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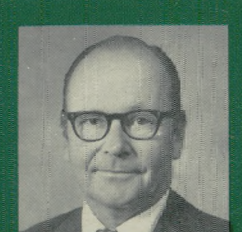
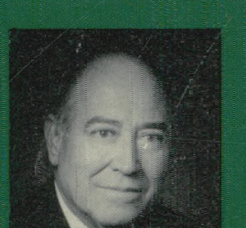
What Does 1984 Hold for Banks?

John H. Hendee Jr.


John W. Barr III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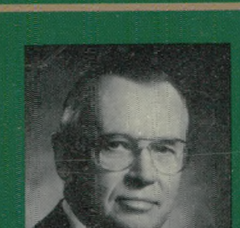
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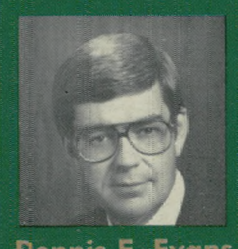
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John Dulin

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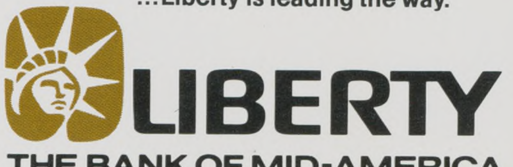

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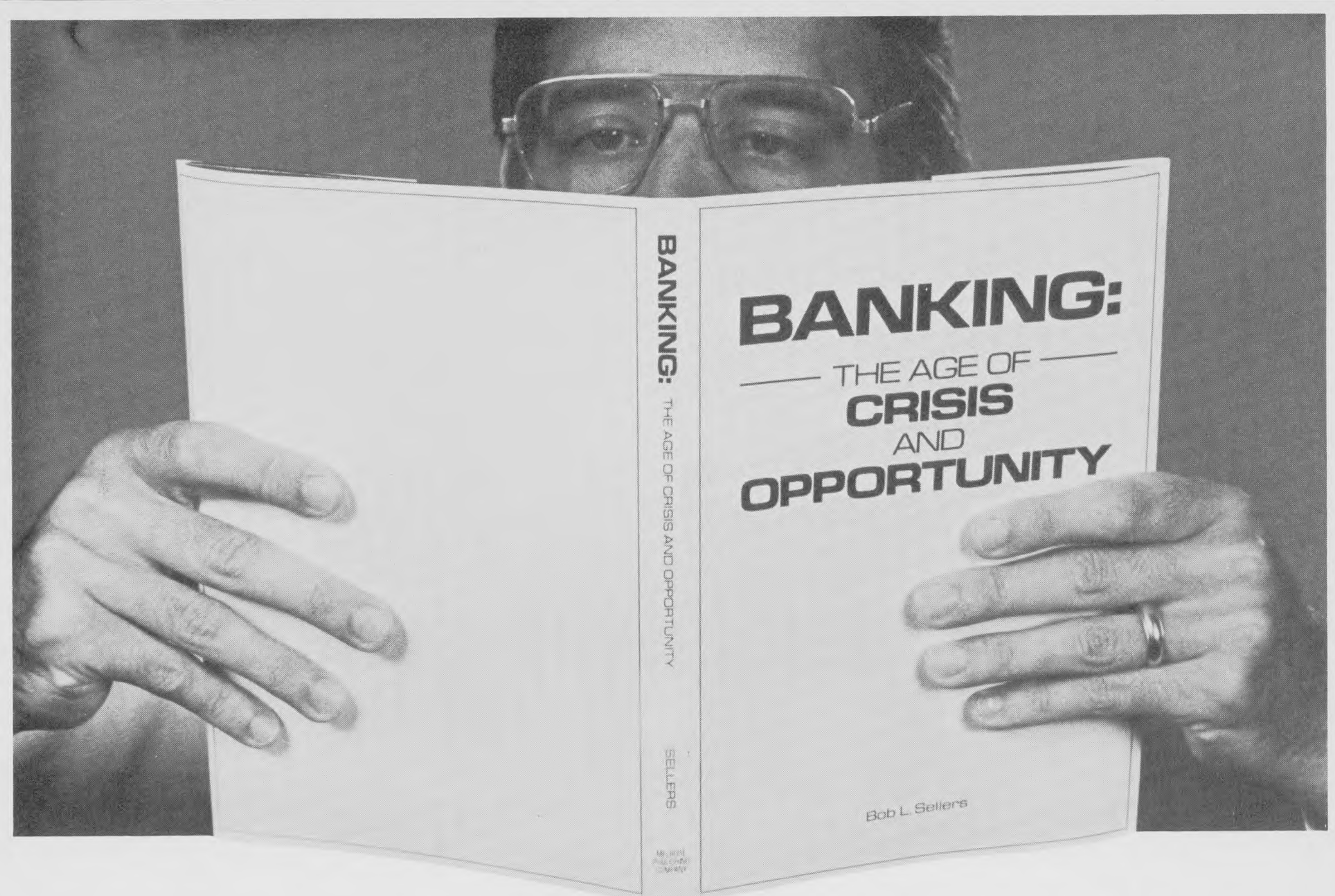

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MID-CONTINENT BANKER

(Incorporating MID-WESTERN BANKER)

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MID-CONTINENT BANKER STAFF

Ralph B. Cox, Publisher
Lawrence W. Colbert, Vice President, Advertising
Rosemary McKelvey, Editor **Jim Fabian,** Senior Editor
John L. Cleveland, Assistant to the Publisher

MID-CONTINENT BANKER Editorial/Advertising Offices

St. Louis, Mo., 408 Olive, 63102. Tel. 314/421-5445; Ralph B. Cox, Publisher; Marge Bottiaux, Advertising Production Mgr.

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Convention Calendar

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.
May 16-19: American Safe Deposit Association National Education Conference, Dallas.
May 17-20: Mississippi Bankers Association Annual Convention, Biloxi, Broadwater/Hilton Hotels.

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What Does 1984 Hold for Banks And for U. S.?

Growth/Opportunity Potential Can Come From Deregulation

By John W. Barr III
Chairman
First Kentucky National Corp.
Louisville

THE TRANSITION in the economy from manufacturing to service-producing industries will impact the Louisville and Kentucky economies significantly. Projections for 1984 are positive as income and employment continue to increase. Nevertheless, near-term growth is expected to remain below average, not only because of the past decline in the manufacturing base, but also because the coal industry, which has been supportive in past recoveries, is not expected to increase measurably.

Bank-Loan Problems. We seem to be besieged today with news about bank-loan problems. What must be remembered is that the banking business is a risk business. We always will have problem loans because humans make loans based on judgment, and the human mind has not yet devised a way to make foolproof judgments. I don't believe there is a banker in the world who would announce, on closing a loan, "I just made a bad loan." In some cycles of our economy, we will have more problem loans than at other times. What we must guard against is too many problem loans at one time. The only way to assure this circumstance is to abide by the time-proved tenets of sound lending.

If in our zeal to expand assets, we forget to obtain adequate information on our borrower, if we fail to require detailed balance sheets and earnings statements, if we fail to evaluate the character and capacity of our borrower, if we allow incompetent or inadequate documentation, we are asking for trouble and we will get it.

"The invisible walls surrounding the banks of our country . . . are tumbling down, and it is for the best." — John W. Barr III

Let's not be fooled by those who say that times have changed and we must change with them. When it comes to sound lending, the basic principles have not changed and never will.

Deregulation. There is so much talk these days about *de*regulation that sometimes we forget that while we are being *de*regulated as far as price and product are concerned, we are being *re*-regulated. Stop and think about new regulations from the Fed, Comptroller, FDIC, Treasury, SEC, IRS, OSHA, Justice, Social Security, Department of Labor and others.

I sometimes think the only people who are happy about this situation are the lawyers.

Just as I think a great deal of the *re*-regulation has a negative effect on earnings, I think the *de*regulation we are experiencing has the potential for growth and opportunity. At last we are being given some freedom to conduct our banks' affairs in a free-market environment. This freedom is not without trauma. For 50 years, we were the only industry I can think of that didn't have to pay a market price for its inventory (deposits). Now with freedom to pay market rates for our inventory, banks generally have adjusted their prices to reflect services rendered and the general public has accepted well this shift from the large-subsidizing-the-small to everyone paying a fair price for services received — and, in turn, receiving a fair price for use of their funds.

One of the reasons financial institutions have been able to adjust so well to this form of deregulation has been and

Bank CEOs Look at Interest Rates, Deregulation, Problem Loans, Economy for Coming Year

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will continue to be their use of computers and technology. The wide range of deposit services offered by banks today not only would have been prohibitively costly, but physically impossible just a few decades ago. I think our industry has proved we can compete successfully for funds in a free market and bring a respectable profit to the bottom line. If we are to continue this positive trend, we must be ever alert to new services the financial markets need and are willing to pay for. We must be innovative and we must polish our selling skills if we are to compete successfully with our nonbank competition.

New Services. The financial marketplace always has been willing to accept new services. Today is no exception. One service I believe banks will find profitable and desirable is one that will provide total or almost total financial planning and advice to that segment of the population in need of such planning and advice. Such service has been restricted in the past to only the very high-income individual. I believe there is a large group of people who need and will pay for a service that will provide them with individual cash management, investment advice and execution, tax planning (including shelters), retirement planning and credit availability. Such a service can be packaged by banks through use of computer technology and I believe sold effectively to a large segment of our customer base.

Legislation. Only seven states do not permit either statewide multi-bank holding companies and/or statewide branching. Kentucky is one of these states.

When the Kentucky Legislature meets this month, it will consider a bill allowing statewide multi-bank holding companies. The legislation has the backing of the Kentucky Bankers Association and most of the banking interests in the state. The proposed legislation will allow a bank holding company to acquire no more than three banks in any one calendar year, will limit any holding company to no more than 20% of state deposits and, after a two-year waiting period, will provide for bank acquisition across state lines on a reciprocal basis.

If the legislation passes, it will enable the Kentucky banking industry to acquire size, geographic diversity and financial-services expertise that will be required if it is to compete in the financial-services marketplace of the future. I feel it is good legislation and that it will prevail. I further feel that, in all probability, legislation for interstate banking will come from the several states and not from the national level.

The invisible walls surrounding the banks of our country, originally built to protect the depositor, are tumbling down, and it is for the better. ● ●

Economic Prospects for Bankers Favorable in 1984 — and 1985

By John H. Hendee Jr.
President
First Wisconsin National Bank
Milwaukee

A YEAR AGO, the consensus view on national economic trends in 1983 was that a moderate recovery might occur. In First Wisconsin's primary market territory — Wisconsin and contiguous states — the consensus was that the regional recession would continue, even if business did improve at the national level. Clearly, those who were in the consensus were unduly pessimistic. The nation experienced a vigorous and broad-based cyclical rebound in 1983, one in which Wisconsin and its neighbors participated more and more as the year progressed.

"Bankers are proving themselves well able to handle deregulation and to compete with nonbanks, but caution will be needed in dealing with interest rates." — John H. Hendee Jr.

For 1984, the national and regional consensus is presently quite optimistic. We think that Federal Reserve policy since mid-1983 was restrictive enough that it will produce a significant slowdown in business growth in early 1984. This could temporarily generate recession fears. We believe, however, that the Fed will ease its policy vigorously and quickly enough to ensure that 1984 will be as good for business as the consensus anticipates.

Even if the nation undergoes the slowdown we suggest, our trade area will see strong growth throughout 1984. In the second year after past recessions, capital spending usually has been the fastest-growing sector in the economy. We expect that capital spending will set the pace in 1984, and we note that it was already starting to do so in late 1983. Given how large capital-goods production looms in the upper Midwest, our region will grow as fast as or faster than the nation. If agricultural equipment and exports were to rebound sharply, which does not seem likely, the "rust bowl" certainly would shine brightly.

For bankers, economic prospects in 1984 — and probably 1985 — are quite favorable. Loan problems tend to peak a year after a recession ends. Since the last recession ended in November, 1982, and since more and more businesses should recover this year and next, problems in the loan portfolio also should diminish. Consequently, primary challenges facing bankers may shift elsewhere in the balance sheet and income statement. Bankers are proving themselves well able to handle deregulation and to compete with nonbanks, but caution will be needed in dealing with interest rates. The economic slowdown we foresee should bring interest rates down, but only temporarily and not by much. Some bankers may be tempted to buy bonds during this period. Given the federal-deficit problem and the strengthening in private-sector credit demands, interest rates seem destined to rise over the next two years. Handling those higher rates and preparing for the next recession, whenever it comes, will require all the skills and energy bankers can muster. ● ●

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Deregulation to Bring New Focus On Customer in Number of Ways

By John Dulin
President
First Tennessee Bank
Memphis

AS BANKERS, we tend to think of deregulation in limited terms. We look at the ways deregulation allows us to engage in new kinds of business, decide our rates and make our own decisions with all their attendant risks and opportunities.

However, deregulation, like other large social movements, does not flow in only a single direction with some inherent, determining focus. There are eddies, shoals and islands that must be negotiated.

One obvious crosscurrent involves protection of the customer. As an industry, we have made good arguments for greater deregulation: fairness of competition, increased efficiency, etc. What legislators now apparently want to know is how continued deregulation will benefit their constituents. Obviously, customers have benefited from deregulation already through higher interest rates on their savings, greater service convenience and more opportunities for investment. The question that needs to be answered now is how continued deregulation will bring new benefits — not to bankers — but to customers.

"An ironic side of deregulation bankers need to be sensitive to is the outcry from some activists . . . that customers now are overwhelmed by too much choice." — John Dulin

This new focus on the customer probably will show up in a number of ways. In California and New York, laws quickly were passed last session to limit the amount of time banks could withhold access to depositors' funds. A similar bill will be introduced in the Maryland legislature, and two bills have been introduced in Congress. Included in the bills and new laws are disclosure requirements, another way of protecting the customer. It is expected that not only will more banks have to establish policies on this question of delayed funds availability, but they also will have to disclose those policies.

Disclosure is cropping up elsewhere. Information on foreign loans and nonperforming assets are examples. With the idea that freedom entails responsibility, legislators are likely to expect other kinds of disclosure from bankers in the coming months.

Fears that deregulation adversely affects small business and small communities in addition to individual customers have not yet been allayed. Just recently, a member of the Federal Reserve's consumer advisory council called for a revision of the Community Reinvestment Act to counter what he sees as the ill effects of banking deregulation on small communities; a finance specialist for the National Federation of Independent Business wrote a feature article for *American Banker* not long ago on how small business can expect to suffer; and Fernand St Germain, chairman, House Banking, Finance and Urban Affairs Committee, warned the banking industry of the danger that "the middle classes will be left out of the brave new world of financial services."

Every state probably will have its own particular pressure points. In Tennessee the push to re-regulate is taking the form of examination of credit-life-insurance loss ratios and the desire of state officials to regulate bank holding companies.

An ironic side of deregulation bankers need to be sensitive to is the outcry from some activists such as Ralph Nader that customers now are overwhelmed by too much choice. The new complexity of the financial marketplace has likely caused some uncertainty and questioning among customers as to how they should invest their funds. Mr. Nader claims the increasing number of choices and the fast flow of information has created a new need: He foresees the growth of for-profit information brokers and rating services to help customers make intelligent choices among the various interest rates and products offered nationwide.

These sorts of crosscurrents will continue to develop as deregulation proceeds. The industry will see new kinds of regulation, both on the state and federal levels, justified in the name of customer or investor protection. If we are sensitive to the marketplace and the needs of *our* various constituents, we can take advantage of these new opportunities, meet them head on, rather than feel we must fend them off. • •

Improved Economy to Result In More Lending Opportunities

By Dennis E. Evans
Chairman/CEO
First Bank Minneapolis
First Bank St. Paul

NOW that the national economy has a full year's recovery under its belt, we're anticipating even better growth in 1984. To further encourage the national recovery, we believe the federal government's fiscal and monetary policies, particularly in this election year, will be geared to maintain the growth.

We foresee no substantial spending cuts or tax increases at the federal level. Beyond that, we expect that the Federal Reserve will move to lower interest rates should the economy show signs of slowing.

We expect our regional economy to follow these more positive economic trends as well. The recovery will continue to have an important impact on the cash flows, profitability and financial conditions of our corporate customers. Businesses will be more encouraged to resume or increase their spending on equipment and plant improvements. This, in turn, will translate into increased lending opportunities for banks.

Concurrently, a stronger U. S. economy will help spark an upturn in world trade, which should improve credit conditions both at home and abroad. Also, an important by-product

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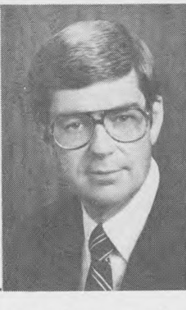


"At this point, it appears the worst of the banking industry's domestic loan-loss problems may be over." — Dennis E. Evans

of the recovery is that it has ameliorated the widespread credit-repayment problems of the past two years. At this point, it appears the worst of the banking industry's domestic loan-loss problems may be over. In addition, we continue to be encouraged by the slow, but steady, improvement in our region's agricultural sector.

As we look at the greater opportunities ahead due to deregulation, we also should expect this deregulation to bring even more competition to the financial-services marketplace. This competition will come from inside and outside the banking community. Nonbanking institutions such as savings and loans, insurance companies and business financial companies will view the economic upswing as an opportunity to expand their businesses, which may be done at the expense of the banking industry. In addition, foreign banks, motivated in part by the strength of the dollar, can be expected to have a greater presence in the U. S. market.

We view these trends as a definite opportunity for banks that have moved actively to position themselves as low-cost and high-value-added producers of banking services. Banks that have been able to reduce their costs and more effectively deliver products that meet the changing needs of customers stand the best chance of competing for funds and generating acceptable margins. The key to banking success is customer service. ● ●

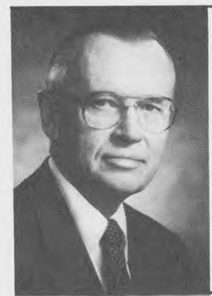
Innovative Strategic Planning To Be Needed in 1984

By Roger E. Anderson
Chairman/CEO
Continental Illinois
Nat'l Bank & Trust Co.
Chicago

AS THIS new year begins, banks are faced with many important challenges and changes in their traditional businesses — low domestic loan demand, nonperforming loans here and overseas, further deregulation and serious competition from nonbank organizations, particularly in the retail market.

Clearly a factor that deepened the loan difficulties and led to a decline in loan demand — with major impact on commercial banks — was the recent economic recession, which ended in the fourth quarter of 1982 and has been followed by a year of expansion.

The economic environment for the next several years will feature modest output growth, low inflation relative to the past several years and more subdued financial markets. Nonetheless, the pattern of growth will be uneven, and uncertainty over both the economic outlook and conditions in the financial markets will create difficulties. In large part, this uncertainty reflects the pattern of economic activity in the past several years. It also, however, reflects concern about U. S. fiscal and monetary policies and worldwide international financial difficulties.



"Economic activity should rise at about a 3.5%-4% rate in the next several years." — Roger E. Anderson

The net result is that economic activity, while slowing from the rebound pace experienced in 1983, should rise at about a 3.5%-4% rate in the next several years. The extended rise in economic activity and broader base of industrial participation should mean a healthier business climate by the mid-1980s. Corporate profits in 1985 are expected to be more than 50% higher than at their low in 1982, thus allowing substantial improvement in corporate balance sheets. This would provide a significant opportunity for investment banks and commercial banks in the Midwest that service major and middle-market businesses.

The international economic environment is likely to improve over the next three years, compared to the previous three years. Economic activity in industrial countries outside the U. S. is expected to rebound in 1984 and then remain moderate. The major impetus for growth will come from consumer spending and export sales. Interest rates overseas should be at their lowest in 1984, before beginning to rise as credit demands mount. Inflation is not expected to be a major concern as growth remains moderate, the weakening dollar lowers import costs, and downward wage flexibility becomes more common.

Meanwhile, the competitive environment will continue to change rapidly, offering additional challenges — and opportunities — for banks.

Traditional lines of financial services and geographic jurisdictions that once separated banks from other institutions have become difficult to discern. It is likely these lines will be obliterated in 1984 as further deregulation of the financial-services industry becomes a reality.

Nonbank competitors have successfully encroached on many of banks' traditional markets, and these nonbank companies have ranged from a major retailer, insurance companies to brokerage firms. In addition, companies have moved beyond their traditional geographic markets by buying smaller banks and savings and loans across the country.

The banking industry has been somewhat handcuffed in response to this competition, primarily because of state and federal regulations. But these restraints could be loosened if the proposed Financial Institutions Deregulation Act, or a version of this legislation now before Congress, is adopted. This act is one of several proposals before Congress that attempt to correct inequities that exist among the different types of financial

Recovery has improved the credit-repayment situation . . . Modest output growth, low inflation, subdued financial markets seen

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institutions because of existing laws and regulations written in a different era. Its intent is to expand the list of financially related activities in which banks and thrifts can be active.

In addition to proposals in the act, it has been suggested that security-underwriting restraints be lifted and adequate provision made covering interstate banking to delete any barriers to providing a range of financial services. Also, concern has been voiced that even under the proposed law, regulators would retain substantial control of the banking industry. This might mean that nonbank entities that offer financial services and come under less stringent regulations could offer products and activities far more easily than banks. Naturally, there has been opposition to the act, and it is quite possible that a moratorium will be called for in 1984.

It is difficult to project what the financial-services industry will look like in the Midwest and nationally within the next few years. Many experts have predicted that the number of banks in the U. S. will be reduced from near 15,000 to around 9,000 as institutions retrench and merge to remain in existence and respond to fierce competition. It is clear that nonbanks will continue to press ahead with expansion and definitely pose a threat to the banks whose focus is predominantly retail.

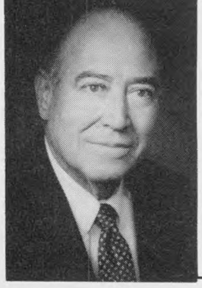
There are many and complex issues facing the banking industry in the Midwest and throughout the nation as we start a new year. One thing banks — whether they be commercial, investment, merchant or retail institutions — can be certain of is that the financial-services industry will continue to change. Our industry is evolving and this will demand clear and innovative strategic planning in order to respond to challenges and take advantage of opportunities. Competition is here to stay, and this will be stimulating for the banking industry and beneficial for America's businesses and consumers.

Beginning of 1984 Looks Better Than Economy of Year Ago

By James D. Berry
Chairman/CEO
RepublicBank Corp.
Dallas

THE BEGINNING of 1984 looks a lot better for the American economy than the economic signs we were facing a year ago. And Texas particularly is benefiting from the economic turnaround that is spreading into all areas of business activity in our nation.

Christmas sales in the United States at year-end 1983 were the strongest in five years, and this means businesses will have to boost their production and employment in the months ahead to re-stock retail shelves. As a result, this investment in business inventories should spearhead economic growth in the first half of 1984; and the revival in business investment in new plant and plant and equipment will carry the recovery into 1985.



"In summary, the economic recovery is strong and is beginning to broaden. The rate of inflation will increase a bit this year, but not get out of hand." — James D. Berry

At the same time, monetary and fiscal policies will accommodate full recovery, despite growing concerns over the federal budget and trade deficits. The expansion will raise the rate of inflation a bit, but there is little present danger of prices moving sharply upward. Inflation will continue to be tempered by further increases in productivity and relatively mild wage gains.

These economic trends will be particularly favorable for the Texas economy, which got off to a rocky start in 1983 because of uncertainty over the OPEC oil-price cut. This year should be quite different for Texas as its economy steadily regains strength and moves forward.

The unemployment rate in Texas, which peaked at 9% last March, dropped to 6.8% in November. The jobless rate should continue to slide and level off in the neighborhood of 6%. Thus, the traditional two-percentage-point spread between state and national unemployment rates likely will be re-established.

Much of the current economic activity in Texas is due to increased output in the cyclical industries. The sharp rise in residential construction a year ago prompted increased production in building materials and furniture. Because residential construction will show no further growth in 1984, production in these industries will level off.

But the slack is being taken up by expanding output in other consumer-related industries. For example, food and apparel production is rising, and output in the electronics industry, which languished for three years, is in a strong recovery. Prospects for inventory building in the months ahead will stimulate the paper industry of east Texas to supply a growing need for paperboard and packaging materials. Recovery by these industries will result in increased bank borrowings in 1984.

The most significant aspect in the Texas economy today is the current recovery in oil-field activity. Renewed energy demand, decline in drilling costs and stable oil prices are contributing to the steady rise in number of active drilling rigs. The rig count is the most widely followed indicator of drilling activity, and it is down about 40% from its all-time high two years ago, but it is higher than a year ago. It might surprise those who do not follow the oil and gas industry closely to know that 1983 was the third most active year in number of wells and footage drilled. And given the current trend, 1984 will be a better year than 1983 and take its place as the third most active year in those terms.

RepublicBank Corp. is confident that oil and gas will continue to play a major role in the Texas economy and that is why we have established a major banking presence in the Midland/Permian Basin markets of the west Texas energy region.

The recovery in drilling is particularly important to the large oil-field-equipment and supply industries. In Texas, more than half the jobs in these supplying industries were lost, compared with a 12% drop in number of oil-field jobs. The rise in wells and footage drilled is reducing oil-field-equipment inventories, particularly materials used in relatively shallow oil wells. It will take another year or so before current inventories needed to equip deeper gas wells can be drawn down and even longer before rig manufacturers see recovery. Nonetheless, oil-field equipment is beginning to recover slowly, and economies of such areas as Houston and Odessa will be much improved a year from now.

There are two other factors I consider important to the long-run vitality of the Texas economy. The first is the state's population growth, which currently is increasing about 500,000 persons a year. At this rate, Texas will

(Continued on page 40)

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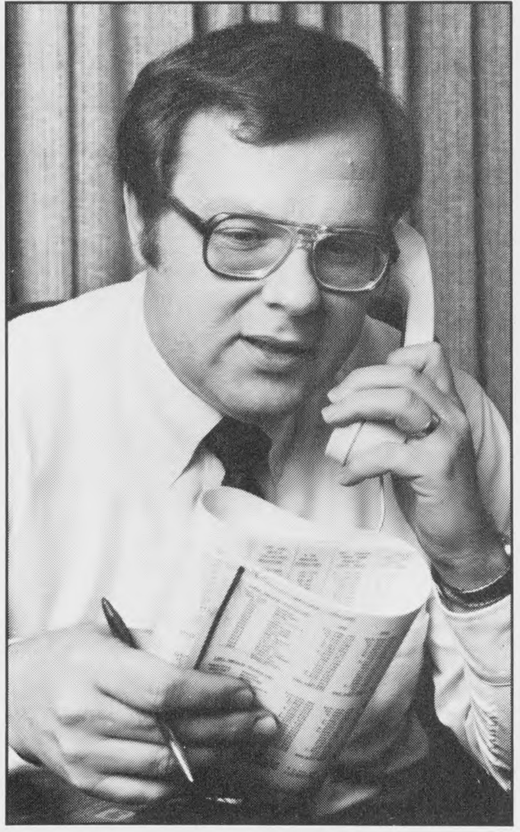

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Most CEOs Consider Deregulation An Opportunity, Survey Finds

Majority See Earnings, Loan Volume Up in '84

A COMPREHENSIVE survey of bank CEOs at year-end 1983 reveals the following views relating to deregulation and its effects, the earnings outlook, the interest-rate outlook and key issues facing management decisions in 1984:

- Three-quarters consider banking deregulation as an opportunity.
- The predominant new service since deregulation is discount brokerage.
- More than half the responding bankers will not significantly increase the number of service fees in 1984.
- Insurance products were cited as the service most banks want to have authority to offer.
- More than three-quarters of the bankers view discount brokerage as a service with limited profit potential but useful for cross-selling.
- More than half the respondents predict earnings to be up in 1984.
- A significant majority predict loan volume will be up in 1984.
- Almost 90% of the bankers voted for Ronald Reagan in 1980 and almost that percentage expect to vote for him again in 1984; yet only one-fifth feel Mr. Reagan best represents the interests of the banking industry among the presidential candidates running in 1984.
- Factors most likely to affect management decision-making in 1984 involve interest margins, loan demand and deregulation.

Following is a specific breakdown of survey questions and responses:

Question 1: At this stage in the deregulatory process, do you regard deregulation as (a) primarily an opportunity — 76%; primarily a threat — 11%; undecided — 13%.

Question 2: What have you already done and what do you plan to do to take advantage of opportunities deregulation presents?

Bankers already have done the following: (in descending order of number of times mentioned): established discount brokerage service — 24%; innovated with new products — 16%; established asset/liability-management programs — 13%; deregulated CD rates — 11%.

Some one-third of the respondents said they plan no steps to take advantage of the opportunities presented by deregulation. Others said they plan to establish discount-brokerage services, develop new products, be more aggressive in marketing bank services, adopt asset/liability planning programs, establish HCs, install or add ATMs, join ATM networks, establish appraisal services and offer insurance and leasing services.

Question 3: Will you significantly increase the number of service fees your bank charges customers during 1984? Fifty-five percent responded negatively to this question. Many respondents stated they increased service fees in 1983. Of the 45% responding positively to the question, many said they would perform detailed costing of accounts of all types; raise the minimum savings balance for payment of interest; charge for low-balance savings; institute a non-customer check-cashing fee; make more use of commitment fees and fees for unsecured lines of credit; establish incentive compensation for personnel to increase morale, efficiency and productivity; develop universal money-management programs; reduce costs and number of personnel; institute customer-profitability-analysis programs.

Question 4: Do you believe a bank should be permitted by law to have a stock-brokerage business — 82% favor; sell all kinds of insurance products — 89% favor; pay interest on demand deposits — 63% favor; and branch across state lines — 47% favor.

