MID-CONTINENT BANKER

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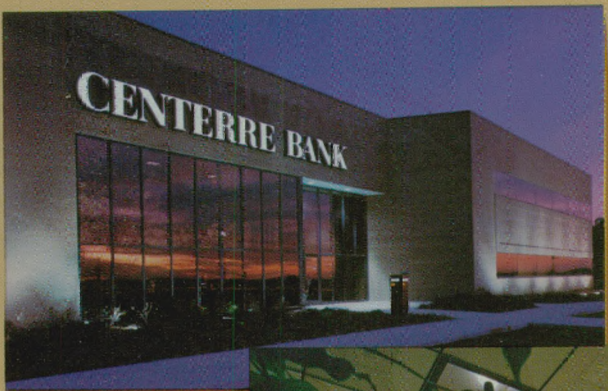
Designers Share Expertise With Bankers — Pg. 8



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Oct. 20-24: ABA Convention, New York City.

Oct. 21-Nov. 1: ABA National Commercial Lending School, Norman, Okla., University of Oklahoma.

Oct. 28-31: Robert Morris Associates Fall Conference, San Juan, P. R., El Centro Convention Center.

Oct. 28-Nov. 2: ABA National School on Human Resources, Boulder, Colo., University of Colorado.

Oct. 30-Nov. 2: Bank Administration Institute Micro-Computer Conference, Dallas, Amfac Hotel.

Nov. 4-7: Bank Marketing Association Corporate Business Development Training Workshop, New Orleans, Fairmont Hotel.

Nov. 8-11: Bank Directors Assembly 59, Phoenix, Arizona Biltmore.

Nov. 11-14: ABA National Agricultural Bankers Conference Kansas City, Hyatt Regency/Crown Center.

Nov. 11-16: ABA National Commercial Lending Graduate School, Norman, Okla., University of Oklahoma.

Nov. 26-30: Bank Marketing Association Southwestern Essentials of Bank Marketing School, Houston, University of Houston.

Nov. 27-30: Bank Administration Institute Money Transfer Development Conference, Chicago, Hyatt Regency Chicago.

Nov. 28-30: Association of Bank Holding Companies Fall Meeting, Baltimore, Hyatt Regency Baltimore.

Dec. 5-7: Dealer Bank Association Public Finance Seminar, Boston, Westin Hotel.

Dec. 9-12: Bank Administration Institue ATM/7 National Conference, New Orleans, Sheraton Hotel.

Dec. 9-14: Bankers Association for Foreign Trade International Lending Executive Seminar, Charlottesville, Va., University of Virginia.

Jan. 13-15: Consumer Bankers Association Innovations in Retail-Banking Products, Orlando, Fla., Sheraton Twin Towers.

MID-CONTINENT BANKER

(Incorporating MID-WESTERN BANKER)

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NEWS
About Banks & Bankers

ILLINOIS

Hollis W. Rademacher has been named to the newly established post of chief credit officer, Continental Illinois Corp. and Continental Illinois National, Chicago. He formerly was head of the Chicago/Midwest financial services department and joined Continental in 1957. He became executive vice president in 1981. In other action at the bank, Garry J. Scheuring was made executive vice president and head of the newly established loan-workout group and reports directly to Mr. Rademacher. Mr. Scheuring formerly was senior vice president and head of the special industries department. He went to Continental in 1964.

Magna Group, Inc., Belleville, has announced two mergers. Shareholders of Central Illinois Banc Shares, Inc., Springfield, have approved a plan whereby Central Illinois will become a subsidiary of Magna. The merger will be consummated following regulatory approval, expected the middle of this month. Shareholders of First National, Marissa, First National, Smithton, and Freeburg Bancorp, Inc., voted in favor of a merger with Magna Group, and it took place in August.

Raymond Madorin Dies

Raymond E. Madorin, 72, died August 26 after a year's illness. He spent 47 years with the former National Stock Yards National, National City, and was head of its correspondent bank department when the latter was acquired in late 1977 by Boatmen's National, St. Louis. Mr. Madorin, who was vice president, retired at that time.

INDIANA

Kathleen J. Curry has been promoted to convenience banking center manager at Lincoln National, Fort Wayne. She joined the bank in 1969 and most recently was East State Convenience Banking Center manager.

Money Management Corp., Merrillville, has filed a notice with the Chicago Fed proposing that the HC's employee-stock-ownership plan acquire control of the HC and its subsidiary, Bank of Indiana, through an exchange of common stock for cash and a new class of preferred stock. Exchange of stock will be accomplished by creation of a new wholly owned subsidiary of the employee-stock-ownership plan and merger of the subsidiary into the HC. The effect of the action is to make the HC and Bank of Indiana employee-owned financial institutions. The proposal requires approval of shareholders and regulatory agencies.

MICHIGAN

NBD Bancorp, Inc., Detroit, and United Michigan Corp., Flint, have entered into a definitive agreement under which United Michigan would become affiliated with NBD. Total value of the transaction is nearly $78 million. Under the agreement, United Michigan would merge with a subsidiary of NBD Bancorp. The merger is subject to approval of a majority of United Michigan's shareholders and bank-regulatory agencies.

Gary L. Konsler has been appointed vice president, trust investment division, National Bank of Detroit. He joined the bank in 1978 and became second vice president in 1980.

David B. Wirt has been named president/CEO, First of America-Wayne Oakland, Royal Oak. He formerly was senior vice president, human resources/marketing, First of American Bank Corp., Kalamazoo.

Donald R. Monterusso has been elected president/CEO, Central Michigan Bank, Big Rapids. He succeeds Ray Scroggins, who resigned. Mr. Monterusso joined Old Kent Bank, Grand Rapids, in 1965 and, most recently, was vice president/manager, installment loan department. Both banks are affiliates of Old Kent Financial Corp., Grand Rapids.

MINNESOTA

Norwest Corp., Minneapolis, has consolidated two of its northern Minnesota banks into one bank, to be called Norwest Bank Mesabi. The two banks involved are Norwest Bank Virginia and Norwest Bank Eveleth. Assets of the consolidated bank total approximately $138 million. John R. Oltmanns, who has been serving as president of both banks, continues as president of Norwest Bank Mesabi.

First Metro Services — a new subsidiary that combines the operating functions of First Bank Minneapolis and First Bank Saint Paul — has promoted five officers in the special-services and item-processing groups. They are Bernard E. Conlin to executive vice president and special-services group head; Susan R. Scheerer, Michael R. Addy and Michael R. Parks to vice presidents in the special-services group; and Ruth Moderson to vice president/manager, systems/methods, item-processing group.

OHIO

Stephen J. Miller has been elected a vice president, Lancaster area, BancOhio National, Columbus. Elected assistant vice presidents, Columbus area, were Neil R. Courter, Donald P. Gray, Gary E. Longstreth and Donald T. Miller.

HCs' Merger Approved

The Fed has approved the merger of BancOhio Corp., Columbus, into National City Corp., Cleveland.

The order approving the merger included as conditions to the merger divestiture by BancOhio National of certain branches in Fulton, Erie, Summit and Columbiana counties and a commitment from National City Corp. to divest its subsidiary bank in Fairfield County as promptly as practical following the merger.

(Continued on page 52)

GO BANK
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OREGON BANK

Consult Designers Early to Keep Project Costs Down

Top: Boardroom at Centerre Bank, Cape Girardeau, Mo., a project of Kuhlmann Design Group. Middle: Private office at Guaranty Bank, Mt. Pleasant, Tex., a project of Bank Building Corp. Bottom: Exterior of Security First National, Alexandria, La., a project of HBE Bank Facilities. The three design/build firms are headquartered in St. Louis.

ON THE COVER. Examples of recent bank-building projects: Top row, left: Centerre Bank, Cape Girardeau, Mo., project of Kuhlmann Design Group, St. Louis; top row, right: Old National, Centralia, Ill., project of the Bunce Corp., St. Louis; second row: Farmers & Merchants, Foley, Ala., project of Design-Build Concepts, Atlanta; third row, left: Willow Bend National, Plano, Tex., project of Son Corp., Wichita, Kan.; third row, right: Guaranty Bank, Mt. Pleasant, Tex., project of Bank Building Corp., St. Louis; bottom row: Peoples State Bank, St. Joseph, Mich., project of HBE Bank Facilities, St. Louis.

THE IMPORTANCE of bank designers getting in on the ground floor of a construction or remodeling project is stressed by the major bank design/build firms.

This is but one of numerous points made during a series of discussions held recently between bank designers and the editors of MID-CONTINENT BANKER. Firms included HBE Bank Facilities, Bank Building Corp. (BBC), the Bunce Corp. and Kuhlmann Design Group, Inc., all headquartered in St. Louis.

"It's important for a design firm to get involved in the project during the planning or design phases because opportunities to save on costs are negligible after construction begins," says Bunce's Jim Johnston, contract manager.

"We design an environment for banks that attracts customers and enables the bank to control costs," says Don Flott, financial consultant at HBE. Designing a proper environment is essential so the bank can compete on an equal footing with other institutions, he adds.

"The right kind of physical facility is just as much of an asset for a bank as a factory building is for a manufacturing firm," says Frank A. Bottini, BBC marketing manager. "It's indispensable to most banks' ability to make money."

Building design is evolving because of bank deregulation's effects, says Ed Ortmann of Kuhlmann.

"Bankers are starting to look at their space needs much as a retailer would — stressing visibility, accessibility and service." Most bankers have come around to thinking that planning must take into consideration new services being spawned by deregulation; services like discount brokerage and insurance.

"Bankers aren't sure what they may be selling five years from now, and they're trying to build flexibility into their plans," Mr. Ortmann says.

Bankers are evaluating each department on a profit-or-loss basis, says Ken Fraiser, contract manager at Bunce. They want to make certain they will get the most for their money. He adds that proper planning can result in saving on manpower needs in the new building. The savings can be great enough to pay for the entire cost of a building over its life span. However, such savings usually can take place only in the design phase.

"We always say that you save dollars during the design phase and dimes during construction," he says.

Another area with great impact on cost/effectiveness is the mix of services a bank intends to offer at a given location, says Frank Bottini at BBC.

"Different market areas require different service mixes," he says. "For instance, not all branches need back-office capability, since such functions can be centralized. It's essential that bankers define their product mix so designers can formulate plans that are in agreement with the needs such a product mix requires."

There have been a lot of articles in the media about banks closing branches. However, banks are finding that closing a branch doesn't result in a 100% decline in the cost of operating that branch, says Carl Conceller, vice president-sales at HBE. The cost saving is more like 35%, because support systems for remaining branches continue.

Speaking to the same topic, Thomas L. Spalding, BBC's director of marketing, says the major reason to close a branch is unprofitability. However, bankers are learning that changing the product mix to meet the needs of the facility's customers can turn an unprofitable facility into a profitable one.

An excellent way to shave costs is to build operations centers that can service all facilities in a bank or HC system, says Mr. Spalding. An operations center enables a bank or HC to consolidate back-room activities for all facilities, a fact that is becoming more relevant now because of the increasing number of mergers involving banks and HCs.

"A true operations center usually doesn't involve corporate offices or public interaction; thus, it can be less costly to site and build. It can be located on the outskirts of town or even in a cornfield because it doesn't have to be accessible to the general public," says BBC's Frank Bottini. "And, since it doesn't have to be a showplace, it can

Branch facility of Sevier County Bank, Sevierville, Tenn., features drive-up night depository, walk-up window and walk-up ATM. The manufacturer, National Bank Builders & Equipment, Inc., Walls, Miss., says facility represents new trend toward convenience for customer where he/she lives. **See article on page 16.**


BANK OF LECOMPTE

be designed for maximum productivity."

It's important to design flexibility into banks so they will be able to offer new services as they come on line, says Ed Ortmann at Kuhlmann.

"Teller counters may come out in the future and be replaced by desks. We may be dealing only with personal bankers, and teller functions may be handled electronically."

Mike Lefferson, vice president-interiors at Bunce, says technology is evolving that eventually could preclude the need for wiring in buildings. He says it's essential that designers take into account what technology has to offer today and what it may offer in the future.

"It's possible to talk to a TV set with a wireless computer using an infrared beam," he says, "which could preclude the necessity of putting wiring ducts into plans for electronic offices of the future." Right now, he adds, inter-office-information exchange can be made across dedicated or telephone wires.

More current design trends include rearrangement of traditional services, says Thomas Spalding at BBC. For instance, it's becoming popular to place loan departments at the front of the bank lobby and tellers at the rear. Calculators are being placed at lobby counters for the convenience of customers.

