MID-CONTINENT BANKER

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Loan-Review Committees: They Help Reduce Losses

Bankers responding to a MID-CONTINENT BANKER survey report that formal loan-review committees are being established by many banks, that it takes a period of time before these committees show positive results and that regulators report declines in numbers of classified loans at banks with such committees.

A Missouri banker says the success of his bank's loan-review committee is directly responsible for the decrease in delinquency problems his bank has experienced. (See page 14.)

Asset/Liability-Management Systems Available to Financial Institutions

The market is loaded with asset/liability-management systems that can help financial institutions achieve maximum results with minimum time and effort. (See page 40.)

Problem-Loan Workouts: First Line of Defense Is Well-Trained Officers

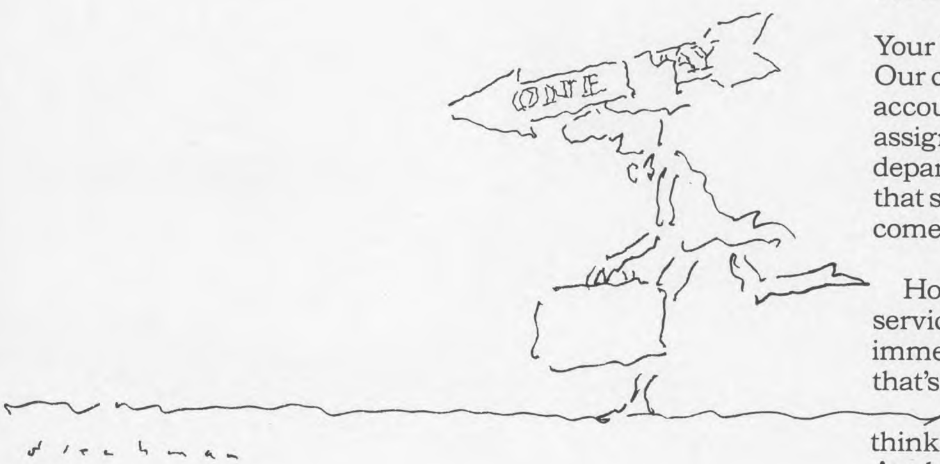
Early detection and prompt action are the keys to controlling problem loans and loan losses, says a bank senior vice president.

These steps can be taken to determine the severity of a problem credit:

- All loan and deposit relationships must be fully determined.
- Study all loan and deposit documents to determine if they have been prepared properly, what rights the bank has and what can be done to improve the bank's position. Be prepared to move promptly.
- Get a handle on the collateral — where it is, what its real value is.
- Determine who the other creditors are, possibly by studying disbursements as shown on cancelled checks in the account file. Where has the money gone and where is it going?
- Review all legal aspects of the case with the bank's attorney. (See page 18.)

Improving Loan Quality

Some safekeeping advice: Go Mid-west, young man.



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Convention Calendar

Aug. 28-31: Bank Administration Institute Microscape Chicago, Hyatt Regency Chicago.
Sept. 7-9: Dealer Bank Association Government Securities Traders Seminar, Philadelphia.
Sept. 11-14: ABA National Personnel Conference, Phoenix, Hyatt Regency.
Sept. 11-13: Kentucky Bankers Association Annual Convention, Louisville, Galt House.
Sept. 12-14: Independent Bankers Association of America Commodity Marketing Seminar, Chicago.
Sept. 13-16: Bank Marketing Association Corporate Marketing Conference, Vail, Colo., Westin Alpine Resort.
Sept. 16-17: Equipment-Lease Seminar, Kansas City, Westin Crown Center.
Sept. 18-21: Bank Administration Institute National Convention, San Francisco, Fairmont Hotel.
Sept. 18-21: National Association of Bank Women Annual Convention, Dallas, Hyatt Regency Dallas.
Sept. 18-23: Robert Morris Associates Loan Management Seminar, Columbus, O., Ohio State University.
Sept. 18-30: ABA National School of Retail Banking, Norman, Okla., University of Oklahoma.
Sept. 20-23: ABA National Bank Card Convention, Los Angeles, Bonaventure.
Sept. 25-29: Consumer Bankers Association Annual Conference, Scottsdale, Ariz., Camelback Inn.
Sept. 28-30: Dealer Bank Association Senior Funds-Management Roundtable, Boston.
Oct. 2-8: ABA Management School for Corporate Bankers, Evanston, Ill., Northwestern University.
Oct. 8-12: ABA Annual Convention, Honolulu, Hawaii.
Oct. 9-15: ABA National Graduate Compliance School, Norman, Okla., University of Oklahoma.
Oct. 10-12: Independent Bankers Association of America Advanced Commodity Marketing Seminar, Chicago.
Oct. 16-19: Bank Administration Institute Cash Management Conference, Boston, Westin Hotel.
Oct. 19-21: Dealer Bank Association Operations Seminar, New York City, Vista International.
Oct. 21-22: Equipment-Lease Seminar, Atlanta, Peachtree Plaza.
Oct. 23-25: ABA International Banking Conference, New York City, Grand Hyatt New York.
Oct. 23-26: Bank Marketing Association Annual Convention, Atlanta, Atlanta Hilton.
Oct. 23-28: ABA National Commercial Lending Graduate School, Norman, Okla., University of Oklahoma.
Oct. 30-Nov. 2: Robert Morris Associates Annual Fall Conference, San Francisco, Fairmont Hotel.
Oct. 31-Nov. 2: Conference of State Bank Supervisors, Federal Legislative Conference, Washington, D.C., Mayflower Hotel.
Nov. 2-5: Independent Bankers Association of America, Seminar/Workshop on One-Bank Holding Company, Hilton Head Island, S. C., Hilton Head Resort.
Nov. 6-18: ABA National Commercial Lending School, Norman, Okla., University of Oklahoma.
Nov. 9-11: Association of Bank Holding Companies Fall Meeting, Seattle, Westin Hotel.
Nov. 9-11: Dealer Bank Association Public Finance Seminar, New Orleans.
Nov. 13-16: ABA National Agricultural Bankers Conference, Los Angeles, Bonaventure.
Nov. 13-16: Bank Administration Institute Money Transfer Developments Conference, Boston, Westin Hotel.
Nov. 13-16: Bank Marketing Association Corporate Business Development Training Workshop, Orlando, Fla., Orlando Marriott Inn.
Nov. 13-17: Bank Marketing Association Trust Marketing Conference, Dallas, Fairmont Hotel.
Nov. 27-Dec. 2: ABA National Commercial Lending Graduate School, Norman, Okla., University of Oklahoma.
Dec. 5-9: Bank Marketing Association Southeasten Essentials of Bank Marketing School, Athens, Ga., University of Georgia.
Dec. 11-14: Bank Administration Institute ATM/6-National Conference, Atlanta, Hilton Hotel.
Jan. 15-18: Bank Administration Institute PATH Conference on Productivity, New Orleans, Sheraton Hotel.
Jan. 20-21: Equipment-Lease Seminar, New Orleans, Marriott Hotel.

MID-CONTINENT BANKER

(Incorporating MID-WESTERN BANKER)

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IN THIS ISSUE

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Banking Company	*Advisory Service(s)*	*Transaction's Present Status*
American Bancorp, Inc. **Central Penn National Corp.**	**Merger Advisory** **Common Exchange**	Pending
Dauphin Deposit Corporation Bancorp of Pennsylvania	**Acquisition Advisory** **Cash and Common Exchange**	Pending
Equitable Bancorporation LZH Associates	**Tender Defense**	Tender Offer Withdrawn
FGB Holding Corporation Financial General Bankshares, Inc.	**Acquisition Advisory** **Tender Offer**	Closed
First Marine Banks, Inc. Barnett Banks of Florida, Inc.	**Merger Advisory** **Tender Defense**	Closed
Florida Federal Savings and Loan Association	**Stock Conversion**	Pending
Greater Jersey Bancorp. Midlantic Banks Inc.	**Merger Advisory** **Cash and Common Exchange**	Pending
Huntington Bancshares Incorporated Union Commerce Corp.	**Acquisition Advisory** **Tender Offer and Common Exchange**	Closed
Northern States Bancorporation, Inc. First American Bank Corporation	**Merger Advisory** **Multiple Securities Exchange**	Closed
Ocean County National Bank The Summit Bancorporation	**Merger Advisory** **Common Exchange**	Closed
Old National Bancorporation	**Stock Repurchase**	Closed
The National Bank of South Carolina Southern Bancorporation, Inc.	**Tender Defense**	Tender Offer Withdrawn
The Oneida National Bank and Trust Company of Central New York Norstar Bancorp Inc.	**Merger Advisory** **Multiple Securities Exchange**	Closed
The Peoples National Bank of Central Jersey First Jersey National Corporation	**Tender Defense**	Offer Withdrawn
The Union Savings & Trust Company Banc One Corporation	**Merger Advisory**	Pending
York Bancorp Continental Bancorp, Inc.	**Merger Advisory** **Common Exchange**	Closed

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

'Oxymoron' Banking Regulations

"The Comptroller recently instructed national banks to value U. S. government securities put up as collateral for loans at their market, rather than their face, value. But banks' holdings of governments in investment accounts are carried at cost, not market."

THE TERM "oxymoron" refers to a figure of speech in which opposite or contradictory ideas are combined, such as "thunderous silence" or "sweet sorrow."

Federal banking regulators have latched on to this concept and given fanciful titles to many new regulations that imply the opposite of what one would think of when viewing the titles.

Each year the Fed conducts a study as to whether the general public's understanding of interest rates has improved because of truth-in-lending (TIL). The typical conclusion is that more people understand interest rates each year the regulation is in force. However, a careful analysis of the data raises serious questions as to the public's truthfulness when responding. The more than a thousand interpretive letters on TIL and the dozens of pages making up the revised regulation would indicate that not only does the borrower not fully understand TIL, but the lender also has tremendous difficulties interpreting the sometimes contradictory portions of the act.

Compliance regulations requiring that lenders not discriminate by receipt of public assistance are another example of regulators having lost sight of reality. Who but a legislator or regulator would construe a person receiving public assistance as creditworthy?

The Justice Department has forced the American Institute of Real Estate Appraisers (AIREA) to delete significant portions from its appraising manual and substitute words and phrases that are presumed not to show any type of discrimination on property. Some phrases are so well recognized by everyone but the Justice Department that a serious question is raised as to why the AIREA submitted to such blatant censorship. The answer: The cost to fight the issue would have been prohibitive.

Some new regulations are worded to imply that they improve the safety of financial institutions. For example, the Comptroller of the Currency raised the loan limit for national banks from approximately 10% of capital and surplus to 15%. Some bankers view this as a positive sign that permits them to compete with state-chartered banks which, in some states, can lend up to 25% of capital and surplus.

Is this the appropriate time to make such a relaxation of lending standards? Typically, loan losses rise for a period even after a business cycle has reached its bottom and started to move upward. The Comptroller states that, as of June, 1982, the average percentage of loans past due at all national banks was 4.3%, up from 3.6% at year-end 1980. If the pattern holds true, nonperforming loans of national banks — as well as other banks — can be expected to increase during the early period of recovery.

There is a danger of thinking simply in terms of averages. It must be remembered that, for almost all data there is what is called a "normal curve." Thus, a good number of banks will have substantially higher losses than average. Several hundred banks are classified as problem institutions and the probability is that, as losses increase, the number of problem banks also will increase.

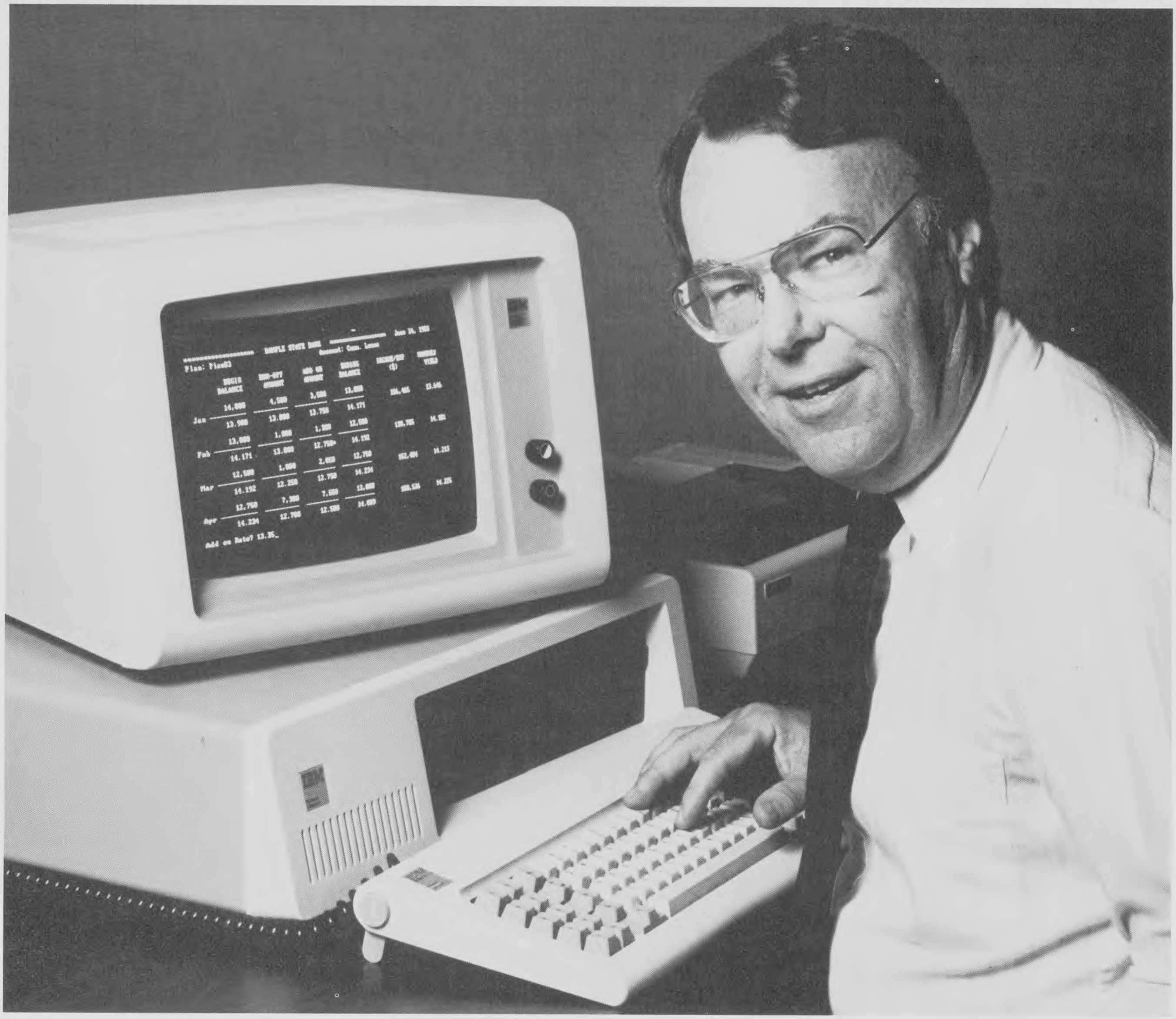
Some cynics believe the reason the Comptroller increased loan limits to any one borrower is the recognition, especially on the international level, that several hundred banks probably had loaned their then-existing limits and renewal of shaky loans would result in banks exceeding their loan limits. Thus, one quick and easy heroin-like fix to the problem was to permit these banks to have higher loan limits and thus be able to rollover nonperforming loans so they could be brought up to current payment. Granted that the topic is complex, but for well over 100 years the 10% national bank loan limit was considered a fairly prudent guideline. Directors of national banks should ponder whether they wish to increase loan limits to an individual borrower in light of the new regulation.

A second heroin-like fix injected into the financial arteries of savings and loans is the use of Federal Home Loan Bank paper capital.

The idea isn't new and can be traced back 1,000 years to China. It also can be understood in terms of the World Bank and its companion institutions. Gold originally was the basis of the expansion power of world organizations, but as it became insufficient to accomplish the ambitious goals of international world organizations, special drawing rights (SDRs) and similar creative paper devices were developed that substitute pieces of paper for the gold base. SDRs have a relatively short history and are dependent on each and every obligor country doing its share to support SDRs.

The ability of such nations as Mexico, Brazil, Argentina and Chile to support their obligations should not be

(Continued on page 44)



Five 'P's of Asset-Quality Review: A Management-Information System

By Harold A. Marcum
Vice President
And Senior Credit Officer
American National Bank
Chattanooga

SINCE the implementation in 1976 of new national bank examination procedures by the Office of the Comptroller of the Currency (OCC), the subject of loan review has been covered from all angles. Much of what has been written deals with the specifics necessary to insure that the loan-review program will be successful.

From experience we know that success depends primarily upon:

- Unequivocal, vocal support from top management.
- Proper selection and training of staff.
- A clear-cut, written loan policy.
- Independence of loan review from the lending function.

Many banks have taken the cue provided by the OCC and have established effective loan-review operations. This is well and good, but needs to be expanded.

First, if the review system is to be effective, procedures must be developed to evaluate assets of the bank other than loans.

Second, ask the question "Once a good solid asset-review system is in place, how can management best utilize it to the ultimate advantage of the organization?"

What assets, other than loans, should be reviewed and evaluated? Until the Penn Square failure, no bank in modern history had ever lost money on a fed-funds transaction. The potential loss was there, but it was largely ignored by most banks.

The potential for loss is still there, and many otherwise sophisticated banks still have no review program to cover fed-funds transactions.