Question 5: How do you view discount-brokerage services? As a service with significant profit potential — 8%; as a service with limited profit potential but useful for cross selling — 76%; as a nuisance product that competitive pressures have forced banks to offer — 13%; and inappropriate for banks — 8%.

Question 6: During 1984, bank earnings will be up — 58%; down — 39%; same — 21%. Those predicting earnings to rise said the increases would be in the 3% to 100% range. The percentage most-often mentioned was 10%.

Question 7: During 1984, loan demand will be up — 68% (from 5% to 30%); down — 26%; unchanged — 16%.

Question 8: The high for the prime in 1984 will be 12% — 39% selected this figure; 11.5% — selected by 18% of the respondents; 13% — chosen by 11% of the bankers. The highest rate selected was 15%, the lowest 11%.

Question 9: The low for the prime in 1984 will be 10% — selected by 48%; 10.5% and 8.5% — each figure selected by 30% of the respondents. The lowest rate selected was 8.5%.

Question 10: Did you vote for President Reagan in 1980? Yes — 89%.

Question 11: Would you vote for President Reagan in 1984? Yes — 84%.

Question 12: Which presidential candidate do you feel best represents the interests of the banking industry? Reagan — 21%; Glenn — 8%; none — 11%.

Question 13: At the state level, what legislation are you monitoring that could have a substantial impact on banking?

Various aspects of interstate banking/branching won hands down. Bankers in several states were concerned about reciprocal-branching arrangements that would permit branching across state lines among states or regions enacting enabling legislation. A breakdown of the most pressing issues by state reveals the following:

Alabama — Liberalized branching, including reciprocal arrangements.

Arkansas — Changes in HC regulations.

Illinois — All aspects of interstate banking, including reciprocal, and interstate ATM sharing.

Indiana — State-wide branching, authority to establish multi-bank HCs and cross-county branching.

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Kansas — Structure changes that would permit multi-bank HCs, ATM/POS networks and changes in the rate structure for the Uniform Commercial Credit Code.

Kentucky — State-wide banking, multi-bank HC authority and raising the usury ceiling.

Louisiana — structure changes that could result in authority to establish multi-bank HCs, interstate reciprocity and state-wide branching.

Minnesota — Expanded intrastate branching, added powers for state banks and thrifts, reciprocal branching on an interstate basis.

Mississippi — Extending the usury ceiling and branch banking.

Ohio — Reciprocity for interstate banking and a modification of the franchise tax.

Oklahoma — Revision of multi-bank HC law that went into effect last October and taxation.

Tennessee — State-wide branching, interstate branching and retail loan rates.

Texas — Bank-shares tax reform and branching.

Wisconsin — Interstate banking, mortgage-foreclosure changes, additional powers for state banks to give equality with national banks.

Bankers were asked if they agreed or disagreed with the following statements:

A. The new money-market accounts have been as successful as I hoped in attracting new business to my bank. Seventy-one percent agreed; 21% didn't agree.

B. Federal legislation that will have a significant impact on banking structure will be passed in 1984. Agree — 47%; disagree — 42%.

C. Next November's national election will result in a reversal of the economic policies initiated under the Reagan Administration. Agree — 13%; disagree — 76%.

D. In the year ahead, I feel my bank will need a more sophisticated loan-pricing method. Agree — 71%; disagree — 24%.

E. I feel my bank needs a more satisfactory method of determining proper interest rates on all deregulated demand and time accounts. Agree — 66%; disagree — 30%.

F. The current recovery will continue all of the way into 1985. Agree — 87%; disagree — 3%.

Selected bankers were asked what key issues would affect their management decisions in 1984.

- "What happens to interest rates." —*John R. Montgomery III, president, Lakeside Bank, Chicago.*
- "Banking structure in deregulation — in terms of how deregulation changes our way of doing business." — *Dennis T. Dorton, vice president/cashier, Citizens National, Paintsville, Ky.*
- "The actions of Congress and the DIDC in continuing deregulation, particularly as it relates to payment of interest on demand accounts. Also, the expansion of branching capability within our state." — *David M. Gilman, president, Fidelity Bank, Minneapolis.*
- "Pricing of products; incentive compensation; development of a complete money-management program for customers; use of new tools to develop additional business (insurance, underwriting of municipal securities, real estate brokerage, etc.); expense control; developing increased productivity; better trained sales-oriented officers making a lot of calls." — *G. C. Pittman, chairman, Victoria (Tex.) Bank.*
- "The national economy; the interest-rate level; and profit decline because of a diminishing interest-rate spread." — *William H. Kennedy Jr., chairman, National Bank of Commerce, Pine Bluff, Ark.*
- "Continued bank deregulation; economic recovery and its effect on loan demand at the local level; and, sophisticated costing, pricing and hedging techniques." — *Ronald R. Carroll, president, Citizens Bank, Jeffersonville, Ind.*
- "Continuation of the economic recovery, maintenance of earnings growth in light of compressed margins, increased competition from all financial intermediaries and state legislative changes in banking structure." —*Jordan L. Haines, chairman, Fourth National, Wichita.*
- "Deregulation, increased bank/thrift competition and operating costs." —*Jack O. Weatherford, chairman/CEO, Mid-South Bank, Murfreesboro, Tenn.*

Bankers participating in the survey represent banks ranging in size from $40 million to $2.6 billion. Responses were received from banks in 14 of the 17 states served by MID-CONTINENT BANKER. — **Jim Fabian, senior editor.**

CEOs Sound Off About Issues

BANK CEOs responding to the survey reported in the adjacent article were given an opportunity to "blow off steam" about bank-related issues. Following are some responses:

"I feel deregulation of the financial-services industry has created a climate of anxiety among small banks and has been poorly orchestrated by piecemeal legislation. I think the pressures come primarily from large financial conglomerates such as Citicorp, Merrill, Lynch and Prudential/Bache that wish to capture the public's savings/investment dollars, particularly those now held in community financial institutions."

"Regulators are really less understanding, less helpful and more unreasonable now than ever before in the history of banking."

"The U. S. Congress is a mess; the FDIC is a mess; there's a hodgepodge of interstate confusion."

"Re Senator Dole on standby withholding: I thought the ABA won, but, at a cost of $500,000, I find we lost."

"I wish banking were able to generate more banker interest in many areas. Too many bankers are willing to stay uninvolved. We need their support. Legislators don't know what many bankers think. I wish my directors would be better able to see what banking must do in the future; i.e., offering insurance and real-estate services."

"We're headed toward a banking system with all the earmarks of the pre-depression era. Market discipline works when we talk about making widgits, selling shirts and maybe trading stock, but I'm convinced it has severe shortcomings as concerns the fiduciary responsibility of depository institutions."

"Our only complaint with respect to the deregulation process has been the lack of adequate lead time in many of the mandated changes. We would like to see interest paid on reserves and a general relaxation of laws restricting the types of business in which a bank or bank HC can engage."

"If we don't get rid of Donnie (Regan), we should get rid of Ronnie (Reagan)! There is no chance of lowering interest rates to borrowers with the present environment. Continued deficit financing will re-heat inflation, raise rates and times will get a bit tough."

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The Banking Environment in 1984; Compared to 1983, It Looks Good!

By Roy E. Moor
Senior Vice President/
Chief Economist
First National Bank
Chicago

AT THIS conference in 1982, I said, "1983 appears to be an extremely tough year for the banking industry. Indeed, the year ahead may prove to be the most difficult period since World War II."

As I review the forecasts that underlay that conclusion, my feeling is that the above forecast was reasonably accurate. I suspect we all would agree that 1983 has been a difficult year, if not, in fact, the worst in the postwar era.

In contrast, 1984 is going to look pretty good. Compared to other recovery years for the banking industry, it looks relatively bleak, however. Therefore, my assignment is to attempt to strike a balance between the positives and negatives that lie ahead.

General Business Conditions. Rather than launching immediately into the specifics of my banking outlook, I want to stress three factors in the general business environment that will affect all of us directly in banking in the next year. One of these factors is the state of the financial markets in which we participate. Unlike 1981 and 1982, when short-term interest rates were falling sharply, 1983 has seen remarkable stability in rates. Within short-range periods, they have been quite volatile, but the trading range has been only 100 basis points, and a similar trading range is likely to prevail throughout 1984.

None of us should plan on significant interest-rate declines this year. Our specific forecast calls for some slight declines in rates in the spring, followed by a rise later in 1984. The overall trading band probably still will be about 100 basis points or so wide, but may be notched down a bit from levels that prevailed last year.

Whenever a forecaster describes a trading band for financial markets, he implicitly is saying he sees a balance of forces affecting those markets. And that exactly is what we expect for 1984. The federal deficit for 1984 will be around the level that prevailed in 1983. Instead of falling as they have through most of this year, business-borrowing demands will be rising modestly. Offsetting these forces will be increasing flows of foreign funds into the United States and growth of household savings and business profits. Economic conditions have been adequately discounted in current rates and, therefore, constitute a neutral influence.

The economy will continue to grow throughout the year. Moreover, the pattern of growth will closely resemble the second year of past business-cycle recoveries. That means that personal income will continue to rise as will consumer spending, but at slower paces than in the last six months, when households were making up for purchases deferred before and during the recession. Most of the basic industries in the Midwest that have experienced their own recessions during the last 18 months will feel recovery.

But the third economic factor I want to mention, namely the continuing low inflation rates, will have some dampening effects. We anticipate general inflation rates only slightly higher in 1984 than they were in 1983. Just as in 1983, competitive conditions and consumer resistance to price hikes will hold business prices almost at last year's levels.

Cost management again will be the name of the game in 1984. Such a conclusion is, of course, fully applicable not only to the banking industry itself, but also to the business viability of our customers. Assessing their viability can best be done by examining how well they manage costs.

Business-Loan Demand. Within this setting, we expect business borrowing from banks to rise in 1984 about 4.7% above the average level of loans in 1983. That is an almost unprecedented low rate of business-loan gain for a second-year recovery. That projected growth is not as bad as it initially appears, however. During most of 1983, business loans outstanding have been declining and only now are picking up. This trend should continue

Editor's note: This article is an edited transcript of a report presented November 21 by Mr. Moor at the 37th annual First National, Chicago, conference of bank correspondents at the Chicago Marriott Hotel.

Panel of experts at opening session of First Nat'l, Chicago, correspondent conference included (from l.): E. Neal Trogdon, s.v.p./head, national group; Edward M. Roob, s.v.p./v. ch., asset/liability committee; Roy E. Moor, s.v.p./chief economist, economics department; Gary P. Brinson, s.v.p./chief investment officer, investment management group; and Nicholas J. De Leonardis, v.p., money-management committee.

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throughout all of this year and, indeed, should accelerate later in the year. Many banks will experience much greater gains than the projected increase implies. Business-loan demand tends to be concentrated among regional and local banks more than among money-center banks.

We all must be aware of forces restraining loan demand, however. In part, they are associated with the economic forces I described earlier. Businesses want to hold down their costs every way they can. Maintaining skinny inventories is one way of doing so. Another way is to restrain expansion and amortization plans. From a banker's standpoint, we must accept that high interest rates hold down borrowing demands. We also must recognize that competition within our industry from other banks and other types of financial intermediaries (even foreign sources) is more acute than ever.

Since I am attempting to present a balanced picture, we also should focus on the favorable aspects of this forecast. We had a business-failure rate in 1983 higher than in any year since the great Depression. In 1984, we will be dealing with business borrowers who are survivors whose balance sheets and ability to service their loans is improving. That means that although our loss reserves may not be reduced in 1984, at least we don't face the prospect of increasing them.

Agribusiness Lending. It may come as a surprise that we expect loans to farmers to rise by perhaps 15% in 1984. The environment appears favorable for such an increase. Journalistic hype notwithstanding, the facts are that net farm cash receipts and net farm income have risen quite well in 1983. The general financial condition of farmers is not as bad as newspaper articles suggest. Total farm debt, both mortgages and others, currently constitutes only about 20% of total assets owned by farmers who should be able to repay some of their existing loans in 1984. We also anticipate substantial acreage and production increases, especially for crops other than wheat. Demand for fertilizers, pesticides and farm machinery should be up in 1984 because of the increase in production we expect. Demand for these items declined in 1983.

Real-Estate Loans. Our overall forecast is that real-estate loans will increase about 5½% in 1984 over 1983 levels. But let me highlight the factors underlying our forecast that should enable you to make a more precise forecast concerning your own outstand-

"General stability finally has arrived in deposit markets after substantial adjustments brought on by deregulation. Through most of 1984, therefore, depositors are likely to change their holdings in a more balanced way under a better-understood set of conditions."

Other Predictions for 1984

Here is a sampling of other predictions for 1984 that First National, Chicago, experts in a variety of fields presented at the 37th annual conference of bank correspondents:

- *Consumer-credit demand* should be excellent, particularly for auto loans, as banks try to find profitable outlets for new funds and consumers maintain strong purchasing patterns. The most significant new trend in consumer credit will be the home-equity or second-mortgage loan that has gained new respectability — *Michael S. Kessler, vice president/division head, First Card Services, Inc., a First National, Chicago, division based in New York City.*
- *Retailers* should experience good quarter-to-quarter gains in 1984, a year that should end with a strong, if not robust, Christmas-selling season, depending on how much personal income has climbed and the unemployment rate has dropped by that time. —*Jon C. Goetzke, vice president, retailing companies division.*
- *Real-estate lending* should provide bankers with excellent opportunities, particularly if long-term interest rates decline sufficiently to release the torrent of pent-up demand for housing economists say exists. Demand among new families and first-time buyers should continue to be strong and multifamily and manufactured housing is gaining favor at the expense of the traditional single-family home. —*Daniel A. Lupiani, senior vice president, real estate group.*
- *Bond-market* interest-rate activity will continue to be erractic due to domestic and international events. A slight ease in long-term rates is possible if real economic growth slows to the point that the Fed feels comfortable with such a development. —*Nicholas J. De Leonardis, vice president, financial markets division.*
- *Financial-market* rates should be marginally lower by year's end. Fed funds should flirt with breaking the 9% level, 180-day CDs the 9¼% level, and the long-bond rate should approach 11¼% to 11⅜%. During the first six months of 1984, these rates should trend even lower, in a pattern similar in magnitude and variability to last year. — *F. Gerald Byrne, vice president, financial markets division.*
- *Tax-exempt demand notes and commercial paper* will continue to gain favor among tax-exempt borrowers as a means of financing long-term capital needs at short-term rates. Such programs require banks to have standby credit to provide an alternate liquidity source should the investor redeem such notes prior to maturity. At the end of 1982, commercial banks had an estimated $10 billion in backup lines of credit to support such instruments that should generate at least $187 million in fee income over the life of the programs. The continuing popularity of these instruments is evident. — *Robert G. Donnelley, vice president/division head, health, education and municipalities division.*
- *Asset-based financing* is an industry that has changed dramatically in composition and is approaching maturity. As in any maturing industry, low-cost producers will be the successful participants, and centralizing operations and developing cost-efficient collateral-processing methods are the most likely means of cost containment. Leveraged-buyout activity is a case of too many bidders chasing too few situations and prices are being bid up unrealistically high. —*Martin J. McKinley, vice president, asset-based finance group.*

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ings. We believe that for the nation as a whole and most local areas, new home construction, either single-family or multifamily, will be about the same as in the past year. About half of our projected 5½% increase, therefore, comes from turnover of existing homes.

Incidentally, we have seen a renewed interest in variable-rate mortgages among both home owners and lending institutions. In particular, some S&Ls in certain parts of the country are beginning to market these mortgages aggressively and set rates on them below those for comparable fixed-rate mortgages. We expect this trend to continue in 1984.

"None of us should plan on significant interest-rate declines this year. Our specific forecast calls for some slight declines in rates in the spring, followed by a rise later in 1984."

Other than in residential loans, we anticipate virtually no changes in outstandings for other types of real estate. Speculators will stay on the sidelines because real-estate prices are remaining quite stable. Commercial and industrial real estate remains in excess supply in most areas of the country, and we do not expect perceptible increases in financing demands for new projects in 1984.

Household Borrowing. Aside from mortgages, consumer-related loan demand should continue to grow smartly throughout 1984. As I mentioned earlier, growth in household purchasing in the last six or seven months has been, in part, recoupment of demands deferred from past periods. Nevertheless, we see consumer loans in the banking system rising about 9% year-over-year in 1984. By the way, part of this demand is to finance home remodeling and refurbishing.

There is more good news here. Despite the expected rise in consumer borrowing, household balance sheets should improve throughout next year. Total family income will be rising at least as rapidly as debt. Tax rates will remain stable and personal assets of all types will rise in value.

Deposits. General stability finally has arrived in deposit markets after substantial adjustments brought on by deregulation. Through most of 1984, therefore, depositors are likely to change their holdings in a more balanced way under a better-understood set of conditions.

For demand deposits, the only growth likely will be associated with increasing transaction demands, primarily by businesses. Although business activity will continue to grow, we expect increase in demand deposits throughout the banking system of only about .008% over 1983. By contrast, other checkable deposits that yield interest will grow rapidly — by more than 18% — largely because of an interest-sensitive population who will be saving an increasing portion of their income next year. Savings deposits in the traditional forms should decline in total volume throughout the system by about 2%, again reflecting interest awareness by consumers and the continuing advertising campaigns by financial institutions.

Bank Costs. Here we come to one piece of bad news for banks. With interest rates on deposits relatively stable and the greatest growth coming in deposits that carry high interest-rate costs, the overall money cost for banks will be rising in 1984.

Another bit of bad news stems from our general interest-rate outlook that — along with acute bank competition for loans — implies that a widening of yield spreads is unlikely. These cost pressures mean each of us has to scrutinize our remaining costs and economize wherever possible. One area probably is the purchase of outside services such as advertising and legal. Competition among providers of these types of services is at least as great as in the banking industry itself, so we face a buyers' market.

A bank's major cost is, of course, labor. We predicted in 1982 that the increase in average hourly earnings for bank employers in 1983 would be only about 4½%. On the basis of data available through August, the figure looks to be about 5½%, already the lowest rate of gain in a decade — and it continues to slow. Our estimates are for increases close to 4½% for hourly earnings gains in banking in 1984.

One change in costs all of us have been observing through the last several years has been a rapid movement in banking to new labor-saving technologies. We expect at least as fast a pace of conversion to new technology in 1984. This represents capital investment for all of us, but the payback in overall cost economies still seems justified.

Federal Reserve Policy. My forecast concerning Federal Reserve policy can be summarized quickly: more of the same. What we have been seeing in the second half of 1983 is what we expect to see, with no significant changes throughout all of this year. Specifically, we do not anticipate any changes in Fed policies associated with the election. Indeed, we believe it is unwise for anyone to assume that in this environment, politics will perceptibly affect the Fed. One reason is that the political consequences of any Fed actions today are more obscure than in any time in recent history. Another reason is that any overt actions by the Fed away from its self-proclaimed policies would lead to market reactions that could be the opposite of those the Fed hoped to stimulate.

Conclusion. All in all, 1984 appears to be another difficult year. Nevertheless, the worst is behind us. The best I can say about 1984 is that our earnings prospects will be more influenced by our own management capabilities and less by external forces. That's the good news! • •

Mergers/Acquisitions To Be Seminar Subject In Memphis Jan. 27

The second annual bank mergers/acquisitions seminar — to be sponsored by Memphis State University Fogelman College of Business and Economics — will be held January 27 at the Peabody Hotel, Memphis. Cosponsor is the university's Office of Advancement and Continuing Education, Division of Conferences/Seminars.

Topics will include: "Introduction and Formation of Acquisition Team," "Major Hurdles — Prerequisites to Developing an Acquisition Program," "Anti-Takeover Strategies," "Formation of Acquisition Strategy," "Financial Analysis and Pricing," "Structuring Alternatives and Tax Considerations," "A Banker's Perspective on Mergers and Acquisitions," "Accounting Issues," "Due-Diligence Investigation," "Documentation," "Regulatory Approval" and "New Developments."

Speakers will include a banker, L. Quincy McPherson, president/CEO, First Trust, Jackson, Miss., lawyers and representatives of Peat, Marwick, Mitchell and Morgan, Keegan & Co.

For information on the seminar, contact Glenn Medick, program coordinator, at 901/454-2021.

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Key Bank Strategies Outlined To Fight Nonbank Competition

ALTHOUGH nonbank competitors are offering bank customers a wide range of competitive financial products, banks can capitalize on their ownership of the financial-services market to prosper in the 1980s, a new strategic-planning study indicates.

The Financial Products Group, a division of Whittle, Raddon, Motley & Hanks, a bank consulting firm, presented results of the study this fall to clients in eight U. S. cities, including Chicago, where the company is based. Lawrence Biff Motley, president, Financial Products Group, said the survey of 1,800 consumers showed most people prefer to purchase their financial services from banks. Because banks already have "brick and mortar" in place and community identification, in a sense, banks "own" the market and that's more important than owning the product, Mr. Motley told a group of over 200 bankers at the Marriott O'Hare Hotel in Chicago. Banks have distribution in 60,000 places where their customers can buy financial services, and it is more likely that most potential competitors from outside the industry will attempt to use that existing system rather than duplicate it, he said.

Product innovation will be important for banks, however. Mr. Motley said loans with fixed monthly payments and floating maturities hold special promise. Many of the 350 bankers who participated in the strategic-planning study described in Chicago already had successfully experimented with loans of this type, he said.

Consumers dislike the uncertainty of variable-rate loans while bankers feel uncomfortable with fixed rates at a time when their money costs are volatile. The fixed-monthly-payment, floating-maturity loan reduces uncertainty for both the borrower and the banker. If interest rates rise over the course of a 36-month loan, the loan's maturity might be extended to 39 or 40 months. Conversely, the loan could be paid off sooner than scheduled if rates fall. The borrower's loan payment does not vary from month to month, however. According to Mr. Motley, the floating-maturity concept works best on three- to five-year loans rather than long-term mortgages.

Consumers in the study showed a decided preference for liquidity that banks also can use to their advantage, Mr. Motley said. In one section of the survey, a majority of consumer respondents indicated that it would take a 2%-5% higher rate to get them to move money from a money-market-deposit account to a one-year certificate. Mr. Motley said the study and other evidence suggests that consumers generally prefer a 50-50 split between money they keep liquid and money they are prepared to invest for long periods.

Banks can play on consumers' desire for liquidity to retain customers, Mr. Motley said. Even when consumers took their money out of banks in droves to invest in instruments with higher rates, they tended not to entirely close out their relationships with banks, he said. The strength of the bank-customer relationship provides banks that adopt appropriate marketing strategies with an opportunity to do more than just protect their turf. Many will be able to expand market share, he said.

Banks that prosper under deregulation will be those that understand their own cost structures and the differences between various market segments, the study indicated. Mr. Motley highlighted some of the differences between the mass market and the affluent market that he divided into "high-balance" and "high-income" segments. The mass market represents the bulk of the population, but a disproportionately small segment of the deposit and loan markets. The high-balance market represents a higher percentage of total deposits available to banks, but high-income consumers represent the largest market for loans and new products.

Lawrence Biff Motley (l.), e.v.p., and Jack W. Whittle, ch., Whittle, Raddon, Motley & Hanks, are shown at press luncheon following presentation of study results to Chicago audience. Mr. Motley also is pres., Financial Products Group division of Whittle, Raddon.

As Mr. Motley explained the results of the study, high-balance consumers tend to be older retirees who are interested in protecting the money they have accumulated during their lives and who tend to favor insured-deposit accounts. High-income consumers, on the other hand, will protect themselves by keeping a certain percentage of their money liquid, but also are less averse to risk.

While Mr. Motley lauded the new emphasis banks are placing on appealing to affluent customers, he urged the bankers in his audience not to duplicate Citicorp. of New York City's now famous marketing ploy of announcing publicly that a minimum deposit was required to deal with a human teller. "Never say 'no' to a customer — price it," he said.

The telephone company is especially adept at this strategy, he said. When a customer calls to complain about a service charge, the phone company mollifies the consumer by showing him how he can save money by increasing rather than decreasing his ties to the phone company.

Charge all customers the same rate for equivalent service levels, Mr. Motley told his audience, but rebate potentially irritating service fees to high-volume customers. Banks will find it difficult to make profits on transactions. Rather, banks will prosper by building profitable relationships with customers, he said.

Mr. Motley cited evidence from the

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study that indicates that few consumers would be willing to pay higher fees for expert investment advice from their discount broker. While 40% of the consumers who participated in the study said that their local bank or savings institution offered a brokerage service, only 10% said they had used it. (Usage of discount-brokerage services was 17% and 21%, respectively, for high-balance and high-income customers.) Only 19% of survey respondents said they would be willing to pay more for investment advice, and the study concludes that brokerage services should be offered by banks primarily as a relationship enhancement within the context of comprehensive "affluent marketing programs designed to capture customers' total relationships, rather than as a narrowly defined fee-income generator."

Complete financial relationships with high-balance customers can be built by providing account executives to work with them. Up-scale customers love "eyeball-to-eyeball" contact while the mass market and some high-income customers desire convenience, Mr. Motley said. Banks can meet both needs by substituting capital investment for labor where possible and upgrading the remaining labor, he said. He advocated a "hub-and-spoke" distribution system wherein a centrally located bank maintains regional branches in commercial areas and in affluent neighborhoods while other sections of the community are served by ATMs. In appealing to the mass market, banks should offer "no-frills" checking accounts and price incentives for ATM usage, he said.

Mr. Motley also had the following observations about the future of banking:

- **A "regulatory hiatus" for 1984:** "We're all going to go to the election party and take a rest," he said. Unless Senator Jake Garn (R.,Utah) can get some type of consensus on what should be included in an "omnibus" banking bill this spring, further banking deregulation probably will be postponed until 1985, according to Mr. Motley.
- **Letting others innovate:** Despite deregulation, some banks will be able to survive even if they do nothing, particularly those in smaller towns. Banks in small communities will be able to follow the IBM strategy of allowing others to innovate and then implementing what works, but that strategy will be less workable in larger communities. — **John L. Cleveland, assistant to the publisher.**

Bankers Attending Chicago Seminar Describe Oct. 1 As 'Non-event'

TWO-THIRDs of 100 bankers who participated in a survey at a Whittle, Raddon, Motley & Hanks strategic-planning seminar at the Marriott O'Hare Hotel in Chicago described their customers' reaction to the October 1 deregulation of deposit accounts as a "non-event."

Twenty-six percent of respondents in the survey said that few of their customers had taken advantage of new opportunities, while 8% said a majority of their customers had. When asked to describe the effects of deregulation on their banks, 25% said there had been no effect; 26% said it had hurt profitability; 4% said it had "encouraged them to channel funds out of their community"; 40% said it had enabled them to better satisfy customers' needs, and 45% said they have had to market financial services more aggressively.

The "hottest" deregulation issue in 1984 will be interest on commercial checking, according to 41% of the bankers in the survey. Expanded powers for bank holding companies was described as the hottest banking issue of 1984 by 48% of the respondents, additional disclosure requirements by 4% and interest-rate parity on savings money among all depository institutions by 6%.

Seventy-eight percent of respondents said they expected that their bank would be under the same ownership in five years, and 21% said someone else probably would own them. The survey was taken at a seminar during which the Financial Products Group division of Whittle, Raddon, Motley & Hanks presented results of a new strategic-marketing study. • •

Cooperative-Examination Program Begun by Comptroller and FDIC

A COOPERATIVE-examination program involving the FDIC and Office of the Comptroller of the Currency (OCC) began January 1. The program, which is for national banks, supplements former programs under which the two agencies shared information derived from bank examinations.

Under the new program, the OCC will invite the FDIC to participate in examinations of 4- and 5-rated national banks and in selected examinations of other community banks. The sampling will be determined jointly by the OCC and FDIC at the beginning of each year, and the FDIC will receive scheduling information at least two months in advance.

FDIC/OCC examiners-in-charge (EICs) will work together and participate in management discussions, exit reviews and board meetings. The OCC will prepare the report of examination to be submitted to a bank, and the FDIC will generate a report for its internal use. The FDIC also will be invited to attend meetings in which OCC supervisory actions for national banks are determined.

In addition, the FDIC will be invited to assist the OCC in a representative sample of examinations of multinational and regional banks and in a similar sample of OCC overseas examinations.

The FDIC has agreed to consult with appropriate state-bank supervisors to arrange for OCC examiners to participate in examinations of state nonmember banks that have significant financial relations with national banks.

According to Comptroller C. T. Conover and FDIC Chairman William Isaac, the program will meet both agencies' needs for a high level of coordination, communication and cooperation in carrying out their complementary responsibilities.

Mr. Conover also believes that inviting the FDIC to join his agency in examining banks in which it has a special interest should strengthen the overall supervisory process. Mr. Isaac says it will help his agency be more effective in carrying out its responsibilities as deposit insurer of the nation's banks.

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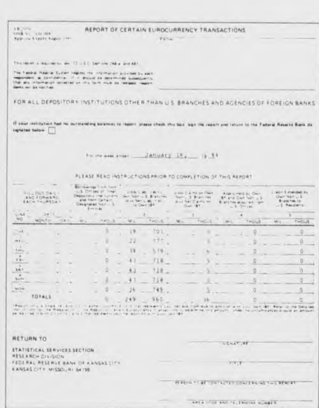
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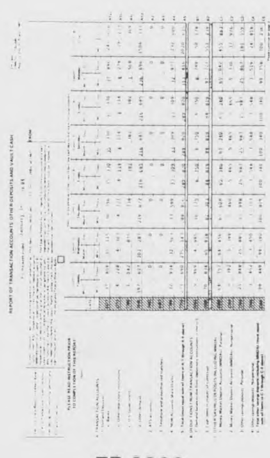

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Major Banking Legislation Coming in 1984, But Details Are Cloudy

By Phil Battey

ELECTIONS, elections, elections. That one word explains much of what will happen in the second session of the 98th Congress — and why things won't happen.