Some banks are providing separate areas for up-scale customers, says Tom Lombardo, vice president-sales at HBE. You're seeing more sit-down teller arrangements and cash-dispensing machines in financial institutions.

Space must be allowed for computers, he adds, since more banks are finding computers to be cost effective. No longer is it true that a bank needs about $100 million in assets to afford a computer; the new figure is only $25 million — and, in some cases, even smaller.

Space designers must know the functions of a bank in order to create efficient work stations, says Don Flott at HBE. The nature of functions determines what equipment will be needed. A piece of equipment can pose problems because its dimensions are not changeable. You can't trim an inch from a piece of equipment to make it fit into a given space. In addition, equipment noise must be screened off from customers and employees. It's becoming increasingly important to design work areas that take into consideration the relationship between people and the equipment they use on a routine basis.

"We provide under-floor ductwork so desks can be wired easily when needed," says Ed Ortmann at Kuhlmann. "Keyboard drawers or articulating arms should be designed in to either modular or standard furniture to handle the required components of modern data-handling equipment. If the equipment isn't yet in use at a bank when plans are made, provision must be made for it."

Items to Consider When Planning a Building

- Product mix
- Manpower needs
- Operations centers
- New-service flexibility
- Customer segmentation
- Equipment positioning
- Lessening impact of ATMs
- Energy conservation
- Exterior appearance
- Interior atmosphere

"Energy conservation still is an important factor in designing a bank," he adds. "It's unbelievable what had been accepted as the norm in the past. But because of rising energy costs, banks now are using insulated glass, more wall and ceiling insulation, heat pumps and more efficient equipment. Bankers are willing to spend the extra money for these conservation measures to get the pay-back through the years the building will be in use."

Carl Conceller at HBE says energy conservation has resulted in use of less glass and incandescent lighting in projects. Heat pumps are being used both to withdraw and inject heat in specific areas of buildings.

He adds that constant efforts are being made to keep maintenance costs down. This is achieved in part by use of stain-free fabrics and more durable materials of all sorts. Initial cost of such items is higher, but reduction in maintenance costs makes the outlay economical.

The atmosphere created by a building project is important to a bank's bottom line, says BBC's Thomas Spalding.

"Appearances of commercial banks no longer are as formidable as they once were," he says. "Banks want their premises to be inviting and comfortable, to take on the aspects of an area that's suitable to a social gathering."

The trend is toward warmer, less-austere atmospheres in banks, says Ed Ortmann of Kuhlmann. It is important that the customer and employee both feel relaxed and experience a sense of security within the bank. This is achieved by avoiding an overly "trendy" or institutionalized interior, he says.

Designers at Bunce stress the importance of a warm atmosphere in banks. "People feel more comfortable when they feel the same sort of atmosphere at the bank that they feel at home," says Mike Lefferson. "If they feel good at home, why shouldn't they feel good at the bank?"

What about the impact of ATMs on bank designs?

Restrictions on ATM placement keep the machines from having a major impact on building design in many Mid-Continent states, says Tom Lombardo at HBE. ATMs aren't contributing to a significant reduction in lobby traffic. The machines represent impersonal service, which many customers are not yet ready to accept.

Frank Bottini at BBC agrees that ATMs are not causing revolutionary changes in bank design.

"There's no proof that the ATM will accomplish much of what has been predicted for it," he says. "There's a 33% customer-usage wall, beyond which ATMs haven't been able to penetrate," he adds. "In a typical situation, even though as many as 70% of a bank's customers have been issued ATM cards, only 20% of those customers have ever used the ATM. Only when banks spend lavishly on ATM promotions does usage even get close to the 33% wall."

Modular structures aren't what "they are cracked up to be," says Ed Ortmann of Kuhlmann. His feeling is that a traditional building can be built as fast and at an expense comparable to that of a modular structure by using a lighter, wood-frame type of construction.

Jim Johnston at Bunce sees con-

struction speed the only advantage of a modular building. Such a structure costs just as much and perhaps even a little more than conventional construction, he says.

"You never move it and seldom do you ever expand it," he adds. "When designing a building today, you do it with the thought that you may want to expand some day. A modular building can be confining."

Other points made by bank designers:

• Task lighting is the most precise and economical way of providing adequate light in work areas.

• Designating the design firm as construction manager can result in a savings of at least 10%, due to the feasibility of specifying alternative methods and materials at a cost savings with no loss of efficiency or effectiveness.

• The client's perspective must be taken into consideration when drawing up plans for a building. A builder/designer may consider something to be impractical because he doesn't see it as the client sees it. For example: A designer judged a building site to be inadequate because there wasn't sufficient parking space. The client saw it differently: he arranged with a church next door to swap parking privileges — bank customers could use the church's parking lot on weekdays and the church could use the bank's lot on Sundays.

• A new building results in new business for a bank. In most cases, expectations for new business are exceeded when it comes to new customer/deposits attraction.

• Movable or landscape partitions usually are not advised for public areas of banks because it's important for a bank's quarters to look permanent to the public.

• When movable partitions are used, they should be pre-wired. Some are made to look like regular walls. Demountable partitions permit space-need shifts to be made over a period of time.

• Renovation of a historic building can result in goodwill for a bank as well as lower cost for a project.

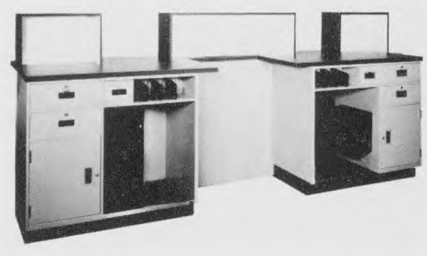
• The exterior of a building should project the bank's image of itself. It should not have a "designer-label" appearance, but should present a good, clean design.

• It's important to have a building-code expert on each construction job to avoid unnecessary delays with inspectors.

• Bank facilities must be accessible to handicapped individuals — both customers and employees.

All designers agreed the bank of the future must be in a position to compete effectively with whatever competitor appears on the scene. Proper planning should enable a bank to achieve this goal. **— Jim Fabian, senior editor.**

• **Fenco Bank Equipment.** This company has introduced a prepackaged, in-stock teller cash station designed for double-teller operation with a machine well back panel. Included with the Model 1020 — which can be installed in less than an hour — are: two teller cabinets, two knee space



shelves, two 10-compartment cash trays, two keylock covers, one machine well back panel, two hollow metal end panels, two back panels, two wastebaskets and two pin and clip trays. Write Fenco Bank Equipment, P. O. Box 516, Burlington, NJ 08016.

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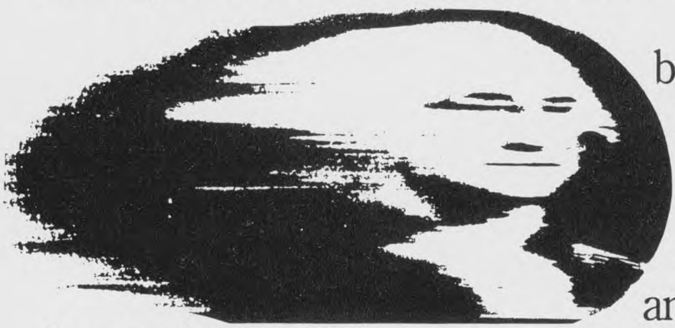

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Builders Respond to Questions From Expansion-Minded Bankers

NUMEROUS questions confront bankers when they begin to plan for expansion facilities. Bankers often take their questions to bank designers/builders for answers.

MID-CONTINENT BANKER's editors asked designers/builders to comment on questions they often are queried about by bankers.

The questions and answers follow.

• Will ATMs lessen the need for new lobby space?

Not to any appreciable degree, says Richard L. Bacon, Ste. Genevieve, Mo., architect. ATMs will continue to be more of an after-hours convenience. They won't replace the satisfaction of dealing with a courteous, pleasant, efficient teller during normal banking hours.

ATMs most definitely will lessen the need for new lobby space, responds Dale Wilson, designer/engineer with National Bank Builders & Equipment, Inc., Walls, Miss. ATMs not only will lessen the need for new lobby space, but will shrink existing lobby space substantially. Today's generation is using ATMs.

One of the best forms of housing for ATMs is a free-standing structure that calls attention to the 24-hour availability of the machines.

• Will a bank's image become more important as it seeks more market share through construction of a new building?

A bank's image is formed only in small part by buildings, says Dennis Martens, national sales manager/vice president, Son Corp., Wichita, consultant, designers and supplier of financial buildings. Service is the key to increasing market share. The facility or building needs only to be conveniently located, functionally designed and attractive.

Image always will be an issue of importance with banks, but convenience is more important than image in the quest for market share, says Mr. Wilson. Institutions having the most convenient and accessible branches will have an edge over competitors when it comes to market share.

The physical image a bank presents to the public is the primary motivation in attracting new business, says Mr. Bacon. This will be increasingly important as laws permit financial institutions to become more alike as far as services are concerned.

• Will banks build fewer branches in the future?

They will build fewer large traditional branches, says Mr. Wilson, but they will build more convenient banking stations. Precision-built, mini, modular banks are a must for the future to counteract higher prices on traditional buildings. These large buildings no longer are affordable.

Banks will not build fewer branches in the future, says Mr. Bacon. As banking laws continue to permit more latitude in services offered, fully staffed branches will be a necessity for many banks looking for steady growth.

Even though the pendulum did swing somewhat toward the offering of mechanically operated services, it already is swinging back toward renewal of person-to-person relationships, he adds. There never has been and never will be a better way to sign up new accounts and negotiate loans than through a person-to-person relationship.

Projections have shown fewer planned branches, says Mr. Martens, but banks will continue to position for market share. Services must continue to be located conveniently, which means more branches for banks that can afford them.

The cost of opening and maintaining branches is a central issue today, he says. Bankers are looking for ways to keep costs down, so they can offer more services in more locations.

• Will bankers increasingly adopt a retailer's attitude about the profitability of each square foot of floor space?

Some will and some won't, says Mr. Wilson. Aggressive and innovative bankers must be aware of the return per dollar regarding space. Concerns about the cost of operating a large building have convinced bankers that modular mini-bank structures are practical. When expansion of such a building is called for, another module can be integrated into the facility at reasonable cost.

Bankers are adopting the retailer's attitude about profitability of floor-space cost, says Mr. Martens. The result is that Son Corp. is being asked to build larger sectional buildings than was the case formerly. Customers like the lower costs associated with modular buildings — not to mention the fast delivery of such structures. Modular construction techniques allow for quality construction at lower cost — which is essential for branch success. • •

Below are two examples of modular financial-institution structures manufactured by Son Corp., Wichita, Kan. At left is headquarters building of new Northwest Bank of Winnebago County, Rockford, Ill. At right is St. Joseph, Mo., branch of Home Savings, Kansas City. Both structures are three-section modular buildings.

New Concern About Bottom Line Prompts Bankers to Seek Help When Planning a New Facility

By Robert W. Williams, Vice President, Design-Build Concepts, Atlanta

IN OUR BUSINESS, you can't get through the week without being reminded that "bricks and mortar are no longer the answer." Philosophically, it's difficult to argue with that statement, but it surely doesn't tell the whole story.

If there is a new wave in the financial-building world, it's that concern about spread and the bottom line have brought bankers to exercise even more restraint in their expansion programs and to increasingly seek the help of specialists in the field of financial buildings to be certain they build the most useful and cost-efficient programs possible, while meeting budget objectives.

On the other side of the coin, a bank is not just an idea; to the public it's a *place*. Wherever you travel, the bank almost always is the best-built, most attractive and most commodious building in town. That perhaps is as it should be; few people ever described a Sears store or a brokerage house that way.

Bricks and mortar, Indiana limestone or glass and steel, the building is much of the image and message the public can perceive and relate to.

Bright and light, fresh and friendly, comfortable and convenient; these are all positive images for the bank of the 1980s and '90s. Dignified, traditional, colonial and impressive are positive images, too, in their rightful place. These are the matters of marketplace, environment, personal preference and self-image that make each bank unique.

By contrast, stale-dated '60s buildings still abound, bursting at the seams as a result of the phenomenal recent growth of deposits and activity. If there is a trend in financial housing, it's the ongoing expansion, remodeling, updating or replacement of these main-office facilities. Depending on whether the location is right and availability of adjacent land on which to grow, the prudent course often is rehabilitation and upgrading of the old main office to ready it for the expected activity of at least the ensuing 10 years as projected.