American National, a medium-sized bank, has developed a rating system for banks that is used to establish formal lines of credit for both upstream and downstream fed-funds sales. Using a micro-computer and bank call reports, a series of some 35 ratios is computed in an effort to appraise liquidity, quality of loan and investment portfolio, capital strength and adequacy and quality of earnings. Trend analysis is an integral part of this system that produces a composite rating for each bank analyzed.

Some banks have ignored the review of letters of credit. Much time is spent analyzing and reviewing lines of credit which, of course, is proper. Keep in mind, though, that most lines of credit agreements have "out" clauses linked to deteriorating financial position, while letter-of-credit commitments provide for no such escapes. If the beneficiary of the letter of credit meets its terms, the bank has to pay. For this reason, letters of credit should be considered as loans at their inception and throughout their existence. Quality review on an ongoing basis is a must.

Another asset of the bank that is not always reviewed is the industrial revenue development bond (IRB). These securities are nothing more or less than term loans and should be treated as such. One small bank in Tennessee, recently failed and auctioned off by regulatory authorities, carried in its investment portfolio an IRB of an amount approximately equal to its capital structure. Collectibility of this asset was solely dependent on the successful construction and leasing of an office tower.

Unlike this example, most banks clearly recognize the IRB for what it is — a loan — but it is highly important that the review program evaluate the quality of these assets on a regular basis. IRBs should not be overlooked because they are carried on the books as investments.

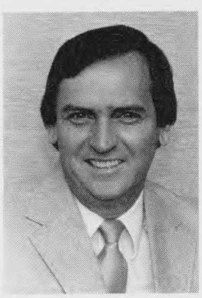
Asset review is a means to an end — not an end in itself. Obviously, its primary objective is identification of potential problems in time to correct them. If this is all the review system is being used for, however, numerous opportunities are being missed. A good review operation generates substantial amounts of data about the lending function of the bank. By creating a management-information system to organize and analyze that data, a most effective tool for management of the lending function results. Although automation is not a requisite of creating such a system, recent major advances in small-computer technology have made this job easier than ever before.

Consider some major areas of management interest that can be readily enhanced by analysis of loan-review data:

- Loan officer *performance*.
- *Programming* training activities.
- *Pricing* of loans.
- Adequacy of *provision* for loan losses.
- *Planning* portfolio structure.

For reference purposes, let's call these the five "P"s of asset-quality review.

Information produced by the loan-



Mr. Marcum joined American National, Chattanooga, in 1965, where he developed and implemented the bank's credit analysis and loan-review functions and managed them for more than 10 years. He also developed the bank's written loan policy and procedures manual. He is an associate member of Robert Morris Associates and is a certified instructor for RMA-Omega Commercial Loans to Business.

review operation can and should be used in an evaluation of the lender's performance. With minimal record keeping, statistical data can be accumulated and analyzed to set standards of performance for each lending officer, section and department. Though not an all-inclusive list, the following items would be included in such a system:

- Average loan grade weighed as to dollar amount outstanding.
- Incidence of incomplete or missing collateral and credit-support documents.
- Percentage of documentation deficiencies corrected within appropriate time-frames (such as 30, 60 and 90 days).
- Amount of charged-off loans.
- Amount of classified loans.
- Delinquency ratios.

Integrate into the above system information about income earned for the bank, establish a method of following trends and you have a statistical system for evaluation of loan-officer performance. Obviously, the officer's final rating must be tempered by such considerations as economic conditions, size of work load, etc. The final decision will — as always — be a subjective one, but it will be based on a good deal of "hard" data.

American National has used such a system on a department-level basis for two years. The head of each lending department sits down with his boss once each year and, using historical statistical data pertaining to the items listed above, jointly develop a series of performance standards. Using a small computer, a report is generated each month comparing actual performance with the standard. When the department manager's annual performance review comes due, he already knows exactly how he has performed. The bank is planning to expand this system to include performance review on an officer-level basis.

Just as statistical data generated by loan review can be used to measure loan-officer performance, it can be used to define credit-training needs. The old saying that "those who ignore history are doomed to repeat it" has a stronger influence in lending than in any other profession. Truly, if we do not use our mistakes as a basis for self-improvement, we are foolish.

There are any number of reasons why young lenders make mistakes, including failure to clearly understand bank lending policy, reliance on inaccurate or incomplete information and failure to properly utilize available data.

There are, of course, many more reasons. Every bank that has a loan-review program also should have a formal system for identification and reporting of mistakes that either led to problem credits and/or were made in administering them. In this way a credit-training program can be tailored to suit the needs of lending staffs.

Asset-review data can be an invaluable aid, both to proper loan pricing and to evaluation of loan-loss reserve adequacy. While some banks use a pass-fail system of review, with little additional effort a numerical-rating system can be developed. Grading loans on a scale of one to six will provide the basis for determining a risk factor that can be built into the loan-pricing mechanism.

Again, with the proper record keeping, historical data on loan grades and loan losses can be analyzed to determine the average degree of risk for each loan-grade category. A risk parameter can be set for each grade category and can be integrated easily into a pricing formula.

One obvious result of such a system is more equitable treatment of customers. Just as important is the greater likelihood that the bank will be properly remunerated for the risk it takes.

The same "risk factor" data also can be used to measure adequacy of loan-loss reserve. American National is experimenting with a computerized system of regression analysis that uses loan grading data to predict annual charge-offs. Using a six month moving average of monthly balances of internally classified loans, actual net charge-offs could have been predicted by this bank for each of the past four years with no worse than 90% accuracy. For the four-year period as a whole, the formula produced an accuracy rate of 97%. This method is admittedly crude and needs refining, but it shows some degree of promise for determining loan-loss-reserve adequacy on a somewhat scientific basis.

Review data can be quite useful in management planning of portfolio structure. Weighted average loan grades, on a moving average basis, can be computed for all significant segments of the loan portfolio. By tracking trends of industry and industry-related loan-grade averages, potential high-risk segments of the portfolio can be spotted early enough to allow management to modify parameters for portfolio composition. In this manner, undue concentrations of risk can be avoided and a proper degree of diversification maintained.

For banks serving highly industrialized areas, another method of evaluating portfolio risk is the use of bankruptcy-prediction models, such as Altman's Z-Score predictor, Gambler's Ruin model and others. These models can be applied to individual firms for purposes of evaluation but can also be aggregated for industry groups. Here again, by weighting as to dollar amount of exposure and employing trend analysis, deterioration of quality can be detected soon enough to allow effective management action.

In conclusion, though asset-quality review is an important activity in itself, if managed properly, potential management-information benefits can be tremendous. It can provide an effective means of measuring lender performance and programming training activities for lenders. It can be just as valuable in providing information critical to pricing and in evaluating adequacy of provision for losses.

Finally, data generated by the asset-quality-review system can be quite useful in management planning of loan-portfolio structure. ● ●

Loan Chargeoffs Hit High

Loan chargeoffs hit a seven-year high last year, according to Robert Morris Associates.

Last year banks charged off $4.27 billion, or 0.56% of loans net of recoveries. In 1981 they wrote off $2.75 billion, or 0.36% of loans net of recoveries.

The chargeoffs were attributed to a lagging economy and lower oil prices that affected energy-related businesses.

The situation has not been as bad since 1976 when banks charged off 0.84% of their loan portfolios. This peak came at a time when banks were embroiled in loan problems related to real estate investment trusts.

Analysts predict the worst is over for most banks for the current business cycle. Although a high level of chargeoffs and loan-loss provisions is predicted, the rate of increase for domestic chargeoffs should decline.

Benefits of Loan-Review Committees Reported by Banks in MCB Survey

LOAN-REVIEW committees have grown in importance at banks as loan portfolios suffer losses — often severe losses. Banks are "beefing up" their loan-review committees and loan-review procedures.

MID-CONTINENT BANKER recently surveyed a number of banks to learn how their loan committees operate and how effective they are. Conclusions gained from the survey include the following:

- Formal loan-review committees are being established by many banks.
- It takes a period of time before these committees show positive results.
- Regulators report declines in numbers of classified loans at banks with loan-review committees.

'Some say a bank of our size can't afford a loan administrator,' says an Indiana banker. 'I feel a bank can't afford not to have one.'

* * *

A Missouri banker says the success of his bank's loan-review committee is 'directly responsible for the decrease in delinquency problems and technical exceptions' his bank has experienced.

- Loan-review committees serve as excellent educational activities for loan officers.

Following are summaries of survey respondents' remarks:

Peru (Ind.) Trust Co. This $85-million bank has had a formal loan-review committee for three years, according to John D. Weissert, president. In addition, a separate loan committee reviews all loans coming due weekly for rating, repayment, collateral, etc. A loan administrator reviews all new and renewal loans after the fact for interest rate, terms, rating, collateral, etc.

Functions of Peru Trust's loan-review committee involve monitoring the loan portfolio, credit training for all officers, internal communications concerning credit policies, anticipating problem loans by industry or type, monitoring suits, rewriting loans before problems grow larger, evaluating loan-officer performance, insuring board/executive committee awareness and input, managing loss reserves, monitoring non-performing loans and attempting recoveries.

Mr. Weissert says the benefits or successes of the loan-review committee include an emphasis on adhering to loan policy and pricing guidelines by loan personnel, unification of administration of loan policy, a training and learning process through joint discussions, fixed responsibilities in credits, requiring loan personnel to make outside calls on designated loan-customer assignments, avoiding losses through anticipation of credit problems and strengthening documentation discipline.

"Some say a bank of our size can't afford a loan administrator," Mr. Weissert says. "I feel a bank can't afford not to have one." The loan administrator should be the liaison with the president or whoever else is in authority.

"Success comes slowly," he says, "but over a period of years it starts to work. It's not an overnight improvement process. As a bank with a history of slightly higher than average losses, we are just now feeling the effects of real improvement."

Members of the loan-review committee at Peru Trust include the chairman, president, executive vice president, senior loan officer, loan administrator and two outside directors. All other loan officers are included, with the loan administrator serving as chairman. The committee meets twice a month.

Patrons State, Olathe, Kan. This $94-million bank has a discount committee that handles loan approval and review, according to Sam G. Perkins, president.

The committee includes all loan officers, the customer-service officer and all outside directors and some retired directors. Meetings are held weekly.

Committee policies include the following:

- All new loans of $10,000 or more and all extensions of credit to borrowers whose total lines exceed $10,000 are presented for approval prior to commitment by the bank (except loans on the bank's CDs and government securities).
- A list of all new and renewed loans of $5,000 or more processed during the prior week is circulated, discussed and approved by recorded vote. The list includes borrowers' names, collateral, interest rates and financial-statement dates.
- An officer presenting a proposed loan for approval must have all normal information available at the meeting, including financial-statement information as to net worth and total indebtedness from a current statement. All pertinent information is included in the minutes of the meeting and is distributed to all directors.
- Free and open communication and criticism is encouraged at meetings. Votes often are not unanimous and are recorded in the minutes.
- Minutes of the meetings are reviewed in detail at the bank's monthly board meeting.

"No bank loan can exist without review by this committee," says Mr. Perkins. "Attendance at the meetings is almost perfect on the part of loan officers."

He says that it's difficult to point to "successes" that can be credited to committee action, but the bank's regulator has noted that the ratio and dollar amount of classified loans has declined in each of the bank's three most recent examinations.

Bank of Gainesville, Mo. This $41-million bank established a loan-review committee last year, according to John L. Harlin, president. Membership includes all loan officers, outside directors and the auditor/compliance officer.

Mr. Harlin says he feels the success

The first thing to look for in a discount brokerage service for your customers is a successful discount broker.

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When you select a discount brokerage service to serve your customers, you've got to be sure it's the right one. Because once you've made your choice...presented it to your customers with your stamp of approval: you risk your credibility with them if the service doesn't perform to the level they're accustomed to receiving from you. That's why it makes sense to start with a winner.

Brenner Steed has been a winner since our inception in 1976, right after the Securities and Exchange Commission did away with fixed stock commissions. We won—and retained—the confidence of our customers by delivering a superior product. Since acquisition by Union Planters National Bank of Memphis in 1982, Brenner Steed has established successful brokerage services for financial institutions from Fort Lauderdale, Florida to Salem, Oregon.

What's the difference between Brenner Steed and our competitors? A lot.

First, there's the difference between Brenner Steed and the services that have sprung up in recent months, "created solely to provide brokerage service to banks." Unfortunately, these services usually have neither the depth of brokerage experience nor the capital for necessary advanced technology to provide a first class service to your customers.

We've long been the leading discount broker in our market area. And, particularly since acquisition by Union Planters, Brenner Steed has the capital backing to stay well ahead of competitors in the acquisition of advanced technology necessary for processing transactions in the fastest, most reliable manner.

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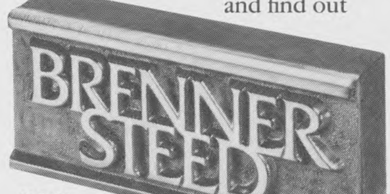

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A SUBSIDIARY OF **Union Planters** NATIONAL BANK OF MEMPHIS of the committee is "directly responsible for the decrease in delinquency problems and technical exceptions" the bank has experienced.

The committee meets weekly and attempts to review from three to six loans each session, concentrating on those over $50,000. The committee also reviews and approves new credit applications that exceed an individual loan officer's lending authority.

InterFirst Bank Nederland, Tex. This $84-million institution installed a separate credit department charged with monitoring and evaluating present credits, new credits, consumer-compliance laws, documentations, past-due loans, charged-off loans, adequacy of reserves and proper files, according to R. E. Gray, chairman.

The department reports its findings to the credit-quality committee each month. This committee consists of the chairman, president, senior officers and three outside directors, along with a representative from the holding company that controls the bank. Senior and junior officers also review past-due and problem loans on a weekly basis.

"I can strongly recommend a separate department to monitor credit quality, compliance and documentation," Mr. Gray says. "There is absolutely no doubt in my mind that it will pay big dividends to any financial institution."

Security National, Kansas City, Kan. A loan-review committee was started in 1979 by this $229-million bank, according to R. J. Breidenthal Jr., president.

Membership of the committee is similar to that of the bank's discount-loan committee, but an independent loan-review officer reports directly to the committee.

The committee reviews all loans over $25,000 and rates them on a scale of one to six, Mr. Breidenthal says. Each week a review is made of old loans after loan presentations are made. Also, the committee reviews new loans independently of the loan officer making the loans.

Northeast National, Fort Worth, Tex. This $141-million bank has had a loan-review program for the past 10 years, says Charles Brinkley, chairman.

All senior officers participate as well as outside directors. Loans are graded in five categories: prime, desirable, satisfactory, warning and probable loss.

"I would suggest that everyone in the lending business have an active loan-review program," Mr. Brinkley says.

National Bank, Lubbock, Tex. This $180-million institution recently established a loan-review program that is monitored by the credit department. Membership includes all senior lending officers and meetings are held weekly, says Tom Battin, president.

First consideration is given to seriously past-due loans, rather than loans classified by regulators, he says, and then to all loans on an orderly basis.

"We feel this program will give lending officers a better understanding of the total loan portfolio and will improve the quality of loans, enable them to anticipate problems that may be developing and serve as an excellent educational activity," Mr. Battin says.

Security Bank, Harrison, Ark., has had a loan-review committee for more than five years. Membership consists of two loan officers and three outside directors.

A spokesman for the $80-million bank says all lines in excess of $50,000 are reviewed semi-annually. Loan officers typically pair off and check documentation and performance of each others' loans. They then present large lines to the loan committee for review.

The process has improved documentation and kept the bank's directors aware of the progress being made by large borrowers. The spokesman says there are fewer surprises when a loan goes sour now, since management usually can determine potential problem loans in advance.

Loan officers perform better when they know their performance is being reviewed, the spokesman adds.

Farmers & Merchants, Centre, Ala., has had a directors' loan committee for a number of years, reports Mary George Jordan Waite, chairman/president of the $45-million institution.

Three senior loan officers and three directors serve on the committee (the latter on a 90-day rotation basis).

The committee has put together a loan-review policy and a new-loan policy. It performs credit analysis, sets lines of credit and reviews and approves all applications above $25,000. It meets weekly, sometimes more often.

Mrs. Waite says the committee is helping to control lending and minimize loan losses. She predicts there will be some success stories to tell within the next two years.

"Our directors . . . are trying to become more . . . familiar with loans in our bank," she says. ● ●

A number of banks responded to this survey too late to be included in this article. Their responses will be reported in the next issue of MID-CONTINENT BANKER.

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Actions to Be Taken When a Credit Is Weak

By James L. Nicholson Jr., Senior Vice President, Central Carolina Bank, Durham, N. C.

PROBLEM loans have been plaguing bankers from Day One. The reason they haven't gone away is that loan officers forget or neglect to practice what they know about lending — the basics.

After a loan is made, three events can occur:

- Pay as agreed — repaid on schedule.
- Pay as modified or renegotiated satisfactorily to the borrower and bank — like a 90-day note on which you agreed to a 30-day extension.
- Not handled as agreed or satisfactorily renegotiated — a problem loan!

A problem loan is one in which the borrower is unable to repay in satisfactory terms — or where there is real potential for loss to the bank.