Washington veterans say upcoming elections always overhang the second session of a congress, but this time the overriding question has implications that go far beyond the norm.

The grand prize this year is a White House wherein resides an incumbent President dedicated to changing the agenda for political debate in this country, a President who does not hesitate to take dramatic action when he believes he is justified in doing so.

A more limited role for the federal government at home and a stronger U. S. presence and image abroad have been his two overriding goals. While it can be said he has not achieved all the details he set out to do in both areas, no one can doubt he has achieved the redefining of political debate to just those two general goals. They will dominate campaign rhetoric until November.

His political opponents, the Democrats, of course realized that this redefinition would occur. In fact, as soon as the President was elected more than three years ago, they recognized their political future hung on their response to the Administration's initiatives.

Thus, for the last three years, they have focused their preparation for the approaching campaigns, both for the White House and for Congress, on a direct challenge to the President. However, liberal leaders of the party made two serious miscalculations in the process.

One, they assumed the voters would be just as alienated by the President's politics as they were and, as time passed, the electorate would grow anxious to turn the President out come November. Two, they assumed the President's domestic policies would create this alienation and would dominate the election campaigns.

Their first assumption — that the vast majority of voters would by this time be driven to rage by the President's domestic policies — has not been sustained. Moreover, recent trends in the economy are working toward the President's political advantage, regardless of whether his policies prompted those trends.

The simple fact is that, when President Ronald Reagan took office, inflation threatened to eat the country alive. Today it is no longer perceived to be a great threat. The domestic record the Democrats relied on to be the President's greatest weakness at this time appears to be one of his greatest strengths.

Furthermore, in accepting the political risk inherent in the U. S. military operation in Grenada, the President changed the very nature of the upcoming Presidential and congressional contests.

Overnight, the question of the U. S. role in the world has become paramount over all other political questions the country faces. Will the U. S. role be based on strength or will it be governed by avoiding confrontation?

In one bold stroke, the President brought to the surface the major problem that haunted the nation for more than a decade — the memory of the Viet-Nam War.

Clearly, his purpose is to exorcise the ghost, but even if his attempt is unsuccessful, it is likely to narrow the division in the country caused by the war. By forcing the question, the Administration will force an answer from the electorate, lessening the uncertainty that has been the characteristic of national-security policy for years.

In this regard, his political opponents fully recognized that the soaring of the President's poll ratings after the Grenada operation indicated a public consensus may be forming around the position that a steady and reasoned U. S. military presence in the world

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Phil Battey is mgr., editorial department, American Bankers Assn., Washington, D. C.

Major banking legislation will be forthcoming this year for several reasons:

- **Banks and other financial-service providers are a potent political force in their own right.**
- **Banks operate in every state and every congressional district in the country. Bankers are an important part of the constituency every candidate for Congress must please. If bankers demand the legislation hard enough, the politicians must listen to the demands.**
- **Furthermore, as the elections approach, lawmakers will be under pressure to resolve the outstanding technical questions before Congress as quickly as they can, so they can devote their time and effort to campaigning.**

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may be necessary for national interests.

Because of the political environment created by the Administration, the second session of the 98th Congress promises to be dominated by the cosmic issues of the future course of American society and of war and peace.

In such an environment, the substance of technical issues — such as new powers for banking organizations — will likely be pushed out of the public's eye by a battle of protagonists grappling with one another in raw political terms over these cosmic issues. However, out of sight does not mean out of mind. The nature of the legislative process dictates that issues must compete with one another for attention and action.

The new powers package Senator Jake Garn (R.,Utah) has put together has been two years in the making. Furthermore, many of the issues it would resolve have been debated for decades. It is, thus, ripe for action.

What it requires is a consensus among the constituents it would affect — and their active support — for action to take place. When that support is forthcoming, Congress will turn its attention to the legislation, regardless of the political importance of the cosmic issues that define the campaign agenda. It is helpful here to remember that almost every important piece of banking legislation approved since the 1930s passed in an election year.

However, politics surrounding the elections will, to a great extent, determine when action will take place on the legislation during the coming months and what the results of that action will be.

In an election year, an otherwise nonpartisan proposal is likely to receive treatment in Congress not because of what it contains, but because one party or another is seeking to influence the outcome of a different matter.

In other words, while major banking legislation will be forthcoming this year, when and in what form no one can say now. Vague outlines appear through the mist in our crystal balls, but the details remain cloudy.

The legislation will be forthcoming for several reasons.

- Banks and other financial-service providers are a potent political force in their own right.
- Banks operate in every state and every congressional district in the country. Bankers are an important part of the constituency every candidate for Congress must please. If bankers demand the legislation hard enough, the politicians must listen to the demands.
- Furthermore, as the elections approach, lawmakers will be under pressure to resolve the outstanding technical questions before Congress as quickly as they can, so they can devote their time and effort to campaigning.

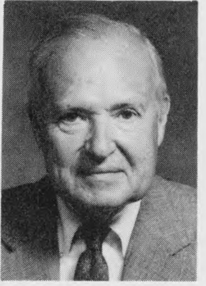
For many months, the American Bankers Association has been committed to seeing that banking receives the new powers it needs.

Congressional proponents for new powers legislation have spent those months searching for the political formula that worked — to no avail. As the approaching elections transform the political chemistry of Congress, however, the discovery of that formula grows more likely. • •

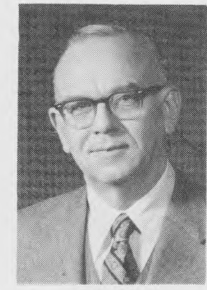
Senior Executive Banking School To Hold First Session Mar. 18-23

A NEW senior executive banking school, under sponsorship of the ABA and the University of South Florida (USF), Tampa, will hold its first session March 18-23 at the Saddlebrook Resort, just north of Tampa. The school's major objective is to help bankers formulate strategies for success in a rapidly changing and complex market environment.

Announcement about the school was made during a national conference on financial deregulation sponsored by USF.



McPETERS



HAYWOOD

According to former banker W. Liddon McPeters, Lykes professor of banking/finance at the university, the school will become the fourth level of education programs offered nationally by the ABA. Its director will be Charles Haywood, former chairman of Carter Golembe Associates, Washington, D. C.

The school will gather experts from banking, business, government and academia to discuss subjects that will include the nation's changing industrial base, future needs of commercial/consumer-banking customers and new relationships between business and government as they affect the financial-services industry.

The first segment will focus on the consumer environment. Sessions will include analysis of demographic trends in the U. S. and abroad and developing trends in consumer behavior and attitudes that suggest new financial products and services.

The second segment will examine shifts in commercial-customer needs, the changing industrial base and developments in key industries, including agriculture, steel, automotive and energy. Labor-market trends also will be covered.

Additional segments will review the changing relationship between government and business, recent regulatory changes and forecasts, strategies for management, marketing and resource allocation.

Dr. McPeters, who headed the ABA in 1975-76, also was president, Mississippi Bankers Association, in 1967-68. He was president/CEO, Security Bank, Corinth, Miss., for many years until he and other family members sold the bank in 1980. He continues to serve on its board.

He became the first holder of the Lykes Chair in Banking/Finance at USF in 1982. He was graduated magna cum laude from Vanderbilt University, Nashville, in 1943 and later received A.M. and Ph.D. degrees in economics from Harvard University, Cambridge, Mass. In 1980, Dr. McPeters attended the London School of Economics and Political Science as research student in money/banking/international economics.

Dr. Haywood is professor of finance, University of Kentucky, Lexington, which he joined in 1965, and where he was dean, College of Business/Economics, until 1975. Previously, he was director of economic research, Bank of America, San Francisco, chairman, Carter Golembe Associates, Washington, D. C., research economist, ABA, Washington, D. C., and on the faculties of the University of Mississippi in University and Tulane University, New Orleans. Currently, he is consultant to the ABA and several banks and businesses. Dr. Haywood is consulting director of USF's Banking/Finance Institute.

A graduate of Berea (Ky.) College, he holds a master's degree from Duke University, Durham, N. C., and a Ph.D. in economics from the University of California at Berkeley. • •

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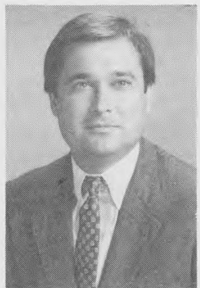

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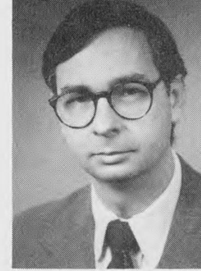

MALLINI

George Thomas Mallini has been promoted to senior vice president/ manager, Alabama corporate banking, southern region, Central Bank of the South, Birmingham. R. Waid Thompson has been promoted to vice president/manager, correspondent loan department; Ernest R. Stewart has been named vice president, general bank commercial loan department, and W. H. "Chip" Young Jr. has been named correspondent loan officer. Mr. Mallini joined the former Central Bank of Birmingham in 1977 as assistant manager, correspondent loan department. Immediately prior to Central's statewide merger in 1981, he was named vice president/manager, southern corporate region, headquartered in Montgomery. Mr. Thompson has been with the bank since 1974 and, most recently, was manager of its corporate banking office in Huntsville. Mr. Stewart's new post includes being in charge of the small-business-development program. He formerly was with AmSouth Bank, Birmingham (formerly First National), where he was vice president/commercial loan officer. Mr. Young was with First Continental Bank, Del City, Okla., as vice president/commercial loans.

First Alabama Bank, Montgomery, has elected Gilbert C. Steindorff III senior vice president/senior credit officer, Steven P. Wicker vice president in charge of the commercial agri-business loan division, Wayne Blackwell vice president/marketing officer, Richard A. Manley assistant cashier/ branch manager and Timothy D. Riley assistant loan review officer. Mr. Steindorff joined the bank with 11 years of financial experience. Mr. Wicker formerly was with a mortgage company in Florida. Mr. Blackwell joined the bank 11 years ago, and Mr. Manley went there five years ago. Mr. Riley formerly was with the bank's HC, First Alabama Bancshares, in its auditing department.

Community Banks Expected to Thrive After Shakeout Between Now and 1990

THE COMMUNITY bank of tomorrow will be able to compete quite well with larger banks as well as with other nonbank competitors, said Carl E. Jones Jr., chairman/president/ CEO, Merchants National, Mobile, Ala., recently.

Mr. Jones spoke to more than 200 bankers from throughout Alabama at the 37th annual bank forum sponsored by First Alabama Bank, Montgomery, last month.

Mr. Jones said that studies of changes expected to occur in banking by 1990 indicate that competition for bank customers is intensifying, due to increasing customer sophistication about financial products.

He said studies also indicate about a one-third shakeout in the number of banks in the U. S. before 1990 and that approximately 80% of the surviving banks will be community institutions that will specialize in personalized, high-quality service. These banks will need the expertise of their correspondent banks in enabling them to provide these services.

During a panel that discussed asset/ liability committees, Clinton C. Berry Jr., senior vice president/senior trust officer, First Alabama, Montgomery, explained the composition of such committees and other panelists discussed the activities and objectives of the committees. Panelists included Robert E. Barnes Jr., vice president/ assistant comptroller; Gilbert C. Steindorff III, senior vice president/ senior credit officer; and William C. Youngstrom, investment officer, all with First Alabama, Montgomery.

Discussing problems with the profit motive, Adolph I. Weil Jr., chairman,

Carl E. Jones Jr. (2nd from r.), ch./pres., Merchants Nat'l, Mobile, Ala., was principal speaker at recent correspondent conference sponsored by First Alabama Bank, Montgomery, represented by Wilbur B. Hufham (2nd from l.), pres./CEO. At l. is A. L. Johnson Jr., pres., Camden Nat'l, and at r. is Charles S. Snell, pres., Citizens Nat'l, Shawmut.

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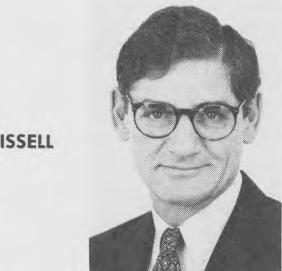
Weil Bros.-Cotton and a First Alabama director, said that all private companies, including banks, are in existence mainly to make money. "This breeds extremely keen competition and there is a constant search for ways to increase profit," he added. "In banking as well as in industry, this can lead to quite foolish lapses." He recommended that bankers follow some old watchwords or guidelines in operating their shops.

Others participating on the program included Wilbur B. Hufham, president/CEO, and James S. Gaskell Jr., chairman, both with the host bank, and Frank A. Plummer, chairman, First Alabama Bancshares. ● ●

ARKANSAS



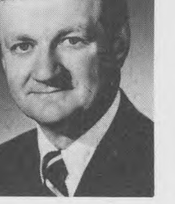
CISSELL

Michael E. Cissell has been elected president/CEO, FABCO Associates Finance, Inc., a merchant-banking affiliate of First Arkansas Bankstock Corp. (FABCO), Little Rock. Mr. Cissell previously was an executive vice president, Worthen Bank, Little Rock, the HC's lead bank. During his 11 years with the bank, Mr. Cissell has worked closely with more than 200 correspondent banks in Arkansas and surrounding states. The new firm, on receiving appropriate regulatory approval, will act as an agent in mergers, acquisitions, capital infusions, venture-capital leveraged buy-outs, as well as in land/business/financial-institution sales. It also will assist the parent company in production and allocation of credit and will serve as a consultant to other banks in capital assistance, asset/liability management and management procurement/restructuring.

Edward Hurley, chairman, Exchange Bank, and its parent HC, Exchange Bancshares, Inc., El Dorado, retired December 31 as an active officer of the bank. He and his family retain their stock ownership in the HC, and Mr. Hurley continues to be on the bank's board. He plans to open offices in the Exchange Building and serve the bank as a consultant. He also plans to work in marketing/property-development programs. He entered banking in 1957 with Worthen Bank, Little Rock, joined Exchange Bank in 1960, became president in 1971 and chairman in 1980.

ILLINOIS

B. Kenneth West has been elected chairman/CEO, Harris Trust and Harris Bankcorp, Inc., Chicago. Elected president of both the bank and HC was Philip A. Delaney, who also continues as chief credit officer. Both elections took effect January 7. Mr. West succeeds Charles M. Bliss, who had been CEO since 1977. Last spring, he indicated his plans to take early retirement. He continues as a director of the bank and HC. Mr. West had been president of the bank and HC since 1980 and on the two boards since 1979. Mr. Delaney has been a director since 1980, when he was elected executive vice president/chief credit officer. In other action, Kendrick D. Anderson has joined Harris Bank as vice president/head of the municipal research section, municipal bond department. He formerly was in Continental Bank of Chicago's bond department.



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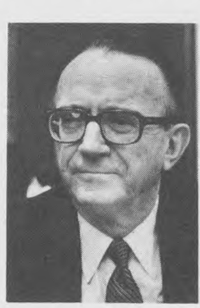

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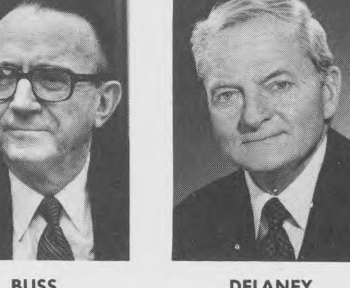

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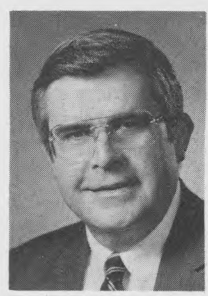

WATT

James B. Watt has been elected chairman/CEO, MidAmerica BancSystem, Inc., Fairview Heights, succeeding Charles L. Daily. Mr. Daily has been named chairman of the executive committee of the six-bank, $210-million HC. Mr. Watt most recently managed his own bank consulting firm, Watt & Associates, Inc., Springfield. Before that, he was president, Association for Modern Banking in Illinois (AMBI), which was headquartered in Springfield until being merged into the Illinois Bankers Association a year ago.

R. L. Herndon Promoted

SPRINGFIELD — Ronald L. Herndon has been named chief examiner, Springfield commercial-banking operations, with the Illinois commissioner of banks/trust companies.

Mr. Herndon, who has 18 years' experience with the bank commissioner's office, had been a supervising examiner there since 1970. Most recently, he supervised the Jacksonville/Galesburg examination districts. In addition, Mr. Herndon has eight years' experience with banks in the Springfield market.

Rosalie Alicea has been promoted to manager, McClurg Court Facility, North Bank, Chicago. Miss Alicea, with North Bank since 1975, had been the facility's assistant manager since 1981.

CNB Bancorp., Inc., Decatur, and Corn Belt Bank, Bloomington, were scheduled to be merged December 30 with Midwest Financial Group, Inc., Peoria. The latter, which already included banks in Peoria, Kankakee, Springfield and Champaign, anticipated having assets of more than $1.5 billion by year-end, when the two mergers were completed. CNB Bancorp owns Citizens National, Decatur.

Magna Group, Inc., Belleville, has announced proposed merger agreements with First National, Smithton, and First National, Marissa.

David Pratt, assistant cashier/director, First State, Morrisonville, has been selected for membership in the American Musical Ambassador Band. This highly selective concert band, composed of outstanding young musicians from all over the U. S., will tour several European countries in July. Mr. Pratt, who will attend Western Illinois University, Macomb, in the fall, was named in the 17th edition of "Who's Who Among American High School Students, 1982-83."

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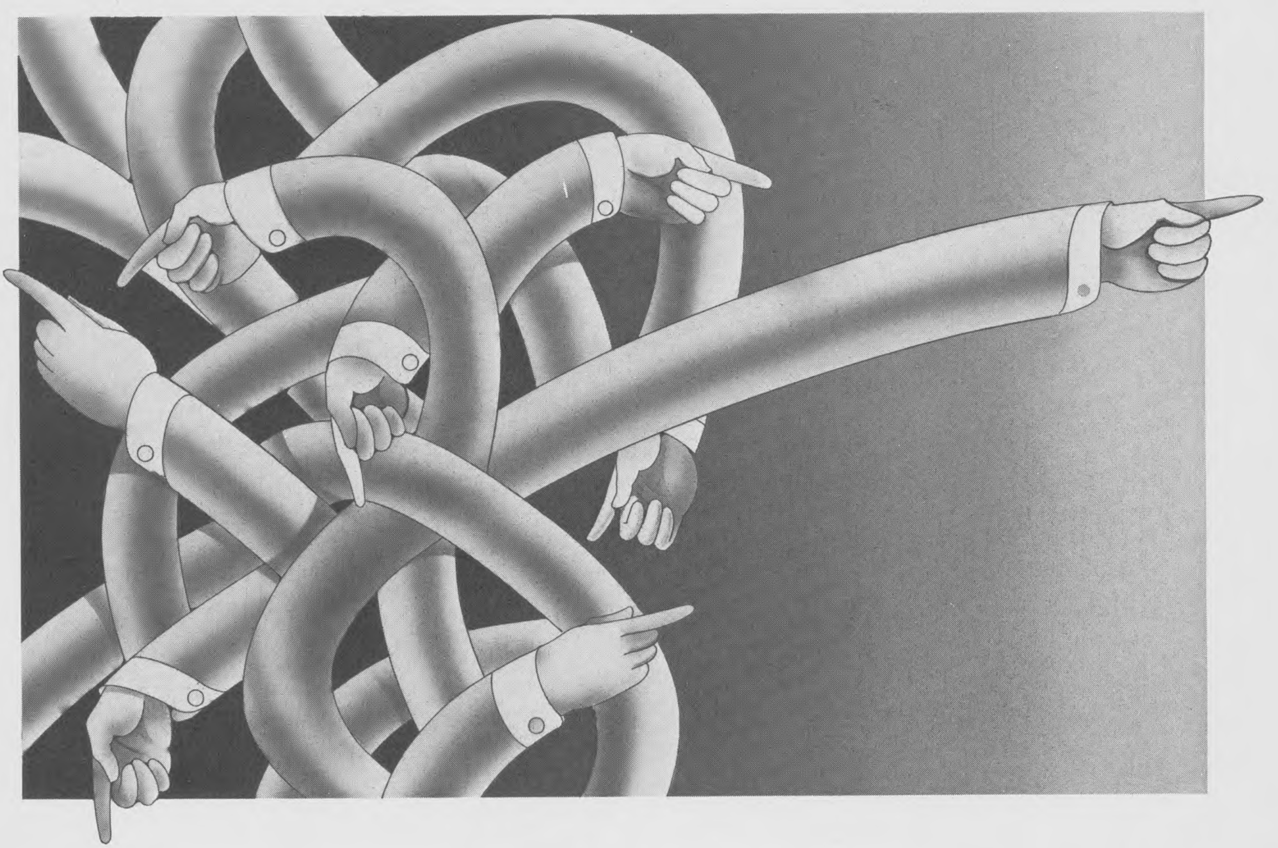

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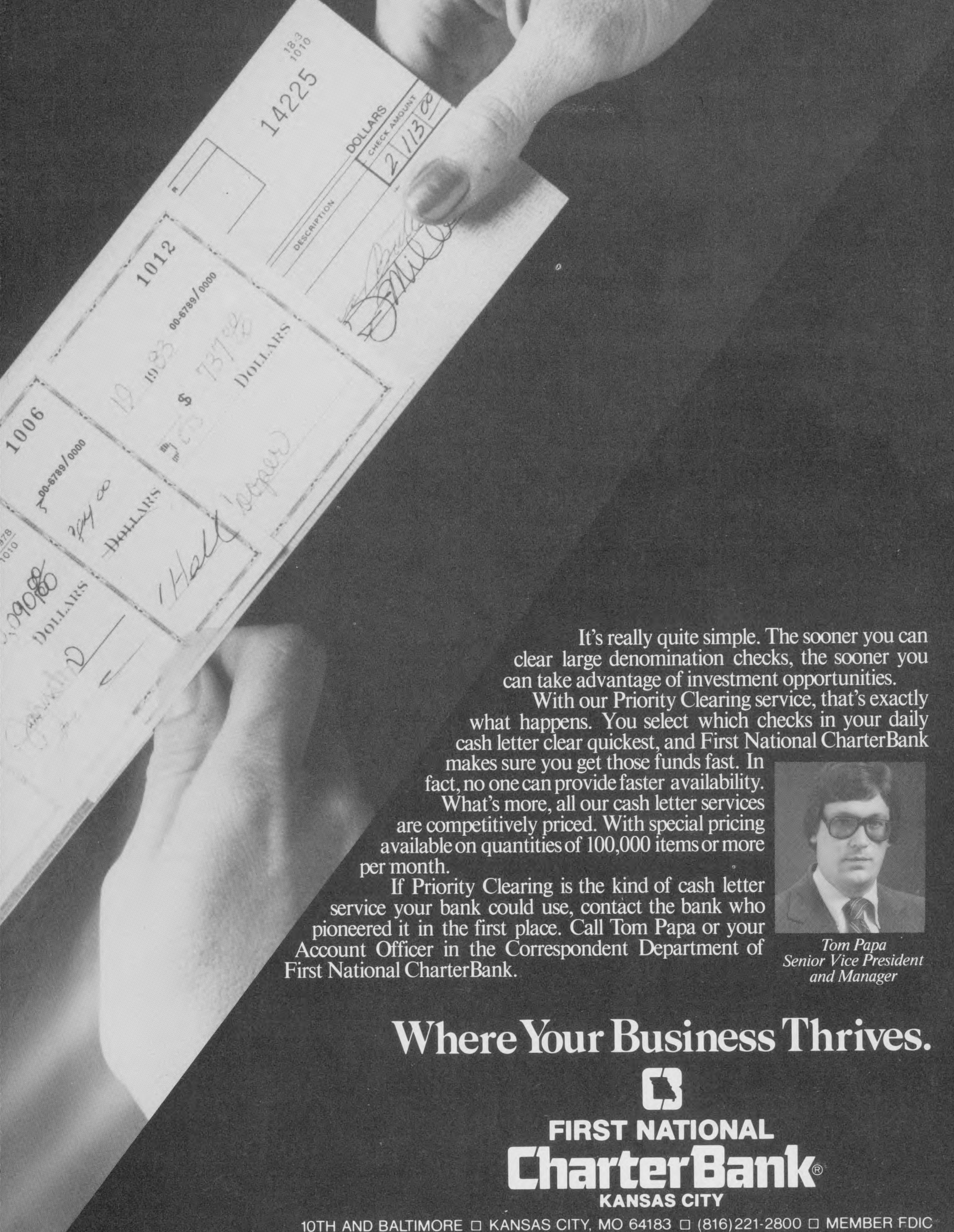

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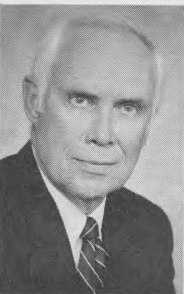
INDIANA

Tom O. Vujovich joined Irwin Union Bank, Columbus, January 1 as assistant vice president/marketing director. He had been executive director, community development/housing authority, for the city of Columbus since 1980.

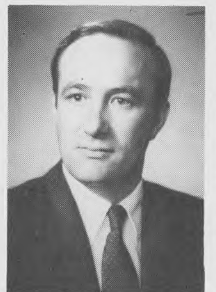
Robert E. Soderberg has been named assistant vice president, 1st Source Bank, South Bend. His responsibilities include management of the bank's brokerage/precious metals/investment/financial-planning services. Mr. Soderberg had been account executive at a national brokerage firm.

Died: Felix M. McWhirter, 97, chairman emeritus, Peoples Bank, Indianapolis, in Phoenix November 18. In 1891, his father, Felix T. McWhirter, founded a private firm that was chartered as Peoples Deposit Bank in 1900. The younger Mr. McWhirter joined the bank at age 20 in 1906. When his father died in 1915, Felix M. McWhirter became president. He headed the Indiana Bankers Association in 1934.

KANSAS



HAINES



LOWMAN

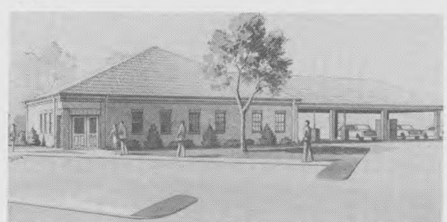
Jordan L. Haines has been elected chairman, Fourth Financial Corp., Wichita, succeeding A. Dwight Button. Frank A. Lowman, who was president, Fourth National Bank, and executive vice president of the HC, succeeds Mr. Haines as HC president. Mr. Haines, chairman of the bank, had been HC president since 1971. Mr. Button, who had announced his intention to retire as HC chairman at its November board meeting, remains on the board. He is actively engaged in investments/financial consulting.

Chris W. Lear has joined Hutchinson National as vice president, commercial loans. He formerly was executive vice president, Northgate National, Hutchinson.

Banker/Golfer Honored

Rick Bumgardner (c.), v.p., First Nat'l, Wichita, achieved a golfer's dream last August — a hole in one, his first. The event was commemorated by LeFebure, Cedar Rapids, Ia., by giving Mr. Bumgardner a plaque. The presentation was made in November in Mr. Bumgardner's office by Mylo D. Schultz (l.), LeFebure, v.p., sales/marketing. Looking on is Dick Youngstrom, LeFebure regional mgr. Mr. Bumgardner aced the ninth hole at Wichita's Rolling Hills Country Club, using a Titleist golf ball presented to him by Bill Hiett, LeFebure sales engineer. Both the ball and tee were bronzed and mounted on the plaque given Mr. Bumgardner.

Southwest National, Wichita, has begun construction of a $280,000 building that will house its east facility, which will be located adjacent to Towne East Shopping Center. The red-brick structure, which will have the Williamsburg architectural theme of the three other Southwest National buildings, will have nearly 4,000 square feet of office space, three auto-teller lanes and a drive-up automatic teller machine. There will be space for customer parking and future expansion to accommodate two additional drive-through lanes and another drive-up ATM. The interior also will follow colonial design and will have teller stations, complete safe-deposit facilities and offices for general bank business. Completion is scheduled for late summer.



This is artist's sketch of Southwest Nat'l of Wichita's new east facility, which will be completed in late summer.

Thomas R. Lee has been named senior vice president, Union State, Clay Center. He formerly was president, Citizens State, El Dorado.

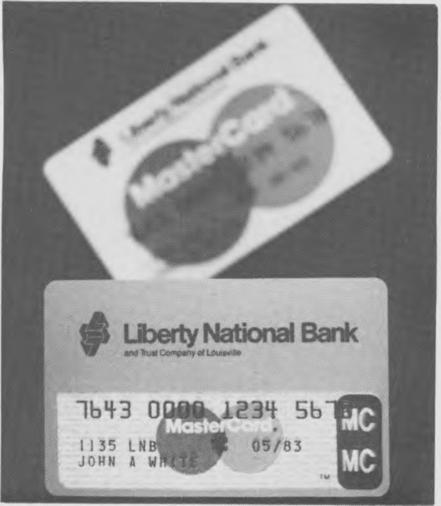
R. Warren Rhodes has retired from First National, Lawrence, where he was chairman. A banker 34 years, Mr. Rhodes joined First National in 1956 as president and became chairman in 1979.

Died: W. W. "Bill" Rouse, 78, chairman, First State, Norton. As a high school senior, he did janitor work in Farmers State, Norton, which later merged with First State. He became president of the latter bank in 1946. Mr. Rouse was active at the bank until last July, when he suffered a fall.

KENTUCKY

Liberty of Louisville Offers New MasterCard

LOUISVILLE — Liberty National has announced it is the first bank in the state and one of a selected few financial institutions in the region to begin issuing the new fraud-proof, redesigned MasterCards.