Often the demise of downtown, relocation of traffic and commerce due to new roads or other factors make it clear (after thorough study) that the bank should move and begin anew. Whichever alternative is indicated — add-on or start fresh — this opportunity for choice will face many banks in the near-term future.

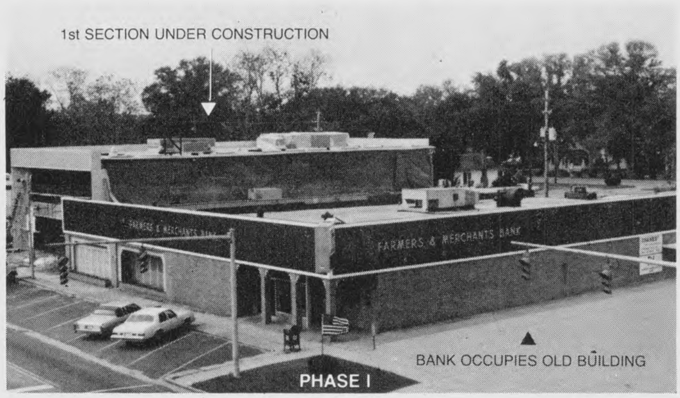
While many of the present main-office structures have served for 15 or 20 years or longer, it generally has become the practice to plan facilities just 10 years out, but, if possible, to plan ahead for additional expansion when needed at the end of that time.

Most of us who advise bankers on these matters agree that it is poor policy these days to invest in fixed assets beyond a 10-year planning period. There are better ways to employ funds, and excessive empty space is a waste unless it can be productively rented out and become a paying asset until needed for bank operations.

Branching is another facet of financial building that frequently is a topic of conversation these days. There undoubtedly will be fewer full-service bank branches on the drawing boards in coming years for a number of reasons:

Branch systems are in place, essentially, in many markets. The 1970s saw an unprecedented — and sometimes excessive — number of full-service locations put in place to serve almost every possible area of the marketplace. Mergers and acquisitions are creating surplus facilities wherever involved institutions had competing branch offices in the same service areas.

ATM networks are expanding as rapidly as the hardware can be manufactured. Even in rural, smaller markets, where it was once assumed people wouldn't want to deal with a machine, usage is far exceeding expectations. ATMs sometimes are an acceptable substitute for a manned, full-service facility.



Two-phase construction was undertaken by Design-Build Concepts, Atlanta, when enlarging Farmers & Merchants Bank, Foley, Ala. Bank operated in existing structure until new portion was built. It then moved into new portion while original building was reconstructed. Bank's deposits grew by $15 million while phase planning was under way.

But in spite of all this, the full-service branch office that can successfully transfer activity out of the main office or that enters and captures a new market for the bank is a viable — and more than justifiable — venture, and such facilities will continue to be needed. ATMs can be important in serving customers and extending hours, and they are a competitive weapon in the fight to hold market share, but they cannot capture a new market for the bank. A well-placed, well-mannered and inviting full-service branch can capture a new mar-

ket. It's not uncommon for a new branch to develop its own deposit base rivaling that of its main office. The key to successful branching is competitive strategy and cost-effectiveness against a profit-center measuring stick.

The nuts and bolts of banking are ever-changing and nowadays require that the designer/planner of a bank facility be well acquainted with hardware developments as they come along. The bank now is a network held together by various means of electronic communication, and all of this must be programmed into the areas affected during design. Some of the promised benefits of electronic data processing finally are being realized; we would expect that the traditional bookkeeping/proof force will continue to diminish in size and fewer people will be needed in the back room, requiring less space. The checkless society foreseen in the 1960s has not arrived, but the hardware developed for processing items has had its impact and will continue to have it.

Special groups are receiving attention in the planning of physical facilities. Areas specifically for savings — CDs and similar investments — are frequently planned to provide these customers the privacy and comfort the personal nature and size of the transaction demand.

Senior citizens' special needs are being recognized along with their increasing weight in the population and their importance as a separate market. They sometimes are afforded a special area to make their visits to the bank especially convenient and comfortable. Younger V.I.P.s have come in for similar attention by a few banks and a special area with key-card entry allows these important customers to visit and relax in a club-like atmosphere while secretaries handle their bank transactions.

The only certain trend in bank planning and design, and the resultant buildings, is that there always will be change; an industry that changed little for several decades now seems to thrive on change.

A bank is still a place that's bustling with activity and buzzing with new services and ideas. And, large or small, new or refurnished, contemporary or traditional, the structure to house this activity remains a vital working part of the adventure. ● ●

Kuhlmann Appoints Two

ROSENBERGER

MILFELD

Kuhlmann Design Group, Inc., St. Louis, has appointed Patricia Rosenberger personnel administrator and Susan M. Milfeld interior designer. Ms. Rosenberger joined the firm in August, 1983, and also serves as assistant accounting supervisor. Ms. Milfeld went to the firm last November.

Bank-Planning Aid

"Planning Fundamentals for Financial Institutions" is the title of a 24-page brochure published by Mosler.

The brochure discusses site selection, site planning, building design, customer service/operations, ATM provision and building dimensions and standards.

It includes several reference sketches featuring site plans for buildings.

Author of the brochure is John Barry Smith, financial facilities designer/consultant for Mosler.

For a free copy, write: Mosler, Hamilton, OH 45012.

Technology And Its Effect On Bank of the Future

By Robert P. Barone
Senior Vice President/Sales
Diebold, Inc.
Canton, Ohio

ONCE CONSIDERED staid and conservative, the financial industry is one that practically overnight — within just the last decade or so — has become a dynamic arena where change is routine. At the heart of the revolution is technology, which continues to be both the stimulus of, as well as the response to, myriad changes.

Other trends also have contributed to massive change in structure and operations of financial institutions, including the role of manned branch facilities. Deregulation has escalated competition, as virtually any type of organization now can offer financial services. Banks, too, have non-branch alternatives for delivery of service and are finding ATMs in retail locations to be especially profitable.

Consumer attitudes have been a major force in changing the role of the branch facility. While personalized service once was the priority, increasingly busy consumers now demand convenience above all and ready access to funds 24 hours a day.

Changing economics definitely has impacted the role of the branch facility: While productivity has declined or remained constant, operating costs have increased. And the cost of the actual funds has been on a steady rise.

The progressive financial institution will turn to alternative strategies — more cost-effective and market-oriented. First, automation is key to reducing labor costs and boosting productivity. Routine functions — for example, cash dispensing and simple deposits — can all be automated, particularly in high-volume situations.

Branch configuration within a system also can be altered significantly. Retail financial services ideally should be presented to consumers from both branch and alternative delivery points. Branches in close proximity can be consolidated, while unprofitable branches are closed altogether — but also offset with selective ATM and POS placement.

Remaining viable branches can be restructured to reduce operating costs and attract new, non-transaction revenue sources. Lobby automation can maximize the combined efficiencies of technology and human tellers. Branch personnel then are reoriented from transactions to sales, and various financial services can be customized to specific targeted market segments.

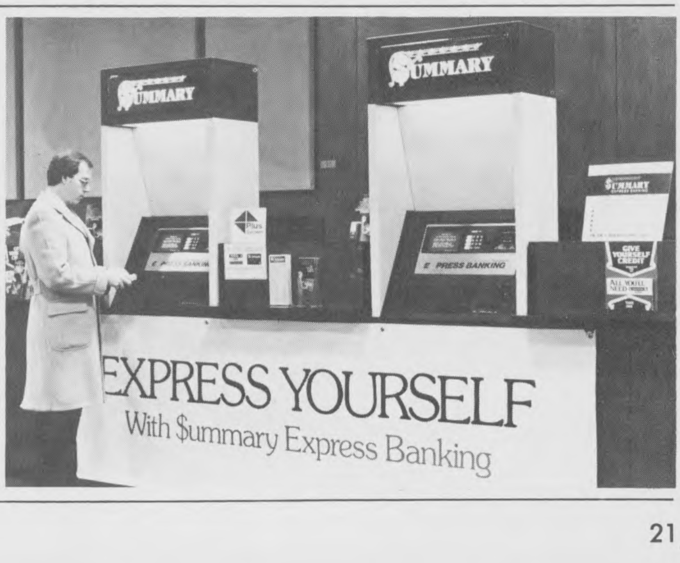
As need is documented for additional facilities, strategic construction of new branches will contribute to expanded market share. Consumers have been especially responsive to the "hub-and-satellite" branch concept. The "hub," strategically located within the market area, offers specialized financial services, which may include stock brokerage, insurance, estate planning, etc. It provides centralized back-room processing support, while serving as the communications link with satellite branches and controlling off-premise ATMs.

The emphasis in "satellites" is on the provision of the most cost-effective customer service: limited financial services perhaps customized to local market segments. These need not be manned full-time — only specific hours or days — and generally routine transactions are automated.

The branch of the future also presents requirements in terms of design. Multi-section buildings will become increasingly popular because they are expandable and relocatable. Variations are quickly and easily constructed to meet requirements of nearly any branch-office location: 1,200-square-feet limited-service satellite branches; mini-branches with 24-hour automated service, along with one or two manned positions; remote-transaction facilities with an off-premise ATM and after-hour depository; and even automates to enclose outer-lane ATMs.

Functionally, too, the branch of the future may include specific modules. The sales center, now the platform area, would include financial counselors or relationship bankers, oriented to sales and customer service. This area also requires administrative terminals, a hard-copy printer and a time/date clock for taking teller transactions.

If teller lines are needed within the service-teller area, various teller functions can be supplemented by auto-



In-lobby ATM access is provided at Chase-Lincoln First Bank, Rochester, N. Y., for customers not needing services of regular tellers. Bank has 92 lobby ATMs, five of which provide 24-hour access to the bank's 400,000 card holders. Machines in photo are Diebold TABS 911 models.

mated devices: modular teller counter systems; teller-assist cash-handling devices; special-function consumer self-services devices; and, of course, teller terminals.

Lobby automation — ATMs alongside live tellers — plays a tremendous role in increasing productivity while decreasing cost. Automating routine transactions reduces teller workload and places more emphasis on sales and customer service. Fewer teller hours are required and lobby space can be reduced or allocated to new financial services. New, low-cost ATMs easily can be cost-justified by teller displacement, even at low ATM transaction volumes. Placing ATMs in branch lobbies also will encourage usage by first-time or infrequent users — in part because a familiar environment is less threatening.

Future branches will include a number of complementary, functional areas beyond the actual branch lobby. The 24-hour transaction center will include a walk-up ATM — with interconnected after-hour depository service — in a vestibule. Plate glass for security, with a retail-store appearance for promotional purposes, the vestibule will be secured with access control and monitored by video surveillance.

Drive-up service can include different options to suit the needs of various customers. Multiple drive-up lanes manned during regular hours by a single teller maximize consumer speed, convenience and teller productivity. The outside lane houses a 24-hour drive-up ATM — perceived by customers as extremely safe and convenient — which also can include the interconnected after-hours depository. The in-lobby PIN system can even be extended to the drive-up unit to ensure positive customer ID.

A financial institution must integrate both branch and non-branch alternatives for successful delivery of financial services. Time and convenience will continue to be top priorities for consumers, who demand financial service delivery at home, work, shopping areas and entertainment and travel locations. Service-delivery strategy must take into account special demands of narrow consumer market segments. A system with integrated elements will provide a migration path to improved consumer convenience and cost savings by shifting the burden of transaction volume off-premise.

Future emphasis will continue to revolve around the debit-card, and expanded-services delivery will add value to these cards. Consumer acceptance of debit and credit cards is significant: In 1983, more than 3.4 billion transactions were performed on more than 40,000 ATMs, and more than 100 million debit and another 100 million credit cards are in circulation.

Consumers will continue to demand additional transactions of value via credit and debit cards. Growth in networks and shared-card bases will become increasingly attractive to retailers, and both financial institutions and retailers gain access to new profit opportunities via ATM-fee income. Financial institutions and retailers jointly will provide incentives for customer use.

Delivery of financial services has entered an exciting, new era of high tech. An integrated, flexible and well-planned system will be the passkey.

Financial-delivery systems increasingly will provide additional transactions of value for consumers: fuel delivery, electronic couponing, ticketing, payment terminals, electronic marketing, scrip issuance and even government-benefits distribution. Sharp competition among retailers has resulted in current concentration of placement of ATMs and other automated devices in supermarkets, gas stations and convenience stores.