Here are the principal causes of problem loans:

- *"Bad Going In,"* caused by lack of training, striving too hard to develop business or being a "good guy." Lack of training is evident when a loan officer is not prepared to underwrite loans, he/she doesn't possess seasoned and sound judgment, or he/she doesn't ask the right questions of the borrower. Competitive pressure can prompt an officer to try so hard to develop business that he/she overlooks the basics. The "good guys" get themselves into trouble because they don't know how to say "no."
- *Poor Credit Administration,* which includes bad documentation, lack of follow-up and failure to act until it's too late. Lending officers should keep in touch with borrowers, be sensitive to information (both good and bad) about borrowers, police loan agreements and obtain and study financial reports of borrowers. Failure to act often results from fear of retribution from management when a loan goes bad, a sense of pride that can't admit that something is wrong with a loan and wishful thinking that the problem will just "go away."
- *Unforeseen Events,* such as management problems caused by death or other changes, a poor economy and problems in the industry of the borrower.

Early detection and prompt action are the keys to controlling problem loans and loan losses. Hopefully, all bankers have developed some skills in detecting problem loans. Credit-administration personnel ought to be adept at identifying potentially troublesome credits at the time a loan is made and during systematic regular review of the bank's credits during the repayment period.

The loan officer is the first line of defense in problem-loan detection. He knows the borrower better than anyone else and normally is the first to review financial data and other information on the borrower. The responsibility for reporting problem loans should be clearly established by the bank's loan policy and the loan officer's job description.

Each loan officer should understand that a problem loan is not (in itself) a blight on the officer's record. Lending money almost always entails some risk, and loan problems will develop in most normal loan portfolios. The cardinal sin is having a problem loan and not recognizing and reporting it.

Loan department managers should create a positive atmosphere where problems can be discussed openly and without fear. Account officers should report unusual occurrences and significant changes (both good and bad) in a credit relationship. Each lending officer needs a definite and well understood reporting channel to assure clear communications with fellow staff members with whom he can freely share concerns and observations, which should be documented with memos to the loan file.

Once a loan officer reports a problem loan, the loan manager must quickly assess the nature and extent of the risk and look at some probable means of resolution. Usually this takes place through informal discussion, along with a review of the credit file and collateral evaluation.

The manager's mission is to protect the bank's assets and minimize any possible loss. In order to accomplish this goal, he must be sure the loan is assigned to an individual who can work it out successfully. This person may or may not be the officer who made the loan or who presently handles it.

In assigning the problem credit, be sure the loan officer understands who has the responsibility for accomplishing workout objectives. Otherwise, loan officers may tend to avoid problem credits and continue to "hope for the best." Often, a second person is designated on the credit for assistance, counsel, or even for training purposes. The manager himself is involved and provides guidance — or at times may assume responsibility for the problem loan. Reporting should be on a regular basis, following a predetermined timetable.

In determining the severity of a problem credit, fact finding must begin immediately. Here are some of the steps to take:

- All loan and deposit relationships (including real estate, leasing, letters of credit, open-end credit) must be fully determined.
- Get the credit file and read it from cover to cover with the hope of doing something to improve your position.
- Study all loan and deposit documents. Determine if they have been properly prepared, what rights the bank has and what can be done to improve the bank's position. Think of offset and be prepared to move promptly.
- Get a handle on the collateral — where it is, what its real value is.
- Determine who the other creditors are, possibly by studying disbursements as shown on cancelled checks in the account file. Where has the money gone and where is it going?
- Review all legal aspects of the case with the bank's attorney.
- Study financial reports and trends.

After this review of the bank's records, make routine checks with other creditors. Update files by talking with trade creditors, any other banks involved, other mortgage lenders, factors and others. Credit-reporting bureaus and agencies also may have

useful information.

An early meeting with the customer is vital in order to:

- Review with the customer the exact nature of the problem and possible solutions as he sees it.
- Get up-to-date financial reports and information.
- Explore the possibility of new investment, guarantees, additional collateral, etc.
- Identify other repayment sources. There are just four — sale of assets, profit, another lender, more equity.
- During the plant visit, look at all conditions, try to evaluate employee morale, determine the status of inventory and receivables and get a "feel" for what's really going on.

A lot of this exhaustive fact finding could be done as a joint effort with the several people involved. Call in the workout specialists or the recovery group, whichever is needed. Begin making a decision to work with or against the credit.

Some of the tough questions might be:

- What is the real prospect of the company's making it? What help must the company have in order to survive?
- Does the honesty and integrity of management allow us to sleep at night? Do they show a "tell-it-all mentality," or are we not getting the full story?
- What is the long-term value of the collateral, if any?
- How accurate and timely is the financial information being supplied?
- How realistic is the borrower? Does he realize how serious the situation is or does he believe there is little or no problem?

The officer of account ought to be kept actively involved, for he knows the details of the loan and he knows the borrower. Remember, the bank and the borrower should operate as teammates in trying to solve their mutual problem.

Keep these points in mind:

- Unless the borrower is completely dishonest, don't become adversaries.
- Fights rarely produce worthwhile results, but often get the bank into court. This wastes time and money and only the attorneys win.

After the loan officer detects the problem loan, studies all the factors and confronts the borrower, often the borrower may not agree that a problem exists. He chooses to ignore it. This is because of pride and fear. If the borrower doesn't cooperate, the bank should immediately ask the loan to be paid in full and the relationship terminated.

If this tactic is pursued, it must be done rapidly and deliberately *while* the borrower still is attractive to another lender.

The facts of each problem loan will dictate ultimately the responsibility and functions of the account manager, how credit-administration personnel may be involved, what kind of professional support is to be marshaled and whether a workout group or the recovery department should be called in.

It's management's responsibility to establish who is in charge. ● ●

Bank HC Powers Would Be Expanded By Administration-Backed Proposal

THE REAGAN Administration has proposed to Congress that banks be allowed to engage in real-estate, insurance and some securities activities. The proposal also moves the banking and thrift industries closer together by subjecting S&L HCs to essentially the same controls that are applied to bank HCs.

If approved, the plan would draw new boundaries within the financial-services industry. It would free banks to compete head-on with other financial companies and it would permit mergers between banks and S&Ls. It also would prevent nonfinancial firms from taking over banks or S&Ls.

The plan would permit bank HCs to engage, through subsidiaries, in real-estate investment, development and brokerage and in insurance underwriting and brokerage. It also would permit them to deal in and underwrite government bonds, except for industrial-developmental bonds, and to operate mutual funds. It would continue to prohibit the underwriting of corporate securities.

Fed support for the plan is expected, since the proposal permits the Fed to maintain substantial regulatory power over bank HCs. The proposal also would close a loophole in the Bank Holding Company Act by which various companies have sought to acquire banks but skirt Fed supervision.

Initial comment from the thrift industry was negative. S&L officials have stated that the plan would permit their industry to be absorbed by large banks. The proposed controls on S&L HCs also are not expected to win approval of the thrift industry, since there currently are almost no restrictions on who can own single S&Ls.

The Administration plan would prevent takeovers by nonbank financial firms such as Sears Roebuck and National Steel, both of which currently own thrifts. A grandfather clause would protect takeovers that have already occurred.

The proposal also would prevent nonbank firms from acquiring banks. Some firms have tried to gain control of banks through a loophole in the Bank Holding Company Act that defines a bank as any institution that takes both demand deposits and makes commercial loans. By dropping one or the other of these criteria, nonbanks claim an acquired bank no longer is subject to the Fed's jurisdiction.

The new proposal would close the loophole by stating that the Bank Holding Company Act applies to any bank eligible for federal insurance. ● ●

Plan to Cancel Mergers, Including Bank-Brokerage, Proposed by St Germain

A plan that would indefinitely ban banks and thrifts from combining with other kinds of businesses has been unveiled by Fernand J. St Germain, House banking committee chairman.

The plan carries a retroactive date of January 1, 1983. Thus, it would wipe out virtually all cross-industry acquisitions launched since that date.

The plan also calls for the nullification of any interstate banking or branching arrangements without approval under the Bank Holding Company Act. This proviso, if enacted, would force a number of institutions to undo any cross-industry and interstate banking arrangements that began this year, including the BankAmerica-Charles Schwab acquisition recently approved by the Fed.

Mr. St Germain's plan would serve three purposes, according to an aide to the congressman:

- It would nullify any "new" banking activities unless federal laws were passed to permit them or, in the case of state-chartered institutions, if state laws authorize such activities.
- It would preclude all cross-industry acquisitions launched after January 1, 1983, except for supervisory mergers facilitated by the Depository Institutions Act of 1982.
- It would disallow all interstate acquisition and branching arrangements after January 1, 1983, except for those approved in supervisory actions by regulators.

Credit Analysis—Manual Vs. Micro

By Thomas L. Christensen, Sales Representative, Aurora Systems, Madison, Wis.

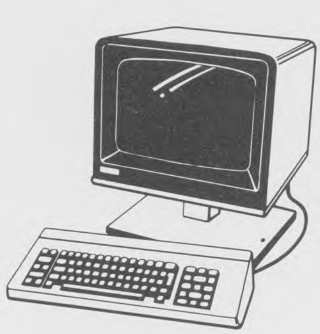
YOU ARE the only credit analyst for your bank's commercial loan department. One of the commercial loan officers, Jack Smith, has just returned from a luncheon with a prospective commercial customer he has been soliciting for several weeks. Jack is impressed with the owner and the company's financial statements he has just received, but saw some questionable trends within the data. The customer is anxious to switch all his banking relationships — corporate, personal and trust — to your bank and Jack sees this as a great opportunity, not only for the commercial loan department, but for himself as well.

Before the customer departs, you overhear this question to Jack: "How long do you think it will be before you reach a decision?" Over-zealous Jack replies, "I'll have to take a look at the numbers first, but you'll have a decision before I leave the office today!" You immediately eye the wall clock and notice it's 2:15 p.m. and the bank closes at 5 p.m. You pause, take a deep breath, sigh and begin clearing your desk of the three-year SBA projections you were preparing *manually*.

Jack says goodbye to his customer and proceeds directly to your desk with the financial statements. Armed with several pencils, an eraser, a calculator and several blank spreadsheets, you wait for Jack to dump the material on your desk. On Jack's arrival, he states, "I want these financial statements completely spread and analyzed before 5 p.m. so I can make my decision. I took a quick peek at the data over lunch and I noticed a few questionable areas." As Jack continues to babble on, all you can think about is how one credit analyst can review, spread and analyze five years of financial data *and* complete the SBA projections by 5 p.m. It's now 2:30 and you have 2½ hours left in the business day to complete your work. Good Luck!

This dramatization occurs frequently within credit departments and commercial-loan departments in large and small banks all over the nation. As a former credit analyst, I can attest to the fact that manual spreading and analysis of financial statements, as well as projections, are as cumbersome and time-consuming in today's economic climate as they were 50 years ago. It was not until recently, when the micro-computer revolution arrived, that productivity gains and improved efficiency could be realized in the credit-analysis area and scenarios similar to the above could be eliminated.

Since the introduction of the micro-computer several years ago, its applications have altered every area of the banking industry. Micros have en-



abled commercial-loan officers and credit managers to build and create their own spreadsheet models, greatly reducing repetitive manual tasks and the time involved. However, because of lack of programming background, bankers' models frequently are simplistic and unsophisticated. These weaknesses are responsible for the variety of financial-statement spreading, analysis and forecasting programs now available. With so many financial-analysis software packages on the market, what should a prospective banker look for?

Features of a Good Credit-Analysis Software Package. When analyzing a credit-analysis software package, keep in mind a few key points before purchasing:

- How *flexible* is the software program?
- Does it have *graphics* abilities?
- How *quickly* can data be entered, calculated and printed?
- What types of useful *reports* are generated?
- Will the program *forecast?*

Flexibility in a good credit-analysis program is a must! Since no business or industry is alike, it is important to be able to customize the spreadsheet to fit the business. One way to do this is to modify the standard chart of accounts built into the package. In addition, the ability to "cut and paste" various time periods together in order to spread the information for analysis and the capacity to update spreadsheets by deleting columns of data and adding columns of data is desirable. Using the previous scenario as an example, Jack's five years of material can be entered into the worksheet model, the chart of accounts modified to fit the customer's business, the information saved to disk and printed, all in a *fraction of the time* it would take with pencil and paper. Since the data have been saved, at a later time they can be retrieved and another period of data deleted and added with just a few keystrokes.

After examining how the information is entered when purchasing a credit-analysis package, it is important to see how the information is analyzed and printed out on hard copy. With a computerized credit-analysis package, time is saved not only with input, but validation of data, calculation of ratios, percentages and cash-flow analysis and the multiple printing of graphs and reports can be done in seconds. *Computerized validation* should include several balance computations, such as assets-to-liabilities and net worth, calculated income-to-income, calculated retained earnings-to-earnings, cash-flow-to-cash, to check-data entry. Imbalances should be pointed out, so the user quickly can correct entries and revalidate without redoing the whole worksheet.

Once data has been entered and balanced, the user should be able to print in both detailed-report form and in graph format. *Reports* for the commercial-loan officer and the various loan committees should include:

- A detailed balance sheet, income statement and retained-earnings reconciliation. This report could be used by the loan officer for making the lending decision and could be retained in the credit file.
- A balance-sheet-and-income-statement summary. This could be used by the loan committees, which do not need to be inundated by financial data.
- A complete cash-flow analysis exhibiting the company's funding

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- A complete ratio analysis with industry comparison. A good software program should enable the user to enter an industry's RMA averages in order to compare the customer's data with the pertinent industry standard.
- A common size balance sheet and income statement with RMA averages in percent form.

Returning to our scenario, viewing the detailed reports in *graph form* would be a great time-saver. With a global picture, our credit analyst quickly could check the financial directions depicted on the graph printouts, and any questionable trends would become apparent without having to wade through hundreds of numbers.

The availability of a *forecasting module* to interface with a credit-analysis program is another feature to look for. Once the past period information has been entered, analyzed, printed and graphed, loan officers frequently want the "what if" question answered regarding financial projections. A forecasting module should allow the user to project out data for at least three years, using the past two years of historical data already entered through the credit-analysis program as a basis for the projections. From this information, a balance sheet, income statement, ratio and cash-flow analysis also should be obtainable in both report and graph form. Using a computerized forecasting module, pieces of data could easily be changed to accommodate "what if" scenarios, producing new reports and graphs within seconds. (With a forecasting module interfaced with a credit-analysis program, our harried analyst could even finish his SBA projections by 5 p.m.)

The credit-analysis software program has become an essential commercial-lending tool designed to provide more accurate and reliable financial information to assist in lending decisions. This software greatly reduces the repetitive manual work and time necessary for the credit-analysis function. For those lending areas without the luxury of a credit department, its simplistic format and ease of use allow a loan secretary or clerk to perform the input function, thereby freeing up the loan officer to do the job he/she is being paid to perform.

A forecasting module enhances the credit-analysis program by projecting different "what if" scenarios based on historical trends and assumptions. Forecasting will assist in monitoring problem loans more closely by adjusting the assumptions quickly to actual occurrences, thus averting the potential for loan losses. Aggressive lending areas will utilize this program with the help of compatible, compact microcomputers to perform on-sight customer calls, thereby increasing their opportunity to develop new commercial customers along with satisfying their existing customer base.

Chances are, if the credit analyst in our scenario had a credit-analysis program with a forecasting module, the statement spreading and analysis and the SBA projections would have been completed by the 5 p.m. deadline. Only time would tell how long it would have taken manually. ● ●

NEWS
About Banks & Bankers

ILLINOIS

General Bancshares, St. Louis, has announced plans to acquire Mid-Central Bancshares and Charleston National. General Bancshares is the only out-of-state HC eligible to acquire Illinois banks. Mid-Central Bancshares also owns controlling interest in Ashmore State.

First Galesburg National has named Albert C. Dickson Jr., senior vice president/lending and Robert E. Peterson vice president, human resources/planning.

Harland L. Edwards, chairman, First National, Evanston, has retired. He joined the bank in 1976 and became chairman in 1980. Howard B. Silverman, president/CEO, succeeded Mr. Edwards.

First National, Skokie, has promoted James E. Malecha to vice president/controller.

Raymond M. Michaelsen has been elected commercial banking officer, Harris Bank, Chicago. He joined the bank's college training program in 1979.

Continental Illinois National, Chicago, has promoted the following: Douglas E. Meneely to vice president and Carl N. Thornrose to second vice president, operations/management; Edwin F. Skonicki to vice president and Carolyn A. Hanes to second vice president, personal banking; Jan S. Hobson to second vice president, corporate affairs; Jennifer Olsztynski to second vice president, corporate personnel; Thomas F. McGrath and Susan M. Spalding to vice presidents, trust/investment; Cheryl A. Feltgen, Ronald R. Juskiewicz, Macey B. Smith and Terrence A. Walsh to second vice presidents, real estate; Thomas S. Bagley to vice president and Philip C. Adams, W. Thomas Barnett and William P. Waschle to second vice presidents, banking; William E. Read to vice president and Richard C. Allen, Richard J. Meliska, Catherine A. Schulze and Brenda C. Seliga to second vice presidents, financial.

EFI, Yes Card Networks Sign Joint Agreement

A joint network agreement has been signed between Yes Card and Electronic Funds Illinois that will permit financial institutions who are members of the latter network access terminals located in 181 Jewel Food stores throughout the Chicago area.

Electronic Funds Illinois (EFI), which operates as the Statewide Funds Transfer Corp., is comprised of more than 600 financial institutions including banks, S&Ls and credit unions, of which more than 150 have agreed to participate in the statewide network, which has been operating since April.

The EFI network serves individual financial institutions as well as proprietary networks throughout the state, reaching major communities such as Belleville, Bloomington, Champaign-Urbana, Decatur, DeKalb, Galesburg, Kankakee, Peoria, Rock Island/Moline and Springfield, as well as five university campuses.