New, virtually fraud-proof MasterCard (foreground) is shown with old card. Liberty Nat'l, Louisville, has started issuing new card.

The new cards contain several security features that will make counterfeiting and fraudulent use nearly impossible, according to Maria Gerwing, senior vice president of the bank's credit-card operations.

Liberty National's card features these security measures:

- A hologram in the lower right-hand corner, resulting in a three-dimensional MasterCard logo. One digit of the card-holder's credit-card number is printed in the hologram. This number *cannot* be altered without detection. The hologram is created by laser and, when tilted, changes color and appears to float.
- Fine-Line printing of the MasterCard name as background. This special printing makes counterfeiting through

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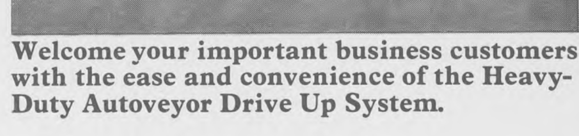

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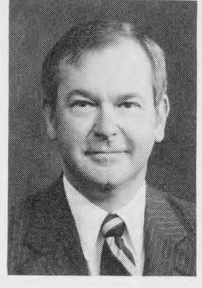
silk-screening virtually impossible.

• Ultraviolet-ink printing of the interlocking MasterCard emblem circles. This type of ink glows under a black light, the type commonly used by financial institutions and merchants to detect counterfeit travelers checks.

Liberty National is issuing the cards to all new applicants and to current card-holders as their old cards expire.

By July 1, 1986, MasterCard International will require all MasterCard and MasterCard II cards in circulation to bear the new design.

Citizens Fidelity, Louisville, has promoted the following to vice presidents: Beverly Taylor, accounting; John Combs, Larry Schooler and Randy Dobson, financial services; Jane Burks, metropolitan banking; and to assistant vice presidents, John McDonough and Steven Blevens. Ms. Taylor, Mr. Combs, Mr. Schooler and Ms. Burks were assistant vice presidents; and Messrs. Dobson, McDonough and Blevens were financial services officers.



MARSHALL

Leonard B. Marshall Jr. has returned to his posts of vice chairman, Liberty National Bank, and president, Liberty United Bancorp, Inc., both in Louisville, after serving about eight months as commissioner of the Kentucky department of banking/securities and secretary, public protection/regulation cabinet. Mr. Marshall joined the former United Kentucky Bank, Louisville, in 1968 and was its chairman/president from 1972 until December, 1982, when it was merged with Liberty National. He then was named the bank's vice chairman and HC's president.

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LOUISIANA

Livingston Bank, Denham Springs, has opened its new Walker Branch on Highway 447. It has a four-lane, monorail system for drive-up banking and a 24-hour automated teller machine. The branch's grand opening featured refreshments, gifts and special events.

John L. Kjera has been named vice president/manager, dealer loan department, Fidelity National, Baton Rouge. Most recently, he was lease consultant/broker, Custom Lease Systems, Inc., Louisville, and, from 1960-82, was with Citizens Fidelity, Louisville.

Paul L. Lastrapes has been elected vice president/manager, marketing division, Great American Corp., Baton Rouge. He formerly was Louisiana marketing director, TeleCheck, a national check-guarantee firm.

MISSISSIPPI

The Fed has approved the application of United Southern Corp., Clarksdale, to become a bank HC through acquisition of the successor by merger to United Southern Bank, Clarksdale.

Died: George E. Estes Sr., 86, retired vice president/senior trust officer and active director, Hancock Bank, Gulf-

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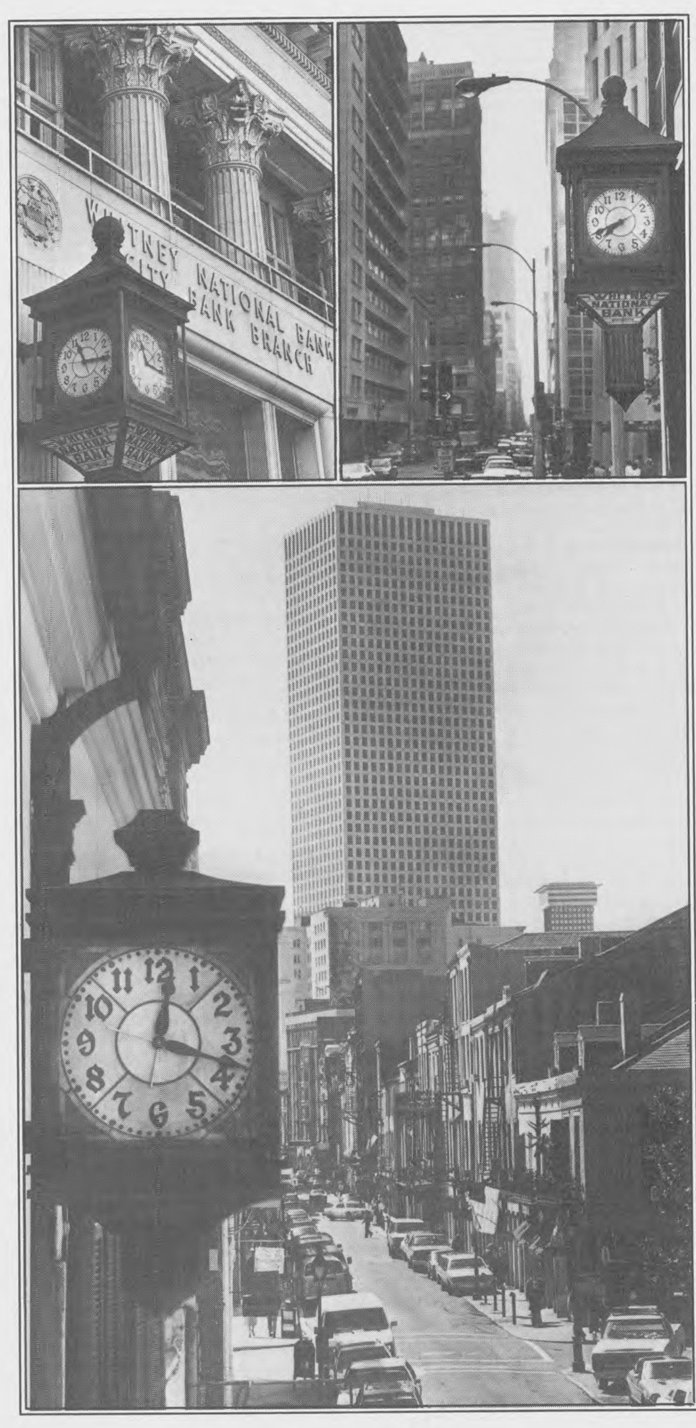

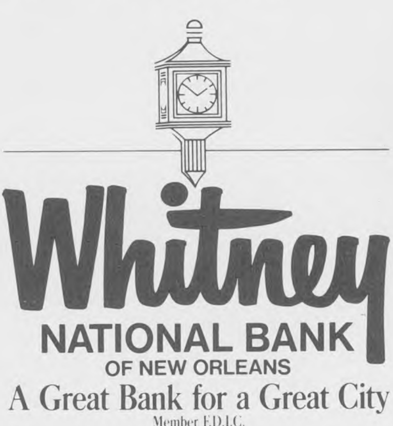

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port. He entered banking in 1918 with Citizens Bank, Tunica, and moved in 1925 to Gulfport, where he worked first for First National, then joined Commercial Bank and, in 1931, went to Hancock Bank at Long Beach.

MISSOURI

County Tower Merger With Commerce of KC Gets Approval Vote

Following overwhelming approval of County Tower Corp.'s merger with Commerce Bancshares, Inc., Kansas City, by shareholders of the Clayton-based corporation, Frank N. Spinner was elected chairman/CEO, County Bank of St. Louis, by directors of that bank.

Mr. Spinner continues as chairman/chief executive officer of County Bank of Tower Grove, St. Louis, another former unit of County Tower Corp. He replaces Andrew Baur, whose resignation as County Bank chairman and County Tower Corp. chairman became effective January 3, the date the merger with Commerce Bancshares was scheduled for completion.

The end of 1983 also brought the retirement of Merle M. Sanguinet, a 48-year veteran of Missouri banking, as chairman of County Tower Corp., but Mr. Sanguinet continues to serve as advisory director of County Bank of St. Louis.

In other changes related to the merger: Thomas M. Noonan, president, County Bank, assumed the additional position of chief operating officer and Linn H. Bealke, vice chairman, County Bank, gave up the responsibility for commercial banking assumed by Mr. Noonan and took over trust/retail administration.

Mr. Spinner, a St. Louis native, began his banking career in 1947 with First National (now Centerre Bank), St. Louis. He was named president/chief executive officer of Tower Grove Bank in 1979 and became chairman in 1982. He became vice chairman of County Tower Corp. in late 1981, when Tower Grove Bank merged with County Bank.

Three County Tower directors elected to Commerce Bancshares' board were J. Gordon Forsyth, president, Forsyth Caterville Coal; Ben Peck, chairman, Wohl Shoe Co.; and Earl E. Walker, president, Carr Lane Manufacturing Co.

Merle Sanguinet (c.), ch., County Tower Corp., Clayton, presides at festive shareholder meeting at which merger with Commerce Bancshares, Kansas City, was approved. Other County Tower representatives are (from l.): Thomas Cummings, v. p./legal counsel; Martha Sheerin, v. p./secretary; Frank Spinner, ch./CEO, County Bank of Tower Grove, St. Louis; and Andrew N. Baur, ch./pres./CEO, County Bank of St. Louis, Clayton. With the merger, Mr. Spinner assumed Mr. Baur's posts and Mr. Sanguinet stayed on as advisory director to County Bank, St. Louis.

New Mercantile Bank Opens in Clayton; Ernest Coe Is CEO

CLAYTON — Clayton Mercantile National has opened in this county seat of St. Louis County as the 43rd Mercantile bank in Missouri. Its parent is St. Louis-based Mercantile Bancorp.

The new bank is the major tenant of Clayton Mercantile Centre, a new 15-story office building on the north edge of the city's central business district. The bank's interior construction was handled by Bank Building Corp., St. Louis.

Ernest A. Coe, the bank's president/CEO, entered banking in 1968 with the former Metro Bancholding Corp., St. Louis (acquired recently by Boatmen's Bancshares, also of St. Louis). In 1975, he joined Pioneer Bank, Maplewood, as executive vice president. From 1979 until last July 1, Mr. Coe was president/CEO, Lewis & Clark Mercantile Bank, north St. Louis County. In July, he joined Clayton Mercantile National during its organizational period.

New Clayton Mercantile Nat'l was proclaimed "Clayton corporate citizen" on occasion of its recent opening. Participating in ceremony at which city's mayor, Richard T. Stith Jr., presented framed copy of proclamation to Ernest A. Coe, bank's pres./CEO, were (l. to r.): James E. Brown, pres., Mercantile Bancorp, St. Louis; Robert F. Kist, consultant, Solon Gershman, Inc.; Mr. Coe; Mayor Stith; John J. Wuest, e.v.p., Mercantile Trust, St. Louis; and Daniel E. Richardson, pres., Shure Manufacturing Corp. Messrs. Kist, Wuest and Richardson are directors of new bank.

The new bank has drive-up banking for retail and business customers and Fingertip Banking, Mercantile's ATM system. Three of the drive-up lanes primarily are for use by retail customers, and a fourth drive-up facility is equipped to handle bulky transactions such as commercial customers' coin/currency deposits.

Fingertip Banking soon will be part of BankMate, an automated-teller network that enables customers of any participating financial institution to withdraw funds from their accounts through other members' ATMs.

Teresa Spillane and Stephen P. Marsh have been elected assistant vice presidents, County Bank of St. Louis, Clayton. Ms. Spillane has been with the bank since 1978 and Mr. Marsh since 1980.

Mary Dremann has been promoted to manager, proof department, St. Johns Bank, St. Louis County. Valorie Straube was made assistant manager, Woodson Road facility. Ms. Dremann joined the bank in 1969 and Ms. Straube in 1980.

Robert J. McCoy, executive vice president, First National, Joplin, has been electged to the board of the Schools of Banking, Inc., Omaha. The organization is sponsored by the Kansas/Missouri/Nebraska Bankers associations in cooperation with the University of

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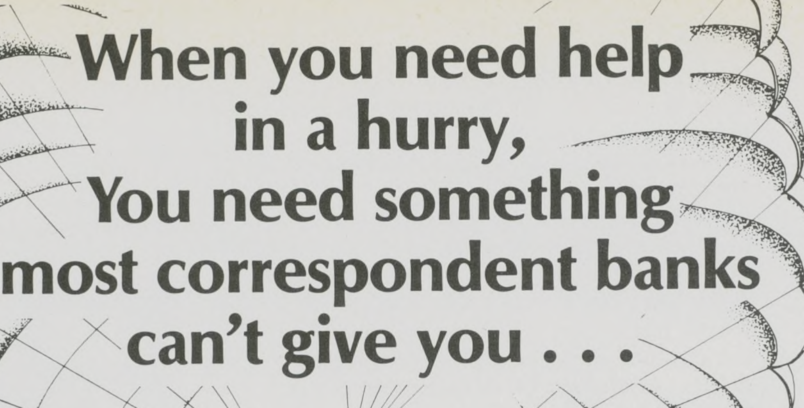

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Nebraska and Nebraska Center for Continuing Education. Mr. McCoy has been on the commercial-lending-school faculty of the banking schools since 1978.

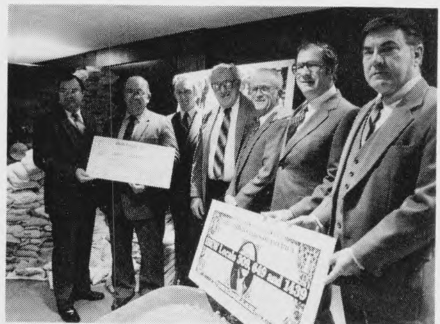
Centerre Bank, Branson, has two new directors, Larry D. Davison, owner/operator, McDonald's of Branson, and David E. Clemenson, owner/operator, Table Rock Realty and H & R Block Co. in Branson.

Bank Answers Request For 3,000,000 Pennies For News Conference

ST. LOUIS — An unusual request came into Centerre Bank here late last year — 3.3 million pennies were needed for a news conference. Making the request were three local International Brotherhood of Electrical Workers (IBEW) unions.

It seemed members of IBEW Locals 309, 649 and 1439, who are Union Electric (an electric utility) employees, had made a $33,000 contribution to the firm's Dollar More program, which provides assistance to the needy to pay utility costs. The contribution, negotiated in the collective-bargaining contract settled between UE and the three unions, is the first of two payments and represents one penny per hour per worker that is withheld voluntarily from paychecks of some 1,600 union members.

The nine-plus tons of pennies were to be displayed at a news conference at which IBEW business managers and negotiating committee members presented their $33,000 contribution to the United Way of Greater St. Louis. This agency is coordinating distribution of Dollar More funds.



More than 3,000,000 pennies, stacked about eight feet high, are in background as representatives of three local International Brotherhood of Electrical Workers (IBEW) unions present $33,000 check for Dollar More program to representative of United Way of Greater St. Louis (l.), which is coordinating agency for program. Pennies were amassed for check-presentation news conference by St. Louis' Centerre Bank.

The pennies, packaged in 660 bags of $50 each, were received by Centerre Bank from the St. Louis Fed in three shipments. All the pennies are new and came from the Denver Mint.

Bank employees began working approximately three hours before the news conference to move the pennies from the currency department to the safe deposit department, where the news conference was held. Six four-wheel trucks were used to transport the pennies between the two departments. According to Kenneth Voigt, Centerre operations officer, currency/express, it was possible to load about 1,000 pounds of the pennies, or 35 of the 28-pound bags, on each truck.

"We certainly are accustomed to handling large volumes of money," says Mr. Voigt, "but we've never been involved in a project quite like this one. The only difficulty we've encountered has been storage space, but even that has been minor and within just a few weeks that will be alleviated as we begin to use the pennies and return to our normal supply."

Mr. Voigt says the bank usually orders about $10,000 worth of pennies at one time, or enough to last about three weeks.

Bank Mgt. Conference Set for Feb. 14-16 At Tan-Tar-A Resort

The Missouri Bankers Association's bank management conference February 14-16 will have "In Search of Excellence" as its theme. The conference will be held at Marriott's Tan-Tar-A in Osage Beach at Lake of the Ozarks. Chairman of the MBA bank management committee is James E. Smith, executive vice president, Union State, Clinton.

A presentation of "The Secrets of Peak Performance" will keynote the meeting and will be conducted by Charles A. Garfield, president, Peak Performance Center, Berkeley, Calif., and a clinical professor, University of California at San Francisco Medical School.

Other topics will include: "Theory Z: How American Business Can Meet the Japanese Challenge," "Stress, the Hot Reactor," "Time Management: Go for the Gold," "Motivation" and "True Future Is Now."

In addition, there will be a panel discussion on the changing face of the financial-services industry, a banquet and special-interest sessions on brokerage services, insurance, real estate and the secondary-mortgage market.

W. H. Stephenson Retires

JEFFERSON CITY — William H. Stephenson has retired from the Missouri Bankers Association, which he joined in 1965 as assistant manager. He later was named administrative assistant and administrative vice president.

Before going to the MBA, Mr. Stephenson spent 14 years as sales manager at a Hannibal radio station, KHMO. He holds a B.S. degree in business administration from Central Methodist College, Fayette.

Glennon D. Hunn has been elected vice president, operations division, Boatmen's National, St. Louis. He previously was with Metro Bancholding Corp. as senior vice president of the HC and president of its data-processing subsidiary, Databank Corp. Metro Bancholding was acquired by Boatmen's Bancshares last October 31. At Boatmen's Bancshares, Thomas W. Pahl and Judith A. Zeilmann were elected assistant vice presidents — Mr. Pahl in administration and Ms. Zeilmann in the controller's department. Both were with Metro Bancholding Corp.

New Bldg. for Clayton

This is an artist's sketch of the future home of Boatmen's Bank of St. Louis County, Clayton, formerly Metro Bank/Clayton, and Boatmen's Trust, formerly Metro Trust. Boatmen's will occupy the first four floors or about half the building. In recognition of the fact that the bank will be the principal tenant, the structure will be named Boatmen's Bank Building.

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John Peters MacCarthy has been elected president, Centerre Bancorp, St. Louis. He succeeds Richard F. Ford, who recently resigned. Mr. MacCarthy continues as president/CEO, Centerre Trust, St. Louis, a member of Centerre Bancorp. He formerly was the bank HC's vice chairman, a post that was eliminated with his election as president. He joined Centerre Trust in 1969 from the St. Louis law firm of Bryan, Cave, McPheeters & McRoberts, in which he was a partner. He became president/chief operating officer in 1975 and CEO in 1979.

MacCARTHY

McGEE

Richard E. McGee has been elected vice president, Mercantile Bancorp, Inc., St. Louis. He started at Mercantile in 1977 as public relations officer, marketing/communications department, and was named manager of the public relations division the following year. Before going to Mercantile, Mr. McGee was executive assistant to two St. Louis mayors. At Mercantile Bancorp's lead bank, Mercantile Trust, St. Louis, Edward W. Sunder III and Hurshal B. Majors were elected vice presidents, and Wanda Sutton Chronister, Joseph M. Crenshaw and James W. Hill were named assistant vice presidents. Messrs. Sunder and Majors were assistant vice presidents, and Mr. Majors is manager, wire transfer department. Ms. Chronister was personal banking officer, and Mr. Crenshaw and Mr. Hill were banking officers.

United Missouri Bancshares, Kansas City, has moved its corporate offices from I-435 and State Line to downtown. Included in the move are the HC's president and the marketing, loan administration, operations and comptroller's departments. The State Line Branch of United Missouri Bank, Kansas City, remains at the old location.

Anne M. Burge and Janis W. Pickard have been promoted to vice presidents, First National CharterBank, Kansas City, and John M. "Pete" Buckley advanced to assistant vice president. Mrs. Burge was a trust officer and Mrs. Pickard assistant trust officer. At the bank's parent HC, CharterCorp, also in Kansas City, Todd Sutherland was named assistant vice president. He joined the HC last July from First National CharterBank.

James R. James Jr. has been elected chairman and Richard C. Jensen president/CEO, Boatmen's Bank of St. Louis County, Clayton, formerly Metro Bank/Clayton. Robert J. Bennett was elected to the board. Mr. James formerly was chairman/CEO, Metro Bancholding Corp., which was acquired in October by Boatmen's Bancshares, St. Louis. Mr. Jensen also is president/CEO, Boatmen's West Port Bank. Mr. Bennett is senior vice president, planning/development, Boatmen's Bancshares.

Commerce Bank, Kansas City, has elected these vice presidents: Price B. Blackwell, national banking, where he is assistant manager, and Ronald E. Snyder, trust division, where he has responsibilities for the trust real estate department. Joseph D. Hill Jr. was elected assistant vice president, national banking, where he is commercial lending officer.

Robert W. Sears and John E. Davis have been promoted to executive vice presidents, United Missouri Bank, Kansas City. Elected senior vice presidents were Pay Boyle and Sharlyn Ann Thompson. Thomas G. Atkins and Robert E. McFarland were made vice presidents, Mary Kay Horner assistant vice president and D. Hunt Barrett Jr. assistant cashier. New members of the bank staff are Teresa Patterson, vice president, business development, and Douglas M. Briggs, metropolitan business development. Ms. Patterson formerly was assistant vice president, international department, Employers Reinsurance Corp. Mr. Briggs was assistant vice president, CIT Commercial Finance Co.

NEW MEXICO

Cleo M. Romero has succeeded Assistant Vice President Don Gonzales as manager of the Pueblo Plaza Office of First National, Santa Fe. The branch is in Pojoaque. Ms. Romero has been with First National since 1974. Mr. Gonzales, with the bank 37 years, has retired. He had served as branch manager since 1970.

Fidelity National, Albuquerque, has been renamed Banquest National, reflecting the bank's association with its parent firm, New Mexico Banquest Corp., headquartered in Santa Fe.

Burce R. Beebe has been named vice president/commercial lending at American Bank of Commerce, Albuquerque. He has had six years of banking experience in operations and commercial lending.

Joanie Lee has joined First City Financial Corp., Albuquerque, as vice president/administrative officer. She is executive secretary to Reed H. Chittim, president of the HC.

First City National, Albuquerque, has promoted E. F. "Buddy" Douglass Jr. and R. Edward Robertson to executive vice presidents and Harvey Lee Webb to senior vice president. Mr. Douglass now is manager of the downtown main office. He joined the bank in June, 1983. Mr. Robertson is in charge of real estate loans and is a charter employee of the bank. Mr. Webb is commercial loan officer and joined the bank in 1982.

Richard A. Walters has been elected president/CEO, First City National, Hobbs. He succeeds James Renfrow, who resigned to join another company. Mr. Walters previously was executive vice president and joined the bank in 1982.

Michael W. Briggs has been elected president, First City National, Rio Rancho. He succeeds Stanley Lane, who left the bank to join another firm. Mr. Briggs formerly was senior vice president/lending officer at First City National, Hobbs, and First City National, Albuquerque.

OKLAHOMA

New Heritage National Bank Opens in Southeast Edmond

Heritage National opened its doors in late November in temporary quarters in Eagle Crest Center, Edmond. The bank's permanent building is under construction across the street.

John Mattingly is president/CEO, Cecil Capps is senior vice president and Kathy Dickerson is vice president/cashier.

Directors include Mo Anderson, realtor; Jerald W. Baldwin, CPA; John Bridwell, president, Ditch Witch of Oklahoma; Marty Johnson, homemaker; Raymond L. Vaughn, attorney; and Phil Watson, state senator. Paul S. Woolsey, investment banker, is an advisory director.

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COFFELT

Bob Coffelt has been appointed sales engineer in the Oklahoma City regional office of LeFebure. The office serves much of northwestern Oklahoma.

First National, Oklahoma City, has elected Robert L. Huffman senior vice president/banking services and Robert J. Passaro vice president/trust officer. Mr. Huffman comes from General Bancshares, St. Louis, and Mr. Passaro formerly was with Hibernia National, New Orleans.

BancOklahoma Corp., Tulsa, has received Fed approval to acquire the interests of Affiliated Bank Group in nine Oklahoma banks. The acquisition was made possible by Oklahoma's "bank modernization bill" which took effect last October and permits multi-bank HCs and limited branching. The nine banks are Boulder, City, Mercantile and Southwest Tulsa Bank in Tulsa and Sand Springs State, Affiliated Bank of Sapulpa, First Bank, Claremore, American Bank of Oklahoma, Pryor, and Affiliated Bank of Broken Arrow.

TENNESSEE

First American Corporation Acquires Park National

Park National, Knoxville, has been acquired by First American Corp., Nashville. The HC issued 2.5 million common shares to Park National's shareholders, giving the transaction a value of approximately $50 million.

Park National has merged with First American National, Knoxville, subsidiary of First American Corp. Name of the merged institutions is First American National Bank of Knoxville.

James F. Smith Jr., former chairman of Park National, is chairman/CEO of the merged bank, and Williams E. Arant Jr., Park National's president, now is president of First American National. Jeff H. Dyer, president of First American National prior to the merger, now is vice chairman.

Third National, Nashville, has elected E. W. (Bud) Wendell to its board. He is president/CEO, Opryland USA. Promotions at the bank include Steelman Morss to first vice president/human resources, Lynn Bilbrey and David Estes to vice presidents/operations, Berney Ragan to vice president/metropolitan department, Moore Rhett III to vice president/regional banking and Eddie Nichols to assistant vice president/investments. New officers include Douglas Harlan, assistant trust officer, and Allan Pinder, assistant vice president/investment officer.

WENDELL

Two east Tennessee banks have changed their names to Third National, reflecting their affiliations with Third National Corp., headquartered in Nashville. The banks are Bank of Knoxville and Bank of Sevierville. No changes are anticipated in senior management and directors of the banks.

Third National, Nashville, has opened its 31st full-service bank, which is located in Brentwood. Lattie Brown is manager. She is a commercial officer.

Union Planters National, Memphis, has promoted Louis Fonte, Kenneth W. Patton, Luke Yancy III and Jake Farrell to senior vice presidents, Jack L. Dodson, James K. Gilooly, Bob S. Swords and David H. Taylor to vice presidents and Michael A. Dudley, Gary J. Gaggiani, Patrick J. McIntyre, Joe G. Moretz, Frank L. Nelson, William T. Renfrow, John B. Simonetti and Deanne L. Troxel to assistant vice presidents.

Murfreesboro Bank has changed its name to Mid-South Bank. The new name reflects the bank's enlarged service area and unites all the bank's holdings under a single banner, according to Jack O. Weatherford, chairman/CEO. Last year the bank acquired Smith County Bank and Warren County Bank.

Volunteer Bank, Chattanooga, a new bank, opened last month. It is said to be the first independent bank to open in Chattanooga since the early 1970s. William F. Pollak is president/CEO and the bank opened with capital of $2.5 million.

TEXAS

RepublicBank Houston Opens New Building

More than 1,000 corporate leaders from across Texas attended the official opening of RepublicBank Center last month in Houston. The firm occupies more than 30% of the 56-story building, which opened for occupancy last October.

The opening was part of a week-long celebration to dedicate the new headquarters of RepublicBank Houston.

The Renaissance-style building was initiated in August, 1981. The building features a 12-story banking hall clad in red granite and occupies an entire block in the downtown Houston area.

The banking hall is separate from the tower and is connected by a 75-foot high archway. Seventy-four lead-coated spires adorn the building, making it unlike any other structure in the area.

RepublicBank Houston, formerly Houston National, had been located in the Tenneco Building since 1964. It had its beginning in 1876, when it was known as Fox & Wettermack Bankers. The name Houston National first appeared in 1889, when the bank was chartered by the Comptroller of the Currency. The bank was acquired by Republic of Texas Corp., now RepublicBank Corp., in 1975 and changed its name to RepublicBank Houston in 1982.

RepublicBank Center contains approximately 1.2 million square feet of office and retail space. The center's tower is divided into three segments by two major setbacks.

New RepublicBank Center rises 56 stories in downtown Houston. RepublicBank Houston adjoins tower at left and features 12-story banking hall. Grand opening of center was held last month.

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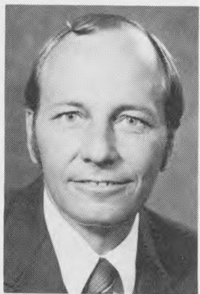
HCs in Dallas, Houston, Announce Merger Approval

Stockholders of Mercantile Texas Corp., Dallas, and Southwest Bancshares, Inc., Houston, have approved a proposed merger of the two HCs.

The merger will form a financial-services organization with assets of nearly $19 billion. Total equity capital would exceed $1 billion.

The merger remains subject to regulatory authority approval.



SCHOTT

Jim Schott has been appointed sales specialist at the San Antonio regional office of LeFebure. The office serves much of south-central Texas and selected accounts in metropolitan San Antonio.

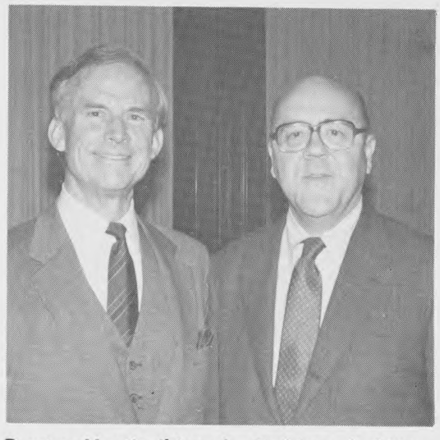
Danny Conklin has been elected to the board of First National, Amarillo. He is chairman, Natural Gas Committee, Independent Petroleum Association of America.

