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Insurance • Investments • Risk Management Issue

Learning From the WHOOPS Debacle 10

Using Treasury Holdings as Hedges 18

Discount Brokerage a 'Must' for Banks 20

Profiting From Captive Life Reinsurers 42

Applying Risk Management to All Levels .. 48

ABA Convention Report
Page 22

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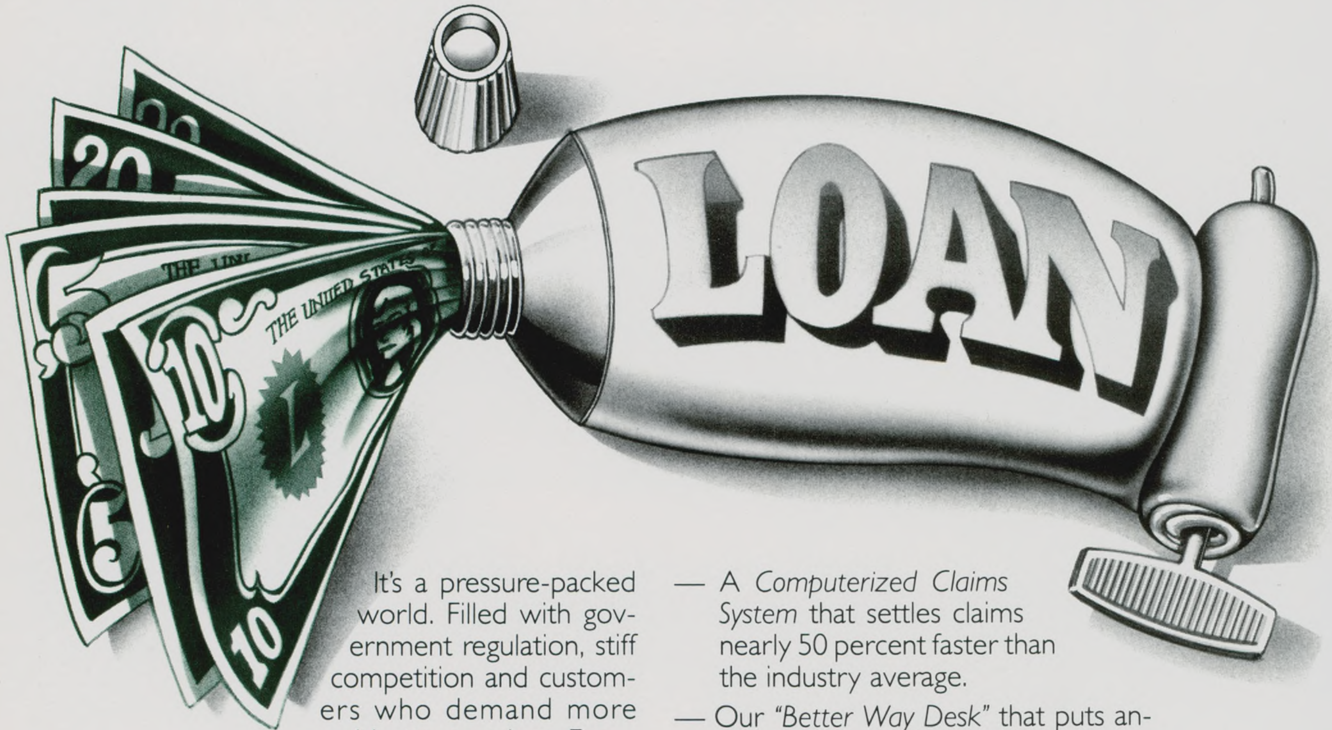

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MID-CONTINENT BANKER

(Incorporating MID-WESTERN BANKER)

Volume 79, No. 11 **November, 1983**

IN THIS ISSUE

FEATURES

10 THE WHOOPS DEBACLE—
What lessons can be learned?

14 MUNICIPAL LEASE/PURCHASE AGREEMENTS
Offer alternative to muni bonds

18 TREASURY HOLDINGS AS HEDGE
Against rate fluctuations

20 DISCOUNT BROKERAGE A 'MUST' FOR BANKS
Competition mandates the service

22 ABA CONVENTION REPORT
Meeting is platform for banking interests

34 DIDC VOTES OUT MINIMUM BALANCES FOR PLANS
IRAs and Keogh plans affected

35 BANK-LEASING PROGRAM CAN BE PROFITABLE
Seminars shows bankers how to benefit

38 BANKING AND INSURANCE:
Opportunities and possibilities that exist

42 PROFITS FROM CAPTIVE LIFE REINSURERS
HC subsidiaries benefit from service

44 MUNICIPAL-BOND INSURANCE HELPS BANKERS
They can use it to invest with confidence

48 RISK MANAGEMENT APPLIES TO ALL LEVELS
Can be applied to nontraditional areas

DEPARTMENTS

8 THE BANKING SCENE 26 STATE NEWS

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Convention Calendar

Dec. 5-9: Bank Marketing Association Southeastern Essentials of Bank Marketing School, Athens, Ga., University of Georgia.
Dec. 11-14: Bank Administration Institute ATM/6-National Conference, Atlanta, Hilton Hotel.
Dec. 14-15: Risk Planning Group's (Darien, Conn.) conference on "Captive Insurers: Focus on Political Risk," Miami, Doral Hotel/Country Club.
Jan. 15-18: Bank Administration Institute PATH Conference on Productivity, New Orleans, Sheraton Hotel.
Jan. 20-21: Equipment-Lease Seminar, New Orleans, Marriott Hotel.
Jan. 31-Feb. 3: ABA Insurance & Protection National Conference, San Francisco, Hyatt Regency Hotel.
Feb. 5-8: ABA National Trust Conference, San Francisco, San Francisco Hilton & Tower.
Feb. 5-8: ABA Telecommunications and Financial Networks Workshop, San Francisco, Hyatt Regency San Francisco.
Feb. 12-16: Bank Administration Institute Bank Auditors Conference, New Orleans, Hyatt Regency New Orleans.
Feb. 12-24: ABA National School of Retail Banking, Norman, Okla., University of Oklahoma.
Feb. 14-17: ABA Bank Investment Conference, Atlanta, Atlanta Hilton & Towers.
Feb. 16-19: 56th Assembly for Bank Directors, Maui, Hawaii, Hyatt Regency.
Feb. 26-29: ABA National Assembly for Community Bankers, Phoenix, Hyatt Regency Phoenix.
Feb. 29-Mar. 2: ABA National Credit/Correspondent Banking Conference, Phoenix, Hyatt Regency Phoenix.
Mar. 4-7: ABA Trust Operations and Automation Workshop, San Diego, Sheraton Harbor Island.
Mar. 4-7: Bank Administration Institute Security Conference & Exposition, Washington, D.C., Sheraton Hotel.
Mar. 11-13: ABA Corporate Commercial Marketing Conference, Denver, Fairmont Denver.
Mar. 18-21: National Automated Clearinghouse Association 1984 NACHA Surepay Conference, New Orleans, Fairmont Hotel.
Mar. 19-23: Bank Administration Institute Check Processing Conference, Dallas, Amfac Hotel.
Mar. 23-24: Equipment Lease Seminar, Nashville, Opryland Hotel.
Mar. 25-29: Independent Bankers Association of America Annual Convention, New Orleans, New Orleans Marriott.
Mar. 25-Apr. 5: ABA National Commercial Lending School, Norman, Okla., University of Oklahoma.
Mar. 28-Apr. 1: Association of Reserve City Bankers 73rd Meeting, Boca Raton, Fla., Boca Raton Hotel.
Apr. 6-10: Louisiana Bankers Association Annual Convention, New Orleans, Hilton Riverside & Towers.
Apr. 8-10: Conference of State Bank Supervisors Annual Convention Tarpon Springs, Fla., Innisbrook.
Apr. 8-11: ABA National Retail Banking Conference, New York, New York Hilton.
Apr. 8-13: Robert Morris Associates Loan Mangement Seminar, Columbus, O., Ohio State University.
Apr. 12-15: 57th Assembly for Bank Directors, Hiltonhead, S.C., the Hyatt on Hiltonhead at Palmette Dunes.
Apr. 16-18: Ohio Bankers Association Annual Convention, Columbus, Hyatt Regency.
Apr. 29-May 2: Bank Administration Institute Accounting and Finance Conference, New Orleans, Fairmont Hotel.
May 2-4: Texas Bankers Association Annual Convention, Fort Worth, Hyatt Regency.
May 6-8: Oklahoma Bankers Association Annual Convention, Oklahoma City, Sheraton Century Hotel.
May 6-9: ABA National Conference on Real Estate Finance, Chicago, Hyatt Regency Chicago.
May 7-10: Annual Premium Incentive Show, New York City, New York Coliseum.
May 9-11: Kansas Bankers Association Annual Convention, Overland Park, Regency Park Resort & Convention Center.
May 11-12: Equipment-Lease Seminar, Louisville, Hyatt Regency.
May 12-16: Arkansas Bankers Association Annual Convention, Hot Springs, Arlington Hotel.

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

Should Your Bank Switch Its Charter?

WHILE teaching at Texas A&M University in the early 1950s, I made a recommendation to the chairman of a state-chartered bank that was a Fed member, but that had not used the Fed's services for rediscounting or advances. The recommendation was that the bank drop its Fed membership and use its reserves and those of its correspondents more productively.

My recommendation wasn't accepted, but think of the tens of hundreds of thousands of dollars that could have been saved over a 30-year period if it had been. Later, in consulting with community banks in Missouri and Illinois that were Fed members, I made similar recommendations and, in some cases, my recommendations were accepted.

Of course, the Monetary Control Act that became effective at the end of last year has closed that attractive loophole for community banks, but the Garn/St Germain Depository Institutions Act of 1982 appears to have opened an attractive opportunity for many commercial banks, regardless of whether they are Fed members, state-chartered banks or national banks. So far as I know, no banks have availed themselves of this opportunity, but it's certainly worth investigating.

The opportunity of which I speak is to switch your charter to a federally chartered thrift. Your initial reaction as a sophisticated banker is probably, "How nutty can you get?" After all, thrifts are, as a general class, more suspect in the eyes of the public than banks. We'll accept that as a valid point, but in rebuttal, I must point out that the charter change does not necessarily imply a major change in the name or logo of the bank. In fact, the public probably would not be aware of the change and there are many pluses to consider.

As a federally chartered thrift, you would have only one regulatory agency looking over your shoulder — the Federal Home Loan Bank Board. I don't need to remind you of the many federal and state agencies that oversee the operations of national and state-chartered banks.

Nor do I mean to imply that the FHLBB is a patsy for the institutions it regulates, but its relationship with S&Ls is much cozier than that of banks and the Fed, the FDIC or the Comptroller of the Currency. Banks, for instance, have to issue quarterly uniform bank-performance reports, which contain a great deal of information about past-due, non-accrual and renegotiated loans that most banks probably would just as soon not release.

> "Differences in the way laws are enforced as well as those regulations that continue to place bankers on an unequal competitive footing despite deregulation may have prompted you to consider changing to a new federal thrift charter. To that, I say, why not?"

The FHLBB does not require such reports of S&Ls, illustrating its characteristic protective attitude toward the institutions it regulates. To say that the paucity of bank performance reports sold to the general public makes my point moot is to misunderstand the advocacy role the FHLBB plays in behalf of S&Ls.

Thomas P. Vartanian, the FHLBB's general counsel, has been quoted as saying that a chartered thrift institution could "branch or merge interstate and establish automatic teller machines anywhere in the world." Mr. Vartanian, who incidentally also is general counsel to the Federal Savings and Loan Insurance Corp., further states that an S&L's corporate parent would not be subject to Federal Reserve Board laws restricting bank HCs. He says the S&L HC would be free to engage in virtually any activity not expressly forbidden, to make any investment it wished and to have a controlling interest in almost any company it chooses anywhere in the world.

Limitations have been placed on the new federal stock savings banks that may, indeed, be more burdensome than those on institutions with an existing bank charter. But those limitations are technicalities rather than reflective of the true manner in which the FHLBB regulates S&Ls. The FHLBB often has been willing to waive restrictions and has shown a willingness to tolerate conditions that federal bank regulatory agencies would never permit. Would banks have been permitted to operate for over a year with a negative net worth as the failed Biscayne Federal Savings & Loan in Miami was?

As the old saying goes, if you can't beat 'em, join 'em. Differences in the way laws are enforced as well as those regulations that continue to place bankers on an unequal competitive footing despite deregulation may have prompted you to consider changing to a new federal thrift charter. To that, I say, why not?

In many bankers, a deep-seated aversion to changing charters exists. I remember discussing how much more flexible a state charter is with the CEO of a venerable national bank several years ago. While acknowledging the rightness of my argument, he said that his bank had been chartered nearly 70 years earlier by the Comptroller of the Currency and he was loathe to give up that sentimental attachment.

But wouldn't a charter by any name be just as sweet, especially if it offered tremendous advantages over an ex-

(Continued on page 43)

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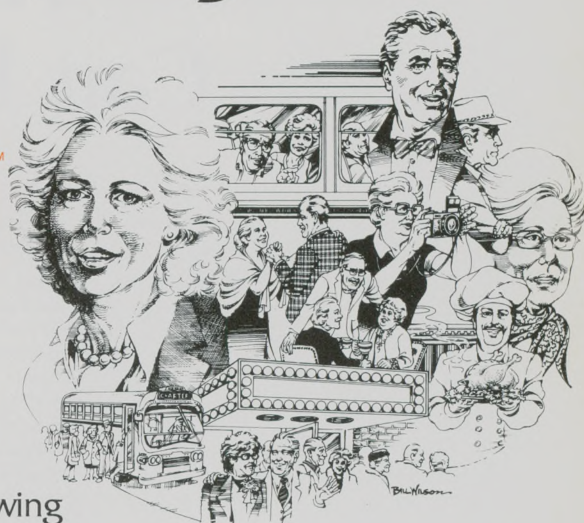

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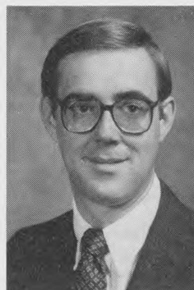
The WHOOPS Debacle — What Lessons Can Be Learned?

By John G. Phillips Jr.



John G. Phillips Jr. is v.p./municipal analyst in the bond department, United Missouri Bank, Kansas City. He joined the bank in 1975 on graduation from the University of Pennsylvania's Wharton School of Finance, where he received a master of business administration degree. Mr. Phillips also holds a bachelor of business administration degree from the University of Notre Dame, South Bend, Ind.

THE Washington Public Power Supply System (WPPSS) — or "WHOOPS" as it sometimes is referred to — formally acknowledged this summer that it was unable to pay debts on its nuclear projects Nos. 4 and 5. The admission that the WPPSS would default on $2.25 billion in bonds sold to finance the two plants will result in the biggest municipal default in history. If we are to see what lessons can be learned from this debacle, it is wise to take a broader look at some recent trends in financing municipal bonds.

The needs of traditional issuers of municipal bonds, such as cities, states and counties, have grown in recent years, and the necessity to repair or replace the country's deteriorating infrastructure has become a popular topic of late. Use of tax-exempt financing by power and housing authorities and other borrowers also has grown dramatically. At the same time as these issuers' needs have increased, their ability to raise revenues to finance the improvements has become more difficult. Growth in domestic spending by the federal government is being curbed as Congress grapples with enormous deficits. Taxpayers, who already feel overburdened, are in no mood to service increased debt and have taken measures to prevent further increases in taxes. Beginning with California's Proposition 13, voters have had some success in rolling back taxes or limiting their increase.

The struggle has intensified between taxpayers who, on the one hand, want no increase in taxes or hikes in utility rates to pay off additional debt, and bond buyers, on the other, who have become more wary of municipal credits since the New York City financial crisis, with each trying to shift the financial responsibility to the other party. Due to the reluctance of both buyers and sellers of bonds to accept the cost and possible problems in repaying debt, financial innovations that aid in averting risks have come into increased use in the market. Implements such as bond insurance, letters of credit, "puts" and various "takeouts" for housing notes have been designed to make certain bonds more acceptable to the buyer and lower the borrowing cost to the seller of the municipal bonds.

While such innovations have their place in the market and, in many cases, improve a credit, a thorough understanding of the risk factors involved in the issuance of municipal bonds still is necessary. In the case of WPPSS Nos. 4 and 5, the key to the security was a "take-or-pay" contract. This often has been referred to as a "hell-or-high-water" contract because it was considered an ironclad agreement in which participants must pay the cost of the project no matter what complications occur in completing the project. We may never know exactly how ironclad the WPPSS contracts were because of the Washington Supreme Court ruling that utilities in Washington State did not have the legal authority to enter into such contracts, declaring them invalid. The contract may have worked as it was designed, but its application raised new questions, which led to invalidation of the utilities' contracts.

These new security features have, in many cases, not been used long enough for the public to become fully acquainted with their risk potential, and more legal questions are raised as to their application than with traditional municipal-bond-credit factors. Also, such considerations as willingness of taxpayers to repay the debt and the proper public purpose of certain issues are becoming more important.

The first area to consider in evaluating a credit risk with these innovations is what assumptions are made that will affect the validity and credit-worthiness of an issue, such as the strength of the bank issuing the letter of credit, compliance of borrowers and lenders with the regulations of single-family-mortgage bonds, financial strength of the insurance company insuring the municipal bonds or what the term of the "put" is and under what circumstances it can be removed.

Secondly, general-obligation bonds and "plain vanilla" water, sewer and electric revenue bonds have a long history of legal precedent and case law regarding their usage and limitations, so legal opinions usually do not venture unto untested grounds. Legal opinions on bonds with new features have less legal history and, therefore, are more likely not to be upheld in the courts.

As case law relating to these new security features is built up over the coming years, decisions will be coming out of an environment that is developing an increasingly anti-lender bias, far different from previous years. Irate taxpayers and rate payers and the tendency to look at the federal government for a bail-out make the future legal precedent for these bonds, in my opinion, more questionable.

A third element sometimes missing from bonds backed by these innovations is flexibility. If a key element in the security is faulty or missing, the quality of the credit often is drastically reduced. Related to the question of flexibility is the problem of monitoring

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credits. If an Aaa general-obligation bond is in danger of a downgrade, it usually will show weakened financial statements and deteriorating economic numbers. Often, it takes years for these problems to result in a downgrade, but for those bonds backed by the new credit features, downgradings often are swift and extreme. Downgradings are swift because they often are caused by a surprise occurrence, such as an adverse court ruling, and they are extreme because had the bond been worthy of a premium rating on its own, no additional security feature would have been used. It is important to realize just what the rating agencies look at when they rate a bond and understand that the agencies may react differently to different problem credits with the same rating.

So where does this leave us? It is impossible to answer this question fully since the total impact of the WPPSS default has yet to be determined. Hopefully, a number of positive results will be forthcoming.

First, better information in a standardized form and on a timely basis is becoming the norm in municipal accounting, and this should accelerate the process.

Secondly, this information needs to be disseminated in usable form. The best research and analysis are pointless unless buyers use the information. The number of individuals who are buyers of municipal bonds has grown dramatically, and, therefore, an extensive educational program is needed.