Elmhurst National has named Mary Gail Bielawski operations officer, John E. Pierce auditing officer and Jeffrey C. Scheiner trust officer.

Bernardine Barth, assistant cashier, Devon Bank, Chicago, has retired after more than 27 years of service.

Died. Hugo A. Anderson, 96, retired executive vice president, First National, Chicago, and pioneer lender to the nation's petroleum industry, June 18 in Northbrook, Ill. He joined the bank at age 14 and retired in 1957.

INDIANA

Sponsoring Bank Is Given Group's Wall Hanging

The Jeffersonville, Ind., Fine Arts Council was organized to help youths develop character, scholarship, leadership and citizenship in Clark and Floyd counties. It holds regular meetings at two Jeffersonville centers.

For one of the council's presentations, Citizens Bank, Jeffersonville, sponsored "Sunshine Joe," which emphasized the need for positive attitudes, positive self images and concern for other people through creative embroidery. Children from the program made a special presentation of its wall hanging to Citizens Bank's management and thanked the latter for its support of the project.

Frederic G. Burke Jr. has been promoted to vice president, Lincoln National, Fort Wayne. A member of the U. S. District Court for the District of Columbia Bar Association, he joined the bank in 1981.

Lincoln National, Fort Wayne, will offer about 400 loans next year to students and parents who meet certain requirements established by the state of Indiana under a new program called PLUS. The bank has committed $1 million for PLUS loans that will be made to parents of undergraduate students, to graduate and professional students, and in some cases, to undergraduate students who are financially independent of their parents. The maximum loan amount per year is $3,000, which is repaid in monthly payments of $50.

Harrison Accepts State Post

Ruth D. Harrison, vice president/director of marketing, Irwin Union, Columbus, has been appointed director of the Indiana Department of Financial Institutions.

Mrs. Harrison is the new chief executive/administrative officer of the department that supervises all state-chartered banks and trust companies, building and loan associations, consumer credit associations and credit unions.

MICHIGAN

Bank To Build In Mall

People's State, St. Joseph, will build a $3.2 million, four-story main office, scheduled for completion in October, 1984. The structure will house bank operations on a partial basement level and on portions of the first and second floors. Remaining space will be sold as condominiums. The bank, designed by HBE Bank Facilities, St. Louis, is part of St. Joseph's new downtown mall development.

Comerica Inc., Detroit, plans to acquire 77% interest in Detroits' Bank of the Commonwealth, owned by First Arabian Corp. The move will result in an institution with assets exceeding $8 billion. Comerica operates 17 banks, 11 bank-related subsidiaries and had assets of $7.2 billion on March 31. Bank of the Commonwealth operates 48 branches in the tri-county Detroit metro area and has assets of $880 million.

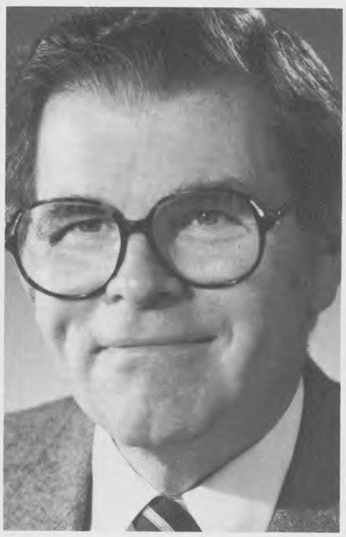
Pacesetter Bank-Lansing has changed its name to Old Kent Bank, Lansing. The change reflects the bank's recent acquisition by Old Kent Financial Corp., Grand Rapids. James C. Allan has been named chairman/president.

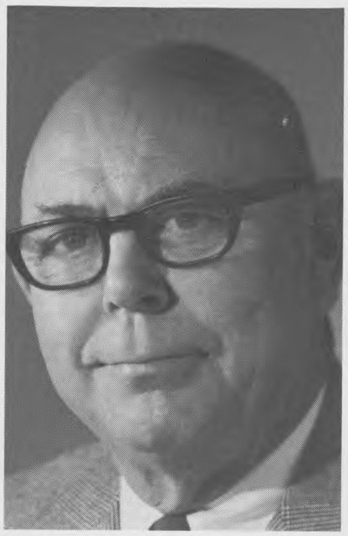
Comerica Inc., Detroit, has promoted John C. Krieman to assistant vice president/community banking, Comerica Bank-Livonia; William G. Osbach to assistant vice president/central loan administration; and Shirley Larkins and Deborah A. Wilson to accounting officers/controllers.

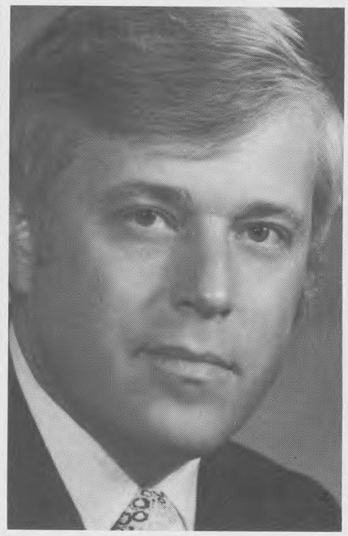
Comerica Bank Detroit has promoted Dennis M. Clancy to vice president/personal banking, Mack-Hillcrest office; Terry B. Taylor to vice president/funds management, Paul D. Tobias to vice president/metropolitan corporate banking, David C. Wind to vice president/personal trust, Mark J.

Seventh Bank Joins CIRRUS

Michael F. Moore (l.), first vice president, information/operations service division, National Bank of Detroit, shows James D. Madigan, executive vice president, Merchants National, Indianapolis, how to use CIRRUS system, a nationwide network of ATMs. The Detroit bank provides the computer switching system for the CIRRUS network that allows customers to make routine banking transactions at participating institutions throughout the U. S. Merchants is the seventh bank to go on-line in the system.







Adams to assistant vice president/community banking, all at the Warren-Greenfield office; Jeffrey C. Angell to assistant vice president/metropolitan corporate banking and Evelyn J. Kelley to assistant vice president/personal banking, Woodward-Hamilton office; Nicholas E. Pittiglio to assistant vice president/community banking, Macomb Mall office; Eugene J. Plaunt to assistant vice president/community banking, Grand River-Middlebelt office; John H. Robb to assistant vice president/personal banking, Maple-Telegraph office; and Larry R. Taber to assistant vice president/corporate financial services, main office.

Joan M. Hosey has been named president/CEO, First of America Bank — Grand Ledge. One of two women bank presidents in Michigan, she began her career in 1959.

MINNESOTA

F&M Marquette National, Minneapolis, has named James E. Senske vice president, Marquette Lease Services, Inc., the equipment leasing/financing subsidiary of Bank Share Inc.; and Robert F. Bodeau as the bank's director of marketing.

Norwest Bank Minneapolis has appointed Dennis A. Lind senior vice president and head of the bank's bond department. He joined the bond trading division in 1979.

The Minneapolis Fed has promoted Charles L. Shromoff to general auditor and Kathleen J. Balkman to assistant vice president/secretary.

Norwest Corp., Minneapolis, has promoted Lawrence V. Grant to vice president/manager, corporate research/information services, corporate marketing group; and elected Darryl D. Hansen vice president, commercial marketing, commercial banking group.

The Minneapolis Fed has approved the applications of First Mabel BanCorp., Inc., to acquire First National, Crosby; and Cherokee Bancshares, Inc., St. Paul, to become a bank holding company through acquisition of Cherokee State, St. Paul.

OHIO

Andrew B. Craig III has been elected president, BancOhio National, Columbus, and an executive vice president, BancOhio Corp. He was previously president/CEO/director, Manufacturers & Traders Trust, Buffalo, N.Y.

Huntington Bank of Northeast Ohio, Cleveland, has promoted Donna L. Celebucki to senior vice president/secretary; Kevin J. Rieke to finance division manager; and Sherman B. Kelly to manager/energy division.

Gary W. Queen has been promoted to senior vice president and head of employee benefits/regional trust division, Ameritrust, Cleveland. He joined the bank in 1975.

Huntington National, Columbus, has two new senior vice presidents, Danny F. Longo and Robert W. Lucas. Elected assistant vice presidents were Amy K. Kuhn and Richard C. Rastetter Jr. Mr. Longo joined the bank in 1956; Mr. Lucas in 1971.

Deregulation, Unity, Nonbank Competition Highlighted at Michigan Convention

MICHIGAN bankers basked in some of the best weather they've ever seen during their annual convention at the Grand Hotel at Mackinac Island this year. But the good weather didn't deter their interest in attending the business sessions in gratifying numbers!

The first speaker they heard was the ABA's William H. Kennedy Jr., chairman, National Bank of Commerce, Pine Bluff, Ark. The ABA president addressed the deregulation issue head on. "Either we compete with nonbanks or we try to stop them from competing," he said. "The latter would be like trying to keep the tide from coming in!"

Deregulation is the key to competing effectively, he added. Product restriction is the most serious problem facing banks. It prevents them from meeting the financial needs of their customers. Nonbanks are offering services similar to bank services that enable them to fill the gaps of product offerings of banks.

He conducted Michigan bankers on a mythical tour of a Sears financial center. "One-stop shopping is what they're offering," he said, as he explained that people can do their financial shopping at the same place they're buying merchandise. He ticked off the financial services Sears offers, including financial instruments, real-estate loans, auto loans, etc. Sears is planning to offer new tax-exempt investment trusts, home equity lines of credit and other new services. "Even if Sears was an isolated situation," he said, "it would be a serious problem for bankers. But it's not isolated. Others are getting into the banking business by buying banks and thrifts."

The only workable response is for Congress to authorize all financial institutions to offer all bank services, he said.

He said the way to go to get more non-interest income is fees. Why? Because they are inexpensive from a capital outlook; they diversify the bank earnings stream, they provide for cross-sell opportunities. But they must be competitive. Banks are being pushed in the direction of more fees, Mr. Kennedy said.

The deregulation battle will take years because Congress' nature is to put off change. The opposition will fight banks in every way it can to prevent them from entering their bailiwicks.

Turning to present issues, he said media coverage of financial conditions of banks is inaccurate. The media tends to predict failures in advance, he said, because it's irresponsible. Negative articles tend to undermine the public's confidence in the banking industry.

During a break between speakers, an oversized check for $169,867.46 was presented to the MBA by the Michigan Bankers Workman's Compensation Fund, of which Edward G. Weiss, risk manager, First of America Bank Corp., Detroit, is chairman. The amount represents the initial payout of the fund that was started in July, 1981. The amount will be distributed to the 51 banks that are charter members of the program. At present, 163 banks are participating in the fund.

An award was presented to Old State Bank, Fremont, by the MBA in observance of that bank's centennial. Roger Wyngarden, president/cashier, accepted the award.

Outgoing MBA President Leland B. Helms, who is vice chairman, National Bank Wyandotte-Taylor, reviewed three important government-relations victories that took place during his term of office.

"First, and probably most important, we convinced the Michigan legislature that it should not override the federal preemption of state usury limits on mortgage loans. Override was a key objective of the labor movement and some consumer groups, he said.

"Second, the financial institutions of Michigan were successful in opposing Proposal C on the general-election ballot last fall." That proposal would have prohibited the enforcement of due-on-sale clauses in the state. "There's no doubt that such a law would have seriously interfered with the flow of mortgage funds to Michigan," Mr. Helms said.

The last victory is the expected repeal of federal withholding, which is sure to take place soon, he said.

He said there still are two "major hills to climb" in the government-relations area — usury and the MBA's BankPac.

"Now that interest rates have fallen from record high levels, it's time to eliminate controls on credit in Michigan," Mr. Helms said. The governor and banking commissioner are expected to support banking's efforts in this area as part of a tradeoff for their participation in the investment of funds in strategic venture capital investment corporations.

Mr. Helms reported the revitalization of the associations' BankPac program, brought about by George S. Nugent, president, First of America Bank — Central, Lansing. A record $68,884 was raised last year and $43,000 had been raised this year up to convention time.

Incoming MBA President Loren C. Adgate, chairman, First Security, Ionia, told his audience of the two primary objectives for his term of office: Knowing the needs of MBA member banks and ensuring that the

New MBA officers for 1983-'84 include (from l.) Loren C. Adgate — pres.; Robert W. Sherwood — 1st v.p.; Daniel R. Smith — 2nd v.p.; and Donald B. Jeffery — treas.

Participants during first business session at MBA convention were (from l.) Barry Asmus, consultant (who delivered first annual Robert M. Perry memorial address); MBA Pres. Leland B. Helms, v.-ch./CEO, Nat'l Bank Wyandotte-Taylor; and William H. Kennedy Jr., ABA pres. and ch., Nat'l Bank of Commerce, Pine Bluff, Ark.

MBA is meeting them and seeing to it that the banking industry in Michigan faces the public and the government with a more united and more powerful and effective front.

He said he recognized that there are deep divisions among the MBA membership and said that he hoped "these are more the rivalries within a family than the roots of a feud between clans."

He pointed out that the MBA cannot serve its members well if it must be concerned about offending one segment when it is trying to act in the best interests of all banks.

Addressing the second goal, he reminded bankers that when they achieve a united front they must act as if that was the case! Bankers who undercut a unified front can cause considerable damage in the state legislature — damage that can result in banks not obtaining the legislative relief they must have to compete.

Retiring MBA President Helms was elected to the ABA's governing council during the convention.

Installed with Mr. Adgate in the 1983-'84 MBA officer lineup were Robert W. Sherwood, first vice president; Daniel R. Smith, second vice president; and Donald B. Jeffery, treasurer. Mr. Sherwood is chairman/president, National Bank, Hastings; Mr. Smith is president, First of America Bank Corp., and chairman, First of America Bank — Michigan, Kalamazoo; and Mr. Jeffery is first vice president, National Bank of Detroit. — **Jim Fabian, Senior Editor.**

The past president's citation is presented by Loren C. Adgate (r.), incoming MBA pres., to Leland B. Helms (l.), outgoing MBA pres.

Food-Collection Program Sponsored by Bank

Approximately 7,200 pounds of food were contributed to needy Detroit-area families by employees and customers of affiliates of Manufacturers National Corp. recently.

The program was begun with a $5,000 contribution by Manufacturers Bank. The food, as well as monetary contributions, has been donated to the Greater Detroit Chamber Foundation, which coordinates food collections by local businesses.

The Gleaners Community Food Bank, a nonprofit organization, distributed the food to more than 150 local service agencies, including soup kitchens and emergency food centers.

In addition to the food program, the bank's offices distributed brochures about health care for the unemployed, ways to avoid utility shutoffs and money management.

Employees of Manufacturers Bank, Detroit, volunteered their time to sort and pack food collected during month-long drive.

WISCONSIN

Marine Corp. and Roundy's, Inc. opened "The Express Way," a customer-convenience center, earlier this summer in Milwaukee. Said to be the first service of its kind in Wisconsin, the center is located in a supermarket and allows customers to shop and bank 24 hours a day.

Citizen's Bank, Sheboygan, has purchased property in Plymouth to construct a new auto bank that will include four drive-through stations and an inside walk-up area. The facility will open this fall.

Convenience Centers OK'd

"Convenience centers" may be established by state-chartered banks at any location they consider appropriate, according to a recent ruling by State Banking Commissioner William P. Dixon.

Centers are not considered branch offices, says Mr. Dixon, and may be located near ATMs. Personnel can demonstrate electronic funds transfer terminals, distribute information on bank services, give out application forms for credit cards, installments loans and depository accounts.

The centers cannot be used for the approval or disapproval of loans, disbursement of loan proceeds, acceptance of deposit or loan payments and receipt of valuables for safekeeping.

First National Corp., Appleton, and its eight member banks have adopted the new name, Firstar. Member banks now are known as "Firstar Bank" plus the name of the city in which each is located.

Mary Ann Berger, loan officer, Peoples Marine Bank, Green Bay, has received the North Central Region Educational Foundation Scholarship, awarded annually by the National Association of Bank Women, Inc. The award covers registration, travel, room and board at any foundation seminar.

Marine Corp., Milwaukee, has announced that Cudahy Marine Bank, Oak Creek Marine National and South Milwaukee Marine Bank have been consolidated into Marine Bank, with combined assets of $1.2 billion.

Marine Bank, Milwaukee, has elected three senior vice presidents: Leila Fraser, Ronald C. Baldwin and Ronald C. Condroski. Dr. Fraser and Mr. Baldwin joined the corporation in 1982; Mr. Condroski joined Cudahy Marine Bank in 1964.

First Bank, Sparta, Celebrates Anniversary

First Bank of Sparta marked its 125th year on July 26, recalling its origins in a small building that also housed the local post office and the Sparta *Herald*.

A young New York attorney and real-estate developer named Thomas B. Tyler started the bank in 1858 that became the oldest banking institution in western Wisconsin.

Current president, William A. Barney, is a great-great-grandson of the founder.

Minnesota Bankers Hear About 'New Era' From Governor at Annual Convention

MINNESOTA is about to enter a "new era" in banking, said the state's governor, Rudy Perpich, to bankers attending the 93rd annual convention of the Minnesota Bankers Association recently in Minneapolis.

The new era involves authority for state-chartered banks that are non-Fed members to get into the securities/insurance business, permission for out-of-state bank HCs to operate in Minnesota under a reciprocity system and the removal of interest-rate ceilings on most types of borrowing.

Governor Perpich had hopes that his new era in banking would take place in 1983, but the state legislature didn't see things his way so the proposals were shunted aside until the next session.

"I want state government to be a catalyst in that effort (to enter a new era in banking)," he told the assembled bankers, "and I'm going to push hard next year for the legislative changes necessary to bring the banking industry into this new era."