Housing Starts at Good Level; Boom Would Be Inflationary, Preston Martin Tells Press

Fed Vice Chairman Preston Martin is pleased with the housing outlook for 1984, which predicts a 1.6-million-start year. A boom in housing in 1984 would aggravate inflation, he added, because the housing industry isn't geared at this time to reap the benefits normally associated with high-volume production, due to the recent recession.

Mr. Martin was the guest of Theodore Roberts, St. Louis Fed president, last month. Mr. Martin met with directors of the St. Louis Fed and, later, with members of the local press.

He credited adjustable-rate mortgages for the improving housing picture, stating that they carry an average rate about 200 basis points lower than rates for fixed-term mortgages.



Preston Martin (l.) v. ch., Fed Board of Governors, was guest of St. Louis Fed Pres. Theodore Roberts (r.) last month at meeting of St. Louis Fed board.

Speaking to the issue of reducing capital requirements for smaller banks, Mr. Martin said there's no well-researched rationale for doing so at this time. Community bankers have been complaining to the Fed that the capital-ratio gap is too great between community and regional banks to enable community banks to compete effectively with regionals. Mr. Martin added that the Fed is expected to have all the information it needs to make any type of decision regarding bank regulation, but that is not the case in the area of capital-ratio requirements.

When asked if he thought the Fed should retain its supervisory authority despite attempts of legislators and other regulators to remove that authority, Mr. Martin said it would be impossible for the Fed to operate effectively as the nation's central bank if it didn't have the information about member banks obtained through examinations by Fed personnel.

In the area of international lending, Mr. Martin said that postponing payments of interest on foreign-nation loans to avoid default is in the public interest. IMF programs are vital to U. S. employment, he added. The U. S. needs the products of foreign nations and those products would not be available without loans from U. S. banks.

He also suggested that U. S. lenders could take minority ownership positions in foreign enterprises unable to repay their debts. He said there was real potential in such an approach, adding that "it's important to try new ideas."

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U.S. Treasury 14¼s due 2-02
U.S. Treasury 12¾s due 11-05
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Taking part in Boatmen's Nat'l business forecast conference in St. Louis recently were (from l.) David S. Lewis, ch./CEO, General Dynamics Corp.; William H. T. Bush, Boatmen's pres.; Donald N. Brandin, Boatmen's ch./CEO; Zane E. Barnes, pres./CEO, Southwestern Bell; John B. McKinney, pres./CEO, Laclede Steel Co.; Ellis L. Brown, ch./CEO, Petrolite Corp.; and John M. Brennan, Boatmen's exec. com. ch.

Business Leaders Predict Upbeat 1984 At Boatmen's National Conference

FOR THE SECOND year in a row, St. Louis businessmen attending the annual Business Forecast Conference sponsored by Boatmen's National heard optimistic predictions for the coming year.

Representatives of five major industries foresee the following for 1984:

- Banking — Prospects for the industry as a whole are favorable, except for the few banks that have specific problems.
- Steel — The new lean steel industry will perform better than most people anticipate. In the case of smaller mills, 1984 may prove to be a respectable year.
- Defense — Prospects are quite good, but there will be substantive changes in where the increased defense dollars will be spent.
- Petroleum — Barring another major interruption of world oil supply, the oil industry can look for steady but modest production growth.
- Telecommunications — In general, this industry is an excellent place to be right now, but it's too early to see what the effects of the AT&T breakup will have on the industry.

Donald N. Brandin, Boatmen's chairman/CEO, chided economists in his report. "Certainly the current practitioners of the art, as a group, do not appear to be serving us well," he said. "To suggest that there is 'shoddiness' in current economic analysis might be presumptuous, but I would not hesitate to say that the word 'opportunistic' would blanket a large segment of the field."

He said that members of the "Marie Antoinette School of Monetarism" are at one end of the economic-analysis spectrum. This group advocates staying on the course no matter what, without regard to political realities or social consequences. "On a purely theoretical basis, I suspect they are right, barring, as they put it, 'external shocks,' a proviso which in itself seems to be unrealistic in these times. On a practical basis, I doubt the Fed could survive such a rigid policy."

Mr. Brandin sees economists belonging to the "David G. Farragut School" at the other end of the spectrum. Their motto is "Damn the torpedos, full speed ahead." This group advocates big government and big spending and counts on inflation to cover its sins, he said. "Somewhere in between is the consensus group that strives individually to develop an approach that distinguishes it from the masses," he added.

He admitted that business people expect more from economists than they possibly can deliver and that there is no empirical evidence to support either end of the economic spectrum.

Mr. Brandin said the fight to bring down inflation has been a notable success and he credits the Fed for playing a major role in the effort. The effort came at some cost to the economy "but at least the patient survived to see a better day."

He added that the Fed's posture in the future will be critical and he called on his guests to hope that the economic environment will afford them an opportunity to fuel reasonable growth without threatening the current stability of interest rates and inflation.

Mr. Brandin predicted bank earnings for 1983 pretty accurately at the 1982 conference. At that time, he forecast increases in earnings for larger commercial banks of 8% to 10% against a backdrop of an improving economy with the qualification that individual performance would vary widely reflecting the problems some banks would have with energy and international loans.

"The forecast is proving to be reasonably accurate although final figures on energy-loaded banks might reduce the percentage moderately," he said. A leading bank-stock analyst is estimating earnings for the 158 banks in its index at just under 8% for the year, somewhat down from original projections, due to reduced earnings in some major banks in the index, principally those in the Southwest.

He said any punitive action against the banking industry because of loan losses on the international scene would be likely to induce another worldwide depression.

Addressing bank deregulation, Mr. Brandin compared its course to that of a "drunken sailor on shore leave." He added that, although interest-rate ceilings have been removed for the most part, service restrictions and barriers to interstate banking "still cover the industry like an aging patchwork quilt whose seams are popping daily." He said Congress is clearly unwilling to tackle the special-interest lobbies that want to confine the activities of commercial banks. Rather, the legislative body seems to be disposed to let the states deal with the interstate banking issue on a reciprocal basis. "The die is

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cast, however," he added. "We are no longer asking if — only when."

Continuing on the topic of deregulation, he said phasing out interest-rate controls has increased the average cost of funds for most banks and has had a severe impact on banks in depressed market areas, especially agriculture and heavy industry.

Some regional banks, including Boatmen's, have fared quite well despite the economy and deregulation, he continued. "We are broadly diversified and have been largely successful in compensating for higher money costs with operating efficiencies and volume increases achieved through improved market penetration."

He predicted continuation of consolidation of banks within the framework of present law and regulation. An improved economy should result in better earnings for most banks and especially regional institutions, he said.

The improved economy hasn't helped the steel industry much, said John B. McKinney, president/CEO, Laclede Steel, one of the few steel makers surviving relatively well.

The industry is operating at only 57% of capacity, and major mills still are shutting down facilities, he said. Some improvement has been noted in the automotive steel market, although down-sizing of autos has reduced total tonnage. Tubular, railroad car and barge manufacturing continue to be depressed. Steel prices have fallen as much as 30% and now are at the equivalent of 1980 levels.

Third-world competition is affecting producers in the U. S., Europe and Japan, he added.

Foreign steel continues to pour into the U. S. and the American Iron & Steel Institute is attempting to get legislation through Congress to place quotas on imports at 15% of the U. S. market.

The industry is responding to competition by opening mini-mills that can compete with foreign steel, Mr. McKinney said. These mills use scrap as a raw material and electric furnaces and continuous casting to produce steel at low cost. Another positive aspect is the ability of U. S. producers to trim costs substantially and thus reduce losses.

"If we have an increase in shipments and some improvement in prices, I believe the new lean steel industry will perform better than most anticipate," he said.

Defense spending is on the rise, said David S. Lewis, chairman/CEO, General Dynamics Corp. However, a large portion of this spending goes directly to the military establishment, not to the defense industry.

Manufacturers involved with key defense programs will do well, he said, but firms holding contracts for low-priority programs will not.

He added that the national elections this year will have little or no effect on high-priority programs, although a Democratic administration probably would call for a modest reduction in defense outlays.

"Certainly in total, prospects for the defense industry as a whole are quite good," Mr. Lewis said. "But there will be some substantive changes in where the increased dollars are spent, not only with respect to programs, but with respect to the companies that will receive the contracts."

A 2.2% increase in U. S. oil demand is expected this year, bringing demand to 15.5 million barrels per day, said Ellis L. Brown, chairman, Petrolite Corp. This is good news after five consecutive years of declining demand.

Despite declining oil consumption, the free world is continuing to consume crude oil faster than it is able to find more supplies, he said. Proved reserves are dwindling and a slight decline in U. S. production is seen for this year, coupled with an increase in imports.

The U. S. oil industry has bottomed out and is on its way up again, Mr. Brown said, and domestic refineries are running at more than 70% of capacity, up slightly over a year ago.

"Assuming that the economy will continue to improve, the domestic oil industry should continue to show moderate but steady growth in activity through 1984," he said.

The most indecisive report was given by Zane E. Barnes, president/CEO, Southwestern Bell Telephone Co. He said the outlook for the telecommunications industry can be summed up in two words — "it depends."

However, he added, in general, the industry is "an excellent place to be right now."

Variables affecting the fortunes of the telecommunications industry include how willing customers are to adopt new systems and services, how the economy performs and how sound management policies are.

He said he feels good about Southwestern Bell's prospects. "We've been on the leading edge in introducing new technologies into the network." He added that major investments in the network are complete and a state-of-the-art network is in place.

Mr. Barnes predicted growth in usage of the network as the industry finds ways to better utilize its potential. There's much room for better utilization, since the average customer of Southwestern Bell uses its phone lines only 5% of the time.

He said pricing structures are a make-or-break issue for the industry and that pricing is an emotional issue. Recent developments have resulted in a realignment of pricing structures that will result in services being priced according to their cost — something that had not been the case in the past for telephone service. There is a danger that Congress will legislate prices, which will have the effect of delaying arrival at a pricing structure that will benefit the industry as well as the customer.

"We will do everything in our power to hold down or optimize costs," he said, "and not just because it's our obligation to customers. . . . In a highly competitive environment, we'd be crazy not to.

"No one knows whether competition will deliver the benefits it promises. However, we are committed to making it work. We're committed to making the transition as smooth and easy as possible for customers. And we intend to be aggressive competitors ourselves."

Sounding much like a banker, Mr. Barnes said, "All we ask is that the pricing realities of a competitive marketplace be faced, and that we be allowed to play as equals." **— Jim Fabian, senior editor.**

Concerts Enliven Lunch Hour

David Oberg, conductor and musical director, Chamber Orchestra of Albuquerque, N. M., directs ensemble in opening number of a Lunch Box Theatre performance, sponsored by First Nat'l, Albuquerque. Bank hosted four noontime concerts on Wednesdays in July as part of golden-anniversary celebration. Programs featured different musical groups performing old standards, jazz, show tunes, silent-movie music and light classical at bank's downtown First Plaza.

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Stabilizing Monetary Policy Advocated by Fed Official

MONETARY policy that stabilizes prices and interest rates over a long period was advocated by St. Louis Federal Reserve Bank President Theodore H. Roberts at the Illinois Bankers Association's bank management conference in Chicago in November.

"Since inflation primarily is a monetary phenomenon, to assure stable prices over a long period, we must have a policy that supplies money to the economy at a rate that matches output growth," said Mr. Roberts. "It must be one that will not be sidetracked by desires to alleviate short-run economic problems for short-run political expediency."

Once one concedes that attempts to eliminate short-term economic difficulties through monetary policy are futile, it is possible to conceive of a monetary policy that produces long-term stability in inflation and interest rates, said Mr. Roberts. Ironically, bankers are among those who frequently have sought government intervention in monetary policy to stabilize short-run variables, apparently in the belief that no long-term costs accompany such a stance. Citing recent economic history, he said results of such government intervention often have been opposite to what was intended.

Monetary policymakers must operate with "tunnel vision," he added. They must be blind to the day-to-day, year-to-year, market-induced "wiggles" in inflation and interest rates.

Because of the high interest rates and inflation produced by a tight money supply, Mr. Roberts continued, depositors left banks for higher returns available in money-market mutual funds; portfolio market values declined; operating expenses rose, and banks were faced with increased competition for funds. Bankers have tightened their operations to counter such trends, he said, but everyone, including bankers, would be better off with an assured lower level of inflation and interest rates.

Illinois bankers also were provided with an economic outlook for 1984 by Robert T. Parry, executive vice president/chief economist, Security Pacific National, Los Angeles. Worldwide economic growth will alleviate some problems less-developed countries will have meeting their massive debt obligations during the next year, said Dr. Parry, who also is chairman of the ABA economic advisory council. But he cautioned that the risks created by the debt crisis will be present for years and pose the largest single threat to the U. S. banking industry.

Harry E. Cruncleton, president, Bank of Belleville, presided at the opening session of the IBA management conference at which Mr. Roberts and Dr. Parry were featured. Ronald Barnes of Transitions, Inc., Phoenix, who gave bankers some tongue-in-cheek lessons in stress management, also was featured at the opening session.

The IBA's 1984 officers were announced at the conference. Charles C. Wilson, chairman/CEO, First National of the Quad Cities, Rock Island, was named president, replacing Donald R. Lovett, chairman/president, Dixon National, who will take Mr. Wilson's 1983 post as treasurer for the next year. Other officers are: vice president — Kenneth Skopec, president, Mid-City National, Chicago; and secretary — James Lund, chairman/president, Matteson-Richton Bank, Matteson.

Articles of incorporation under which the old IBA merged last year with the old Association for Modern Banking in Illinois specify that during the first two years following the merger, the association will have a leadership that represents a balance between the two former associations. The new IBA says it represents 92% of banks in the state.

New IBA board members announced at the conference are:

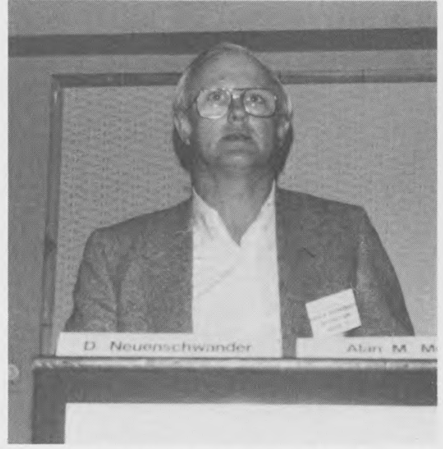
Region I — David E. Albertson, State National, Evanston; Kenneth Skopec, Mid-City National, Chicago; Herbert A. Dolowy, Lincoln National, Chicago; James B. Lund, Matteson-Richton Bank, Matteson; and Charles E. Waterman, South Holland Trust.

Region II — John A. Anderson, First National, Lake Forest; Kevin T. Reardon, First National, Joliet; William C. Gooch Jr., York State, Elmhurst; Alan M. Meyer, First National, Deerfield; and Thomas F. Bolger, McHenry State.

Region III — Donald R. Lovett, Dixon National; Charles C. Wilson, First National of the Quad Cities, Rock Island; James F. Forster, DeKalb Bank; T. R. McDowell, First National, Westville; and Howard E. Bell, First

Theodore H. Roberts (l.), pres., Federal Reserve Bank of St. Louis, is introduced by Harry E. Cruncleton (r.), pres., Bank of Belleville, at Illinois Bankers Association bank management conference.

Robert T. Parry, e.v.p./chief economist, Security Pacific National, Los Angeles, and ch., ABA economic advisory council, makes point about economy and its effect on banking for Illinois Bankers Association members attending recent bank management conference.



Donald W. Neuenschwander, ch., Med Center Bank, Houston, tells Illinois bankers how he turned small bank into aggressive marketing organization.

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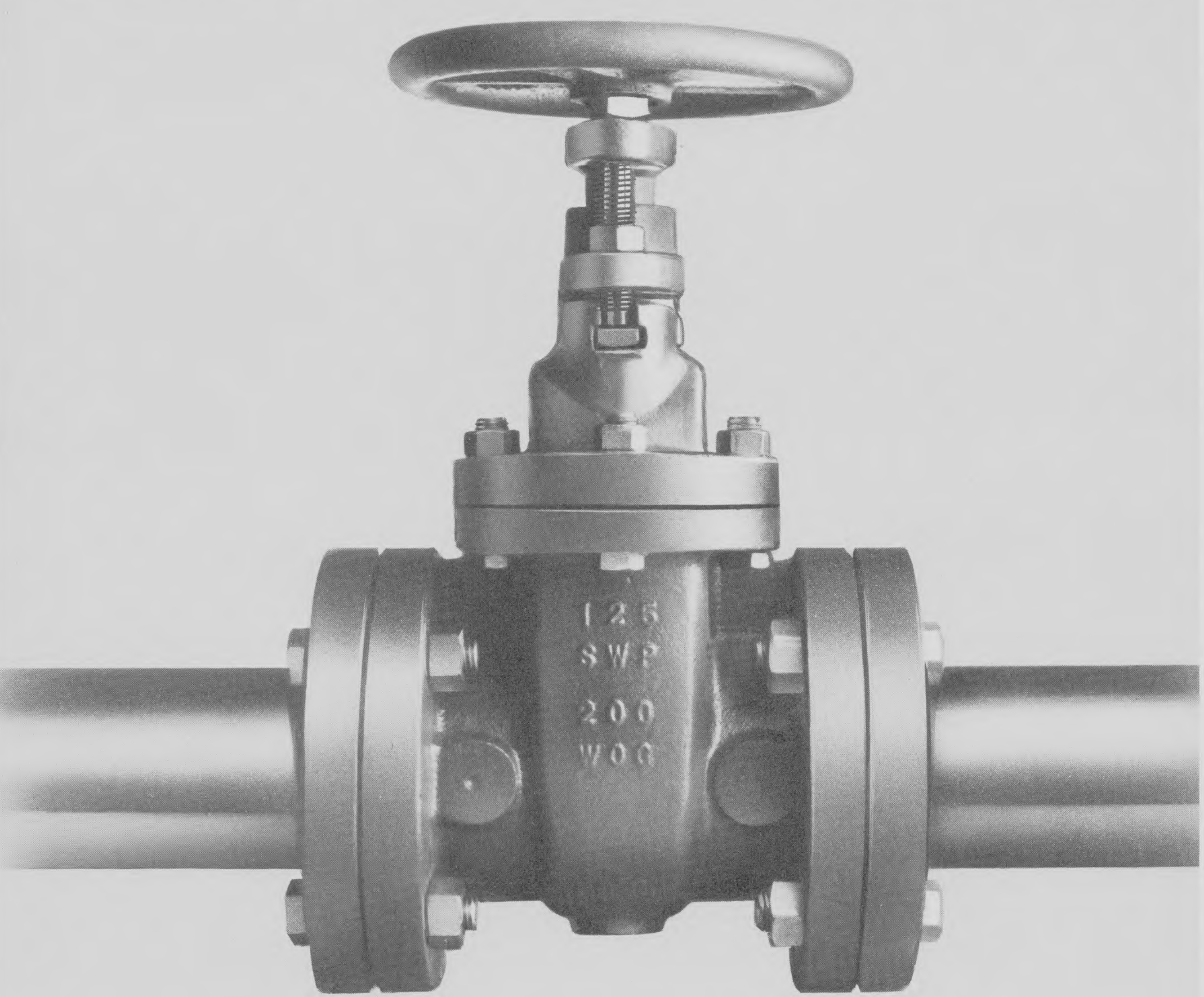

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Region IV — James C. Coultas, Elliott State, Jacksonville; John W. Luttrell, First National, Decatur; Sam Scott, Scott State, Bethany; James L. Winningham, State Bank, Arthur; and Warren Martin, Capitol Bank, Springfield.

Region V — Thomas Andes, First National, Belleville; George M. Ryrie, First National, Alton; Walter E. Moehle, Old Exchange Bank, Okawville; Harlan Yates, Cisne State; and Gerald K. Feezor, Peoples Bank, Marion.

Large-bank category — Jay K. Buck, Northern Trust, Chicago; Willard Bunn III, Springfield Marine Bank; Martin Farmer, First National, Chicago; William D. Plechaty, Continental Illinois National, Chicago; and David L. Webber, Harris Trust, Chicago.

At one of what were called "breakout" sessions at the conference, Donald W. Neuenschwander, chairman, Med Center Bank, Houston, described the unorthodox steps his bank has followed in cultivating the "high-net-worth market." When he took over at the bank in 1974, Med Center had no marketing program nor customer base, Mr. Neuenschwander said. In fact, "we barely had a bank," he said. Providing ample incentives for maximum employee performance, marketing aggressively to the high-balance prospective customers who work in a medical complex near Med Center and controlling transaction volume and related costs has worked wonders, Mr. Neuenschwander said. He urged those in his audience to find out what makes their banks different from competitors and to market the differences.

Med Center's parking lot appeared to be one of the few early differences the bank could crow about, but Mr. Neuenschwander and his staff successfully marketed it to an audience that liked the convenience the parking lot provided. In marketing to the affluent, Med Center bills itself as the bank for the "well-to-do and those who are doing well."

In another breakout session, Harold Faeth and Michael Vinitsky, Rohrer, Hibler, & Replogle, Inc., Chicago, warned of some of the human factors that too often can turn potentially good bank mergers sour. — **John L. Cleveland, assistant to the publisher.**

CORPORATE NEWS

Firm Has Its 'Day'

South Dakota Governor William J. Janklow, through executive proclamation, designated November 19 as "Daktronics Day" in the state. The proclamation coincided with the grand opening of the new 36,000-square-foot manufacturing plant of Daktronics, Inc., in Brookings, S. D. Despite a continual rain and snowfall, about 700 persons attended the grand opening, ribbon cutting and guided tours of the plant. Aelred Kurtenbach, pres. of Daktronics, cut the ribbon. Master of ceremonies was Bud Weisser, sales rep. for the firm and immediate past pres., Brookings Chamber of Commerce. Daktronics designs, manufactures and distributes scoreboards, animated-message centers and electronic legislative-voting equipment.

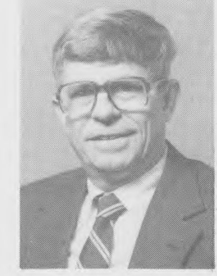
• **Bank Building Corp.** Myron A. Carpenter has been named senior vice president of this St. Louis-based firm. He joined it in 1972, having formerly been audit manager, Arthur Young & Co. Mr. Carpenter had been vice president, finance, since 1981.

• **Brandt, Inc.** Peter Siltumens has joined the coin-products division of this Watertown, Wis.-based firm. He was general manager, new-product development, PPS Manufacturing, Santa Clara, Calif. In other action at Brandt, Thomas A. Harrison has been named director, industry sales. He formerly was with Xerox Corp., Chicago, for 12 years.

• **Christmas Club a Corporation.** Michael McNab has been promoted to vice president/general manager, Full Service Bank Productions, Inc., division of this Easton, Pa.-based company. He had been systems product manager, Christmas Club a Corporation. Full Service Bank Productions, Inc., provides marketing/operational services to banks through an affiliation with the ABA.

• **Associates Corp. of North America.** This Dallas-based firm (The Associates) has named James J. Hoiby president, Associates Development Services Corp. This is a new operating group that will oversee consumer-finance acquisition/new-venture activities. Mr. Hoiby joined The Associates in 1951 and, since 1975, had been executive vice president, Associates Financial Services, Inc. (AFSI), consumer-finance subsidiary of The Associates.

• **Associates Bancorp, Inc.** Richard E. Pigman has joined this South Bend, Ind.-based firm as senior vice president, information technical services. Most recently, he was responsible for implementation of a major national common-carrier network for Digital Equipment Corp., Maynard, Mass. Associates Bancorp provides computer services to all subsidiaries of Associates Corp. of North America, Dallas.



SMITH

• **Mosler.** John Barry Smith has been promoted to manager, facilities planning department, of this Hamilton, O.-based firm. He now supervises planning services for financial institutions and participates in consultations with prospective customers and their architects on site development/space planning. Mr. Smith, with Mosler since 1968, was an architectural specialist prior to his promotion.

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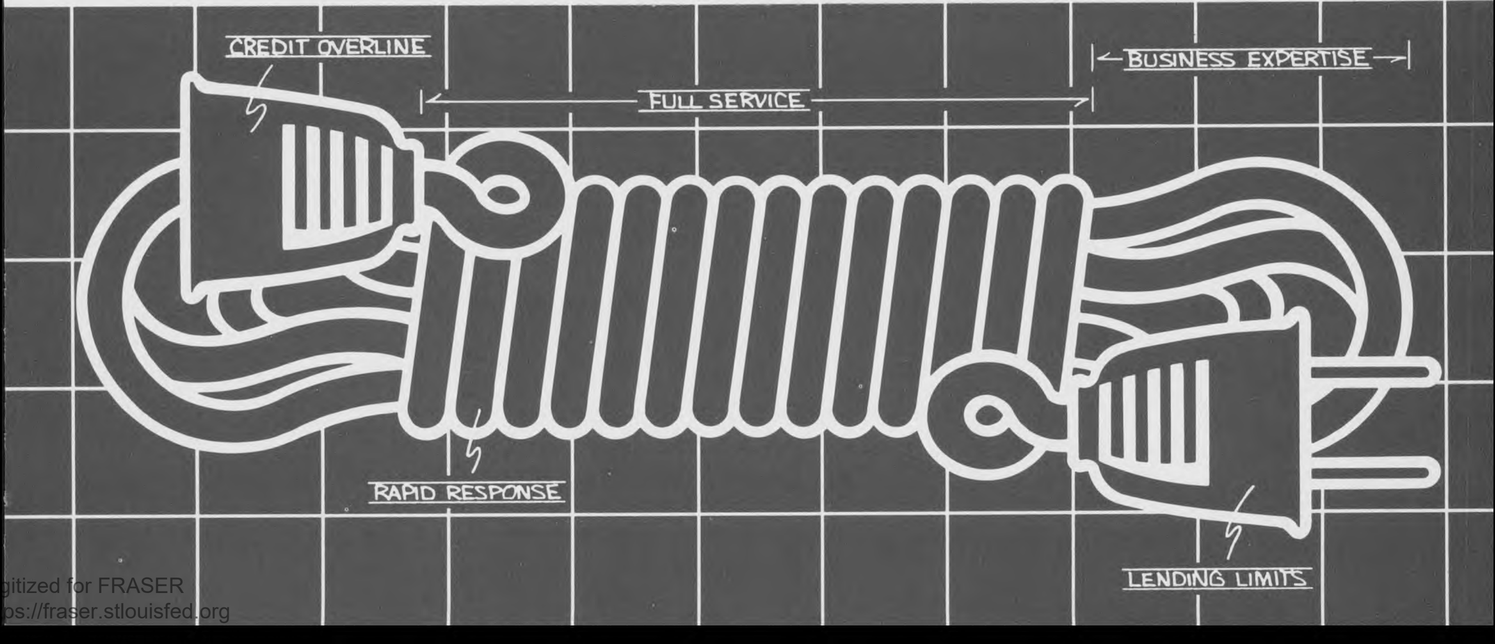

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Community Banks Hit Lightest By Effects of Deregulation, Say BAI Survey, Panelists

MOST CHANGES predicted to occur in the banking industry due to deregulation in the decade of the 1980s will be felt by regional and money-center institutions. Community banks — although not immune from change — will be relatively unscathed by developments occurring prior to 1990.

This is a summary of opinions expressed at last month's video teleconference broadcast to 40 cities by the Bank Administration Institute. Approximately 2,000 bankers were in attendance.

Title of the teleconference was "Survival in the '80s: the Strategic Choices." Basis for the presentation was a detailed survey of key bankers conducted by the BAI and Arthur Andersen & Co., CPA firm.

Key findings of the survey include the following:

- Evolution, not revolution, is the expectation of surveyed bankers for the decade.
- Major industry consolidation is seen, with the number of banks declining by almost one-third — to 9,600 by 1990.
- Significant merger activity will occur. More than half of all banks will be involved in mergers during the decade.
- Profits will decline, due primarily to higher deposit costs, expenses associated with developing new products and increased competiton.
- Banks that succeed in getting a leg up on their competitors by developing new services will find their advantage will be short lived, due to the ability of competitors to quickly copy such services.
- There will be a general misconception of plans of competitors among bankers, which means many bankers will be in for some surprises.

Panelists appearing on the teleconference program included a regulator and representatives of the banking and thrift industries.

Zeroing in on the fortunes of community banks for the decade of the '80s, both those who presented the survey results and panelists gave the impression that community banks will experience the lion's share of profitability decline during the decade. Average decline is predicted to be about 10%, but community banks can expect a 15% decline. Capital needs of all banks will increase about 10% annually and capital will be hard to come by for many community banks.

Community banks must concentrate on personal service in order to survive the next 10 years. Such service has been their hallmark for years, and there's no substitute for it.

In the regulation area, community banks will focus on pricing issues, while large banks will be more concerned with structure issues. Small banks will find that changes they favor in regulatory practices will be difficult to achieve.

Most of the 37% decline predicted in the total number of banks in the U. S. by 1990 will occur among community banks. By 1990, the survey reveals, 3% of the nation's banks will hold 65% of the industry's assets.

Acquisitions will not affect community banks much, since many smaller institutions are not attractive to large banks as acquisition material. Also, nonbanks are not expected to make major inroads in acquiring banks, since a nonbank needs only one bank acquisition to give it a foothold in the banking industry.

In the technology area, competition, not consumer demand, will dictate changes. Today, one-third of the nation's banks use ATMs; by 1990, one-half are expected to have the machines in use. Panelists pointed out that they disagreed with the conclusion that consumer demand will be subordinated to competition. They said self-serving has not always been in the best interests of banks or their customers.

