MID-CONTINENT BANKER

(ISSN 0026-296X)

INCORPORATING MID-WESTERN BANKER

DECEMBER, 1983

NORTHERN EDITION

Asset-Based Lending
Leasing
Agriculture
Issue

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MID-CONTINENT BANKER

(Incorporating MID-WESTERN BANKER)

Volume 79, No. 12 December, 1983

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MID-CONTINENT BANKER is published monthly by Commerce Publishing Co., 408 Olive St., St. Louis, Mo. 63102.

POSTMASTER: Send address changes to MID-CONTINENT BANKER at 408 Olive St., St. Louis, MO 63102.

Printed by The Ovid Bell Press, Inc., Fulton, Mo. Second-class postage paid at St. Louis, Mo., and at additional mailing offices.

Subscription rates: Three years $27; two years $20; one year $12. Single copies, $2.50 each. Foreign subscriptions, 50% additional.

Commerce Publications: American Agent & Broker, Club Management, Decor, Life Insurance Selling, Mid-Continent Banker and The Bank Board Letter.

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Convention Calendar

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.

May 13-16: ABA National Operations and Automation Conference, Washington, D. C., Washington Convention Center.

May 13-16: International Monetary Conference, Philadelphia, Westin Bellevue.

May 16-18: Alabama Bankers Association Annual Convention, Calloway Gardens, Ga.

May 16-19: Independent Bankers Association of America, Seminar/Workshop on the One Bank Holding Company, San Antonio, Tex., Hotel St. Anthony.

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Kenneth Otto, V.P. and Lisa Payne operations analyst: creating a profit vs. cost center at Cleveland's AmeriTrust.

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

Whither Goes the Float?

PRUDENCE suggests that bankers closely watch emerging technologies and legal developments that are changing the concept of float management in this country.

As a group, bankers probably have a deeper understanding of the concept of float than most businessmen, and most banks have assigned responsibility for staying abreast of new developments in this area to someone. Many community banks have yet to document the probable use and associated costs and alternatives of the new electronic-network-payment systems, however.

"Changes in regulations and new automated clearinghouses that tend to reduce float time will adversely affect both the cash-management strategies and balance-sheet ratios of some corporations."

In the simplest sense, float traditionally has been viewed by bankers as monies not available for investment due to lags in the check-collection process. For banks, Federal Reserve float often arises during the Fed's check-collection process. To promote an efficient payment mechanism with certainty as to the date funds become available, the Fed credits reserve accounts of banks depositing checks within a specified period after the deposits are received. More than the normal amount of time occasionally may be needed, however, to process checks and collect funds from banks on which the checks are drawn. This time lag is float time. The exact available balance of a depositor's account generally is computed by deducting the float from ledger balances shown on the bank's books.

In many ways, the Fed float has been a windfall to banks at large and its passing due to new Fed regulations will have a major impact on bank profitability. A rough approximation of what that impact will be can be obtained by multiplying the average daily float by some proxy such as the federal-funds rate.

In the figures below, showing data on float for several years, some bankers may find the daily float averages for 1939 and 1941 to be almost unbelievable. The exhibit also shows that since the early 1970s, float has been declining rather than growing as it previously was.

According to the *Federal Reserve Bulletin*, outstanding Reserve bank float (in average figures) at various times during the past 44 years was: December, 1939 — $83 million; December, 1941 — $170 million; December, 1945 — $652 million; December, 1950 — $1.1 billion; December, 1960 — $1.7 billion; December, 1965 — $2.3 billion; December, 1967 — $2 billion; December, 1968 — $3.3 billion; December, 1969 — $3.2 billion; December, 1970 — $3.6 billion; December, 1971 — $3.9 billion.

Then, skipping to November, 1982 — $2.7 billion; December, 1982 — $2.8 billion; and January, 1983 — $2.4 billion.

This year, the long-awaited nationwide test of automated-clearinghouse usage for electronic cash settlement and invoice handling by corporations began. The National Automated Clearinghouse Association is a direct challenge to the Fed's clearinghouses. With the exception of the New York Automated Clearinghouse (NYACH), which is in the private sector, all others have been Fed operated.

Bankers should not expect the National Automated Clearinghouse Association to have an immediate, dramatic effect on float, but it clearly is important to the incremental, systematic reduction of float. The impact on some companies and their banks could be substantial.

Some banks, for example, have prided themselves on development of check-disbursement and collection techniques that aid their customers by extending the time it takes to collect customers' checks while speeding collection of checks written to the customer.

We've all heard stories of East Coast corporations that extend their float by drawing checks on banks in far-distant parts of the world. In reality, such incidents probably are relatively rare, but with huge sums of money involved, an additional day or two of float can be extremely profitable to some corporations. Management-advisory services have counseled many a corporate financial officer on methods of slowing collection of check-payment items. One certified public accountant I know believes sophisticated float-management techniques have permitted some corporations to operate with negative cash positions.

Obviously, changes in regulations and new automated clearinghouses that tend to reduce float time will adversely affect both the cash-management strategies and balance-sheet ratios of such corporations. They may find themselves having to borrow the additional cash they will require from their banks.

According to NACHA, approximately 16,000 financial institutions currently are using its system to process customer settlements. Since there are slightly fewer than 15,000 banks in the United States, that means that at least 1,000 other types of financial institutions are using the system. Discontent with the Fed system may

(Continued on page 8)

New DP System Developed for Trusts

A NEW stand-alone processing system now is available for trust operations. Called TrustEase, it is an online, real-time, data-base system designed to give trust bankers software capabilities needed to handle calculations and reporting for investments, administration, cash-management and other trust-related services.

According to its creator, Systematics, Inc., Little Rock, TrustEase allows a trust banker to manage securities trading/control, fees, cash management, short-term-investment funds/master notes, remittances, capital changes, pension payments, interest/dividend collection and common-trust-fund accounting. An optional Employee-Benefit-Allocation system also is available.

The system is a turnkey installation and usable on Hewlett Packard 3000 systems. Systematics provides file conversion, installation, on-site training and on-call service representatives to TrustEase users.

With this system, says Systematics, posting and calculations are up to the minute, and vital reports and information can be retrieved on demand, including detailed administrative and investment reports, client reports and management/regulatory/audit reports.

"TrustEase provides software capabilities that appeal equally to small and large bank trust departments," says Ray Maturi, Systematics president. "It is a dependable, responsive, economical system. Plus, TrustEase gives bankers all the documentation they need to manage trust business effectively in a system that offers matched flexibility in formatting those reports to best accommodate both the bank and its clients."

TrustEase is the first new trust system to be introduced by Systematics since its acquisition last year of St. Joseph Systems, South Bend, Ind. The new system's introduction also marks Systematics' full entry into the software and processing market. In addition to TrustEase, the firm offers bankers nationwide a full range of bank data-processing services, including remote processing, facilities management and software sales.

According to Mr. Maturi, St. Joseph Systems was a veteran trust-processing company, and its acquisition helped Systematics gain a special understanding of trust bankers' needs.

The first installation of TrustEase was scheduled for November. ● ●

Banking Scene

(Continued from page 6)

be part of the reason.

The Fed has been charged with subsidizing its services to financial institutions and unfairly competing with correspondent banks in other ways. Commercial bankers probably feel more comfortable using the private-sector facilities than the Fed's, but about one-fifth of all transactions are those of government and it is logical to expect that those will continue to go through the Fed's system.

Both banks and their customers have a vital interest in the success of the private sector's clearinghouse systems. More than a few probably believe it is prudent to wait until the systems have been field tested before committing themselves. For this reason, the efficiency and accuracy of the new systems should be closely watched. A major breakdown would be a setback for the movement, but as the new systems continue to prove themselves, bankers who have yet to make a commitment will be under growing pressure to do so. ● ●

New Facility Opened

This is the new Daktronics manufacturing plant at Brookings, S. D., where a grand-opening celebration was held November 19. The building contains 36,000 square feet of space and houses Daktronics' manufacturing division and the sales, engineering and customer service departments.

Compromise Banking Bill Introduced by Jake Garn

HEARINGS will be held early in 1984 by Senator Jake Garn (R., Utah), chairman, Senate Banking Committee, on the compromise banking bill he introduced just before Congress adjourned for the holidays last month. In essence, the bill would allow banks and other financial companies to combine, subject to certain limitations.

Senator Garn's bill would allow bank HCs to acquire subsidiaries in the insurance, securities and real-estate fields. However, it differs from a Reagan Administration-supported bill in that it would prohibit mergers between the 25 or so largest banking organizations and other big financial-services companies.

The Garn proposal also would allow nonbank financial firms to acquire "consumer banks," which would take deposits and make consumer loans, but would have sharply restricted commercial-lending powers. Ownership of such banks, however, would be subject to the same geographic restrictions applied to full-service banks owned by bank HCs.

Under the Garn bill, a banking organization with more than 0.3% of total U. S. domestic deposits could not use more than 25% of its capital to acquire a nonbanking financial company. The restriction wouldn't prevent a bank HC from gradually building up insurance operations, but it would prevent a major depository institution from simply buying a huge insurance or other financial firm and thus decrease competition and increase concentration of financial power.

In Asset-Based Financing:

New Directions Foreseen For Lenders in 1984

Opportunities — and Pitfalls — on Horizon

Asset-Based-Lending Field: Should Banks Enter It?

By Dennis B. Hirstein

ASSET-BASED LENDING, once better known as commercial finance, is an old business gaining new recognition. Most simply described, it is secured, monitored lending where accounts receivable, and frequently inventory and equipment, are taken as collateral.

Commercial finance, along with the rest of the financial world, has experienced dramatic change over the past decade.

In recent years, many companies saw their balance-sheet ratios, historically used to determine creditworthiness, collapse under the impact of double-digit inflation. Borrowers found it increasingly difficult to raise working capital through short-term unsecured loans. As the number of companies able to meet their borrowing needs through conventional means declined, interest increased in commercial finance, or asset-based lending.

During the same period, banking has been undergoing its own changes. With many credit officers recognizing nonperforming assets and write-offs as the ultimate test of risk, their strategy has been shifting from minimizing risk to optimizing risk/reward. Against this backdrop, banks are taking a fresh look at asset-based lending.

At first glance, it would seem a natural service for banks to offer. That is true — for the most part. But there are important practical and philosophical considerations for a bank deciding whether to enter the asset-based-lending business.

To begin with, the basic relationship between the borrower and the lender differs from other loan relationships.

In asset-based financing, the borrower usually is seeking funds for an interim need, such as a period of rapid growth, seasonal requirements, recovery from a downturn or a leveraged acquisition. And the short-term nature of the borrowing creates a transaction orientation on the lender's part.

The source of potential business relationships also differs somewhat from traditional lending situations. In asset-based lending, contacts generally are made through business referrals from accountants, attorneys, venture capitalists, investment bankers, brokers and other banks.

Even though the relationship between the borrower and lender differs from that in other lending, most banks entering the field seem to be doing so in anticipation of a long-term banking relationship. It is a valid consideration, but it raises some points for discussion.

Monitoring techniques used by an asset-based lender allow for early detection of problems. The lender's transaction orientation encourages early response. Together, those factors give the borrower time to correct a problem in the company's operations. If the problem can't be corrected, the lenders have time to work out the loans.

Unpleasant as the topic of loan workouts may be, it's a critical concern for banks in asset-based lending, with potential for being a plus as well as a problem.

The unpleasantness of a workout might encourage a bank to postpone the action, especially when a relationship orientation dictates how it will administer an asset-based loan. Ultimately, this can lead to unacceptable losses for the asset-based-lending function.

On the other hand, banks sometimes derive too much comfort from the manageability of the perceived risks of asset-based lending and the effectiveness of the lending officer's techniques. Under those circumstances, the asset-based lending unit can evolve into a workout area.

The growing interest in asset-based lending as an additional service to offer customers is creating another situation of which banks and others deciding to enter the field should be aware. There's a potential problem, and it can be summarized in three words — people, people and people.

Availability of experienced asset-based lenders has not kept pace with the rapid growth of the industry. That is an important consideration for organizations wanting to attract and retain knowledgeable employees.

Staffing with experienced people is essential to gain a presence in the marketplace, given competitive pressures that don't allow the luxury of time to become established. But banks may face an obstacle in attracting and keeping employees with asset-based-lending backgrounds. People from the industry tend to come from less-structured backgrounds than that of most bank-lending officers and may become frustrated in their new work situations. It's a somewhat unnatural marriage that takes effort and concessions on both sides.

Then, too, a bank providing asset-based lending needs a staff that can

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Dennis B. Hirstein is president, Mercantile Business Credit, Inc., a subsidiary of Mercantile Trust, which is the lead bank of Mercantile Bancorp. All three organizations are located in St. Louis.

develop, structure, close, monitor, administer, process, audit and account for business. In the early stages, employees can fill various roles. But this is not the kind of business to be in a position of always playing catchup on staffing needs.

A properly staffed asset-based-lending function is likely to have more employees than almost any other area of the bank. This distorts comparisons on returns. However, the bottom-line contribution and the return on earning assets from the asset-based-lending area is likely to exceed results of other bank operations.

If a bank can't justify the expense and doesn't want to undertake the potential problems of establishing an asset-based-lending function, another suitable arrangement might be participation with an established asset-based lender.

That means you are relying on someone's help to administer a portion of your bank's assets. The alternative, however, may be to lose a customer relationship altogether.

An intelligent selection will benefit all participants, and the arrangement may enable you to offer the service to your customers without the expense of setting up a full-fledged department.

Take the time to visit the asset-based lender and meet the staff. Find out how they monitor and administer loans. Look at the asset-based lender's experience with bankruptcies and liquidations. Consider your potential partner's philosophy and its compatibility with your own, keeping in mind that the lending relationship is different for asset-based loans compared with traditional ones.

All these considerations are important in deciding whether and how to offer asset-based lending. In the next few years, more banks probably will enter the field and some will leave the business. Successful units will make highly attractive returns on assets and will be valuable contributors to their banks' business. For those that are not successful, asset-based lending well may be the most expensive new venture ever entered. • •

Asset-Based Lending Transformed By Economic, Business Changes

By Michael J. Litwin

EMERGENCE from the recession and financial deregulation have spurred dramatic changes in the asset-based-lending sector. More aggressive collateral valuation, enhanced business analyses and increased competition and proliferation of lending services now are evident. Bankers now must contend with a new lending environment and may benefit from a perspective on what is happening to asset-based lending — and why.

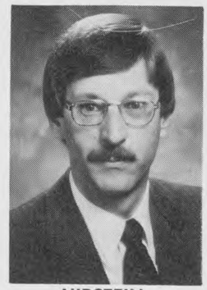
Let's examine three underlying developments and review their implications for bankers.

First is the significant increase of new asset-based lending operations during 1983 in many areas of the country. There has been a tremendous influx of bank subsidiaries, as well as S&Ls, insurance and brokerage companies, investment bankers and others, including foreign banks, entering secured lending. They typically bring their own philosophies and experience levels to the business and are changing the marketplace and style of competition. Of concern to banks seeking participation with asset-based lenders is that not all these lenders seem sufficiently knowledgeable about risks of asset-based lending or demonstrate the ability to extricate themselves from bad situations.

This is due partly to the asset-based lending community's rapid expansion, which is placing a strain on available talent. Many new offices are opening nationwide, staffed with relatively inexperienced managers. This causes some confusion in the market because of improper structuring of deals and inability of some managers to work their way out of tough deals, either because the deals initially were structured poorly or because they were administered incorrectly after the deal was signed. We'll continue to see numerous offices opening, closing or consolidating in 1984.

Another symptom of increased competition and new managers is the narrowing of interest-rate spreads during 1983 and 1984. Today, supply and demand have created a buyer's market. Also, recession-caused excess capacity in each lender's operation is making any marginal interest rate that contributes to overhead a rationale for lending.


LITWIN


HIRSTEIN

Finally, as the new operations attempt to build market share, we are seeing a move away from pure forced-liquidation-value collateral analysis. Because this method typically produces the lowest collateral values, it is being replaced by more aggressive valuation and cash-realization methods. One method is the orderly liquidation approach, aiming to locate interested buyers for specific pieces of equipment over time rather than conducting an auction of that equipment. Many lenders also are having their appraisals done by more aggressive appraisers. Another is placing higher values on work-in-process inventory on the theory that it will be converted to finished goods prior to liquidation.

While increased competition and aggressive pricing are positive for the industry, bankers should not forget the traditional values. Factors such as quality, durability, experience and staying power of the lenders are equally important to the decision. Bankers should realize that their relationship and credibility with the borrower are directly affected by the abilities of the asset-based lender administering the loan.

The second key area is expansion of financial-services orientation in terms of products and capabilities offered clients. In Heller's case, we increasingly are recommending consultants to our borrowers in such fields as turnaround analysis, marketing, inventory liquidation, union matters and restructuring of trade indebtedness. We aim to locate competent professionals who can work closely with our borrowers for almost any business requirement.

Associated with this is a more detailed business analysis by many lenders with respect to composition of the collateral base. For example, we can identify slow-moving and obsolete inventories and may enhance the borrower's cash flow by suggesting those unproductive assets be liquidated. We also make some of Heller's financial models and projections available to clients, so they may analyze their own requirements and structure a financial package that contemplates their own cash-flow needs. (See next page)

Michael J. Litwin is senior vice president/general manager, Central Commercial Finance Division, Walter E. Heller & Co., Chicago.

These are positive moves for the banking industry that should benefit all concerned.

The third key force is an improving economy, which brings added business and new practices to our industry.

From our perspective, gains in customer receivables and inventories are translating to a 20%-to-40% rise in traditional loan usage in Heller's Central Commercial Finance Division since January of this year.

Accompanying this improvement is a dramatic turnaround in bank referrals. During the recession, many bankers were caught in the situation of supporting their problem customers for too long. By the time an asset-based lender became involved, the poor collateral ratio and history of losses rendered that client unacceptable.

Today, banks are more aware that some problems need to be referred to a professional loan manager, and they do so earlier. They agree that write-offs and portfolio quality — not outstandings — are critical factors in 1983. Also, with the recession ended and some bank action taken, problem clients are in better financial condition. They typically are in a profitable and positive cash-flow mode. We thus are seeing more referrals, higher-quality referrals and increased bank participation in these packages.

So as conditions improve next year, bankers should take a closer look at their portfolios — especially their long-term problem loans. Referral may be a wiser option for some transactions than continuing to carry them.

Lastly, as business improves and high interest rates abate, we are seeing an increase in leveraged buy-outs. Such buy-outs are increasing in popularity as more and more entrepreneurs are taking advantage of financing opportunities that currently exist. As the economy improves further in 1984, we expect more entrepreneurs will be willing to take risks and will contact financial-service firms like Heller for financing assistance.

In summary, we see these trends generating fundamental changes in the asset-based-lending sector. In the past, collateral was valued conservatively, and if the deal could be done on that basis, the loan was funded. Today, we are witnessing increased competition, aggressive loan structuring and pricing, sophisticated business practices such as cash-flow analysis, market and industry evaluations and use of consultants and financial models.

We welcome new options being afforded bankers, but counsel them on not selecting the "quick-and-easy" solutions. Look carefully at the packages — examine the capabilities and staying power of the lenders. Verify the firm's experience, experience and experience. And consider your comfort level, now as well as for years ahead. Then take advantage of the most beneficial structuring arrangement for yourself and your clients in 1984. ● ●

A New Direction for 1980s: The Leveraged Buy-Out

By Frederick S. Gilbert Jr.

THE AMERICAN corporate scene may never be the same again. While it still is too early to tell whether the recent economic upswing is sustainable, it nevertheless is true that the two recessions in the decade that preceded it have made their mark. Businesses have trimmed expenditures at every level, from employment to investing. Whole industries have been shaken out. Basic corporate strategy has shifted — from diversification to selective acquisition.

In the early 1970s, for example, RCA was a model of diversification. Already the parent company of a major publisher and a major car-rental subsidiary, the electronics giant went on to purchase a manufacturer of frozen foods in St. Louis, a carpet manufacturer and, eventually, one of the nation's largest financing groups. Today, almost all these subsidiaries have been spun off, and RCA is concentrating its deployment of assets into areas it believes will do better — electronics and communications.

If nothing else, the economic hard times of the late 1970s and early 1980s have caused American businesses to take a long and careful look at their components. As a result, the recent flurry of activity on the mergers and acquisitions front is no flash in the pan. Rather, it represents an important development in the growth of the nation's economy.

In the first nine months of this year, net merger and acquisition announcements totaled 1,812, compared with 1,772 for the same period of 1982, as reported by W. T. Grimm & Co. Impressive as the count may be, it represents something of an understatement, since buy-outs essentially are private transactions that do not require public disclosure. Of those reporting price, however, dollar volumes for such transactions amounted to $53.3 billion for the first nine months of 1983, compared with $42.3 billion for the same period in 1982.

Frederick S. Gilbert Jr. is executive vice president, Citicorp Industrial Credit, Inc., Harrison, N. Y. This firm is a subsidiary of Citicorp, New York City. Mr. Gilbert recently was elected first vice president, National Commercial Finance Association, headquartered in New York City.

At the center of all this activity has been the concept of the leveraged buy-out, which is particularly popular when prospective buyers of a business unit are its incumbent management. A leveraged buy-out, or leveraged acquisition, is the purchase of a company (or a subsidiary or division of a company) financed principally with debt. The cash contribution of the buyers usually constitutes only a small portion of the purchase price, with debt-to-equity ratios ranging from 4:1 to 10:1 or even higher. It thus becomes very attractive to potential buyers — whether incumbent management, venture capitalists or investment bankers — who plan to pay back today's debt with cheaper dollars tomorrow, since interest is tax-deductible while dividends are not.

The seller, on the other hand, is attracted by the fact that most or all of the purchase price is paid in cash. With equity markets usually closed to most companies, the buy-out has represented an important avenue of liquidity. Then, too, the seller can increase returns (or defer losses) by retaining only a small portion of the divested business in preferred stock or subordinated debt.

Last year, CIC financed the leveraged buy-out of a division of Borden, Inc., with a $6-million revolving line of credit secured by inventory and accounts receivable. The arrangement was highly satisfactory to the parent company, which did not want to commit additional funds in any product area in which it could not maintain a dominant market share. The investment group was satisfied that it could take over operations with little of its own capital. And we, as lenders, were optimistic about the investment, since the management group had substantial experience, a strong customer/supplier base and a sound business plan.

One year later, despite a depressed

economy, the new company's performance has exceeded expectations. Sales are strong; profits are better than projected, and the company that was itself a spin-off now is thinking seriously of expansion and acquistion on its own.

This is more than an isolated success story. It is representative of a new direction in American business, one that is not likely to be sharply changed in the years ahead. For we have, indeed, entered an era of corporate restructuring — with businesses in transition. The business that spells unwarranted diversity to one company could strengthen another company's position in that field. Or it could stand on its own under new ownership.

Examples of companies that have spun off business units for strategic reasons abound: Beatrice Foods, Allis Chalmers, Standard Oil of Indiana, Esmark, McGraw-Edison, Allied and Genesco are but a few. Citicorp Industrial Credit, alone, through its eight regional asset-based-lending offices, has provided over $1 billion to finance redeployment of America's assets.