The changes were prompted by the potential impact they are expected to have on two key themes of the governor's administration — jobs and the economy, he said. "The legislature must consider how our banking laws are affecting the economy, and also must look at how the new accent on services will be a primary force in driving the national economy."

The changes came from a commission on investment and banking the governor established earlier in his term.

"We announced then — and I still believe now — that these changes would put us in the vanguard of states seeking changes in banking laws," he said. "I believe these changes can bring jobs, new businesses and a more vigorous financial activity in Minnesota."

He added that it's ironic that the banking-service industry is growing, but that commercial banks are missing out as participants.

He said he was grateful for the support the MBA gave his proposals. "I hope I can count on that support again as hearings reopen."

John Elkins of the Naisbitt Group and Trend Report, Denver, addressed the restructuring of America. "The single greatest risk institutions can take is to expect to conduct 'business as usual,'" he told his banker audience. He added that sound business planning requires serious examination of the shifts taking place and the ability to understand how they will affect the banking business.

He then discussed the 10 "megatrends," whose aggregate impact will "determine the general characteristics of the 'new economy' we now are building."

Among the "megatrends" were the following: A move from an industrial to an information society, a move from a national to a global economy, a move from short- to long-term planning, a move from centralization to decentralization and a move from a representative to a participatory democracy.

Gerald Corrigan, president, Minneapolis Fed, called for sweeping federal action on bank regulation and deregulation. He said this was long overdue and is necessary, but that government should take care as to how far and how fast it proceeds.

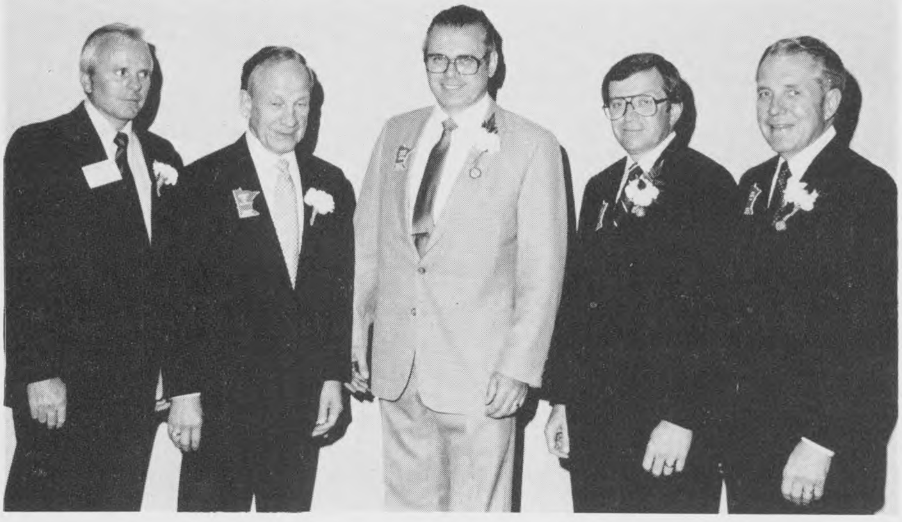
The government is faced with the need to alter the financial structure of the U. S., he said, but the legislature has to keep its eye on several factors when doing it. Care should be taken to preserve a healthy, competitive, vital environment, and there must be assurance that banking services will be readily available to all.

Mr. Corrigan called for three major changes in federal banking laws: First, define the term "bank"; second, clarify bank powers and ownership; and third, make a distinction between thrift and bank parity.

The first change is a "messy business," he said. On the second change, he said we need a handle to determine what kinds of activities banks can engage in and who can own a bank. Regarding the third change, the historical distinction between thrift and bank parity has lost relevance. "We've got to create a situation where S&Ls are subject to the same rules as bank HCs — but we don't necessarily need parity all the way down."

During the ABA elections, William J. Addington, vice president, F&M Marquette National, Minneapolis, and John P. Ingebrand, outgoing MBA president, and president, Kanabec State, Mora, were elected to the executive council for two-year terms.

Succeeding Mr. Ingebrand as MBA president was Herbert A. Lund, president, Security State, Albert Lea, who moved up from first vice president. Succeeding Mr. Lund as first vice president was Galen T. Pate, president, Signal Hills State, West St. Paul. Succeeding Mr. Pate as second vice president was Clinton D. Kurtz, president, Citizens State, Norwood. James R. Jorstad, president, Citizens State, Hayfield, was elected to a second term as MBA treasurer. — **Lawrence W. Colbert.**



New MBA officers: (from l.) Clinton Kurtz — 2nd v.p.; Herbert Lund — pres.; Truman Jeffers — e.v.p.; Galen Pate — 1st v.p.; James Jorstad — treas.

Mary Ellen Morrissey accepts the presidential gavel from Rowland J. McClellan on behalf of her husband, William, who was temporarily hospitalized during the WBA convention. Mr. Morrissey's acceptance speech was read by Bryan K. Koontz, WBA exec. dir.

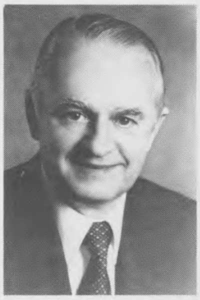
Mary Ellen Morrissey Accepts Gavel On Behalf of Hospitalized Husband

THIS WRITER saw a "first" last month in his 36 years of covering banking events: the wife of a newly elected state association president "accepting the gavel" while her husband was temporarily hospitalized.

Mrs. Mary Ellen Morrissey graciously — and indeed with great poise — accepted the presidential post on behalf of her husband, William J. Morrissey, hospitalized at Elkhorn, where he is president of Independence Bank. He also is chairman/CEO of Independence Bank Group, Inc., a $450-million bank holding company made up of seven community banks and headquartered in Waukesha.

Mr. Morrissey (now back on the job) obviously had anticipated attending the convention because he had a typed acceptance speech, which was read in its entirety by Byran K. Koontz, executive director of the Wisconsin Bankers Association.

Wisconsin's Top Three Officers



MORRISSEY
President

JOHNSON
Vice President

TREPTOW
Treasurer

Two other bankers also took office at the convention: Vice President John Johnson, president, Bank of Spring Green; and Treasurer Dean A. Treptow, president, Brown Deer Bank. Four new members of the 1983-'84 executive council are pictured with this article.

Mr. Morrissey's acceptance speech was, indeed, an excellent one and it would have been a loss for Wisconsin bankers had it not been read. His message dealt, in part, with deregulation and how bankers can cope with this process.

"We all now realize," he said (or wrote), that the process of deregulation will take us much further than just the phase-out of federal interest ceilings required by the 1980 banking act. In fact, the forces driving the process of deregulation simply cannot be evaded or ignored.

"We must pay attention to the prospect of future deregulation," he con-

New members of 1983-'84 WBA Exec. Council: L. H. Bender, s.v.p., Security State, Minocqua; Larry J. Carson, pres., Lancaster State; Richard P. Klug, e.v.p., F&M Bank, Menomonee Falls; and Thomas L. Schiefelbein, pres., Security Nat'l, Durand.

tinued, "because most of the forces causing the process to move forward are forces that we as *individual* bankers cannot control directly.

"Those forces," he said, "include the new technologies and the remarkable speedy entry of nonbank organizations into the business of banking. We as *individual* bankers cannot control this process of deregulation, but I want to emphasize that if we join together — both here in Wisconsin and nationwide — we definitely will be in a position to influence substantially the process of deregulation."

"How do we as bankers," he asked, "work to control the process of change and manage it effectively for our institutions and for the customers and communities we serve?

"Like it or not," he stated, "we must become *actively* and *personally* and *intensively* involved in the political and legislative processes, both in Wisconsin and at the federal level. If we fail to become involved," he insisted, "we will have left the key decisions to be made by others — not only for our institutions but also for our personal careers."

Presiding president Rowland J. McClellan also talked at length about deregulation and the positive effects that have occurred since the passage of the Garn-St Germain Depository Institutions Act of 1982. In this broad legislation, he reminded bankers, the DIDC (Depository Institutions Deregulation Committee) was required by Congress to create an insured account for the market rate of interest to allow depository institutions to compete with money-market funds. They came up, he said, with that money-market-deposit account.

"Money-market-deposit accounts," he said, "an account banks were only authorized to begin offering in mid-December of 1982, have attracted over 344 billion dollars in deposits so far.

"And super NOW accounts, another new account authorized to give regulated depository institutions a tool to compete with those money-market funds consumers like so much, have attracted 30 billion dollars since January 5.

Wisconsin's Governor Anthony S. Earl (r.), chats with WBA Pres. Rowland J. McClellan before his convention talk.

"A look at the financial-services marketplace prior to the introduction of these new accounts at banks and other regulated depository institutions shows why I have no difficulty singling out Garn-St Germain as the most important event for banking in the last year.

"Money-market mutual accounts attracted over 230 billion dollars in assets — assets that came out of towns like Madison and Janesville and Milwaukee because our banks and savings and loans were prohibited by law from competing — because the rate of interest we could pay was regulated along with size and length of deposit — regulated to shut us out of the market because we couldn't give our customers what they wanted!"

Now, he asks what has happened after the DIDC authorized bank money-market-deposit accounts? "Money-market funds did *not* continue on the projected growth curve; money-market deposits in banks and other depository financial institutions grew in a very short time to well over $344 billion. We know all of that is not new money, but a good bit of it is and . . . that money now is available for lending in our local communities!

"As for the future," continued Mr. McClellan, "how will bankers prepare for banking in the future? The banking industry has long been an advocate of in-service and continued education for banking professionals. Our AIB programs have been models for other industries.

"As regulations decrease and new entries to our marketplace increase, the only real difference between commercial banks and the competition will be quality of management. Education and training will keep bankers ahead of the pack," Mr. McClellan insisted.

Another convention speaker, Silas Keehn, president, Federal Reserve Bank of Chicago, urged banks, both large and small, to take advantage of their opportunities by becoming active proponents of legislative change. "By resisting change, those that are regulated are playing right into the hands of those that are not," he observed.

Mr. Keehn told Wisconsin bankers that "overly restricted regulations that are inappropriate in a marketplace context simply don't work" and that regulators have a responsibility to provide an environment in which institutions can "grow and thrive on a competitive basis." Otherwise, institutions outside the structure will continue to make inroads into activities that traditionally have been the exclusive domain of banks." And once their positions have been established," Mr. Keehn said, "it will be terribly difficult to dislodge them."

Yet the Reserve Bank president had strong words of praise and encouragement for all banks, saying they have responded "magnificently" to the challenges posed by nonbank competitors by offering an array of new and sophisticated services. He reminded the audience of predictions that many of the smaller institutions would not survive, commenting that instead they continue to do their business in an absolutely marvelous way and, by and large, achieve superb results.

Mr. Keehn also painted a bright picture for the future of these smaller institutions, citing several advantages,

(Continued on page 44)

New 50-year Club members: Seated: Cranston F. Heckmann, pres., Cleveland State; and Norma T. Yuhas, teller-bookkeeper, Security State, Port Wing. Standing: Day F. Pauls, dir. emeritus/consultant, Citizens Bancorp., Sheboygan; Joseph A. Lauber, dir., Valley Bank, Brownsville; Orval V. Malueg, ch., Dairyman's State, Clintonville; and Claude C. Rohleder, v.p., State Bank, East Troy.

Bank in Texas Uses Financial Futures To Optimize Asset/Liability Management

By Fred D. Price, Executive Vice President, Financial Trends Management, Bakersfield, Calif.

ASSET/liability managers have been faced with a classic dilemma since the latter half of 1982: optimum investment of short-term liquidity in a positive-yield-curve environment.

When the yield curve is positive (short-term rates lower than long-term rates), there is a give-up in return to keep the funds in liquid instruments. This yield sacrifice consistently has been greater than 200 basis points and has, at times, been greater than 350 basis points. In many cases, investors have accepted this opportunity cost because they don't want to expose themselves to the principal risk associated with owning longer-term assets. The desire to maintain liquidity overrides the desire for increased return.

Financial-futures markets enable an asset/liability manager to maintain liquidity and enjoy the returns associated with longer-term instruments. This is done through implementation of the yield-curve-extension strategy (YCES). Sole objective of the strategy is to improve current income with reduced principal risk.

It is not a capital-gains strategy. A long-term cash asset is purchased and simultaneously hedged with futures, which means the "liquidation" value of the asset will "float" up or down with the movement in long-term rates and thus remain at approximately the same parity-to-market value that existed at the time the strategy was placed.

If rates rise, the cash asset will depreciate in value but the loss will be approximately offset by gains in the futures hedge position. If rates decline, the cash asset will appreciate in value but the gain will be offset by losses in the futures hedge position.

The net benefit of the strategy is the improvement in current earnings that results from increased return on the asset purchased versus the alternative short-term investment that would have been maintained if futures markets were not available.

The financial impact of this benefit can be substantial. For example, if the long-term asset was purchased to yield 12.00% and the alternative use of those funds was in fed-funds-sold at an average yield of 8.75%, the current income improvement on a $10,000,000 portfolio would be approximately $1,000 per day. That same degree of improvement will be realized as long as the yield curve holds the same degree of positive slope.

The basics to a YCES are:

- A positive-sloped yield curve;
- Availability of short-term liquidity for investment purposes;
- Purchase of a long-term fixed-rate asset such as U. S. government bonds or GNMA coupons and simultaneously hedge with the appropriate financial futures contract;
- When appropriate, a simultaneous close out of both cash asset and futures hedge position.

Financial Trends Management has been recommending the YCES to its client institutions for the last six months. One particular client has engaged in the strategy since it was first recommended. The client is a commercial bank in Texas. The banker wishes to remain anonymous as he feels that his ability to utilize futures will be a key competitive performance advantage. I will not disclose the institution's name, but I want to document its results to date.

The chronological detail of the banker's strategy implementation is as follows:

- On December 15, 1982, the bank acquired $4,000,000 par of GNMA 13.50% coupons that were simultaneously hedged at purchase with September and December, 1983, GNMA futures. The GNMAs were purchased to yield 13.28% versus the alternative of fed-funds-sold at 8.75%, giving a yield improvement of 453 basis points.

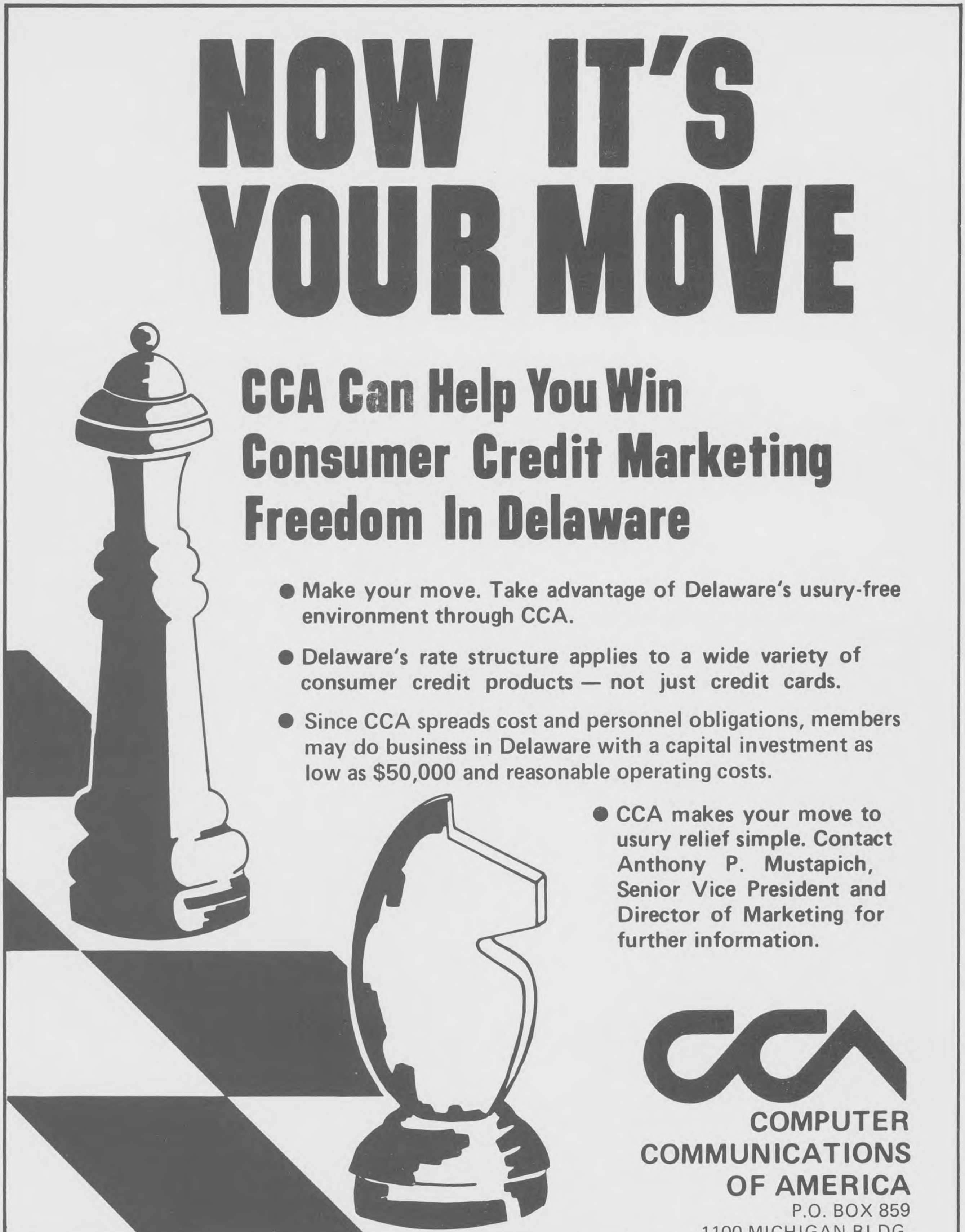
On February 4, 1982, the bank acquired $5,250,000 par U. S. Treasury bonds 14.00% coupon of 2011, which were simultaneously hedged at purchase with September, 1983, U. S. T-bond futures. The bonds were purchased to yield 11.45% versus the alternative of holding tax-exempt bonds at 9.52%, giving a yield improvement of 193 basis points. The tax-exempt bonds were sold to generate the funds as there was no taxable advantage to holding them due to a tax-loss carry forward.