Surveyed bankers predicted a lending-rate increase for the decade of about 1%, with home mortgages and installment loans sharing the honors for the highest growth rate. Banks are expected to hold steady on their mortgage-loan and installment loan volume, despite the fact that these areas are the most highly competitive.

Bankers surveyed believe the majority of the nation's bankers are not prepared for deregulation. Only the strategic planners will survive. One of the major problems with planning is that most banks develop plans but don't implement them.

Management quality is in need of improvement. Better-qualified people are needed, along with better motivation. In the marketing area, a better understanding of banking products is needed that will result in better customer service. Another need is to revamp the distribution system in banking, bankers predicted, but the revamp isn't expected to result in replacement of branches, just an updating of them.

Among the panelists, the most ar-

Bank-Earnings Decline Foreseen

BANK EARNINGS will decline as a result of higher deposit costs, expenses associated with developing new, differentiated products and increased competition, according to the BAI/Arthur Andersen survey of bankers.

By 1990, bank ROA is expected to drop from 1.13% to under 1.0% for small banks, from 0.92% to 0.86% for medium-sized banks and from 0.82% to 0.76% for large banks.

Capital will grow at 10%. Internal sources will account for all but 14% of new bank capital through 1986. By 1990, external sources will increase to 17%.

Adequate capital generally will be available despite depressed earnings during the late 1980s. Large banks will find new capital more readily available than will their medium-sized and smaller counterparts.

Interest income in 1990 will continue to be the dominant source of bank income even after decreasing almost one-tenth to 87% of revenues. Fee-based income will almost double, but will represent only 7% of total revenues.

Interest on deposits and purchased funds will increase to about 73% of total expenses, up from 70%. The increase in interest expense and the corresponding drop in interest income will force banks toward more explicit pricing of other financial services.

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ticulate was FDIC Chairman William M. Isaac, who seldom missed an opportunity to assure bankers that his agency desires to see competition call the shots for the industry in the years ahead.

He said risks and rewards are greatly accelerated by deregulation and he confidently predicted that most banks can meet the new challenges deregulation is presenting to them. He admitted that the bank-failure rate will be higher than it has been in the past, but qualified that by stating that the failure rate has been artificially low under regulation. He termed 45 failures a year as "not high" compared to the rate in other industries.

Later in the program, he said he doesn't want government regulations to dictate the market segments banks and thrifts must serve. He's happy that deregulation is forcing bankers to make the same types of decisions other industry leaders have been making all along. He added that the banking industry is in the first stages of an evolutionary process, thanks to deregulation.

Mr. Isaac admitted that any increase in number of banking services poses a regulatory challenge. There's more risk associated with the freedom to compete. Yet, the risks don't outweigh the benefits. He predicted that more disclosure will be needed and that some new services should be channeled into subsidiaries.

On the topic of banks getting more involved in the sale of insurance, Mr. Isaac said Congress definitely is opposed because of the high risks associated with underwriting securities and insurance. However, he sees nothing risky about banks acting as brokers in securities, insurance and real estate.

A portion of the teleconference was devoted to an interview with Senator Jake Garn (R., Utah), chairman, Senate Banking Committee. The senator admitted that there's no chance his banking bill will be adopted in its entirety. In fact, he wants the proposals in the bill to be carefully considered over a period of time so that the bill will accurately reflect changes that the industry needs. His introduction of the bill is the start of a process that will develop into acceptable legislation.

He admitted that he doesn't know what the banking industry should "look like" in 1990. He sees his role as that of a catalyst for change. "There's no such thing as a level playing field," he added, but he sees his role as the individual to assure that the closest thing to a level playing field is achieved.

He thinks banks should be permitted to sell and underwrite municipal revenue bonds and mutual funds through subsidiaries, but he sees little hope for congressional authority to enable banks to be real estate and insurance brokers.

Senator Garn said there's no way interstate banking will be authorized, but he, for one, favors regional banking pacts, such as the one fashioned by the New England states to permit mergers among those states. He expects Congress to put its stamp of approval on such pacts in the forthcoming banking bill.

He said he doesn't favor a super regulatory agency, but decried the fact that 11 regulators were involved with the Butcher situation in Tennessee. He favors regulation by function — all banking functions regulated by one agency, even those performed by nonbanks. All firms offering the same services should operate under the same set of rules, he said.

The senator sees a great future for community banks. "They are strong and will continue to be strong," he said. The biggest cloud on the horizon covers medium-sized banks and thrifts, he added. Both types of institutions will be squeezed as deregulation's effects continue.

He was asked what the impact of banking legislation in 1980 was. "The legislation recognized Congress's concern about the changes going on in the banking industry," he replied. It was an important beginning to a process and it accomplished what it was supposed to accomplish. As to the future of banking legislation, he said it's possible there will be a major banking bill each year so that the industry doesn't get as far behind the times as it did prior to the 1980 legislation.

He cautioned bankers to realize that they are no longer being protected by regulations. Regulation was governing their decisions, but now they are free to make their own decisions. He advised bankers not to jump at every new technological innovation, but to make progress a steady series of improvements, so the transition will be smooth, not jumpy. — **Jim Fabian, senior editor.**

Bankers' Bank Gets Federal Charter

THE first federally chartered bankers' bank has received approval by the Comptroller of the Currency to begin operations.

Louisiana Independent Bank, N. A. will provide correspondent services to Louisiana banks from its office in Baton Rouge. The bank is capitalized at $2 million, with $3 million surplus. Seven Louisiana bankers will serve as directors.

Previously, bankers' banks have been chartered by states, but the Garn-St Germain Depository Institutions Act of 1982 authorized the Comptroller to charter such banks.

Organizers of the new bank include Ray Aucoin, president, Vermilion Bank, Kaplan; Ronald M. Boudreaux, president, First National, Opelousas; L. J. Folse, president, Terrebonne Bank, Houma; A. Henry Kinberger, president, Security First National, Alexandria; Lawrence A. Melsheimer, president, Iberville Trust, Plaquemine; George R. Pabst Jr., executive vice president/CEO, City Bank, New Iberia; and Charles A. Patout, chairman, Gulf Coast Bank, Abbeville.

The new bank will assist respondents in developing and originating large, complex credits; improving documentation through suggested forms and policies; planning and marketing; and development of new services and products for respondents.

Correspondent services expected to be offered during the first year by Louisiana Independent Bank include cash-letter remittances/clearings, wire transfers, currency/coin, sale/purchase of Fed funds, sale/purchase and trading of securities, money-market/securities information, securities safekeeping, computer-processed investment portfolio reports, overline participation loans/purchase and sale, bank-stock loans, off-site records storage and payroll services.

Services expected to be offered during the bank's second year include investment portfolio analysis/advice, policy/procedure guides, educational/training programs, loan-pool establishment, access to secondary markets for sale/purchase of loans and personnel assistance.

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Asset/Liability Management Critical Concern to CEOs

ASSET LIABILITY/MANAGEment topped the list of bank CEOs' most critical concerns, according to a November survey of the 2,140 CEOs of all U. S. commercial banks with assets of more than $100 million.

The survey was conducted by Egon Zehnder International, an executive-search firm, with offices in Atlanta, New York City and Chicago, as well as in Mexico City, South America, Europe, the Far East and Australia.

Ranking in order behind asset/liability management were these critical concerns: deregulation, business development, competitive environment and strategic planning.

Although strategic planning ranked only fifth among the 21 concerns named by all bank CEOs, it was the first choice of banks with more than $5 billion in assets. These banks control 44% of all U. S. commercial-bank assets, says Egon Zehnder.

Bank CEOs surveyed control 83% of all U. S. commercial-bank assets, and the extremely high response rate of 26.7% was consistent by bank size and geographic region, according to Egon Zehnder.

The survey found that 74% of the CEOs expect their institutions to acquire another bank within five years. Conversely, nearly one in three of the CEOs expects his bank to have a new owner within the same period. Mid-sized banks (assets of $1 billion-$5 billion) are even more likely to be "for sale" than their smaller counterparts ($100 million-$1 billion).

Among other significant survey findings were:

• *The new competition:* Four out of five CEOs (83%) believe Merrill Lynch is a significant competitor *now*, with Shearson/American Express at 47% and Sears at 39%. However, when asked which institutions would be major competition *in 1990*, Sears (86%) edged out Merrill Lynch (85%), followed by Shearson/American Express (70%). Kroger, the giant grocery chain, also enjoyed dramatic growth in competitive reputation, from 0.4% now to 11% in 1990, indicating the era of the financial-services supermarket truly may have arrived.

• *Banking's leader:* In an open-ended question, 27% of the CEOs named Citibank, New York City, as the country's best-managed bank, followed by Morgan Guaranty, also of New York City (20%), and Wachovia Bank, Winston-Salem, N. C. (9%). Of the 59 banks nominated in total, only these three were cited by CEOs of every size bank and from every region of the country. Citibank was the clear favorite of smaller banks, says Egon Zehnder, while Morgan Guaranty was the primary choice of banks with assets of more than $5 billion.

• *Regional favorites:* When asked to name the best-managed bank in their regions, the CEOs chose: *East* — Mellon Bank, Pittsburgh; *South* — Wachovia Bank; *Midwest* — National Bank of Detroit; *West* — Security Pacific, Los Angeles.

The CEOs also predicted cities in each region that have the most potential for economic growth in the next decade, with the leading choices for "Cinderella cities" being: *East* — Boston, Pittsburgh, Washington, D. C.; *Midwest* — Minneapolis/St. Paul, Indianapolis, Columbus, O.; *South* — Dallas, Atlanta, Houston; *West* — Denver, Phoenix, San Diego.

"It's clear," says Samuel H. Pettway, principal-in-charge of Egon Zehnder's Atlanta office and survey coordinator, "that acquisition fever is prevalent among banks all across the country. With the indicated overlap between banks that expect to be acquired and those planning to acquire, there are intriguing implications for the price/earnings multiples of bank securities in the years ahead.

"These CEOs are at the forefront of one of the most radical competitive changes ever to face any industry, and a fascinating answer emerged when the CEOs were asked what experience would be significant for the next CEOs of their banks."

Mr. Pettway points out that more than half (52%) think management experience in a nonbanking environment will be "very" or "extremely" important to the next CEOs, and a resounding 83% of CEOs of the nation's largest banks (assets of over $5 billion) agree.

"Clearly," he says, "bankers aspiring to the top jobs in their own organizations may face career competition from some unexpected sources." • •

Copies of the survey described in the accompanying article may be obtained by writing one of these Egon Zehnder International offices: Eight Piedmont Center, Atlanta, GA 30305; One First National Plaza, Chicago, IL 60603; 645 Fifth Ave., New York, NY 10022.

What Bank Directors Should Know About Considering Tender Offers

MANY BANK directors have noticed a decided step-up in tender offers for banks. Most offers are friendly, but some are not.

Sometimes, only one or two major shareholder directors are privy to an offer since they control the bank and are in a position to accept or reject the offer. The courts have offered mixed decisions about the fairness of such practices to other shareholders and directors.

Directors probably are safe from personal liability if they can show they acted with diligence. That means they carefully considered the merits of all tender offers or proposed mergers and gave stockholders the benefit of their informed business judgment.

Some authorities suggest that placing a tender offer before a committee of outside directors helps defuse any argument that management didn't self-entrench and that it acted in good faith.

While bank control often sells at a premium to noncontrol and most banks are not "public" in the Securities and Exchange Commission connotation, it should be recognized that minority noncontrolling shareholders are much more litigation prone today than they were only a few years ago.

Maintaining board minutes that show careful consideration of tender offers and recommendations of non-management directors will show stockholders that directors acted with informed business judgment.

The preceding is an excerpt from a recent issue of The BANK BOARD Letter. See announcement on facing page for details about an offer for a sample copy.

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Attention Bank CEOs:

Directing a bank isn't easy! Why not give your board some help?

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For almost 15 years, The BANK BOARD Letter (a four-page monthly newsletter) has been alerting directors to current topics of vital interest. Each issue includes information directors need to better serve their financial institutions and/or their HCs.

Recent issues have discussed anti-takeover measures, changing correspondent relationships, developments in risk management, changing legal lending limits, reducing overline-loan violations and considering tender-offer merits. Over a year's time, dozens of current topics and timely advice are offered to guide directors in their deliberations.

The BANK BOARD Letter is unique among publications for financial-institution directors because it draws on the long-time banking experience of Dr. Lewis E. Davids, former banker and current Professor of Finance at Southern Illinois University, Carbondale. As editor of The BANK BOARD Letter, Dr. Davids draws on his rich and extensive background of banking and teaching. His experience and resources make him eminently qualified to present banking topics to directors and top-management people at financial institutions.

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• **Donald T. Senterfitt,** vice chairman/senior executive officer, Sun Banks, Inc., Orlando, Fla., has announced his candidacy for ABA president-elect in 1984-85. He has one opponent, Bill Rodgers, chairman, Security Bank, Blackwell, Okla. Mr. Senterfitt was the organizer/founding director of his bank HC in 1966 and is the former chairman of its executive and audit committees. He has been a director of Sun Bank, Orlando, 20 years. In the ABA, Mr. Senterfitt was on the ABA board from Region III, 1982-83; ABA council, 1980-present; ABA governing council, 1978; ABA taxation committee/subcommittee on state taxation, 1976-78; ABA special task force on state taxation of banks, 1971-76; and ABA special task force on Uniform Consumer Credit Code, 1967-70. He also was ABA state vice president for Florida, 1981-82.

• **The Chicago Fed** has announced these staff changes: David R. Allardice, to economic adviser/vice president, economic research department; Glen Brooks, to vice president, marketing activities, Detroit Branch; Stephen M. Pill, to vice president, market research/product management and promotion/customer relations; Richard P. Anstee, to vice president/director of automation services; Frederick S. Dominick, to vice president/assistant branch manager, Detroit; Harvey Rosenblum, to vice president/associate director of research; and Gerard J. Nick and Kenneth R. Berg, to assistant vice presidents. Assistant Vice President William A. Bonifield has been assigned to the fiscal agency department; James M. Rudny, assistant vice president, to wire/security transfer area; and Theodore Downing, assistant vice president, to operations. In other action, the Chicago Fed announced reelections of two directors for three-year terms: O. J. Tomson and Leon T. Kendall. Mr. Tomson is president, Citizens National, Charles City, Ia., and Mr. Kendall is chairman/CEO, Mortgage Guaranty Insurance Corp., Milwaukee.

• **Wayne Angell,** chairman, First State, Pleasanton, Kan., has been elected to a second three-year term on the board of the Kansas City Fed. Richard D. Harrison, chairman/CEO, Fleming Cos., Inc., Oklahoma City, was elected to his first three-year term on the same board.

SENTERFITT

FORRESTAL

• **Robert P. Forrestal** has been elected president, Federal Reserve Bank of Atlanta, succeeding William F. Ford. Mr. Ford resigned in October to become president, First Nationwide Financial Corp., San Francisco. Since 1979, Mr. Forrestal had been first vice president of the bank, which he joined in 1970 as vice president/general counsel and where he was senior vice president/general counsel, 1974-79. From 1968-70, Mr. Forrestal was assistant secretary, Federal Reserve Board, Washington, D. C. Before that, he had been the FRB's legal division's attorney and then senior attorney. From 1961-64, Mr. Forrestal was an associate attorney with a law firm in the nation's capital. He is a 1961 graduate of Georgetown University Law Center, Washington, D. C.

• **John J. Gill** has been named general counsel to the ABA. He succeeds William H. Smith, who has retired. Mr. Gill formerly was federal administrative council for the ABA's government relations group. He joined the ABA in 1964 after graduating from Georgetown University Law Center, Washington, D. C. As the ABA's general counsel, Mr. Gill heads the association's legal staff.

• **Darrell W. Dochow** has been appointed assistant chief national bank examiner, Office of the Comptroller of the Currency (OCC). In his new post, he is responsible for ensuring the effectiveness of activities carried out by the divisions of commercial examinations, consumer examinations, electronic data processing examinations and bank accounting. He joined the OCC in 1972.

• **Robert Morris Associates** has announced some changes in its headquarters staff in Philadelphia. Kathryn E. Tusler has been promoted to director of the credit division, where she formerly was assistant director. John M. Murphy has been promoted from assistant director to director of the chapters division. In a related move, Luis W. Morales was given expanded managerial duties. Formerly chapters division director, Mr. Morales now supervises the division's new director, Mr. Murphy, and also supervises the RMA's monthly *Journal of Commercial Bank Lending*. In addition, Mr. Morales continues to direct the association's marketing/public relations/publishing efforts.

More Work for Banks!

The Interest and Dividend Tax Compliance Act of 1983 significantly increases administrative responsibilities of payors of interest, dividends and annuities, says the national director of technical tax services for Price Waterhouse, accounting firm headquartered in New York City.

The CPA firm says financial institutions and organizations offering pension and deferred-compensation plans now are subject to more stringent IRS requirements.

The new act relaxes some of the withholding and reporting requirements of 1982's TEFRA (Tax Equity and Fiscal Responsibility Act), but expands others. Price Waterhouse says that one of the most controversial provisions of TEFRA required federal income tax withholding on and increased reporting for interest and dividends. The 1983 act repeals these requirements.

TEFRA also introduced the concept of "backup withholding" payments whereby a tax of 15% is imposed on unreported interest and dividends. The new act increases this tax to 20% and provides for additional penalties.

A number of major changes have been made regarding reporting of and withholding on various kinds of deferred compensation. For example, recipients now will have greater control over the extent, if any, to which withholding applies to such compensation.

Price Waterhouse is offering an analysis of the new regulations, called "Guide to the Withholding and Reporting Requirements: The 1982 and 1983 Tax Acts." Copies are available from any Price Waterhouse office or from Leon M. Nad, National Director — Technical Tax Services, Price Waterhouse, 1251 Avenue of the Americas, New York, NY 10020.

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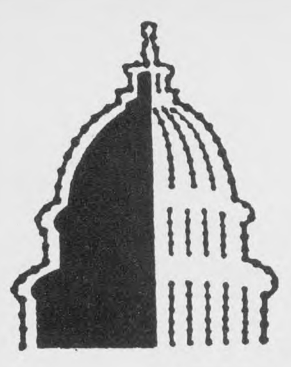

Mixed Bag of Banking Issues Expected in State Legislatures

A MIXED BAG of legislative issues is expected to be considered by legislators in the 17-state Mid-Continent area this year, according to state bankers association representatives and bankers responding to inquiries by this publication.

Interstate and intrastate branching are uppermost in the minds of many bankers this year. More than one state's legislature is expected to raise the possibility of reciprocal-branching privileges among states or regions.

Interest-rate ceilings will be on the dockets in some states, with one or more legislatures taking up the issue of whether or not to permit higher rates passed under sunset provisions to be renewed or allowed to lapse.

State bankers also are eager to see their institutions gain parity with their nationally chartered brethren in the area of new powers that nationally chartered banks received from the Garn-St Germain legislation of 1982.

Following is a brief summary of possible state-legislative activity affecting banks this year:

* * *

Alabama. At press time, the Alabama Bankers Association's legislative committee had not fashioned a legislative package for 1984, and, according to Kathryn J. Goray of the Ala. BA staff, no legislation had been proposed affecting banking at the time MID-CONTINENT BANKER went to press.

However, Harry B. Brock Jr., CEO, Central Bank of the South, Birmingham, lists reciprocity in interstate banking, S&L powers and expanded intrastate branching as issues he is monitoring.

* * *

Arkansas. The Arkansas legislature does not meet this year. However, possible changes in HC laws are being monitored by William H. Kennedy Jr., chairman, National Bank of Commerce, Pine Bluff.

* * *

Illinois. Bill Olson of the Illinois Bankers Association reports that the Illinois legislature will have a short session this year that will deal primarily with revenue and appropriations bills.

The IBA expects to have a legislative program formulated by February. The association currently is soliciting input from member banks and from its standing committees.

No major legislation affecting banking is expected. However, Gilbert E. Coleman, chairman/president, Security Bank, Mt. Vernon, says he is monitoring possible legislation that would permit reciprocal owning of banks across state lines, branching within a bank's county or a 25-mile radius of the bank's main office and consumer legislation.

* * *

Indiana. The Indiana Bankers Association's board has established an agenda of legislative proposals for this year's session of the Indiana General Assembly, according to Thomas B. Williams, director of government relations.

Specific items on the agenda include:

- Amending statutory vacation requirements. The IBA favors amending existing legislation to reduce the requirement that bank employees take annual vacations of at least two consecutive weeks to just one week.
- Updating lending limitations of state-chartered banks, to bring them in line with recently revised regulations for national banks made by the Comptroller of the Currency.
- Clarifying the agricultural products lien law regarding the acceptability of photocopies of UCC-1 forms to satisfy notice requirements of the agricultural products lien law.
- Clarifying the Troubled Bank Act of 1983, which currently is in conflict with the Bank Holding Company Act.
- Simplifying ATM-branching procedures by eliminating the need for a bank to apply for and receive the approval of the Department of Financial Institutions for the establishment of unmanned ATMs as branch banks.
- Restricting out-of-state banks from the municipal-bond process.

The IBA also favors allowing the Department of Financial Institutions to appoint the FDIC as a receiver when a bank is being liquidated, amending branching statutes to permit county-wide branching by state-chartered savings banks and removing capital requirements for ATMs operated by state-chartered savings banks.

The IBA will again remain neutral on the bank-structure issue, although it will encourage discussions of the issue. Legislation to amend the state's banking-structure laws is anticipated this year, but there is no way at this time to judge the outcome of the legislation.

The IBA is opposed to any legislation allowing fertilizer distributors to file mechanic's liens that would disturb the standing of any previously perfected lenders' liens and to continue opposing any changes to statutes governing foreclosure procedures.

* * *

Kansas. By far the most visible banking issue in the Kansas legislature during 1984 will be establishment of multi-bank HCs, says James S. Maag, director of research, Kansas Bankers Association. Currently bank HCs in Kansas can own more than 25% of the stock in only one bank. HB 2001 would permit HCs to control 25% or more of the stock in one or more banks, but would limit the number of banks an HC could control in relation to total deposits of all financial institutions in the state.

The Kansas Bankers Association will remain neutral on the issue, but the Kansas Independent Bankers Association and the Kansas Association for Economic Growth are expected to be directly involved.

The KBA will support legislation to

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expand investment authority for state-chartered banks that would permit them to invest in the obligations and securities of Sallie Mae and Freddie Mac as well as in financial futures. The KBA wants state-chartered banks to be on a par with national banks in this area.

The KBA also is requesting legislation that would permit Kansas banks to utilize remote-service units in other states on a reciprocal basis.

Two bills will be supported by the KBA involving reforms in the Kansas version of the Uniform Consumer Credit Code. Among the major changes are deregulation of all consumer loans in excess of $10,000 for rate purposes and a 30% ceiling on all consumer loans of less than $10,000. Also included is a removal of the Rule of 78s as a method of rebate and the allowance of balloon notes under the code. The KBA also supports increases in minimum finance and delinquency charges as well as the creation of a nonrefundable origination fee on second mortgages.

A bill to authorize local government units to invest up to 25% of their monies in commercial paper is expected to be introduced.

* * *

Kentucky. The multi-bank HC issue will arise again this year, says Ted Bradshaw, director of government relations for the Kentucky Bankers Association. This authority was defeated by one vote in the 1982 session. The KBA supports multi-bank HCs.

Bank HCs would be allowed to acquire no more than three banks in any one calendar year and no HC could hold more than 20% of the deposits in the state. After a two-year waiting period, bank HCs could make acquisitions across state lines on a reciprocal basis.

Other issues to come up include lending-rate legislation on loans under $15,000, a revolving-credit-rate increase and authority to charge annual credit-card fees, legislation relating to investment of state funds and legislation regarding the bank-shares tax.

* * *

Louisiana. The Louisiana Bankers Association will be backing legislation to recodify state banking law. The effort has the support of the commissioner of financial institutions, according to John R. Williams, director of government relations for the LBA. Although recodification presently is in draft form, it's anticipated that draft copies of the complete legislation will be in the hands of key legislators well in advance of the April legislative session.

* * *

Michigan. Although the Michigan Bankers Association doesn't have a legislative package ready to submit to the state's lawmakers yet, a potpourri of bank-related legislation is expected during 1984, according to Don Heikkinen, MBA senior vice president/staff counsel.

Michigan bankers want to give state-chartered banks equal powers with national banks, ala the Garn-St Germain legislation; the issue of statewide branching is expected to be raised (the MBA remains neutral on this issue); and interstate as well as foreign branching also may come up (foreign relating to Canada).

Efforts are expected to be renewed to get a usury bill through the legislature this year, since Governor James J. Blanchard vetoed such a bill just last month. That bill would have raised the rate on auto loans from 15% to 16.5%. The governor is believed to have a plan in mind for economic development that would require banks to make a percentage of their capital available for loans to small businesses.

* * *

Minnesota. The Minnesota Bankers Association reports that it's waiting for the state's governor, Albert H. Quie, to show his hand as to what legislation he has in mind affecting banks.

David M. Gilman, president, Fidelity Bank, Minneapolis, says he is monitoring the topics of expanded intrastate branching, increased powers for banks and thrifts and opening Minnesota to interstate branching on a reciprocal basis.

* * *

Mississippi. The state's usury ceilings revert to lower levels in June. The Mississippi Bankers Association will ask the legislature to adopt adequate, competitive and permanent usury ceilings, says John Hubbard, MBA executive director. The association also will ask the legislature to remove bond and note rate ceilings for public offerings.

Mr. Hubbard also says legislation is needed to permit adequate reimbursement of banks for search time and reproduction costs in connection with records in response to subpoenas.

* * *

Missouri. Missouri bankers have assigned their highest priority to the passage of a variable-term consumer-loan bill during this year's legislative session.

According to John Harlin, president, Bank of Gainesville, and chairman of the MBA's governmental affairs committee, the proposal receiving maximum support of the association would:

- Permit parties to agree to variable interest rates for all consumer loans.
- Establish a floating-rate ceiling at double the current rate for 26-week Treasury bills, not to exceed 24%.

Additionally, the proposal specifies that the variable rate would not apply to credit cards, that interest be computed on a simple-interest basis and that no prepayment penalty be allowed.

Missouri bankers also have assigned a high priority to defending the position of those who make loans that list farm products as collateral. Some commercial buyers of farm products have instituted a campaign to influence the General Assembly to alter the Uniform Commercial Code so non-consumer business buyers of farm crops and livestock could purchase such products from farmers free of any liens.

Under existing law, such liens continue to be valid and must be satisfied, either by the product purchaser or the original borrower. Although liens must be recorded with the county, farm-product buyers must check with numerous counties to make certain no liens are outstanding. Even then, Mr. Harlin says, buyers can't be absolutely certain. In some instances, farm-product buyers find they still must satisfy a lien after having paid for the farm product.

To help protect buyers of livestock or other farm products, the MBA is suggesting that all such liens be filed not only with the county, but with the secretary of state.

The MBA also will endorse a bill that would permit banks that are contract-

(Continued on page 44)

BANK POSITIONS

Position	Salary
Trust Administrator	$28K
AgriLoan	$30K
Second Officer/Loans	$30K
Cash Management	$30K
Supervisor/Retail Div.	$24K
Commercial Loan	$27K
Commer/AgriLoan	$30K
Asst. Controller	$22K
Operations	$28K

Additional opportunities available in Midwestern States. All inquiries remain confidential.

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JAMES C. HOLLY, President
Bank of The Sierra
Porterville, California

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HARRY BROWN, JR. Vice-President
The First National Bank in Sylacauga
Sylacauga, Alabama

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JAMES LOWTHER, Vice-President
Citizens National Bank & Trust Co.
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JAMES BILLMEYER, President
Marine National Bank
Wildwood, New Jersey

"KPS is always available to answer our questions. If Ken or Teri are in a meeting, they always call back the same day. All promotional material has arrived on time and any copy changes or corrections have been handled immediately.

KPS did a great job in both preparation and presentation at our Kick-Off Party. No details were overlooked.

All response from the staff has been positive. We are going through a lot of changes in our bank and I believe this is helping to pull everyone together."

JERRY KENNEDY, Vice-President
First National Bank of Belen
Belen, New Mexico

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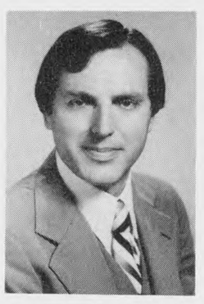
Gap Exposure — It's Worse Than Your Accountant Thinks

By David L. Wark



David L. Wark is e.v.p., National Bank of Commerce, Memphis, and ch., Commerce General Corp., data processing subsidiary of NBC, which he joined in 1973 as chief financial planning officer. He has served as sec./treas., National Commerce Bancorp, Memphis, NBC's parent company. Mr. Wark formerly was with American Express International Bank as a.v.p., planning/budgeting, and, before that, was director of corporate planning, American Express Co.

GAP ANALYSIS became popular about five years ago. In its early stages, it concentrated attention on the single-period mismatch between variable-rate-funding sources and variable-rate uses.

Technically, it has been difficult for the industry or even individual banks to take the theory much further because the accounting information has not been available. For example, until recently, our variable-rate asset/liability categories included all accounts whose rates were likely to change in the next 12 months! In fact, as long as rates inch back and forth to a limited degree in a calendar year, the length of the maturity categories for variable rates doesn't make that much difference.

A different picture emerges if we take a new look at the maturity breakdown of variable- and fixed-rate categories and manually calculate and estimate the volume of loans with fixed rates that are maturing at various monthly intervals during the year. By the way, most banks will have a great deal of difficulty estimating the size of the variable-rate-loan portfolio, let alone the size and nature of fixed-rate loans maturing over the next 12 months. Difficulty aside, this information is crucial and, once in hand, we may ponder the long-term-income exposure inherent in our monthly gap positions.