ATMs in retail locations offer a number of benefits to all involved — consumers, merchants and financial institutions. For consumers, obvious benefits are convenience, time savings and 24-hour access to funds. For retailers, benefits include customer service and convenience; enhanced image; increased traffic flow; revenue-sharing opportunities; and reduced check losses.

For financial institutions, retail ATMs reduce "per-transaction" costs; provide enhanced, progressive image and card-holder convenience; offer an attractive source of fee income; and bridge the transition to point-of-sale.

Point-of-sale, although often referred to as a location, is, in reality, a concept that is a natural part of the financial-services delivery system. It comprises a number of functions and descriptions: credit-card authorization, paperless draft capture and electronic transmission; and acceptance of debit cards. It also may include travel- and entertainment-card authorization and draft capture; paper-based-transaction authorization as a guarantee for checks; and electronic transmission for electronic credit-card transactions.

For the financial institution, point-of-sale lowers "per-transaction" costs and enhances card value. Particularly for early adapters, there are significant competitive advantages and increased fees from other card issuers. Losses and chargebacks are reduced, and overall market expansion is accomplished without brick and mortar.

Merchants can reap equally attractive benefits from point-of-sale. POS increases store traffic and sales, speeds transaction throughput and allows more assured, speedier payments. Paperwork and credit losses are decreased and the need for both on-site cash and proprietary cards is greatly reduced.

Consumers, too, benefit from point-of-sale. Shoppers need to carry less cash and find plastic cards easier to use. Customers can receive discounts based on POS use and can better control their own funds through receipts and statements.

Although point-of-sale offers countless advantages over cash and credit, there remain a number of issues to be addressed. Customer base and card-holder penetration must be sufficient. Who maintains control over the customer and the POS system itself? How are equipment and communicating lines costs allocated? Obviously, the traditional role of financial institution and merchant is changing rapidly, and financial-delivery systems will continue to evolve for a long time.

In rounding out a comprehensive services-delivery system, we must give careful consideration to electronics-systems integration, for flexibility and continuity among devices and applications. A multi-application processor, for example, concurrently supports multiple applications in multiple locations and can provide energy management as well as customized applications. Centralized-security monitoring and control are especially important at unmanned facilities.

Delivery of financial services has entered an exciting, new era of high tech. An integrated, flexible and well-planned system will be the passkey.

David Huiskens has been named assistant vice president, Comerica, Inc., Detroit. At Comerica Bank-Detroit, Richard A. Hernquist was elected vice president, trust investment. Named assistant vice presidents were: Russell A. Fisher, funds management; Dennis Mitzel, trust tax; and Louis A. Zedan, corporate financial services.

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Union Personnel Consulting Agency

'Local Contractors Didn't Understand Us'

Friendly, Personal Feeling Retained When Bank Builds Modern Structure

TO BETTER serve existing customers and attract the kind of growth management wanted, Guaranty Bank, Mt. Pleasant, Tex., needed a new facility.

The question was, Could the bank keep its friendly, personal feeling that's so important to a locally owned, community bank while building a modern, efficient structure with delivery systems geared to the future?

Guaranty's existing building was ideally located on the town square, but after remodeling five times in the past 12 years, the bank had simply outgrown the facility.

"If we intended to keep growing," says Jonice Crane, executive vice president, "we needed a new building with modern work stations and an efficient work-flow system."

A site one block away from the town square was acquired, but officers were concerned about moving from the high-visibility location on the square. They wanted a new building that would not only provide needed efficiency and convenience, but also would maintain a high profile in the community.

"We get a lot of good, ordinary people in here," explains Bill Jones, chairman. "They're farmers, merchants, laborers, small-town family people — and they don't feel comfortable with that big-bank or big-business feeling. We had worked hard to build a warm, personal relationship with these people, and our new facility had to make them feel welcome."

The new site posed several challenges because of its limited size. It had to accommodate six retail and one commercial drive-up lanes, with room for future expansion. Separate areas for customer and employee parking, pedestrian traffic and easy access from the busy thoroughfare on which the building was to be positioned were all required. In addition, bank officers wanted to locate all customer facilities on the first floor.

"We'd worked with local contractors in the past," comments Mr. Jones. "They didn't understand us, and they really didn't know much about banking. This time, we wanted someone who did. We selected Bank Building Corp. (BBC) because it had the experience to help us make the right decisions. BBC had designed our original building in 1954, so we knew the value it adds to a banking office."

Based on a comprehensive market study, BBC proposed a 30,000-square-foot building with commercial-service space separated from retail. The basic concept was to provide strategically zoned areas in a "bank for the future" so that the facility would make it easier for bank personnel to treat special customers in a special way.

Initially, bank officers felt this plan was larger than their immediate needs would require. However, BBC personnel counseled that bankers should expect a growth surge on completion of the new facility since it was designed to make their customers feel at home — while giving increased service flexibility. And that's the way it turned out.

"We couldn't be happier with our new building," says Mr. Jones. "Guaranty had good growth over the prior 10 years, but after opening our new offices, our growth became even more impressive."

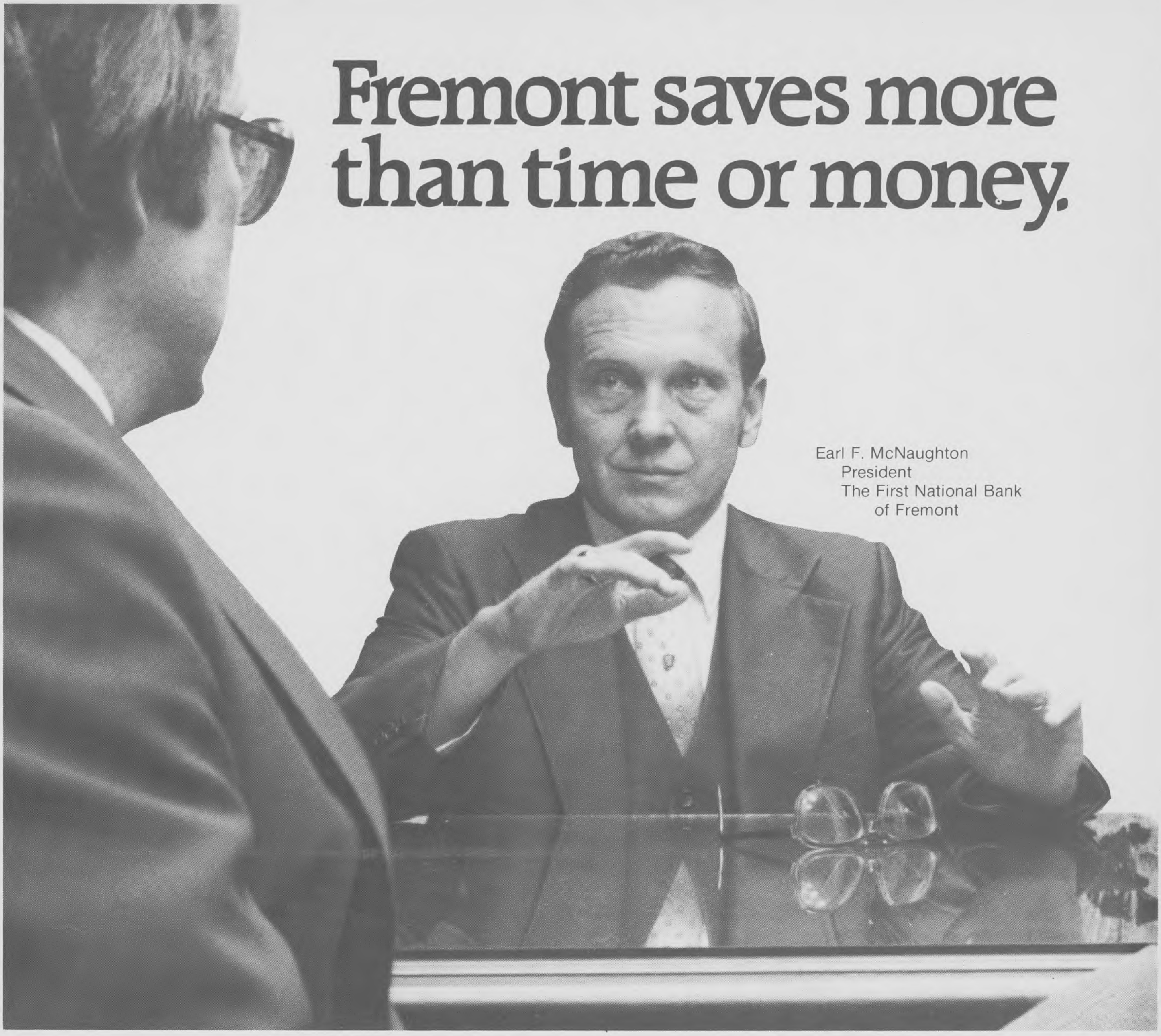
"In the two years since our facility opened," Mr. Jones comments, "our assets have grown more than 26% annually, going from $80 million in 1982 to $122 million in mid-1984. We hadn't realized how important a facility can be in marketing banking services.

"The design of the facility really works. Bank Building's idea to separate commercial from retail services lets us give every customer V. I. P. treatment. It has eliminated long lines for our retail customers, and our commercial customers really appreciate the special treatment we now can offer. And everyone appreciates the covered drive-ups suggested by Bank Building."

The building's interior is a model of efficiency. All tellers (lobby, drive-up and commercial) have direct access to the cash vault, which means no money pouches have to be carried through public areas. All service areas are accessible to a central corridor and are color coded to direct people to specific areas.

Guaranty's management people had wanted a feeling of openness and informality in the new facility, and they wanted it designed so the service area could take care of all transactions and operating functions on the main floor. However, they specifically wanted loan officers and new-account people to have separate offices to provide the privacy they felt was essential in a

Commercial customers at new building for Guaranty Bank, Mt. Pleasant, Tex., have own entrance, shown at r. Entrance for retail customers is at l. Bank Building Corp., St. Louis, handled project.



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small, closely knit community like Mt. Pleasant.

"We wanted a bank for the future," says Mr. Jones, "and we got even more than we bargained for. The marketing leverage we've gained from our new segmented facilities gives us a big advantage over our competition. Now, we can offer our most desirable customers individualized services that wouldn't be possible without this segmented approach. There was no compromise, either, in the design — we didn't have to sacrifice present needs for future considerations.

"Bank Building's people were extremely sensitive to our needs and certainly listened well. They were able to interpret our feelings and needs into a design that works for us and our community. It will continue to work for many years to come." ● ●

● **The Central Commercial Finance Division** of Walter E. Heller & Co., Chicago, has elected Michael J. Litwin president and William E. Andrzeicik marketing-services manager. Mr. Litwin, formerly senior vice president, joined the firm in 1971.

Three Goals Set by Commerce Bank For Building Now Being Erected

THE office building Commerce Bank is erecting in downtown Kansas City has three goals:

1. To create a new building that would exemplify the highest level of quality.

2. To provide a strong identity and centerpiece for downtown redevelopment.

3. To link the structure with the Commerce Trust/Commerce Tower buildings.

The site for the Commerce Bank Building, between Walnut and Main and 10th streets, is at the heart of Kansas City's central financial/retail districts. The major entrance, to be highlighted by a landscaped plaza, will be situated at the corner of Walnut and 10th streets, with a cascading fountain enhancing the entry plaza.

A pedestrian bridge over 10th Street will provide a continuous enclosed walkway linking the new structure to the Commerce Trust/Commerce Tower buildings. A portion of the walkway will be devoted to a public gallery for display of Commerce Bank's art collection.

The walkway will continue south past the entrance lobby of the new structure to join a new retail arcade developed immediately south of the Commerce Bank Building. Roofed by a barrel-vaulted skylight, the arcade will become a through-block connection between Main and Walnut. Provision has been made to extend the walkway southward to the proposed new AT&T development between 11th and 12th streets.

Potential retail/commercial uses in the arcade include distinctive restaurants, fine specialty shops and boutiques.

Design of the 19-story Commerce Bank Building is a strong departure from the rectangular towers that have dominated big-city architecture over the past several decades, a bank spokesperson points out. The shape of the building has been cut away and faceted at the corners, with the penthouse rising in steps to a pinnacle at the copper roof. Corner setbacks on the 10th Street facade will allow broader glimpses of the building from surrounding streets and will open up views of the city for those in offices in the building. This unique building configuration will provide 10 corner offices per level.

The steep slope of the site will permit building entrances at both the Main and Walnut streets levels. An escalator, incorporated in the retail space, will link the two lobbies. The Main Street level will be devoted largely to building services. The Walnut Street level, which will encompass the main-office-building lobby, will provide approximately 15,000 net square feet of space for retail and/or commercial development.