- On April 20, 1982, the GNMA 13.50% coupons and the U. S. Treasury bonds, with their respective futures positions, were closed out and the proceeds were used to buy $10,000,000 GNMA 11.50% coupons, which were simultaneously hedged with September, 1983, GNMA futures. The new GNMAs were purchased to yield 11.88% versus the alternative of fed funds sold at 8.70%, giving a yield improvement of 318 basis points. The GNMA 13.50% coupons and Treasury bonds were sold in order to reinvest in current production GNMAs.

Income improvement on GNMA 13.50%	$66,170
Income improvement on U. S. Treasury bonds	18,570
Income improvement as of June 16, 1983, on GNMA 11.50%	49,170
Total impact 1983 to date:	$133,910
Net yield improvement to date:	3.36%
Book gain on sale of GNMA 13.50%	$ 58,750
Future hedge loss	(17,410)
Basis impact:	$ 41,340
Book gain on sale of U. S. Treasury bonds	$214,140
Futures hedge loss	(218,440)
Basis impact:	$ (4,300)
June 16, 1983 Unrealized loss GNMA 11.50%	$ (25,000)
Unrealized futures hedge gain	14,970
Basis impact:	$ (10,030)
Total basis impact:	$ 27,010

The bank has been able to earn $133,910 more in 1983 than it would have by staying in fed-funds-sold and existing tax-exempt bonds. The bank's president/CEO feels that the YCES will be the key to the institution potentially earning a 2.00% return on assets in 1983.

Several important issues have not been addressed in this article due to limitation of space. Each is key to a


NOW IT'S
YOUR MOVE
CCA Can Help You Win
Consumer Credit Marketing
Freedom In Delaware
● Make your move. Take advantage of Delaware's usury-free environment through CCA.
● Delaware's rate structure applies to a wide variety of consumer credit products — not just credit cards.
● Since CCA spreads cost and personnel obligations, members may do business in Delaware with a capital investment as low as $50,000 and reasonable operating costs.
● CCA makes your move to usury relief simple. Contact Anthony P. Mustapich, Senior Vice President and Director of Marketing for further information.
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DETROIT, MICHIGAN 48226
(313)965-4225

successful YCES.

- Board approval of policies and procedures regarding hedging activity;
- Documentation of hedge strategy and expected results;
- Calculation of initial hedge ratio (appropriate number of contracts to offset cash-position risk);
- Ongoing management of the basis relationship between the cash position and futures hedge position, including periodic contract adjustments;
- Margin-account management;
- Periodic hedge status reporting to board and management.

Hedging with financial futures is a most important tool in the asset/liability manager's portfolio. Few institutions have chosen to engage in this activity given its newness, but with results like these being publicized, more and more managers will be motivated to develop this capability. ● ●

Business Optimism About U. S. Economy Tempered by Concern Over Deficits

BUSINESS executives clearly are becoming more optimistic about the course of the economy but increasingly concerned with the federal deficit, government-imposed regulations and the need to lower interest rates.

These are among the findings of the Centerre Middle Market Economic Poll, a survey of executives in companies with $25 million to $300 million in sales. The survey was conducted in 13 Mid-Continent states by Centerre Bancorp., based in St. Louis.

"Centerre regularly surveys the middle-market business community because it is the backbone of American economic health," said Clarence C. Barksdale, chairman, Centerre Bancorp. "Their opinions have proved to be a valuable indicator of business trends and conditions."

More than eight in 10 middle-market business executives, or 82%, believe business will improve over the next six months. When asked a similar question in the July, 1982, Centerre poll, three-fourths, or 75%, predicted an upturn in business.

A majority of those surveyed, 66%, forecast expansion within their business in the coming year and 58% predict equipment modernization within the same time frame. Slightly less than one-half, 45%, believe their company will increase inventory and more than one-third, or 35%, believe money will be borrowed for new investments.

Last July, 70% of the respondents accurately predicted an improved stock market this year. When asked recently to project a year ahead, 52% predicted the stock market will continue to improve; however, 24% said it will begin to drop and 18% predicted it will remain the same.

Seventy-two percent think private business will be most responsible for economic progress, while only one fourth, 24%, believe continued economic recovery is in the hands of the government.

As confidence in the economy continues to rise, a number of business executives are expressing concern in other areas. When asked to name the most pressing problem facing American business today, those polled frequently cite the size of the federal deficit and government spending (15%); government interference in business and excessive regulation (14%) and high interest rates (14%). Business productivity and an unfavorable balance of trade resulting from a high volume of imports were both mentioned by one in 10 executives.

Today, only 6% of the middle market business executives surveyed think eliminating inflation entirely is an appropriate goal. Seventy-six percent believe inflation should be reduced to 4% or less and only 15% favor 5% or higher inflation.

Businessmen were asked if they supported a second term for Paul Volcker, chairman of the Federal Reserve Board, prior to his recent reappointment. Seventy-nine percent were in favor of his reappointment, while only 14% were not.

When asked to predict the prime rate one year from now, 62% said it will be in the range of 10.0% to 10.9% or lower while 33% believe it will rise to the 11% level and higher. ● ●

Rate Ceilings Removed by DIDC On Accounts in Excess of 31 Days

THE DIDC (Depository Institutions Deregulation Committee) removed rate ceilings and other restrictions on all deposit accounts with maturities of 31 days or more at its June 30 meeting. The action becomes effective October 1.

The action leaves ceilings applying only to passbook and NOW accounts, which are 5¼% for commercial banks and 5½% for thrifts.

The DIDC established a $2,500 minimum denomination on new time-deposit accounts of 31 days or less, also effective October 1, bringing that maturity in line with the minimums on other maturities. The $2,500 minimum continues for money-market accounts and super NOWs. The effect is to eliminate the ceiling on virtually all time deposits, as there currently are no ceilings on time deposits in the 7-31-day range in excess of $2,500.

The committee also voted to retain a mandatory early withdrawal penalty of 31 days' interest — earned or not — for time deposits with maturities of one year or less and a penalty of 90 days' interest for time deposits with maturities of more than one year.

The existing rule requiring invasion of principal to meet penalties was retained. Banks are free to set higher penalties if they wish.

The DIDC retained a requirement that loans secured by time deposits must bear interest at least 1% higher than the effective rate for the deposit. However, it did remove existing regulations governing compounding.

All changes affect deposit accounts opened after October 1.

Action to create interest-bearing corporate checking accounts was deferred. The DIDC's members prefer to have Congress review and act on the issue, since there are doubts that regulators have the authority to address this issue.

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Our two day seminar will show you how.
At our seminar, in two days you and your officers get a clear understanding of the procedures and benefits of equipment leasing. You find out what it takes to get started and how to negotiate, document and fund an equipment lease transaction. We show you how First Lease experience and service enhance your professionalism and reduce your risks. To reserve your place, call us at (502) 423-7730 or send for our seminar brochure.

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☐ March 23-24, Nashville
☐ May 11-12, Louisville

Asset/Liability-Management Systems Available to Financial Institutions

ASSET/LIABILITY-management techniques are discussed in several articles in this issue of MID-CONTINENT BANKER; this article presents a potpourri of asset/liability-management aids available to financial institutions.

Due to space limitations, descriptions of services must be brief. Readers desiring additional information on any service reviewed in this article can contact the firms providing the services (see accompanying box for addresses).

• **Thunderbird Automation Group** has developed a series of micro-computer-based products, including financial-management (including general ledger), asset/liability-management and profitability-management systems.

According to Bruce Skaistis, president, "Our asset/liability-management system is designed to operate either on a stand-alone basis or it can be linked directly to a mainframe-type computer. When it is linked to the larger computer, the system can receive balance, rate and maturity information from a bank's loan and CD systems."

• **Control Data Corp.** has a new service to assist bank executives in asset/liability-management called the EXAM system. It consists of three major components: portfolio management, balance-sheet management and analysis and presentation.

The portfolio-management system is used to examine current interest-sensitive portfolios and to explore the impact of reinvestment/refunding decisions under various rate assumptions.

The balance-sheet management system uses simulation or optimization techniques to explore various portfolio-management decisions within the framework of full financial statements.

The analysis and presentation system can draw on multiple application programs and economic or industry data bases to augment the decision-making process and to present the results of analysis graphically.

• **Integrated Management Services** offers a commercial-credit analysis system for all sizes of banks. Bankers report that this system allows commercial-credit officers to use their time more effectively, relieving them of "number crunching" and freeing them to make more prospect calls and attend to the business of selling products and penetrating the market.

The system also enables a business client to understand where his firm stands and where the consequences of his decisions may take the firm by performing historical and projected financial analyses.

Another banker reports that the system allows the bank to compare cash-flow projections under different scenarios.

• **Apache Electronic Systems** markets an asset/liability-management system that provides banks with a daily analysis of status reports and forecasting data covering possible economic changes.

The system, named MiniMax, is said to provide banks with information to maximize earnings while keeping risks within reason. It provides information required by the FDIC report of condition (Schedule J) in addition to answering the operations side of asset/liability, says Lester H. Keepper Jr., Apache's president.

The system generates a daily balance sheet that highlights a bank's rate-sensitive assets/liabilities and gives the current weighted average interest rate of all categories, including both rate-sensitive and non-rate-sensitive assets/liabilities, which enables a bank to identify its interest margin on a daily basis and to gauge its profitability over any set period desired.

• **National Bank of Commerce,** Memphis, has developed a new asset/liability management system called ALMS, which is described as a comprehensive micro-computer software package for monthly, quarterly and long-range planning. Recent enhancements have expanded the capabilities of ALMS while making it available on the IBM personal computer, says Tom Charlton of the bank's staff.

Various features of the system enable banks to determine the highest income-producing mix of fund sources and uses, establish monthly balance sheet and income budget adjusted for seasonal and trend factors, measure the gap between rate-sensitive assets and rate-sensitive liabilities and determine financial exposure to interest-rate changes, examine bond-swapping strategies to increase bond yields and interest income and reduce rate sensitivity, determine an effective hedge to reduce income exposure and rate sensitivity and produce daily, monthly, quarterly and yearly financial statements to report balance sheet and income position and determine the variance between actual and budgeted balances.

• **Vining-Sparks Asset/Liability Consultants** market an A/L management system that has been im-

For more information on any of the systems described in this article, write to the addresses listed below.

Thunderbird Automation Group, Inc., 4301 E. 31st St., Tulsa, OK 74135. Phone: 918/744-8009.

Control Data Corp., Public Relations Dept., P. O. Box 1700, Greenwich, CT 06836. Phone: 203/622-2455.

Integrated Management Services, 500 S. Main St., Suite 1009, Orange, CA 92668. Phone: 714/558-7128.

Apache Electronic Systems, Inc., 900 Jorie Blvd., Suite 124, Oakbrook, IL 60521. Phone: 312/789-3330.

National Bank of Commerce, c/o Doug Ingram, 1878 E. Brooks Rd., Memphis, TN 38116. Phone: 901/523-3330, or Eddie Sligh, Systematics, Inc., 4001 Rodney Parham Rd., Little Rock, AR 72212. Phone 501/225-5100.

Vining-Sparks Asset/Liability Consultants, 889 Ridge Lake Blvd., Memphis, TN 38119.

Darling & Associates, Inc., North Andover Office Park, 451 Andover St., Suite 209, North Andover, MA 01845. Phone 617/794-0212.

Computer Based Solutions, Inc., 3390 Peachtree Rd., N. E., Suite 1148, Atlanta, GA 30326. Phone 404/261-0501.

Norwest Bank Minneapolis, 8th St. and Marquette Ave., Minneapolis, MN 55479. Phone 612/372-8123.

Sendero Corp., 1118 E. Missouri, Phoenix, AZ 85014. Phone 602/277-5486.

Chase Econometrics/Interactive Data Corp., 22 Cortlandt St., New York, NY 10007. Phone: 212/285-4242.

plemented in more than 250 banks in the past two years.

After the system is purchased, a CPA takes the model to the purchasing bank and gathers data, trains personnel and helps interpret results and make decisions.

The system has enabled banks to increase profits by matching assets and liabilities, reducing current taxes, recovering past taxes and developing strategies for future growth, according to C. J. Pickering, senior vice president at Vining.

• **Darling & Associates** markets a balance-sheet information system and a loan-safeguard system.

The first system is an asset/liability-management product designed to assist managers in financial planning and the optimization of interest margins.

Key features include flexible user options that allow banks to define balance-sheet items, tax structures, rate indices, interest calculations and liquidity parameters; 12-month running and fiscal forecasts for balance sheet, rates/yields, interest, income/expense, profit/loss, gap analysis and key ratios; unlimited modeling of "what-if" questions over monthly, quarterly or annual timeframes; asset/liability matching that permits banks to allocate sources of funds to uses of funds based on the characteristics of each asset and liability and to analyze the effect of interest-rate changes and funding shifts on each match so that A/L strategies can be formulated for pricing, lengthening or shortening positions or hedging.

The loan-safeguard system enables loan officers to better understand the risk complexion of existing and proposed commercial loans.

Its features include storing and retrieving corporate financial statements; analyzing and evaluating the degree of risk of new loan requests based on the client's previous and current financial statements, quality of collateral, peer-group comparisons and bank standards and policies; monitoring changes in the risk levels of individual commercial loans in the portfolio as updated financial statements are received; calculating a "Z" score of bankruptcy potential; plus other services.

• **Computer Based Solutions** offers a software package that provides loan officers with a structured mechanism for handling the processing of loan applications.

Among the functions performed are the following: It poses questions about the qualifications of the applicant; it specifies in detail the reason for the loan; serves as a checklist to assure 100% adherence to the data-collection process required by each bank; assigns bank-specified numeric values to each answer or date element; computes scores based on the values assigned; evaluates the scores based on the acceptable range specified by the bank; and produces a standard set of documentation for the loan committee.

System benefits include: guarantees 100% compliance with bank policy on data required for the decision-making process; provides quantitative analysis describing the merit of the application; standardizes the loan-review process; produces a report for easy look-up of key data, ratios and financial-statement analysis; and provides flexibility for changing values and questions about the application.

• **Norwest Bank Minneapolis** offers an asset/liability management consulting service to guide other banks in management of their resources through its correspondent-banking department.

"Objective of the new service is to provide a framework for banks to plan, organize and control their resources to achieve their goals and objectives," says Donald G. Pederson, senior vice president/corresponding banking head.

The service provides development of management resources, a strategic financial plan, a policy manual and a decision-support system. The process covers a time period of about 10 weeks. During the process, specific objectives are set to help the bank manage the allocation, mix, maturities and pricing of A/L resources, placing particular emphasis on managing net-interest margin.

• **Sendero Corp.** is marketing a micro-computer-based A/L software package named Micro-FRS (Financial Results Simulator). A representative of Sendero says the package is capable of handling complex A/L management functions and is written in the PLAN80 language from Business Planning Systems. It features extensive use of plain English menus that take users directly to financial-modeling worksheets. The results are preformatted reports.

A banker reports that the system allows for the evaluation of alternative new volume maturity strategies as well as desired balance-sheet structure.

Capabilities include input modeling for variable target balances, key rates and base information that feed detail loan, investment, borrowing and deposit models. Reports include income statements, balance sheets, call reports (Schedule J), performance ratios and gap analysis that can be generated by each what-if or change in assumptions.

Sendero also provides consulting services and custom programming for special adaptations of Micro-FRS and supports customers with "hot-line" phone service.

• **Chase Econometrics/Interactive Data Corp.** offers a bank risk-management system (BRMS) built for financial executives who manage A/L portfolios. The system helps these executives see the results of different portfolio management strategies before any one strategy is acted on.

BRMS is customizable by the client, supports a variety of management styles, has a broad range of capabilities and is applicable to a wide market, says Judith B. Hopkins, manager, marketing services.

BRMS simulates a financial institution's earnings over a maximum of 24 months in the future by processing balances, forecast rates, maturities, new-volume allocation and strategies in conjunction with each other. In addition, the system can be used to compare the net interest income results of any number of simulations at one time; generate composite balances, rates and interest amounts when given allocated forecasts of new business volume and rates; indicate new business (or reduction of existing volume) required

Sallie Mae and the Community Lender

"How can you increase your full-service capabilities? Try Sallie Mae's Community Lender Sale Program. It works for us."

Robert B. Pieters
President, Freedom Savings & Loan Association
Menomonee Falls, Wisconsin

We've all heard a lot of talk about the concept of "one-stop" or "supermarket" banking. Community lenders like Bob Pieters are becoming formidable competitors in this "new banking environment," thanks in part to their relationships with Sallie Mae.

Pieters talks about the evolution of full-service banking...

"We used to make student loans just to accommodate existing customers and to enhance our image in the community."