How can you prevent something like the WPPSS from happening to you? Purchase of a bond is like making a loan, and an evaluation needs to be made as to the likelihood of the loan being repaid. The evaluation should be based on past performance of the borrower and on anticipation of its prospective credit-worthiness. Credit risk, however, is not just that the debtor is unwilling or unable to repay the debt. Credit risk includes the risk that the debtor's condition may weaken or be perceived as being more precarious, which would have an adverse affect on the market price of the security. This costs bond holders more money than do actual defaults. Details of a particular bond issue often are crucial and should be heeded, but should not cause one to overlook the basics.

The days when a bond could be purchased, put in a portfolio and forgotten are over, if they ever existed, and constant review is essential today. As banks face stronger and stronger competition and their profits are being squeezed, performance of the bond portfolio takes on greater significance. Sales and purchases should be made in anticipation of events and rating changes, rather than after the fact, to maximize a portfolio's worth. Even after a downgrading, all hope is not lost that the holder will be able to sell the bonds at a reasonable price. Moody's downgraded WPPSS Nos. 4 and 5 from A-1 to Baa on June 10, 1981, over two years before the technical default occurred.

Not all problems can be anticipated, so it is important that a portfolio be diversified, with a limit on the number of bonds it has in any one credit, in any one state or in any one type of bond (single-family-mortgage-revenue bonds, for example). Limits should be set based on geographical proximity, credit quality and availability of bonds. These limits should be reviewed at least annually.

There is no substitute for common sense, and one must fight to keep the element of greed out of the decision-making process. The old saying that the greater the reward, the greater the risk, has not become obsolete. Never be afraid to admit not understanding the situation, and press for additional information if there is some confusion. A knowledgeable bond salesman may not always have the cheapest offerings, but if he understands the market and is aware of possible credit risks, the money he saves you by avoiding bad credits will more than make up for a higher price. Also, before purchasing a bond, try to imagine the worst that could happen and how the debt would be repaid under such circumstances.

In conclusion, the new lesson from the WPPSS is the old lesson of vigilance. The municipal-bond market has seen the introduction of more and more types of bonds, and rapid changes in credit quality can occur, making a thorough credit review essential. This review should be built around the fundamentals of credit evaluation and common sense. Do not take the new financial innovations at face value; familiarize yourself with the negative, as well as the positive, aspects of the security feature. Greater risk in the municipal market brings the potential for greater reward. Portfolio profits can be realized by purchasing undervalued credits, but it is equally important to realize that losses can be avoided by not purchasing credits that are overvalued or contain potential pitfalls.

Opportunities never have been greater for those with the knowledge of municipal credits and a willingness to act rather than react. • •

Glass-Steagall Barrier Crumbling?

A BANK (American National, Austin, Tex.) last month received approval from the Office of the Comptroller of the Currency to operate an investment-advisory subsidiary, MPACT Securities Corp. This action is seen by many as an effort on the OCC's part to eliminate the barrier between the banking and brokerage industries, a barrier imposed by enactment in 1932 of the Glass-Steagall Act. This act defines the line between commercial and investment banking.

The new firm's operations are being coordinated with, but are being kept separate from, those of another American National subsidiary, MPACT Brokers, Inc., a discount brokerage established earlier this year. The bank is a member of Mercantile Texas Corp., a Dallas-based multi-bank HC. Services of MPACT Brokers are being used by all banks in the HC and by 160 other banks in Texas, New Mexico, Oklahoma, Arkansas and Louisiana.

Among services offered by MPACT Securities are advising clients on investments, distributing an investment-advisory newsletter and providing various advisory services for correspondent-bank trust departments and for corporate customers.

In addition, MPACT Securities Corp. has developed a "Southwest strategy," which is a close-up analytical view of companies in Texas and contiguous states that are making news or represent potential investment candidates.

• **Littlewood, Shain & Co.** Richard Lieb has joined this Wayne, Pa.-based consulting firm as executive vice president/chief operating officer. He was senior vice president, operating services, SEI Corp. LSC also has opened three regional offices — Atlanta, New York City and San Francisco.

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AN MCB INTERVIEW

Municipal Lease/Purchase Agreements Offer Alternative to Municipal Bonds

EDITOR'S NOTE. The recent problems with bonds in connection with the Washington Public Power Supply System (WPPSS) incident seems to make municipal lease/purchase agreements more attractive to investors, says Howard Hutchinson, president, Hutchinson, Fox, Inc., Chicago-based firm specializing in this type of investment.

Mr. Hutchinson says tax-free municipal lease/purchase agreements are being used increasingly by non-federal taxing bodies. Value of such agreements was $300 million in 1980, but is estimated to reach $1.5 billion this year. Banks, he says, account for an estimated 85% of the total dollars invested in municipal lease/purchase agreements.

The following interview with Mr. Hutchinson is designed to inform bankers about such agreements.

* * *

MCB: Mr. Hutchinson, what kinds of state and local governments use municipal lease/purchase agreements?

Mr. Hutchinson: Lease/purchase financing has been used by almost all types of taxing bodies. These include state governments, counties, cities, schools, parks, forest preserve and other municipal districts.

MCB: Who are the investors in these financings?

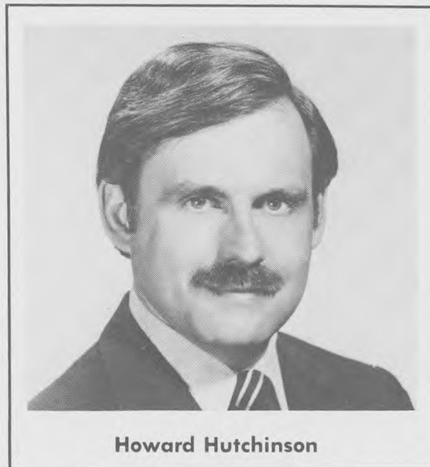
Mr. Hutchinson: These securities have been sold to bank investment and loan portfolios, trust departments, insurance companies and individual investors.

MCB: What kinds of equipment usually are financed?

Mr. Hutchinson: Most often computers, word-processing equipment, photocopiers and telephone interconnect systems. Garbage trucks are common, as are other types of vehicles. Occasional financings can be made for anything from water towers to water meters. In addition, many real-estate financings have been handled in this manner.

MCB: How are payment schedules determined?

Mr. Hutchinson: The municipality and the leasing company select a mutually satisfactory repayment schedule. The municipality has the option of paying monthly, quarterly, semiannually or annually. The repayment period can be from two to eight years. In most cases, payment frequency is monthly and total life of the obligation is from three to five years. Some real-estate financings have had 20-year maturities, but these are rare.


Howard Hutchinson

MCB: What dollar amounts are involved in each purchase?

Mr. Hutchinson: Lease/purchase agreements are written in all sizes — from $5,000 into the millions. The typical transaction is between $25,000 and $150,000. Individual offerings or packages of offerings can be tailored to fit an investor's needs.

MCB: Can one investor participate with other investors in a large financing?

Mr. Hutchinson: Yes. Many transactions are sold in this manner.

MCB: How do yields on municipal lease/purchase obligations compare with those available on municipal bonds?

Mr. Hutchinson: Yield relationships vary over time, but the rate of return on municipal leases tends to average approximately 125% of yields available on five-year "A"-rated municipal bonds.

MCB: Why wouldn't the state or local government issue bonds?

Mr. Hutchinson: Most equipment purchased doesn't cost enough or have a long enough useful life to justify the expense of issuing municipal bonds. Lease/purchase obligations usually are written to match the useful life of the equipment. Additionally, the generation of a lease/purchase obligation is much less time-consuming than the creation of a bond issue.

MCB: What risks does the investor assume?

Mr. Hutchinson: Nearly always, terms of a lease/purchase agreement specify that the government unit acquiring the equipment being financed has entered into a multi-year contract. By law, however, funds must be appropriated annually. The investor assumes the risk that the municipal-taxing body will be unable or unwilling to raise enough money from all sources at its disposal to appropriate necessary funds.

MCB: How many of these obligations have failed to repay?

Mr. Hutchinson: In the experience of my firm, one out of approximately every 400 agreements ends in a failure to appropriate the necessary funds. When this has occurred, it is most often because the municipal government involved has been small and/or unsophisticated, the source of funds was a federal grant that was not renewed or the lease/purchase contract wasn't properly written.

MCB: What happens if my bank invests in one of these transactions and the municipality fails to appropriate funds?

Mr. Hutchinson: Hutchinson, Fox, Inc., the vendor of the equipment and the leasing company that originated the transaction work together to repossess and dispose of the equipment at the highest possible price for benefit of the investor. To date, no municipal lease/purchase obligation sold by my firm has experienced a failure to appropriate funds.

MCB: What protection does the bank have against non-appropriation of funds?

Mr. Hutchinson: A strong contract is the most important protection against non-appropriation of funds. A well-written agreement has clauses that require the local government to pledge its best efforts to make all appropriations for the life of the contract. Also included is a statement that the munic-

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ipality reasonably believes this can be done for every year the agreement is in effect. Sometimes the municipality is required to submit an "essential-use letter" stating why the financed equipment was chosen and listing functions to be performed by the equipment.

A good agreement generally contains a "non-substitution-of-equipment clause" that requires that, for some period of time, the local government will not use similar or identical equipment or contract out the function being performed to any other entity. Together, these pledges create a strong contract.

It has been my firm's experience that, if the equipment is essential to the smooth function of the government involved, if the governmental body is reasonably sophisticated and if the contract language contains the above-mentioned provisions and is properly signed, the risk is well within the criteria for being termed "investment grade."

MCB: What other documents are involved?

Mr. Hutchinson: The investor receives a bound set of documents clearly stating his or her ownership rights in the financing. These include:

- Certificate of ownership or participation
- Assignment documents
- Copy of the agreement
- Legal opinions
- Receipt certificate properly signed
- UCC filing form
- Financial data on the municipality
- Essential-use letter

MCB: What is the annual volume of municipal/lease agreements on a national scale?

Mr. Hutchinson: Estimates of current volume range from \$1.5 billion to \$2 billion per year. During the decade of the 1980s, the combination of rising equipment costs, static municipal budgets and continued citizen demand for services should lead to a dramatic increase in the volume of equipment financed in this manner.

MCB: How long has this business been in existence?

Mr. Hutchinson: Banks have been financing equipment for their local communities in this manner for more than 100 years. However, independently originated transactions didn't become significant until about 1969. The growth of the municipal lease/purchase business since then has been rapid.

MCB: Are these investments liquid?

Mr. Hutchinson: No. Municipal lease/purchase obligations can be sold to another party by the initial investor, but they aren't liquid in the same way municipal bonds or listed stocks are liquid. Hutchinson, Fox, Inc., will use its best efforts to find another investor for a lease/purchase obligation it originally sold should the original investor wish to unload.

MCB: Is a specific tax pledged to the payment of these securities?

Mr. Hutchinson: Not usually. Funds are appropriated from the general fund of the municipality. Rarely will a special tax be levied to underwrite periodic lease-purchase payments.

MCB: How are periodic payments processed?

Mr. Hutchinson: Different leasing companies handle payment processing in different ways. The objective is to get payments to the investor on time. Some leasing companies invoice the municipality every time a payment is due. Some send the local government a coupon book. Either system works as long as it is properly set up initially and as long as tardiness on the part of the municipality is dealt with immediately.

MCB: Are there any late payments?

Mr. Hutchinson: Payments sometimes are tardy or irregular. On occasion a municipal government will agree to a monthly payment schedule, fall one or two months behind, and then make several payments at once. When a municipality is tardy, it is requested to offset a late payment with an early one.

MCB: Who gets the depreciation and investment-tax credit?

Mr. Hutchinson: Nobody. Municipal lease/purchase obligations are, in reality, installment-purchase obligations of the municipality. The IRS has ruled that as long as the intent to purchase exists, interest is exempt from federal income tax. Structuring the transaction as a taxable lease would cost the state or local government more money.

MCB: If these are not really leases, why are they called lease/purchase obligations?

Mr. Hutchinson: Early lease/purchase documents were titled "lease with option to renew." These contracts had to be renewed each year and for this reason were called "leases." As previously discussed, current documentation stays in place for the life of the agreement and only the funding is appropriated annually.

MCB: How is Hutchinson, Fox, Inc., paid for selling these obligations?

Mr. Hutchinson: We act as agent for the leasing company that originated the security being sold. The fee usually is between 1% and 2% of the sale amount and is built into the selling price.

MCB: Are there any other fees the investor must pay?

Mr. Hutchinson: No, the investor contracts to purchase an offering at a certain yield and the amount paid is determined by calculating the investment price for that yield.

MCB: Are municipal lease/purchase obligations ever rated by the rating services?

Mr. Hutchinson: Standard & Poor's and Fitch's Investors Service will rate municipal lease/purchase obligations. Because of the cost involved, however, ratings are not often requested.

MCB: Is the interest exempt from state income tax?

Mr. Hutchinson: Yes or no, depending on the state. Usually, if the state exempts interest on municipal bonds originated within the state, the same will apply to municipal lease/purchase obligations.

MCB: Why don't the municipalities take these securities to a local bank?

Mr. Hutchinson: Most municipal lease/purchase financing is handled in this manner. If the bank doesn't need tax-exempt income, if the amount of money is too large or if the municipality doesn't think to call the bank, the financing is awarded to a leasing company.

MCB: For whom is this type of investment suitable and for whom is it not suitable?

Mr. Hutchinson: Individual investors and institutions in the highest tax brackets are the only ones who should consider municipal lease/purchase obligations as suitable investments. Additionally, because there is no recognized secondary market, these securities should be purchased only when the total individual or institutional portfolio already contains a sufficient amount of liquid holdings. As a rule of thumb, an individual investor should have a total investment portfolio of at least \$150,000 before diversifying into municipal lease/purchase obligations. ● ●

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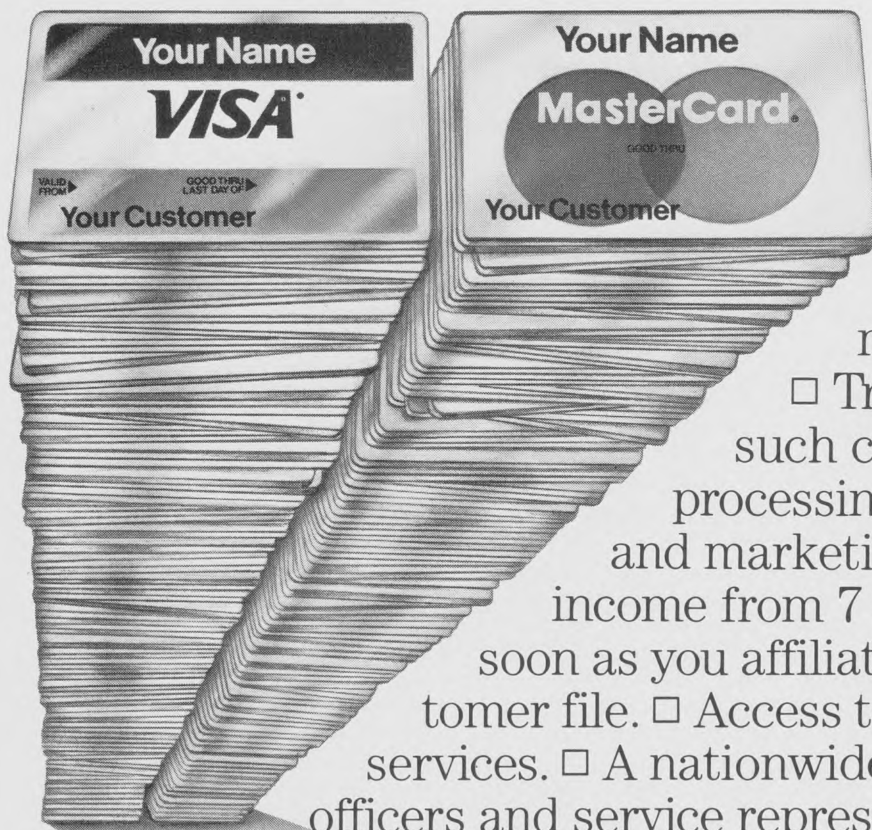

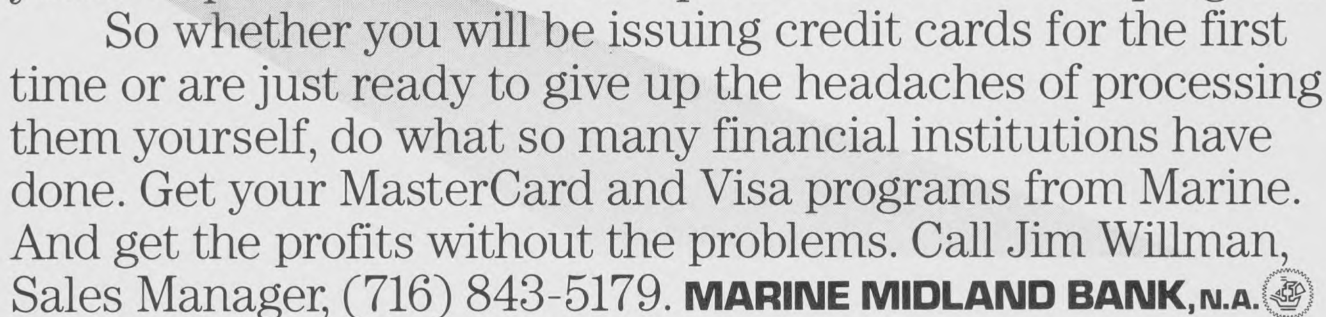

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Putting Treasury Holdings to Work As Hedge Against Rate Fluctuations

By John W. Labuszewski
Marketing Manager
Chicago Board of Trade

TREASURY BONDS represent one of the most widely held and respected investments available. These securities are a valued component in the investment portfolios of many commercial banks, pension funds, insurance companies and private individuals. But do investors really receive the maximum return on these bond holdings?

One method that can increase returns on T-bond holdings also reduces risk of potential rises in interest rates. This strategy, called "covered call writing," is possible since the introduction last year of options on U. S. Treasury bond futures by the Chicago Board of Trade (CBOT).

T-bond Futures Options Fundamentals. Options on T-bond futures have basically the same contract specifications as T-bond futures. They also share fundamental practices and terminology with stock options. But there are a few twists that bear review:

- *Call (Put) Option* — A CBOT T-bond call (put) option holder or buyer owns the right, but not the obligation, to buy from (sell to) the option writer (seller) one CBOT T-bond futures contract at a specified strike, or exercise price, on or before the expiration date.
- *Premium* — Option buyers pay a negotiated premium to the option seller in return for the rights associated with option ownership.

The premium is quoted in terms of percent of par in minimum increments of *one sixty-fourth* (1/64) of a percentage point or $15.625 per contract. For example, a premium of 2-32/64ths may be translated into dollars as 2-32/64ths percent of $100,000 or $2,500.

- *Exercise Price* — The exercise or strike price is the price at which the option holder may buy T-bond futures, in the case of a call; or, sell T-bond futures, in the case of a put.
- *Expiration Date* — Option contracts can be exercised at any time up to and including their expiration date. After expiration, they become null and void. CBOT T-bond options may be exercised for T-bond futures deliverable in the months of March, June, September and December, but they generally expire on the third Saturday *prior* to the named month.