Current economic and business conditions have brought to the forefront a variety of methods for financing acquisitions. And the leveraged buy-out has proved to be an important tool in effecting that new structure. • •

New Ball Game for Lenders, Borrowers Looms for 1984

By Allen A. Preble

GILBERT

PREBLE

TAKE back-to-back recessions. Add some sophisticated cash-management techniques, drastically reduced inventories and low levels of capital spending. Sprinkle in a little economic recovery and an overflowing cup of competition and what do you have? A borrower's market and a difficult year for most asset-based lenders.

That in a nutshell describes 1983, a year characterized by an upsurge in competition, particularly from lenders new to the market, less business-lending activity and a fairly slow economic recovery through the summer months.

By the time 1983 had rolled around, the typical business borrower was much more sophisticated: He carried fewer inventories; he paid his bills slower, and he used various cash-management techniques to make his valuable cash work double-time for him. At the same time, foreign banks and large domestic banks were expanding their portfolios, particularly through acquisition-financing deals, and numerous smaller lenders were jumping into the commercial-lending market.

While many commercial lenders were worried about additional competition from the savings and loan industry during the year, that fear never materialized, probably due to the bad times the S&L people have experienced in recent years. When commercial lending was first legalized for the thrift industry, it offered them a tempting new way to put money out. However, S&L executives wisely are taking their time to research the commercial-loan area thoroughly before they get involved in a big way. Initial indications are that until they feel more comfortable with the concepts of the asset-based-lending marketplace, they most likely will continue to participate by offering reasonably priced money to the larger, established finance companies in exchange for solid security and good profitability.

Manufacturers and retailers played it "close to the vest" during 1983, which greatly reduced demand for business capital. But that same game plan that helped businesses avoid borrowing last year will have to be rewritten to allow them to stay competitive in 1984.

The economic recovery, which has been slow but steady throughout 1983, is being fed by increases in consumer spending for the most part. The extremely low levels of inventories will have to be rebuilt and balanced properly to meet increasing demands of consumers who have loosened up their purse strings. The alternative is to lose customers, and lost sales mean less market share.

To rebuild their inventories, businesses will have to stay current with their vendors from now on, and for many lesser-capitalized companies, that will mean obtaining outside capital to finance their growth. This increasing demand for capital will help stabilize interest rates and will allow lenders to gradually improve their spreads. In short, 1984 will become more of a lender's market as demand for capital increases. And as businesses begin chasing lenders again, both the banking and the thrift industry should benefit as more finance-industry people call on them looking for reasonably priced funds via loan participations.

In 1984, we well may witness the true test of the banking industry's commitment to asset-based lending. As the economy continues to recover, sizes of most business deals, as well as quantity, will grow substantially. As that happens, those newcomers who have operated in the asset-based lending arena, under controlled growth conditions in the past year or so, will have to exercise strong discipline. If they don't, and they jump on the economic bandwagon to rapidly increase their loan portfolios, they will be taking a big gamble by exposing themselves to losses. The potential for suffering losses under fast-moving business conditions will force many of these less-experienced lenders to honestly assess their ability, and their desirability, to compete in the asset-based-financing industry.

The commercial-finance industry will wake up during 1984 to realize banks can't set up an asset-based lending department, police the loans properly and still make an acceptable operating profit at spreads currently being offered by the industry. Industry losses will have to be recouped, and volume alone will not do it. The industry will have to improve its spreads by getting better rates along with more volume.

That offers bankers a real and immediate opportunity. They can improve their profitability and immediately increase their spreads by participating with asset-based lenders on loans. In so doing, the asset-based lender will do all the work and carry all the overhead, and the bank simply will provide needed capital. Such arrangements should be highly profitable for bankers since there is little expense

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involved for them.

Asset-based lenders can add a real comfort factor to bankers. With few exceptions, bankers almost can bet on the fact they will get their money back from participation loans with experienced asset-based lenders. The failure rate is low. That will be an important consideration in 1984 when bank customers begin demanding more and more services. Banks can't close their eyes and bet on the outcome during a recovery. It will be just too competitive when consumers rev things up.

The asset-based lending field is people oriented. You need people to sell and service clients; you need people to administer the loans and review the collateral, and all those people are costly for banks. In fact, few mid-sized banks can produce the volume to be able to afford the necessary overhead to compete in the asset-based-lending industry.

Smaller banks have been looking at the asset-based-lending field because of the great growth potential it offers. However, the complications, risks and low potential for survival can be awesome to the neophyte lender. Generally, small banks do not have the expertise, and many times, they must stretch their lending guidelines to allow them to handle an asset-based-lending deal. On the other hand, in addition to all the other well-known benefits of participating in loans, such arrangements allow small and mid-sized banks to compete with the "big guys" and go after the larger loans head-to-head with them. They can operate quite successfully in their own market niche and, at the same time, extend their reach and influence by working hand in hand with a strong, experienced asset-based lender.

Asset-based lending is by its nature dynamic and exciting. And asset-based lending opportunities should multiply throughout the rest of this decade, particularly in the acquisition-financing area. Bankers who can do without the glamour will have a safe and practical recipe to share in the participation pie in 1984! If they let the solid, experienced asset-based lenders do the mixing and baking, they can cut themselves as many profitable slices as they desire. ● ●

Leveraged-Acquisition Financing: Bankers, Proceed With Caution

By Stephen C. Diamond

LEVERAGED ACQUISITIONS are a current darling of Wall Street. High visibility of a few successful transactions has led to formation of leveraged-acquisition funds and has encouraged a number of would-be capitalists to explore this newest means of getting rich quickly.

The slowdown in conventional commercial/industrial-loan growth has caused some banks to aggressively finance these acquisitions as a means of growing portfolio. For a relatively few buyers and lenders, there will be victory at the end of the race. However, many participants — both buyers and lenders — will be losers. The reasons are clear and will be discussed later in this article. First, however, a brief discussion of basics:

Stephen C. Diamond is chairman, First Chicago Credit Corp., a subsidiary of First Chicago Corp. Mr. Diamond currently is president, National Commercial Finance Association, but will move up to chairman January 1. The story on his election to this post and his photo appear elsewhere in this issue.

Leveraged-Acquisition Financing. Broadly speaking, leveraged-acquisition financing refers to any type of acquisition where the surviving company has a higher-than-traditional debt: worth ratio. Financing can be secured either by liens on assets of the acquired company or unsecured. Asset-based lenders dominate the secured-financing segment, while venture capitalists, insurance companies and commercial banks all are active players in the unsecured segment. While there is an obvious overlap, unsecured financings tend to be larger and tend to involve greater premiums over book value than secured financings. This article will concentrate on secured financings.

Secured-acquisition financings are not new. During the 1950s and 1960s, a number of mini-conglomerates were put together through leveraged-acquisition financing — then called "bootstrap financing," since often the secured-financing vehicle permitted the buyer to acquire a company with no equity investment.

From the time leveraged-acquisition financing first appeared, certain trends began to evolve:

1. *The most successful acquirers developed a network to find potential acquisitions*. The greater the degree of open bidding, the less the likelihood that a shrewd buyer would make the deal — not necessarily because he was seeking a bargain purchase, but because the greater the number of bidders, the greater the probability of an unsophisticated bidder inflating the purchase price. The increasing involvement of the investment banker as an intermediary for the seller has resulted in a general bidding up of pricing for the seller, but at the same time has decreased the risk: reward ratio to the buyer.

2. *The structuring significantly*

affected both the purchase price and the ability to obtain financing. When the entity being sold is a corporation, the seller normally prefers a sale of stock so that it can be assured that there are no skeletons left in the closet. At the same time, if a tax-loss carry-forward is involved, the buyer also may prefer a purchase of stock. However, a stock acquisition creates a significant legal risk to the lender. This risk, which experienced secured lenders have recognized for a considerable period of time, will be discussed below. Structuring the acquisition as an asset acquisition, however, may involve recapture issues, which may, in turn, affect the purchase price.

3. *There has been a trend toward lenders insisting that the buyer be at risk*. When leveraged acquisitions were being made in the 1960s, the buyer often would invest no capital and offer no guarantee other than a guarantee against fraud. Most sophisticated lenders today attempt to lock the buyer into the transaction, not so much to create a secondary source of repayment as to assure that the buyer will stick with the company and, if the company fails, will be cooperative in helping to move the collateral. This normally is accomplished through some combination of equity or subordinated debt and a full or limited guarantee of payment or performance.

Recent Trends: Cause for Concern. In recent years, some patterns have emerged that should be cause for concern for parties involved in leveraged acquisitions:

1. *More lenders are over-advancing on collateral*. The underlying basis for a secured-acquisition financing was that the value of the collateral would support the credit in the event of the buyer's business failure — after the usual hassle of handling a workout and dealing with the bankruptcy court. Today, a growing number of financial institutions either improperly analyze the collateral or make a significant over-advance against collateral that cannot be recovered unless the acquisition is successful. A deliberate over-advance based on cash flow is understandable as long as the pricing takes into account the additional element of risk. To the extent such additional risk is being assumed without appropriate pricing, the decision becomes less understandable.

Beyond the comprehension of a sophisticated lender, however, are excessive loans predicated on unsound assumptions regarding collateral. A current major soft spot today involves valuation of fixed assets. An intelligent lender will insist on a quick-sale determination of the value of those assets, in order to determine his down-side risk, and then take an incremental exposure based on his risk: reward assessment. A large percentage of appraisals today, however, either are being made on something other than a quick-sale value or are being made by appraisers who are not competent to determine the quick-sale values. Today, we see more of the "tell us what you want and we'll give it to you" approach to appraisals than a lender should feel comfortable with. A lender who cannot determine his down-side risk as a starting point is by definition assuming excessive risk. Nevertheless, there are a number of unsound lenders today who disguise their incompetence by calling themselves "aggressive" and who make it more difficult to soundly structure a credit with an appropriate risk: reward ratio.

2. *Purchase prices generally are escalating*. In addition to an excessive number of amateurs entering on the lender's side, unsophisticated buyers are bidding prices too high, making some acquisitions financially unsound. Would-be entrepreneurs who have not previously made an acquisition, and management groups anxious to own a piece of what they have managed, are generally the most emotional — and the least price-sensitive — bidders. The promise of wealth also has brought out the finance and marketing types who understand everything about a business except how to manage it profitably. A sound lender will insist on experienced operating management and a meaningful, articulated business plan that can be tracked by buyer and lender alike. A buyer who is emotionally committed to making a deal, financed by a lender anxious to increase his loan portfolio and who hasn't quantified his down-side risk is a combination that can only make a seller salivate — and it's happening more frequently.

3. *Business plans often are incomplete*. A sound business plan will address sales, expenses and cash flow in depth. The plan should be a living document used on an ongoing basis by borrower and lender alike — not a sales piece designed to attract financing. Since a secured-leveraged acquisition is predicated on a borrowing base, it is axiomatic that the borrowing base must support the company's borrowing needs on a daily basis. A five-year annual projection is wholly inadequate for this purpose. Monthly — and in some cases weekly — projections of borrowing requirements vs.

borrowing base are essential to lender and buyer alike. Turnaround analysis requires a line-by-line explanation of cost — and designated headcount reductions. The list is incomplete, but the point is that without a well-formulated business plan, the lender is ill-advised to proceed.

4. *Risk assessment is increasingly superficial*. An honest, knowledgeable risk assessment is critical to the secured lender who is structuring a secured-leveraged acquisition financing. The risks are concentrated in three areas: (1) business risk, (2) collateral risk and (3) legal risk.

The business risk involves both the company's operating efficiency and asset-management capacity, translated into cash-flow projections.

The collateral risk revolves around assessment of real collateral value and determining how much to stretch to make the deal. These both are areas of judgment, and different players understandably can have different appetites.

The third area of risk is legal, and here the stakes are high. If a lender bets the wrong way on a legal issue, he may find his loan either to be unsecured or (worse yet) subordinated to all other debt and equity claims against the company. There is no conceivable justification for one to take a legal risk of this magnitude unless he is being compensated as a venture capitalist — and yet it is being done more frequently than many would like to admit. Let us, at the risk of oversimplifying, explain.

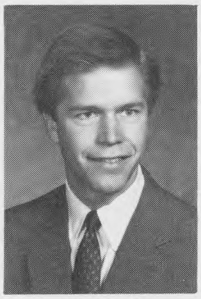
If an acquisition is structured as an asset acquisition, legal risks normally are minimal, assuming competent counsel is documenting. But if the acquisition is a stock acquisition, business considerations are so closely intertwined with legal considerations that attorneys are not competent to judge the degree of risk. That is because the Bankruptcy Code's fraudulent-conveyance sections — which have been incorporated into most states' statutes of frauds — require a business analysis. Again oversimplifying, if a stock acquisition is involved, the target company must: (1) be solvent at the time of acquisition and (2) have adequate working capital to sustain its operation for a reasonable period after acquisition.

The solvency test is passed if the fair-market value of assets exceeds all liabilities and contingent liabilities — and evaluation is *not* on a basis consistent with GAAP (generally accepted accounting principles). A business analysis of solvency is essential. Adequate working capital, on the other hand, means the company must survive. If it doesn't, the lender will have his lien attacked, unless he can prove good faith, which implies due diligence, which, in turn, implies a detailed sensitivity analysis of the borrower's business plan. One would be hard pressed to argue that he exercised due diligence if all he did was review the borrower's business plan without testing the assumptions or confirming projected expense reductions. This element of legal risk essentially is what the now famous case of *United States of America vs. Gleneagles Investment Co., Inc.* (565 Fed. Skpp. 556 — Middle District of Pennsylvania) held. Although this case was brought under a state statute of frauds that has certain differences in the good-faith language from the federal statute, it clearly articulates issues involved in all stock acquisitions.

Conclusion: Proceed Intelligently. This article is not intended to lead one to conclude that leveraged-acquisition financings are inherently bad. It is intended to lead one to determine that unsound analysis will lead to losses and that in the credit business, too much of a good thing can, in fact, be harmful. One can only hope that in their desire to build portfolio, lenders do not make the same mistake with leveraged-acquisition financings that they have made in the not-too-distant past with respect to real estate investment trusts and energy loans. ● ●

Good Collateral Management: How Banks Can Achieve It

By David P. Eckstein



ECKSTEIN

THERE is an adage used occasionally in everyday life that draws a close correlation to the commercial-lending arena, "Spare the rod, spoil the child." This all-important adage suggests that a lack of discipline by asset-based lenders, as well as borrowers, potentially could result in a less than secure financing arrangement.

Commercial-bank lenders are beginning to recognize the importance of good collateral management. Traditionally, asset-based lenders were the commercial-finance companies that promoted their expertise in participations with commercial-bank lenders while enjoying tremendous profits over the year. There is no need to share a credit with a commercial-finance company to obtain good collateral management; 100% of the earning asset can be retained with use of an independent third-party collateral manager. Along with putting more dollars to work with added security, the commercial borrower can obtain a more attractive financing rate.

Why consider an independent collateral manager? Being independent allows the collateral manager to be objective — the "Call it as you see it" approach. Over the past 65 years, Collateral Control has assisted asset-based lenders in monitoring and controlling trading assets used for repayment of loans. This invaluable experience has allowed commercial-bank lenders to enter into loan transactions formerly bypassed for more conservative financing arrangements.

Foresighted asset-based lenders recognize the need to monitor and control collateral, but cannot justify a full time, in-house staff. An in-house staff is not cost effective; it cannot be turned off and on at will. It is expensive to maintain and train a staff of in-house examiners. Collateral Control can provide that staff, provide periodic or continuous examinations as requested, provide monitoring and control systems, provide timely and yet accurate information systems. Collateral Control also will verbally discuss findings directly with the lender and the borrower, thereby relieving the bank from the burden of supporting a staff of examiners and allowing the bank the convenience of time to do what they do best, lend money.

Independent collateral managers can help unbankable borrowers become bankable or remain bankable. For the borrower, a lender will be more receptive to a loan request or an

(Continued on page 24)

David P. Eckstein is assistant vice president/regional operations manager, Collateral Control Corp., St. Paul.

Asset-Based-Lender Survey Shows Problem-Loan Improvement, Increase in Bank-Referral OKs

ASSET-BASED lending firms are:

- Approving more bank referrals;
- foreseeing an improvement in the problem-loan situation;
- working with banks in the areas of mergers/acquisitions, according to results of a survey conducted by MID-CONTINENT BANKER.

The outlook for 1984 indicates that asset-based lenders will be involved primarily in servicing bank clients with loan participations and financing when banks have reached their policy limits.

Other services asset-based lenders will provide banks next year include (in descending order of frequency): managing and/or monitoring loans, evaluating collateral, providing collateral reports, reconciling collateral inventory with borrowers' records, liquidating loans in bankruptcy situations and helping banks establish broad guidelines for loans.

The small number of asset-based lenders that are approving *fewer* bank referrals indicated that they were approving 25%-35% of referrals at the present time when they had been approving from 40%-50% prior to the onset of the problem-loan situation.

Reasons asset-based lenders see the problem-loan situation improving include the following:

- The economic upturn will reduce unemployment as the result of increased production.
- People are getting smarter and doing what is necessary to improve their economic situations. This will result in a reduction of problem loans.
- Lower interest rates, due to the economic upturn, will have a salutary effect on problem loans.
- Banks are doing a better job of evaluating credit situations.
- The general economy is improving, led by consumer spending and even some capital expenditures.
- There has been enough time to identify most problem situations. Improvement should continue as the economy recovers.
- Economic improvement is helping portfolio quality. Lenders are administering portfolios with more expertise.
- Collateral values are improving.
- Most problem or potential problem loans have been identified and programs for liquidation are in place.

Survey participants were asked what asset-based lenders can do to keep problem loans from getting worse. Responses include the following:

- Proper asset-based lending means constant loan monitoring. Problem loans receive a rating that forces them to be constantly watched and evaluated by loan officers who often provide guidelines and suggestions to improve cash flow and receivables collection. If an unsecured loan is in trouble, it often can be aided by an infusion of capital through a secured loan based on value of assets.
- Becoming familiar with the operations of problem-loan firms and working out solutions to minimize exposure to both lender and debtor.
- Continuous monitoring and close association with company and principals can point out dangerous trends and policies that may be reversed or changed in time.
- Working with good managements in viable turnaround situations. Stop making advances in poorly managed deteriorating situations. Close monitoring of loans with appropriate actions and advice.
- Close monitoring of problem-loan situations so that collateral-to-loan relationships don't deteriorate.
- Good controls and swift reaction to downturns.
- Reacting quicker in an advisory/assistance capacity.
- Paying attention to collateral, by watching trends in the borrower's operation, by generally guiding the operation of the firm and by learning to say NO!
- Securing the loan on a collateral formula and then monitoring the cash and collateral to keep the correct relationships.
- The entire collateral-monitoring system provides better, more current information. Take action with borrowers to overcome weaknesses.
- Better loan administration, more selective at time of origination, more realistic credit limits and lines.
- By controlling a company's cash, the lender can stop it from building excessive inventory. The result will be lower carrying costs and a leaner operation.
- Better monitoring of collateral via greater expertise in auditing, appraising collateral, collection of accounts payable.
- Closer monitoring of overall operation, increased sensitivity to client's cash flow and taking immediate corrective action once a problem has been identified.
- Getting closer to the customer on a daily basis.
- Being careful to not overload the applicant. The best of credits seem to become bankrupts because of not being able to meet their obligations.

Asset-based lenders had answers to the question, "What can asset-based lenders do when a borrower chooses bankruptcy?" The following suggestions were contributed:

- Make a rational decision whether to continue financing if the borrower has taken the Chapter 11 route.
- Make sure the borrower is fully and legally secured.
- Analyze the debtor's program for signs of a return to profitability; analyze the debtor's cash-flow needs vis-a-vis collateral coverage; test for the probability of the debtor's heirs to be able to return to a profitable operation, and decide whether to finance the debtor.
- Aid the bank in liquidating collateral; e.g., collecting accounts receivable, liquidating other assets, finding potential purchasers of assets.
- Possibly lend debtor funds to bring a debtor out of bankruptcy.
- Attempt to develop an atmosphere of cooperation with the borrower rather than an atmosphere of antagonism.
- Don't panic. Work with the lender's own counsel, appraisers and staff to fully understand the situation. Attempt to work the borrower out of bankruptcy. Be prepared to liquidate collateral if necessary.
- Nothing should be done in most cases.
- Decide to finance the debtor in such a way as to be able to continue to fully administer the loan.
- Monitor the situation closely and obtain legal advice at each step taken.
- Take prompt necessary legal action to protect the investment. Try to work out a program to liquidate the pre-bankruptcy loan and provide DIP financing.
- Work with the debtor, creditor committee and trustee to ensure that an equitable solution is arranged. There is no substitute for an experienced, knowledgeable bankruptcy

attorney.

• Because of their constant loan monitoring, asset-based lenders can assist in recognizing a problem-loan situation as early as possible — when there still is adequate equity for borrower and lender to recover their investments. Experience enables asset-based lenders to advise on plans to streamline operations, use existing inventory to complete work-in-process and emphasize collection of accounts.

The survey tabulation revealed that asset-based lenders are most happy with the following types of loans:

• Loans to manufacturers and wholesalers that have been in business at least three years and that have accounts receivable, inventory and machinery and equipment that are easily evaluated and monitored. Reason: Established businesses have an operating history and proved cash flow. Tangible assets with a proved value provide the best and most easily managed collateral.

• Loans well secured by marketable collateral. Reason: In case the lender's judgment is incorrect on credit, the collateral can get the lender out quickly.

• Leveraged buy-outs and turnarounds if management is capable and forthright.

• Those made for growth and expansion purposes. Such accounts have a track record and can weather setbacks that may occur.

• Acquisitions and leveraged buy-outs.

• Fully secured loans with a reasonable operating performance. Reason: These loans will continue in business if operating trends continue. If they don't, there's collateral to support the loans.

• Loans with no fixed assets, because of better liquidity.

• Lenders are happiest with clean, profitable companies borrowing against assets within their spheres of specialty.

• Loans with a good balance between collateral, financing and management. Why? Because there are no losses!

• The best loans are those against working-capital assets, where the percentage advance on inventory isn't too aggressive and the firm is making money. We prefer a more aggressive advance to a profitable company rather than a collateral loan to a firm that's losing money. Reason: Chances of liquidation are higher with the latter.

• Revolving lines secured by current assets. Why? It's possible to monitor these loans more closely and the rates are good.

• Loans of from $5 million to $10 million with clean balance sheets from relatively young companies (three to five years) that have need for increased working capital. Reason: It's easier to administer and document such loans. These loans also are fairly profitable because they have better margins.

• Those loans with good receivables and/or inventory, good management, healthy growth and a profitable operation. Also a relatively high leverage rate. Why? Minimal credit risk and a fairly permanent relationship exist as long as leverage remains high. — **Jim Fabian, senior editor.**

Annual Statement Studies Published by RMA for '83

The 1983 edition of "Annual Statement Studies" has been published by Robert Morris Associates. The book's primary section contains composite balance sheets and income data on 331 different industries.

The book aids commercial loan and credit officers and credit analysts in analyzing their customers' financial statements. It enables a banker to compare a firm with a general, nationwide financial profile of that firm's particular industry.

The book contains five years of comparative historical data, along with current data, for each industry. This feature enables users to discern trends in the financial data for most of the industries over a five-year period.