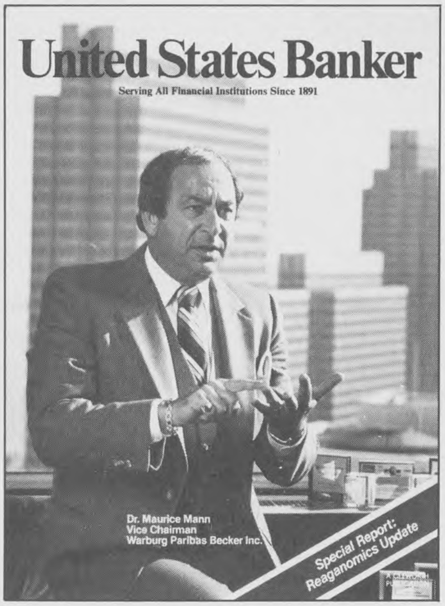
The typical office floor will have 24,390 gross square feet of space, with an average office-floor efficiency of 87%. Designed for multiple- or single-tenant occupancy, the floors will be laid out on an adaptable five-foot building module. Access for computer cabling and hookup to chilled water for cooling of computer installations will be provided on every floor at several locations. Eight passenger elevators, divided between a low-rise and high-rise bank, and a separate service elevator will serve the building.

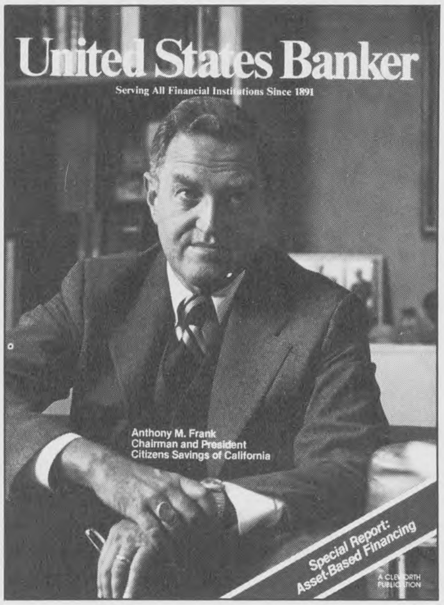
The building's base will be a rich, polished granite. Granite aggregate precast of a warm rose hue will be used for the tower, with the top office level

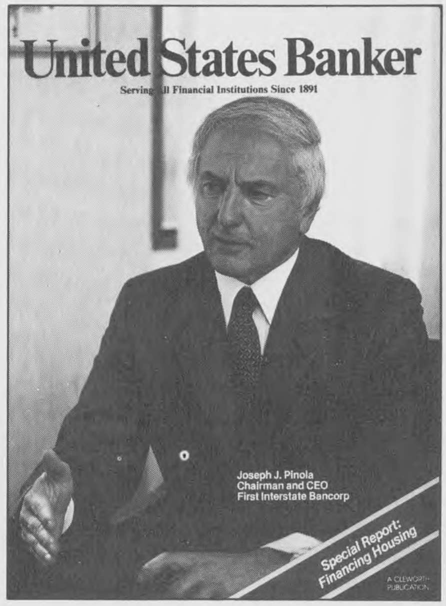
(Continued on page 34)

This is artist's sketch of new Commerce Bank Building (taller building at left), now being erected in downtown Kansas City. It will be connected to present bank building (r.) by walkway over Walnut Street. New structure will feature shopping arcade (bottom left).

Nothing Reaches Your Financial Market Like United States Banker







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Bank CEOs Can Rest Assured While Computers Watch Bank

ENERGY crises don't get much front-page space in newspapers these days, but because bank profit margins are caught in the vise of increased competition, bankers must continue to monitor building energy costs carefully.

Threats from crime and fire are other concerns that probably cause bankers sleepless nights. Bank CEOs at least would rest a little more easily knowing their bank facilities were being operated at maximum energy efficiency and they had some control over the upward spiral of insurance premiums.

Security First National, Sheboygan, Wis., has turned its energy-efficiency concerns over to a tireless and relentless watchdog. Not only does this watchdog monitor floor temperatures throughout the 65-year-old, 112,000-square-foot bank building 24 hours a day, seven days a week, it generates a complete history of energy expenditures, sounds alarms if demand exceeds peak levels, turns lights on and off as needed and adjusts heating/ventilating equipment for optimal effect.

Building manager Carter Von Rautenkranz quite obviously is happy to have an energetic, energy-conscious worker like the Power Perfect/5000, designed by Johnson Controls, Milwaukee, on his team. Mr. Von Rautenkranz credits the Power Perfect with helping cut energy costs at Security First National by 34%, an achievement that earned the bank an award from the Edison Electric Institute this year.

The best thing about the Power Perfect is the history it provides of building-energy consumption, according to Mr. Von Rautenkranz. The system was installed two years ago, and Mr. Von Rautenkranz has developed a seasonal history of building-energy requirements.

The system maintains records on a daily, monthly or yearly basis, and Mr. Von Rautenkranz easily produces energy-use reports for management to document gains in energy efficiency. He has developed software that adjusts

The building manager credits a new system with helping cut energy use by 34%, an achievement that won the bank an award from the Edison Electric Institute.

the heating equipment to requirements of the four seasons. A season's history of heating demand serves as the basis for the program that will run the heating equipment during the same season the following year.

Developing software to run the heating and ventilating equipment to meet Security First National's special needs does not mean Mr. Von Rautenkranz had to have extensive programming experience. The system is self-prompting and user friendly, he says.

The new system permits a high degree of fine tuning that previously was impossible with the bank's old, nonautomated system, according to Mr. Von Rautenkranz. The Security First National building — like most older buildings — retains heat on the middle floors longer than it does on the lower and upper floors. Normally, this means personnel on the middle floors bake while people working on the upper and lower floors wear sweaters to stay warm.

Mr. Von Rautenkranz is able to adjust temperatures now so that personnel throughout the building remain comfortable throughout the day, no matter the season. The system is programmed to note underheating or overheating problems and automatically make adjustments, but if necessary, Mr. Von Rautenkranz, or a member of his staff, can monitor floor temperatures on a computer terminal and adjust the heating system manually.

"We don't get many complaints these days from people who say the building is either too hot or too cold," he says.

Controlling energy costs in winter in frigid Wisconsin is tough, Mr. Von Rautenkranz says, particularly with an older building such as Security First National has. The January winds "just seem to suck the heat right out of the building," he says, and heating costs can get out of hand if not closely monitored.

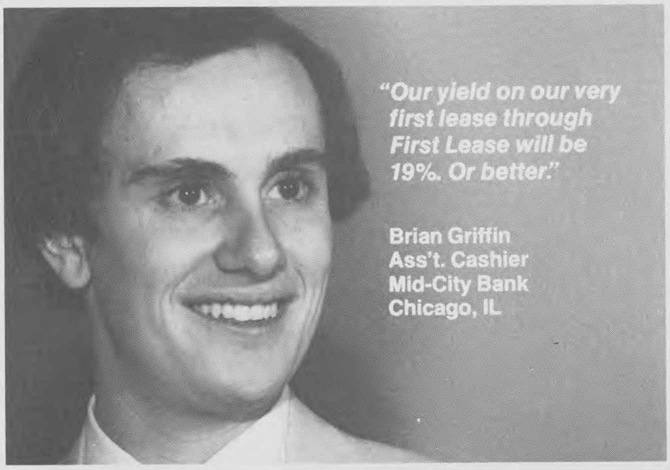
The Power Perfect is more than just a watchdog over energy costs, however. It's also a night watchman, turning lights on and off throughout the building and adjacent exterior areas. Formerly, the bank's yard lights were controlled by time clocks that had to be reset every two weeks or so to adjust to shifts in the timing of dusk and dawn. Power Perfect's electronic eyes now measure daylight, and the system turns yard lights on as darkness descends and off again at the crack of dawn.

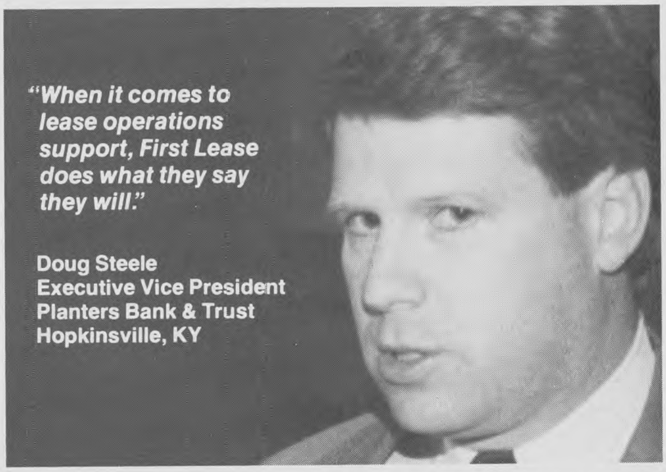
Corridor lighting is turned on and off automatically to conform to the bank's business hours, and the system even takes weekends and holidays into account.

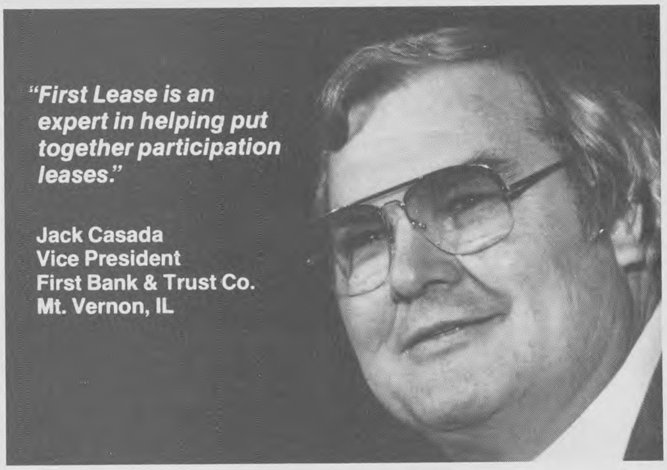
Mr. Von Rautenkranz has yet to put the bank's air-conditioning unit online so that it, too, adjusts to the sea-

(Continued on page 44)

They made one call, now they're making money.







One phone call was all it took to get these bankers started on a profitable equipment leasing path. That call led to a meeting. At the meeting, we showed them how we've helped banks across the country operate profitable, independent leasing departments *without* a major investment in start-up and maintenance.

We also explained that we work on a fee basis, so that leasing profits stay where they belong . . . with them.

Who answered their call? Who helped them with not only the start-up, but with the follow-through? First Lease.

Listen to what they have to say:

Doug Steele: "First Lease is one of the few companies I've run across that lives up to its advertising. They're there when we call. They're competent, knowledgeable, and friendly. Their service is consistently good."

Dan Fehrenbach's bank wasn't getting its share of the farm equipment leases in western Indiana. Dave Hockett of First Lease went with Dan to see the problem dealers.

Says Dan, "Dave showed the dealers how our bank could lease their equipment to farmers for them without the dealer having to put any money up front, and without any continuing liability. We get a lot of their business now."

Brian Griffin says his experience with First Lease has been good from the start, adding "First Lease really knows equipment leasing."

Jack Casada says First Lease arranges lease participations when needed. "We call all the shots, though, and our customers don't even know First Lease is anywhere around."

Isn't it about time you looked into the high profits of equipment leasing? To get the ball rolling all it takes is a call to Jan Gerdom at 502/423-7730.

The men pictured above called. Now they're making money.

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Bank in Missouri Makes 'Statement' With New Headquarters Building

DEMOGRAPHIC analysis indicated a continuing westward movement of business and people away from the central business district in Cape Girardeau, Mo. Officials of the centrally located Centerre Bank in the community had to choose between modernizing their existing facility or "making a statement" with a new headquarters building near the west-end development.

The decision was made a few years ago, and when Centerre finally opened its new west-end building last autumn two blocks from the shopping mall that initially triggered development in western Cape Girardeau, there could be no doubt among bank employees or the community at large that Centerre had chosen to "make a statement." Site selection, architectural design, construction standards and interior decor all spoke more than mere words could about the bank's commitment to the west end of the community, says Maurice "Moe" Sandfort, president/CEO, who joined the bank three days after the new building opened.

"We feel that our building makes a statement about the future of the west end and the quality of construction that will go in here," he says.