Note that upon exercise of a CBOT option, the option holder and writer take positions in the CBOT U. S. Treasury bond futures market. A call holder takes a long position at the exercise price while a call writer takes a short position. A put holder takes a short position at the exercise price while a put writer takes a long position.

Limited Risk. Because the option holder may or may not exercise the option at his discretion, holder's risks are limited to the premium paid to the option writer upon purchase.

Consider a call option. If the price of the underlying futures contract exceeds the exercise price, the call holder might elect to exercise the option by buying T-bond futures at the lower exercise price. T-bond futures then may be sold at a profit in the market at the higher prevailing price.

If the T-bond futures price is less than the exercise price, the holder simply will "abandon" the option by permitting it to expire unexercised. Thus, the option holder limits his risk to the premium and leaves open the door to potentially large profits in the event of a large price advance.

Viewed from this perspective, there appears to be little motivation to sell or write an option. The writer's risks and returns mirror the holder's risks and returns — the returns are limited to the premium while the risks may be quite large. One may observe, however, that the premium is negotiated to balance these risks and returns. Moreover, the sale of an option can prove quite attractive to investors who already own T-bond or similar long-term debt instrument investments.

Simple Covered Call Sale. As the name implies, the "covered" call sale involves the sale of a call against a long position held in T-bonds, either in the underlying T-bond futures market or in actual T-bonds. For example, assume that a financial manager holds one CBOT $100,000 face value T-bond futures contract, which was purchased at 78-00/32nds. Further, assume that he sells one T-bond call option for a 2-00/64ths premium or $2,000 with a strike price of 78-00. This option is struck "at-the-money," i.e., the current underlying market price equals the exercise price. Also assume that the market remains quite stable and that, by the time the option is about to expire, the T-bond futures price remains at 78% of par.

At this point, the option holder probably would "abandon" the option or permit it to expire unexercised. Exercising this option would entail buying a T-bond futures contract at 78-00 when it is valued at 78-00 — there is no profit in this transaction. Moreover, the holder also would pay transaction costs, including commissions. When the option holder abandons the option, the writer retains the full option premium, in this case, $2,000.

If the market moves "out-of-the-money" by declining below 78-00, the call holder has even less incentive to exercise the option because that would entail the purchase of T-bond futures at an exercise price in excess of their current market value. Should the market move "in-the-money" by advancing over 78-00, the option holder likely would elect to exercise the option because that would entail the purchase of T-bond futures at an exercise price less than the current market value.

Figure 1 (see page 52) shows the risk/return posture assumed by the covered call writer. The writer sells the call, hoping the underlying market price will remain relatively stable and permit him to retain the full $2,000 premium. If the market advances beyond 80-00, the covered call writer would have been better off had he not written the call because the call may be exercised, cutting into profits that otherwise would accrue from holding the long T-bond futures. But the covered call writer still made $2,000; his loss is purely an opportunity cost and not an out-of-pocket expense.

At prices less than 80-00, the covered call writer is better off having written the call; at all prices less than

(Continued on page 52)

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Discount Brokerage a 'Must' for Banks Due to Competition, Speaker Says

TODAY, and in the predictable future, banks will be forced by competition from within and outside the banking industry to supply discount-brokerage service to their customers, said David Grayson, a speaker at the National Brokerage Conference and Service Exposition, held recently in New Orleans.

Mr. Grayson is executive vice president, Investors Access, New York City, a division of Discount Brokerage Corp. of America.

Admitting that "forced" is a strong word to use, Mr. Grayson said, in explanation, that "The decision about discount brokerage within banks has been made for you, forced on you by the marketplace. . . . It now is a competitive priority that your bank offer discount brokerage."

He quoted statistics from Wall Street Research Group based on a survey conducted last April. Among 160 commercial banks:

- Forty-three percent said they were getting into brokerage to gain profits.
- Seventeen percent were going into brokerage to retain existing relationships and gain new ones.
- Another 17% said they would enter discount brokerage to compete better for financial services now and in the future.
- The remaining 23% said they weren't sure why they wanted to get into discount brokerage, but they were considering offering the service.

These figures show the pressure banks are feeling from the competition, Mr. Grayson said. "What's surprising is that nearly half the banks in this study said they would enter discount brokerage to gain new profits. They expect to make money from their discount-brokerage services right away." But they are wrong, he added.

"New profits are a good and natural instinct for all of us, whether banker or broker," Mr. Grayson said. "However, profits from brokerage may be more elusive, more difficult to achieve than you may believe.

"You can make money by offering discount brokerage, but you must have patience. And you can be patient. In fact, patience is one of the hallmarks of effective bank marketing."

He presented guidelines he considers most important when choosing the best type of discount-brokerage service and in selecting the vendor best suited to a bank's individual needs and customers.

"Whatever type of discount-brokerage service you ultimately decide to offer — limited or wholesaling, full, do-it-yourself or acquisition of a discount brokerage — you must anticipate wide swings in market activity, both bear- and bull-market conditions," he said.

"What's best for the market's bullish cycles — having enough staff to handle the volume and keeping valuable depositors satisfied — will be much too costly for a bank to maintain during bear cycles," he said.

Launching into his sales pitch, Mr. Grayson then told his audience that a limited service provided by a professional discount broker "is the best route for you to follow, the fastest route to profits."

He suggested the following guidelines for selecting a discount-brokerage:

- Choose a broker carefully.
- Make sure the firm's staff is flexible enough to adjust to peak and low periods of activity.
- Find out if the broker is self clearing.
- Determine if the broker's person-

(Continued on page 51)

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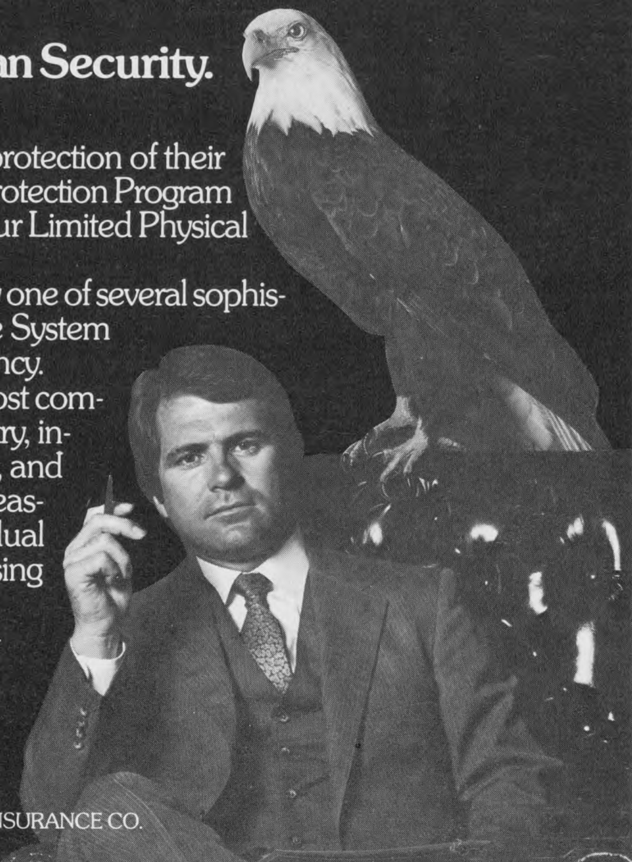

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ABA Convention Serves as Platform By Banking Interests To Present Their Views to Industry

Final Session Features Economists' Predictions

LAST MONTH'S ABA convention, held in Honolulu and attended by more than 12,000 bankers, spouses and exhibitors, proved to be a catchall for practically every aspect of banking.

Speaker after speaker paraded across the platforms set up in three locations in Honolulu. They represented Congress, federal regulatory agencies, various banks, suppliers of bank services and the ABA itself.

Much of what was said has been reported by the media: Fed Chairman Paul Volcker came out strongly against dismembering his agency by lopping off its regulatory arm; ex-President Gerald R. Ford called for a strong defense capability and a buoyant economy; Walter Wriston, chairman of Citicorp, New York City, urged bankers to seize opportunities for future growth; Senator Jake Garn (R.-Utah), chairman, Senate Banking Committee, outlined plans for legislation to further deregulate banking; House Ways and Means Chairman Dan Rostenkowski (D.-Ill.) called for banker support in reducing federal-budget deficits, and FDIC Chairman William Isaac broached the subject of having banks voluntarily make certain financial disclosures to large-account depositors.

The final convention session, dealing with the outlook for the economy, was one of the most informative for bankers, yet was one of the least well attended, due to the fact that most bankers had headed for vacations on other Hawaiian islands or the Orient.

Among the panelists at this session was Robert T. Parry, executive vice president/chief economist, Security Pacific National, Los Angeles. He said that chances of a prolonged period of growth and relatively moderate inflation are pretty high for the U. S. in the forthcoming months.

"After a slow start almost a year ago, the recovery showed growth rates in the second quarter of 9.7% and almost 7% in the third. Growth rates should settle at about 4% to 5% in 1984," Dr. Parry said.

The economist sees consumer spending for durable goods remaining strong in 1984, although spending for housing will grow slowly. Business spending for equipment will rise, as will federal spending for defense.

"This relatively strong growth will enable unemployment rates to fall further, but they are not likely to fall below 8%," Dr. Parry said.

He added that inflation will rise, but will remain moderate, due principally to a large amount of excess capacity, continuing foreign and domestic competition for the buyer's dollar and salaries growing much more slowly.

"Interest rates will be affected by conflicting forces. The slowing of economic growth, the persistence of relatively moderate inflation and strong growth of private saving will be important forces limiting upward pressures on interest rates," he said. "At the same time, demands for funds will rise with the expanding economy." He thinks the Fed should continue to pursue a policy that is aimed at containing inflation. He held out little hope of reducing the federal deficit.

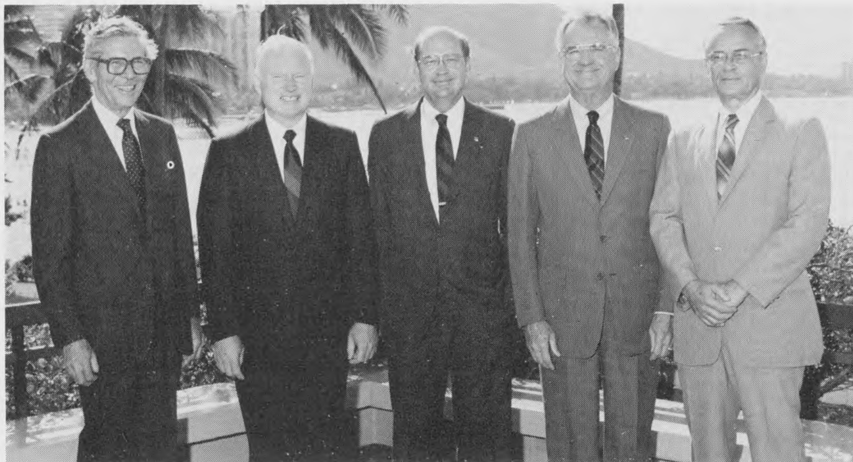
Such policy will result in little change in interest rates, he said, although the trend could be downward through the next six to nine months.

Discussing the value of the dollar, Dr. Parry said he believes it should decline slightly on a trade-weighted basis. "Relatively high interest rates as well as political and economic instability throughout the world will favor the dollar," he said.

He added that inflation prospects for the world economy look good. However, there will be some upward cyclical pressures on commodity prices that will benefit commodity exporters.

He concluded by stating that "world financial problems will remain grave and certainly will be with us for many years. But these problems will be greatly helped by economic recovery."

Another panelist was Jerry L. Jordan, professor, Anderson Schools of Management at the University of New



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Despite allure of Waikiki beaches, bankers flocked to convention meetings to hear federal regulators, economists and bankers make presentations. Dress at convention was decidedly casual.

Mexico, Albuquerque.

He said the prospect of large deficits in the federal budget for many years into the future and uncertainty about the implications for interest rates are factors that can't be avoided when examining the U. S. economy for the years ahead. Financing government spending affects interest rates, despite arguments to the contrary, he added.

"Given the current composition of government spending," he said, "an increase in the government's deficits means that either real or nominal interest rates must increase. Which, and how much, depends in part on the cause of the deficit-spending increases versus tax-revenue reductions. It also depends on the actions of the Fed.

"If open-market operations result in only a slow rate of increase of non-interest-bearing debt, real interest rates will be somewhat higher than otherwise, but nominal interest rates will not contain much of an inflation premium and will be relatively low."

Dr. Jordan said it's too soon to be certain whether a secular decline of inflation has begun, rather than merely a cyclical decline.

"The projected federal deficits mean that financial-market participants have to weigh four options available to the government. One would be to succeed in reducing the growth of federal spending below the growth of national income. But that means smaller increases for many of the still-sacred cows in the non-defense budget as well as for defense spending. Market participants aren't likely to assign a high probability to that possibility until they see it happen.

"A second option open to the government would be to raise current or future explicit taxes. But Congress has never voted for a significant structural tax increase during peacetime. Many leaders of Congress now advocate repeal of personal income-tax indexation, scheduled to take effect in 1985. I would expect the President to veto any such efforts. In the meantime, it's not likely that investment decisions will be made on the assumption of higher explicit taxes.

"A third option would be to reinflate, and I think that is the option feared most by the financial community. Any further indication that such an option has been accepted by economic policymakers would result in upward pressure on nominal interest rates, especially long-term yields.

"The fourth option would be to do none of the above and risk a slow pace of capital formation for a couple of years and tolerate a high unemployment rate, even through the 1984 election. This option also doesn't seem to be a good basis for making investment decisions, and I doubt it will be assigned a high probability.

"That leaves re-accelerating inflation as the option that must be considered as most likely until there is some action by Congress to reduce the deficits. Until such time, the level of market interest rates early this year should be viewed as the lows for this cycle."

Also on the panel was David M. Jones, senior vice president/economist, Aubrey G. Lanston & Co., New York City.

Dr. Jones told bankers that the economy is at a critical crossroads. "Uniquely, we face both great opportunities and dangerous challenges. Our near-term future is brightened by a stronger-than-expected economic recovery in 1983 and, at least so far, by still low inflation," he said.

But he warned that dangerous challenges are threatening recovery.

"Specifically, the structural federal deficit (that portion of the deficit that doesn't decline with recovery) is out of control. Excessive federal borrowing demands related to this uniquely rising deficit, despite recovery, threaten to sop up an unprecedented large portion of net private savings. The result is likely to be to 'crowd out' private longer-term borrowing and business-capital spending."

These large federal borrowing demands are partly responsible for real interest rates being abnormally high, he said, which adds to the economy's down-side risk. He added that the still-threatening world-debt crisis also serves as a major potential limitation on future economic growth. "At the very least, the debt-repayment difficulties faced by developing countries will make bank lenders extremely cautious and will severely limit the availability of new credit to finance their growth for many years to come," he said.

Another dampener for world recovery is a dangerous lack of coordination among U. S. fiscal and monetary policies and those in other major industrial nations. He said the U. S. and other major industrial economies must serve as the "locomotives" for world recovery. But major international economic-policy objectives have shifted dramatically since the late '70s from fighting unemployment to fighting infla-

New Service Unveiled

"Risk Management: A Bank-Wide Assessment of Risk" was unveiled by the ABA at the Honolulu convention as a major new ongoing service to banks.

The service is directed to bank CEOs and initially will include three sections. The first section is an executive summary on risk management for the CEO that will serve as the foundation piece for the in-depth information that follows and that will offer CEOs an introduction to the risk-management process, an identification of emerging or nontraditional risks and an explanation of the use of the "Risk Management" manual that will be available early next year.

The other two sections of the manual will be a series of four executive summaries on nontraditional risks and four separate reports providing an in-depth examination of those risks. The reports are designed for department managers of the individual activities.

Areas to be covered in the initial series are credit-related off-balance-sheet activities, discount-brokerage activities, payment-systems mechanisms and ATM/POS systems. A continuing review of various banking services and an analysis of associated risks is planned as part of the service.

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tion, which has resulted in extremely restrictive fiscal policies in those nations.

"The problem is that the U. S. is out of step with the rest of the world," Dr. Jones said. "World recovery likely will be held hostage to a U. S. economic policy mismatch. This mismatch is between an extremely expansionary U. S. fiscal policy and a moderately restrictive U. S. monetary policy. This U. S. policy mismatch tends to keep real U. S. rates high and the U. S. dollar strong. This forces foreign nations to protect their respective currencies by keeping their interest rates higher through greater monetary restraint than otherwise would have been the case."

He said the U. S. should dramatically tighten its fiscal-policy stance by means of federal spending cuts, tax increases, or both, so as to coordinate more closely with the anti-inflation fiscal policies of other major industrial powers. "Only in this way would it be possible, in turn, to ease monetary conditions and reduce real interest rates to levels that could assure sustained world recovery."

He lamented that there's little chance such a move would be made prior to next year's election. Therefore, interest rates are likely to remain at a level higher than is consistent with sustained world recovery through the rest of this year and most, if not all, of 1984.

Dr. Jones sees the near-term financial outlook to include a sideways movement in short- and longer-term interest rates through the remainder of 1983. He sees a moderate decline in short- and longer-term rates in early 1984, reflecting a slowing in economic activity, particularly in housing. Later in 1984, there is likely to be moderate upward pressure on rates as economic recovery continues and private credit demands increase, particularly in the business sector.

By early 1985, Dr. Jones sees a brief, but possibly intense, clash between private credit demands and excessive federal government borrowing demands.

He sees the Fed as maintaining a moderately restrictive policy stance. For 1984, it will aim at the midpoint of an already designated 4% to 8% M-1 target range. "Allowing for a 2% increase in the velocity of money, this Fed posture would accommodate approximately an 8% growth rate in nominal GNP in 1984 without additional interest-rate strains. However, in 1985, monetary authorities are likely to be unwilling to step up monetary growth sufficiently to accommodate both recovery-related increases in private credit demands and still excessive federal borrowing needs."

ABA Pres. William H. Kennedy Jr., ch., Nat'l Bank of Commerce, Pine Bluff, Ark., presided at opening session of ABA convention, where he delivered president's address.

He added that the best economic news is that inflationary pressures are likely to remain moderate. Wage pressures have moderated and productivity is increasing, he added, thus dampening unit labor costs for most businesses.

He sees indications that, in the key energy sector, the roughly equal balance between reduced energy-efficient demands and expanded supply could persist for some time, with resulting stable prices.

ABA President William H. Kennedy, chairman, National Bank of Commerce, Pine Bluff, Ark., turned over the gavel of office to C. Robert Brenton, president, Brenton Banks, Des Moines, Ia., during the convention. Mr. Kennedy now is ABA council chairman. Installed as president-elect was James G. Cairns Jr., president, Peoples Bank of Washington, Seattle. Harry R. Mitiguy, president/CEO, Howard Bank, Burlington, Vt., was installed as treasurer.