The book also provides 16 commonly used ratios, presented as medians and quartiles, for 313 of the industries, all but contractors, which have 13 ratios. All figures are for fiscal closing dates between June 30, 1982, and March 31, 1983.

RMA-member banks submitted more than 77,000 financial statements of their borrowing customers to generate data for the book. Statements, when sent to RMA, were identified only by line of business and not by company names.

This year's edition contains two supplements. One is a comprehensive directory that lists other sources of composite financial data for more than 400 industries. The other consists of ratios for consumer and installment sales-finance firms, prepared by two banks.

Copies are available from RMA, 1616 Philadelphia National Bank Building, Philadelphia, PA 19107. Prices are $29.50 for nonmember banks and $10 for member banks.

Commercial-Loan Workship Set for Chicago by RMA

A workshop titled "Commercial Loan Documentation" will be held May 13-16, 1984, in Chicago by Robert Morris Associates. Registration is open to personnel from non-RMA member banks, although those from member banks will receive preference.

The workshop is designed for commercial credit and loan officers, administrators, reviewers, trainers and others concerned with the need to properly complete commercial-loan transactions. Individuals attending should have a general familiarity with commercial lending and with notes, collateral and regulations.

The workshop will cover concepts, requirements and problems of documentation. It also will focus on administrating good documentation practices within banks.

A/L-Management Monograph Available Through RMA

A new monograph designed to help commercial lenders and credit officers understand the implications of asset/liability management as it applies to their work in the bank has been published by Robert Morris Associates.

"Asset/Liability Management From the Credit Perspective" is divided into two sections: an overview and the mechanics.

The first section deals with the evolution and current status of asset/liability management, including definitions of its primary problems and components. It focuses on planning the future course of the bank; providing for adequate funding through the lowest cost mix of funds sources; allocating resources among assets; and positioning the bank to adapt its asset/liability activities profitably to future conditions.

The second section discusses the distinction between the way core-bank deposits and managed-bank deposits are handled; dynamic (long-term) versus static (short-term) approaches to rate sensitivity and the roles played by each of the major functional areas of the bank, as well as the major segments of the loan portfolio in relation to the asset/liability-management process.

Monographs are available at $20 each for RMA members and $28.50 for nonmembers from the RMA Order Department, 1616 Philadelphia National Bank Building, Philadelphia, PA 19107.

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Asset-Based Lending: A Growing Business For Large Banks

MAJOR money-center banks have been entering the asset-based-lending business at a fast clip during the past few years. Many banks are forming their own divisions, operating them as separate departments from within the bank or as a wholly owned division of a bank holding company.

The field formerly was occupied by old-line finance companies known as commercial-finance firms, such as Walter Heller, Associates Commercial Corp., General Electric Credit Corp., etc. Now it is not uncommon to see this field invaded by names such as Commercial Finance Division of South-Trust Bank of Alabama, Birmingham (formerly Birmingham Trust National); Citicorp Business Credit, Inc.; Shawmut (Boston) Credit Corp. and many others like these. Also, where it is not clear whether a former "independent" is owned by a bank, but operating under its old name, a close look at the corporation usually will reveal a bank owner in the background.

This is a trend that is likely to continue, and it's possible the asset-based-lending field will be dominated in a short time by major commercial banks and their wholly owned subsidiaries, operating with or without the names of the banks.

This trend was revealed last month at the annual convention of the National Commercial Finance Association (NCFA) held in Chicago. At times, it was somewhat difficult to find the name of an independent finance company on the badge of a delegate, and where one did find an independent, a bank owner quite often lurked in the background.

One prominent convention participant, who preferred not to be identified, admitted that, likely, banks would begin to dominate the asset-based-lending field, which formerly was the private domain of the independent finance company. The latter borrowed its funds from a bank, reloaned them to a company considered "unbankable" and then gradually brought that company back up to a profitable basis where it could be returned to the banker as an unsecured borrower.

He also cautioned that because competition was so fierce in the field today and banks were rushing pell mell into the business, there could be some difficulties in the years ahead. The old independents, he warned, had learned their "tricks of the trade" the hard way and have managed to survive. He suggested that some banks would stub their toes and then either retire from the field or pull back on their financing ventures.

. . . It's possible the asset-based-lending field will be dominated in a short time by major commercial banks and their wholly owned subsidiaries, operating with or without the names of the banks.

Today, industry members — whether they be bank owned or privately owned — are looking long and hard at leveraged buy-outs available as corporations divest themselves of unprofitable divisions. There have been some unusual success stories, as well as failures, in this field over the past year. One speaker noted that Automatic Sprinkler Corp. is one of the shining examples of a leveraged buy-out that had been structured successfully by an association member. General Housewares and Triangle Corp. are other success stories in the field, but members also could point to various failures.

All the firms represented acknowledged they are looking for buy-out referrals from the local banker. They recognized the importance of the local banker in knowing when a "suspect" can become a prime target for a buy-out. They also like the local bank as a watchdog on the credit, local management, plus information on any change in direction the local company might make.

Association members acknowledged that while there may be a general pattern to so-called "financing deals," they indicate that many innovations had been tried, all with a goal to maintaining the solvency of a company while it struggles to repay financing debt.

Today, these association members admit, there is a scarcity of "good deals" available, and they fear that some rates being charged will be inadequate to cover financing costs and earn a profit for the lender. But they still look to the local banker as a participant and as a "feeder" for asset-based-lending propositions of all types.

Retiring Chairman Melvin E. Rubenstein told association members that if the asset-based financial-services industry is to continue to prosper, lenders must channel their traditional aggressiveness toward breaking into new markets rather than reaching for greater risk in mature markets. The NCFA chairman challenged industry leaders to tap the vast potential in the international marketplace, urging them to undertake a long-term commitment and to have the courage to break new ground in the foreign arena.

While pointing to the industry's enviable record in innovating many financing techniques, such as leveraged buy-outs, the NCFA official nonetheless chided the industry for its reluctance to penetrate the potentially rewarding service sector of the economy, which generates two-thirds of the Gross National Product and provides seven of every 10 nonfarm jobs. With its history of financing innova-

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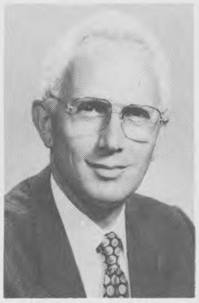
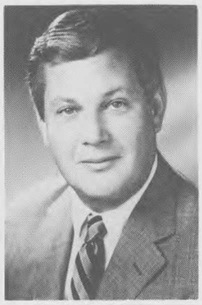
New NCFA Officers



DIAMOND



DORGAN

Stephen C. Diamond will take office as chairman and Richard J. Dorgan as president, National Commercial Finance Association (NCFA), January 1. They were elected to the posts last month at the NCFA's 39th annual convention in Chicago. The association is the trade arm for the asset-based financial-services industry.

Mr. Diamond is chairman, First Chicago Credit Corp., and, in his NCFA post, succeeds Melvin E. Rubenstein, executive vice president, Rosenthal & Rosenthal, New York City. Mr. Diamond had been the group's president the past year.

Mr. Dorgan is group vice president, Wachovia Bank, Winston-Salem, N. C. He moved up from NCFA first vice president.

Other new officers are: first vice president, Frederick S. Gilbert Jr., executive vice president, Citicorp Industrial Credit, Harrison, N. Y.; vice president, Herbert E. Ruben, senior vice president, Walter E. Heller & Co., New York City; and treasurer, Robert M. Grosse, vice president, Irving Trust, New York City.

tion, said Mr. Rubenstein, the industry surely can develop the will and know-how to finance service industries.

"New markets must be sought because of the changing nature of the industry. Within a decade, our industry has moved from an environment of limited competition, rapid growth and attractive yields to a situation of intense competition, larger and riskier credits and narrowing spreads. While competition can and should be healthy and constructive, many lenders are following a seductive piper. Too often, lending basics are being compromised in a frantic effort to obtain a larger and larger share of market," the NCFA chairman challenged.

Mr. Rubenstein is executive vice president, Rosenthal & Rosenthal, Inc., of New York City.

The NCFA proudly pointed to one of the success stories of its own members during an industry-awards ceremony.

The award recognized a small corporation in Miami, today known as Cosmo Communications, which had been financed initially by one of its members, Congress Financial Corp. The company increased its sales from the first year of $5.2 million and a net income of $241,000 to sales of $32.1 million and profits of $2.8 million seven years later.

With constant monitoring by Congress Financial, and through its lending expertise, the company went public a short time ago, selling $39.6 million in stock. The chairman of the company, Joel Newman, a Cuban immigrant, received the award on behalf of his company, which today is one of the world's largest manufacturers of digital electronic clocks. — **Ralph B. Cox, publisher.**

RMA Says Chapter Rewards Will Strengthen Services

Robert Morris Associates has implemented a program designed to motivate its chapters and groups (subchapters) to strengthen their administrative functions and to continue expanding the educational programs they offer to members locally.

William H. Sayre, 1983-84 chairman of the association's chapters division council, said the new "Chapter/Group Standard of Excellence Program" will give recognition to the chapters and groups that attain certain measurable standards of performance. Mr. Sayre is executive vice president, Fidelity Bank and Fidelcor, Fidelity's parent company, Philadelphia.

Approved by the RMA board, the program should help more precisely identify those activities chapters and groups can conduct that will support the association's educational objectives and provide maximum benefit to the membership. Conceived by the national chapters division, the program was developed by a subcommittee of the division council headed by national Director John Langeland, president, Zions First National Bank, Salt Lake City, Utah, and a former president of the association's Mountain States Chapter.

The program is to be incorporated into the annual reports that all association local units will file with the national chapters division next summer. All chapters and groups that achieve a specified number of points will receive certificates of merit at the 1984 fall conference in Puerto Rico. The certificates will recognize the high standards of excellence in serving their members.

Collateral Management

(Continued from page 18)

increase in the current line of credit if he has the added comfort of third-party collateral management. This is especially true in growth companies, seasonal businesses, turnaround companies or companies involved with acquisition financing. Collateral Control's systems are designed to provide security, service and, in the case of certification services, guarantees needed to consider a credit where repayment comes from turnover of trading assets. Our collateral-management programs can be used separately or in concert with another. The lender can have ongoing, day-to-day coverage, with examinations performed by a professional staff.

Collateral Control's role as collateral manager is supported by a $50,000,000 legal liability/fidelity bond. We back up our services this way so the lender's exposure to risk is protected and the borrower gets the working-capital loan he needs.

Asset-based lenders will be required to become more imaginative and innovative to meet the ever-increasing competition in the lending marketplace. Asset-based lending is here to stay and to grow. Commercial-bank lenders would be wise to consider third-party collateral management as a strategic key to development of a profitable secured-loan portfolio, as well as the missing ingredient to effectively enter the asset-based lending arena. ● ●

● **BBC Manufactured Buildings, Inc.** This firm has announced development of Telleron, described as a new concept for a manufactured, limited-service financial facility. It is a complete turnkey facility that can be opened and operating within days of delivery to a site. It can be finished with a variety of exterior materials and includes a total interior package, even specialized movable furniture. The new Telleron is an automatic facility providing for teller and/or new-accounts capability and designed with an optional rear-drive-up configuration that can be a single ATM, ATM plus after-hours depository or teller window. An interior sliding glass wall permits 24-hour access to the ATM lobby while securing the teller/new-accounts area. Write: BBC Manufactured Buildings, Inc., 12690 60th St. North, Clearwater, FL 33520.

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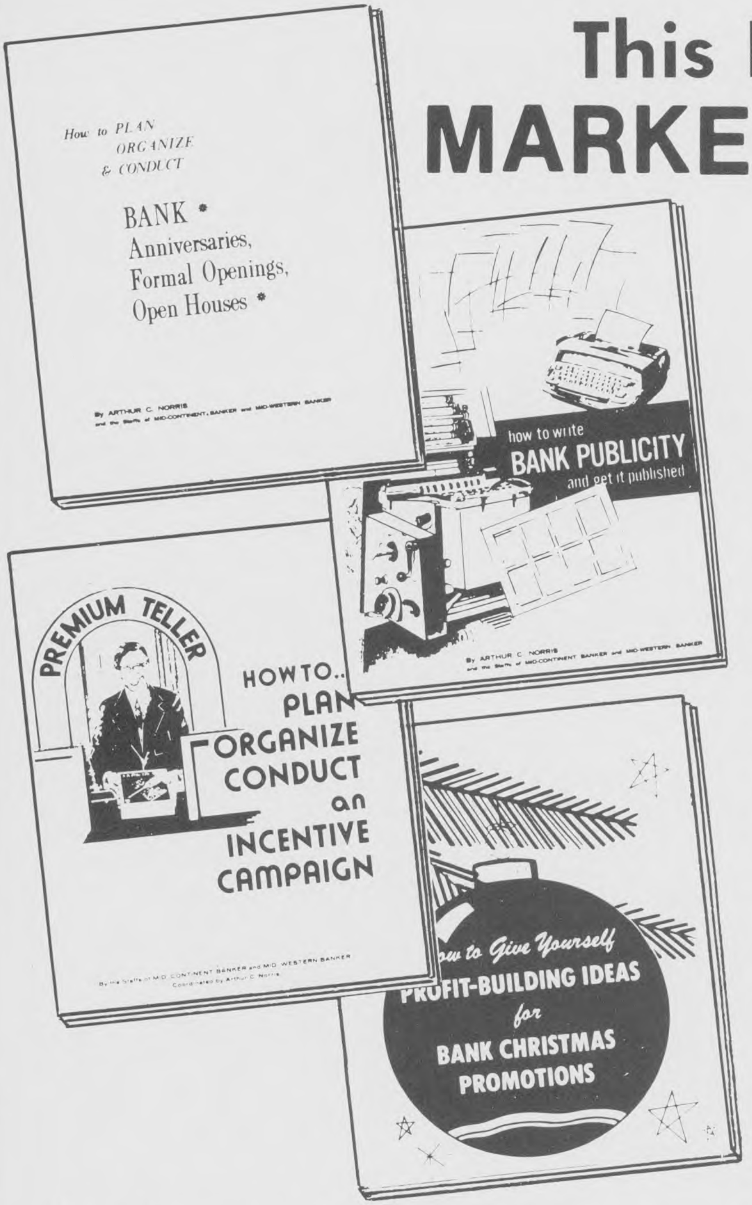

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Profit-Building Ideas for Bank Christmas Promotions. This is NOT a Christmas Club book, although ONE chapter is devoted to Christmas savings promotion plans. Other chapters: selling various bank services during the Holidays: using lobby decorations most effectively; helping children at Christmas; remembering employees in Christmas planning; using the "good will season" to build bank good will; getting the most benefits from Holiday publicity; planning for the Holidays from mid-summer to New Year's. In 80 pages are packed tested Holiday ideas used by banks, big and small, from coast to coast.

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How to Write Bank Publicity and Get It Published. . . The complete guide to procedure in writing publicity releases and how to prepare them so that newspaper and magazine editors will use them; 61 pages; 12 chapters with titles such as " Constructing the News Story," "Placing the News Story," "Handling 'Sticky' Situations," "Dealing with News Media"; another completely factual, step-by-step how-to-do-it manual.

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What Corporate Customers Expect From Their Banks

By Reece A. Overcash Jr.
Chairman and CEO
Associates Corp. of North America
Dallas

THERE'S a full-scale war going on in the financial industry to win the hearts, minds and money of those who need financial services. That war is not being fought in the consumer arena only. Commercial operations also are at stake.

Two major factors eventually will divide winners from losers — marketing strengths and technological advancements.

The battle that's being waged to build consumer relationships is only the tip of the iceberg. For banks, S&Ls, American Express, Sears, Merrill Lynch, The Associates — for all of us — the words of John Paul Jones could not be more appropriate: "We have only begun to fight."

And the competition for corporate accounts also is going to accelerate.

Take The Associates as an example. We're a $5-billion financial-services company with enormous requirements. We currently have just under $2 billion outstanding in commercial paper, with every dollar backed for liquidity purposes by a line of credit or revolving-credit facility. Of our top 20 commercial-paper customers, six are banks.

About 15% of that paper is supplied through master-note arrangements provided primarily by bank trust departments. All of our 696 domestic branches require local banking services. With our extensive commercial paper and branch network, we need efficient cash-management services nationwide. We have more than $2 billion in long-term debt and we need corporate trustees and paying agents.

Almost 50% of our asset-based loans were referred to us by banks or are in participation with one or a group of banks. There is a place for virtually all our financial services in the banking community, through referrals, participations, joint ventures or purchases. A year ago, one of our in-house publications featured an article titled, "Some of Our Best Friends Are Banks." That about sums it up.

Bankers are interested in our business. I expect the competition to grow and I expect those banks with the strongest marketing programs and innovative technological services will enjoy the lion's share of our business.

Let me define some of the elements that contribute to marketing expertise. We believe a marketing plan is indispensable in developing a relationship between a bank and a corporation. Carefully conceived and developed marketing plans reflect, first, a necessary understanding of the bank itself, its philosophies and capabilities. Second, it reflects an understanding of our company and, very importantly, our industry.

Finally, a well-conceived marketing plan recognizes our specialized needs. The Associates is different from Exxon, AT&T or General Motors. Marketing plans are not interchangeable. Each customer should be treated as unique and special.

Developing a long-standing, multifaceted corporate relationship requires a long lead time. Marketing plans must be dynamic and goal-oriented. They must be updated annually to reflect new information or changing conditions. Client contacts will develop some new area or reveal a new insight into the customer's requirements. Recognizing the lead time involved, marketing plans require short-range, as well as long-range goals.

• *Product management* in banking — what it is, why it's practiced and how it affects the bottom-line profitability of a bank's products and services — is the subject of a new publication from the Bank Administration Institute. It's called "Product-Management Handbook: A Practical Guide for the Bank-Product Manager," and it costs $24 for BAI members and $36 for nonmembers. Write: Bank Administration Institute, P. O. Box 70157, Chicago, IL 60673.

Part and parcel of bank marketing is the bank's overall image and reputation. How the bank positions itself and its operating character are important facets of marketing.

Each bank has an image or reputation in the marketplace. Whether it is aggressive or sleepy, retail or wholesale, well-managed or not, such images, accurate or not, manifest themselves in the relative success of the institution. In working our way through image and reputation, we attempt to make an accurate assessment of the bank's philosophies and attitudes. We are concerned with the commitment of the bank to its defined market, our industry, and ultimately, our firm.

How well a bank is able to market its skills is becoming a point of increasing importance. For example, is the bank perceived to have a strong analytical and practical understanding of the economy, its market area and our industry?

Domestically, our operations range from coast to coast and are impacted by regional as well as national economic conditions. As a result, we value the input of our regional banks. They know and understand their markets, and by sharing that knowledge we are better equipped to address those markets.

That, for one reason, is why we have resisted having our account handled by representatives of loan-production offices that have sprung up in Dallas and Houston.

By being serviced out of the bank's home office, we receive the viewpoint we need in our business. In many cases, the representative stationed in Dallas may not have worked for the bank in the Midwest or on the West Coast and cannot provide the regional flavor we seek.

A banking relationship includes a balanced commitment of short- and long-term credit facilities. Short-term facilities are easy to come by. Term commitments are the products in need, which are a bit more difficult. In the late 1970s, we used our banks to fund more than $500 million in syndicated medium-term fixed-rate loans.

(Continued on page 58)

We turn on a dime so you can turn a larger profit.

When money is expensive, so is the time funds are idle. That's why so many banks rely on Northern Trust Bank for profit-enhancing correspondent services. Our expertise in getting funds to work quickly and profitably has earned us the reputation of being a premiere processor for correspondent banks. In fact, in independent surveys, The Northern Trust consistently ranks among the top three cash management providers in the industry.

The latest in computer technology assures check collection and safekeeping that's accurate and fast. Our Cashline Balance Reporting System gives you electronic access to your account for maximum flexibility. You can get a fresh update *every 15 minutes* if necessary—and move money within hours rather than days.

Add to our sophisticated equipment the best in personal attention and responsiveness, and you get Northern Trust's ideal combination of quality and efficiency. A dedicated staff of professionals assures you personal attention in all transactions.

We're also ready to assist you in handling your investments. And our experienced Bond Department representatives are always on hand to provide knowledgeable advice.

With Northern Trust Bank behind you, you can count on better service for your customers. And a better bottom line for your bank. For more information, contact Curtis E. Skinner, Senior Vice President, Northern Trust Bank, 50 South LaSalle Street, Chicago, Illinois 60675. Telephone: (312) 630-6000. Member F.D.I.C.

The more you want your bank to do, the more you need The Northern.

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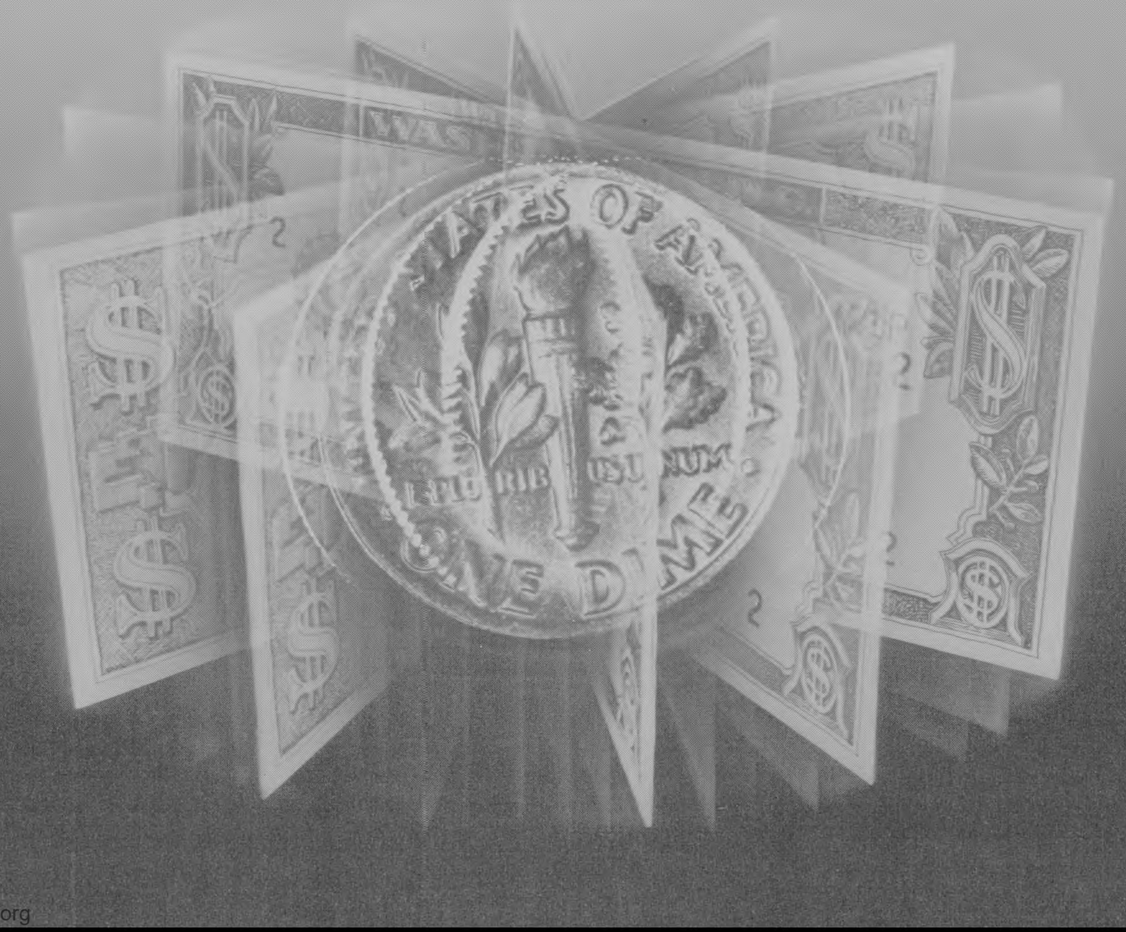


NEWS
About Banks & Bankers

ILLINOIS

Continental Illinois Announces Changes In Internat'l Depts.