Community lenders may take an understandably limited view of student loans as community service. They'd welcome the chance to gain new customers by promoting loans to "outsiders," but prohibitive collection costs put them off. The solution? Bob Pieters has discovered that a sale to Sallie Mae can broaden one's view considerably:

"Sallie Mae has enabled us to expand our market penetration beyond our immediate area—and to offer products other than student loans to new customers. And student loans help us lock in existing customers with one more essential service."

The way Bob Pieters sees it, there's no better reason for making more student loans than the cross-selling opportunities they present. Start from scratch with student loan customers, sell them additional products, and you're well on your way to becoming a true full-service institution.

"We define ourselves as a 'full-service retail financial center.' Student lending has played an important role by enhancing our mortgage business and bringing us many new N.O.W. accounts. It's been so important, that even though we're the 46th largest savings and loan in Wisconsin, we were the state's third largest originator of student loans in 1981-82."

Well, maybe there *is* another good reason besides cross-selling for making student loans. Bob?

"Sallie Mae has made student lending a very desirable business to be in. Over a period of four years, they have helped us build a student loan profit center that generates significant income."

The Community Lender Sale Program makes it easy for Bob Pieters and other community lenders to sell all or part of their portfolios before repayment, eliminating the need for staff increases and servicing. Many bankers use the liquidity gained to reinvest in student loans—increasing their commitment to their communities as they build new profit centers.

Sallie Mae's Community Lender Sale Program can increase your full-service capabilities, too.

We're just a phone call away, and we're very sensitive to the special needs of community lenders.

Call us today at (202) 965-7700, or mail the coupon below. Our cordial and experienced staff is waiting to help you start a student loan profit center now.

Sallie Mae Marketing Dept.
Direct Marketing Division
1050 Thomas Jefferson St., N.W.
Washington, D.C. 20007

YES, TELL ME MORE ABOUT YOUR COMMUNITY LENDER SALE PROGRAM.

☐ Please send me your Community Lender Guide.

☐ Please have a Sallie Mae representative call me.

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(please print)

Title____________________

Institution____________________

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SallieMae

Over $8 billion in student loan financing to over 1,500 institutions.

to achieve target balances; calculate interest rates based on balance and income/expense data; calculate interest income/expense based on balance and rate data; analyze the portfolio by its maturity structure; and inquire against any aspect of the portfolio, strategy statements, interest-rate forecasts or results of completed simulations. ● ●

Banking Scene

(Continued from page 8)

viewed too optimistically.

The Federal Home Loan Bank Board (FHLBB) has been issuing pieces of paper capital to S&Ls in cases where capital has deteriorated below 2%. Only a decade ago the agency viewed 6% as the magic number for capital.

These pieces of paper are supposed to bolster the balance sheets of troubled S&Ls and permit the institutions to compete with other financial intermediaries. The fact is that the more desperate the plight of weak S&Ls the more desperately they reach out to acquire or keep deposits. In the early 1930s, when the Reconstruction Finance Corp. (RFC) issued similar pieces of paper to commercial banks, they were called preferred stock. Knowledgeable businessmen and bankers viewed the appearance of RFC obligations on a bank's balance sheet as red flags.

In one sense, the situation is worse now for S&Ls than it was in the '30s. This is because, from the '60s to the mid '70s, S&Ls were writing mortgages with interest rates as low as 6½%. Many of those loans are worth only 70¢ or so on the dollar and are still on the books but they are carried by virtue of regulatory accounting principles at their original face value. Thus, a thrift with a stated capital of 2% or less and supported by pieces of paper from the FHLBB probably has a negative net worth of several percentage points. Such institutions can remain afloat only if they generate positive cash flows.

Fortunately, many thrifts have been able to generate such flows, but for literally hundreds there is a question whether they can continue operating that way.

The Comptroller recently instructed national banks to value U. S. government securities put up as collateral for loans at their market, rather than their face, value. But banks' holding of governments in investment accounts are carried at cost, not market.

A logical question could be asked as to rediscount advances made by the Fed for banks putting up U. S. government securities for those advances. Should they similarly be valued at market?

Legitimate voices have been raised against disclosure by banks of obligations of foreign countries. Similar sentiments have been expressed about banks reporting 60-day past-due loans in the future.

With the exception of a relatively few periodicals, the typical financial writer is lacking in sufficient background to discuss such topics as past-due loans intelligently. Nonetheless, bankers would be Pollyannish to think this topic can be brushed under the rug. The regulation will pressure all bankers to ride closer herd on their loans and, long before they are 60 days past due, to take stern steps to restructure them.

It would behoove most banks to have their boards designate one individual in the bank — probably the CEO — to be the official spokesman to discuss this extremely sensitive topic with the media.

Several thoughts in this area come to mind. One is that the track record of banks, even at their worst, is substantially better than that of government-financing agencies, such as Federal Farm Loan programs or SBA loans. In comparison with those programs, losses of most banks look miniscule.

Another positive step: Now that the securities market appears to be buoyant, it may be an opportune time for banks to seriously consider the desirability of infusion of additional capital.

Third, those loans that have been criticized by examiners provide a helpful psychological approach for commercial bankers. By pointing out that classified loans have been identified and are expected to be corrected, the onus to a considerable degree is removed from the bank and the commercial banker and placed on bank examiners.

If your bank doesn't have a loan-review committee, now would be an opportune time to establish one and put it to work on the 10 worst loans in its portfolio. As the worst problems are worked out, other problem loans can be scrutinized.

One study shows that approximately half the loans classified by examiners actually are paid off in full, although it may take considerable time. The bank that takes steps to preserve its position is in a good "oxymoron" position. That is, it can improve its traditional position although circumstances may be deteriorating. ● ●

Wisconsin Convention

(Continued from page 34)

including their excellent profit records, strong capital positions, relative freedom from anti-trust restraints and, most significantly, knowledge of their markets and customers. "I simply don't believe that major institutions managed and headquartered at great distances can make significant inroads on these important market regulationships so long as the local institution offers services at competitive prices," he said.

Concluding, Mr. Keehn warned against gaining a false sense of security from restrictions and moratoriums. "The risk is that if we use the moratoriums as a crutch, we will continue to provide opportunities for those that are not impeded by regulations."

Iowa banker C. Robert Brenton also commented on deregulation, arguing that bankers should lobby for further deregulation so they can engage in insurance, real estate and other businesses of their non-bank competitors.

Mr. Brenton, ABA president-elect and president, Brenton Banks, Inc., Des Moines, pointed out that "Everybody is getting into our business and we can't get into theirs. It's just about time," he said, "to quit being Mr. Nice Guy. This is getting serious."

Mr. Brenton referred bankers to the ABA-sponsored study completed by Arthur Young & Co. This study shows, he advised his listeners, the types of businesses that banks can readily adapt to present operations without the addition of large amounts of capital or without the need of intensive training programs. He urged bankers to obtain a copy of the study from the ABA if they haven't already done so.

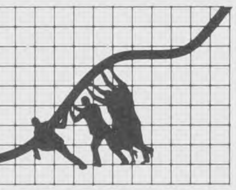
Keynote speaker of this year's convention was Wisconsin's Governor Anthony S. Earl, who had some good news and bad news for his listeners. The good news: the state will balance its budget. The bad news: "all of us will face higher taxes for the next two years so Wisconsin (can be) stable and solvent!" — **Ralph B. Cox, publisher.**

● **J. Robert Brubaker,** senior vice president, Equibank, Pittsburgh, has been elected president, National Automated Clearing House Association (NACHA). He succeeds James F. Lordan, senior vice president, State Street Bank, Boston. Merrill T. Miller Jr., senior vice president, California First Bank, San Diego, was elected NACHA vice president, and Garry L. Singer, NACHA's staff director, was elected secretary/treasurer.

The Smart Money is Heading to Atlanta

68th Annual Convention of the Bank Marketing Association

Managing for Profitability:
THE MARKETING CHALLENGE



THE ATLANTA HILTON • ATLANTA, GEORGIA • OCTOBER 23-26, 1983

The good news is, deregulation is going to make marketing people the heroes of the banking industry.

The bad news is, heroes aren't allowed to fail.

BANK MARKETING ASSOCIATION

Which means that marketing will not only be expected to make a greater contribution to bank profitability, it will also be held more accountable.

That's why the smart money is heading to Atlanta in October. To get a crash course on what marketing people can do to insure their own success and the success of their banks.

It's the 68th Annual Convention of the BMA, and the cynics among us are already calling it a survival course.

Here are some of the highlights:

■ Presentations from non-banking executives who have fought the battle of deregulation. And won. Which gives us a chance to learn from them, instead of reinventing the wheel.

■ A fascinating analysis of the trends that are shaping our lives and our futures by John Naisbitt, author of the current best-seller *MegaTrends.*

■ For perhaps the first time in history, the presidents of three Federal Reserve Banks on the same podium, discussing the future of our industry from their unique perspective.

■ Workshop sessions developed along five different tracks. You can follow one track all the way through, or you can mix 'n match.

■ "How To" sessions, which you'd expect, and "Why To" sessions, which you might not expect. So, you can not only learn the nuts and bolts, you can also explain the concept to top management. And that might be the most important thing you'll ever learn.

■ We've left room for a red-hot-topic session. Nobody knows what it'll be about, but you can bet that by convention time the rumor mill or DIDC will have given us all something to talk about.

■ And, apropos to our Georgia convention site, we've put together a peach of a program on the social side. For you and your spouse.

So, before you do anything else today, send in the attached response form for further information and a convention registration form.

And join the smart money in Atlanta.

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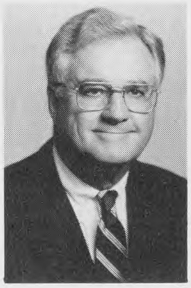
Boards of ABA, BMA Agree to Merge; BMA Membership to Vote in Sept.



KENNEDY

DEUTSCH

ROSENBERG

DIRECTORS of the Bank Marketing Association (BMA) have unanimously agreed to recommend to the BMA membership that it approve an offer to affiliate with the American Bankers Association (ABA). Officers of both organizations have been meeting and working out details for the proposed merger. ABA directors approved the merger concept at their June meeting.

A special meeting of the membership will be held at BMA Headquarters, 309 West Washington Street, Chicago, to vote on the proposal. A two-thirds vote of members present and voting, including proxies, is required for approval. The date for the meeting, which is tentatively scheduled for September, has not yet been set.

Under the terms of the proposed affiliation, the BMA would be merged into a new Delaware corporation to be formed by the ABA before November 30, which is the last day of the BMA's fiscal year. Thereafter, all ABA member banks would automatically be eligible to participate in BMA functions without paying corporate dues to the BMA. Individual members and banks that are not ABA members, as well as service firms and international banks, would continue as BMA members and would continue to pay dues.

To assure that the current level and quality of BMA activities will continue, the ABA has agreed to underwrite the BMA for a five-year period for the amount of the corporate dues relinquished — estimated at $1.7 million annually. There is no present plan to move the BMA offices, which will remain in Chicago and will continue to be headed by BMA Executive Vice President Raymond M. Cheseldine.

The proposed affiliation was hailed by ABA President William H. Kennedy Jr., as an idea whose time had come.

"The synergy accomplished by the joining of forces of these two strong banking organizations is symbolic of what is happening in today's financial-services industry. We believe that such an affiliation will enhance the financial community while strengthening the BMA's ability to continue to deliver its professional marketing programs and services to a far wider membership base than has been possible in the past. We are both pleased and excited about future prospects," Mr. Kennedy said. Mr. Kennedy is also chairman of National Bank of Commerce, Pine Bluff, Ark.

BMA President Richard M. Rosenberg, vice chairman, Wells Fargo Bank, San Francisco, urged BMA members to approve the affiliation, for it assures continued funding of the association's activities while relieving individual banks that also are ABA members of the financial burden of paying additional dues to the BMA.

"Holding operational costs down to their lowest level is essential for profitability in a deregulated environment," Mr. Rosenberg declared, "yet the need to enhance our marketing effectiveness has become ever more important. We feel this affiliation is the best possible way to extend the BMA's marketing services to the entire financial industry without requiring banks to pay dues to additional associations. Furthermore, this affiliation absolutely preserves the organization, governing structure and integrity of the BMA. That concept was key to our agreement and is assured to us by the ABA."

The proposal endorsed by the BMA board provides for combining the ABA marketing division executive committee into the board and councils of the BMA. It also calls for blending the leadership of the two organizations in such a way that current BMA officers and ABA marketing division leaders would assume the presidency of BMA in alternate years, beginning with BMA First Vice President Barry Deutsch, senior vice president, Mellon Bank, Pittsburgh, who would succeed Mr. Rosenberg as president at the BMA's annual convention in Atlanta in October.

BMA presidents in succeeding years would be as follows: 1985, Robert A. Krane, vice chairman, Norwest Corporation, Minneapolis, who currently is vice chairman, ABA marketing division; 1986, Smith W. Brookhart III, president/CEO, Centerre Bank, Branson, Mo., who currently is BMA second vice president; 1987, John A. Russell, vice president/director of marketing, Banc One Corp., Columbus, O., who is a member of the ABA marketing division's executive committee; and 1988, Michael P. Sullivan, vice president/corporate communications, First Union National, Charlotte, N. C., who is BMA second vice president-elect.

In succeeding years, the BMA president and board would be nominated under the present BMA nominating committee procedure and their names submitted to the ABA president for approval under the normal ABA appointment process.

The BMA was founded in 1915 as the Financial Advertisers Association, which later became the Financial Public Relations Association, the Bank Public Relations and Marketing Association, and, in 1970, the Bank Marketing Association. ● ●

Under the terms of the proposed affiliation, the BMA would be merged into a new Delaware corporation to be formed by the ABA before November 30, which is the last day of the BMA's fiscal year.

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Banks Enjoy Position of Strength According to BAI-Andersen Study

DESPITE increased competition, banks will continue to enjoy competitive advantages over thrifts and nonbank money-market funds in attracting retail deposits and are expected to maintain their historic market share of total outstanding credit.

These predictions are revealed in a study of the banking industry sponsored jointly by the Bank Administration Institute (BAI) and Arthur Andersen & Co. The study presents consensus opinions of hundreds of banking and financial-services executives who were polled twice during the year-long project.

The study, *New Dimensions in Banking: Managing the Strategic Position*, indicates that throughout the 1980s consumers will perceive banks as offering greater service availability and as having a better image than thrifts. In addition, banks will retain a competitive advantage over nonbank money-market funds because of convenient location.

"Taken together, these advantages suggest that banks are well positioned to attract deposits, despite a perceived rate advantage held by thrifts and money funds," said Joel P. Friedman, a partner in the San Francisco office of Arthur Andersen's Management Information Consulting Practice and co-manager of the study.

Between 1980 and 1990, study participants believe banks' percentage of deposits will decline only slightly, from 60% to 57%. During the same period, however, thrifts' share of deposits is expected to decrease sharply, from 36% to 28%. The anticipated combined 11% drop will be absorbed by securities firms, retailers and other new entrants.

"A wide choice of products will become even more important to customers in deciding where to deposit their funds," said Richard J. Wurzburg, BAI executive vice president/planning and development, and the study's other co-manager. "Consequently, a strategy of specializing by offering a limited product line may inhibit deposit growth."

In terms of total outstanding credit, the study predicts that banks and thrifts will hold their historic shares of 41% and 23%. Finance companies' share, however, is expected to decline significantly to about 20%, with insurance companies, retailers and securities firms achieving gains.

Participants expect thrifts will remain the dominant home-mortgage lender for 1990, despite a substantial drop in market share from 40% to 33%. Banks and government agencies at the federal and state levels are expected to maintain stable market shares while mortgage pools and pension funds will show gains, according to the survey.

Taking part in the survey were panels of CEOs from banks of all sizes; bank chief operations officers; investment bankers and financial analysts; regulators and legislators; and CEOs of nonbank financial institutions.

Participants forecast the strategies most likely to achieve success in the banking environment of the 1980s. Their consensus responses provide

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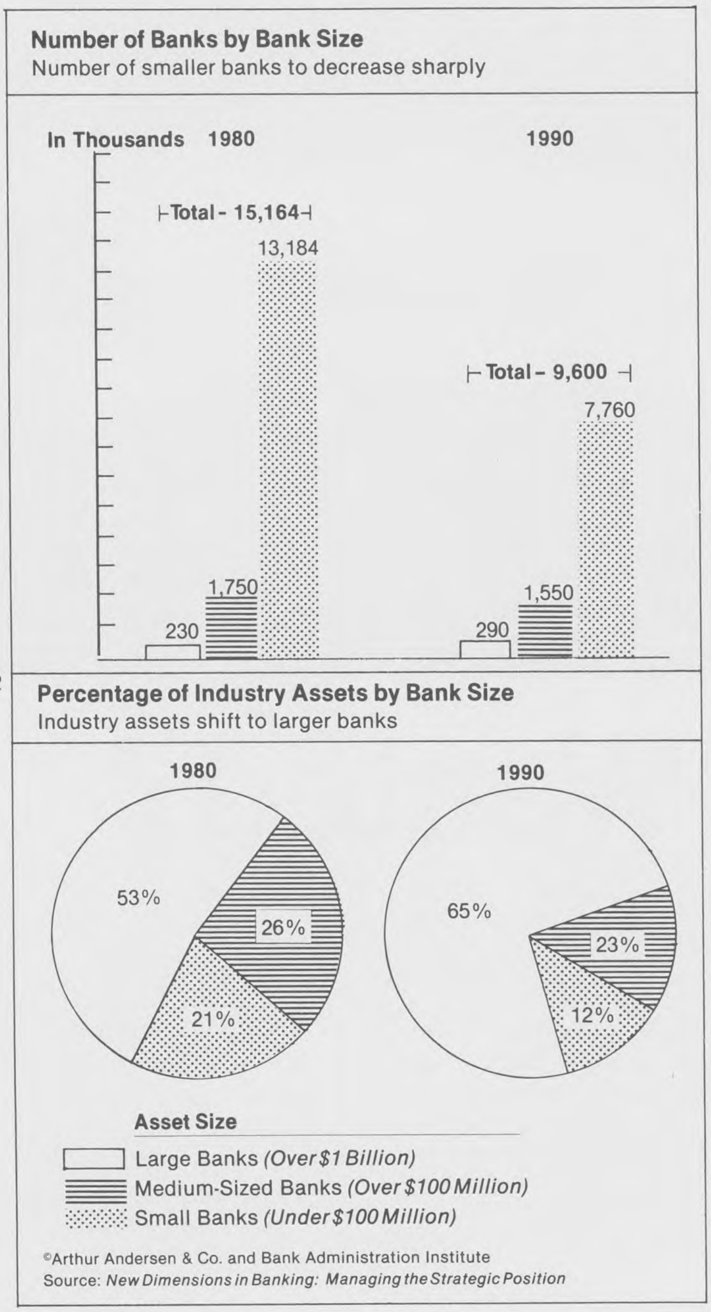


financial executives and planners with information regarding changes and trends in regulation, industry structure, technology, bank financial performance, bank sources and uses of funds, market outlooks and competitive strategies.