Next year, the ABA will exchange the scented warm breezes of Honolulu for the down-to-earth realities of New York City for its convention, which is set for October 20-24. — **Jim Fabian, senior editor.**

New Program Unveiled On Investment Analysis By Union Planters

MEMPHIS — Union Planters National has introduced a new investment-analysis program called Pro Trader. It compares government, federal, agency, municipal and corporate bonds as well as Treasury bills, bankers acceptances, commercial paper, CDs and term federal funds with an unlimited number of multiple swaps. Union Planters National also is developer of the Prophet Asset/Liability Management Model.

According to a bank spokesperson, Pro Trader is unique because it gives the interest rate at which cash flows generated between first and last maturity must be invested to equate the net income generated from the alternative investment. When compared to the projected reinvestment rate, this break-even interest rate will determine quickly the advisability of the trade. In addition, says Union Planters, it also calculates duration, the time it takes to recover the initial investment.

Pro Trader also is described as having the ability to carry the trade to completion, as opposed to some programs that require the user to estimate the period between the two maturity dates. Pro Trader incorporates the new tax law to accurately inform a person of all ramifications of the trade, and it provides an account analysis for each trade scenario.

Rate-Behavior Aid Offered

Union Planters National, Memphis, has introduced a new program called Pro Trend that helps analyze behavior of interest rates. The program utilizes historical-relationship data on 30 investment instruments and the position of those instruments within the interest-rate cycle.

Based on the historical data base, Pro Trend provides lead and lag time relationships between the various instruments from which banks do their pricing. Knowing how one instrument moves in relation to another enables a banker to deal more effectively with the spread-risk problem, according to Sandy Chestnut at the bank.

Pro Trend works in conjunction with the bank's Prophet A/L-management model. Access to Pro Trend data is via phone modem from the user's micro-computer to the bank, providing immediate updated relationship information.

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NEWS
About Banks & Bankers

ILLINOIS

Continental Illinois National, Chicago, has elected these vice presidents: J. David Smith, Albert W. Spranger, Gwendolyn L. Hatten and Fidel L. Lopez. Named second vice presidents were: Julia P. Bell, Joan F. Neal, Joan D. Schneider, Stephanie B. Hansen, John J. Matusiak and John I. Moore Jr. Vice President John R. Rucker was made manager, food/chemicals/plastics lending division, U. S. banking services department.

Two banks have changed their names, both to Eagle Bank. They are Farmers & Merchants Bank, Highland, and Sparta State. The latter now is Eagle Bank of Randolph County.

Hayes Leaves IBA

CHICAGO — Patrick Hayes has left the Illinois Bankers Association, where he was banking professions director, to become director of programs/services, University of Illinois Alumni Association.

Mr. Hayes once was with Champaign National and the Bank Marketing Association and was on the staff of the Association for Modern Banking in Illinois before its merger last January with the IBA.

Springfield Marine Bank has elected these senior vice presidents: Stuart Brown Jr., William R. Enlow, John E. Staudt and Michael J. Burns. Mr. Brown, most recently vice president, retail banking, continues as cashier. Mr. Enlow is secretary to the board. Mr. Staudt is chief financial officer, and Mr. Burns has joined the bank from First Midwest Bancorp, Inc., Joliet, where he was executive vice president. Springfield Marine also has a new director, Paul J. Kardos, president/CEO, Horace Mann Cos.

INDIANA

Lincoln National, Fort Wayne, has appointed Stephen R. Smith vice president/director, branch administration. He had been employed by Southeast Bank, Miami, Fla., for the last year.

'Old-Fashioned Fun' Is Centennial Theme At Greencastle Bank

GREENCASTLE — Central National, which is 100 years old this year, began its centennial celebration last February with a dinner for all employees, retirees, stockholders and directors. Service awards were given to long-time employees.

The milestone was spotlighted again September 16, when a reception was held for the community. Festivities included a memorabilia contest, for which the bank sought from residents anything related to banking and, in particular, to Central National. In addition, a children's art contest challenged area youngsters to draw pictures of Greencastle as it would have been 100 years ago. Entries were displayed at the September 16th reception.

On September 18, the bank was host at an old-fashioned ice cream social for the entire community, with the whole afternoon, according to a bank spokesperson, "dedicated to old-fashioned fun." Employees in finery of the late 1800s served ice cream and officiated at games such as apple dunking, bean-bag toss and scavenger hunt. Musical entertainment was provided by several area groups. Estimated attendance was 3,000 persons.

During ceremonial celebration at Central Nat'l, Greencastle, children are fascinated by clown, Dave Edwards, as he makes balloon animals.

Central National opened April 9, 1883, with DeWitt C. Bridges as president. In 1884, Robert L. O'Hair was named president pro tem. He was the father of two men who later were to become officers of the bank, Fred L., who became president, and Robert H., who served as vice president. In 1890, Robert L. O'Hair was named cashier when James V. Durham became president. In 1893, when Mr. Durham resigned the presidency, Mr. O'Hair assumed the post.

Today, Stephen D. Teaford is the bank's chairman, and F. Mace Aker is

F. Mace Aker, pres., Central Nat'l, Greencastle, dressed in clothes of another era, is serenaded by Sounds of Indy Chapter of Sweet Adelines at bank's old-fashioned ice cream social. Event was held in connection with Central Nat'l's centennial.

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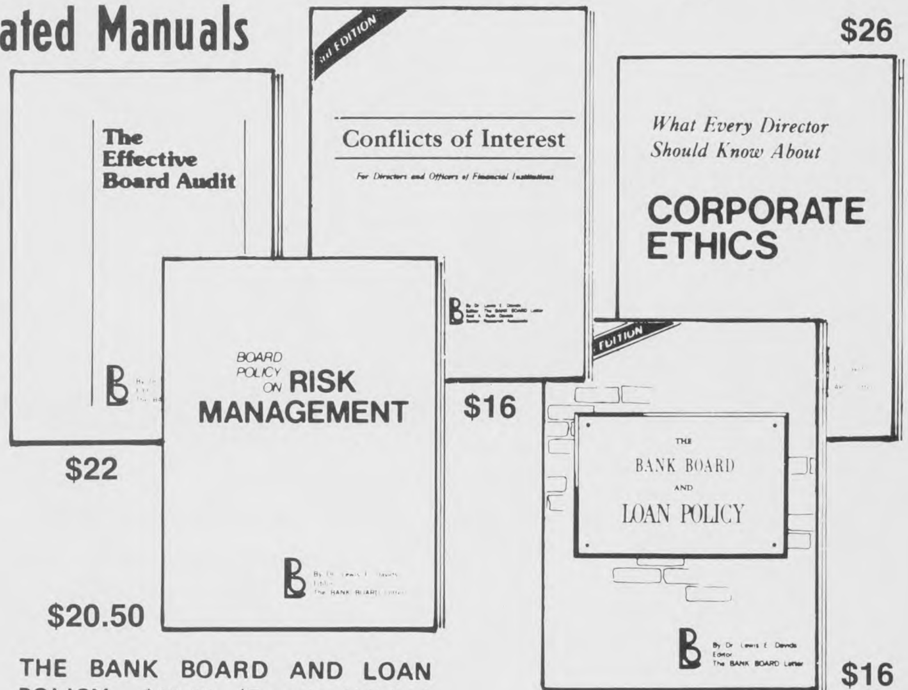

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its president. Both are bank directors.

On October 23, 1933, Central National had the dubious distinction of being the site of the largest theft carried out by the notorious John Dillinger.

Indiana Bank Gets New Sign

Lafayette Savings Bank has a new sign designed, manufactured and installed by Vanadco Signs, Syracuse. The new sign is internally illuminated with formed lexan faces and embossed copy.

American Fletcher National, Indianapolis, has hired Richard C. Solaro as vice president/national marketing manager of the trust/asset management group's employee benefit/institutional accounts division. He previously was with an Indianapolis law firm specializing in tax planning.

Indiana National to Issue Stock

Indiana National Corp., Indianapolis, has filed a registration statement with the Securities & Exchange Commission for a proposed offering of 250,000 shares of adjustable-rate, cumulative preferred stock.

The preferred stock will have a stated value and a liquidation value of $100 per share. Goldman, Sachs & Co. has been designated as manager of the underwriting group that will offer the stock to the public.

MICHIGAN

Annual Credit-Card Fees Canceled by Bank in Mich.

The second-largest issuer of bank cards in Michigan has eliminated its $12 annual card fee. Security Bank, Southgate, Mich., made the policy change September 1 in a bid to expand its card-user base.

The bank expects the increased card base and use of cards to offset loss of income from the fee.

As part of its promotion to sign up new card holders, the bank has been using a telephone-solicitation service that has been judged a success by Franklin D. Alandt, senior vice president/banking.

"We believe there are going to be continuing changes in technology in regard to the cards," Mr. Alandt said. He expects that ATMs, debit cards and POS terminals will encourage greater use of bank cards.

Other bank-card issuers in Michigan are on record as not following in Security Bank's footsteps. "We feel we offer card holders a lot of value for that fee," said Robert D. Sznewajs, vice president, Michigan National Corp., whose lead bank, Michigan National, Lansing, is said to be the state's leading bank-card issuer.

Leo A. Cooney, president, Computer Communications of America, card processor for more than 200 Michigan banks, said he expects bank-card fees to continue rising because of small profit margins and the earnings volatility of bank-card operations.

FrankJimKathy

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Nine Out-State Banks To Adopt NBD Name; Venture Groups Formed

Nine out-state Michigan banks will adopt the National Bank of Detroit identity system over the next six months.

Some of the banks affiliated with NBD already have changed their names. They are: Peoples Bank, Alpena, to NBD Alpena; Roscommon State to NBD Roscommon; Cadillac State to NBD Cadillac; and First National, Evart, to NBD Evart. Wolverine State, Sandusky; Monroe County Bank, Dundee; Grand Valley National, Grandville; National Bank, Ann Arbor, and Farmers & Merchants, Benton Harbor, will change their names and signage by next spring.

NBD also has announced formation of two venture-capital funds to provide equity-investment opportunities in high-technology businesses.

The NBD growth fund and the leveraged buyout fund will provide, respectively, for investments in high-growth potential businesses in the early stages of development and for leveraged buyouts of businesses with consistent earnings histories. NBD is to provide an ultimate investment of $15 million in each of the funds. All services will be administered by Michigan Capital & Service, Inc., an NBD Bancorp subsidiary, and the Small Business Investment Co.

Bank of Commonwealth, Acquired by Comerica

Comerica, Inc., Detroit, has acquired controlling interest in Bank of the Commonwealth, Detroit.

Comerica purchased the interest in Bank of the Commonwealth that had been owned by First Arabian Corp. which, together with other small holdings, brought Comerica's total interest in Bank of the Commonwealth to just over 80%. Comerica said that it will become actively involved immediately in the operations of Bank of the Commonwealth, which will operate as a subsidiary until January, when it will be merged into Comerica Bank-Detroit.

Comerica Senior Vice President Robert L. Condon has been elected chairman/CEO, Bank of the Commonwealth. Robert E. Jones remains as president/director. Three directors, Matthew Steckel, Roger E. Tamraz and Albert Misrahi, have resigned. Remaining current directors, Harold E. Cross, Joyce F. Garrett, Aubrey V. McCutcheon Jr. and David Pollack, continued their memberships and four Comerica officers, Joseph G. Horonzy, Arthur W. Hermann, David J. Westhoff and Eliot R. Stark, were elected directors.

When the merger is completed in January, the combined system will include 61 offices in Detroit and 139 across the tri-county metropolitan area.

Wallace L. Tupper has been elected president/CEO of Hillsdale State Savings, an affiliate of Old Kent Financial Corp., Grand Rapids. Mr. Tupper previously was with Gaylord State, another Old Kent affiliate, where he most recently served as senior vice president with responsibility for all loan functions.

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Upbeat Note Sounded on Autos At Bank Meeting in Detroit

ROADBLOCKS and a few jarring potholes may still be ahead, but top-level Big-Three automaker executives provided bankers attending National Bank of Detroit's correspondent bank conference in late September with the most optimistic outlook in years for the auto industry and the Michigan economy.

The size of the federal deficit was another recurring theme throughout the two-day conference, which featured not only auto-industry executives but NBD experts in many fields. Many of the nearly 350 NBD correspondents who attended the conference at the Hyatt Regency, Dearborn, were from Michigan, where the health of the auto industry is a critical concern.

NBD Chairman/President Charles T. Fisher III and Donald B. Jeffery, first vice president/Midwest banking division, welcomed the correspondent bankers to the conference. NBD is celebrating its 50th anniversary this year, and bankers in the audience were told that correspondent banking has been a "priority" business with NBD since it was founded.

Ford Motor Co. Chairman Philip Caldwell established the upbeat tone for the conference with his opening address. The American auto industry is recovering if not yet in robust good health, he said, and he thanked the banking community for "standing by" the auto industry during its recent troubles. He cautioned bankers not to over-generalize about the positive economic indicators they see about them.

F. James McDonald, pres., General Motors Corp., tells bankers at NBD conference banquet that technology in auto industry is advancing so rapidly that what he knew that morning probably is already obsolete.

Donald B. Jeffery, 1st v.p., NBD's Midwest banking division, chats with Charles (Chuck) Mabley (r.), pres./dir., Security Bank, Richmond, Mich., one of NBD's oldest correspondent customers.

"Unemployment still is unacceptably high and the (federal) deficit seems to be out of control," he reminded his audience.

Clearly, the three auto-industry executives who addressed the NBD conference were anxious to dispel the American auto industry's image as low-technology "sunset" operations on the brink of extinction. "We don't believe that for a minute," said Mr. Caldwell. He said the auto industry is "pulling through" more technology than any other industry to become more efficient and to produce more sophisticated products. The industry cannot afford to become complacent and won't, he said.

"By 1990, staffs will be leaner, communication lines shorter and turnaround times faster," he said.

F. James McDonald, president, General Motors Corp., agreed with Mr. Caldwell's assessment of advances in American auto-industry technology and productivity. After giving some sketchy details of what Americans can expect in their cars of the future, Mr. McDonald remarked that technology is advancing so rapidly that what he knew that morning probably had already become obsolete.

Neither Mr. Caldwell nor Mr. McDonald could match Chrysler Corp's Gerald Greenwald's jocular spirits, however. "You're looking at a free man," he said, referring to Chrysler's retreat from the abyss of bankruptcy and its early repayment of government-backed loans. The vice chairman of the nation's third largest auto company credited banks, and NBD in particular, with helping to save Chrysler from extinction.

The company had learned from its mistakes, Mr. Greenwald said. "We're a much leaner company and we're selling more cars and trucks," he said. Chrysler's market share has, in fact, increased to 11% this year, he noted, and he boasted that the company is seeking a 12% share of the auto market and a 14% share of the truck market during the current model year.

NBD's conference was held at a time when automakers were introducing their 1984 models, and Messrs. Caldwell, McDonald and Greenwald were more than happy to talk about what they felt would be the highlights of the new models. Mr. McDonald spoke with almost fatherly pride of General Motor's innovative "Fiero," and Mr. Greenwald had a couple of Chrysler's new line of mini-vans — due out this winter — parked in front of the hotel for bankers to preview.

Jack E. Barnds, vice president/business and banking analysis for NBD, said American auto production thus far is up 30% over depressed 1982 levels. He predicted that auto sales will increase another 8% to 10% in 1984 and that a third of the nation's automotive

Philip Caldwell, ch., Ford Motor Co., welcomed NBD correspondents to Dearborn — "Ford Country" as he called it — and provided bankers with overview of American auto industry.

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production will be assembled in Michigan.

Mr. Barnds's forecast for general economic growth in 1984 was by his own admission 1½% below the consensus forecasts of other economists. His reasons for caution, he said, were the nation's rising merchandise trade deficit and its mushrooming budget deficit. The best news on the inflation front is behind us, Mr. Barnds added. He foresees an average inflation rate of around 4½% over the next 12 months, but his projection for interest rates essentially is for no change. While the prime rate temporarily might break below the 10% level, he said, there is no pressure for it to stay there. But neither does he anticipate that the prime will break above the 11½% to 12% level for long.

Other NBD representatives updated correspondent bankers on a variety of economic, financial and management issues. Joseph F. Conway, president of an NBD subsidiary, Michigan Capital & Service, Inc., which provides venture capital for high-technology businesses, described how his four-person staff operates. During the conference, NBD announced formation of two new $15-million venture-capital funds to provide equity-investment opportunities in high-technology businesses. Michigan Capital & Service and Small Business Investment Co., based in Ann Arbor, will administer the funds.

Justin L. Moran, Buckheim & Rowland, Inc., a consultant to the Michigan Bankers Association, had the difficult chore of peering beyond October 1 into the latest round of deregulation. At the time of the conference, that was only a few days away. In Mr. Moran's view, however, October 1 would dawn as "something of a nonevent" in banking. Most banks would "wait to see what shakes out" before taking any drastic action, he predicted.

Bruce Burchfield, president of CIRRUS Systems, Inc., and Thomas H. Jeffs II, NBD executive vice president and member of the CIRRUS Systems board, examined the prospects for national and international ATM sharing. NBD is the lead bank among a group of banks that developed CIRRUS, the largest ATM-sharing network, with headquarters in Oak Brook, Ill. By year's end, Mr. Burchfield said, 5,000 ATMs in 43 states representing 92% of the American population will be on the CIRRUS network. The goal is to have 8,000 ATMs on the network and 1,600 participating banks (up from the current 900) by 1985, he said. — **John L. Cleveland, assistant to the publisher.**

Branch Opened by NBD Canada

A $500 donation to the University of Windsor by National Bank of Detroit, Canada, was highlight of opening ceremonies for bank's new Ouellette Ave. Branch in Windsor, Ont., recently. Attending were (from l.) Richard H. Cummings, vice chairman, NBD; Richard L. Janisse, second vice president, NBD Canada; John L. Conroy Jr., president, NBD Canada; Eric West, business school dean; Philip G. Moon, senior vice president, international division, NBD; and Joseph G. Conway, vice chairman, NBD.

First of American Bank-Michigan, Kalamazoo, has named five new vice presidents: Norman A. Baxter, Bruce M. Darr, William G. Gray, Harry B. Storr and Terry L. Zirkle. In other action, Ronald J. Austin, Paul A. Cleveland and Eric S. Durham were named assistant vice presidents.

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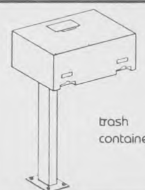

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MINNESOTA

Norwest Bank, Minneapolis, has appointed John H. Olson, formerly president, Norwest Business Credit, Inc., as senior vice president/deputy chief credit officer of the bank. The move is to prepare Mr. Olson to assume the duties of Chief Credit Officer Willis F. Rich Jr. when he retires in 1984. Mr. Olson began his career at Norwest Minneapolis in 1954. In other action, Michael L. Lucas has joined the bank as senior vice president/manager, institutional trust group. A. Rodney Boren Jr. was named senior vice president of the funds management group's security sales department. Jerry W. Hayes was elected senior vice president, trust operating systems/financial controls. Vice presidents named include: Susan D. Kinder, director, compensation/organizational planning; Elizabeth C. Helsel, senior national accounts representative, New York national-accounts office; Joseph W. Kapolka, corporate financial planning; and Paul G. Sedio, domestic banking group.