CHICAGO — Continental Illinois National has formed several new banking departments. As a result, it has brought together the international banking services department and offshore units of multinational-banking services and special-industries services.

The three new departments, established November 1, are: Europe/Africa-Middle East department, headed in London by Jean-Louis Recoussine; Asia/Pacific department, headed in Tokyo by John A. McAdams; and Latin America department, headed in Chicago by Thomas Dowen Jr. All three men are senior vice presidents.

Leo C. deGrijs, executive vice president, who headed the former international banking services department, has been named chairman of the country exposure committee and has major management responsibility as head of a new sovereign-risk-credit-management unit.

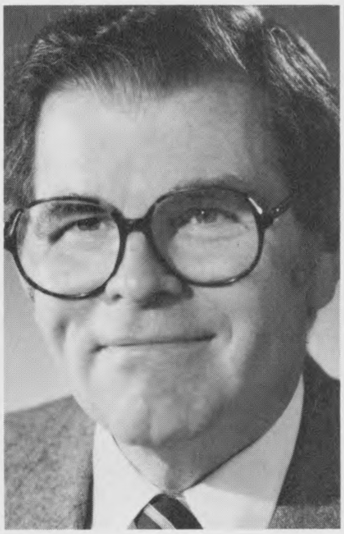
Alfred E. Miossi, executive vice president/director of international affairs, is assuming the additional responsibility of managing and coordinating relationships with foreign central banks. He reports to David G. Taylor, vice chairman of the bank.

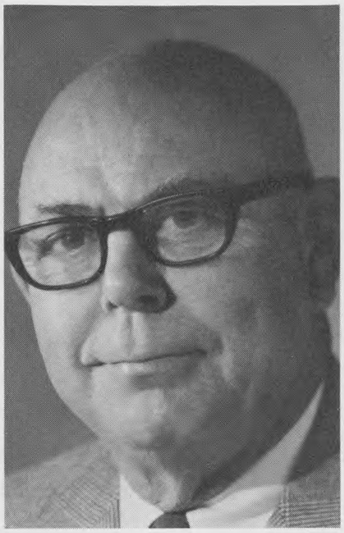
Drew E. Waitley, senior vice president, continues to manage the Africa-Middle East division from Chicago and reports to Mr. Recoussine. W. Denis Wright, senior vice president, who previously headed the Latin America/Canada group, reports to Mr. deGrijs and continues to oversee Canadian international-banking activities pending reassignment within the bank's domestic sector.

Global funding/foreign exchange, which were in international banking, are being reassigned to bond/treasury services in a gradual transition and are being reported to Senior Vice President Robert D. McKnew.

Messrs. deGrijs, Dowen, McAdams and Recoussine are reporting to Executive Vice President Edward M. Cummings until he retires at year-end. Then, they will report to Executive Vice President Edward S. Bottum.

In other action, Continental Illinois Corp., the bank's HC, has appointed






Vice President Stephen D. Balsamo general manager of its Continental Illinois Corp. financial-futures subsidiary and manager of the portfolio services/financial futures division of Continental Bank. He reports to Senior Vice President Michael O. Rigg, who is responsible for securities trading/public finance. Mr. Balsamo joined Continental in 1972 and, since 1982, had been head of the bank's financial-futures-brokerage operations in London.

Name, Marketing Thrust Changed at Sears Bank

CHICAGO — Sears Bank has changed its name to UnibancTrust and is taking a fresh marketing direction designed to serve mid-size companies.

Thrust of the new marketing program is aimed at firms in the $5-million-$50-million range. The new name was selected, says Donald D. Thornburg, chairman/president of the bank and president of its HC, Midland Bancorp, Inc., because it conveys "a sense of individuality, a uniqueness of character."

The name change satisfies an agreement between the bank HC and Sears, Roebuck & Co., which is to provide a $30-million loan over 12 years to the bank. Because the retailer is expanding its financial-services capability, its management believes there is the potential for confusion as it relates to ownership.

Founded in 1919 as Community State, the bank changed its name in 1931 to Sears-Community State and, in 1957, to Sears Bank & Trust Co.

Discount Brokerage Bought by Bank HC

CHICAGO — Northern Trust Corp., parent of Northern Trust Co., has signed a definitive agreement to buy all the shares of stock of Jerome Hickey Associates, Inc., a Chicago-based discount-brokerage firm. Following regulatory approval, the firm will become an HC subsidiary.

The Hickey firm also has an office in Scottsdale, Ariz. Pending Fed approval, it will provide brokerage services for Northern Trust customers.

Northern Trust Co. has formed a wholly owned subsidiary to execute financial-futures transactions on the floors of the Chicago Board of Trade and Chicago Mercantile Exchange. The new futures-commission merchant will be named Northern Futures Corp. and, following regulatory approval, will buy and sell futures contracts for correspondent banks, pension-fund managers, insurance companies and corporations, as well as for Northern Trust itself.

Donald L. Raiff, senior vice president in charge of Northern Trust's treasury department, has been named president of the new subsidiary.

Harris Trust, Chicago, has promoted Randall B. Becker, Roger A. Molzahn, Bruce F. Osborne and Charles H. Davis to senior vice presidents. Patricia Whitehead Huizenga was elected a vice president. She was an assistant vice president. Messrs. Becker, Molzahn and Osborne are in the banking department and Mr. Davis in credit administration.

Magna Group, Inc., Belleville, has received stockholder approval of a recapitalization plan that allows the HC to change its par-value common stock from $4 to $2 and to increase the number of shares of new common stock authorized for issuance from 2,000,000 to 10,000,000 shares. Magna Group formerly was First Bancorp of Belleville, Inc.

Dan Heine has been promoted to

president/CEO, Northwest Illinois Bancorp, Inc., and its principal subsidiary, State Bank, both of Freeport. He formerly was executive vice president of the bank, which he joined on graduating from college 15 years ago. At 36, Mr. Heine is the youngest president in the bank's history.

INDIANA

Indiana Nat'l Bank Tower To Be Sold to Realty Firm

JMB Realty Corp., Chicago, has agreed in principle to purchase the 37-story Indiana National Bank Tower, Indianapolis, along with the balance of the block on which the tower is located. Seller is Metropolitan Structures. As part of the transaction, Indiana National will cancel its leasehold interest in the tower for approximately $40 million.

The bank's share of the proceeds from the proposed cancellation of its leasehold interest is expected to have a positive impact on the bank's capital and income, according to bank Chairman Thomas M. Miller.

"The increase in capital, together with any proceeds received from the previously announced $25-million adjustable-rate preferred stock offering, still in registration, will put Indiana National in a stronger position to take advantage of expansion opportunities as they become available," Mr. Miller said.

Plans are to conclude the transaction by the end of this year.

The bank will continue to occupy the tower. The building was completed in 1970. Metropolitan Life Insurance Co. purchased it on a sale/lease-back basis and the bank had an option to purchase the building in 1995 for approximately $12.5 million. In cancelling its leasehold interest and continuing to lease only the space it now occupies, the bank relinquishes its purchase option.

Irwin Union Bank, Columbus, has elected John L. Carr and Matthew F. Souza assistant trust officers. Both joined the bank in October, 1982.

Ronald L. Douglas has joined Farmers National, Remington, as auditor. He formerly was auditor at First National, Logansport.

Midwest Commerce Banking Co., Elkhart, has elected James E. Stringfellow senior vice president/auditor and appointed Craig Bush vice president/corporate-fee products manager. Mr. Stringfellow joined the bank in 1963; Mr. Bush is new to the bank.

MICHIGAN

National Bank of Detroit has appointed Millie S. Barnes, Barton W. Bock, David R. Borger and Andrew H. Heinecke second vice presidents. New assistant vice presidents include Lyle F. Dahlberg, Ann W. Rock, Stephen M. Castle, Lisa Kingsley Carlson and Joseph K. Thompson.

Larry J. Reimann has joined Peoples National, Bay City, as assistant vice president/commercial loans. He formerly was with Bank of the Commonwealth, Detroit.

Pacesetter National, Cassopolis, will merge into Pacesetter Bank-Southwest next year. The resulting bank, to be called Old Kent Bank-Southwest, will be headquartered in Niles.

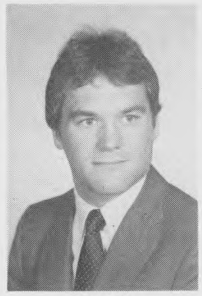
Steven D. Crandall has rejoined Old Kent Bank, Grand Rapids, as vice president responsible for the coordination of corporate-wide training and development. He originally joined the bank in 1978 and most recently has been with Financial Shares Corp., Chicago.

Robert E. Hughes has been promoted to executive vice president, Manufacturers Bank, Detroit. He is responsible for domestic commercial-lending departments. He joined the bank in 1958.

Donald L. Grill has been named vice president/agricultural loans at First of America Bank-Michigan, Kalamazoo. He formerly was with Key State Bank, Owosso.

MINNESOTA

First Bank Minneapolis has named John R. Danielson senior vice president/finance and planning. He joined the bank in 1972, coming from Irving Trust, New York. Judy Bradford has joined the bank as vice president/natural resources and Michael Taets has been named a correspondent banking



TAETS

DANIELSON

officer in the east/west correspondent banking division. Mr. Taets formerly was a vice president at Brenton Bank, Clarion, Ia.

4-H Funds Solicited

Thomas Olson, president, First National, Starbuck, and chairman, Minnesota Bankers Association 4-H campaign committee, has kicked off a campaign to support the Minnesota 4-H junior leadership program. In a letter sent to 750 association member banks in Minnesota, Mr. Olson said that this year's goal is $18,000. The funds will assist the 9,000 youths who are involved in 4-H leadership programs annually.

1st Bank System, Norwest To Share Minnesota ATMs

First Bank System and Norwest Corp., Minneapolis, have signed a letter of intent to share all Minnesota ATMs and to develop and maintain an electronic point-of-sale system that would enable customers to use their bank cards for direct payment at retail stores.

Under the ATM sharing arrangement, the 665,000 card holders of First Bank System and Norwest would be able to make withdrawals from any of the ATMs in First Bank System's Fastbank or Norwest's Instant Cash ATM networks. The two bank HCs have 310 ATMs in Minnesota, 216 of which are in the Twin Cities metropolitan area.

Paige Winebarger has been appointed assistant vice president at Bank Shares Inc., Minneapolis. She formerly was assistant commissioner of banks for Minnesota.

OHIO

Bank One's Jubilee Is First Introduction Of Visa Electron Card

Bank One of Columbus's "Jubilee" card — said to be the first Visa Electron card to be issued in the U. S. — will be usable in automatic banking equipment Lazarus department stores will install in Columbus-area outlets.

Bank One will participate in Visa's electronic point-of-purchase experiments planned for 1984. "Bank One will introduce the Jubilee Electron card program initially in several member banks of Bank One Corp. in Ohio and later this fall at Bank One in Columbus," according to Robert Potts, bank chairman and a director of Visa USA and Visa International.

In announcing that the Jubilee card will replace the bank's existing 24 Self

DANIEL G. PRISKE
President and Chief Executive Officer
CITIZENS NATIONAL BANK AND TRUST MARSHFIELD, WI
A First Wisconsin
Correspondent Banking Customer

MEET FIRST WISCONSIN

Accelerated Check Collection

EXPERIENCE.

"It's what my customers rely on," says Dan Priske, president and chief executive officer of Citizens National Bank and Trust.

And when Dan's customers deposit more than a million checks throughout the year, his bank turns to First Wisconsin for ways to increase profitability and streamline check collection operations.

Working together, we constructed a Cash Letter Analysis report to examine their complex check collection function, and we offered recommendations about how Citizens National could minimize transportation charges, reduce check clearing fees and improve funds availability.

When you want to streamline your check collections, whether large or small, talk to First Wisconsin. Or ask Dan Priske, he knows the advantage of working with a bank that clears more than a hundred million checks each year.

That's experience.

FIRST WISCONSIN

MORE BANK FOR YOUR MONEY

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Service Card, Mr. Potts said the card eventually will be usable in all Bank One banks in Ohio and could replace checks or cash at member stores. Unlike the Visa card, the Jubilee Electron card is a debit card and can be used only in an electronic terminal. It is designed to be the first globally accepted, multipurpose-payment card that contains technologies enabling it to be used exclusively in electronic terminals.

The agreement with Federated Department Stores, owner of the Lazarus chain, includes installation of Jubilee ATMs in Columbus stores. The first installations will be made this fall.

Bank One's participation in Visa's pilot merchant point-of-sale program means that a cross-section of retailers in central Ohio will be selected for installation of several hundred electronic terminals. Customers with acceptable Visa cards — including the Bank One Jubilee card — will be able to complete card transactions faster through the new point-of-sale terminals, Mr. Potts says.

Money Station Members Announce Participation In Home-Banking Pilot

Money Station, Inc., members jointly have announced plans to participate in Home Banking Interchange's (HBI) in-home-banking pilot project, thus expanding the scope of the project in Ohio.

"The addition of Money Station to the HBI project effectively will expand and enhance the scope of the project both operationally and geographically," said John Hanschmidt, executive vice president, BancOhio, the institution that initially announced the pilot project. A minimum of 200 HBI terminals will be used during the test scheduled to begin in April of next year.

These terminals will be placed by National City Corp. and Society Corp. in Cleveland, BancOhio in Columbus and Interstate Financial's Third National in Dayton. First National Cincinnati Corp. and Fifth Third Bancorp, Cincinnati — other Money Station members — will be participating in the test at the research level.

The entire HBI project will involve approximately 2,000 terminals in homes located in various cities across the U. S. and Canada. Financial institutions leading the project have assets of $153 billion.

Money Station was formed in May of this year and when fully operational will provide card-holders of member organizations with what is said to be the largest ATM network in Ohio.

First-Knox National, Mount Vernon, has promoted Ian Watson to vice president and Phyllis A. Higgins to assistant vice president. They joined the bank in 1973 and 1969, respectively. Mr. Watson is responsible for the bank's new deposit/investment services division.

BancOhio National, Columbus, has elected Robert W. Owen, Steven W. Seely, Raymond M. Chorey and Terry D. Coreno vice presidents, and Amy R. Edwards, Richard K. Hite, William R. Manning Jr. and Adrian V. Wallace assistant vice presidents. Ms. Edwards also has been named affluent-market manager for the bank's retail banking group.

Eight bankers joined the board of the Ohio Bankers Association last month. They are: H. Eugene Smart, president, State Bank, Defiance, serving a one-year term as OBA treasurer; Oliver W. Waddell, chairman, First National Cincinnati Corp., and president, First National, Cincinnati; Daniel E. Washam, president, BancOhio National Jackson Area, Jackson; Tiney M. McComb, president, Franklin Bank, Columbus; Richard G. Elliott, president, Commercial & Savings Bank, Millersburg. Charles L. McKelvy Jr., president, First National, Toledo, is a director-at-large. OBA Trust Division President Luther H. Hodge, senior vice president/senior trust officer, Provident Bank, Cincinnati, and OBA Trust Division First Vice President Stuart N. Parsons, vice president/trust officer, Park National, Newark, are serving one-year terms on the OBA board.

WISCONSIN

Citizens Bank, Sheboygan, has appointed John S. Williams assistant vice president, business banking department, downtown office. He most recently was assistant vice president, commercial lending, Bank of Lansing, Mich.

Eliot Grant Fitch Dies

Eliot Grant Fitch, retired chairman, Marine National Exchange Bank and Marine Corp., Milwaukee, died last month at the age of 88 following a brief illness.

He served the Marine organization from 1923 to 1972. Both his father and grandfather were associated with National Exchange Bank, which merged with Marine National in 1930. He was elected president of the merged bank in 1942 and chairman in 1965.

Firstar Bank Appleton has appointed Paul R. Trigg president. He will be responsible for the trust, corporate banking and retail banking divisions of Firstar banks in Appleton, Greenville and Valley Fair. Mr. Trigg began his career with Firstar in the trust department in 1971, but from 1971-1977 worked in the trust department at American National, Eau Claire, before returning to Firstar.

Union State, Kewanee, has promoted Steven W. Drab to cashier. Mr. Drab joined the bank in 1977 as assistant cashier, previously having served with First National, Waukesha.

Thomas F. Novotny has been appointed vice president at Valley Trust, Appleton. He previously was associated with Citizens Trust, Sheboygan.

Marine Corp., Milwaukee, plans to sell up to $60 million of its securities to Primary Capital Investors C. V., a privately held investment firm based in the Netherlands. The securities constitute primary capital as defined by the Fed and will be available for use in funding Marine's growth. Primary Capital Investors is committed to purchase additional securities up to a maximum of an additional $40 million during a seven-year period covered by the agreement, but Marine is under no obligation to place the additional securities.

Citizens Trust, Sheboygan, has promoted Henry Blacharczyk to regional vice president and Wayne Stretsbury has joined the firm as employee-benefits officer. Allan Jurss and Robert Krueger have been promoted to assistant vice presidents.

First Bank Milwaukee has named James R. Saer senior vice president/corporate banking and Peter E. Raskind vice president/strategic planning. John W. Brennan has been appointed vice president/executive and professional banking and Jerry L. Benston Jr. has joined the bank as an assistant vice president/human resources. Mr. Saer formerly was president, downtown division, Heritage Bank, Milwaukee, and Mr. Raskind formerly was with Harris Trust, Chicago.

Farmers & Citizens United Bank, Sauk City, has promoted Carla Breunig to assistant vice president/operations and named Alan J. Ruetten branch manager.

Appleton Bank has opened a new full-service office at 1500 North Casaloma Drive named the Grand Chute office. The bank now has three offices.

Insurance-Agency Powers Granted Bank Holding Company by Fed

IN WHAT may be a precedent-setting move, the Fed has approved the application of the $45.2-million Whitewater (Wis.) Bancorp, Inc., to engage in general insurance-agency activities. The HC plans to conduct these activities in its subsidiary bank, First Citizens State, Whitewater, which had total deposits of $39.2 million as of last March 31.

Under public-interest factors set forth in section 4(c)(8) of the Bank Holding Company Act of 1956, the Fed — to approve a bank HC's request for any kind of activity — must determine that the proposed activity "is so closely related to banking or managing or conducting banks as to be a proper incident thereto. . . ." In this regard, the Fed previously had not found the sale of general insurance by bank HCs with less than $50 million in assets to be an activity closely related to banking within the meaning of section 4(c)(8) of the BHC Act.

However, in 1982, Congress amended that section by adopting Title VI of the Garn/St Germain Depository Institutions Act. Title VI amends the BHC Act by prohibiting bank HCs and any of their subsidiaries from providing insurance services as a principal, agent or broker, with certain exceptions: 1. Any bank HC may write credit life, accident/health and unemployment insurance. 2. Any bank HC with assets of $50 million or less may write or sell any type of insurance. 3. Any insurance-agency activity engaged in or approved by the Fed on or before May 1, 1982, is grandfathered. Left standing was the regulation that populations of cities in which these activities are conducted must be greater than 5,000. Whitewater's population, according to the Fed, is 12,038.

The Fed announced that on the basis of the terms of the statute, an examination of the legislative history of the Garn/St Germain Act and the facts of record, it concluded that the sale of general insurance by a bank HC with consolidated assets of $50 million or less is an activity closely related to banking and is not prohibited by the Garn/St Germain Act's provisions. However, Title VI's legislative history states such activities must be terminated if the HC's assets exceed $50 million. The HC then must divest itself of such activities.

While the Fed concluded that the insurance-agency activities proposed by the Whitewater bank HC are closely related to banking, it also had to determine that allowing such activities "can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition or gains in efficiency that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests or unsound banking practices."

In this regard, the Fed viewed the proposal as pro-competitive and in the public interest because *de novo* entry will provide greater convenience to the public and increased competition in the provision of insurance services in the geographic area to be served (the state of Wisconsin). In granting approval, the Fed pointed out that given the relative ease of entry into the market for insurance-agency activities, possible adverse effects, such as undue concentration of resources or decreased or unfair competition, appear to be limited.

The Fed thus determined that the public would benefit, rather than be adversely affected, by granting insurance powers to Whitewater Bancorp.

This approval is academic in Wisconsin, where state law for some time has allowed state-chartered banks, no matter what size, to sell all kinds of insurance. According to a spokesperson for the Wisconsin insurance commissioner, most banks that sell insurance have separate entities with staffs of licensed agents.

However, in other states that have no such laws, the Fed's approval of insurance powers for a bank HC could open the door to granting such approval to other bank HCs.

In addition, an Administration-introduced bill — the Financial Institutions Deregulation Act of 1983 — would, if passed, allow bank and thrift HCs to underwrite and sell insurance.

Manufacturers Bank, Detroit, Participates in Food Program

Manufacturers Bank and three of its Detroit-based affiliates joined other local area businesses in lending assistance to the city's unemployed through a four-week food program last month.

The program, named Manufacturers "Can" Care, was launched with a $5,000 corporate contribution to the Greater Detroit Chamber of Commerce "Feed the Hungry Program," followed by food and monetary contributions from bank employees. Baskets were stationed at each of the bank's branches to enable customers to contribute food.

"The nation's lingering economic plight has had an especially devastating effect on Detroit and southeastern Michigan," said Dean E. Richardson, the bank's chairman. "This is a time when those of us who are able to help need to step forward and assist those who are less fortunate."

Brochures containing information about health care for the unemployed, ways to avoid utility shut-offs and budgeting materials were available at the bank's branches to assist customers and the general public.

Shareholder Services Subcontracted to Harris By Chemical Bank

Chemical Bank, New York City, and Harris Trust, Chicago, have entered into an agreement whereby Harris Bank will subcontract shareholder services for Chemical's corporate customers. Terms of the agreement were not disclosed.

When the subcontracting agreement is fully implemented over the next 18 months, Harris Trust Co. of New York, a new firm, will be one of the major processors of shareholders in the U. S., according to Thomas Jacob, Chemical senior vice president. The new firm is headquartered in New York City, and John Doran, vice president of Chemical, is its president. He has more than 20 years' experience in shareholder services.

Mr. Jacob stresses the strategic significance of the agreement, which covers services such as stock-transfer agent, co-transfer agent, stock registrar, dividend-reinvestment agent, proxy processor and agent in stock transactions for corporate mergers/acquisitions. Not affected by this agreement are Chemical's registrar/transfer/paying-agency services in regard to debt securities, including mortgage-backed securities.