Unfortunately, traditional gap analysis never has focused on the long-term-income exposure inherent in any given gap position. Rather, the focus has been almost exclusively on the size of the volume mismatch between variable- and fixed-rate categories. A mismatch was assumed to produce gains or losses in net-interest income as rates move up or down, but we have needed a technique for calculating the extent of income exposure for periods longer than one month. The problem has been begging for attention, but is exceedingly complex and places severe demands for detail on the accounting system.

For example, assume the gap report (see Table I on page 39) shows liability sensitivity and a daily gap of $68 million in the current period. This means if prime drops for a day or two, variable-rate loans will be selling for a discount against money costs until funding rates are able to adjust to the lower prime levels. But what if prime drops four times in four successive weeks? That suggests the funding side of the balance sheet has received *four successive adjustment shocks* and just as one stone sends a series of ripples in a pond, four sequential interest-rate adjustments will set up four separate and distinct wave patterns through the various maturity categories of the asset/liability sides of the balance sheet.

If this wave effect does, in fact, occur, some of the wave adjustments will be coincidental, and this coincidence will increase the amplitude of the interest-rate-income effect. In other words, if a bank is liability sensitive (has more variable-rate liabilities, etc.), then four successive rapid interest-rate increases will tend to decrease net income far more than four interest-rate increases spread out over longer intervals, and vice versa. Turning to the condensed gap report in Table I, we show six time intervals. The gap in each interval would be:

		Avg. Gap	*Time in Each Interval*
Time Interval Months)	1	$68 Million	30 Days
	2	$46 Million	30 Days
	3	$42 Million	30 Days
	4	$24 Million	30 Days
	5	$19 Million	30 Days
	6	$19 Million	30 Days

Let us now assume we experience four rapid interest-rate adjustments of 1% per month for four consecutive months and that for all practical purposes, the individual period gaps stay the same. Also note that it will take six time intervals before each separate interest-rate change will work itself through the balance sheet as shown. (See Table II on page 39.)

In other words, if rates change for two successive months, the gap in Month II will not be $68 million but $68M + $46M = $114M. Now notice in Column I the effective income gap builds to $180M in four months. Bear in mind that a single-event 1% rise in interest rates would reduce income in Month I because the bank has $68M more in variable-rate sources than uses. Or stated another way, during Month I, the bank would have to purchase $168M in funds for 1% more than it had been paying. However, on the asset side, only $100M in loans is

(Months) Time Interval	I 1st Rate Change Month 1	II 2nd Rate Change Month 2	III 3rd Rate Change Month 3	IV 4th Rate Change Month 4		V Net Effective Gap in Time Interval
	(millions)					(millions)
1	$68				1	$ 68
2	46	$68			2	114
3	42	46	$68		3	156
4	24	42	46	$68	4	180
5	19	24	42	46	5	131
6	19	19	24	42	6	104
7		19	19	24	7	62
8			19	19	8	38
9				19	9	19

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CONDENSED GAP REPORT

	Time Period - Months					
	1	2	3	4	5	6
Rate Sensitive Assets (millions)	100	40	28	26	71	131
Rate Sensitive Liabilities (millions)	168	86	70	50	90	150
GAP	(68)	(46)	(42)	(24)	(19)	(19)

In this example, the bank is liability sensitive and a rise in interest rates would result in increasing interest expense faster than earning assets could be repriced.

TABLE I

repriced. The bank has not been able to pass along the price increase on $68M because of the mismatch in maturity schedules. ($168M in current assets less $100M in current liabilities leaves $68M in liabilities, which will be repriced without any corresponding increase in asset income.) In like fashion and if there were no further changes in interest rates, the effect of the one-time 1% rise in interest rates eventually would work its way through all time periods shown in Table I. For example, as we advance through the calendar and Month II becomes the current month, $46M in balances would be effected; as Month III becomes the current month, $42M in balances would be effected, etc. This process, of course, will continue until the 1% rate change passes through all maturity periods in the balance sheet, and this process will continue regardless of whether there are additional rate changes. Each rate change has its own independent life cycle and its own unique financial impact. It is the cumulative impact of a series of rate changes all in the same direction that may create large windfall losses or large windfall gains.

Although the gap shown is fictional, it is not at all unusual and represents a substantial threat to current period income and could, over time, result in serious impairment of the bank's capital position.

A proper assessment of gap exposure must go beyond calculation of asset/liability balances and must focus on net-interest income implications of gap by month for at least 12 months and should allow calculation of gap in yearly intervals beyond the current year. Several years ago, the necessary accounting systems were rare and methodology was under development. Today both of these areas have been

ASSUME PRIME DROPS 1% IN 4 SUCCESSIVE MONTHS

		MONTHS/AVERAGE GAP								
Maturity		1	2	3	4	5	6	7	8	9
Prime Rate Movements		-1%	-1%	-1%	-1%					
Series 1	(000)	68,000	46,000	42,000	24,000	19,000	19,000			
Series 2	(000)		68,000	46,000	42,000	24,000	19,000	19,000		
Series 3	(000)			68,000	46,000	42,000	24,000	19,000	19,000	
Series 4	(000)				68,000	46,000	42,000	24,000	19,000	19,000
Cum. Effect	(000)	68,000	114,000	156,000	180,000	131,000	104,000	62,000	38,000	19,000
Loss Exposure to 1% Prime Drop by Month ($)		55,000	93,000	128,000	148,000	109,000	93,000	58,000	31,000	15,000

Annual Effect - $730,000

TABLE II

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Monthly Effect on Operating Income From Four Successive Monthly Drops in Prime (1% Each Month) (See Table II on page 39)

Month	Loss	
1	$ 55,000	*Conclusion:* If prime were to fall for four successive months and the average decline per month was 1%, the cumulative loss for the period would be $730,000.
2	93,000	
3	128,000	
4	148,000	
5	109,000	
6	93,000	
7	58,000	Coincidentally, prime fell by about 400 basis points in the months of October and November, 1981, so in this sense the example has historical precedence.
8	31,000	
9	15,000	
10		
11		
12		
	$730,000	

adequately addressed and no longer represent meaningful impediments.

Once the gap has been placed in proper income perspective, the threat can be sized and steps can be taken to reposition maturities to mitigate exposure. This strategy may result in loss of margin because it usually involves an increase in matched positions, which usually produces a loss in interest margin. The loss in margin should be viewed as the cost of *insurance* required to avoid much higher potential losses if markets were to turn in the wrong direction. On the other hand, margin may, in some cases, be preserved by use of interest-rate futures. In this case, *basis risk* will either enhance or diminish the original margin relationships. Whichever the case, and in today's marketplace, gap information, strategy and action all will act to preserve margins — and the cost of laissez-faire is going up. ● ●

Somewhat Higher Interest Rates Forecast by St. Louis Banker

SOMEWHAT higher interest rates were forecast for 1984 by Eugene A. Leonard, senior vice president, Mercantile Bancorp, Inc., St. Louis, at its business-briefing session recently. With demand for credit coming from both the government and a strengthening private sector, he said, some borrowers could be crowded out of the credit markets. If that happens, he added, the one pushed aside won't be the government because "the government will get its money."

The business-briefing sessions are sponsored by St. Louis-area Mercantile banks to bring together from time to time members of the small-business community and experts on topics of interest to them. About 150 persons attended the most recent one.

While increasing demand for money might cause credit markets to tighten, Mr. Leonard continued, there's another factor to consider because 1984 is a presidential election year. He believes the Fed will try to keep rates where they are to avoid charges of politics, and that could lead to a growth in the money supply if demand for credit rises.

The bank HC officer said financing the federal government's huge deficits can be inflationary or not depending on whether the Fed funds them with newly printed money. Record deficits haven't choked off the current economic recovery, he noted.

Even so, he considers high government deficits offensive and compared the cost of supporting local, state, national governments. That cost a decade ago was 30% of the country's gross national product. This year, the cost is up to 35% of GNP. He pointed out that the increase came from expenses for the federal government, mostly due to increased transfer payments like social security, not from higher costs for state and local governments.

In a survey of 850 members of the local small-business community conducted in conjunction with the business-briefing session, respondents said President Ronald Reagan will be the Republican nominee for President in 1984 and will win the election. Former Vice President Walter Mondale was chosen as the Democratic nominee, with Senator John Glenn (D.,O.) as second choice. However, when respondents were asked who will be elected to the nation's top office next year, Senator Glenn outpolled Mr. Mondale by one percentage point. Both Democrats trailed President Reagan by a wide margin.

Prime-rate predictions ranged between 9% and 15%, with a third saying the highest prime will be 12% this year.

The Mercantile survey reflects opinions of some members of the St. Louis-area small-business community, but, because it was not a scientific sample, it may not represent the opinions of all St. Louisans, a Mercantile Bancorp spokesperson points out.

James D. Berry

(Continued from page 10)

move ahead of New York to rank second only to California in population by the year 2000. This continuing growth will underpin demand for a wide range of goods and services and stimulate a better business environment here than other areas of the country.

The second factor is the current defense buildup. Biggest beneficiaries of this increase in spending are the defense contractors in the Dallas-Fort Worth and San Antonio areas. Other gainers will be those Texas cities, and there are many, that have local military bases. In that respect, San Antonio is a double winner.

In summary, the economic recovery is strong and is beginning to broaden. The rate of inflation will increase a bit this year, but not get out of hand. Overall business conditions in Texas will improve significantly in the coming year. Increased output in consumer-goods industries will more than offset any weakness in construction. More importantly, drilling activity will continue to grow, and that will lead to recovery in the large oil-field-equipment industry. And the Texas economy soon should be strongly outperforming the national economy once again. ● ●

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Putting Asset/Liability Ratios In Better Balance at Community Banks

MANY BANKS currently are experiencing a rate-sensitivity imbalance favoring rate-sensitive liabilities (RSL) over rate-sensitive assets (RSA), according to L. F. Rothschild, Unterberg, Towbin, a New York City institutional investment firm.

When this imbalance becomes excessive — a RSA/RSL ratio less than .60 — the bank becomes vulnerable to a severe earnings squeeze. If short-term rates and consequently the cost of the bank's rate-sensitive liabilities rise, its net interest margin will suffer.

Further exacerbating the problem are money-market-type accounts, which are extremely rate sensitive. The rapid shift of funds into market-rate accounts has put pressure on the earnings of thousands of community banks, the Rothschild firm says in a special supplement of its "Bank Service Advisory" publication.

Much of the shift in funds into money-market deposit accounts has come from stable longer-term existing accounts, drawing down such accounts considerably.

To the extent that a bank has experienced such shifts, both costs and rate-sensitive liabilities will have increased, perhaps radically.

In addition, those banks whose rate-sensitive asset/liability ratios are considerably out of balance can expect some comment from regulators.

For these reasons, Rothschild says, correcting an imbalance becomes critically important. Should a bank decide to maintain a large liability imbalance, it is assuming a substantial risk.

When facing a positively sloped yield curve, most banks are reluctant to restructure their balance sheets by committing funds to short-term, lower-yielding investments.

Further, Rothschild says, many community bankers have been lulled into a false sense of security by the drop in the prime since the summer of 1981. They know that what has come down so fast can go back up even faster, and who can say how much longer a lower-interest-rate environment will last?

Rothschild, Unterberg, Towbin offers a number of alternatives to community bankers who would like to get their asset/liability ratios in better balance — and perhaps satisfy examiners.

Following is an outline of a strategy that enables a bank to reclassify longer-term assets in the bond portfolio as rate sensitive:

• **Situation.** Assume that a bank currently has a rate-sensitivity ratio of .50, $25MM of RSA and $50MM of RSL:

RSA	$25MM
RSL	$50MM
GAP	($25MM)
RSA/RSL	.50

Assume also that the bond portfolio has profits; and the yield curve has a positive slope, as illustrated in Exhibit 1.

• **Solution.** Having determined that a rate-sensitive gap of .50 is undesirable, a program must be undertaken to increase the bank's rate-sensitive assets, so that if there is a rise in interest rates, the risk of a negative impact on the bank's net-interest margin is minimized. (A bank's net-interest margin is defined as: net-interest income [tax adjusted] divided by earning assets.) These are two alternatives:

1. The bank could sell some of its bonds, which are currently at a profit, and reinvest the proceeds in short-term instruments. While this would increase the rate sensitivity of the bank's assets, a major drawback to this solution is that it would effectively strip the bank of some of its higher-yielding assets. Given a positively sloped yield curve, earnings would be immediately sacrificed with this strategy.

2. The bank could instead "designate" a block(s) of securities now held at a profit to be sold in the event rates rise. As rates start to increase (but not until this rise occurs), the bank could sell these designated securities and reinvest the proceeds in short-term instruments. This strategy allows the bank to effectively increase its asset sensitivity, minimizing the impact of a future rise in rates, while maintaining the current net-interest margin in the existing rate environment.

The key to this strategy is determining at what interest rate — "breakpoint" — the securities should be sold.

• **Program.** The amount of securities selected in a program depends on the size of the bank's gap. In this case, the gap is $25MM. Therefore, any amount between $0 and $25MM would serve to increase the bank's asset sensitivity.

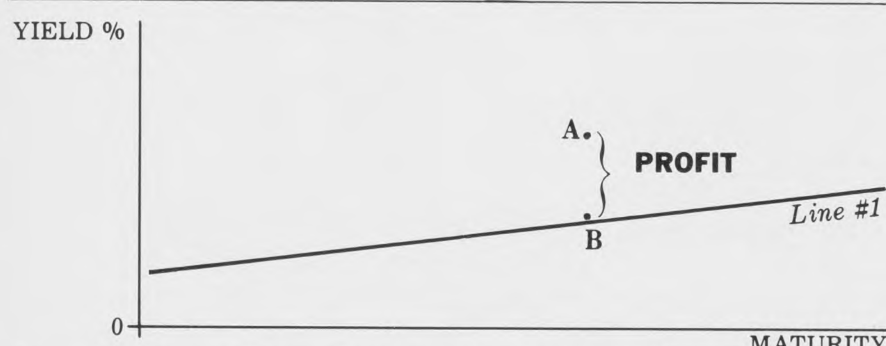
For this example, $25MM of profitable securities are selected, to be sold as rates rise.

There actually are two possible interest-rate shifts that should initiate the sale of securities. Taking them in the order of likelihood:

Short-term rates rise unexpectedly, resulting in a negatively sloped yield curve. The securities are sold when the rate on Fed funds (for this example) equals the book yield (in the case of municipal bonds, the taxable equivalent book yield) of the block(s) of securities.

Rates rise, as illustrated in Exhibit 2, and the yield curve shifts up from line #1 to line #2.

Regardless of the profit, the secu-



Line #1 is the yield curve and point A represents the book yield of a block of profitable securities. Point B is the market rate on the securities, and the distance between A and B is the amount of profit associated with the securities.

Exhibit 1

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rities should be sold when the Fed-funds rate at point C equals the book yield of the securities. When the sale takes place at this Fed-funds rate, there is no sacrifice of income. The proceeds are used to increase the bank's rate-sensitive assets, which then will increase (or decrease) in yield at the same rate as rate-sensitive liabilities.

As a practical matter, the bank could select several blocks of securities with different book yields. The series of blocks would be sold selectively as the Fed-funds rate progressively rises to the book yield for each block. Using blocks of securities this way may be preferable to selecting one larger block. "Selling into" the rise in the Fed-funds rate allows the bank to increase its asset sensitivity gradually rather than all at once.

• **Result.** The sale of securities and reinvestment in Fed funds locks in an improved RSA/RSL ratio, as follows:

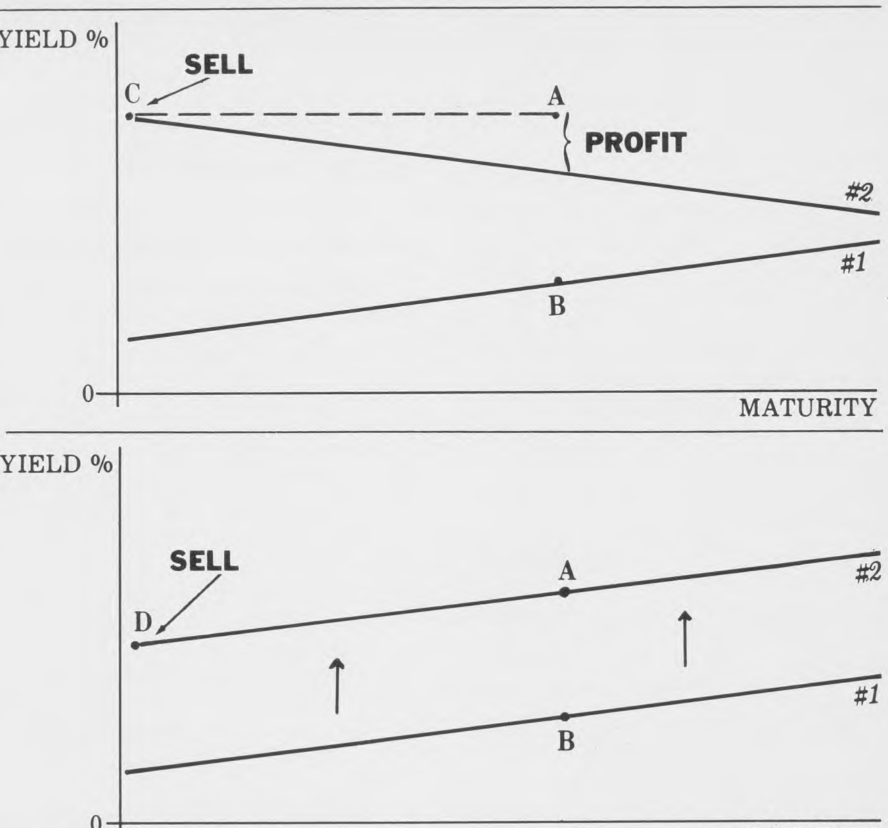
RSA	**$50MM**
RSL	**$50MM**
GAP	**$ 0**
RSA/RSL	**1.0**

• **Risk.** There is a risk that the upward movement of the Fed-funds rate is transitory and constitutes a spike rather than a trend. The Fed-funds rate could rise quickly and fall just as rapidly. Had the bank sold its block(s) of securities and reinvested the proceeds in Fed funds, and then short-term rates declined, the net result would be an improvement in asset sensitivity, at the expense of earnings.

Any securities in the portfolio, held at a profit, can be used with this strategy. Ideally, however, the securities selected should have as short a maturity as possible. All things being equal, using a shorter maturity limits the earnings sacrifice over time, should rates spike up and subsequently drop below original levels.

Instead of a specific rate, the bank may want to target a range of Fed-funds rates and a time criterion within which a sale should take place. For example, if the Fed-funds rate is between 95% and 110% of the book yield for three days, the securities should be sold.

A strategy such as this helps to ensure that the upward movement in the Fed-funds rate represents a trend rather than a one- or two-day occurrence. It is nonetheless incumbent on the investment officer to exercise prudent judgment regarding the timing of the sale.



As rates increase, the yield curve shifts from #1 to #2, and a sale and reinvestment take place at point D.

Exhibit 2

The strategy outlined above works well when short-term rates rise before longer rates do. However, a problem develops if the market rate on the "designated" securities increases before Fed funds do, or a positive yield curve steepens. When this occurs, profits on the securities dissipate and may become losses. If the bank waited until the Fed-funds rate was equal to the book yield, no sale would have taken place. The bank then would be faced with taking a loss on the sale of the designated securities should it need to increase rate sensitivity in the bond portfolio.

A second breakpoint, then, should be established to deal with this risk. Not only should the designated securities be sold when short-term rates rise to book yield, but a sale should be considered when market rates, of the maturity equivalent to that of the designated securities, equal book yield.

• **Situation.** The bank now is faced with a changing yield curve, where rates in the short end of the maturity spectrum remain constant, or change at a rate consistent with an upward shift in the rest of the yield curve.

• **Solution.** As the market rate on the selected block(s) of securities rises to the point where market value is equal to book value, the securities are sold. The bank avoids being put in a position of having to take losses on its securities in order to improve rate sensitivity.

• **Risk.** The risk inherent in this program is that the reinvestment of the proceeds of the sale may take place at a Fed-funds rate lower than the book yield.

An analysis of yield-curve changes over the past 10 years reveals that with a positively sloped yield curve and a general rise in rates, an increase in short rates precedes a rise in long rates. This often results in an inverted yield curve. Only occasionally does the intermediate or long end of the yield curve rise significantly while the short end remains unchanged. This phenomenon is almost always transitory; the Fed-funds rate usually responds quickly and rises.

• **Summary.** 1. A bank with a rate-sensitivity (RSA/RSL) imbalance facing a positively sloped yield curve needs to increase rate-sensitive assets but may find it difficult to do so without giving up earnings.

2. The bank can put together a block(s) of securities currently at a profit to be sold *only* in the event of rising interest rates. This avoids sacrificing earnings in an effort to improve

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the RSA/RSL ratio.

3. A program is established directing the sale of the securities when the Fed-funds rate equals their book yield — or the market price of the securities equals their book value.

4. Following this strategy ensures that the designated securities are not sold at a loss, and minimizes the risk that reinvestment in Fed funds will impair earnings.

5. When a sale and reinvestment take place, the RSA/RSL ratio is locked in and the bank has insulated its net-interest margin from rising rates.

6. In a sensitivity analysis, the bank can legitimately consider the designated block(s) of securities as rate sensitive, as follows:

RSA	$25MM
Designated	$25MM
Total RSA	$50MM
RSL	$50MM
GAP	$ 0
RSA/RSL	1.0

The need for a strategy such as this one, which is a synthesis of several conventional approaches, could become rather urgent if community bankers find themselves further pressured by new deregulation of depository accounts.

Good asset/liability management not only entails gap analysis, it must also incorporate such factors as liquidity, capital adequacy, tax planning and the budgeting process. Within that framework, Rothschild, Unterberg, Towbin believes the strategies outlined in this article can be useful tools for strengthening a bank's rate sensitivity. ● ●

State Legislation

(Continued from page 36)

ing for trust services with other banks to do so with more than one bank.

* * *

Ohio. The Ohio Bankers Association is working on a legislative package to submit to the Ohio legislature, according to Bill Morgan of the OBA staff. The primary concern of bankers in the Buckeye state is to either extend the current usury cap of 25% that is set to expire next year due to the sunset provision of the enabling legislation, or to scrap interest-rate caps altogether. The OBA's legislative plans were expected to be firm by the first of the year, after this issue went to press.

* * *

Oklahoma. Legislation approved by the Oklahoma Bankers Association for the 1984 legislative session includes the following:

- Revision of the appropriation process for the State Banking Department to provide a sufficient portion of revenues from state-bank assessments to be allotted to the department to maintain a reasonable minimum examination force.
- Proactive state-bank-powers legislation to provide for new non-interest income activities, including at least those activities permitted in legislation pending in Congress that provide for insurance underwriting and brokerage, real estate development and brokerage and certain securities activities, including dealing in, underwriting and purchasing government and municipal securities and sponsoring, managing and underwriting securities of investment firms. The bill to be introduced will provide for up to 50% of a bank's capital, surplus and undivided profits in any endeavor through a "leeway provision."
- Limiting dollar amount of exemptions available for bankruptcy purposes for "tools of the trade" and "homestead" exemptions.

The OBA also supports elimination of the 6%-per-annum dividend on state bank preferred stock; clarification of the 10% rate on indebtedness of county/city issuances; holdover legislation from the first year of the session involving SB 168 and SB 149; clarification of the permissibility of state banks investing in Freddie Mac equity investments after June 30, 1985; and legislation to deal with problems in the treatment of estate tax under new apportionment rules of case law in Oklahoma.

* * *

Tennessee. No major legislative program is planned by the Tennessee Bankers Association. A tightening of state statutes in the wake of the United American, Knoxville, failure is expected, says Don Baltimore of the TBA staff.

A joint special committee on the banking industry is expected to recommend that letters of credit and stock transfers be recorded on the books of the affected institutions and that a prohibition of transfers of classified loans without the approval of the state banking board be instituted.

* * *

Texas. There will be no regular legislative session in Texas this year, but the Texas Bankers Association is anticipating a special session that will consider the bank-stock-taxation question.

* * *

Wisconsin. Interstate banking and mortgage-foreclosure regulation changes are among the topics being monitored by bankers this year, according to John F. "Jack" Kundert, president, Commercial & Savings Bank, Monroe. Giving state-chartered banks powers granted to nationally chartered banks by the Garn-St Germain Act also has priority. — **Compiled by Jim Fabian, senior editor.**

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Funds-Management Strategies For Financial Institutions

By Alan Norwood Jr.
Independent Financial Adviser
Dallas

Alan Norwood Jr., for the last five years, has worked as an adviser to financial institutions in financial planning, asset/liability management, mergers/acquisitions and related fields.

He owns Planalyzer & Co., Dallas, a producer of financial software for banks and other firms. He also is associated with Dillon Gage, Inc., Dallas, a regional brokerage firm specializing in products for financial institutions.

Before becoming an independent financial adviser, Mr. Norwood was senior financial officer for a major Texas bank HC for seven years. In that capacity, he had responsibility for all financial activities, including funds management (asset/liability management).

SINCE 1980, asset/liability management has gained recognition as a major component of financial success in commercial banks and savings institutions. The quantity and quality of published material in this field make it possible for any interested student to gain an understanding of the concepts, terminology and principals of funds management.

Despite this attention, there exists a void in available literature. With a few notable exceptions, there is limited information regarding specific strategies and techniques that yield immediate results for the majority of financial institutions. The purpose of this article is to describe three specific situations that represent funds-management opportunities.

Each example is presented as a miniature case study. Although the purpose of each case is to demonstrate practical management techniques rather than theory, a few definitions may be helpful to the reader:

Gap: The difference between interest-bearing assets and liabilities that are subject to change in yield in a specific time period. The most common time frame applied to gap analysis is 30 days — the normal time for reporting of income during the year.

Futures contracts: A contract traded on a major exchange that requires a seller and buyer to deliver and purchase a specific financial instrument (Treasury bond, bill or note, certificate of deposit, GNMA or other instrument) at a specified date and yield.

Option contract: A contract giving the purchaser the opportunity to buy or sell a specific financial instrument at a certain price at a future date. The option is unilateral in the sense that the purchaser of the option may enforce the transaction or not at his discretion.

The following case studies are based on actual price and market data as of the date indicated.

1. Locking in Capital Gains. In 1982, the bank purchased $3-million long-term Treasury bonds. The issue purchased was the 12% coupon due 2008 and the price paid was 100. By October, 1983, long-term interest rates had declined, and the market price of the bond had increased to 105.50. If sold, the bank would realize a gain of $136,000 as demonstrated below. Management, however, did not wish to sell the bond since reinvestment of the proceeds would produce a reduction in income due to the decline in interest rates.

Date	Bond Price	Yield	Annual Income
Original Purchase — 1982	100.00	12.00%	$360,000
October 6, 1983	105.50	11.35%	$340,500

Increase in Value of Bond (105.50-100.00)*$3,000,000 = $165,000
Reduction in Income if Sold — $19,500

To take advantage of the capital gain without reduction in income, management determined to hedge the current value of the bond by selling Treasury-bond futures contracts. Results of that action are summarized in the following table:

Date	Bond Price	Futures Price
10-06-83	105.50	73.25
11-18-83	100.31	70.84
Net Change in Value	−$155,700	$120,500

In this example, interest rates had increased by mid-November, producing a decline in the market value of the Treasury bond. Since the price of the futures contract is closely related to the price of the bond, the bank realized a gain by selling the futures contract. The net result is realization of the capital gain without sale of the bond.

What is the risk of this strategy? If bond prices continue to increase, the bank would realize a loss on the short sale of futures contracts in an amount approximately equal to the further gains in the price of the bond. This strategy is suitable in situations where the bank is prepared to hold the bond to maturity or for an extended period.

2. Increasing Investment Income. Instead of locking in capital gains, the bank's management described previously is interested in increasing current income. Prices of various options contracts on October 6 are summarized below:

	Unit Price	Total Per $3 Million
Call @ 72	1.72	$77,400
Call @ 74	0.72	$32,400
Call @ 76	0.23	$10,350

Since the futures contract was priced at approximately 74 (see previous example), management decided to sell 45 options at a strike price of 74. The additional income ($32,400) has the effect of increasing the yield on the $3,000,000 by 4.32% on an annualized basis.

The risk of this type of strategy is that bond prices will rise and the option will be exercised. Should that occur, the bank may be forced to sell the bond in order to deliver under the option contract. However, the sale of the bond would be at a price in excess of book value, and the bank would have earned a superior yield through the option sale. Further, the bank

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	Floating Rate	Other Maturities	Total Days 1-30
Funds Sold	$ 2,000	0	$ 2,000
Investments	0	$ 500	500
Loans	9,000	2,000	11,000
Total	11,000	$2,500	13,500
Money Mkt. DDA	2,500	0	2,500
Money Mkt. CD	0	1,700	1,700
Other Deposits	0	2,500	2,500
Total	2,500	4,200	6,700
Net Assets/Liab.	8,500	(1,700)	6,800
As % of Earning Assets	25.00%	−5.00%	20.00%

could purchase another bond and repeat the process to continue to earn above-market yields indefinitely.

3. Leverage and Gap Management. The bank has an average 30-day gap equal to 20% of earning assets as displayed above:

Management would like to reduce this gap by $4,000,000 (8% of earning assets). To accomplish this, the normal procedure is to reduce short-term investments and increase long-term assets. In this case, the bank does not have enough liquidity (short-term assets) to achieve the desired result.

As an alternative, management purchased $4,000,000 in long-term Treasury bonds yielding 12%. The bonds were used immediately as collateral, and the bank borrowed $4,000,000 under repurchase agreements (cost of 9.25%). The net result is increased income and an immediate reduction in rate sensitivity.