First Bank Minneapolis has taken aboard George Budzynski, formerly of Bank of the Commonwealth, Detroit, as vice president, planning/finance. Carleton Olmanson has joined the bank as assistant vice president in the manufacturers division. Previously he had been with Norwest Bank, St. Paul.

Norwest Bank Owatonna's acquisition of First State, Medford, has been approved by regulatory authorities. The Medford bank had assets of $4.8 million as of June 30, while Norwest Owatonna has assets of $106 million, with approximately $85 million in deposits.

F & M Marquette National, Minneapolis, has appointed Minnie B. Schroeder, formerly of First Bank Minneapolis, as assistant vice president. She will be responsible for marketing a variety of investment products.

OHIO

James J. Allhusen and Vincent A. DiGirolamo, senior vice presidents at BancOhio National, Columbus, have been promoted to the newly created positions of deputy group heads/retail banking group. Mr. Allhusen — who joined BancOhio in 1978 — will be responsible for the retail services unit and Mr. DiGirolamo — a BancOhio staffer since 1960 — will have line responsibility in the bank's retail organization, which includes all 243 BancOhio National metropolitan and community banking offices. Keith E. Mitchell has been elected vice president for BancOhio National's Coshocton County area. Mr. Mitchell has been with the bank since 1969.

Huntington Bank of Northeast Ohio, Cleveland, has announced the following promotions: James S. Ferguson to senior vice president, metro-east region; Jay C. Hall to senior vice president, metro-central region; James M. Tanner to vice president, metro-east region; Albert J. Bartucci to assistant vice president, metro-east region; Kristine A. Hess to assistant vice president, metro-east region; and James E. Pearce to assistant vice president, trust institutional marketing department.

Farmers & Merchants, Miamisburg, has awarded a $603,000 contract to St. Louis-based HBE Bank Facilities, a design/build firm. The project includes alterations and additions to the bank's home office.

Toledo Trust has elected Dean T. Fisher and Gary D. Lind vice presidents in corporate trust and trust investments, respectively. Mr. Fisher joined the bank in 1978 and Mr. Lind in 1976.

Arthur L. Purinton II has been appointed manager of Central Bank of Cleveland's commercial banking division. Mr. Purinton, a Central Bank vice president, joined the institution in 1980. In the trust department, Richard W. Lutts — who joined Central Bank in 1979 — has been elected vice president.

George W. Haigh, president/CEO, Toledo Trustcorp, has been named chairman, International Financial Conference, an independent organization established in response to the growing needs of regional banks and HCs to have a permanent forum on international finance.

WISCONSIN

Citizens North Side Bank, Sheboygan, has moved to its new $820,000 facility on the city's north side. A week later, the 55-year-old bank changed its name to Citizens Bank-Sheboygan North to reflect its new status as an office of Citizens Bank, another Citizens Bancorp affiliate.

Appleton Bank is the name of the merged Kimberly State and Associated Bank of Appleton. The bank is being operated by the new executive management team of President James A. Semrad and Senior Vice President John W. McKenzie.

Scott M. McBrair and Jeffrey J. Remsik have joined the marketing department of Marine Corp., Milwaukee, as assistant vice president of market research and as government relations officer, respectively.

Marine First National, Racine, has elected Gerald L. Schwallier president/CEO and Robert W. Beaupre, chairman. Mr. Schwallier joined the bank as executive vice president/chief operating officer in 1982, previously having served as senior vice president, American National, Kalamazoo, Mich. Mr. Beaupre has served as president/CEO of the bank since joining the HC in 1980. Prior to that, he was president/CEO/chairman, Security Marine Bank, Madison.

Marine First National, Janesville, has taken Glenn E. Stoup on board as vice president/senior loan officer. Mr. Stoup previously served as vice president/finance and administration, Advance Products Corp., Beaver Dam. He also has served as president/CEO, Marine Bank, Beaver Dam (1977-1980) and vice president/commercial loans, Marine National Exchange Bank, now Marine Bank, Milwaukee (1971-1977).

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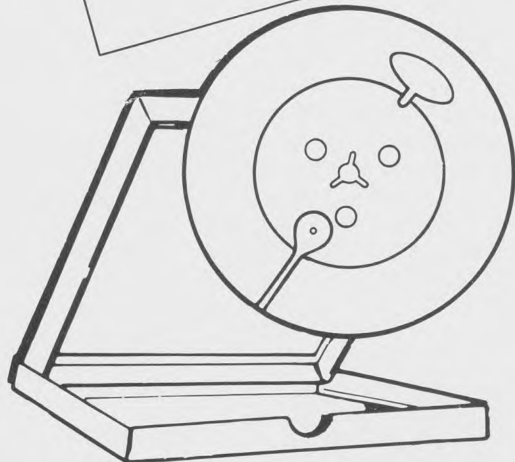

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DIDC Votes Out Minimum Balances For IRAs and Keogh Plans

BEGINNING December 1, $2,500 minimum denominations will be eliminated on money-market-deposit accounts (MMDAs), seven- to 31-day ceiling-free time deposits and super NOW accounts used for individual-retirement-account (IRA)/Keogh investment purposes.

In announcing this action, which it took at its September 30th meeting, the Depository Institutions Deregulation Committee (DIDC) said this will make it easier for IRA/Keogh investors to earn market rates of return on their funds while they decide on more permanent investments for retirement purposes.

The committee also took these actions:

- As required by the Garn/St Germain Act, rules were adopted to eliminate the rate differential on passbook-savings accounts and seven- to 31-day time deposits of less than $2,500, effective January 1, 1984. This will be accomplished by increasing the rate ceiling at commercial banks on these deposits from 5¼% currently to the 5½% ceiling enjoyed by thrift institutions.
- Minimum denominations on MMDAs, super NOWs and seven- to 31-day ceiling-free time deposits will be phased out in two steps: 1. Effective January 1, 1985, minimum denominations will be reduced to $1,000 on these accounts. 2. Effective January 1, 1986, minimum denominations on these accounts will be eliminated altogether. As a result, effective January 1, 1986, all small savers without exception will be able to earn market rates of interest on their savings.

The above actions, combined with the October 1st removal of all interest-rate ceilings on time deposits with maturities of 32 days or more, mean DIDC has come a long way toward fulfilling its congressional directive to phase out interest-rate ceilings on deposits.

In related action, the Fed eliminated reserve requirements (3%) on nonpersonal time deposits with original maturities of 18 months or more. Earlier, the Fed exempted nonpersonal time deposits with original maturities of 30 months or more from reserves.

The Fed also redefined the term "transaction accounts" so that time deposits with maturities of seven days or more (instead of 14 days or more) would be reservable as time deposits rather than as transaction accounts. ●●

Manufacturers Hanover Announces Realignment Of Major Operating Units

NEW YORK CITY — John J. Evans and Edward A. Farley have been elected vice chairmen, Manufacturers Hanover Trust.

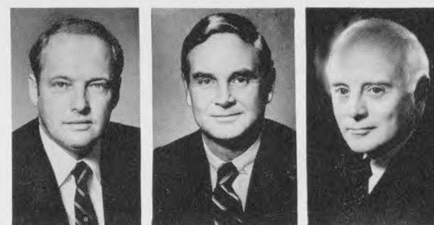
Mr. Evans continues to have responsibility in the operational area and Mr. Farley special responsibility for domestic-credit matters. They had been executive vice presidents in charge of the operations and metropolitan corporate banking divisions, respectively.

Messrs. Evans' and Farley's new posts are part of a realignment of major operating units and formation of a new investment-management subsidiary at MHT.

Mr. Evans entered banking in 1950, when he joined the former Hanover Bank's management-training program. He became an assistant secretary, national division, in 1956, assistant vice president in 1959 and vice president in 1963, supervising MHT business in 13 midwestern states. In 1970, he was promoted to senior vice president in charge of branch administration, metropolitan division. Two years later, he transferred to operations and, in 1973, was advanced to executive vice president in charge of operations and named to the general administrative board. In 1979, Mr. Evans was elected a director of the bank.

Mr. Farley joined the bank's management program in 1951. He rose through the posts of assistant manager (1956), assistant secretary (1958), assistant vice president (1959), vice president (1962), senior vice president/regional officer (1969), senior vice president/deputy general manager in charge of the metropolitan division's corporate banking group (1976) and executive vice president in charge of the division and a member of the general administrative board (1978).

Other organizational changes include the following:



McCREE EVANS FARLEY

- *A North American banking division*, combining units of the metropolitan/national divisions, with Executive Vice President Donald H. McCree Jr. as its head. This division has responsibility for corporate/correspondent banking in the U. S. and Canada. Mr. McCree, with the bank since 1960, has worked in the national division's Southwest district, headed the national division-western, was assigned to the international division and then named officer-in-charge of MHT's London Office before returning in 1978 to New York City, where he successively became senior vice president/deputy general manager, international, and executive vice president, national.
- *An energy division*, headed by Conrad P. Albert, who was elected executive vice president, with continuing worldwide responsibility for energy-related financing. He had been senior vice president/deputy general manager in charge of the national division's energy group.
- A separate *institutional trust/agency division*, with Joseph L. McElroy, executive vice president, as its head.
- *An investment-management subsidiary*, Manufacturers Hanover Investment Corp., headed by Victor J. Melone, who was elected its president. He had been senior vice president/deputy general manager, trust division, and chief investment officer. The new subsidiary is responsible for $22 billion of assets.
- *A private banking/securities industry division*, headed by Albert R. Gamper, who was elected executive vice president. He was senior vice president, corporate planning. The new division includes two units from the former metropolitan division, private banking and Wall Street credit, as well as two units from the former trust division, personal trust and Manufacturers Hanover Trust (Florida).
- *Manufacturers Hanover merchant banking group*, headed by S. A. Constance, who was elected executive vice president, with continuing responsibility for worldwide merchant-banking activities.
- *A special financing group*, headed by Frank C. Wright Jr., who was elected executive vice president.

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Bank-Leasing Program Can Be Profitable, Seminar Demonstrates

Terry Winders, pres. of FirstLease, discusses leasing question with Rebecca Bass, representative of E. F. Hutton Credit Corp., Greenwich, Conn.

BANK-LEASING programs can be profitable — in most cases, more profitable than commercial lending. This was demonstrated clearly at a seminar in Kansas City sponsored by FirstLease, a consulting corporation based in Louisville.

The seminar was one of several sponsored this year by the firm, which plans similar seminars across the nation in the year ahead. It was attended by bankers, several S&L officials, as well as an investment banker and several others in private leasing corporations.

Terry J. Winders, president of FirstLease, pointed out to those attending the seminar that bank leasing is profitable because, once the bank owns the property leased to the customer, it is entitled to these credits:

- Ten percent investment tax credit.
- Depreciation of equipment.
- Residual value of equipment that is recaptured at termination of the lease.

Mr. Winders pointed out that leasing is quite complex and that proper structuring of a lease, documentation and follow-through on such procedures as insuring the property, keeping track of its location and other factors need to be followed in proper handling of a lease.

It was demonstrated to attendees that structuring of a lease can change the net return to the bank quite significantly. For example, a lease started at the end of the year obtains the 10% tax-investment credit for the full year and — based on the same "rental" or lease payments — is more profitable than a lease started January 2. Often a lease can be structured, Mr. Winders pointed out, so that yield to the bank can be increased as much as 200 to 300 basis points without any significant change in rental payments by the lessee. This is where his firm, Mr. Winders explained, can be of assistance to a bank in or planning to enter the leasing field.

The seminar was attended by representatives of numerous small banks who were interested in obtaining information firsthand on problems involved with leasing. As Mr. Winders pointed out in his presentation, leasing has legal problems, tax problems, accounting and regulatory problems. These all must be considered in structuring and documenting a lease.

Seminar attendees go over set of questions on leasing at start of two-day meeting in Kansas City. Terry Winders, pres. of FirstLease, is seen in background.

Bankers learned that one of their best prospects for leasing would be the firm that cannot make use of the investment credit or depreciation, since it has been operating for the past several years on a lean budget, with little or no net profit. That type of firm, they learned, would be eager to pass along investment credits to its bank "lender" and depreciation schedules on leased equipment. A bank, of course, also would have to be in a tax position to make use of the investment credits and depreciation of equipment leased. If a bank, for example, is heavily invested in tax-free municipals and shows a small net profit at the end of each year, leasing is not as desirable, of course.

Software programs designed by FirstLease for leasing operations are explained by Chris Ivory, representative for FirstLease.

During the two-day seminar, attendees were given some information on the history of leasing, structuring of a lease, insurance problems, guaranteed residuals, documentation, accounting, operations procedures and marketing.

FirstLease, sponsor of this and other seminars planned for the future, acts as consultant to numerous banks around the country that cannot afford to maintain a full-fledged leasing department. It is the opinion of Mr. Winders that a bank must have approximately $1 billion in footings to justify a full-fledged leasing department. His firm, he explains, can act as "backup" for the smaller bank, helping process each individual lease, documenting it, structuring and pricing the lease so that it is profitable to the bank.

FirstLease staffers at seminar included Jan Gerdom, v.p./operations; Joel F. McGuire, regional sales mgr.; and George M. Spanish, e.v.p.

He estimates that if a bank enters the leasing business completely on its own, the software-processing program

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alone would cost $160,000, and the annual cost of operating a leasing department would be in excess of $200,000. Therefore, he stated, the average bank would find his firm's services of value and a lot less expensive.

Several of the bankers attending the seminar were from agricultural areas and immediately recognized the potential of leasing heavy equipment to the farmer. The farmer, hard pressed in recent years and operating at no or little profit, would not be able to take advantage of the tax-investment credits and depreciation of equipment and thus would favor leasing equipment as long as the costs to him were reasonable. One banker from southwest Kansas indicated that irrigation systems were a prime type of equipment to be leased to the farmer.

Another banker attending the seminar indicated that his correspondent bank had "introduced" him to leasing, that his bank had processed a number of leases, but he was there to gain more information in order to determine just how fully his bank could or should be involved in leasing.

The seminar was attended by two S&L representatives. New regulations of that industry allow S&Ls to put 5% of their assets in commercial loans. It was pointed out that S&Ls, therefore, would not be big competitors of banks since they were limited to a combination of 5% leasing and commercial lending.

It also was pointed out that leasing will be subject to a new set of rules effective January 1, 1984. Under the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), several changes are to be made under so-called finance-lease rules as opposed to guideline leases, and bankers must become familiar with these.

Bankers attending the seminar were given notebooks several inches thick containing much of the information dispensed at the seminar — enough information on which to base future judgments of establishing or expanding their own leasing programs. — **Ralph B. Cox, publisher.**

Bank Directors' Assembly Set for Hawaii in Feb.

The Illinois and Montana bankers associations and the Foundation of the Southwestern Graduate School of Banking at Southern Methodist University, Dallas, are co-sponsors of the 56th Assembly for Bank Directors, scheduled for February 16-19 at the Hyatt Regency, Maui, Hawaii.

Topics to be discussed during the assembly include: the relationship between boards and managements, the challenge of continued recovery without inflation, a look into banking in 1990 and determining if the bank CEO deserves his job. Discussion sessions also will be held.

Mid-Continent-area bankers serving on the assembly faculty include: Robert H. Boykin, president, Dallas Fed; Fred Ferguson Jr., president, Town North National, Dallas; William J. Hocter, executive vice president, Illinois Bankers Association, Chicago; C. Neal Johnson, president, First National, Artesia, N. M.; Glen E. Lemon, chairman, First Bank, Booker, Tex.; Louis L. Ramsay Jr., chairman, Simmons First National, Pine Bluff, Ark.; and Charles C. Wilson, chairman, First National, Rock Island, Ill.

Director of the program is Alan B. Coleman, president, SWGSB Foundation at Southern Methodist University.

• **James C. Sivon** has joined the Association of Bank Holding Companies (ABHC), Washington, D. C. He had headed the Republican staff of the House Banking Committee the past three years. He is a member of the District of Columbia Bar Association.

Failed First of Midland Bought by RepublicBank; Second Largest Closure

The nation's second-largest bank failure occurred in Midland, Tex., last month when the FDIC transferred the deposit liabilities of First National, Midland, to RepublicBank First National Midland. The new bank is a subsidiary of RepublicBank Corp., Dallas.

First National's sole office reopened on October 17 under the RepublicBank banner.

According to the FDIC, acquisition of the failed institution followed a competitive-bidding process that included both in-state and out-of-state potential acquirers. The transaction was approved by the FDIC's board under the authority of a provision of the Garn/St Germain Depository Institutions Act of 1982 that authorizes the agency to solicit bids from out-of-state banks in cases involving failed banks with $500 million or more in assets.

First of Midland was closed on October 14 by Acting Comptroller of the Currency H. Joe Selby due to the bank's inability to meet depositor demand. The Comptroller's office noted that the bank had experienced severe operating losses over the past 16 months, attributable to energy-related loans that had gone sour. Publicity about the losses resulted in a run on the bank. First National was unable to meet its obligations to depositors.

Deposit assumption with assistance from the FDIC avoided the necessity for a payoff of the estimated 76,400 accounts at First National.

In addition to assuming about $622 million in deposits and other liabilities, RepublicBank paid the FDIC a purchase premium of $51.1 million. It also will buy First National's securiites, installment loans and certain other assets.

The FDIC advanced $302 million in cash to RepublicBank and will assume First National's debt of $664 million to the Dallas Fed. The FDIC also retains the failed bank's assets with a book value of about $1.2 billion.

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Insider-Lending Rule Issued

A FINAL RULE on insider-lending limits was issued September 27 by the Comptroller of the Currency.

The rule raises the dollar limit on loans national banks may make to their executive officers from $10,000 to $25,000, or 2.5% of bank capital, whichever is higher, up to $100,000. The limit doesn't apply to loans for residential mortgage or education purposes.

The rule also raises the aggregate-dollar limit to $25,000 on all extensions of credit to individual insiders, or 5% of bank capital, whichever is higher, up to $500,000.

Insiders include executive officers, directors, principal shareholders and any of their related interests. A loan exceeding the aggregate limit must receive advance approval from the bank's board.