Victor M. Woldridge, Harris Bank senior vice president, points out that since Chemical has chosen to withdraw gradually from the stock-transfer business, his bank is eager to provide continuity of service to Chemical's customers. He also says there is a marked trend toward consolidation of stock-transfer operations in the banking industry. Many shareholder processors are leaving the business, he continues, because of low margins, unwillingness to make necessary systems investments or stock-transfer services don't fit within overall corporate strategy.

Competition Now on All Sides, Regulator Tells Bankers

IT'S ridiculous for all banks in Wisconsin to have to be examined every 12 months by law, whether poorly or well run and whether there are problems in their loan portfolios and management practices or if there are none. This was the opinion given by the state's commissioner of banking, William P. Dixon, at Citizens Bank of Sheboygan's annual bankers' forum at the American Club in Kohler.

William P. Dixon, Wisconsin commissioner of banking, is shown speaking at annual bankers' forum sponsored by Citizens Bank, Sheboygan, Wis. Photo taken by Gary Peters of Sheboygan *Press*.

Recently introduced legislation would permit the commissioner's office to accept federal-bank examinations in place of state examinations and to lengthen the examination cycle beyond its current 12-month period for well-run banks.

Turning to the future of banking, Mr. Dixon reminded his listeners that, for many years, banks operated in an insulated, protected environment, but now the clear separation that existed between banks and other financial and commercial firms and that limited any competition has eroded. He pointed out that banking now is operating in a "predatory, competitive environment with competition coming from all sides."

He cited some important factors that are shaping the marketplace for the rest of this decade: technological innovations, removal of deposit-interest ceilings, relaxation of branching and other geographical limitations and entry of nonbank financial-service providers into previously sheltered bank lines.

As a result of these changes, he continued, "Small banks nationwide have suffered a massive decline in profitability for 1982." In Wisconsin, he said, the number of "problem" banks reached its highest level in 50 years.

Mr. Dixon said the federal government has done little about some of the areas of regulation faced by bankers. However, before the end of the decade, he believes it's possible that commodities and futures brokerages, telecommunications, real estate brokerage/development, including equity lending and non-full-payout leasing, may all be realities for Wisconsin banks.

He also told bankers to expect some changes on limits on geographic expansion. To bankers, he said these changes "will require you to expand your vision so that you no longer think of yourself as a retail banker or someone involved in dealer lending, real estate mortgages or the like. If you are not meeting the needs of the public by engaging in marketing and selling your services, you will be left behind in the banking field of the future."

He suggested that the changes be viewed as opportunities and that bankers must choose directions, decide policies and set targets for the decade ahead.

Citizens' bankers' forum, in its 24th year, is a yearly review of banking changes, challenges and opportunities for community bankers throughout Wisconsin.

In the afternoon sessions, topics, conducted by officials of Citizens Bancorp, the bank's $585-million HC, included: "Providing Financing Services," by G. Thomas Rogers, head of Citizens' capital group; "Preparing for Tomorrow," a discussion of regulatory changes and constraints, by Rawson S. Price, head of Citizens' compliance/product development team; "Cash Management for Community Banks," by LeRoy Bloechel, senior vice president, Citizens Management Services Corp.; "Data Processing in Real Time," by a team of experts from Citizens data center, and "Industry Trends," by Richard D. Pauls, Citizens Bancorp chairman.

The event was coordinated by Jacob C. Hilpertshauser, vice president responsible for correspondent banking.

'Open-Door' Policy Instituted by Bank On Student Loans

Commercial National, Chicago, has announced an "open-door" policy for student loans in an effort to help college students meet the growing cost of education.

In this program, the bank offers an undergraduate student a $1,000-$2,500 loan or a graduate student $1,000 to $5,000 a year, without the normal prerequisite of having a savings or checking account at Commercial National.

Included in the "open-door" student-loan program is a reduced loan of 8%-9% to a first-time borrower, depending on the beginning date of instruction. Also, in accordance with Illinois state law, both part- and full-time students are eligible, but must reside in the state or attend an accredited college or university in Illinois.

After graduation, a student has up to 10 years in which to repay the loan.

Bank Provides Teaching Guides

More than 200,000 teaching aids explaining "The Vatican Collections: The Papacy and Art" exhibition at Chicago's Art Museum were donated to Chicago-area schools by Continental Bank recently as part of its social-responsibility program. Guides were prepared by the Chicago *Tribune*'s educational services office and distributed to schools. David G. Taylor (2nd from r.), e.v.p./treasurer, Continental Bank, discusses guides with educators and students at Lincoln Park High School. Exhibition of Vatican Collections was made possible in part by major funding by Continental.

Matching-Gift Program Is Started by Bank For Its Employees

First National, Lincolnshire, Ill., is encouraging its employees to become involved in community responsibility through a new program. The bank is matching donations made by its employees to their favorite charity or charities up to $100 per employee in each calendar year.

The only requirement by the bank is that charities receiving the money be qualified under state and federal regulations as nonprofit organizations.

The bank has been successful in involving many of its employees in its community-responsibility program. This has been in volunteer work in community institutions and was culminated in an all-out effort by the bank's staff in helping the Variety Club of Illinois in the annual theater collection drive for La Rabida Children's Hospital/Research Center.

Comptroller Announces Consolidations In Cleveland, Minneapolis Regions

CONSOLIDATIONS have been announced by the Office of the Comptroller of the Currency (OCC) in two regions. The Cleveland Regional Office has been consolidated into the Central District, headquartered in Chicago. The Minneapolis Regional Office has been integrated into the Midwestern District, headquartered in Kansas City.

The Central District Office will supervise national banks in six states, including those in Ohio, Indiana and Kentucky, which formerly were under the jurisdiction of the Cleveland Regional Office. Other states in the district are Illinois, Michigan and Wisconsin.

Deputy Comptroller Karen J. Wilson and District Administrator Larry T. Gerzema will head the executive management team that will run the Central District Office. Mrs. Wilson previously was chief national bank examiner in the OCC's Washington, D. C., office and she has worked in the OCC's New York and San Francisco offices. Mr. Gerzema has served as the regional administrator for the Cleveland area since 1973.

Field offices for the Central District will be in Chicago, Cleveland, Cincinnati and Springfield, Ill., with John R. Powers, David G. Hoffman, Ashley Lee and Gene W. Ferner, respectively, serving as directors.

The Midwestern District Office now supervises national banks in seven states, including banks in Minnesota and North and South Dakota that previously were supervised by the Minneapolis Office. Other states in the district are Missouri, Kansas, Iowa and Nebraska.

Heading the Midwestern District is an executive-management team consisting of Deputy Comptroller Dean S. Marriott and District Administrator Peter C. Kraft. Mr. Marriott formerly was regional administrator, Memphis Office, and has worked as deputy regional administrator and acting regional administrator, Chicago office. Mr. Kraft has been regional administrator, Denver Office, since 1980.

The Midwestern District's field offices, which coordinate supervisory activities within the district, are located in Kansas City, Minneapolis and Omaha. Directors of the field offices are Gary M. Brickman, Kansas City, James J. Gartner, Minneapolis, and Kent C. Austinson, Omaha.

These moves are in keeping with a nationwide plan to reorganize the OCC's 12 regional offices into six district offices so that it can direct more resources to bank supervision, strengthen bank surveillance and enhance supervisory capabilities, the organization says. • •

Bank 'Idea Book' Published

AN 'IDEA BOOK' containing more than 75 full-color illustrations of new and remodeled financial facilities has been published by Bank Building Corp. (BBC), headquartered in St. Louis.

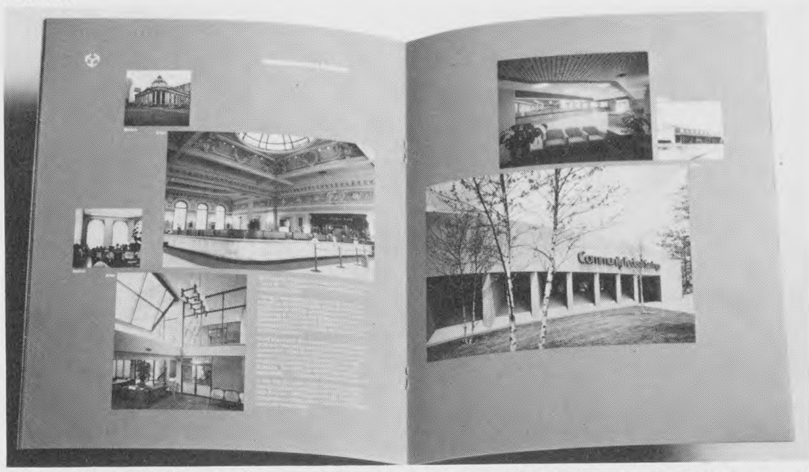
The book is divided into seven sections that address various subjects including "meeting community needs through building design," "achieving the best value," "remodeling" and "interior design," among others. A wide range of sizes and architectural styles is included.

"This book was designed to be a 'thought starter' for those who are planning new or modernized facilities," says Tom Spalding, BBC director of marketing. "We have intentionally kept the text brief, relying on top-quality photography to convey a broad spectrum of interior and exterior architectural solutions. We don't expect this book to provide specific answers, since every situation is unique, but we feel it can provide a sense of direction."

Photos in the idea book represent metropolitan and urban designs in all areas of the country, from a colonial type restoration to desert-compatible facilities and highly energy-efficient buildings for the Northwest, according to Mr. Spalding.

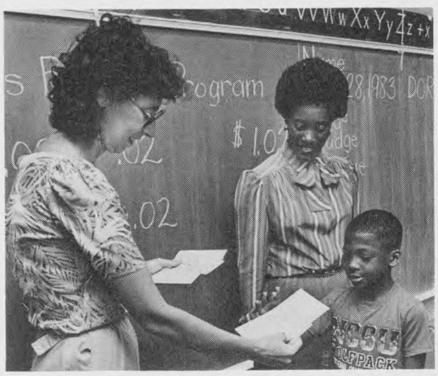
BBC spent a year assembling the book, the whole idea of which "is to demonstrate how a well-planned design solution can help a financial institution meet changing needs within its community," Mr. Spalding says.

Copies of the book are available from Mr. Spalding, director of marketing, Bank Building Corp., 1130 Hampton Ave., St. Louis, MO 63139.



Center layout of BBC Idea Book deals with "remodeling for results." Before and after views of projects are included in the full-color publication.

Student Savers Learn, Earn



Detroit youngsters are learning how to handle and save money at an early age through a program developed by Manufacturers Bank. Public school students in kindergarten through sixth grade are allowed to keep their own deposit records and compute their own interest. Jean Bugaj, teacher at Stark Elementary School, hands check to William Kendall for money he saved. Looking on is Pat Darden, branch officer, Jefferson-Coplin Manufacturers Bank, and school program coordinator. Stark is one of three elementary schools participating in program.

Equipment Leasing: A Profitable Product for Banks

By Terrence J. Winders

EQUIPMENT LEASING is a profitable product for banks, but until recently, the high cost of establishing a leasing operation has prevented many banks from entering the marketplace.

Sophistication necessary for bookkeeping, pricing, equipment evaluation and tax advice as well as contending with major changes each time Congress enacts new tax legislation has required expensive start-up costs and new personnel. Also, portfolio size may be restricted by tax appetite or market limitations. Currently, service companies, consultants and computer-software houses have combined their efforts to provide services at reasonable prices that allow even the smallest banks to be involved in equipment leasing.

Standard start-up for an average bank is in the neighborhood of $300,000 to establish a leasing activity and then $150,000-$200,000 annually to maintain a basic department. The new alternative is the service/consultant firm, which will provide all the services necessary to conduct a leasing operation and charge a fee (based on lease-transaction size), usually about 150 basis points of each transaction. Such firms remain in the background, acting only as an operations department, and do not become involved in credit decisions or funding.

This new service allows bankers to put their "toe in the water" and test the marketplace and feasibility of equipment leasing at a minimal cost.

If leasing does not take hold or the tax appetite of the lending institution is reduced, there have been no heavy start-up costs to amortize. Also, the bank has been kept abreast of changing tax laws, had training for its officers and, most importantly, has made a profit on each transaction.

Commercial loans have yielded banks the current prime rate plus a risk factor, while equipment leasing has enjoyed yields of 500-800 basis points in excess of the prime rate. With the current prime rate at 11%, leasing yields are commanding from 16-20% depending on market conditions and equipment leased.

The reason yields on equipment leasing are greater than yields on traditional lending is tied to the uneven nature of how tax consequences of asset ownership and estimates of equipment value at lease termination differ from one lending institution to another. Leasing yields also have remained high because of the unusual risk leasing represents and lack of competition. Also, because the bank owns the leased equipment, it provides additional income at lease termination when inflation or economic conditions cause the asset to be of greater value than originally assumed.

Contemporary treasurers and comptrollers are using equipment leasing to organize their cash flows to coincide with actual cost requirements instead of being tied to specific write-offs for depreciation and interest that have become inflexible and unmaneuverable. Equipment leasing is expected to represent 60% of the capital goods market by 1985.

The rate implicit in a lease is the effective cost the customer pays after credit has been given for the benefits of ownership by the lending institution. These variables to the equipment lease may include use of investment-tax credit, accelerated depreciation or value of the equipment at lease termination. Equipment leasing does not always involve tax considerations. Ownership of the asset allows the lending institution to take the benefits of ownership at lease termination (residual) without necessarily retaining the investment-tax credit or depreciation. Therefore, equipment leasing allows a lending institution to either provide a tax lease or a non-tax lease and still provide programs that meet the unusual needs of modern business. There are firms that will guarantee to purchase equipment from a bank at lease termination, allowing the bank to

Terrence J. Winders is president, First Lease & Equipment Consulting Corp., Louisville, formed in November, 1982. This firm is a service organization that supports efforts of banks and other financial institutions to understand and engage in equipment leasing. Services provided include, but are not limited to, training, lease pricing, documentation, bookkeeping, accounting and advertising. First Lease also evaluates collateral and supports disposal of off-leased or repossessed equipment and conducts leasing seminars for bankers.

Mr. Winders formerly was senior vice president, First National, Louisville, and, before that, president, Quartel Corp., a San Francisco-based leveraged-lease-packaging firm.

He is a key member of the American Association of Equipment Lessors' information committee, which gathers pertinent industry data for using to defend and promote equipment-leasing legislation in Congress.

Mr. Winders has taught leasing classes, has spoken and written on the subject, has been a consultant on equipment leasing to major corporations and has been instrumental in financial institutions' mergers/acquisitions of leasing firms.

ANNUAL PRESENTATION OF MONTHLY NUMBERS

	+ RENT	- COST	=	PRE TAX CASH FLOW	-	TAXES PAID	=	AFTER TAX CASH FLOW	RETURN @ 9.72%	OUTSTANDING BALANCE
1983	19,102	1,000,000		-980,898		- 156,763		- 824,135	0	- 824,135
1984	229,221			229,221		9,302		219,919	-73,608	- 677,823
1985	229,221			229,221		13,672		215,549	-58,889	- 521,163
1986	229,221			229,221		13,672		215,549	-42,964	- 348,578
1987	229,221*			229,221		13,672		215,549	-25,421	- 158,449
1988	310,119			310,119		142,655		167,464	- 9,015	0
	1,246,105			246,105		36,208		209,897	-209,897	0

*Includes sale of residual for 10%

Assumptions:

Equipment Cost: $1,000,000
Lease: 5 year
60 months (in advance) payments
Tax Rate: federal 46%;
Investment Tax Credit: 10%
(95%) 5 year accelerated depreciation
Accrual tax payer
Bank Yield: 18%
Customer Cost: 5.7%

Delivery: December 1, 1983

offer a non-tax lease and eliminate the residual risk.

An explanation of the application of several variables to an equipment lease is necessary to explain the basic premise of an equipment lease to show how the yield is easily comparable to the interest rate in a traditional loan. Values assigned to investment-tax credit, depreciation and residual will vary throughout the year based on actual delivery date or inception date of the equipment lease. A commercial loan is repaid with principal and interest. An equipment lease must accept rental payments as revenue and is offset for income-tax purposes by depreciation and investment-tax credit. Therefore, cash flow in an equipment lease and the value it represents must be dealt with in an after-tax environment. For example, an 18% pretax interest rate can be expressed as a 9.72% after-tax return (after federal income taxes are paid). The chart above shows how cash flow and yield analysis of an equipment lease can be applied to the traditional return on investment the same as interest is calculated on a traditional loan.

Breaking Down Yield

Presentation of cash flows on this tax-equipment lease shows that the outstanding balance and the 9.72% after-tax return can be compared to any conventional loan with identical repayment terms. An additional way to explain the value of the variables in an equipment lease is to break down that portion of the yield that is identifiable to each variable. Thus, we have:

Customer Effective Rate	5.70%
Investment Tax Credit (10%)	7.68%
Accelerated Depreciation (ACRS)	1.03%
Equipment Value at Termination (10%)	3.59%
Total Yield to Bank	18.00%

To show how variables in the equipment lease take on different values, it is important to understand that the delivery date of the equipment also is a variable because in any tax year the number of rentals paid equals the total revenue to be taxed in that year. Depreciation and investment-tax credit have a constant value the first year regardless of when the equipment is delivered. Therefore, the later in the tax year the equipment is delivered, the lower the revenue, thereby increasing the tax savings to the bank for that tax year. Here is an example:

	Jan.	*June*	*Dec.*
Customer Rate	5.70	5.70	5.70
ITC 10%	6.20	6.81	7.68
ACRS	.009	.42	1.03
Residual 10%	3.14	3.35	3.59
Total Bank Yield	15.05	16.28	18.00

Also, value of the variables in an equipment lease can vary dramatically between lending institutions when their state tax rates and/or equipment assumptions are different, keeping in mind that the customer who is provided a 5.7% effective rate is impartial to which lending institution he leases the equipment from, because the impact to him is constant. The lending institution must consider that for each 1% of state-tax rate, the yield is increased by nine basis points or the bank may reduce the customer's cost by reducing his effective rate. Also, for each 5% of additional value assigned to the residual assumption, the yield is increased by 158 basis points or the bank may choose to reduce the customer's effective rate. For instance, two banks are competing for the customer's business and happen to be in different states with different state-tax rates; their conservative nature causes them to assume different residual values, and they both expect to receive an 18% yield. Then, the customer's rates will vary because of the different value of the variables selected by the bank. For the first time, the customer will have major differences in the rates he has been quoted; whereas, had he requested interest rates on a commercial loan, variances from one lending institution to another would have been minimal.

Equipment leasing can be the most profitable portfolio in the bank, but it also can be the most complicated one. The changing structure of banking is causing many bankers to reach out for new ways to hold on to existing business and to expand into new opportunities. However, special care should be taken that the risks of equipment leasing are understood along with the rewards. Even though profits are high with equipment leasing, the risks are severe if the untrained banker ventures into this complicated product.

Equipment leasing will continue to grow at an increasing rate as the knowledge of its advantages and banks' ability to react to the marketplace improve. Equipment leasing would appear to be leading the charge of the changing environment banks must contend with as the industry reacts to the many challenges of the 1980s. Equipment leasing represents a product that is on the *must* list of many banks for the immediate future. However, I highly recommend that a bank venturing into this industry select one of the current schools or seminars that address the risks of the business so that its future will be a bright one. ● ●

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Should Your Bank Consider A Sale-Lease-Back?

By C. Frank Chauvin And Robert M. Dolgin

C. Frank Chauvin and Robert M. Dolgin are partners in the St. Louis and Houston offices of Ernst & Whinney, respectively.

The authors wish to express their appreciation to Robert Haunschild of Ernst & Whinney's National Financial Services Industries staff for his contributions to the article.

WHEN many bankers think of sale-lease-back transactions, they envision illiquid balance sheets, shrinking profits or even losses. But the fact is, the sale-lease-back technique might benefit any bank seeking a lower cost of funding and improve its financial or tax position as well. There are pitfalls, however, and careful planning is needed to achieve the desired results.

Every bank wants to maximize earning assets. With the sale-lease-back technique, in many cases a bank can unlock funds tied up in fixed assets and achieve lower operating costs. And funds derived from the sale may be redeployed into earning assets.

How a Sale-Lease-Back Works. A sale-lease-back transaction involves the sale of property and a lease-back of the same property by the seller. Under a typical sale-lease-back arrangement, the seller-lessee receives cash for the sale price of the asset (usually bank real property or equipment) and agrees to lease the property from the buyer. The lease agreement usually is long-term — 10 to 30 years — and might provide for escalation or renewal options as well as other terms.

The buyer-lessor usually contributes a portion of the sale price and finances the rest with a long-term loan from an unrelated third party. In effect, the buyer-lessor is buying tax benefits — depreciation on the property and interest on the long-term debt. As an inducement to the seller-lessee to enter into the transaction, some of those benefits may be passed on to the seller-lessee.

Advantages of Sale-Lease-Backs. The seller-lessee turns a fixed asset into cash available for operating purposes. The cash can be used to fund additional loans, retire unfavorable debt, make acquisitions or serve other general operating purposes. That can result in an improved financial position if the lease-back is not capitalized for accounting purposes (i.e., an operating lease). If the asset is sold at a gain, it usually is recognized over the lease term, resulting in increased future earnings and capital. Accounting for sale-lease-back transactions is described in Financial Accounting Standards Board Statements 13 and 28.

Because rental payments under a sale-lease-back may be less than depreciation and interest charges incurred if property were owner-financed by debt, a sale-lease-back can result in lower operating costs. In a favorable lease, the seller-lessee typically can obtain a rate one to 1½ percentage points less than it would have to pay in the debt market.

Some banks in over-sheltered tax positions can use the sale-lease-back to generate a taxable gain from appreciated property. Also, cash from the sale can be invested in taxable investments, further increasing taxable income.

A sale-lease-back also can be useful for a bank seeking additional deductions. For example, a bank constructing a new internally financed building might find it advantageous to enter into a sale-lease-back. If a portion of the property is land, and the lease is an operating lease, deductible rental payments will include an amount for use of the land; whereas land owned would not be depreciable.

For a bank holding company acquiring property, a sale-lease-back can be structured to avoid new long-term debt on the balance sheet. That is the case when the lease-back does not result in capital lease accounting.

Disadvantages of Sale-Lease-Backs. Although a sale-lease-back allows a bank to retain use of the property, relinquishing ownership and foregoing future appreciation may not be the best approach for every bank.

Facilities planning will be significantly affected. The bank normally will become obligated to a long-term lease that can result in less flexibility and restrict movement. The lease agreement also may have restrictive escalation and renewal features. And when the lease expires, the bank might have

Factors to Consider in a Sale-Lease-Back

Advantages	*Disadvantages*
• Converts fixed assets into cash	• Rights of ownership given up
• Improved financial position	• Long-term commitment usually required
• Reduced cost of financing	• Foregone depreciation deductions
• Opportunity to generate taxable gain	• Possible additional tax liabilities

to move or renegotiate.

Leasing property means giving up the equity position, the rewards of future appreciation and the opportunity to renegotiate more favorable financing to reduce operating costs in the future. Tax advantages of owning property also are foregone. If appreciated property is sold, the resulting gain might result in additional tax liabilities.

Regulatory Considerations. Several bank holding companies recently have considered sale-lease-back transactions as a means of increasing reported capital of subsidiary banks. In a typical proposed transaction, the subsidiary bank would sell or dividend its property to the parent company at net-book value. The parent then would sell the property to a third party with a lease-back arrangement and reinvest proceeds of that sale in the subsidiary bank, thus increasing the bank's capital. The gain on sale, net of income tax, would be deferred by the parent company and amortized over the lease-back term.