Mr. Sandfort emphasizes he was not involved during the planning phase of the construction project, but is more than satisfied with results of that planning. Richard Swaim, a banker of more than 30 years' experience who retired from the bank's vice chairmanship last year, oversaw the project and even assisted in planning the office and lobby layout used by the architects.

Centerre could have chosen to maintain its downtown headquarters facility while building a smaller facility in the west end. The bank could have relocated to the shopping center itself rather than building on an empty tract of land some distance away. Both courses of action would have sent out the wrong signal, says Mr. Sandfort.

Centerre did not want to submerge its identity into that of the shopping center, but did want to demonstrate to the rapidly developing west end that the bank would be a permanent fixture on the local landscape. The new building, with its clean, modern lines and its welcoming interior, achieves that goal, says Mr. Sandfort.

"If anything speaks well for the building, it's that staff and customers tell me the building seems to help people talk to one another," he says.

Among his goals as president of the bank is encouraging employees to greet customers rather than forcing the customer to initiate conversation, says Mr. Sandfort. In fact, if he could change anything about the layout of the lobby, it would be to get a desk placed closer to the doors so that someone from the bank always would be there to greet customers as they enter, he says.

The bank's current layout and atmosphere are so comfortable and inviting, however, that people are encouraged to communicate, he says. Centerre continues to use its downtown facility as a branch, but currently has no future plans for expansion, according to Mr. Sandfort. The new building should be adequate to meet the bank's needs for many years despite the growth expected in the west end, he says.

That growth already is evident in areas adjacent to the once empty land on which Centerre's new building was constructed.

"As I look out my window, I can see mostly farmland and the highway," says Mr. Sandfort. "Since we've opened, three new buildings have opened nearby. Our feeling is that in another five years, I'll be able to look out my window and see more buildings than farmland." ● ●

Spacious, yet inviting lobby of Centerre Bank, Cape Girardeau, Mo., was designed to help facilitate communication between bank representatives and customers. Architect was Kuhlmann Design Group, St. Louis.

With New Money-Processing Technology:

Costs Are Reduced; Employee Morale up At Louisville Bank

WHEN officials at Liberty National, Louisville, decided to support new money-processing technology in the coin and currency department, increased productivity, improved employee morale and procurement of new accounts resulted.

The $1.3-billion-asset bank currently is using two cash-settlement systems, six new currency processors and a state-of-the-art currency-fitness sorter, all purchased from Brandt, Inc., Watertown, Wis.

Liberty National's coin and currency department consists of eight commercial-teller stations, two of which contain complete Brandt cash-settlement systems. These systems are each comprised of a currency counter and a coin sorter/counter interfaced to a central-processing unit.

Coin and currency information processed by the coin sorter and currency counter is transferred automatically to Models 856 and 858 central-processing units. This information, along with any individual check amounts, rolled coin and various other media that have been manually keyed into the central-processing unit, will be printed out in an audit-trail format, detailing and totaling all deposit data processed. Itemized also are differences between declared balances and actual processed totals.

Rebecca L. Hasting, assistant vice president, is in charge of coin and currency operations for Liberty National. She explains that the bank processes the local post-office account, which is comprised of numerous envelope deposits.

"We previously were utilizing the services of five tellers for four hours a day to process this account alone," Ms. Hasting points out. "Since purchasing the systems, it takes only one to two tellers three hours per day to process this account. We have been able to use the services of the three remaining tellers to process new-account deposits as the bank continues to grow."

Ms. Hasting goes on to say, "We now can handle more commercial accounts due to acquisition of the cash-settlement systems."

Some of the other accounts processed include a large soft drink company, various vending-company accounts, bakery and dairy accounts.

"If not for this equipment, we would have had to add staff; instead, we have maintained our current staff and are doing a superb job with the deposits," says Ms. Hasting.

"Another big bonus," she says, "is that we have seen the accuracy improved, which, in a large part, is due to high employee regard for the systems. Tellers love the systems because the machines are doing the work for them. The systems have allowed each individual to excel."

Four of the coin-and-currency teller stations include the Brandt Model 866 currency counter. This unit will count and batch up to 1,500 bills per minute. This unit can be equipped with a counterfeit detection aid to identify suspect notes. Ms. Hasting indicates that Liberty National is happy with the cur-

TOP: Liberty Nat'l, Louisville, uses two Brandt cash-settlement systems. Here, currency totals processed on Model 866 currency counter are transmitted to Model 858 central-processing unit. Rebecca Hasting (r.), a.v.p., says bank now can handle more commercial accounts because of acquisition of systems.

CENTER: Liberty Nat'l processes currency on Brandt Model 866 currency counter, which counts and batches up to 1,500 bills per minute and can be equipped to detect counterfeit bills.

BOTTOM: Brandt Model 885 currency-fitness sorter sorts currency to be used in Liberty Nat'l's automatic teller machines. Unit sorts according to 10 criteria at levels selected by bank to obtain consistent quality of currency.

rency counters.

"We process all the cash and food stamps that come through the coin and currency department with the currency counters. Several Liberty branches utilize currency counters to verify currency shipments and process large volumes of cash and food stamps. We presently are evaluating the need for additional currency-processing equipment in selected branch locations.

Another teller station is dedicated to the Brandt Model 885 currency-fitness sorter. The currency-fitness sorter is designed to sort money, producing a consistent quality of currency to be used in the bank's 30 automatic teller machines.

The Brandt Model 885 tests each bill according to 10 conditions; doubles, note length, holes, tears, corner folds, condition (crispness), missing corners, tape, counterfeit detection and "Z" folds. The currency is sorted against customer-selected sort levels as well as predetermined levels to determine which bills are fit and which are unfit to use in the ATMs. The fit money goes into the fit pocket while those bills not meeting preset condition levels are sorted into the unfit pocket. Any suspect notes, those that are long, too short, doubles or counterfeit, are directed into the third or cull pocket. The Brandt Model 885 will sort and verify up to 16,000 notes per hour.

This unit was purchased by Liberty National because the bank realized that much ATM downtime was due to currency-related problems.

"Since we have begun automatically sorting currency with the Brandt Model 885, I have received only positive feedback as far as ATM downtime and quality of currency are concerned," says Ms. Hasting.

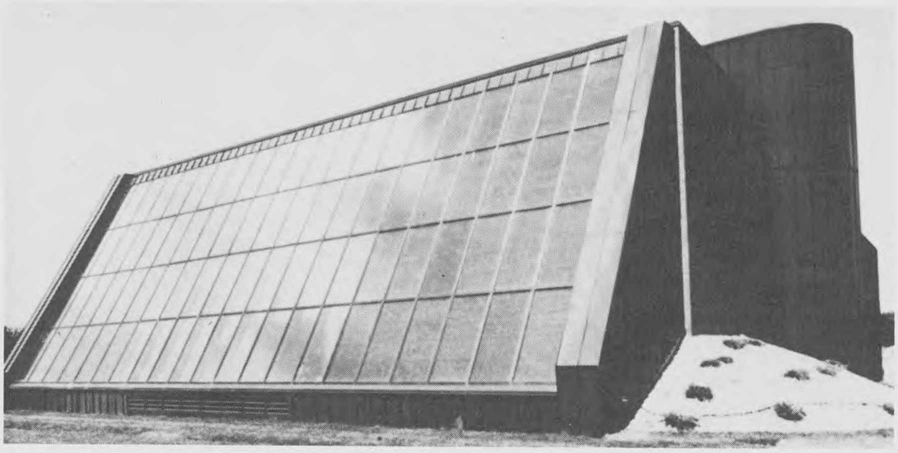
"Prior to purchasing the machine, much of the sorting was done manually, which was a disadvantage since our tellers would sort by sight alone. Their sorting was totally subjective and would change from day to day. Now the machine sorts according to the 10 criteria at levels we select; we are getting the exact quality of money we want.

"Another important benefit with the fitness sorter is that we can reconcile while we are sorting. By verifying each strap at this stage, we are eliminating a lot of loss."

With the Brandt money-processing equipment, Liberty National has cut costs dramatically. According to Ms. Hasting, "Brandt representatives are good at identifying our needs and providing us with equipment we need and that will improve productivity. Brandt does not try to sell us equipment we don't need; it sells us equipment that's serviceable and will do the job." • •

• **Ronald J. Fuller** has been promoted to national sales manager of Heller/Chandler Division, Walter E. Heller & Co., Chicago. Mr. Fuller formerly headed the central regional office of the firm.

Bank's Solar System Pays Dividends



Citizens State, Shakopee, Minn., saves about $1,200 annually in heating costs with its Suncell Solar System. The system provides 31% of the building's energy requirements and heats a "greenhouse" installed in the center of the structure. The system uses the sun's energy to provide heat and hot water. It consists of solar collectors, an air-moving unit, automatic controls, thermal storage, distribution ducts and an auxiliary heating system. The collectors absorb heat and distribute it into the bank's working areas. When the thermostat is satisfied, heated air from collectors is sent to a thermal storage area for later use. When energy in the solar system from both the sun and thermal storage is used, the auxiliary heating system is activated. Research Products Corp., Madison, Wis., is manufacturer of the system.

Commerce Bank

(Continued from page 26)

detailed in harmonious, but slightly darker, colored panels. Windows will be bronze-colored, semi-reflective glass. Marble flooring in five hues, laid in striking geometric patterns, will decorate the lobby/arcade areas/pedestrian bridge.

A new parking garage for 650 cars will be located southwest of the new building. It will incorporate ground-floor retail space along Main Street, with provision for additional retail space along the future walkway on the eastern edge.

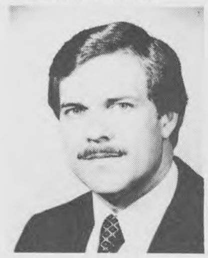
Ground-breaking took place last February, and completion is scheduled for the spring of 1986. The building's owner is a partnership between Commerce Bank, Kansas City, and Tower Properties Co. The architectural firm is the St. Louis-based Hellmuth, Obata & Kassabaum, Inc. • •

BBC Names Sgarlata Head Of Mid-Continent Region

Bank Building Corp., St. Louis, has named William G. Sgarlata president of its Mid-Continent region. He formerly was vice president/general manager, facilities services, at Mercantile Trust, St. Louis.

Mr. Sgarlata has overall responsibility for marketing the services of Bank Building Corp. in a 16-state area.

SGARLATA



BankMate to Access Cirrus About January 1, 1985

BankMate, a shared-ATM network available in five midwestern states, has joined Cirrus, a national shared-ATM system.

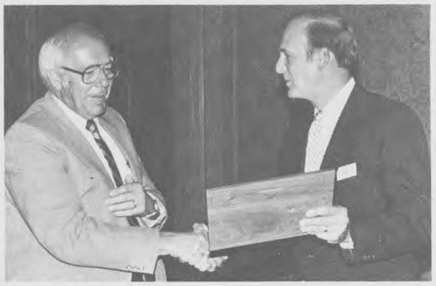
The 130 ATMs belonging to BankMate will go on-line with Cirrus about the first of the year. BankMate cardholders will be able to access their savings and checking accounts at any of the 5,300 Cirrus ATMs in 40 states at that time.

BankMate is owned by 60 participating financial institutions and currently serves Missouri, Kansas and Illinois. The network eventually will include Iowa and Kentucky.

Illinois Bankers Guests Of Citizens of Decatur At Correspondent Event

This year marked the 45th anniversary of the Correspondent Bankers' Party hosted by Citizens National, Decatur. The function for 300 bankers was held September 10 at the Country Club of Decatur.

The annual event perpetuates the gathering that originated with the late John H. Crocker, who organized the bank's correspondent department in 1939. Current head of the department is David G. Weber, vice president.



If "turnabout is fair play," Dale Arnold (l.), Midwest Financial Group, Peoria, got what was coming to him! He received "Biggest Jock" award from David G. Weber, v.p./corres. dept. head, host bank. In the past, when Mr. Arnold had Mr. Weber's job, he made a similar presentation to Leroy G. Ward, retired s.v.p. and former corres. dept. head at Citizens of Decatur.

Accepting prize for longest drive is Tim Jenkins (r), Illinois Nat'l, Springfield. At l. is Rick Cordts, a.v.p. at host bank. In background is Jack Dolan (l.), a.v.p./corres. banking officer, and at podium is David G. Weber, v.p./corres. dept. head, both from Citizens of Decatur.

Approximately 170 guests played golf during a day-long tournament and were joined by other guests at a social hour in the evening. A buffet dinner was served following the social hour.

Winner of the top golf prize of low gross was Jim Honegger, State Bank, Saunemin. Low-net winner was Dean Bain, vice president, Old National, Centralia.