"The report also highlights 13 strategic success factors — key indicators of internal and external bank performance — that survey co-sponsors believe will improve a bank's ability to assume a strong, differentiated market position and operate profitably in the 1980s," said Mr. Friedman, who specializes in banking and strategic planning. "These factors focus on those few areas that are most critical to an organization's future profitability."

Although nonbank acquisition of banks is expected to be minimal, panelists expect the number of banks in the U. S. to continue to decline from approximately 15,000 in 1980 to about 9,600 in 1990 (See Chart 1). Attrition is expected to be greatest among small banks (under $100 million).

"This major industry consolidation will occur gradually and is expected to involve more than half of all banks in merger activities, either as acquirers or acquisition targets," said Mr. Wurzburg. "Nonbank acquisitions of banks are expected to be minimal."

As a result of this industry consolidation, bank assets are expected to be more concentrated in large banks (over $1 billion), which are predicted to account for nearly two-thirds of all industry assets by 1990 (See Chart 2).

In terms of market strategies, most banks plan to serve a balanced mix of retail and commercial customers and maintain a posture as full-service institutions. Banks expect to price more explicitly, unbundling product offerings.

Large and medium-sized banks are likely to compete for the so-called "middle market" commercial customers — offering a full range of high-quality, highly automated services. Small banks are expected to differ significantly from their larger counterparts, serving fewer industries, focusing on small businesses, offering a narrower range of services and serving local markets.

> New Dimensions in Banking *is available at $40 per copy from Arthur Andersen & Co., P. O. Box 1022, Tinley Park, IL 60477.*

Large banks appear more committed to the retail-market segment than many competitors perceive. But these same large banks, which view themselves as the only likely full-service retail providers, may find stiff competition for "high-net-worth" customers.

Concerning the regulatory environment, panelists believe the Fed should pay interest on reserves. Bankers believe the Fed should continue supervising and regulating banks and providing basic check-clearing services. Large banks, regulators and legislators voice strong opposition, however, to the Fed's position as a payment-systems competitor.

In other findings, the survey suggests that institutions expecting to achieve major gains through entry into new business areas would be wise to temper their optimism. Moderate success, at best, is forecast for such ventures, with entry into brokerage services likely to prove most successful.

Despite the widespread interest in home banking, panelists foresee marginal profitability for such operations because of high start-up costs and limited market potential. Forecasts indicate home banking will be used by only about 10% of the nation's households in 1990, but up to half of all banks are expected to offer such services defensively to prevent competitors from gaining a market advantage.

Competition, not consumer demand or the prospect of consumer acceptance, is driving innovations in home banking, ATMs and other high-technology services, panelists say. Thus technology is expected to have an evolutionary, rather than revolutionary, impact on the banking industry. Pioneers in technology are expected to gain only short-term market advantages because new systems will be relatively easy to replicate.

Survey participants expect bank earnings to decline as a result of higher deposit costs, new-product expenses and increased competition. Return on assets is expected to drop for all sizes of banks.

Although small banks are expected to experience the greatest earnings erosion, they will retain the highest ROA by bank size. Specifically, estimates indicate that by 1990, bank ROA is expected to drop from 1.13% to under 1.0% for small banks, from 0.92% to 0.86% for medium-sized banks and from 0.82% to 0.76% for large banks. ● ●

Northwest Ohio Banks Launch Bankruptcy-Awareness Program

SIX BANKS in northwest Ohio have joined with other financial institutions and the Credit Bureau of Toledo to conduct a program aimed at making consumers more aware of alternatives to bankruptcy as a way to deal with financial problems.

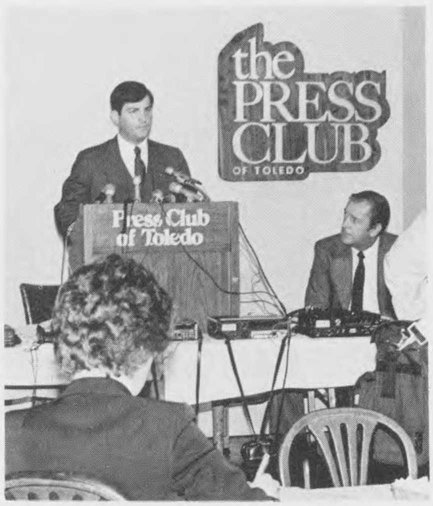
The lenders have begun a public-education campaign that includes broadcast announcements and print advertisements, lobby displays and distribution of literature. In addition, representatives of the participating institutions are being scheduled to talk before community groups and on media interview programs.

Theme of the campaign underscores the point that "bankruptcy may be a problem, not a solution."

Participating banks include First National, Huntington National, Mid-American National and Ohio Citizens Bank, all in Toledo. Four thrifts also participate.

"The number of personal bankruptcies in the Toledo area has steadily increased in the last five years, a situation that mirrors national trends," said John White Jr., senior vice president/retail lending, Ohio Citizens Bank, and chairman of the bankruptcy task force formed to structure the program. "This has had a profound effect on lenders in terms of increased losses on consumer loans."

The need to impact the growing number of bankruptcies by making consumers aware of the consequences and alternatives prompted the Toledo-area financial institutions to meet for the first time late last year. The group agreed to assess themselves a one-time fee, prorated into shares based roughly on each institution's assets, to fund a public-education program. A steering committee was formed to oversee development of specific program elements.



John White Jr. (standing), bankruptcy task-force ch., and William D. Travis (seated), take part in press conference announcing start of bankruptcy-awareness program for Toledo, O., area. Mr. White is s.v.p., Ohio Citizens Bank; Mr. Travis is v.p., First Nat'l, both in Toledo.

The program was announced in May and has received support from the local news media and the community at large.

"The single purpose of the program is to educate consumers about what bankruptcy might mean to their financial future and make them aware of options that exist within the community to help them deal with their debts as they become overextended," said William D. Travis, vice president/director of marketing, First National, Toledo.

Interest in the program is being monitored by recording the number of requests for information by the public.

Ohio May Be Giving Banks $100-Million Tax Refund

The state of Ohio may have to refund $100 million in property taxes to banks in the state as a result of a recent U. S. Supreme Court ruling.

The high court ruled that states that impose property taxes on banks may not include the value of federal securities owned by the institutions when figuring the tax. Federal securities include T-bills, T-notes and U. S. savings bonds.

Although Ohio has not had this personal property tax since 1981, prior imposition of the tax still would be affected by the ruling, say officials of the Ohio Department of Taxation.

Ohio banks already have applied for more than $47 million in refunds resulting from a prior federal court ruling in 1978. It's estimated that the recent ruling would add another $53 million to the amount refundable.

The determination of how the money would be refunded is up to the Ohio legislature. The majority of property-tax revenues went to local governments and these jurisdictions could be forced to share in the repayment.

According to Supreme Court Justice Harry A. Blackmun, a 1959 federal law "prohibits any form of tax (on banks) that would require consideration of federal obligations in computing the tax."

Bank-Tax Study Authorized

The Ohio legislature has authorized a two-year study on the question of what banks ought to be taxed and how.

In the interim, the legislature decided on a net-worth tax for banks and S&Ls that amounts to a basic 15-mill tax, or $15 on each $1,000 of net worth. An additional 1.54 mills will be charged on banks and 6.47 mills on S&Ls. The new tax will cost banks about $90 million this fiscal year.

Because of the generally lower net worth of thrifts in relation to banks, both categories of institution will be paying about the same under the formula, according to Ralph Bolen, executive vice president, Ohio Bankers Association.

The action represents a victory of sorts for financial institutions, since Ohio Governor Richard Celeste had wanted to return to a full tax on deposits of banks and S&Ls. This tax had been phased out about two years ago in favor of a corporate franchise tax that is levied on all business firms in the state.

Survival Planning: A 'Must' for Banks

Excerpts from remarks by James E. Brown, president, Mercantile Bancorporation, Inc., St. Louis, at Mercantile's 28th Annual Correspondent Banking Conference, June 1, 1983.

By James E. Brown
President
Mercantile Bancorp.
St. Louis

I WILL discuss in brief fashion the conclusions of basic strategies adopted by Mercantile Bancorporation's 30-plus "community" banks in a *deregulated* environment.

To go back a little, the first year our banks attempted formalized long-range "strategic" planning, we became bogged down in form and detail. In several cases, we were trying to climb to the "mountain top" when we were up to our "kiesters" in mud (loan problems in several of our banks). In short, we needed to address the *basic* problems and deal with those *fundamentals* that will ensure our viability, in fact, our survival. I don't believe we are exaggerating the case for survival — just read the press!

For the most part, my comments reflect my own observations and the basic fundamental goals of our affiliate banks, *not* those of Mercantile Trust, our lead bank or the parent holding company.

Peer comparison. Compare all of your meaningful statistics with peers of similar size. If you haven't done so already, join a noncompeting peer group. You will learn more than you can at broadly based conferences, if only you "lie honestly" to one another. I consider this one of the most valuable exercises I have ever participated in.

Identify weaknesses. If management can't find any weaknesses, that's its weakness! Frequently this weakness relates to the overwhelming demand we make on our computer capacity and program enhancements. Also frequently it is careless loan administration — the *worst* of all weaknesses, by far.

James E. Brown (l.) chats with Dr. Lewis E. Davids, Illinois bankers professor of bank management at Southern Illinois University, Carbondale, during Mercantile Trust's recent correspondent banking conference. Dr. Davids is author of "The Banking Scene" in *Mid-Continent Banker*.

Identify strengths. Enumerate them and appreciate what you need to hang on to.

Identify opportunities. When we think of opportunities, we are inclined to put "blue sky" in our plans. *Stick with the basics*. This planning step involves defining those relatively few things that really matter and that really influence the bottom line.

Set an action plan. (1) *Who* will carry it out? (2) When — exact month? (3) How? (4) What will it cost?

Each of these steps *must* be carried out. Otherwise it's only a plan and never will be carried out — profitably. And on schedule! Determine what you are going to do, and then form an action plan and focus your attention on the items that truly affect net income and devote all your energies to see *that what needs to be done is, in fact, done. Otherwise you will get caught in a pile of plans and dreams*, and you will find yourself in meetings and in planning during 90% of your workday.

In fact, sit back now and ask yourself, "What is better in my bank today because I actually planned it that way?" Can you name one result of pure longer-range planning? Try to name *three* things that are better today in your bank because they were a direct product of your planning. In addition to *who* will be accountable, who will replace you if you don't get it done?

Minimize plans. As you might expect, most of our conclusions and planning were centered on the guts of banking — the *lending* function! Achieving greater loan volume can invite problems, but, in our view, it is *absolutely essential*. *Survivability in a deregulated deposit rate environment is crucially dependent on strong volume*. Without it, we simply cannot continue to be competitive in rates we pay our depositors. In recent years, almost all of banking's marketing efforts have been related to attracting deposits. The time has come to feature loans in our advertising and marketing efforts.

Documentation. In short, we should plan to have *no* losses as a result of poor documentation.

Cash flow of borrower. This often is overlooked by smaller banks. Focus-

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James E. Brown first joined Mercantile Trust, St. Louis, in 1945, following discharge from the U. S. Army. He served in Korea as a member of the Army reserve and rejoined the bank in 1954 as a member of the correspondent banking department, where he held various management positions before being named department head in 1962. In 1966 he was elected senior vice president and soon thereafter was named a director of the bank and a member of its executive committee. In 1970 he was elected executive vice president/director of Mercantile Bancorp. and in 1972 he was elected HC president. He is one of the founders and the first president of Credit Systems, Inc., and a director of Interbank Card Association. He was a charter member of the ABA's correspondent bank committee and chaired the government legislative arm of that committee. He is active in numerous other groups.

ing all attention on collateral or net worth alone is not sufficient. So obvious, but neglected so frequently.

Collection efforts. Require a formal review of efforts by the audit committee and board. Get proof of effective follow-up on charge-offs and nonperforming loans.

Watch list. In your watch list classifications, do a *better* job than examiners do. Recognize credit weaknesses early and list poor credits before examiners do.

Capabilities. Structure your loan departments on a *solid basis* with effective *disciplines in place* before you *dare* to enlarge your loan volume or approach new markets for loan volume. As you move ahead to increase the volume of outstandings, avoid the tendency to get "sloppy." That is the *surest* way to failure in the face of thinner margins when attempting to increase loans. Continue to emphasize strongly a borrower's capacity to repay.

Eliminate. Banks have so many products today. How much can be saved in costs by cutting out a few? Perhaps the marginally profitable ones? Cost accounting takes on a greater emphasis today.

Training. Give your people a test and, indeed, actually *shop* your new-accounts people to see if they really are professional. The *real difference in banks* — with rates being almost equal — *will be the difference in your employees' skills and ability to handle customers* and their problems. Training and successor management should be treated together. All smaller banks have a real chance here to "outperform" the "biggies."

Mediocrity. Early retirement often is recommended for truly mediocre employees. Early severance is easier, better and less costly. Mediocrity is a luxury banks can no longer endure.

Quality. We continue to believe we can charge more for quality, and customers will pay for it — *if it's real quality!*

Productivity. Remember that these are plans, goals and accomplishments of Mercantile Bancorporation's affiliate banks. They are not theory. These banks realistically are trying to recognize each weakness and opportunity. And, a *key* part of such planning is the recognition of the growing costs of running a bank. The added cost burden of *full-time* employees today — with hospital insurance and other fringe benefits — is going out of sight! McKinsey & Co. said a current 14.5% increase in non-interest expense is a killer of future profit growth. Automated teller machines can allow shorter hours and reduce staff expense. We believe in them! Also, we recommend increased use of part-time employees.

Increased fees. We can expect some loss of *numbers* of accounts, but lower data processing and other costs associated with these low-balance accounts makes the exercise worthwhile.

Float. We still find that some of our most unprofitable accounts are those we thought for a long time were among our best. *Analyze intently for uncollected funds*. In the face of the new Fed pricing policy, account analysis takes on an even greater importance.

Expanded trust services. There are a lot of rich farmers still living as if they were poor. And some poor farmers acting as if they are still rich! We believe that our trust marketing in this area will prove that professional trust services for farmers are worth pursuing.

Cross-sell maturities. Who knows for a fact where rates are going? We need to market long *and* short deposit instruments.

Acquisitions. When planning a merger or acquisition, you are buying — or selling — future earnings. In that context, we are discounting to some extent the recent history of high returns on assets. In the future, also, our aim for merger candidates will be on *management talent — more than ever!*

Asset/liability. This deserves continued intensified efforts. Make greater use of the micro-computer.

Loan pricing. Relationship pricing seems to many smart bankers to be the better way to price. I'm impressed with this quote from Dr. Bruce Adamson, CEO, First Community Bancorporation, Joplin, Missouri, and chairman of the ABA commercial lending division, in a speech he made before Robert Morris Associates May 19: "Our efforts are driven by the simple concept that if a bank somehow can manage to maintain some semblance of its net-interest margin, it really makes no sense at all to give hard-earned profits away through massive increases in provision for loan losses!"

In summary, no bank can survive on deposit growth alone, without substantial loan volume or if it doesn't offer competitive rates. As we increase our loan volume, we will *face an increasing challenge in preserving the quality of our loan portfolios*. It is in this area that we will win or lose the battle to survive!

What all this adds up to is that we intend to step on the credit accelerator and develop a better steering and control system at the same time. In my view, there is very little choice! • •

BankAmerica/Seafirst Merge To Form Largest Bank HC

The largest interstate banking acquisition in the nation's history was completed last month when BankAmerica Corp., San Francisco, took over Seafirst Corp., Seattle.

About 80% of Seafirst's shareholders supported the acquisition, which involved $250 million in cash and a preferred-stock offer from BankAmerica, which also agreed to inject $150 million in new capital into the HC's ailing bank, Seattle First-National, which has suffered severe loan losses in connection with its dealings with failed Penn Square Bank, Oklahoma City.

The combination of $119.7-billion BankAmerica with $9.6-billion Seafirst resulted in the nation's largest bank HC, with total assets of more than $129 billion.

Seafirst and its bank continue to operate under their original names.

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