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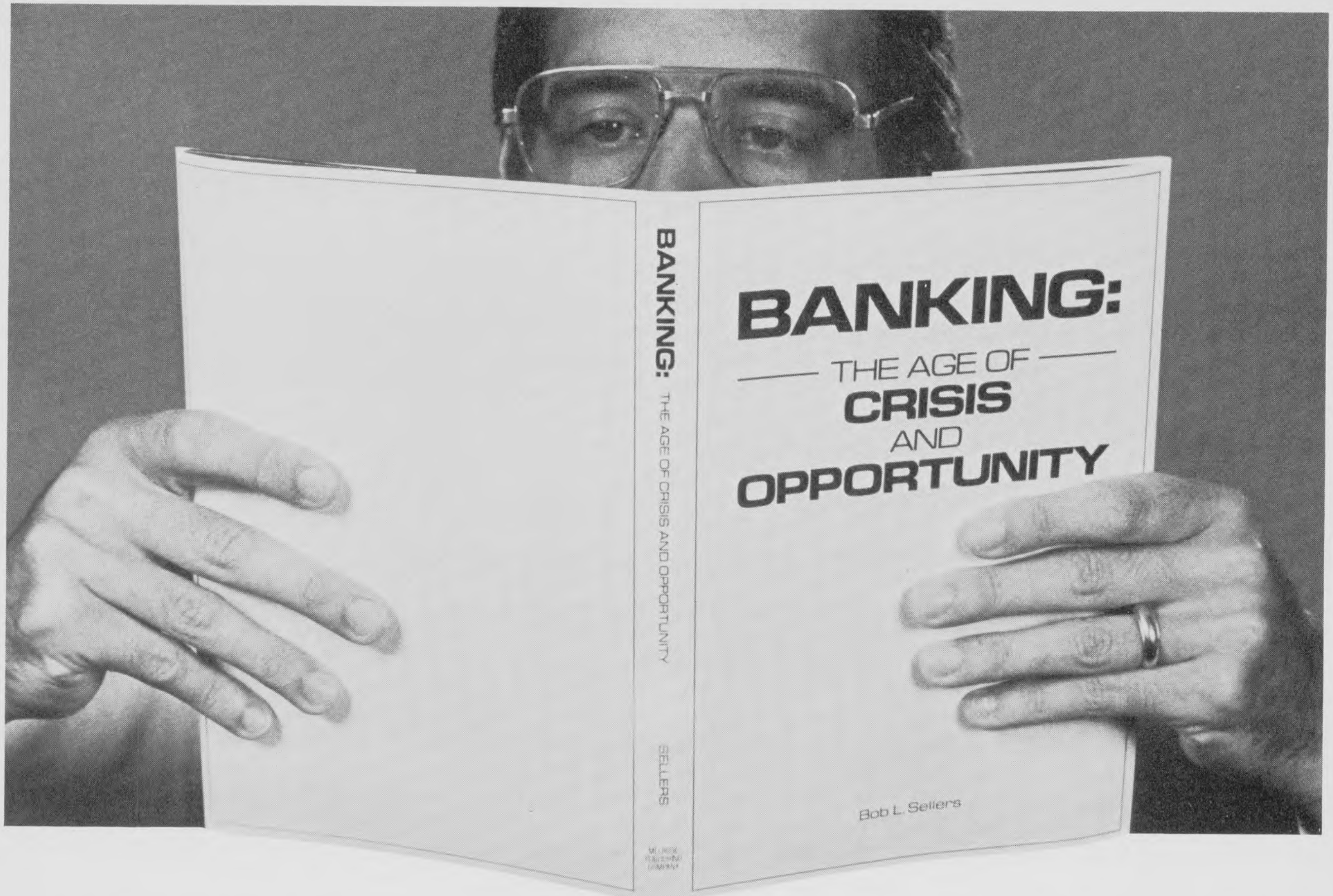

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Banking and Insurance: Opportunities and Possibilities That Exist

By Douglas G. Hoffman CPCU ARM
Senior Consultant
Risk Planning Group, Inc.
Darien, Conn.

IT APPEARS inevitable that one day soon banks will have full insurance powers. *BankRisk* projects that by 1990 banks and similar financial institutions may be writing or selling as much as 30% of all personal lines insurance.

It is equally conceivable that insurance and finance companies will be firmly entrenched in the banking industry. In fact, many already are there. Some recent banking activities involving members of the insurance and other nonbank financial-institution industries have included the acquisition or formation of banks by companies such as Prudential, Dreyfus Corp. and Fidelity Group. In addition, a few holding companies such as Sears, Beneficial, Gulf & Western and Avco Financial own both banking and insurance firms without challenge from regulators or legislators.

On the banking side, the trade press is keeping a close eye on Citibank and others as to their every move in South Dakota, while Bank of America is quietly conducting insurance operations in California indirectly through an SBIC (small business investment corporation). Hundreds of banks are already underwriting and selling credit life insurance throughout the United States. A number of grandfathered insurance agencies operate general insurance agencies at bank HCs, including Norwest Corp., Minneapolis, First Wisconsin Corp., Milwaukee, and Citizens & Southern Corp., Atlanta. At least 2,300 bank HCs, each with assets of $50 million or less, were granted agency powers in 1982 under the Garn-St Germain Act.

With all the recent discussion about deregulation and the expansion of bank powers to include real-estate brokerage, development, securities services as well as insurance underwriting, it is an appropriate time to step back and review some of the key events in the banking and insurance movement, and project where the movement is headed.

This article will examine and distill the current *opportunities* for banks in the insurance industry from the *possibilities* for further involvement. While it is true that bankers have barely scratched the surface in entering the insurance industry, numerous opportunities are available to them already. While no one is suggesting that they retreat from lobbying efforts for deregulation, there also is no reason to wait for Congress' official starting gun.

• *Current Opportunities* for bankers in insurance originally were defined by several laws, including the National Bank Act of 1933, the Bank Holding Company Act (BHCA) of 1956 and Regulation Y. However, the Garn-St Germain Act redefined banks' insurance powers in 1982. Along with the Federal Small Business Investment Act, the Export Trading Company Act and various state laws, bank powers now stand as a fragmented maze of specific opportunities.

Garn-St Germain: Passage of the Garn-St Germain Act was not the defeat that many bankers have termed it, nor was it the stunning success that the insurance industry would like to believe. As termed by Dan Wall, staff director of the Senate Banking Committee, "It was Congress, once again, in its infinite wisdom, finding a spot dead between two very opposing positions."

The law actually reaffirmed several bank opportunities in insurance established by Regulation Y, and even added some, depending on a bank's size. In general terms, Title VI of the act serves as an amendment to the BHCA by declaring that insurance activities as a principal, agent or broker are not closely related to banking or managing or controlling banks. Specifically, however, the act outlines a number of exceptions which, in effect, broaden bank insurance powers.

For instance, the act has left the powers of the 1970 amendments to Reg Y relatively unscathed, allowing banks to continue selling insurance in communities with populations of less than 5,000 and to both sell and underwrite credit life and accident and health insurance. The act also provides a grandfathering of insurance activities to January 1, 1971, in one case, and to May 1, 1982, in another. It's estimated that these provisions will cover 16 bank HCs in the first instance and nearly 1,000 HC subsidiaries in the second. Secondary expansions include unemployment insurance and limited credit property and liability insurance in the case of finance-company subsidiaries.

The most significant result of Title VI, however, was permission for agency activities of bank HCs with assets below $50 million. This exception leaves banks unrestricted as to lines of insurance. Don Browne, group vice president at First Atlanta Corp., has observed that nearly 2,300 of the 3,500 bank HCs regulated by the Fed could meet this requirement. He argues that, "While Congress has now declared that operation of a property and casualty insurance agency is not closely related to banking, the size exemption makes it clear that, in reality, the sole determining factor is *not* the nature and scope of the activity, but the size of the organization involved."

Small Business Investment Company (SBIC): Through a move that surprised many in the banking industry, BankAmerica Corp. announced last January 7 that it was entering the insurance business. The action set a precedent as it involved a vehicle — a venture-capital small-business-investment company, under the Federal Small Business Investment Act — that no one else had ever considered. The move was swift and decisive. In the words of Stephen McLin, senior vice president at BankAmerica, "The beauty of doing it as a venture-capital investment is that it doesn't require Fed approval." Even its announcement was well timed. It rode on the coat tails of a bigger headline in the *Wall Street Journal* about the HC's acquisition of Charles Schwab Corp., whereby the Fed set precedent by ruling that discount-brokerage services *are* closely related to banking and are permitted for bank holding companies.

BankAmerica's move led to the purchase, through its SBIC, of a 24.9% share of HL Capital Management

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This article is a condensed version of a feature appearing in the third quarter, 1983, issue of "BankRisk: The Bank Risk Management Quarterly." Mr. Hoffman is managing editor.

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Corp., which in turn owns interests in workers' compensation insurance, including Pacific Compensation Insurance Co., risk management and reinsurance. The ownership percentage is critical since the HC is presumed to have control if it exceeds 24.9%. It is interesting to note that one of HL Capital's other principal investors is Citicorp, with 15%. Citicorp too is "in the insurance business" under this arrangement.

State Banking Laws: A number of state-chartered banks have insurance powers under "grandfathered" bank charters. These charters permit a number of nonbank activities, including data processing, travel, security brokerage, real estate, investment advice, in addition to insurance-agency operations.

The key to continued or "new" operations in some cases is that the agencies are located in the state-chartered banks themselves, while the Fed regulates and prohibits bank HCs and their nonbank subsidiaries from selling insurance. Regulations pertaining to bank HC and other lending-institution subsidiary insurance activity reveal that 23 states prohibit or restrict insurance agency activities of HCs and other lenders, while the remaining 27 have no such prohibitions.

One example of a bank firmly entrenched in insurance-agency activities is Hawkeye Bancorp in Iowa. Iowa has no prohibition of insurance-agency activities, nor does it have a "grandfathering" provision. The state allows Hawkeye to operate insurance agencies through its various bank subsidiaries, offering a number of insurance lines, including homeowners and automobile. Premiums are deducted directly from customer accounts, and with its computer link to the Travelers Corp., in 85% of the cases the bank can print out the customer's policy within three minutes. The efficient computer and mass-market system has permitted customer savings of up to 35%.

Export Trading Company (ETC) Act of 1982: Concurrent with its debate over Garn-St Germain, Congress passed another act that permits bank HCs to make their first significant direct entry into commercial operations. The Export Trading Company Act allows activities in consulting, international market research, advertising, marketing, product research and design, legal assistance, transportation and, among a host of other operations, insurance. The bank may act as a principal, agent or broker in the sale of insurance covering the transportation of cargo from any point of origin in the U. S. to a point of final destination outside the U. S. but excludes coverage on risks resident or located, or activities performed in the U. S. The term "principal" is construed to mean insurance underwriting.

To date, Bank of America has formed an ETC subsidiary, while First Interstate and others have been considering the possibility. One could have guessed however, that Sears already is a few steps ahead of the banks. It modestly stated its goals for Sears World Trade as becoming a "truly significant trading company."

• *Possibilities. Garn-St Germain:* Title VII of the act allows one or more national and/or state *banks* to form a bank service corporation in which they can invest up to 10% of their unimpaired capital and surplus, but not to exceed 5% of assets. A service corporation can engage in the same activities as its parent banks and is authorized to perform any activity permissible under the Fed's Reg Y. *If* this can be interpreted to mean that *banks* can engage in such activities, then the significance of this section is that not just *bank HCs* can qualify under the $50-million-asset exception. In this case, Don Browne estimates that approximately 10,500 banks may be eligible to enter the insurance industry. Their operations would depend, however, on the seven exceptions or "permitted activities" outlined previously.

State Laws: On last March 4, Governor William Janklow of South Dakota signed into law a measure that allows out-of-state HCs to form or acquire a state bank with a minimum capital of $5 million for the purposes of engaging in "all facets of the insurance business." The authors of this bill and others being considered by states such as Delaware, Michigan and Minnesota believe that they will circumvent federal banking and insurance restrictions in that state banks, not the out-of-state bank HC, would own insurance operations. To date, several major banks are hoping that the authors' view is correct. Citicorp, First Interstate and BankAmerica have all either purchased or applied for South Dakota state bank charters.

Based on precedent involving state and federal banking laws, there is good reason to believe that the Fed will rule in favor of the South Dakota banks and insurance companies as explained by Frederick S. Hammer, Consumer Bankers Association government relations operations chairman and executive vice president, Chase Manhattan Bank, New York, in recent testimony before the Senate Banking Committee. He argued that state-chartered banks do not derive their powers from the federal Bank Holding Company Act, but from their own state regulations. Section 225.4(e)(2) of Reg Y permits a state-chartered bank or subsidiary to "acquire or retain all . . . of the shares of a company that engages solely in activities in which the parent bank may engage, at locations at which the bank may engage in the activity and subject to the same limitations as if the bank were engaging in the activities directly. There is no requirement that the Fed's approval be obtained."

Financial Institutions Deregulation Act of 1983 (FIDA): On last July 8, the Reagan Administration sent to Congress its proposed legislation for expanding the powers of both banks and thrifts in a number of financial-service areas. The bill is a revision of the Administration's Bank Holding Company Deregulation Act, introduced in 1982. If passed, the Treasury Department's new FIDA would allow both bank HCs and multiple S&L HCs to engage in limited securities activities, real estate development, investment and brokerage, ownership of either thrifts or commercial banks, all permitted activities of either HCs or multiple S&L HCs, services of a financial nature in addition to the above, as well as insurance underwriting and brokerage.

While bankers certainly do not yet have free reign in the insurance business, numerous *opportunities* exist. On the other side of the coin, insurance *possibilities* include the loosening of state laws in places such as South Dakota, which could result in tacit or *de facto* approval of broad insurance operations by the Fed. Or, broad Fed approval could take the form of an outright *de jure* permission, through the passage of the 1983 Treasury deregulation bill.

Through whichever form, *BankRisk* believes that, in all probability, the change will come by 1985, and bankers should prepare now for this new area of competition. • •

Electronic-Banking Security ABA Conference Topic

Security problems of electronic banking and income-producing insurance activities will be among the topics discussed at the ABA's 1984 national insurance/protection conference, set for January 31-February 3 at the Hyatt Regency Hotel-Embarcadero Center, San Francisco.

Computer crime and the criminal will be among general-session topics, as well as employee-assistance programs and fundamentals of personal power.

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How Captive Life Insurance Reinsurers Can Bring Profit to a HC Subsidiary

By George R. Jump
Vice President/Marketing
American Security Insurance Group
Overland Park, Kan.

BANKS and their HC subsidiaries have historically generated significant dollars by cross-selling credit life and disability insurance to qualified customers. But, even though they received a commission for their efforts, the majority of the premium dollars flowed to the insurer who underwrote the risk.

In 1972, the Federal Reserve Board expanded Regulation Y to allow bank HCs or their nonbank affiliates to underwrite credit life and disability as a permissible nonbanking activity. Authority to underwrite the risk under Reg Y thus provided the mechanism that allowed the HC to retain control over more of the insurance premium dollars it generated. More than 160 HCs have formed captive reinsurance subsidiaries using the time-tested Reg Y approach.

The monetary reward to those HCs that accept the risk on the credit insurance they generate has proved to be significant. A survey conducted by the Cleveland Fed indicates the average HC's captive-life reinsurer " . . . earned a rate of return on capital nearly three times higher and a return on assets nearly 15 times higher . . . " than those of the lead bank during 1978-1981.

The "Captive" Reinsurer Concept. A reinsurer is a company that assumes the risks of another insurer (the "direct writer") under insurance policies or certificates originally issued by the direct writer. This is analogous to a bank purchasing indirect paper from a dealer. "Captive" refers to the fact that the reinsurance subsidiary of a bank HC may assume the credit life and/or credit disability insurance risk only when such coverage is written in connection with an extension of credit by a lending subsidiary of the parent HC.

Formation of a captive reinsurer allows the bank HC some significant advantages. First, cash flow from insurance premiums generated by the HC ultimately is controlled by the HC, either as commission income to the producing subsidiary, or as mortality and morbidity reserves in its captive reinsurance company.

Second, typically there are underwriting profits to be derived. Underwriting profits are the excess of earned premiums less claims, commissions and any expenses of the captive. Most captives consistently develop underwriting profits beginning the first year.

The third advantage is the additional investment income earned on dollars flowing into the captive. Like a bank, the majority of a reinsurance company's assets consist of cash or cash equivalents. Full use of these funds provides a significant earning stream. Additionally, they may be invested in CDs of the affiliate bank or in other qualified investments.

Fourth, since 1959, qualified life companies have enjoyed favorable tax treatment. A qualified life company (for tax purposes) can defer from taxation one-half the underwriting profit subject to limitation. Additionally, 10% of the investment income, not to exceed $25,000 annually, is exempt from taxation. Under current law, taxable income of a qualified life company can't be consolidated for tax purposes with that of a nonlife parent for at least five years, and then only by election.

The effective tax rate for most captives compares favorably to that of the parent's affiliates. It should be noted, however, that Congress currently is reconsidering taxation of life insurance firms.

Determining a Candidate. Any bank HC that can generate an annual credit-life-and-disability-premium volume of $250,000 or more is a candidate for a captive reinsurer. Evaluation of a HC's premium volumes should consider its current or potential premium production from the following possible sources: finance company, equity lending (second mortgages), credit card, installment lending, commercial lending, retired employees, employee group life and employee group health plans.

Emphasis should be on the first four sources, as they contain the largest possible number of potential insured customers as well as the majority of the lending products offered by the HC.

Selecting a Servicing Direct Writer. Few HCs have elected to perform the insurance activities associated with running a captive reinsurer. They lack the internal expertise and/or the economies of scale of a servicing direct writer. Many, but not all, servicing direct writers offer a "turnkey" package to assist the HC in the formation of the captive reinsurer and then service the captive on a fee basis.

The most important step a HC will take when forming a captive reinsurer is the selection of its servicing direct writer. Careful analysis of the expertise and specific services provided by the direct writer must be made. A clearly demonstrable (and verifiable) track record by the servicing direct writer is a requisite. This step will help the HC ensure ongoing maximization of its insurance profits more than any other single step it may take.

The legal expertise of the servicing direct writer should be probed. The legal department of the direct writer chosen should be a resource of basic information to the HC's counsel. The direct writer's legal department should be knowledgeable about the state statutes affecting the HC and the statutes of the state in which the captive is domiciled. A direct writer should be selected that will provide assistance in the completion of the Fed Y-4 application as well as in determining which state is best to domesticate the reinsurance company. Inquiry should be made about the direct writer's familiarity with Department of Labor and Federal Reserve constraints regarding reinsurance of the HC's employee-benefit programs into the captive.

The servicing direct writer must understand consumer lending and have developed products that meet today's lending needs. Consumer lending has seen a progression to larger average balances and longer maturities, resulting in the development of variable-rate loans, irregular repayment schedules and revolving lines of credit, to name a few.

The servicing direct writer chosen must have the expertise to support the

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bank's loan programs. The direct writer must offer a full complement of traditional credit-insurance products, as well as newer coverages, such as net pay-off and irregular-amortization-life benefits. Look to the direct writer for innovative twists to writing long-term life and disability products that meet lending and insurance requirements.

Claims service by the managing direct writer is important to bank-customer relationships. Proper claims handling also protects the underwriting profitability of the reinsurance company. Look for online claims processing and five days turnaround as standards in the industry. A full service direct writer also must have expertise in statutory accounting, GAAP accounting and taxation. The direct writer should be qualified to establish policy reserves and provide timely financial statements for consolidation purposes.

A high level of insurance sophistication isn't a prerequisite to formation and ownership of a captive reinsurer. A full-service direct writer brings insurance skills to the relationship. In fact, a properly organized captive reinsurer won't impact the lender's day-to-day branch administration of its credit-insurance program. The activity associated with the captive occurs after branches have booked and remitted premiums to the direct writer.

The concept of a captive reinsurer is sound and has stood the test of time. It should be viewed as an integral element of the overall insurance strategy of the HC.

As an economic concept, insurance is just as dynamic and changing as lending. The impact that a captive reinsurer can have on the HC's profitability deserves to be fully explored. ● ●

Banking Scene

(Continued from page 8)

isting charter? Consider, for example, that the forerunner of Chase Manhattan, New York City, originally was chartered as a waterworks company, a charter the bank retained even after the merger of Chase National Bank into Bank of Manhattan Co. Bank analysts determined that a waterworks charter was superior to a national charter. It was only after the Comptroller of the Currency — particularly Comptroller James Saxon — liberalized enforcement of regulations that Chase Manhattan switched to a national charter.