Receiving the award for the longest drive was Tim Jenkins, consumer banking officer, Illinois National, Springfield. — **Lawrence W. Colbert, vice president.**

Reverting From Service Bureau To In-House Data Processing Proves Wise Move by Bank

JERRY HULL, head of data processing, First National, Warsaw, Ind., has no regrets about the bank's decision to drop its outside computer service bureau four years ago.

First National's in-house computer operations are functioning even better since the bank purchased a new IBM System/36 early this year to replace a System/34 installed in 1980, according to Mr. Hull. He says the bank easily was able to convert its old software to run on the System/36. To Mr. Hull, that was further evidence that First National's decision to drop the outside computer service bureau was a wise one.

"We're 100% happy doing it this way," he says. "We feel there's nothing we can't do ourselves better than the service bureau did. We see no reason to go back."

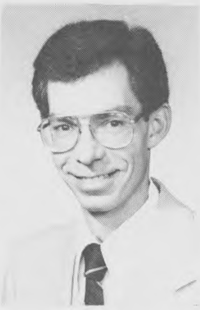
Through careful planning, purchasing and reliance on the expertise of its hardware and software suppliers, First National has been able to avoid the terrible problems that often follow a bank's decision to develop an in-house computer operation, says Mr. Hull.

"We feel we made few mistakes," he says.

The bank is saving money and paying its own people to do the same work formerly done by the service bureau, he says. He explains that much of what First National's data-processing department does had to do with turning out special reports or lists for use by others in the bank. First National's former service bureau did not seem to have the flexibility to efficiently handle requests for special types of reports or lists. IBM supplied a number of utilities that permit the bank to set its own software parameters to produce almost any report that might be needed. The flexibility gives First National control of its "own destiny," says Mr. Hull.

"Under the old system, if someone in the bank wanted a list sorted in zip-code order, for example, we had to ask for it, wait two weeks and then pay $150," Mr. Hull adds. "We can turn out the same report in an afternoon."

"Under the old system, if someone in the bank wanted a list sorted in zip-code order, for example, we had to ask for it, wait two weeks and then pay $150. We can turn out the same report in an afternoon." — *Jerry L. Hull, a.v.p., data processing, First Nat'l, Warsaw, Ind.*



Almost all of First National's data-processing needs are handled by the System/36 and software specially developed for the banking industry by Fremont Software, a division of First National, Fremont, Ind. Checking, savings, trust, safety-deposit box and stockholder accounting and reporting as well as asset/liability-management reporting are among functions currently handled on the System/36, says Mr. Hull. The System/36 supports 24 terminals scattered throughout the bank's four branches and one on-line IBM personal computer primarily used by the loan department to do spread sheets.

After two new First National branches are opened by the end of the year, Mr. Hull hopes to proceed with plans to install on-line terminals for all tellers. Already the computer can provide a banking officer with a customer's complete relationship with the bank.

Some of the relationship-banking software Mr. Hull has seen demonstrated provides an incomplete picture of what a customer's relationship to the bank is, according to Mr. Hull.

"I mean it's nice to be able to find out what a customer's current balance is, but there are times I want to know when we sent the last statement to him or how many overdrafts he may have had in the last month or the last year," he says.

After inputting the client's name and address, First National's officers are able to see on one screen just about everything they might want to know about a customer, including how profitable his overall relationship is for the bank, says Mr. Hull. There may be more sophisticated relationship-banking programs available, but "our system is a lot easier to use than some I've seen," he adds.

Friendliness of the system was a real concern at First National. One of the arguments against developing an in-house-computer capability frequently has been the cost of developing or hiring the talented people needed to run the equipment. This was another nightmare First National has been able to avoid.

"We've never hired one person from outside who has data-processing experience," says Mr. Hull. "Everyone in data processing — and there are six of us now — transferred here from other jobs in the bank. The System/36 is so user friendly that we didn't have a terrible retraining job."

Security measures had to be taken early to protect First National's central-data banks from unauthorized intrusions or entry of erroneous data. First National's hardware and software have built-in security features that permit the data-processing department to control access to certain files and to prevent data entry from certain terminals. Even when loan-department representatives use the personal computer, they generally work with copies of files rather than manipulate data in the central file, according to Mr. Hull.

First National prevented a great many headaches by expending a great deal of time and effort researching its needs and availability of products to meet those needs prior to proceeding with plans to develop its data-processing department. Bank representatives started thinking about the project in 1978 and spent more than a

(*Continued on page 45*)

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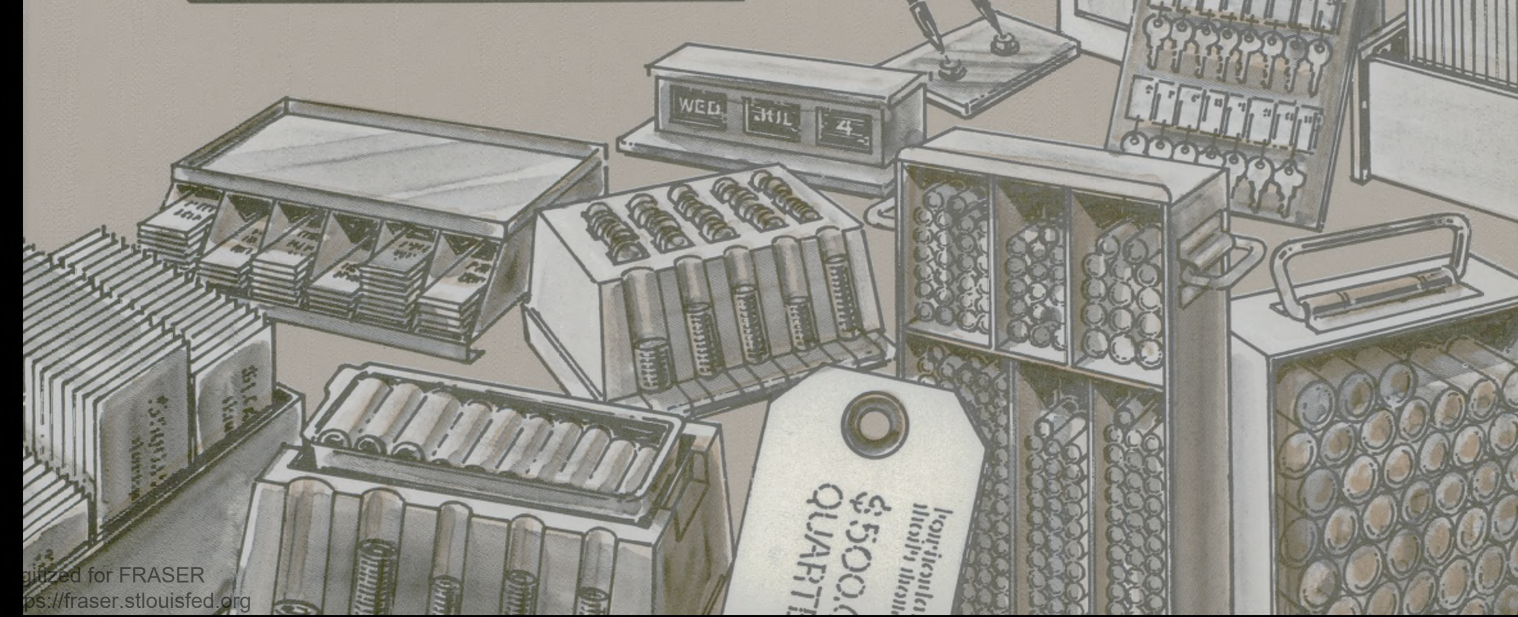

Senate Passes Banking Bill, But It's Halted in House

THE U. S. SENATE passed the 1984 Financial Services Competitive Equity Act (S. 2851) on September 13 by an 89-5 vote. The bill would permit banks to offer new securities products and services.

The final version of the bill is similar to the version approved by the Senate Banking Committee last June, when it agreed that HC subsidiaries should be able to underwrite and deal in revenue bonds, mortgage-backed securities and commercial paper and in discount brokerage activities.

The bill also closed the nonbank loophole and modernized procedures controlling HC operations.

However, in a surprise move September 21, Representative Fernand St Germain (D.,R.I.), chairman, House Banking committee, announced on the House floor that he no longer will consider major banking legislation this year.

As a result, the banking industry probably will not obtain securities-writing powers, and the "nonbank-bank loophole" will not be closed. Thus, when Congress adjourns October 5, Comptroller of the Currency C. T. Conover is likely to lift his moratorium on more than 300 requests for nonbank approvals.

Representative St Germain said his committee will be considering these issues in the next session of Congress (January, 1985). He did issue this warning, "Any industry group that rushes forth and goes through the expense of creating a nonbank now is forewarned that the operation will be dissolved by statute."

Specifically, the Senate bill authorizes the following:

• Authorization for HC subsidiaries to engage in new securities activities of underwriting and dealing in revenue bonds, mortgage-backed securities and commercial paper and discount brokerage activities. Senate action clarified that any bank-securities affiliate can carry a bank's name unless there is an objection by the Fed.

• The nonbank loophole was closed. The term "bank" is redefined to be any institution insured by the FDIC or that accepts transaction accounts and makes commercial loans. "Commercial loans" are defined to exclude consumer-type loans and investments in commercial paper and CDs. An institution with less than 10% of total assets in commercial loans would be considered not in the business of making such loans.

• Provisions establishing and operating HCs were streamlined. Criteria for evaluating Section 4(c)(8) HC activities were liberalized. New criteria are whether the activities are "closely related" to banking, "of a financial nature" necessary to adjust to technological innovations to provide banking and related financial services, and "substantially identical" to remain competitive with banking services offered by nonbanking organizations.

• The "South Dakota loophole" was closed by prohibiting state banks from offering outside their home-state borders services prohibited to national banks or HCs.

• State-bank subsidiaries of HCs were prohibited from engaging in any insurance activities prohibited to HCs.

• Regional agreements were sanctioned for five years.

• A national usury ceiling was imposed on adjustable-rate mortgages (ARMs) of less than $500,000 by limiting the interest-rate increase over the lifetime of the mortgage to a level five percentage points above the initial rate, effective for all loans made after June 1, 1985. Discounted ARM rates were included.

• Depository institutions, including banks, are required to disclose to potential customers all service fees for deposit accounts.

• The Student Loan Marketing Association is prohibited from controlling, directly or indirectly, any bank or thrift.

• Banks must disclose their funds availability policies. Mandatory availability would be required for Treasury checks deposited by a customer "with an established relationship" with the bank. Interest on deposits in interest-earning accounts would be required from date of provisional crediting.

• The net-worth certificates program was extended to those banks with net worth below 3% of capital, that have losses for two successive quarters and that have 20% of assets in agricultural or housing loans.

• State usury ceilings were preempted on business/agricultural loans, although states have a three-year period to reimpose limits.

• Federally insured institutions with a net worth of less than 3% would be restricted from accepting or maintaining brokered deposits. Other institutions would be limited to 200% of their capital and surplus or 15% of total deposits, whichever is less.

• Permanent exemption of advances on open-end lines of credit secured by real estate from Truth-in-Lending's right-of-rescission procedures.

• Simplification of the existing Consumer Leasing Act and extension of coverage to lease-purchase agreements. • •

Continental Restructuring Plan Okayed

STOCKHOLDERS of Chicago's Continental Illinois Corp. late last month approved the financial-assistance/restructuring plan announced in July by Continental, the FDIC and other bank regulators, with 71% of outstanding shares being voted in favor of the plan. Of the shares voted at the meeting, 98% were voted in favor of it and 2% against.

After close of business September 26 (date of the meeting) on completion of certain closing formalities, Continental Illinois Holding Corp. will own the 40.3 million outstanding shares of Continental Illinois Corp. common stock, and owners of Continental Illinois Corp. common stock will own an equivalent number of shares in the HC, subject to the FDIC's option. These stockholders also will receive rights to buy newly issued HC common stock on a one-for-one basis over the next two years. The FDIC will own preference shares convertible into 80% of the corporation's common stock.

In commenting on the third quarter, William S. Ogden, chairman of Continental Bank, says that after the $1-billion injection of new capital by the FDIC, the corporation's equity-to-total-assets ratio will be about 6.5%. In addition, after the sale of about $3 billion of loans to the FDIC, total loans will be about $26 billion — about 17% less than year-end 1983, according to Mr. Ogden.