The desired result — increasing capital that would result from this transaction — is prohibited by an interpretive ruling of bank regulatory agencies. That ruling requires that a dividend of property to a parent must be recorded at actual current property value. Proposed revisions to call-report instructions reaffirm that position.

We understand that regulatory agencies will not permit exceptions to that ruling for sale-lease-back transactions, regardless of how they are structured. Whether the property is transferred from the bank to its parent through a dividend or a sale, regulators will almost certainly object to any accounting treatment under which the bank records a gain or increases its capital in an amount greater than the gain recognized by its parent company in accordance with GAAP (generally accepted accounting procedures).

Summary. A sale-lease-back is a sometimes-overlooked financial and tax-planning tool available to many banks and bank HCs. Potential benefits from entering a properly structured sale-lease-back include:

- Conversion of fixed assets into cash.
- Improved financial position.
- Ability to better manage the bank's tax position.
- Reduced cost of financing.

Conversely, a bank must be willing to accept the terms of a lease agreement and give up the advantages of property ownership.

Finally, although a transaction may be a sale and lease-back for tax purposes, it might be treated differently under generally accepted accounting principles and/or regulatory-accounting practices. Tax and accounting advisors should be consulted about any proposed transaction. • •

• *The Consumer Bankers Association* has scheduled its annual conference on the latest developments in financial-institution products and services for January 15-17 in Atlanta. Information is available from the association at 1300 N. 17th St., Suite 1200, Arlington, VA 22209.

• *Jeffrey Owen* has been named director of the ABA's community bankers council. With the association 11 years, Mr. Owen had been director of the state association division since 1979.

• *A new ABA BancTraining videotape* is available. Called "Evaluating Employee Performance Effectively," it focuses on how effective performance reviews can help assure that employees live up to their potential to handle their jobs skillfully and create new profit opportunities. For information, call: Jeanie Howard toll free, 1-800-247-0010.

Equipment Leasing Largest Source Of Capital-Investment Funds

By Jack G. Hays

TODAY, equipment leasing has become the largest source of funds for capital investment in the United States.

The importance to this nation of leasing to finance capital investment has been demonstrated by actions of Congress to provide increased capital-investment incentives through the tax system with passage of the Economic Recovery Tax Act (ERTA) in 1981 and Tax Equity and Fiscal Responsibility Act (TEFRA) in 1982. However, these two amendments to the tax code have created much confusion, which has been compounded by lack of regulations issued by the Treasury.

ERTA, with the safe-harbor leasing rules, took the approach of considering leasing as a tax transfer from a company that couldn't use the tax benefits inherent in equipment acquisition to a company that could use the benefits without considering risks and benefits of ownership.

TEFRA reflected the consensus that ERTA was costing the U. S. Treasury too much money and phased out the safe-harbor lease and with transition rules reflecting many special-interest groups with various provisions having different effective dates over the succeeding years. ERTA also created a "finance lease" in an attempt to pacify many lessee groups that had promoted safe-harbor leasing.

The leasing industry is considered a nonregulated industry. To the extent that it is not directly controlled by nor reports to a regulatory agency or agencies such as the Fed or Comptroller of the Currency, it is not except for those participants that are banks and bank holding companies. However, its activities are scrutinized by and perimeters in which it must function are dictated by the Internal Revenue Code with its multitude of Treasury regulations, the Financial Accounting Standards Board and various state laws. All these are subject to change and/or interpretation by Congress, an agency of the government and/or the courts.

It is a tribute to all participants in the leasing industry, both lessors and lessees, that they can continue to grow and prosper in such a tumultuous environment. It also is an indication of the viability of the industry and the importance of the service it provides.

In a recent survey by the American Association of Equipment Lessors, 1982 business volume increased 19% over 1981, and preliminary figures indicated 1983 will reflect an even larger increase. Not all segments of the leasing industry have benefited equally from this increase, and those in the middle market have struggled to prevent a runoff of their portfolios.

The year 1983 continued to see new entrants into the industry in the form of start-up companies, insurance companies, manufacturers and some consolidation of leasing activities via mergers. Banks continued their strong position, with some changing their strategy from leasing for their own account to brokering, due to their changing tax position.

The 15% interest exclusion included in TEFRA has caused some banks to review their tax strategy as leasing promised a potentially higher effective yield than tax-exempt instruments.

With lack of capital expenditure and loan demand generally down, pricing became very competitive and lease-residual assumptions became more aggressive. These two factors will place pressure on future earnings and require expert collateral management of lease portfolios. Hedging of residual values is increasing through insurance and discounted sale of residuals. Unfortunately, hedging of the competitive pricing is not as easily accomplished.

The year 1984 ushers in the era of the "finance lease" created by TEFRA. It is Congress' and the lobbyists' creation as a substitute for ERTA's safe-harbor lease. As of this writing, regulations for the "finance lease" have not been issued, but that has not deterred proponents and opponents from some heated debate.

Generally, the "finance lease" allows a fixed-price-purchase option of no less than 10% of the original equipment cost to the lessor. However, many of the safe-harbor-lease rules apply and with other restrictions, lessor benefits are reduced, thereby reducing benefits passed to the lessee. During 1984, a 40% cap is placed on amount of property that may be "finance leased" by lessees, and lessors may recognize the ITC equally over only a five-year period and may reduce their tax liability by only 50%. Until the regulations are issued, it is difficult to determine the application of the "finance lease," but it appears it will be more attractive in those transactions involving equipment with a high residual value.

In addition to the "finance lease," 1984 undoubtedly will bring new laws regarding leasing to governmental bodies and other nonprofit entities. These will be restrictive and attempt to curb what some perceive as abuses.

At the present time, demand for lease transactions is materially greater than the supply. But as demand for goods and services continues to rise, demand for increased capacity and replacement of obsolete facilities will increase. This augurs well for the leasing industry in 1984. • •

Jack G. Hays is president, AmSouth Financial Corp., Birmingham, Ala., a subsidiary of AmSouth Bank, also of Birmingham.

Community-Banking Assembly Set for Phoenix in February

Speakers for the ABA's National Assembly for Community Banking will include Charles Kuralt, CBS news correspondent, and Hugh Sidey, former bureau chief, *Time* Magazine. The meeting will be held February 26-29 at the Hyatt Regency Hotel, Phoenix.

Workshop topics will include real-estate equity participation, discount brokerage, financial futures, pricing bank services, credit outlook for agricultural customers, incentive compensation, profits through secondary mortgage markets, diversifying the mortgage portfolio and employee stock-ownership plans.

Five micro-computer seminars will be offered daily during the meeting, and two hours of personal instruction on a micro will be available to participants. Seminar topics are "Asset/Liability Management," "Advanced Spread-Sheet Packages," "Cross-Selling Bank Services," "Board Room Reporting" and "Trust Applications."

Attendees also will be able to participate in peer-group meetings.

• **F. Rockwell Lowe,** vice president, Continental Illinois National, Chicago, has been named manager of the bank's Dallas regional office. Mr. Lowe, with Continental Bank since 1975, has spent his entire career there in the U. S. banking services department.

Direct-Equipment Leasing: Options for Today's Bank

By Dennis McCormick

THE EQUIPMENT-leasing boom is on and the trend line is definitely up. Equipment-leasing arrangements are replacing the traditional commercial loan and diverting billions of dollars of potential bank business. Leasing often is described as a dynamic, fast-growing, profitable and complex business. In the past, leasing was being handled by independent leasing companies, equipment-vendor programs and larger bank-leasing subsidiaries.

Within the last five years, many small and medium-sized banks have begun to pursue the leasing market aggressively. This has been prompted by the higher yields available and increased competition within the financial industry. An equipment-leasing service will enable a bank to provide an attractive lease package to build loyalty with existing customers and, at the same time, will generate an additional reason for prospective customers to choose your bank for all their business.

A bank that wants to take advantage of the leasing potential in its trade area, but is uncertain how to enter the marketplace in the most economical manner, should consider a leasing-participation program. The bank should look for a partner with leasing experience and a program that fits the bank's needs.

There are three basic types of leasing partners available in today's marketplace:

A. A leasing firm that participates in the funding, usually retaining the tax benefits itself.

B. A leasing firm that has funding already available, but will pay a commission to the bank for originating a lease.

C. A leasing firm that participates in funding and tax benefits with the bank.

The partner you want depends on your tax and liquidity position. You should choose a financially sound partner — one that will be in existence in the future to help in any situation that might arise and a partner with which your bank can have a long-lasting relationship.

For the bank in a minimal or zero tax position and very liquid, Partner "A," the participant that retains the tax benefits, is the best choice. A bank in that position is trying to increase its outstandings and probably is willing to leave its traditional "trade area" to do so. The bank is buying lease paper, just as it may buy Fed funds, commercial paper or conditional sales contracts. The leasing firm would provide training to the accounting department, and the bank may or may not have recourse to the leasing firm. In this case, the bank receives only its base interest rate, but because of its high liquidity, the yield available to it may be higher than any other option available.

Partner "B," the leasing firm that will pay a commission to a bank for originating a lease, is the logical choice for a bank heavily loaned up, in a minimal tax position and still has substantial loan activity. This partner will provide the bank with profitable fee income for generating leases in that area, yet not strain the bank's lending capacity. The leasing firm will provide training to loan officers so they are comfortable in promoting leasing to their traditional loan customers. A good Partner "B" will keep a low profile to ensure a continued strong bank-customer relationship. For example, any notices or invoices sent by the leasing firm should display the bank's name and address.

The bank that wants to enjoy the full benefits of leasing, including the sharing of tax benefits, should consider Partner "C." The bank becomes co-owner and co-lessor of equipment leased to its customers and enjoys all the tax benefits of the lease. Investment-tax credits, depreciation deductions and potential residual values allow you to achieve substantially higher yields than those achievable through lending. Partner "C" will share with you the funding of the lease, will manage the lease for you and will share the tax benefits with you.

Before a bank picks Partner "A," "B" or "C," it should look at the flexibility of the firm. As the bank's needs change, can the partner still provide the desired service? The problems of using three different partners over time could prove to be a nightmare. At Collateral Financial Services, we offer all three types of partnerships, and the bank can change from one to another depending on its current needs, yet still retain a relationship with one firm. Our program allows you to choose the plan that best fits your tax earnings and strategy. You may elect to take none of the tax benefits or, in some cases, to take more of the benefits than normally are possible. You also can vary the term over which you receive your return to enable you to better match your leasing activity with your availability of funds or portfolio strategy.

The partner a bank decides to work with also should be able to act as the bank's "back office." It should provide complete lease administration, training, marketing and advertising assistance while, at the same time, keeping a low profile with the bank's customers. When the leasing laws change, your partner should be able to adapt quickly to any changes needed in documentation or yield-analysis reports and provide retraining to all the bank's loan officers.

Direct-equipment leasing can be profitable and is an excellent service for a bank to offer. I recommend that a bank enter this new marketplace and that it use a leasing-participation program such as the one offered by Collateral Financial Services, Inc. • •

Dennis McCormick is vice president, Collateral Financial Services, Inc., St. Paul.

ABA Assists Backlogged FBI With Fingerprint-Card Service

More than 15,000 fingerprint cards have been processed monthly by the ABA's security/risk-management division since the service was initiated in October, 1982.

The association began the service when the FBI suspended for one year fingerprint-card processing for licensing and employment purposes. The suspension was designed to eliminate a huge backlog that had resulted from FBI administrative problems, including understaffing.

Both banks and thrifts can submit fingerprint cards to the ABA, along with a $12 fee established by the FBI to fund the fingerprint operation. The ABA collects the fee, verifies the correctness of the check amount, makes sure the cards are properly completed and places the cards in batches for forwarding to the FBI.

The FBI processes the cards and returns them directly to the financial institution. If no FBI record is found, the card alone is returned; if there is a criminal record, the card is returned along with the record.

It takes about 15 working days for a card to be processed and returned to the sending institution. The FBI was unable to process cards this quickly before the ABA offered assistance.

MABSCO's New Ag-Credit Program Fosters Bank Aggressiveness

REPRESENTATIVES of three rural banks say that since agreeing to participate in a new agricultural-credit program earlier this year, their banks have become more aggressive in seeking ag loans.

One of the bankers, Gerald Mapes, president of the 79-year-old Bank of Lakeview, Mich., recalls that until earlier this year, he had to funnel ag-loan customers seeking more than his state's lending limit of $240,000 elsewhere — usually to a production credit association. Bank of Lakeview is, however, among a select group of banks participating in an ag-credit corporation that became fully operational this year known as MASI (MABSCO Agricultural Services, Inc.). Mid America Bank Services Co. (MABSCO), which developed MASI, is owned and operated by 12 Midwest state bankers associations. The MABSCO states are Arkansas, Colorado, Illinois, Iowa, Kansas, Michigan, Minnesota, Missouri, North Dakota, Oklahoma, South Dakota and Wisconsin.

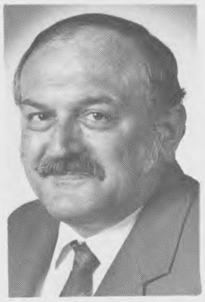
Mr. Mapes says he heard of MASI through the Michigan Bankers Association and immediately recognized it as a "tool" that would permit his $32-million bank to become more competitive with PCAs and other larger sources of credit. MASI was a concept that "hit close to home," he says.

Jim Raymond, ag-banking officer at the $160-million Bank of Wisconsin, Janesville, has less difficulty covering the loans of his larger ag borrowers, but he decided that through MASI he could improve the yield on his ag-loan portfolio. As a result, he expects that Bank of Wisconsin will become more aggressive in pursuing ag loans.

MASI, which is backed by the $45-billion, Dutch Rabobank Nederland, can participate up to 80% on an ag loan that meets Rabobank's tough credit standards. Bank of Wisconsin provides the remaining 20% of the loan at its regular rates and adds a half percentage point or so to the highly competitive rate charged by MASI. The concept, says Mr. Raymond, is similar to that of the farm-credit system for which he worked prior to joining Bank of Wisconsin.

I've said that if we can duplicate that same thing and make it run, I can see that this (program) will give the farm-credit system some competition," he says. "My personal feeling is that the program is going to grow out of the pilot stage relatively quickly."

This fall, Bank of Wisconsin had only 10 loans financed through MASI, but Mr. Raymond expects that to change next spring when farm-lending demand picks up. For years, PCAs have had an advantage in competing for large ag loans because their rates were able to lag behind the upward trend of interest rates at banks, he says. Although Mr. Raymond says he has a good relationship with his local PCA that he expects to continue, he doesn't hide his desire to pursue loans that normally would go to the PCA. "The day of reckoning is coming," he says.



Jim C. Potter is e.v.p., MABSCO Agricultural Services, ag-credit corporation that enables participating banks to become more competitive in the ag-lending area.

At the $20-million M & I Bank of Cambridge, Wis., Sheldon A. Schieldt, a vice president in charge of ag lending, also is making plans to snare more loans away from a highly active PCA. "We're aggressively after the ag market here," he says. "There are no two ways about that."

Membership in MASI has given M & I the clout of a much larger bank, Mr. Schieldt says. M & I's rates on ag loans are lower than those available from the PCA and Mr. Schieldt is using that price differential to lure some long-time PCA customers to M & I.

One dairy farmer locked into a five-year repayment schedule and highly restrictive loan provisions refinanced at M & I on a 10-year schedule at a lower rate, according to Mr. Scheildt. Although the local PCA tried mightily to woo the farmer back, he stayed with M & I.

Another farmer financed a loan through the MASI program less out of personal need than to encourage what he considers an important alternate source of credit, says Mr. Scheildt. Because the local bank handles all repayment transactions, the customer need never know of MASI's involvement, but Mr. Schieldt prefers to let his customers know how their loans are being financed. MASI has received considerable publicity in ag-finance publications and he reasons that it doesn't hurt to let customers know that M & I, Cambridge, is one of only 50 banks across the nation participating in the program. Farmers also might otherwise wonder how such a small bank has access to such large reservoirs of capital, he adds.

Since September, 1982, M & I's loan portfolio has grown from $2 million to nearly $13 million. Since February when M & I joined MASI, 90% — or nearly $3.5 million — of new loans have been placed with MASI. Understandably, the local PCA has not reacted warmly to Mr. Schieldt's forays into its traditional hunting grounds. Mr. Schieldt worked at the local PCA for several years and still has friends there. They tell him he has become a hot topic at PCA directors' meetings where the routine these days supposedly is "old business, new business and what's Shelly up to this week?"

When speaking of his counterparts at the PCA, Mr. Schieldt sounds not unlike an army general preparing for a big battle. "I meet them in the trenches daily," he says with matter-of-fact determination.

Jim C. Potter, executive vice president of Des Moines-based MASI, isn't eager to have MASI portrayed as a voracious predator. The PCAs are "valuable members of the farm community" and MASI exists only to assist rural banks and provide an alternate credit source for farmers, he says. MASI does not advocate that its members go head-to-head with local PCAs, but can't stop them from doing so, he explains.

Interest in MASI is building throughout the 12 MABSCO states and beyond, says Mr. Potter. Strong marketing efforts in behalf of MASI are underway in Missouri and Arkansas, the only MABSCO states where MASI has thus far not signed up any members.

MASI recently agreed to take up to 10 members each on a first-come, first-serve basis from Oregon and Montana. State bankers associations outside the MABSCO family must request MASI's involvement and demonstrate that the members they would provide to MASI can be serviced in a cost-effective manner. Unit-banking states with low lending limits tend to be the best candidates for future expansion, says Mr. Potter. So far, MASI has extended $20 million in credit through its 50 existing members, but Mr. Potter expects a dramatic increase in those figures next spring.

Loans submitted to MASI must meet some high standards for approval. "They aren't looking to get involved in any collection cases," says Bank of Wisconsin's Mr. Raymond. "They are looking for better-quality loans." Bank of Lakeview's Mr. Mapes says he has not had any loan denials at MASI, but adds, "I haven't sent them any marginal loans either."

The opportunity to offer top-notch credit customers access to large capital pools at competitive rates is what Mr. Mapes finds most appealing about MASI. It was frustrating having to send them to the local PCA, he says.

MASI's expertise in ag lending extends all the way to Rabobank in the Netherlands. Rabobank, the 35th largest bank in the world, extends 90% of the agricultural credit in the Dutch market. That expertise is the key reason MABSCO turned to Rabobank for backing.

Banks seeking to join MASI sign participating and operating agreements with MASI and Rabobank and pay fees ranging from $5,000 to $14,500, depending on deposit size. After acceptance, the bank can immediately begin selling loans through MASI. Qualified loans submitted to MASI generally can be approved within one working day, according to a MASI brochure.

Because ag-loan demand is expected to outpace deposits, MASI is looking forward to a bright future. In the northern Midwest, which suffered much less than did the southern part of the nation's mid-section in last summer's drought, that future could be expecially bright. Wisconsin did not produce a bumper crop, says Mr. Raymond, but farmers were making a profit on the produce they were able to sell.

Nor is it only a generally rosier farm outlook that is bolstering MASI participants' spirits. Statistics recently published by the U. S. Department of Agriculture for 1982 show banks taking a larger share of the farm-loan market from PCAs due to farm-debt restructuring and PCA retrenchment. No wonder rural banks with MASI's backing are marching more confidently into the ag-loan market. — **John L. Cleveland, assistant to the publisher.**

Backup Withholding Guide

"A Guide to the Interest and Dividend Tax Compliance Act of 1983" is the subject of a 14-page booklet published by the Independent Bankers Association of America.

The booklet is designed as a plain-English summary of the new law's requirements, including backup withholding, and offers practical pointers to banks on complying with the new rules, says the IBAA.

Copies have been distributed free to the IBAA's 7,000 members, and a limited supply is available for general distribution. Write: IBAA, P. O. Box 267, Sauk Centre, MN 56378. Enclose 50¢ for each copy ordered, plus $1.50 to cover postage and handling for the entire order.

Farm Operating Costs to Rise Next Year, Say Bankers Responding to Ag Survey

HIGHER operating costs are on tap for the nation's farmers next year. Demand for farm inputs will be up and suppliers are expected to pass through somewhat higher prices. Further, overall cropping costs will be greater since farmers are expected to be planting considerably more acres in 1984 than in 1983.

These are the conclusions of a survey of bankers throughout the nation taken recently by *Doane's Agricultural Report*, a service of Doane Publishing, St. Louis.

Doane asked bankers to describe the financial condition of farmers at the end of the 1983 growing season as well as make some suggestions on how farmers should plan for 1984, says Dan Henley, manager, editorial operations, Doane Publishing.

Bankers said that a majority of farmers appear to be holding their own, while others are in a better position as they begin to plan for next season.

It should be noted, however, that conditions vary widely from one area of the nation to another. The following comments typify the range of responses received by Doane:

- Farmers in my area are in financial trouble, though most will probably survive.
- Farmers here are much better off. They have emerged from near disaster, and close to 90% of them will make up for earlier shortfalls in debt repayment.

The survey revealed that financial problems appear to be most widespread in the South and Southeast, where farmers have been plagued by unusual weather or low prices for several years. Even so, bankers reported that, in some areas in those regions, farmers are in pretty good shape, having benefited this year from timely rains and high crop prices.

Bankers reported that Midwest crop producers were struck hard by the drouth and many who stayed out of the payment-in-kind (PIK) program have big problems. Many of these farmers already were in financial binds and, unfortunately, they chose full production as the favored route for reducing their plight. PIK participants generally are in better shape than a year ago. They held down their cash outlays while insuring an 80% crop on PIK acres.

Livestock producers encountered low profits or losses most of 1983, and those who will be buying feed will have to pay more for their grain and supplements. Many dairymen have not yet felt the full impact of the dollar assessment but, when it strikes home, they could find themselves in a squeeze. Regardless of what new government program may evolve, milk producers face a lower net milk price in 1984, bankers predicted.

Interest rates are expected to hold in the current 13% to 14% range or perhaps ease off one-half percent to 1% into next spring's major borrowing period, bankers believe. Nevertheless, rates will continue high.

They said that a revolving credit line will help farmers hold down their interest costs — if such a line is available. By setting up for their maximum borrowing needs, farmers can draw on their credit as needs arise and pay down when they have the cash to do so.

Banks currently have plenty of loanable funds, and many are seeking additional farm business. But they are expected to be selective of their borrowers, the survey revealed.

Ag Bibliography at ABA

A selective bibliography for agricultural bankers, prepared by the ABA library staff, is available free by request through the ABA agricultural bankers division.

The bibliography begins with a listing of articles and publications on the general subject of agricultural lending and moves on to asset/liability management, bankruptcy, competition in agricultural lending and continues on through a variety of topics that touch on areas such as loan review, problem loans, small-business lending and incentive compensation for loan officers. It concludes with a list of publishers.

The bibliography is available on request by writing to the ABA's agricultural bankers division, 1120 Connecticut Ave., N. W., Washington, DC 20036.

Most banks have tightened up their loan requirements within the last several years. Cash flow has become the primary criterion for making loans. As one banker said, "The days of equity lending are gone." While equity helps a farmer ride out periods of low earnings, it doesn't generate cash flow to meet operating expenses, family living costs and debt repayment.