The risk in this plan is that interest rates will increase, thereby eliminating the profitability and reducing the value of the bond. As discussed in earlier examples, it is possible to hedge this risk in the futures market. Successfully applied, this strategy may yield long-term benefits with a minimum of risk.

These briefly stated examples of immediate funds-management strategies are applicable to a large number of financial institutions. However, successful implementation requires careful monitoring and a clear understanding of financial objectives. ● ●

$6,000 Fellowship Started By Manhattan, Kan., Bank

Establishment of a fellowship designed to provide new masters of business administration (MBA) students with the experience they need to pursue a career in banking has been announced by William L. Edison, president, Union National, Manhattan, and Tom Brown, assistant dean of the College of Business Administration at Kansas State University, Manhattan.

Nancy J. Whitaker of Manhattan is the first Union National/Kansas State University Fellow. Holder of undergraduate degrees in finance and business management, Ms. Whitaker has experience as an insurance claims processor, as a production and sales assistant in marketing and communications and as an assistant manager of a fast-food establishment.

"Union National Bank feels honored in offering the annual $6,000 fellowship, which will attract quality students to Kansas State University to further their business education," said Mr. Edison.

Fellows are chosen on the basis of undergraduate preparation, test scores and a personal interview. The fellows normally will be selected in the summer for the upcoming school year.

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Interest-Rate Futures Accounting: An Explanation of FASB's Proposal

By Michael P. Barry, Audit Partner, Arthur Andersen & Co., St. Louis

LAST JULY the Financial Accounting Standards Board (FASB) issued an exposure draft covering "Accounting for Futures Contracts." The FASB considered this topic for two years before exposing it for comments.

The FASB's initial intent was only to address questions with respect to interest-rate-futures contracts and not get into other types of futures contracts. However, as it considered the subject, the FASB decided to expand the scope of the project to include all futures contracts except foreign-currency futures (which are covered by SFAS #52, "Foreign Currency Translations").

The proposed statement may cause some bewilderment, given the broadening of the exposure draft's scope. The statement deals with all futures transactions from grains to precious metals to stock-index contracts to interest-rate futures. As a result, criteria for hedge accounting specified in the exposure draft relate to price risks rather than interest-rate-spread risks.

The proposed statement does not, however, address forward or standby security transactions. The FASB decided not to consider standbys because those commitments essentially are option contracts and, therefore, are fundamentally different from futures. Correspondingly, the statement didn't cover accounting for forward contracts because there are significant differences between futures and forward contracts; namely, cash flows, availability-of-market quotations and delivery frequency. In addition, forwards were not addressed because doing so involves the issue of accounting for executory contracts, which the FASB believes can best be addressed as part of its conceptual-framework project.

The statement provides for an overall basis of accounting comparable to that set forth in the American Institute of Certified Public Accountants' (AICPA) issues paper, "Accounting for Forward Placement and Standby Commitments and Interest-Rate Futures Contracts," which had been submitted to the FASB.

Initial margin deposits are the only assets to be recorded at the inception of a futures contract. The FASB decided that no accounting recognition was to be given to other assets and liabilities related to the contract for a variety of reasons, including the fact that most futures contracts don't involve delivery, and some don't even permit delivery. As noted in the draft, a substantial majority of the contracts under which delivery is possible are closed before trading ceases. As a result, measurements of rights and obligations related to delivery simply are not practicable.

Under the overall basis of accounting, unrealized gains or losses resulting from changes in quoted market values of futures contracts (as well as realized gains and losses) are to be recognized currently in the income statement. This "market-to-market" method of accounting is to be followed when futures contracts are speculative, when the asset or liability to which the hedge applies is carried at market value or when criteria for hedge accounting, as described below, are not met.

If certain criteria are met, the exposure draft allows for hedge accounting. Hedge accounting relates to the deferral of all or portions of the gain or loss on a futures contract against the related hedged asset or liability (or anticipated asset or liability). I will not attempt to define a "hedge" because the FASB failed to define it in the exposure draft. The FASB stated that the word "hedge" is used in different ways by different users of futures contracts. As a result, there is no universally accepted definition that the FASB could include in its exposure draft.

Simply stated, hedge accounting is based on a concept of symmetry between accounting for futures contracts and assets or liabilities being hedged. If one enters into a futures contract to reduce the risk of interest-rate movements between now and the time the hedge is to be lifted, the resulting gain or loss on the contract becomes a part of the carrying basis of the hedged asset or liability, generally speaking.

In dealing with this complex subject, the FASB broke down hedges into two categories. First, it established criteria for accounting for hedges on existing assets, liabilities or firm fixed-price commitments, as follows:

1. "The item to be hedged exposes the enterprise to price risk." This criterion is intended to assure that the bank's overall interest-rate risk is being reduced before applying hedge accounting. The FASB proposes to adopt the AICPA philosophy of specific identification of asset, liability or firm commitment for applying hedge accounting; however, the FASB believes the bank's overall interest-rate exposure also must be reduced.

2. "The futures contract reduces the exposure to price risk and is designated as a hedge." This criterion is effectively two criteria; that is, the entrance into the futures contract is designated as a hedge and, secondly, there must be a high correlation between the asset or liability hedged and the underlying instrument covered by the futures contract.

3. "Unrealized changes in the fair value of the hedged item are not included, or are included only in certain circumstances, in the determination of income." This criterion means hedge accounting is appropriate only if the

Publication Available

"Accounting for Interest-Rate Futures: An Explanation of the Proposed FASB Statement" is the title of a special publication that describes and clarifies the accounting treatment for interest-rate-futures transactions as set forth in the FASB proposed statement referred to in the adjoining article.

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

Copies are available on request from Arthur Andersen & Co., Distributions Clerk, Room 1123, 33 W. Monroe, Chicago, IL 60603, or by calling 312/580-0033, Ext. 7516.

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item being hedged is accounted for on either a cost or a lower-of-cost or market basis. If the hedged item is accounted for on a market basis, the criterion is not met and the futures position is to be accounted for on a market-value basis.

If all these criteria are met, the futures contract can be accounted for as a hedge. It is important to note that hedge accounting doesn't affect the particular asset or liability being hedged. Hedge accounting will dictate, however, when the gain or loss on the futures contract is recognized in income.

If the futures contract hasn't been effective as a hedge, its effectiveness as a hedge may be assessed by comparing the change in market value of the contract with the unrecognized changes in the fair value of the item hedged since the inception of the hedge. In other words, to the extent the accumulated futures gain or loss exceeds the accumulated unrecognized loss or gain on the hedged item since the hedge was initiated, the excess futures gain or loss is to be recognized currently in income.

The "effectiveness test" as included in the exposure draft could be quite difficult to evaluate. The most common concern relates to the use of "fair value" as a means of measuring hedge effectiveness. Fair value is a subjective measurement influenced by many factors, not only interest-rate movements; for example, credit considerations on loans. Another problem with this approach is that it will be necessary to keep track of accumulated changes in both the fair value of the hedged items and changes in values of the futures contracts.

This is necessary because the effectiveness test is to be made on an accumulated basis. As a result, periodic reporting by an entity using futures contracts will be impacted to the extent of the ineffectiveness of the hedge. The excess gain or loss on the futures contract over the change in the fair value of the hedged item during the life of the hedge will be taken into income currently.

The second type of hedge covered by the exposure draft is the anticipatory hedge, which seems a contradiction in terms by its name. These futures contracts relate to a future event or transaction the bank anticipates entering into. An example of a long anticipatory hedge would be purchase of futures contracts to protect against the risk of falling interest rates on the anticipated purchase of fixed-rate investment securities or the anticipated repricing of an existing asset, such as a loan. If all the following criteria are met, the gain or loss on an anticipatory hedge is to be deferred and is to represent an adjustment of the cost of the item being hedged:

1. "The significant terms of the anticipated transaction are to be identified."

2. "It is probable that the subsequent transaction will occur because, in the normal course of business, the enterprise has little discretion to do otherwise."

3. "Consummation of the anticipated transaction at a price substantially different from the current price will have a direct impact on the enterprise's profitability."

4. "It is probable that changes in the market value of the futures contract will offset changes in the price at which the transaction can be consummated."

If all the above criteria are met, then the futures gain or loss is to be deferred and included in the measurement of the dollar basis of the asset acquired or the liability incurred. The futures gain or loss then is to be amortized into income as an adjustment to interest expense or interest income over the life of the hedged item.

One interesting note with respect to accounting for anticipatory hedges is that the FASB didn't propose any separate accounting for the amount by which an anticipatory hedge is ineffective. The entire futures gain or loss is to be deferred.

If the futures contract is closed before the anticipated transaction occurs, its entire gain or loss is to be deferred and added to the basis of the new asset or new liability. If the amount of the anticipated transaction declines, the futures gain or loss is to be adjusted prorata, for this decrease and income are to be charged or credited with the difference.

Required disclosures set forth in the exposure draft are quite limited. First off, only accounting policies need to be disclosed with respect to futures contracts if the bank hedges. Presumably, if the bank's activities in the futures market are all marked to market on a current basis, no disclosure would be necessary. Required disclosures include (1) the nature of the items hedged or the anticipated transactions to which the futures relate and (2) the method of accounting for futures contracts.

Disclosure of the method of accounting is to include a description of the events or transactions that result in the recognition of income on futures contracts. Proposed disclosure requirements are limited compared to those anticipated in the AICPA issues paper. That paper called for disclosure of the amount of long and short futures positions, the nature of the hedging activity and gains or losses deferred under hedge accounting for open positions.

The FASB has rejected the AICPA's recommendations for a variety of reasons. Principally, the FASB believes such disclosure would present an incomplete picture of the results of hedging unless accompanied by disclosure of analyses of hedging policies and practices and offsetting changes in cash-market prices.

Bankers are hopeful that once generally accepted accounting principles are established for futures, bank regulatory authorities will revise their policies to conform to those of the accounting profession. Many believe the rules established by bank regulators have inhibited banks from actively using the interest-rate futures market.

Hopefully, shortcomings in the existing exposure draft will be overcome once the FASB has had an opportunity to consider comments received on the exposure draft. The exposure-draft period ended last October; however, comments are still being received. As there were a substantial number of comments received, it may be some time before the exposure draft is issued in final form. • •

Bank Medical Directors Meet

Continental Bank, Chicago, recently hosted a meeting of bank medical directors to discuss professional interests. Attending were (standing, from l.) Robert G. Brayton, Irving Trust, New York City; Wayne N. Burton, First National, Chicago; and Joseph C. King, Continental Bank. Seated (from l.) are Clinton G. Weiman, Citibank; William Schneider, Morgan Guaranty Trust; and Franz S. Ritucci-Chinni, Manufacturers Hanover Trust, all in New York City. All are M.D.s. Issues discussed at the meeting included stress programs, health education and medical-department projects, fire and safety programs, workers' compensation and insurance design and administration. Future meetings are planned.

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Is Interstate Banking Taking Shape In Proposed Regional Compacts?

INTERSTATE banking's future shape, like that of an amorphous lump of clay, was indiscernible as 1983 drew to a close, but discussions among banking representatives from several regions of the country during the year may have begun to sculpt a silhouette of what will be.

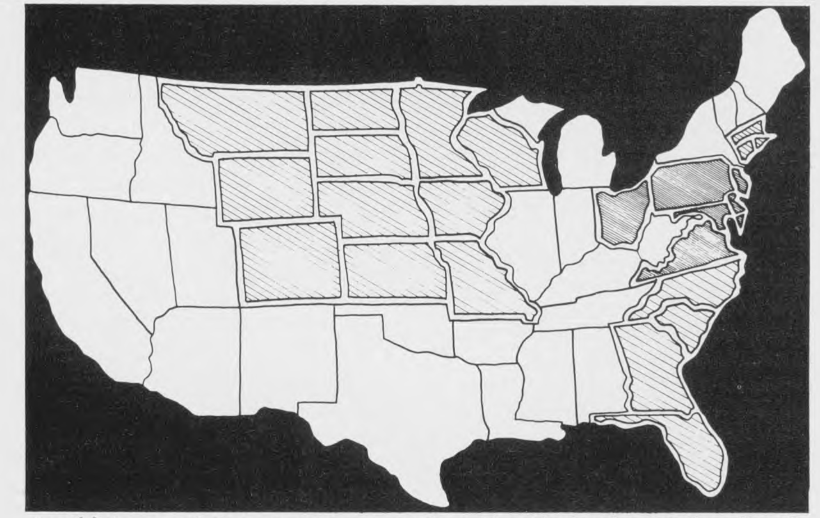
One possible scenario for interstate banking is for the evolution of regional zones wherein cross-border ownership by bank HCs is permitted. Considerable overlap may develop at the edges of the interstate zones, but states with money-center banks may be conspicuous by their exclusion from the regional compacts.

Bankers in several southeastern, Middle Atlantic and midwestern states currently are considering the merits of following the lead of Massachusetts, Rhode Island and Connecticut in passing laws permitting intra-regional, cross-border bank ownership by HCs. In some quarters, regional interstate banking is viewed as a means of forestalling full interstate banking that might permit money-center banks to swallow small, locally owned banks around the nation. Meanwhile, Citicorp, New York City, is challenging the New England experiment in interstate banking in court as unconstitutional and divisive and has indicated other compacts that exclude New York banks also might be challenged.

In Washington, Senator Alfonse M. D'Amato (R., N.Y.) has proposed phasing out federal restrictions on interstate banking over a five-year period and Senate Banking Committee Chairman Jake Garn (R., Utah) has endorsed regional compacts. Few banking-industry observers see much chance of congressional action in 1984, but there has been tremendous activity at the state level.

"Isn't a little interstate banking better for the public than none at all?" asks a Florida banker.

Joel R. Wells Jr., chairman of a committee appointed by Florida Governor Bob Graham to study interstate banking, says he does not view regional compacts as a method of keeping money-center banks out of Florida. Rather, he says, it is normal for interstate banking to begin at a regional level. This gives state legislatures greater control over the deregulatory process, he says. Ultimately, reciprocity might be extended to New York and other money-center states or Congress finally may get around to removing federal interstate-banking restrictions as Senator D'Amato has proposed, but Mr. Wells sees no sentiment among Florida bankers to open the door to New York, California, Texas or Illinois banks at the outset. Experiments in interstate banking are best done among contiguous states where results can be controlled, says Mr. Wells, who is chairman/chief executive officer, Sun Banks, Inc., Orlando.


In addition to existing compact among three New England states (legality of which was being challenged at press time), proposed interstate-banking compacts could create three distinct regions: Southeast, central Atlantic and North-Central plains. At this juncture, however, divisions shown on the above map must be considered largely hypothetical.

At the time he was interviewed, Mr. Wells was prepared to depart for Atlanta, where he planned to engage in a "fact-finding" session with representatives from several other southeastern states who are interested in interstate banking. He notes that it is his understanding that the original federal prohibitions against interstate banking were written into the law in 1956 because of fears by New York banks that an aggressive California institution might become too strong in New York. Why, he asks, do money-center banks oppose regional approaches to interstate banking when they've been telling the public what great benefits interstate banking will provide? Says Mr. Wells: "Isn't a little interstate banking better for the public than none at all?"

Florida is among a small group of states that could see the introduction and passage of reciprocal interstate-banking legislation in 1984. New Jersey is another. Bankers there have taken a leadership role in attempts to develop a Middle Atlantic state compact that also might include Pennsylvania, Delaware, Ohio, Maryland, the District of Columbia and Virginia. It's only logical that New Jersey take the initiative on interstate banking since the threat from New York banks is more immediate, according to Richard F. Schaub, chairman/chief executive officer, First National State of West Jersey, Flemington, and chairman of the New Jersey Bankers Association. He admits there's more than a little New Jersey chauvinism in his attitude toward interstate banking.

New Jersey, with its infant gambling

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industry, a new jet port and newly acquired football franchises, only recently has begun to emerge from the shadows of New York City and Philadelphia, Mr. Schaub says. "Suddenly everyone knows where New Jersey is again," he says, adding that he isn't anxious to see his state "homogenized" back into New York City and Philadelphia.

In Florida, it is the governor who has taken the lead in spearheading the drive toward regional interstate banking, but in Nebraska, state Senator John DeCamp, chairman of the Banking, Commerce, and Insurance Committee of the unicameral Nebraska legislature, is at the helm of a drive toward interstate banking opposed by the Nebraska Bankers Association. In December Senator DeCamp sponsored a hearing, during which banking and government leaders from Nebraska and 10 surrounding states were invited to express their views on the subject. While Senator DeCamp has yet to propose legislation, the Nebraska Bankers Association has claimed that it's too soon after the state's approval of multi-bank HCs to begin tampering with the structure of the banking industry again.

Bankers in the Northwest also have held talks on interstate banking, and legislation may be introduced in the Washington legislature in 1984 that would permit a "wide-open" approach similar to Alaska, the only state that places no restrictions on bank acquisitions by out-of-state bank HCs.

Washington already has a large number of out-of-state and even offshore bank HCs operating within its borders, which is why a "wide-open" approach makes more sense than a regional compact with surrounding states, says Keith S. Hopper, staff counsel/director, governmental affairs, Washington Bankers Association. "Here, interstate banking is old hat," he says. — **John L. Cleveland, assistant to the publisher.**

Seminar On Parenting Skills Provided For Bank Employees

A wide-ranging human-relations program is offered to employees at AmeriTrust, Cleveland, including confidential counseling, aid in finding competent day-care centers and a series of noontime programs on such topics as self-development, career enhancement, budgets and health.

The program, described as "reacting with care to enrich employees' lives," has evolved because the bank recognizes that an individual's difficulties at home inevitably lead to problems at work. Bank management believes that timely assistance or expert guidance can have an immediate, positive effect on employee productivity.

Recently an experimental seminar attracted 20 volunteers who met at breakfast and discussed how to become better parents of preschool children. At the end of the eight-week session, participants asked for an extension, and two additional 10-week sessions were conducted.

Farm Mgmt. Explained

A book about farm business techniques, titled "Business Management for Farmers," has been published by Doane Publishing, St. Louis.

The 700-page volume explains how agricultural economics, finance and law relate to each other. Contents include a wide range of topics, from acquiring a farm to retirement planning. "It spells out all the factors farmers should consider when making decisions, with attention to the how-to, when and why," said J. W. Looney, author, who is dean of law at the University of Arkansas.

Write: Griff Kennedy, Doane Publishing, 11701 Borman Dr., St. Louis, MO 63146.

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During Coming Year:

Borrowings To Mirror Interest Rates

By Jack R. Crigger

Jack R. Crigger is pres., Robert Morris Associates, and e.v.p., American Nat'l, Chattanooga, Tenn., which he joined in 1951. In 1981, Mr. Crigger was named head of the corporate banking group.

THE GENERAL consensus is that for the full four quarters of 1984, the economy will continue to improve gradually from its present status. The rate of growth will not be as aggressive as other recoveries have been; yet, with a rather static and low rate of inflation, the sustained growth will be relatively solid. Interest rates should follow in tandem with the inflation rate and, with a continued strong monetary policy, should fluctuate within 10%-15% of present levels, in either direction.

The fiscal policy, wherein large budgetary deficits are planned, could have an impact on several sectors of the economy. Yet relative to the total income and expense stream, the overall deficit burden is not considered by some to have a strong influence. Perhaps the public's reaction to that and the inflation rate will be a determining factor in the consumer sector as to consumer spending or saving.

Now there could be much rhetoric on each of the various component parts that give rise to the economic cycle and/or cycles. Government and private spending, the money supply, monetary and fiscal policy along with real gut feelings of the present and future are some of the economic areas that are receiving attention as the economists suggest what may happen in 1984.

Corporate borrowings collectively today are static and are expected to increase slowly over the next year. As corporations see the need to expand, there will be more loan demand, either term or short-term, depending on the companies' interpretations of interest-rate expectations. Industry now has unused capacity in many sectors. If technology in those sectors already is state of the art, additional capital expenditures may not be needed in the near future. At best, with the many alternatives to financing either capital expenditures on short-term needs, bank borrowings will increase. But loan demand is not expected to be exceptionally strong. Corporate executives have found it profitable to operate at subsistence levels of inventories, receivables, bricks and mortar, equipment and machinery and human resources. This awareness will prevail.

Unemployment will, and should, continue to show modest declines, but will remain high by historical standards. The figure suggested for unemployment for late 1984 is 8%-8½%. The decline will come about as industry absorbs productive human resources that are needed only at subsistence levels of operation, and the level of unemployment will be slow in reacting during 1984.

Consumer spending will increase as the economy recovers, due, in part, to real needs created by abstinence during the economic decline. Alternative and innovative consumer financing in housing and transportation will add incentives to further an increase and should be reflective — lag time considered — in those industries.

And on and on one can go — into the government and international arenas. Any discussion of the economy for the future must be tempered with "all things being equal," and that's the scenario we've observed. One or several outside influences could cause a quick mid-course correction in any forecast for 1984. These include, but are not limited to, an international crisis, either political or military; excessive unrest due to overseas loans and currencies; a major impact caused by a change in technology or a complete misalignment of monetary and fiscal policy.

As stated earlier, recovery will continue. Borrowings will increase at a rate that should mirror interest rates, which will remain within certain constraints brought about by monetary control. In other words, expect more of the same for 1984 as we've experienced in 1983. ● ●

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Banking Scene

(Continued from page 54)

foreign ownership had played a role in the defeat of a nascent but historically important financial institution.

Some years before the demise of the federal banks, several states and territories had decided they needed banks. Two banks west of the Mississippi — Bank of St. Louis (not to be confused with the present institution bearing that name) and Bank of Missouri — opened for business in 1816 and 1817, respectively. Both were grossly undercapitalized by today's standards, and both attempted to restrict ownership to U. S. citizens. Bank of St. Louis even restricted the number of shares that could be owned by citizens residing outside the Illinois and Missouri territories.

Initially, these new financial institutions were called on to establish branches outside St. Louis in order to prevent an undue concentration of financial power. Precisely the same logic was used when branching was rejected later.

Fears of concentrated financial power and foreign involvement in American banking repeatedly have surfaced in legislation restricting bank operations and ownership. The National Banking Act required bank directors to be American citizens, for example.

Considering the xenophobia of the citizenry, it is, perhaps, understandable that regulatory authorities have at times muddled the handling of the issue of foreign ownership of American banks. A case in point is Franklin National, New York, which became the takeover target of an Italian financier when it experienced problems. A foreign investor's attempt to bail out the ailing bank created mixed emotions in Washington, D. C. On the one hand, the Justice Department was, by and large, happy with the development, for it prevented the concentration of financial power that might have resulted had one of the big New York City banks stepped in. On the other hand, no foreigner could sit on Franklin National's board of directors and thus a foreign investor would be beyond the liability a bank director normally assumes.

Ultimately, foreign ownership was acceptable rather than the concentration of power that might otherwise have resulted. Looking back, one can only marvel at the Justice Department's naive and sophomoric attitudes.

Since the Franklin National case, a number of instances have occurred giving foreigners control of American banks. Chicago's Harris Bancorp's acquisition by Canada's Bank of Montreal for $547 million is only the largest, most recent example. A few months ago, it appeared that New York's First Womens Bank might be acquired by foreign investors. In that case, however, foreign overtures were resisted.

Geographic linkage has been a factor in most recent acquisitions of American banks by foreigners. Banks in Florida have been attractive to South American investors, East Coast banks to European investors and West Coast banks to Oriental investors.

With each publicized foreign acquisition of an American bank, populists raise the spectre of foreign domination. While it is possible that public outrage may ultimately force an end to foreign ownership of banks, recent public-relations campaigns have neutralized those sentiments, for the most part.

Bank of Montreal went to great pains to point out its long history of involvement in the Chicago market prior to the acquisition and the continuity of the Harris management following the acquisition. Japan's Mitsubishi Bank, in announcing plans to acquire BanCal TriState Corp., San Francisco, told the Securities and Exchange Commission it had "no present intention to cause a change in the present board of directors or management," except that one or more representatives of Mitsubishi might be added.

Contrary to conventional public attitudes, bank regulatory authorities generally are happy when foreign investors are willing to step in and purchase an ailing U. S. bank. The acquired bank usually gets a much needed capital infusion. Foreign investors often are willing to pay a premium to get a foothold in American banking that few domestic suitors would be tempted to match. Foreign bankers also are in a good position to feed some of their domestic business connections active in the export/import field to their new acquisitions.

Nor should we forget that foreign acquisition of American banks is not a one-way street. U. S. banks have been acquiring partial or dominant ownership of financial institutions all over the globe for years.

The strength of the American dollar probably has dampened enthusiasm in the United States for expansion beyond U. S. boundaries; however, mergers of financial institutions around the free world probably will continue for years.

Americans are demonstrating that their attitudes toward the purchase of U. S. banks by foreigners have matured in recent years. The tendency to condemn, in knee-jerk fashion, all foreign-bank participation is fading. Some caution still is warranted, however.

Nations whose citizens wish to involve themselves in an investment capacity in American banks must extend the same courtesy to U. S. citizens. The Japanese, for instance, are notorious in their ability to hamper American business initiatives within their own country. Considering the reputation of the Japanese, we would be juvenile to assume that we will achieve reciprocity without some hard-nosed bargaining.

American fears of foreign ownership of U. S. banks are not as strong today as formerly, but they still lurk not far below the facade of apparent acceptance of the new reality. Foreign suitors seeking American banks as brides would do well to remember that. ● ●

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By Dr. LEWIS E. DAVIDS
Professor of Finance
Southern Illinois University, Carbondale

Foreign Ownership of U. S. Banks

AMERICANS' traditionally unsophisticated attitudes toward foreign ownership of U. S. banks require reassessment in an era when foreign bank holdings in the United States are growing.

The vast majority of the more than 14,000 banks in the U. S. still are locally owned and operated, but the percentage of locally controlled assets is eroding, and, by historical standards, the level of foreign participation in American banking seems unacceptably high. To get a better perspective on the roots of American antipathy toward foreign investors in American banks, a short history lesson is in order.

American fears of foreign ownership of U. S. banks are not as strong today as formerly, but still lurk just below the facade of casual acceptance. Foreign suitors seeking American banks as brides would do well to remember that.

Bank of North America, approved by Congress in 1781, was criticized for its alleged "oppressive monetary powers." Although the bank was permitted a total capitalization of no more than $10 million, the amount actually subscribed was ridiculously small by today's standards. Private subscribers put up $70,000 and the U. S. government threw in $200,000 in specie it had obtained from France. Criticism of Bank of North America's so-called concentration of financial power eventually caused it to divert its charter to Pennsylvania, even though the bank had been helpful in U. S. government financings.

First United States Bank, the realization of Alexander Hamilton's long-held dream for a national bank, was the target of fears that too much financial power was being concentrated in one place even before President George Washington signed the bill chartering the bank for a 20-year period in 1791. The U. S. government retained a fifth of the outstanding shares and shareholder voting privileges deliberately were regressive. The more shares an investor held, the fewer votes per share he received. No one could have more than 20 votes and an investor had to purchase 100 shares to achieve that maximum. Foreigners were among those who bought up the 4,000 shares of the bank, but they were not permitted to vote.

Despite restrictions on the voting privileges of foreign shareholders, United States Bank came under growing fire because of its alleged foreign domination. "The United States Bank also was unpopular because of the large foreign holdings in the bank's stock, amounting to 18,000 shares of a total of 25,000," Thomas Dewey wrote in his *Financial History of the United States*. "This use of foreign capital was construed to be a large foreign tribute in dividends and though (foreign) shareholders could not vote, indirectly they would exert a 'malignant' influence."

Never criticized for its economic viability, United States Bank had picked up too much political baggage by the time its charter came before Congress for renewal in 1808. Even the support of prominent financial statesman Albert Gallatin was insufficient to save the bank when the charter was submitted to the Senate for renewal.

Loss of United States Bank was a blow, particularly to the Treasury Department, which by 1814 was vigorously supporting the foundation of a Second United States Bank. Although the idea again drew considerable opposition, a bill establishing the bank was passed in 1816.

While the bank was in formation, an agent was sent abroad to purchase bullion. Throughout its early years, the bank had to borrow extensively from Europe to bring in sorely needed specie, although the incompetence of its first president, William Jones, as much as external political pressures, was responsible for the bank's troubles. Mr. Jones was followed by a conservative and effective administrator in Langdon Cheeves, who served as president from 1819-1822. Under President Nicholas Biddle (1823-1828), the bank prospered financially, but its conservative fiscal policies made few friends in government. An early foe was Andrew Jackson.

In 1832, President Jackson and others accused the Second United States Bank of "financial strangulation." In a letter to Mr. Biddle, President Jackson stated that he did not feel Congress had authority to charter a bank.

"I do not dislike your bank any more than all banks, but ever since I read the history of the South Sea Bubble, I have been afraid of banks," President Jackson wrote to Mr. Biddle.

Undeterred by President Jackson's hostility, Mr. Biddle attempted to force the issue — and defeat President Jackson — by having a bill rechartering the bank introduced in Congress in 1832. President Jackson vetoed the proposal, saying the bank was unconstitutional, owned by foreigners and a handful of easterners. After his impressive reelection victory, President Jackson felt he had a mandate to accelerate expiration of the bank's charter. He attempted to do so by removing the $6.5 million in government deposits from the bank. In 1835, the Second United States Bank liquidated most of its assets and reverted to a state charter in February of the following year, becoming the Bank of the United States of Pennsylvania. Again, American antipathy toward

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Boatmen's Vice President Ted Smothers working with Bob Menz, Chairman and President of The First National Bank of Highland. Whatever your correspondent needs, Boatmen's has knowledgeable people to assist you. Call Ted Smothers. He can help.

Correspondent Banking Division
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