmer running an old horse-drawn wheat binder, an Indian hunting buffalo and other elements reflecting Salina's heritage.

The mural was dedicated by a group of community leaders.

Mr. and Mrs. Richard King (he's a bank director) stand with artist Ernst Ulmer (r.) before Mr. Ulmer's mural depicting heritage of Salina, Kan. Mural is in lobby of Planters Bank and was commissioned as part of bank's recent remodeling project. Mr. King also is pres., United Missouri Bank, Kansas City.

Directors' Fees

(Continued from page 6)

science didn't bother him if he gave only perfunctory attention to board affairs. There is some logic in that kind of reasoning.

There is a good bit of truth in the statement that many directors are overpaid for what they actually do, but underpaid for what they are supposed to do!

Harvard Professor Myles L. Mace has this to say in his landmark book, *Directors, Myth and Reality:* "A few boards of directors establish company objectives, strategies and broad policies. Most do not. A few boards of directors ask discerning questions. Most do not. A few boards of directors evaluate and measure the performance of the president and de-select the president. Most do not."

It's my intuitive feeling that boards of high-earning, high-performance banks do establish company objectives, strategies and broad policies, that they do ask discerning questions and they do evaluate and measure the performance of the CEO.

And that's probably why their banks are high-performing institutions! ● ●

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