Good financial records, summaries and cash-flow projections have become essential for obtaining loans. In the words of one banker, "Beginning next year we will require our customers to update records at least quarterly, and we will review their situations with them every six months."

Monitoring cash flow on a regular basis permits farmers to make more timely, sound financial decisions and to correct abnormal imbalances before they get out of hand, bankers said.

When putting together budgets and making cash-flow projections, it's helpful to prepare several, using various combinations of yields, prices and costs.

Bankers advise farmers to give primary attention to paying down their debts while focusing on production expenditures again next year. This, of course, depends on a given situation. One banker advised, "Stress holding capital improvements and expansion to the essentials, with the idea of getting through at least two good years in a row before making major commitments in this area."

Leasing is an alternative to consider when equipment or machinery is needed, bankers said. It allows farmers to obtain the use of an asset without having to borrow the funds to purchase it outright. Total cost of leasing versus buying should be compared, taking tax write-offs into account.

Land values showed some improvement through the first half of 1983, according to the Fed's survey of bankers in several regions, but that was before the dry weather set in. Bankers suggest that land values have for the most part leveled off from the sharp decline seen in 1982. Any recovery most likely occurred in high-quality land outside the major drouth area. Poorer quality farmland and rangeland slid even lower in value.

Bankers said they think land values will creep up during the next several years. However, one commented that land values may erode further if farmers plant fence row to fence row in 1984, causing commodity prices to fall back. If values do improve, they may do well to keep pace with inflation for the next several years. Farmers shouldn't rely on a sharp comeback in land to build equity and provide means for refinancing debt load, bankers said.

Top-Management Changes Made at Two Levels By Farm Credit Banks

The Farm Credit Banks of St. Louis will reorganize their management staffs and create a senior-management team on January 1, 1984.

Purpose of the moves is to achieve a more coordinated credit-delivery system in the banks' three-state service area (Illinois, Missouri and Arkansas).

Reorganization of the banks' separate management staffs involves the Federal Land Bank (FLB), Federal Intermediate Credit Bank (FICB) and Bank for Cooperatives (BC). A single-management structure will result.

Glenn E. Heitz will be CEO, Farm Credit Banks of St. Louis, and chairman of the banks' executive committee. He currently is president, Federal Land Bank, a position he has held since 1970.

Keith K. Kennedy has been appointed president of both the Federal Land Bank and the Federal Intermediate Credit Bank. He has served as FICB president since 1978.

Douglas D. Sims continues as president, Bank for Cooperatives, a post he has held since July, 1982.

In addition, both Messrs. Kennedy and Sims will serve as executive vice presidents of the Farm Credit Banks of St. Louis and will join Mr. Heitz as executive committee members.

The reorganization stems from a board policy decision, adopted almost a year ago, to coordinate management functions among the three banks to position them to serve their farmer and farmer cooperative borrowers more effectively and efficiently in a rapidly changing agricultural and financial environment, according to Robin Lahman, board chairman.

Named to the senior-management team are the following: Sanford A. Belden, senior vice president in charge of credit and financially related services for the FLB/FICB systems; Ronald D. Dozier, senior vice president in charge of supervision and review for local

HEITZ KENNEDY SIMS

land-bank associations and production-credit associations; Donald L. Stover, senior vice president in charge of cooperative lending; Brent D. Brandvold, senior vice president in charge of finance and management-information systems for all three banks; and Jules R. Todt, senior vice president in charge of corporate administration for all three banks.

Political-Action Committee Is Formed by Bank HC

Lincoln Financial Corp., Fort Wayne, Ind., has formed a political-action committee to preserve the private-enterprise system and advance the financial-services industry through participation in the political process. The HC owns Lincoln National Bank, Fort Wayne.

The new committee held a voter-registration drive at 12 bank locations on the last business day a person could register to vote in the city's November mayoral election. A registrar from the Voter Registration Department was on hand to handle the registrations.

Increased Sales Are Forseen For Farm-Equipment Products

INCREASED retail demand for farm-equipment products is expected in the coming year by the equipment's manufacturers. Leading industry executives made such a prediction in statements prepared for the 90th annual convention of the Farm and Industrial Equipment Institute (FIEI) in Lake Buena Vista, Fla. The FIEI, based in Chicago, is the national trade association of farm- and industrial-equipment manufacturers.

The statements pointed to sharp reductions in grain production and crop carry-overs resulting from the payment-in-kind (PIK) program and the 1983 drought as major reasons for expecting improved retail sales. Farm prices have improved as a result, and planted acreage is expected to show a sharp increase in 1984.

FIEI Chairman-Elect Mervyn Manning, vice president/general manager, Ford Tractor Operations, expects the improvement in tractor demand to take place primarily in the mid-range and high-horsepower farm-tractor classes, with demand for smaller agricultural tractors approximating 1983 levels. Strength was added to equipment demand, he said, because of reduced government-support programs, which resulted in increased planted acres, higher farm income and continued emphasis on farm exports.

The outlook for commodity prices and cash receipts next year is much improved over this past year, according to Robert A. Hanson, Deere & Co.

The 1983 marketing year will see the sharpest decline of crop inventories on record, said J. D. Michaels, president, farm equipment group, International Harvester. He said demand should show a unit increase of 15%-20% over 1983, with tillage equipment, tractors and combines expected to lead the recovery.

A prediction that farmers will place an additional 40 million acres in production next year was made by Roy W. Uelner, president, farm equipment operation, Allis Chalmers. He forecast that farmers would expand production both to replenish crop inventories and to meet rising world and domestic demand for grain.

Other speakers focused on the brighter outlook for farm-machinery sales in 1984. One speaker, Victor A. Rice, chairman, Massey-Ferguson, Ltd., attributed this to lower than anticipated crops resulting in a sharp reduction in grain supplies, rise in prices and improved farm incomes. Jerome K. Green, president/CEO, J I Case Co., added that "Farmers have not had the financial capability to replace aging equipment over the past three to four years, but this situation should improve in 1984."

However, a warning came from Howard L. Brenneman, president, Hesston Corp., who said heavy dealer inventories will cause a continuation of competitive conditions in the marketplace through most of 1984.

An increase of almost 35% was foreseen in four-wheel-drive tractor sales for the U. S. next year, and hay and forage-equipment markets will be outperformed by sales of tractors, combines, planting, seeding and tillage equipment.

A note of caution came from Peter Perkins, vice president/group manager, FMC Corp., who said, "The improved outlook must be tempered by prospects of interest rates increasing and a more cautious retail customer." Joseph Zadra, chairman/CEO, Gehl Co., said that while demand for farm equipment should improve substantially in 1984, it is unlikely to reach the high levels of 1978-79. Joseph J. Lund, president, Farmhand, Inc., foresees an improvement in the industry's sales "simply because there is more money around." However, he warned that few inventory risks will be taken and the size of the increase will be low — "maybe 10%!"

Little incentive is seen by L. E. Gage for producers to make capital investments in their dairy, beef or hog systems. Mr. Gage, sales manager, agri-products division, H. D. Hudson Manufacturing Co., added that such sales could remain at 1983 levels for all or most of the year.

Perhaps the outlook was best summed up by John E. Love, president, J. E. Love Co. He said, "Most indications point to a much improved agricultural economy for 1984," but his firm is viewing the coming year with "guarded optimism." ● ●

Banker Supports SBA Loan Plan

A GOVERNMENT-lending program that receives relatively little support from the majority of U. S. banks could benefit from, but doesn't necessarily require, widespread participation from within the banking industry in order to be successful, according to Embree K. Easterly, chairman/CEO, Capital Bank, Baton Rouge, La.

Testifying before a subcommittee of the House Committee on Small Business in Washington, D. C., Mr. Easterly stressed that the number of banks participating in the Small Business Administration (SBA) loan program isn't proportionate to the number of businesses served by the program.

"This program really is needed," he said. "And it's a good program. We just haven't been able to sell it to all the banks. But now we don't need to sell it to all of them. A few capable, enthusiastic banks with good working knowledge of the program can handle the needs of small businesses in the entire state.

"The SBA guaranteed loan program can do for small businesses what the Federal Housing Administration and the Veterans Administration have done for the housing industry," Mr. Easterly said.

One of the most overlooked aspects of the program is the amount of money it returns to the local community through taxes and other revenues, he continued. A $350,000 SBA direct-participation loan made to a Baton Rouge scaffold rental firm is one of the many such examples of enhanced returns, he said. The company was granted the SBA loan after being denied conventional financing. The government purchased 75% of the loan. Today the firm has gross sales of more than $30 million annually, employs 600 workers and has paid approximately $3 million in taxes over the past five years.

Capital Bank loan specialists say that, with the advent of the secondary market for SBA loans, a good program was made even better. Not only does the small businessman have access to bank resources for needed funds, but the participating bank now can go to money centers throughout the U. S. and attract funding to the local community through sale of the guaranteed portion of the SBA loan. The bank retains a servicing fee that makes the total transaction attractive, without increasing the interest rate of the loan to the small businessman.

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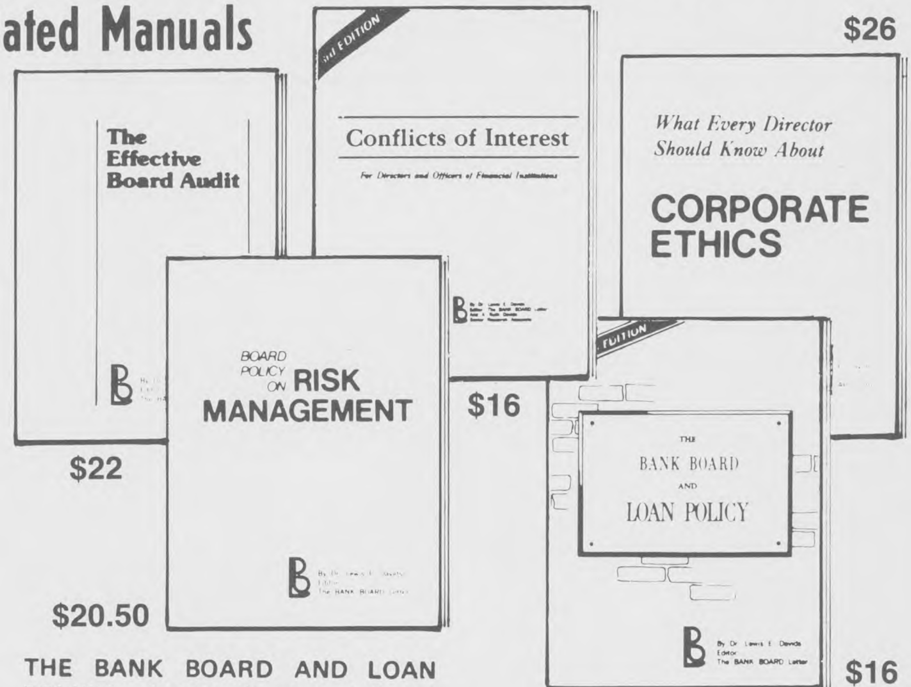

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Deposit Intangibles: Valuing the Benefit of Acquiring Liabilities

By Rick L. Hamilton And James M. Nickerson*

WITH THE accelerating rate of bank acquisitions, a strong interest has developed in determining the most advantageous accounting and tax treatment for the transaction.

Bank acquisitions in most, if not all, cases entail payment by the acquiring institution of a purchase price that is in excess of the net book value of the acquiree. The tax treatment that may be applied to the excess purchase price over the net book value of the acquired assets, where the excess is significant to the transaction, can have a major impact on the economic feasibility of the transaction.

Where the excess is treated as "goodwill," the amortized goodwill is not deductible for tax purposes; however, transactions are being structured that allow for a portion of the excess to be allocated to the deposit base being acquired. The benefit of acquiring an existing base of deposit liabilities is thus assigned a value that is recorded as an intangible asset. This intangible asset can possibly be amortized over its estimated remaining life, with the deductions taken for federal-income-tax purposes.

In this article, we discuss the background behind development of valuing deposit intangibles and look at an approach to establishing the value.

• *Background*. While there are numerous reasons why one bank may acquire another, a significant benefit in doing so is the acquisition of an existing base of deposit customers. Such a deposit base typically is the result of many years of effort and expense in terms of marketing and deposit-acquisition efforts, bricks and mortar, maintenance expenses etc. Rather than incur similar expenses to obtain deposit funds via a new financial institution, the acquirer can procure an existing deposit base by purchasing an established institution.

It can, therefore, be reasonably argued that any premium paid for the established institution is directly attributable to the value of the deposit base. When this value is quantified and useful life of the deposit base is calculated, the value becomes a potential deductible item for federal-income-tax purposes.

A contemplated acquisition may be structured in a multitude of ways in order to satisfy specific interests of all parties to the transaction. The manner in which the transaction is structured, however, may have significant impact on the acquiring bank's federal-income-tax liability. From the tax perspective, the acquisition may be structured in one of three general methods: a tax-free reorganization, a taxable purchase of stock or a taxable purchase of assets.

Only in the case of a taxable purchase of assets may all tangible and intangible assets be revalued to their fair market value in recording the assets of the "new" bank. This treatment affords the opportunity to minimize any recorded goodwill, which is the excess of the purchase price over the fair-market value of net assets acquired that cannot be allocated to specific assets.

Recorded goodwill must be amortized over a period not exceeding 40 years for financial-reporting purposes and the amortization cannot be deducted for federal-income-tax purposes.

For some time, the Internal Revenue Service had held that deductions for the amortization of intangible assets similar to goodwill would also not be allowed. A 1974 revenue ruling, however, stated that determination of the depreciability of assets rests with establishing that the assets "have an ascertainable value separate and distinct from goodwill" and "have a limited useful life, the duration of which can be determined with reasonable accuracy."

While this ruling does not specifically address the issue of deposit intangibles, it is the basis on which many purchasers have taken the amortization of such a deposit intangible as a deduction.

The position of regulatory authorities is set forth in a March 5, 1982, FDIC position paper, "Accounting Treatment for Purchased Core Deposit Intangibles," and a December 29, 1981, Comptroller of the Currency banking circular, "Interim policy with respect to the accounting treatment for purchased core-deposit intangibles."

The OCC and the FDIC, as one may expect, treat the issue in a similar fashion. The regulators allow the value of core-deposit intangibles to be recorded, based on a case-by-case determination, as an "other asset" and amortized over a period not to exceed 10 years. (Both of these documents set forth specific preparation and presentation requirements and should be consulted by those interested.)

The IRS and bank regulators thus have illustrated at least some level of acceptance to this approach and negotiations with the IRS on the issue of deductibility have met with reasonable success, where the valuation is properly prepared and documented. On the other hand, those taxpayers who have not been so well prepared have not been as successful.

• *Approaching a Deposit-Base Valuation*. Issues surrounding the deductibility of amortized deposit premiums are yet to be firmly resolved. In our opinion, however, the acquirer should perform some key steps in order to enhance the likelihood of success if the deductions are challenged by the IRS.

The following outlines points we believe are important as one contemplates the valuing of core-deposit intangibles.

Estimating the Benefit. A preliminary calculation can be performed that estimates whether valuing the deposit base will result in any reasonable return of tax dollars. The formula, which can estimate one year's benefit, would be:

$$\frac{\text{Estimated value of deposit intangible}}{\text{Estimated life of deposits}} \times \text{Effective tax rate}$$

By calculating the present value of the estimated one year's tax savings over deposit life, we can determine the potential benefit of the intangible value of the deposit base. For this calculation, the value of the deposit base typically can be estimated at 6% to

* *Jim Nickerson and Rick Hamilton are financial-institution consultants with the St. Louis office of Peat, Marwick, Mitchell & Co. Mr. Nickerson is a senior manager and Mr. Hamilton is a manager.*

10% of total deposits and the life of the deposit base generally ranges from seven to 12 years. These, however, are only "averages" and actual results could vary significantly. Also, while this calculation represents the potential benefit that may result, the issues have not yet been fully resolved within the tax courts, and the possibility exists that all or a portion of the deduction will be disallowed by the IRS.

Determining the Value of the Deposit Base. The dominant conceptual approach to calculating the benefit, simply stated, is the present value of the after-tax difference, by year, between the cost of the deposits and the cost of the alternative funds. Determining the value consists of four steps:

1. Determine the annual costs of deposit liabilities. The annual costs will consist of both interest expense and maintenance costs, net of any service-fee income.

2. Obtain an estimate of the alternative-funds costs, representing the price the acquiring bank would expect to pay in the capital market, including acquisition costs, for funds of like amount with similar terms.

3. Determine the after-tax difference between the cost of these two alternatives.

4. The value is then determined as the sum of the present value of the annual difference.

Performing a calculation of this nature can be rather cumbersome, which has led to the development and use of micro-computer-based programs (generally electronic spread sheets) to perform the analysis.

Determining Deposit Life. This area appears to historically have been the most likely area of vulnerability to the IRS, and deductions have been disallowed where the taxpayer has failed to carry the burden of proof that the asset has a limited useful life of ascertainable duration. The IRS's "mass asset" theory, which may be invoked where the taxpayer has failed to carry burden of proof, holds that a number of assets forming an aggregate has no determinable useful life, and that while individual assets may terminate and be replaced, there is no measurable loss of value to the whole.

A common approach to determining deposit life involves a detailed analysis of historical deposit attrition rates. Statistical-analysis techniques then can be applied to modify results for the anticipated effects of deposit deregulation and fluctuations in interest rates, which have been shown to have an impact on deposit life.

• *Impact of Deregulation*. As deregulation continues, it is anticipated the cost of the deposit base will more closely approximate the alternative cost of funds that will tend to reduce the value of the acquired deposit base. Concurrently, however, deposit attrition, which appears to be correlated to interest rates, should be reduced, which will tend to increase the value. As a result, the issue of valuing deposit intangibles could proliferate as acquisitions of financial institutions continue.

• *Summary*. From our perspective, while the issues are yet to be fully litigated, the IRS would have a difficult time disputing the existence of deposit intangibles with a determinable useful life. Deposit intangibles have been recognized by bank regulators and in the authoritative literature of the accounting profession.

Nevertheless, the taxpayer still is at some risk of having all or part of the deduction denied. For this reason, efforts should be made to assign as much of the excess purchase price over net book value to the tangible assets as possible.

The potential benefit of assigning the balance to the deposit base should then be reviewed. Each situation should be analyzed separately, considering the individual tax and accounting strategies of the interested parties. • •

Reagan Handling Economy Well, Survey of Bankers Reveals

MODERATE INCREASES in inflation and employment levels and a prime rate hovering between 9% and 13% are on the horizon in 1984. These predictions resulted from a survey of 220 bankers conducted last month at a seminar in St. Louis sponsored by Peat, Marwick, Mitchell & Co.'s St. Louis office and L. F. Rothschild, Unterberg, Towbin, New York City.

Responding bankers — who were among more than 400 bankers in attendance — also gave a solid endorsement to President Reagan and his economic policies. Eighty-five percent said "Reaganomics" had been successful in controlling the economy, while only 10% said Reaganomics had had no effect and 5% said "unsuccessful." If the Presidential election were held on the day of the seminar, President Reagan would have been the choice of 60% of the bankers polled.

Senator John Glenn of Ohio was the top Democrat contender in the survey with 15% of the "votes" cast. Former Vice President Walter Mondale — with 14% of the response — was close behind, however.

Two thirds of bankers polled said that inflation — as measured by the Consumer Price Index — would increase moderately next year, and 78% said they expect moderate declines in unemployment. Seventy-three percent said the high for the prime rate next year would be between 11% and 13%, and 80% said they expect the low to be between 9% and 11%. No one predicted a prime rate above 15% or below 7%.

Despite the potential problems deregulation could cause, 45% said they expect earnings either moderately or substantially higher than this year's during 1984. Only 22% expected earnings to be lower next year. In fact, 41% said they see deregulation's impact as positive and 30% said it will have no effect. Twenty-nine percent felt deregulation will have a negative impact on banking.

Bankers were less optimistic about long-term trends, however. Nearly three fourths of those surveyed said that the approximately 14,000 commercial banks currently in the United States will be reduced to below 10,000 by 1990, and 34% of that total said they expected the number of banks to shrink below 8,000. For the majority (64%), other banks still are the primary sources of competition followed by thrifts (17%), other financial services (13%), money-market funds (4%) and credit unions (2%). Over half said their banks were offering discount-brokerage services, and another 7% said they intended to initiate such services within the next six months.

Only 18% indicated they did not feel prepared to comply with backup-withholding legislation starting in January. The majority foresee a relatively stable legislative picture over the next few months. Only 22% said they see legislation substantially changing the structure of the banking industry being passed by Congress before the end of the first half of 1984, and 37% said they do not expect substantive changes before 1985.

Fifty-four percent said they use an internal prime rate or cost-of-funds basis to set loan pricing, while 19% said they base their rates on an external prime rate. Thirteen percent said they base their rates on those of com-

(Continued on page 59)

Deregulation, Profitability Share Spotlight At BMA Convention in Atlanta

DEREGULATION and bank profitability shared the spotlight at the recent annual convention of the Bank Marketing Association, held in Atlanta.

"The banking industry is at the stage of fundamental transition where the individual can make the difference," said keynote speaker Archie J. McGill, president/CEO, Rothschild Ventures, Inc., New York. He added that, in this environment of change, survival will be the critical activity.

Noting that the Chinese word for "change" has two meanings — danger and opportunity — he stressed the fact that in an environment of change it's necessary to be able to seize opportunity.

He admitted that change is difficult because it requires both the corporation and the individual to alter what they do and how they do it.

"The underlying demand is a change in attitude where change is perceived as good and an opportunity," he said. "Otherwise, people will give lip service to change and go back to do what feels good."

Mr. McGill said IBM is a firm that has been able to weather a changing environment without forsaking its three basic goals of excellence, service and concern for the individual.

"These are times of unique opportunity for everyone — not for a few. These are times to make a fundamental difference in the world," he said.

Addressing current bank profitability were members of a panel, each of whom cited the changing role of the bank branch. Panelists included Donald C. Waite III, McKinsey & Co.; William M. Weiant, First Boston Corp.; and David C. Cates, Cates Consulting Analysts — all from New York.

The value of the branch network is questioned by many, but its role has changed, said Mr. Weiant. It's necessary for banks to control non-interest expense and to accelerate growth in earnings assets. He also was concerned that banks will enter deregulation with a period of price competition like that which adversely affected the recently deregulated transportation industries.

"The role of the bank branch is to bring in customers," he said. "Banks have broad customer bases." He recommended that banks reduce transaction costs in branches and generate new revenues through their branch systems.

Bank marketers will be at the forefront in accelerating the growth of earning assets, he said, "if banks are to achieve profitability."

Mr. Waite stressed the importance of curbing non-interest expenses as a method to improve declining profitability. But he warned against closing branches, since they offer a way for banks to bring in business. He said the way to improve profitability is to provide better service to multiple-market segments. The difficult part is to determine how to push the profitability of banks at a time when industry profits as a whole are eroding.

Mr. Cates urged banks to develop profit analytic tool kits that would create profit consciousness at all levels of a bank. Such an analysis would be more than an accounting tool, he said. "It's a decision-making tool to create a bottom-line discussion base" for setting bank goals. He said such a tool would provide the ability to compare one bank's performance with others'.

Also addressing profitability was Roger Guffey, Kansas City Fed president. He said that, despite pressure on the banking industry's net interest margins arising from deregulation and new competition, banking's profit outlook is still good.