As I read the Garn/St Germain Act, I see advantages for banks in states where branching or interstate mergers are constrained or where ATMs are overly regulated, to switch to federally chartered stock savings-bank charters. Not every bank would benefit from such a switch, but some would find more fertile soil in which to grow while under the paternal care of the FHLBB compared to the less sympathetic treatment they receive at the hands of federal bank regulators. And, brother, would those same federal bank regulators ever be steamed! ● ●

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Reinsurer Concept Praised

AMONG operators of HC captive insurance firms who strongly endorse the concept of reinsurers (see adjacent article) is Robert O. Halbert, CLU, president/CEO, Fidelity National Life Insurance Co., an Arizona-domiciled captive agency for United Banks of Colorado, Denver.

Mr. Halbert says his agency is doing well, profitwise, for the HC, and, as proof, he cites the agency's status as the fifth leading income producer of the HC's 29 divisions. The agency's servicing direct writer is American National Insurance Co., headquartered in Galveston, Tex., and the agency has been using the services of this firm since 1968.

Mr. Halbert especially appreciates American National's legal and marketing expertise and the fact that the firm is adept at providing sophisticated services to enable the agency to service the HC's up-scale customers. As an example, he said more up-scale customers are being offered open-end lines of credit that are secured by second mortgages on their homes — a service that requires a different type of insurance product than closed-end loans. He says his agency relies on American National for development of the best insurance products.

Mr. Halbert says other direct writers have made presentations to the agency over the years, but none have convinced him to switch from American National.

United Banks has 29 member institutions and total assets of approximately $3.5 billion.

Another supporter of the concept of reinsurers is Bill McCool, president, Third National Life Insurance Co., captive insurance firm for Third National Corp., headquartered in Nashville. The HC's assets are $3.6 billion and it controls 11 banks throughout Tennessee.

Mr. McCool became a part of the Third National organization early this year when Third National Corp. merged with Ancorp Bancshares, Chattanooga, his former employer.

At the time of the merger, Mr. McCool and his staff took proposals from five top direct-writer firms, looking for the types of coverage Third National Life needed. Volunteer State Life Insurance Co., Chattanooga, won hands down because of its marketing and training departments, Mr. McCool says. "No other firm examined had as good a program for training as did Volunteer State. They don't use salespeople in their marketing department, they use marketing people."

Volunteer State Life excels in the areas of training and prompt claims service, Mr. McCool says. And the firm is continually upgrading its services to banks. At present, the firm is working with Third National to create a "no-name" certificate that will simplify Third National's record keeping. The certificate will enable Third National to turn one clerical person loose to do other chores, he says.

Third National Life's return on equity places the division in the position of top performer, profitwise, among the HC's affiliates, according to Mr. McCool.

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Municipal-Bond Insurance Helps Bank Officers Invest With Confidence

By Lauren M. Miralia, Executive Vice President
Municipal Issuers Service Corp., White Plains, N. Y.

TAX-EXEMPT municipal bonds were a predictable, stable, often dull investment instrument until a few years ago. Portfolio and trust officers could expect relatively stable interest rates, reliable real rates of return for the securities and little likelihood of default scares or customer criticism.

But that predictability has changed. Since the start of this decade, upheavals in the municipal market and unchecked inflation have resulted in historically high interest rates charged to governmental borrowers. This offered the apparent prize of larger-than-normal returns as well.

But investors have become increasingly concerned about the negative effect of a prolonged recession and deep cuts in federal and state-aid programs on the financial condition of many state, county and municipal government issuers. Money managers have witnessed downward-rating revisions by both Moody's and Standard & Poor's of many formerly top-investment-grade municipalities in a historically unequaled ratio of 3 to 1. And they know how these credit downgradings can substantially reduce the market value of their municipal-bond holdings, affect the quality and quantity of bids for their bonds and engender extraordinary pressure from investment committees, bank examiners and clients.

How, then, can bank officers select stable tax-exempt investments that are both high quality and provide attractive yields? One way to accomplish both objectives is by buying and owning Triple-A-rated insured municipal bonds.

How it Works. Municipal-bond insurance, such as that provided by the Municipal Bond Insurance Association (MBIA), provides an issuer that can qualify (but not all borrowers can get coverage) with a guarantee that earns a higher-than-normal rating (AAA) by Standard & Poor's.

From the investors' point of view, this means they can buy municipals insured against default with yields equal to A+ or Aa-rated bonds, but with quality ratings of AAA. Yields on MBIA bonds, which are automatically Triple-A rated by Standard & Poor's, often are 10 to 30 basis points higher than even AA-rated bonds. At this writing, normal 20-year general-obligation bonds rated Aa by Moody's are returning 9.10% while AAA-rated MBIA-insured bonds of the same maturity yield more than 9.50%, a highly significant increase in cash flow and yield for bank portfolios and trust accounts.

In addition, MBIA bonds, like other AAA and Aaa bonds, tend to hold their value longer in deteriorating markets. And since they are true Triple-A quality, bank examiners willingly accept them as such.

Other Advantages. While default is an unlikely event on the part of the credits MBIA insures, wide swings in their individual credit standings are a distinct possibility. Unlike unprotected bonds, whose ratings can be suspended, reduced or changed, MBIA-insured bonds keep their Triple-A. Bondholders thus are protected from adverse economic, legal, political and social developments that can materially affect municipal governments. Deterioration in a municipality's credit standing will not change Standard & Poor's rating of bonds guaranteed by MBIA.

> While the accompanying article deals with municipal bonds that are rated, it isn't intended to influence bankers from supporting bond issues of their local communities. The majority of local bond issues in smaller communities are not rated, but local bankers usually are in a position to know their reliability. Lack of ratings doesn't mean such bonds are not good buys. — *The Editors*.

Unlike most insurance policies, which don't pay a claim until something goes wrong, MBIA's guarantee of payments is readily convertible into increased market value and liquidity. In an era of continuing financial instability and credit problems, MBIA's guarantee can prevent significant deterioration in the value of bond investments due to erosion of a municipality's credit.

With these advantages to portfolio managers, it's not surprising that the growth of financial guarantees has been impressive over the past few years. As recently as 1980, only 3% of new long-term municipal issues sold were covered by bond insurance. Last year that figure increased to 9.5% and in the first half of 1983, insured bonds represented more than 16% of total long-term new-issue volume.

Background. Since the inception of the MBIA program in 1974, through mid-1983, MBIA has insured 2,200 new issues of municipal bonds and notes having a total face value of $15.8 billion and combined principal and interest value of $33.7 billion. MBIA has insured tax-exempt offerings of municipalities and governmental units in every state and the District of Columbia.

Five prominent insurance companies comprise MBIA's membership. These, with their share of participation, are:

- Aetna Casualty & Surety, a subsidiary of Aetna Life & Casualty, 33%.
- Fireman's Fund Insurance, a subsidiary of American Express, 30%.
- Travelers Indemnity, a subsidiary of Travelers Corp., 15%.
- Aetna Insurance, a subsidiary of CIGNA Corp., 12%.
- Continental Insurance, a subsidiary of Continental Corp., 10%.

Assets and surplus of the five companies comprising the association totaled $21.1 billion and $3.6 billion, respectively, as of December 31, 1982. This entire amount is pledged to every bond MBIA insures.

Each MBIA insurance policy is a several, not joint, obligation of the participating insurance companies and each company's liability is limited to its stated percentage participation. Investors buy MBIA bonds directly from municipal-bond dealers, with the policy fully paid in advance and attached to or printed on the bonds. The premium, usually 0.75% to 1% of total principal and interest, is paid by the municipality (60% of the time) or the underwriter (40%), depending on the insurance program selected. Full payment of debt service within one busi-

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ness day is guaranteed by MBIA to final maturity of the bonds.

In spite of huge insurance-company resources backing MBIA-insured bonds, these securities are considered "story" bonds by some in the municipal market; that is, issues with special characteristics that must be explained occasionally. Some buyers' lack of familiarity with such securities has made MBIA-backed issues the best buy of any top-quality municipal issues in today's markets.

Comprehensive Credit Analysis and Surveillance. MBIA does not qualify every application for bond insurance that is submitted. In fact, the association's analytical process is much more comprehensive than most, because MBIA irrevocably commits capital when it guarantees the obligation.

Unlike the rating services, which can suspend, reduce or withdraw ratings, MBIA is unconditionally bound to pay, when due, for the life of the bond. In this respect, MBIA is acting as a cosigner of the issuer. Just as bank officials would not knowingly lend funds to a poor credit risk, MBIA will not guarantee issuers that aren't likely to pay off on their own resources.

However, in contrast to buyers of municipal bonds, MBIA does not have to worry about the marketability of the issuer's bonds or any deterioration of ratings or quality other than outright default. Clearly, this gives MBIA the advantage of being able to take a wide range of market-price risks (as opposed to default risks) which most investors are unwilling or unable to accept.

Aside from the yield advantages of MBIA-insured bonds, there are notable technical, legal and operating advantages for fiduciaries. MBIA's commitment to research, credit analysis and follow-up surveillance is total. When MBIA reviews, analyzes and approves an issue, the bank officers' usual geographic and technical policy restrictions should be eliminated. For example, a trust officer in Texas can invest in lesser-known Florida, Pennsylvania or California issues that carry MBIA insurance and get an AAA rating at A+ or Aa yield level. Investment policy committees of many banking institutions have added MBIA-insured bonds, as a class, to their approved lists for trust investments.

Each issue analyzed by the managing agency of MBIA is subject to further analysis by the analytical staff of each MBIA-member insurance company. Ultimately, member companies must either approve or turn down every issue submitted.

The accuracy of MBIA's initial credit quality assessment is monitored over the life of the issue. Additionally, credit surveillance gives MBIA the opportunity to notify the municipalities, bond counsel, trustees and advisers if their credit is deteriorating or bond covenants are not being met.

Today, sophisticated bond analysis can project a variety of economic possibilities, providing the basis for contingency planning. While no technology can guarantee future performance or market price, an MBIA-guaranteed security is one current investment option that can decrease risk, lessen analytical time and reduce price volatility while increasing total return with absolute safety. ● ●

Harris-Bank of Montreal Merger Second Largest Purchase by Foreign Bank

Bank of Montreal's $547-million acquisition of Chicago's Harris Bancorp, Inc., ranks as the second largest acquisition of an American bank by a foreign firm. It ranks just behind Midland Bank Ltd. of London's purchase of 51% of Crocker National Corp., San Francisco, in 1981 for $595 million, according to W. T. Grimm & Co., Chicago-based merger consultants.

Under the merger agreement announced October 5, Harris Bankcorp holders of common stock will receive $82 a share. Approximately 6.6 million shares of Harris Bankcorp stock are outstanding.

The merger unites the United States' 33rd largest bank HC — with assets of $7.6 billion — with the third largest bank in Canada. Harris Trust, Chicago, subsidiary of Harris Bankcorp, is the third largest bank in Chicago, with assets of $7.4 billion.

The Harris organization observed its centennial last year. On May 1, 1882, Norman Wait Harris founded the investment banking firm, N. W. Harris & Co., predecessor of Harris Trust. The firm underwrote and sold public-utility bonds and, later, financed municipal bonds.

The company incorporated its Chicago and western business as Harris Trust & Savings Bank in 1907, adding a trust and a savings department. Harris Bank was merged with Chicago National in 1960. In 1972, the bank converted from a single corporate structure to a holding-company organization. Harris Bankcorp remained by law a single bank HC until January 1, 1982, when the Illinois multi-bank HC act took effect. Since then, Harris Bankcorp has acquired or has announced plans to acquire seven smaller banks in Chicago's suburbs.

"We believe the combination of Harris Bankcorp and Bank of Montreal will provide significant benefits for shareholders, customers, employees and for communities we serve," said William D. Mulholland, chairman/CEO, Bank of Montreal. He said the banks' operations are complementary and the union will produce stronger, more competitive services in all major markets the banks serve.

Mr. Mulholland stressed Bank of Montreal's commitment to continuing Harris' operation as an independent U. S. bank holding company and added that no significant changes in Harris' management structure or personnel are contemplated. The Chicago bank will retain the Harris name, and Harris' newly acquired Chicago suburban banks will "continue undisturbed as an important part of Harris' ongoing commitment to smaller and mid-size corporate customers," Mr. Mulholland said.

BLISS

MULLHOLLAND

Charles M. Bliss, Harris Bankcorp chairman/CEO, said deregulation, technological advances and rapid changes in the financial-services industry led Harris to the conclusion that alignment with a major international bank was a sound course of action. When Bank of Montreal made its initial inquiry about a merger, Mr. Bliss said, "We came to realize that an agreement could be reached that would present Harris with the strengths needed to enhance our future position in banking while preserving the unique elements of our organization."

Bank of Montreal is familiar with the Chicago banking market, having opened an office in that city more than 120 years ago to provide support to local businessmen seeking to expand the embryonic grain trade. The bank drew praise for its financial support of the community following the great Chicago fire of 1871. Although the Chicago branch office was closed in 1952, Bank of Montreal has maintained an active representative office there since.

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Minnesota Bankers Slain At Bank-Foreclosed Farm; Probable Slayer Is Dead

Rudolph (Rudy) H. Blythe Jr., president/director, and Deems (Toby) A. Thulin, vice president/cashier, Buffalo Ridge State, Ruthton, Minn., were killed by gunfire as they visited a farm the bank had foreclosed on four years earlier.

Mr. Blythe's wife, Susan, vice president/director of the $6.8-million bank, had gone to the farm where the shootings took place with her husband and Mr. Thulin, the bank's loan officer, but in a separate vehicle. When someone was spotted hiding at the farm, Mrs. Blythe was sent to get police. Sheriff's deputies returned to the farm later and found Mr. Blythe with gunshot wounds in his shoulder and abdomen lying in a ditch. Mr. Thulin was found in his car — which had been struck several times by bullets — where he had been hit once.

A man suspected of the killings, James L. Jenkins, 42, was found dead — apparently by his own hand — at a farm outside Paducah, Tex., four days after the killings. Mr. Jenkins' 18-year-old son, Steve, also a suspect, turned himself in to police in Texas and told them where they could find his father.

A bank spokesman said that decisions regarding replacements for Mr. Blythe and Mr. Thulin still are pending.

Neither of the slain bankers had been involved in the foreclosure on the Jenkins farm. The bank had taken ownership of the farm in October, 1980, and the Blythes and Mr. Thulin went to the farm to meet with someone who had called by telephone to express an interest in buying it from the bank.

A Purchase for MHC

NEW YORK CITY — Boards of Manufacturers Hanover Corp. (MHC) and RCA Corp. have approved an agreement in principle for Manufacturers Hanover to acquire RCA's wholly owned subsidiary, C.I.T. Financial Corp., for $1.51 billion. The purchase would be the largest ever for a bank HC. The transaction will not include C.I.T.'s insurance subsidiaries.

John F. McGillicuddy, chairman/CEO of the bank HC, says his firm expects to fund the cash portion with a combination of new equity and long-term debt. He adds that this acquisition and its financing package have been designed to enhance MHC's earnings and capital position and to support C.I.T.'s expected growth in assets and profits. MHC, according to Mr. McGillicuddy, expects C.I.T.'s future earnings to cover the acquisition's financing costs.

• **Neil B. Murphy,** economist/professor of finance, University of Connecticut, is serving as the Sam M. Cohodas professor of banking/finance at Northern Michigan University, Marquette, for the fall semester. He is the first person to occupy the chair for an entire semester. Through the Cohodas endowment, a number of economists have been brought to the university as lecturers. Professor Murphy holds bachelor's and master's degrees from Bucknell University, Lewisburg, Pa., and a doctorate from the University of Illinois, Champaign/Urbana. From 1969-71, he was chief of the economic research unit in the FDIC's research division; in 1971, he was on the staff of the President's Commission on Financial Structure and Regulation (the Hunt Commission) and in 1978-79, he was senior vice president, Payment Systems, Inc. He has held several research positions and academic posts and has authored or coauthored seven books, monographs and reports.

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Risk Management Applies to All Levels, Says Brown Brothers Treasurer

IT'S NO LONGER enough for commercial lenders to focus the hard-learned principles of risk management primarily on the commercial-loan portfolios of their banks, says Edward J. Williams, treasurer, Brown Brothers Harriman & Co., New York City.

They are urged to widen their focus and apply the traditional principles of risk management to nontraditional areas of bank activity.

Mr. Williams, who is a member of the board of Robert Morris Associates, says bank managers must deal on a daily basis with operational and clearing risks enhanced by electronic technology, securities lending and repurchase agreements, foreign-exchange activity and the interbank-deposit market.

These are a few nontraditional risk areas that he calls "pools of risk." He maintains that "unless nontraditional risk areas are carefully considered and controlled, they may give rise to losses over the next decade rivaling or, at times, even exceeding those generated by closely managed loan portfolios."

Mr. Williams says that banks can be viewed as a series of interrelated pools of risk that, when effectively managed, produce a profit and, when ineptly managed, can result in dramatic losses. "The bank incurs risk when it takes funds in various forms and incurs it again when it places those funds into various assets at a higher rate of return. Both credit and market risks are woven into this structure."

While both types of risk must be effectively managed, he says, ". . . it is in the area of detection and evaluation of credit risk that the trained commercial lender has roles to play in risk management through his or her bank."

These roles include:

- Identifying pools of risk in both traditional and nontraditional areas of bank activity;
- Evaluating risks and the development of effective monitoring systems to allow for reporting to senior management and control of risks by senior management;
- Training others within the bank to appreciate the nature of credit risks, particularly in operational areas where personnel have never been exposed to the principles of risk evaluation that lenders have come to know so well.

"It's imperative that the consciousness of all members of the staff be expanded to think about their activities in terms of the risks the transactions they are handling may have on the bank as a whole," Mr. Williams maintains. "In the U. S. Army, everyone is trained first as an infantryman, and in banks, everyone should be trained as a risk evaluator."

His primary suggestion is that bankers need to view risk management on a separate plane throughout their institutions. They should set up a risk-management committee or group to define all the pools of risk in which the bank is engaged. Bankers also need to see that proper reporting mechanisms are in place to assay those risks on a continuing basis. Most important, he says, they must see that the fundamental knowledge of risk assessment is instilled through proper training into all levels and areas of management to safeguard against those otherwise unanticipated losses.

Mr. Williams' views appeared in an article in the August, 1983, issue of "Journal of Commercial Bank Lending," published by RMA. ● ●

Free Planning Portfolio

KANSAS CITY — IAC Group now is offering a planning portfolio outlining DeferComp, a deferred-compensation program for bank directors and key executives. The plan already has been implemented in more than 100 banks in 11 states.

The "DeferComp Planning Portfolio" — which is free — provides a step-by-step explanation of how this deferred-compensation program works. It includes questions most commonly asked about the program and their answers.

The portfolio, in addition to explaining what DeferComp is and does, comes with a simple data sheet. It provides a means for interested bank executives to receive more detailed information about personalized DeferComp plans for their banks.