He asserted that the "Chicken Little" syndrome has no place in banking. The "profitability sky is not falling," he said.

Mr. Guffey thinks banking has weathered five years of deregulation remarkably well. Profits remain strong among all sizes of banks, he said.

(Continued on page 58)

Golden Coin Winners

Security Pacific National, Los Angeles, won the "best of show" trophy in the 1983 Golden Coin awards competition of the BMA. The bank's entry was titled, "Training Technical Trust Types of Field Financial Planning — A Giant Step Into the '80s." It outlined the evolution of a sales-training-and-marketing program to implement a field financial-planning function by the bank's trust officers.

Judges cited Security Pacific's efforts to involve its personal trust staff in the selling of a wider variety of bank services and use of the bank's resources to increase its share of market among affluents. The program generated more than 150 new-business opportunities for the bank and an actual new-business dollar volume of $300,000 in 16 weeks.

Also winning an award was Norwest Corp., Minneapolis, with its entry, "Employee Awareness and Education Program."

Among banks winning merit certificates were First Citizens National, Tupelo, Miss.; Springfield (Ill.) Marine; and United National, Plano, Tex.

Leading BMA for 1983-'84 are (from l.) Kenneth J. Pennebaker, treas.; Barry I. Deutsch, pres.; and Smith W. Brookhart III, 1st v.p. Mr. Pennebaker is e.v.p., Twin City Bank, North Little Rock, Ark.; Mr. Deutsch is s.v.p., Mellon Bank, Pittsburgh; Mr. Brookhart is pres./CEO, Centerre Bank, Branson, Mo.

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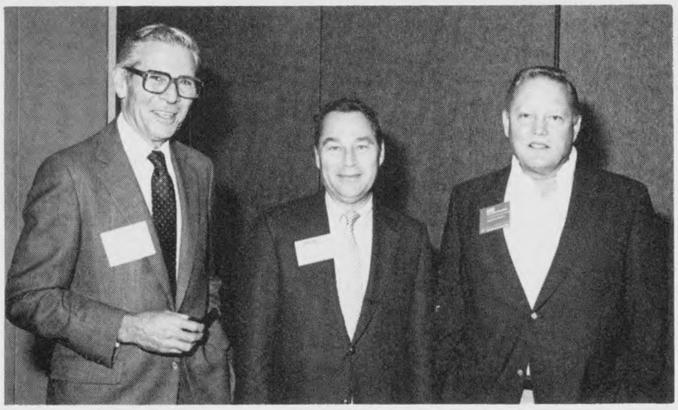

ABA-BMA representatives at BMA convention included (from l.) Willis W. Alexander, ABA e.v.p.; Richard M. Rosenberg, outgoing BMA pres. and v. ch., Wells Fargo Bank, San Francisco; and Raymond M. Cheseldine, BMA, e.v.p. ABA and BMA merged recently.

"Nevertheless, if deregulation places additional pressure on interest margins, banks will need to look for alternative sources of revenue or for opportunities to cut costs." He added that monitoring loan quality will become more important in light of current asset problems.

Banking profits will continue to rely primarily on traditional banking functions such as taking deposits and making loans, he said. And he suggested that "banking can ill afford to expand into new activities if expansion means ignoring traditional sources of profits."

Bank profitability could be helped if industry loan losses could be brought down from the 1982 level to longer-run historical levels, he said. With such a recovery, bank ROAs would improve by 5% to 9%.

"Whether by controlling risks, boosting fee income or reducing costs, bankers do appear to have good opportunities to help restore profitability should interest margins erode further," Mr. Guffey said. "In general, large banks might want to look first to bolstering fee and service revenue because reducing overhead may not be a practical answer for them.

"Medium-sized banks also may find increasing fee income is a practical way to replace lost revenues, but reducing overhead costs may offer these banks the greatest potential because this group has the highest ratios of overhead to assets.

"Small banks appear to have the biggest adjustments to make to improve earnings through fee income or reduced overhead. However, small banks have been most successful at maintaining their margins and so far have clearly performed well through the deregulated environment," Mr. Guffey said.

A prominent topic at the convention was the recently approved affiliation of the BMA with the ABA. "This is an historic convention," said Barry I. Deutsch, BMA first vice president (now president). He noted that nearly two-thirds of the BMA membership who participated in balloting in September approved and supported the merger.

"We made the right decision at the right time," said Mr. Deutsch, who is senior vice president, Mellon Bank, Pittsburgh. He said the merger has resulted in an increase in requests for BMA services. "The bottom line is that things are looking very bullish for the newly merged BMA," he said.

ABA President Robert C. Brenton, president, Brenton Banks, Des Moines, Ia., called the union of the BMA and ABA "an idea whose time had come." Noting the importance of increasing banking's share of the marketplace, Mr. Brenton told the 2,000 bank marketers attending the convention that their job was extremely important. "We need that great weapon that marketing has to meet the competition of the future," he said.

Mr. Deutsch assumed the BMA presidency during the convention. Moving up to BMA first vice president was Smith W. Brookhart III, president/CEO, Centerre Bank, Branson, Mo. Serving a second term as treasurer is Kenneth J. Pennebaker, executive vice president, Twin City Bank, North Little Rock, Ark. New second vice president is John A. Russell, vice president/director of marketing, Banc One Corp., Columbus, O.

In 1983-'84, there will be 23 serving on the BMA board. From the BMA, there are six new directors, including J. Douglas Adamson, senior vice president, Purdue National, Lafayette, Ind.; David P. Andrews, vice president, American Bank of Pennsylvania, Reading; Mary A. Brown, president, Harris County Bank Cy-Fair, Houston; Sarah F. Gurtis, vice president, Sun Banks, Orlando, Fla.; James C. Montague, marketing research officer, Harris Trust, Chicago; and David M. Thibodeau, first vice president, Third National, Nashville.

From the ABA, representatives joining the board include Paul M. Diesel, vice president, Multibank Financial Corp., Quincy, Mass.; Robert G. Millen, president/CEO, United Central Bank, Des Moines, Ia.; Frank Oldham Jr., director/chairman, executive committee, Security Bank, Paragould, Ark.; Ronald A. Phillips, president, United Bank of South-Park, Littleton, Colo.; Donald R. MacKay Jr., senior vice president, Louisiana National, Baton Rouge; Sherrill E. Woods, president, First National, Naples, Fla.; and Peter L. Hood, executive vice president, Fleet National, Providence, R. I. — **Lawrence W. Colbert, vice president/advertising.**

Corporate Customers

(Continued from page 26)

The days of identifying a large group of banks that can agree on a satisfactory fixed rate for a multi-year period probably are gone forever. However, individual banks are willing to commit medium-term funds at a fixed rate.

We are constantly seeking such funds, and as banks gain increased experience with money-market accounts, we hopefully will see more opportunities to borrow fixed-rate funds for periods beyond one year.

To strengthen our standby-credit position, we have converted a large portion of our bank facilities to revolving-credit agreements. To increase our funding options, about 18 months ago we added the flexibility of fixed-rate term loans to our revolving agreements. These matched-funded loans fulfill requirements of both lender and borrower equally.

As an illustration of the importance of marketing to meet customer needs, a regional bank recently recognized the requirements of a finance company for subordinated debt. Analyzing the product and our credit strength, the bank capitalized on both an opportunity and a need. We now have some valuable subordinated debt and the bank has an attractive earning asset.

Credit commitments from our banks are the bottom line. From this evolve cash-management and trustee services. The lending limit of a bank can be a powerful force in our relationship when combined with creative and imaginative thinking. We search for new ideas in terms of structure, pricing and maturity. Over the past few years, we have seen our banks respond with several innovations to meet our ever-present needs for fixed-rate lending.

In the future, we will see increasing attention given to the technical side of corporate-banking relationships. Technology will not be limited to breakthroughs in consumer lending. In some cases, technological advances will address non-credit bank services.

A handful of banks have distinguished themselves in the development of our cash-management systems. Two years ago, we converted our depository network from depository transfer checks to the automated clearinghouse system. Some of our banks were thoroughly involved in the conversion.

Today, we are constantly striving to fine tune our cash systems. That cannot be accomplished alone. A number of our banks are willing to spend the necessary time in Dallas to review our system and offer constructive improvements based on our specialized needs. In selecting cash-management banks, we want institutions that are both good and realistic about their capabilities.

We continuously devote a great deal of time and energy to our bank-relations program. We take a top-down approach. Bank relations begin with me and filter their way throughout our financial-department staff. Throughout each year, I meet with numerous senior bankers, both in Dallas and in their offices throughout the country and overseas. Last year, our financial staff met with bankers on over 1,200 occasions.

In return, we expect a great deal from our banks, probably more than any other company. In addition to the traditional credit/operational services provided by the banking industry, we, as a provider of financial services, market several services of our own to our banks or to the public jointly with the banks. We count on our contact officer to assist us in marketing these services.

In placing emphasis on the increasing importance of marketing and technology, I underline the fact that the human element has never been more important. Each of our credit relationships focuses on the calling officer assigned to our account. Referred to today in some cases as the "relationship officer," this individual orchestrates our relationship with the bank.

Not only does he/she guide our credit requirements through the maze of internal credit, policy and pricing committees, he/she also manages the expanding flow of bank officers who have specialized interests in visiting with us.

In addition to the contact officer, we see representatives of the cash management, corporate finance, corporate trust, international and economic areas. To accomplish realistic goals, these calling officers must be well-trained, knowledgable, highly motivated and, above all, creative. Banking has become so complicated today and the need to identify individual customer needs so great that many banking areas must share the responsibility.

As we review our bank relationships and identify banks that have a significant commitment to us, and are thus defined as major or lead banks, they appear to fall into two distinct categories.

First, the bank that, through the contact officer, responds to our needs as they arise. It does what is asked of it, but doesn't offer constructive or creative ideas. Business seems to accrue to such a bank because of its sheer size and resultant market dominance.

Sometimes we, and not the bank, have cultivated those relationships. In many cases, contact officers are mere order-takers.

On the other hand, there are banks that have built a significant position with our company by generating new ideas and aggressively marketing them, tailor-made, to our financial-department staff.

We consider contact officers as the quarterbacks in our relationships, coordinating the efforts of a finely tuned team in developing a long-standing and mutually beneficial relationship. It's important that efforts of the contact officer be blended with the bank's marketing plan.

Development of capable calling officers, well-conceived and dynamic plans and integration of the two into a viable calling program are applicable to banks of all sizes that seek a share of the wholesale market.

The financial condition of our banks is important. We are interested in capital adequacy and structure of our banks, return on assets and equity, as well as the appropriateness of loss reserves. The ability to absorb future shocks is extremely important.

Because of the competitive climate and fast-paced changes taking place in financial services, banking relationships have never been so important. Those who concentrate on how to improve a relationship will prosper.

'Consumer-Bank' Branches Planned by Conglomerate

"CONSUMER-BANK" branches are being planned by Household International, Prospect Heights, Ill., finance/insurance/merchandising/manufacturing/transportation firm.

Six to eight such branches will open in California late this month. Some of them will be converted offices of the firm's Household Finance Corp. subsidiary. Besides the consumer loans those offices now offer, the branches are to offer savings and checking accounts.

The branches will be part of Household Bank, Household International's federally chartered S&L. Since its typical customer is in the moderate-income level, Household International will not offer stock-brokerage services through the new banks.

Objective of the new-bank program, says Glen O. Fick, vice president, investor relations, Household International, is to design and test a prototype operation that will receive consumer acceptance, wherever it might be placed.

Reagan

(Continued from page 55)

petitors, and another 10% use external indices such as the T-bill rate. In setting deposit rates on deregulated accounts, 63% said they expect to use asset yields and target spreads and 17% each said they would use cost-of-alternative sources of funds or competitors' rates.

President Reagan's decision to invade Grenada was supported by 66% of the respondents, but the position of the peacekeeping force in Lebanon was less enthusiastically endorsed. Only 23% said they thought the U. S. role in Lebanon should be expanded; 51% favored maintaining the status quo, and 26% said they favored pulling the Marines out. • •

• *The ABA's construction-lending workshop* will be held February 8-10 at the Mariott Hotel, Denver. On the program will be a discussion of ABA-sponsored research on authorizing banks to engage in equity investments in real estate and implications for the financial-services industry. Write: Lisa Maseny, Consumer Financial Services Group, ABA, 1120 Connecticut Ave., N. W., Washington, DC 20036.

Minimum-Balance-Requirement Deregulation Is Supported by Majority of Bankers

MOST BANKERS favor recent minimum-balance-requirement deregulation mandated recently by the Depository Institutions Deregulation Committee (DIDC). The action eliminated the $2,500 minimum-balance requirement entirely on deposits used for IRAs and Keogh plans and will reduce minimum-balance requirements from $2,500 to $1,000 on money-market-deposit accounts, super NOWs and seven- to 31-day time deposits of more than $2,500 on January 1, 1985, with total elimination set for January 1, 1986.

The majority of bankers responding to a MID-CONTINENT BANKER survey about deregulation events also indicated they plan to take advantage, in one way or another, of the DIDC action; however, few said their institutions would offer incentives to customers as a way of taking advantage of the changes.

Responses were mixed on the degree of intensity of projected promotions to publicize the changes, although most are opting for "moderate" promotions.

Most bankers expect to see increased cost of funds and more efforts to compete as the "fruits" of the DIDC action and they are almost unanimous in their estimation that the action doesn't favor thrifts over commercial banks.

Most bankers said they will be happy to see DIDC go out of existence, as is expected to be the case once deregulation is completed. However, a few doubted that the committee would go away — that some excuse would be made to extend its existence and thus enable it to continue to be a nuisance to bankers.

Bankers were asked to explain why they either approved or disapproved of the DIDC action. Following are selected responses:

- I approve because I believe the banking industry should have the right to choose what it is willing to pay for its inventory — Gilbert E. Coleman, chairman/president, Security Bank, Mt. Vernon, Ill.
- I approve because elimination of controls on financial products is the only means to allow banks to fully compete with nonbank financial services. — Smith W. Brookhart III, president, Centerre Bank, Branson, Mo.
- I approve because I want to make decisions instead of following orders. — James A. Traber, executive vice president, Victoria (Tex.) Bank.
- Disapproval was expressed by A. A. Boemi, chairman, president, Madison Bank, Chicago: The action is too fast to thoroughly absorb. Furthermore, I'm beginning to question the wisdom of an activity that has broken the back of an $800-billion thrift industry and is in the process of doing the same to many banks. Unfortunately, the entire thrust of deregulation is to favor formation of giant financial-service companies with little concern for antitrust problems, including predatory pricing.
- I approve of total deregulation or partial deregulation, as long as banks are able to compete fairly with nonbank competition at the same time. — R. J. Breidenthal Jr., president, Security National, Kansas City, Kan.

A number of responding bankers expressed indecision about their banks' plans to "take advantage" of the DIDC action. Among responses were the following:

- We will react to the new regulation according to our local market consideration.
- We will set our own minimums and price accordingly, probably on a tiered basis.
- We don't plan to "take advantage" of the DIDC action because our primary IRA vehicle has no minimum and we don't push short maturities.
- We'll have to, due to competition.
- We will to the extent necessary to remain reasonably competitive.

Bankers were asked what incentives they expect their banks to offer the public in connection with the DIDC action. Among responses were the following:

- None at this time, at least until loan demand increases to allow us to invest the funds profitably.
- The change is incentive enough.

Results expected from the deregulation activity include the following:

- I don't expect any great amount of activity. I'm assuming that some S&Ls and banks will promote higher rates perhaps, but there always is the problem of impacting the bottom line.
- More intensive sales efforts to secure deregulated deposits.
- Reduced profit margins in the long run, with fewer banks, S&Ls and credit unions. There also will be greatly increased competition and rapid technology advances.
- Confusion from customers, but it will be resolved.
- Higher net-interest costs and, as a result, new or higher account fees.
- Further disintermediation of regular savings, higher costs and narrower spreads.
- More return to the depositor, lower profit margins for banks and possibly riskier loan portfolios.
- It will give us a better opportunity to compete for all accounts.
- Better asset/liability management by financial institutions should result.

Surveyed bankers were asked if they consider the DIDC action to favor thrifts over banks.

- It favors only banks because it will force thrifts to play under the same rules that banks play under.
- Ultimately, it will favor major money-center banks and large thrifts that are surviving with regulatory accounting practices.
- It doesn't favor thrifts, but it will require them to become more like commercial banks and adapt to greater rate sensitivity of deposits.

Some Second Thoughts

One banker having second thoughts on total deregulation is A. A. Boemi, chairman/president, Madison Bank, Chicago.

"As a former exponent of these changes (deregulation), I'm questioning my wisdom. Consider what's happening to the airlines!

"We seem to be pointing toward depository institutions becoming parts of giant financial-services industries run by managements that have no background in the fiduciary responsibilities (that are) involved when the public's deposits are concerned.

"A healthy American financial structure is so important to the entire world!"

The survey asked bankers for their opinions of the expected demise of DIDC after financial-institution deregulation has been completed.

- I seriously doubt if DIDC will go out of existence. It will be used for other monitoring and product limitations. — Gilbert E. Coleman, president/chairman, Security Bank, Mt. Vernon, Ill.
- Hopefully, it will have completed its function and will cease to exist. If there are any tasks yet to be completed after total deregulation, other agencies can handle them. — E. M. Horton, president, First National, Camden, Ark.
- Hopefully, DIDC will sink quietly into the sunset and disappear. — Smith W. Brookhart III, president, Centerre Bank, Branson, Mo.
- DIDC should be restructured to look at creating fair competition between banks and nonbanks. — R. J. Breidenthal Jr., president, Security National, Kansas City, Kan.
- I think it should be total and immediate. — Charles C. Brinkley, chairman, Northeast National, Fort Worth.
- I feel there will still be a need for a centralized regulatory body. — Albert K. Sewell Jr., vice president, Citizens National, Independence, Kan.

Some bankers responded to DIDC's expected demise with jubilation, using words such as "hooray!," "great!" and "can't wait!" **— Jim Fabian, senior editor.**

Interest-Rate Futures Subject of Booklet

A new booklet, published by Arthur Andersen & Co., describes and clarifies accounting treatment for interest-rate-futures transactions as set forth in the Financial Accounting Standards Board (FASB) statement released July 14. The booklet is called *Accounting for Interest-Rate Futures: An Explanation of the Proposed FASB Statement*.

Included in the booklet are case studies applying the recommended accounting procedures to actual hedging situations and a brief overview of important tax considerations.

According to an Arthur Andersen spokesperson, hedging with interest-rate futures — a means of maintaining profitability by hedging against risk in a highly unstable economic climate — clearly has become a powerful new tool for money managers. For chief financial officers of banks and other financial institutions, pension-fund/portfolio managers and others, it affords the potential for protection against volatile interest rates, says the accounting firm. However, since the inception of interest-rate-futures contracts in 1975, use of and accounting for these transactions have been a topic of considerable controversy.

Lack of clear-cut-accounting/financial-reporting standards, Arthur Andersen believes, has prevented many companies and financial institutions from using the interest-rate-futures market as a hedging tool. As a result, the firm believes its new publication should be of strategic value to the vast and rapidly growing number of financial managers contemplating or currently involved in hedging transactions with financial futures.

The booklet is available by contacting: Arthur Andersen & Co., Distributions Clerk, Room 1123, 33 W. Monroe, Chicago, IL 60603.

- *The 1984 community-bank executive-development program* of the ABA has been expanded to three sessions: March 5-8, Hyatt Regency Hotel, Minneapolis; March 25-29, Colonial Williamsburg Lodge, Williamsburg, Va.; and April 9-12, Red Lion Motor Inn-Jantzen Beach, Portland, Ore. Write: Meg Battle, Community Bankers Council, ABA, 1120 Connecticut Ave., N. W., Washington, DC 20036.

Real-Estate Variable Annuity on Scene

A NEW investment instrument that could mean additional dollars will be diverted from commercial banks now is on the market and available through Dean Witter Reynolds, Prudential Bache, Shearson/American Express, Paine Webber Jackson Curtis, A. G. Edwards and many regional brokerage firms.

Called the Harvest Real-Estate Variable Annuity, it is described as the first flexible premium no-load annuity that offers both individual and institutional investors an opportunity to participate in an entity that acts as a lender in the real-estate market. At the same time, the plan's sponsors say it allows an investor to retain many benefits of equity ownership. Acting as bankers, investors can profit from competitive returns of mortgages available in today's environment of reduced inflation. According to a spokesperson for the plan, investors also secure ownership advantages through participations in both gross rental-income increases and appreciation in property values.

The Harvest Annuity has a death benefit that guarantees the original principal deposits or their current contract value (whichever is greater) if the annuitant dies before income payments begin.

Here's how the Harvest plan works: Customers deposit their money (a minimum purchase of $100 for tax-qualified plans, $5,000 for non-qualified plans) — without brokerage fees — into the Integrated Resources Life Insurance Cos. account. The account pools all deposits and makes commercial first-mortgage loans, primarily on income-producing office buildings, shopping centers and multi-unit industrial parks. So that day-to-day cash needs of the account can be met, 10% of the assets are set aside in cash equivalents and additional monies invested in federally guaranteed mortgage instruments (FHA and GNMA). Income from loans is reinvested on a day-to-day basis.

It's anticipated that Harvest mortgages frequently will contain participation clauses that enable the account to share in gross rental increases and possible appreciation in property values. Rental participations are collected at the end of the year, and property-appreciation participations are collected when the mortgage is paid off or property sold.

The Harvest spokesperson maintains it is the only known flexible premium real-estate variable-annuity program in which an investor can earn lenders' returns for as little as $5,000. In addition, contract owners have the benefits of equity ownership through participation in gross rent increases and sharing in property appreciation. Finally, the spokesperson continues, these benefits are all the more extraordinary because, in many cases, investors can qualify for tax advantages in terms of their income from Harvest.

Fees. There's no charge for entering the annuity, but there is a $30 annual administrative charge to meet basic expenses of accounting and reporting to investors.

After the first year, 10% of an investor's accumulated value can be withdrawn without penalty. An annual 1.3% fee will be deducted to guarantee the annuitant purchase payments on death and no increases in expenses and to provide income for life.

Harvest charges a surrender fee for withdrawing more than 10% of the total accumulated amount in the first 10 years. The fee is 7% if the money is withdrawn in years one through five; 5% in year five and 1% less for each year after the fifth year. Surrender fees disappear completely after the 10th year.

Among states where Harvest contracts are available are eight in the Mid-Continent area: Louisiana, Michigan, Mississippi, Missouri, New Mexico, Oklahoma, Tennessee and Wisconsin.

Resources Life Insurance Co., which issues the Harvest contracts, is a wholly owned subsidiary of Integrated Resources, Inc., a Delaware corporation that is a financial-services company engaged in the organization, management and sale of investment programs, primarily involving limited partnerships, and the sale, reinsurance and direct writing of life insurance. Resources Life became a domestic New Jersey insurance firm in 1981 through a merger with a newly formed New Jersey insurance company organized for such a purpose. Its home office is in Fort Lee. However, all communications concerning the Harvest plan are being handled in Resources Life's Annuity Services Office in Kansas City.

Underwriter of the plan is Integrated Capital Services, Inc., New York City, also a wholly owned affiliate of Integrated Resources. • •

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