Bank executives responsible for compensation programs may obtain this free planning portfolio by writing: IAC Group, DeferComp Division, 1002 Walnut, Kansas City, MO 64106, or by calling Walter Ross at 800/821-5434.

Municipal-Bearer Bond Aides Help With TEFRA Compliance

A record-keeping system for the registration of municipal bonds and a guide to recently enacted legislation and legislative changes are available from Safeguard Business Systems, supplier of manual and automated record-keeping and information systems.

As of last July 1, municipal-bearer bonds were no longer tax exempt and bond issuers became responsible for record-keeping with respect to both bonds and interest dividends.

Safeguard's manual one-write record-keeping system offers a method for a municipality to comply with the change, mandated by the Tax Equity and Fiscal Responsibility Act (TEFRA). The system enables users to keep records of bond issues up to $5 million. Instructions lead users through record-keeping procedures for issuing, reissuing, transferring and making interest payments on municipal bonds.

The guide, "Procedures for the Registration of Municipal Bonds," outlines each facet of a municipality's obligations when issuing bonds under the new legislative requirements. Divided into two sections, the guide is designed to be used as an introduction to the new federal regulations, to help establish record-keeping procedures and as a standard reference manual.

The first section presents an overview of procedures for municipal-bond registration and outlines record-keeping procedures now required by law when issuing bonds. The second section presents a step-by-step guide to issuing and record-keeping operations, from transfer record keeping to disbursement of taxable interests.

For more information, call Safeguard at 215/641-5000.

Investment-Banking Office Opened in Chicago

Citicorp of New York City recently opened the Chicago corporate-finance office of its global investment banking division. The office is the first in a series planned under a national expansion program.

The office is the division's third in the U. S.; the others are in Los Angeles and New York City. Additional offices are planned for Houston, Cleveland, Atlanta and San Francisco.

Services offered by the Chicago office include merger, acquisition and divestiture, private placements of corporate debt, currency and interest-rate swaps, barter and countertrade, asset-trading, commercial-paper issuance and other corporate fund-raising products.

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Banks Most Versatile Institutions, According to Consumer Writers

BANKS are seen as the most versatile financial institutions, beating out S&Ls and credit unions, according to a survey of consumer journalists writing for the nation's daily newspapers.

The survey, conducted with the cooperation of the Wisconsin Bankers Association (WBA), also revealed that financial-related federal agencies, such as the FDIC, FSLIC and the Fed, are positively rated but considerable uncertainty exists about them.

The WBA cooperated with Mary-Beth Kuester, a consulting firm executive, and Michael Houston, professor at the University of Wisconsin-Madison, in surveying consumer writers. The survey was an update of a 1977 study to detect key changes in consumer issues and attitudes in the past six years and to examine emerging issues and opinions.

Journalists were polled on specific consumer issues, the effectiveness of federal agencies, the consumer movement and the consumer-information environment. The study also examined the prevalence of the consumer-journalist position on daily newspapers and the extent to which these journalists considered themselves as advocates.

New to the 1983 study were questions about inflation, unemployment, interest rates and financial services.

The WBA cooperated in the survey because the banking industry recognizes that understanding the major issues and concerns confronting consumers is essential in corporate decision making, said Bryan Koontz, executive director.

Wisconsin bankers have a long history of cooperation with consumer, labor and legislative leaders in dealing with consumer financial environment and a responsibility for delivering quality services to consumers, Mr. Koontz said. Bankers want to make sure they plan programs and services with long-term consumer interests in mind, he added.

The study concluded that deregulation is a consumer benefit. However, the changing marketplace for financial services, both with new products and services and new sources of the services, is confusing to customers. Mr. Koontz said bankers will continue to emphasize consumer education and education of employees to better serve customers.

Other key findings of the report:

- Consumer writing appears to be more prevalent in newspapers today.
- Less advocacy is present among journalists today.
- Energy and investment remain popular topics with some increase in new-product-development articles.
- Negative feelings toward insurance firms, the energy situation and consumer irresponsibility remain.
- Solar heat remains controversial, as does national health insurance, support for which is weakening.
- Consumer tolerance of a ban on disposable containers is more strongly doubted today.
- Substantial majorities doubt the continuance of low inflation and agree that unemployment is the number one problem.
- Most federal agencies are more positively rated today than in 1977.
- There is no agreement as to the best savings depository for consumers.

Copies of the report are available from Consumer Communications Resources, Inc., P. O. Box 232, Madison, WI 53701. ● ●

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Discount Brokerage

(Continued from page 20)

nel are competent when responding to questions from bankers and bank customers.

- Become familiar with the broker's procedure for executing orders and keeping records. How error-free is the operation?
- Look into the profitability and capitalization of the broker. Is the firm 100% committed to discount brokerage, or is discount brokerage just a sideline?
- What kind of rebate structure does the broker pay the bank? Some offer as much as 20% or 30%.
- Will the broker train the bank's people and give marketing assistance?
- How much commission savings will the broker give the bank's customers? Compare rates to those offered by other discount brokers.
- Find out if the broker will protect the bank's vested interest in its customers.

If these guidelines are followed, Mr. Grayson said, "you will make money with discount brokerage." — **Jim Fabian, senior editor.**

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Figure 1. Risk/Return Posture of Covered Call Writer

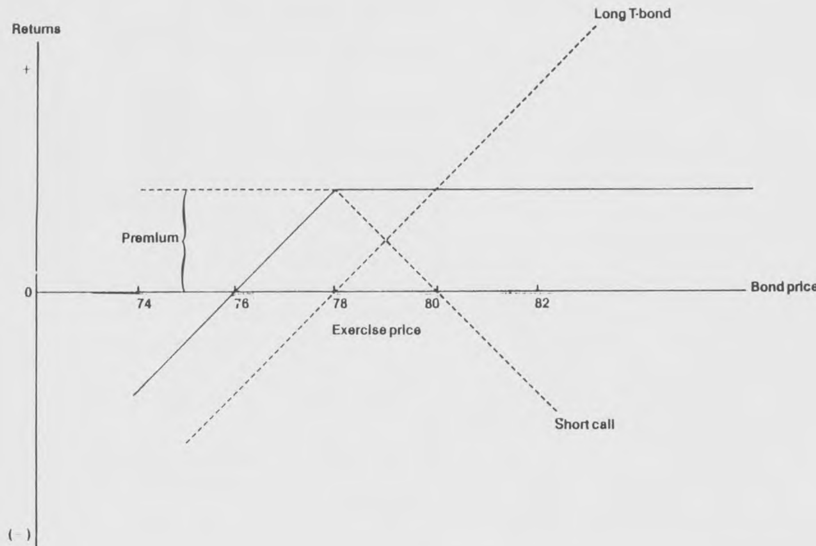

Table 1: Covered Call Sale Vs. Holding T-bond Outright

* Portfolio Manager holds $100,000 face value 14s, Nov. 2006-11, valued at $128,750.

* Portfolio Manager sells Sept. call option with 120 days until expiration for $1,844.

* Results under five different scenarios:

(1) Futures price	(2) Bond price	(3) Change in bond price	(4) Bond interest	(5) Return on bond
74	$120,500	($8,250)	$4,603	($3,547)
76	123,781	(4,969)	4,603	(366)
78	127,032	(1,718)	4,603	2,855
80	130,281	1,531	4,603	6,134
82	133,531	4,781	4,603	9,384

(6) Premium received	(7) Interest on premium	(8) Loss on exercise	(9) Covered call return	(10) Difference (9)-(5)
$1,844	$52	-----	($1,651)	$1,896
1,844	52	-----	1,530	1,896
1,844	52	-----	4,751	1,896
1,844	52	($2,000)	6,030	(104)
1,844	52	(4,000)	7,280	(2,104)

(1) Futures price at option expiration.
(2) Anticipated bond price at option expiration, based upon futures price times conversion factor of 1.6286.
(3) Change in bond price from original value of $128,750.
(4) Bond interest, 14% on $100,000 principal over 120 days.
(5) Return on bond over 120 days: (3)+(4).
(6) Premium received of $1,844.
(7) Interest received on premium when invested for 120 days at 8.4.%.
(8) Loss if option is exercised: futures price (1) minus exercise price of 78.
(9) Return on covered call sale (5)+(6)+(7)+(8).
(10) Difference between covered call returns and outright bond return (9)-(5).

Treasury Holdings

(Continued from page 18)

the 78-00 exercise price, he gains the entire $2,000 call-option premium.

Note that when the underlying T-bond futures market drops below 76-00, the covered call writer is subject to an absolute loss. However, if he intended to hold the T-bond futures in any case, the call insulates his pocketbook by $2,000.

Hedging an Actual T-Bond. Assume that a portfolio manager holds $100,000 face value of the 14%, November 2006-11 issue, which currently is valued at 128-24/32nds or $128,750. Our portfolio manager believes long-term interest rates will remain relatively stable over the next several months. He considers writing a call option struck at 78% of par exercisable for the September T-bond futures contract. The option expires in 120 days and may be sold for 1-54/64ths or $1,844. But before writing the call, he wants to compare this transaction's possible results with those of not acting at all.

Table 1 provides figures comparing the possible performance of the covered call sale vs. holding the T-bond outright under five different scenarios.

Obviously, when the T-bond futures price is 78 or under when the option expires, the portfolio manager is better off by $1,844, having written the call. However, this does not suggest that the portfolio manager completely insulates himself from risk of loss. In fact, he will lose $1,651 on the covered call if the futures price drops to 74. But this still is preferable to the $3,547 loss that would result if the portfolio manager hadn't written the call.

By writing a call option against a long T-bond portfolio, the portfolio manager has accomplished two ends: (1) he reduced the risks associated with a possible bond price drop, and (2) he reduced the potential profit of a possible advance. But somewhere in between that decline and advance, he augments his returns. • •

• **Bank Marketing Association.** A new addition to the "How To" training series produced by this organization offers guidelines from seven professionals in the field of reward and recognition. "How To Use Incentives Effectively" is intended for financial institutions planning or upgrading a reward-and-recognition program. Write: Bank Marketing Association, Training/Professional Development Department, 309 W. Washington St., Chicago, IL 60606.

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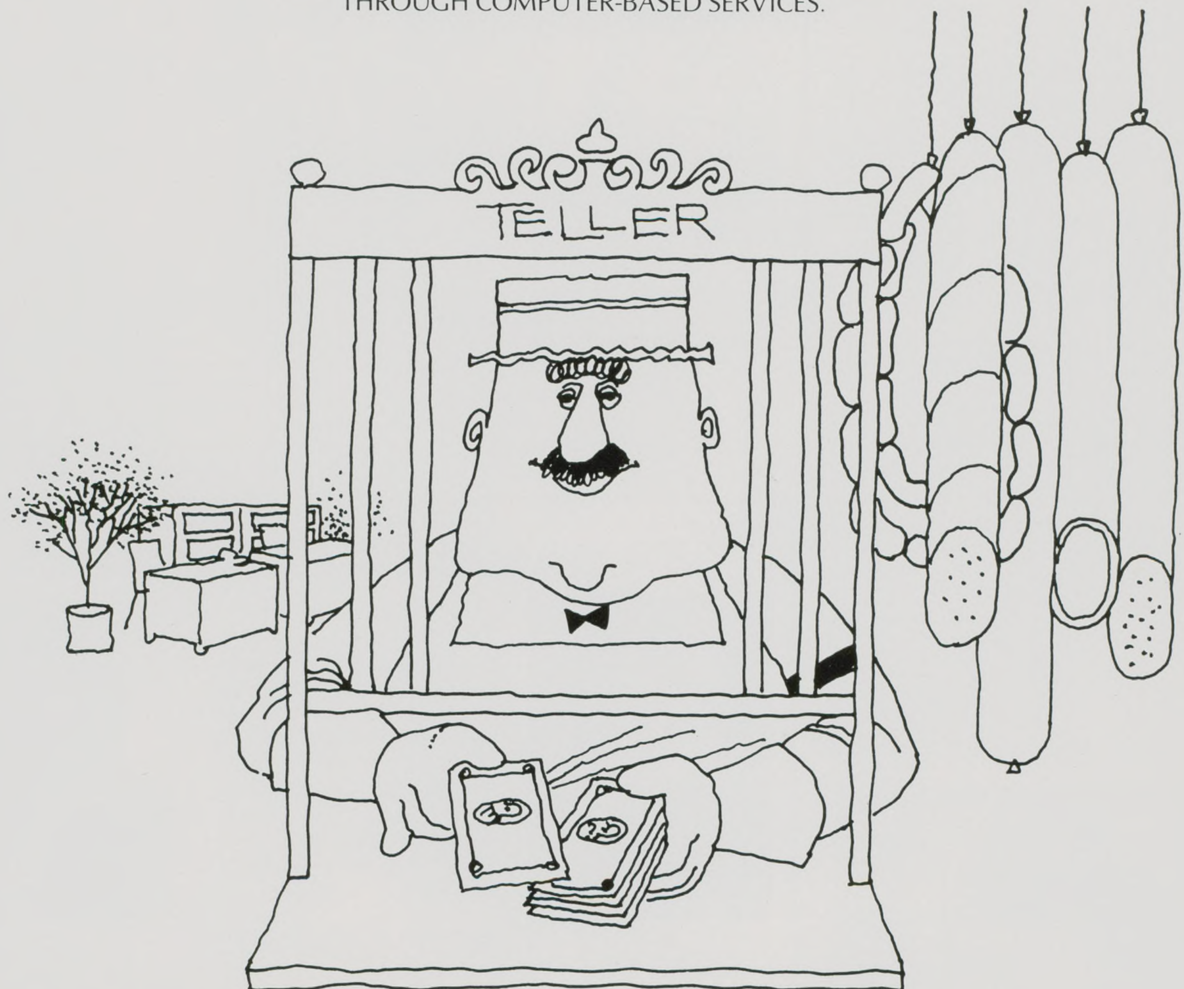

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Mid-South RMA Chapter Elects Bateman President

John H. Bateman, senior vice president, Louisiana National, Baton Rouge, has been elected president of the Mid-South Chapter of Robert Morris Associates.

Elected vice president was Deborah Pittman, senior vice president, Union Planters National, Memphis. New secretary is William C. Scholl, vice president, First Commercial Bank, Little Rock. J. W. Cocke III, vice president, Deposit Guaranty National, Jackson, was elected treasurer.

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ATM Enclosures 31
Agricareers, Inc. 54
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American Security Insurance Group 20
Arrow Business Services, Inc. 4
Baird & Co., Inc., Robert W. 31
Bank Administration Institute 53
Bank Board Letter 27, 41, S/23
Bank Mate 5
Bank Training Systems, Inc. S/17
Bankers Trust Co. 19
Banking Consultants of America 37
Boatmen's National Bank, St. Louis 56
Centerre Bank, St. Louis 25
Central Bank of the South, Birmingham S/13
Chase Manhattan Bank 7
Chubb Systems Midwest S/5
Cole-Taylor Financial Group 28-29
College for Financial Planning 13
Commerce Bank, Kansas City 15
Commercial Credit Business Loans, Inc. 49
Commercial National Bank, Kansas City, Kan. 29
Continental Bank, Chicago 27
Dollarplan Strategy 51
Dorsey Love & Associates 54
Financial Placements 54
First Alabama Bank, Montgomery, Ala. S/20
First Lease & Equipment Consulting Corp. 11
First National Bank, Kansas City S/9
First National Bank of Commerce, New Orleans S/7
First National Bank, St. Joseph, Mo. S/19
First Oklahoma Bancorp, Oklahoma City S/1
First Total Systems, Inc. 45
Hagan & Associates, Tom 54
Horizons 60 9
IAC Group 39
Laacke & Joys 32
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Marine Midland Bank, New York 17
Mellon Bank, Pittsburgh 21
Mercantile Bancorp, St. Louis 31
Midland Bank & Trust Co., Memphis S/3
Missouri Encom, Inc. S/24
National City Bank, Minneapolis 47
North Central Life Insurance Co. 2
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"The banks that will fall by the wayside are the ones that try to stay in the middle of the road."

The POLK Round Table:
One in a series.

by C. William Steelman
Senior Vice President
U.S. Trust Company

We feel very strongly about independent banking.
The move towards nationwide banking is overrated. It certainly is coming, but it's going to be a lot longer coming than is commonly thought.

There'll always be a place for an independent bank in any community. A bank that really looks after the needs of medium sized companies in a very effective way.

The advantage that community-based banks have is that their people are locals. They are making their careers at that bank. They plan to be around for a long time!

45 Wall Street is the place we call home.
U.S. Trust supports the concept of the local bank. And that support is paying off.

It's inevitable that big money-center banks will do the same thing in Denver that they do in New York. So even while they function as a correspondent, they have their sights set on expanding their role in that area.

But even more than that, many banks try to be all things to all people. In the future, you're either going to have to be huge enough to do everything for everybody, or you're going to have to be a specialized institution. The banks that will fall by the wayside are the ones that try to stay in the middle of the road!

We offer the independent banks assistance by helping them effectively compete against the big guys who are out to steal their business in every way they can.

U.S. Trust is not about to open corporate banking offices in any other state. We're comfortable right here in New York City. And here is where we can do the most good!

Lending is still a bank's major service.
You might not be able to tell it from a lot of bank advertising these days, but lending is still the major service a bank gives to the community. In terms of the medium sized company, we feel that the most important thing they can get from a bank is money.

And that's how we fit in. We're happy to come in and participate with the local bank on loans above their limit. We get at our prime market — medium sized companies — through the local banks and small investment companies.

But as I said, we do it *through* other banks. We make it *very* clear to them that we are not going to be taking their business away. I think this is why we're far more credible.

Polk's World Bank Directory is the definitive work.
We use Polk's Bank Directory to help establish our position on the importance of independent banking. We want bankers and other financial officers to be conscious of U.S. Trust. We want to create some recognition factor.

Virtually everybody in the banking business or financial business has the books. If you're advertising to bankers, Polk's Bank Directories offer one of the most cost efficient ways of getting your message across. And it would be a rare corporate treasurer's office that doesn't have a copy of Polk's. So the reach is excellent there as well.

You can tell by our advertisement that we place a lot of value on the impact of advertising in Polk's. In fact, Polk's is really synonymous with bank directories. Polk's Bank Directories are the definitive work.

Polk's helps us get the word out.
We're working very hard to establish U.S. Trust as the preeminent bank for doing business with medium sized corporations *through* other financial institutions. We've already carved out a very special place for ourselves, and that's an enviable position to be in these days.

It is important to us that this message gets out to the banking community as effectively as possible. So when it comes to doing this, given the choice... I would always use Polk's.

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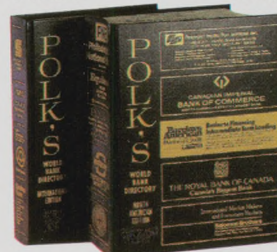

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Boatmen's Ernie Hellmich Operations Assistance.

Boatmen's Correspondent Banking Officer Ernie Hellmich and J. D. Moss, President and Chief Executive Officer of Litchfield Bank and Trust Company. Whatever your correspondent needs, Boatmen's has knowledgeable people to assist you. Call Ernie Hellmich. He can help.

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