Provisions That Affect Banks In the Tax-Reform Act of 1984

By J. Alan Harkness and James W. Koeger, Peat, Marwick, Mitchell & Co., St. Louis

LAST July 18, the Deficit-Reduction Act of 1984 was signed into law by President Ronald Reagan. In addition to a variety of spending provisions, the act contains a package of income-tax provisions entitled the Tax-Reform Act of 1984 (the act). This article is the first of a two-part series that highlights the primary income-tax provisions that will affect banks. It is not intended to be a complete technical discussion of the topics covered.

The three main areas of the act that may affect banks deal with securities and loans, tax-preference items and reporting requirements. Other provisions of the act affect all taxpayers. Some of the general provisions that will affect many banks will be discussed in the second article.

Securities and Loans

Discount Income on Short-Term Obligations. Under prior law, interest on short-term obligations with original maturities of less than 12 months, such as Treasury bills, was not taxable until paid on sale or maturity. The act requires — for short-term obligations acquired after July 18 — that the daily portion of the acquisition discount be included ratably in income for both accrual and cash-basis banks. Alternatively, the taxpayer can elect to compute the daily portion of the acquisition discount using the "constant-interest-rate method" by computing the discount accruing on such day on the basis of yield to maturity.

This provision of the act will eliminate the tax-planning technique whereby banks could purchase Treasury bills or other similar short-term obligations with maturity dates in the succeeding year and defer recognition of taxable income.

Taxpayers may elect to apply the new rule to all obligations held during 1984. If they so elect, they may recognize any increase in taxable income due to the change over a five-year period. This affords a significant tax-planning opportunity to banks that hold significant amounts of Treasury bills or other short-term discount obligations.

Ordinary Income for Market Discount. The act requires gains on dispositions of certain obligations to be re-characterized as interest income instead of capital gains to the extent of accrued market discount.

The provision covers only taxable obligations issued after July 18, with original maturities in excess of one year. Since banks are required to treat gains on dispositions of most securities as ordinary income, this provision will not affect banks significantly, but may affect tax treatment of securities held by bank HCs.

Deferral of Interest Expense. The act requires banks to defer a portion of their otherwise deductible interest expense on borrowings deemed to be incurred to acquire market discount obligations after July 18. A taxpayer's "net direct interest expense" is allowed as a deduction only to the extent that the expense exceeds the amount of market discount allocated to the days during the year the bond was held. The term "net direct interest expense" is defined as the excess of interest paid or accrued by the taxpayer over interest includible in gross income for the taxable year. The net effect of this provision is a matching of expense and income with a deferral of the deductibility of a portion of the cost of carrying a market-discount obligation until the bond matures or is disposed of.

Unless a bank otherwise establishes an appropriate allocation, interest paid or accrued will be computed by taking total interest expense for the year times the ratio of the basis of market discount bonds acquired after July 18 to the basis of all assets. Presumably, if the "net direct interest expense" is zero or less than zero, there will be no deferral of interest expense.

To the extent interest is deferred under this rule, it is allowed as a deduction for the taxable year in which the taxpayer disposes of the market-discount bond. Taxpayers can elect to deduct deferred-interest expense

Mr. Harkness is the partner in charge of the St. Louis tax department and has primary responsibility for that office's financial-institution tax practice and serves as regional bank-tax coordinator for Peat Marwick's south central region and as associate liaison tax partner for the firm's bank practice.

He belongs to the Missouri Society of Certified Public Accountants and has served as chairman of its taxation committee. He has been a teacher for the Illinois Bankers Association and the St. Louis AIB Chapter. Mr. Harkness also has written articles for various publications, including MID-CONTINENT BANKER, and is a frequent speaker at bank-industry meetings. He holds certified-public-accountant certificates in Missouri and Illinois.

Mr. Koeger is a senior manager in Peat Marwick's St. Louis tax department, working extensively in the banking industry and serving many bank clients of the St. Louis office.

He is a member of the American Institute of Certified Public Accountants and the Missouri Society of Certified Public Accountants. Mr. Koeger has taught for the AIB and has written several articles for MID-CONTINENT BANKER.

prior to disposition where, subsequent to the year of deferral, there is net interest income from the market-discount bond. Under this election, any deferred-interest expense is treated as paid or accrued to the extent interest from the bond included in taxable income exceeds interest expense deemed paid for that year. This can be made on a bond-by-bond basis.

Market-Discount-Income Election. The act provides that taxpayers can elect to include accrued market discount in gross income. If this election is made, neither the rule requiring ordinary income treatment on disposition nor the interest-deferral rule would apply to bonds acquired during the period the election is in effect. Once made, this election cannot be revoked without consent of the IRS.

Expansion of Original-Issue-Discount (OID) Rules. The act dramatically expands the scope of the OID provisions that require both borrowers and lenders (cash as well as accrual-basis taxpayers) to recognize original-issue discount as interest annually over the life of the obligation. Under prior law, obligations issued by natural persons (nearly all home mortgages and consumer loans) and obligations not held as capital assets (arguably, all loans held by banks) were excluded from OID provisions. The act repeals the capital-asset requirement for obligations issued after 1984 and exceptions for obligations issued by natural persons for obligations issued after March 1, 1984.

OID rules generally will apply if the stated redemption price of the debt instrument is greater than (1) the stated principal amount, or (2) the principal amount determined by discounting, at a rate equal to 110% of the applicable federal rate, all payments due under the instrument.

While the total impact of these provisions is still unclear, particularly with respect to discounted consumer loans and recent IRS pronouncements regarding the Rule of 78s, it is likely that both banks and borrowers will find their recognition of interest on many loans revised under the new law. Apparently, consumer-type loans with total payments of $250,000 or less are exempt from the level-yield original issue discount rules and presumably could continue to be accounted for on the Rule of 78s and similar methods. At a minimum, fully amortizing consumer loans with a term of five years or less that the IRS has allowed to remain on the Rule of 78s should be unaffected, provided total payments will not exceed $250,000.

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Funds-Allocation Method Advocated As A/L-Management Technique

AN asset/liability (A/L)-matrix technique through which sources of funds are allocated to uses of funds based on rate sensitivity is the most practical method available to banks and S&Ls to manage the controllable segments of their balance sheets to maximize interest-rate spread. This is the opinion of George K. Darling, Darling & Associates, New York City.

Mr. Darling advocated the funds-allocation technique during a series of seminars at which he appeared in late summer. The two-day seminars were sponsored by Peat, Marwick, Mitchell & Co. and bore the title, "A/L Management: Profitability and Risk in a Time of Change." At the St. Louis session, Mr. Darling appeared on the program with John Lastavica, vice president, First National, Boston; Andrew Hall, first vice president, Drexel, Burnham, Lambert, Boston; and James M. Nickerson, senior manager-St. Louis office, Peat Marwick. The St. Louis seminar was held September 12-13 at the Marriott Pavilion Hotel.

"It's when the public perceives that an institution has an earnings problem that trouble starts."

Prior to introducing the funds-allocation technique, Mr. Darling described the limitations of static gap-management reports and duration-analysis techniques for effective A/L management. He said there are some advantages of static-gap reports in that they provide a measure of potential earnings exposure based on anticipated changes in interest rates and provide caution signs for investment/funding decisions in specific maturity ranges. Static-gap reports also are helpful in suggesting some limited options for action, he said, but are useless for "what-if" projections and ignore the velocity at which assets and liabilities reprice.

Gap reports, contrary to what the Federal Home Loan Bank Board has been telling S&L leaders, cannot be used to project profit-and-loss effects, Mr. Darling emphasized. In fact, he said he found it "very frightening" that regulators are telling thrifts to calculate annual profit-and-loss effects as a ratio of gap multiplied by interest-rate change divided by 12 (number of months in a year). He asked bankers in his audience to try using the formula and got a variety of responses.

"You've got to have a gap schedule because it's the only place you can determine opportunities for re-pricings," Mr. Darling said. However, gap schedules are only one input in an effective A/L-management program. Nor is it possible — as some brokers suggest — to "hedge a gap," according to Mr. Darling.

"If you ever have a broker tell you to hedge a gap, fire him, because it's a sign he doesn't understand gap management," he said. "You can hedge an asset or a liability, but you can't hedge a gap."

Duration analysis is a useful technique for protecting the value of a bond portfolio or for pension funds as a means of guaranteeing annuities, but it is impractical as a tool for A/L management, Mr. Darling said. Duration evolved as a method of managing book value of equity, not to manage net-interest margins, he said.

"The reason we talk about it is because (*American Banker* columnist) Sanford Rose writes about it." he said.

Mr. Darling explained that at most of the seminars he's spoken at, someone in the audience usually brings up duration analysis, and he likes to try to clear up the confusion surrounding the topic. He said duration techniques have the wrong A/L-management focus, and duration calculations are based on complicated assumptions that could cause judgment errors. Moreover, duration-management approaches can — in the short term at least — negatively impact earnings per share, and he asked members of his audience whether the public views earnings or equity as the best measure of an institution's safety and soundness.

Answering his own question, he said, "It's when the public perceives that an institution has an earnings problem that trouble starts."

Mr. Darling described the "funds-allocation" technique he advocated as being much like "filling teacups" to make sure all assets are fully funded. Earlier in the program, Mr. Darling had defined asset/liability management as a "planning and control process for matching as well as intentionally mismatching the mix and maturities of assets and liabilities in ways that provide a favorable and even flow of net-interest income, while assuming reasonable business risk. The key concept is the coordinated and simultaneous management of both assets and liabilities."

He said the fund-allocation method of A/L management has nothing to do with a bank's profit-and-loss-center accounting, but through use of a matrix, enables a user to identify specific areas of the balance sheet where — depending on the institution's interest-rate forecast — interest margins could either expand or narrow. According to Mr. Darling, the A/L Liability Matrix — a trademark of Mr. Darling's company — allows an institution to:

- Prioritize the sequence in which liabilities are allocated to fund assets.
- Analyze current and projected interest margins for each asset and liability.
- Allocate operating costs to each deposit and investment category to determine "net" profitability of each A/L match.
- Formulate alternative strategies to minimize contraction of interest margins in any forecast economic scenario.

Mr. Lastavica preceded Mr. Darling's presentation with a brief history of the evolution of A/L management from the 1950s to the present. Mr. Hall provided the audience with an overview of hedging with interest-rate futures. — **John L. Cleveland, assistant to the publisher.**

Tax-Reform Act

(Continued from page 41)

Tax-Preference Items

Under prior law, the tax benefit of certain tax-preference items was subject to a 15% reduction. The act raises the percentage reduction from 15 to 20 beginning in 1985 on tax-preference items including bad-debt deductions, interest expense on deposits used to carry tax-exempt securities and gains on sale of depreciable real property.

Bad-Debt Deduction. The act requires the bad-debt deduction for years after 1984 be reduced by 20% of the excess of (1) the otherwise allowable deduction for a reasonable addition to the reserve for loan losses over (2) the deduction that would have been allowable had the bank maintained its reserve for all years on the basis of actual experience. Because of the recent drop in the allowable percent of eligible loans used in the percentage method, most banks are unable to deduct a bad-debt deduction that exceeds the addition based on actual experience. Therefore, this 20% reduction generally will not be a significant item.

Interest Expense on Deposits Used to Carry Tax-Exempt Securities. The act requires the deduction for interest expense on deposits, investment certificates or withdrawals or repurchasable shares incurred to purchase or continue to carry tax-exempt securities be reduced by 20% in years after 1984. This provision will apply to all tax-exempt securities purchased after 1982, even though securities purchased in 1983 and 1984 were subject to a 15% rate during those years.

Reduction of interest expense should be considered in the comparison of taxable versus tax-exempt investments, especially since Congress may increase this reduction rate and apply it retroactively to all tax-exempt securities purchased after 1982.

This provision was first enacted in the Tax Equity and Fiscal Responsibility Act of 1982 at a 15% rate and now, only two years later, it has been increased to a 20% disallowance rate. It would be unreasonable to assume that there will be no increase in this interest-disallowance percentage in future years. With each increase in this interest-disallowance percentage, the effective yield and marketability of municipal obligations obviously is diminished.

Gain on Sale of Depreciable Real Property. The amount that could be treated as capital gain on the sale of depreciable real property in years after 1984 will be reduced by 20% according to the act. This additional ordinary income should be considered in computing after-tax proceeds from the sale of depreciable real property.

Reporting Requirements

The act continues the trend of enacting reporting requirements to enforce compliance with tax laws. The three new compliance provisions affecting banks are for mortgage interest, foreclosures and IRA contributions. The act also contains reporting requirements for certain cash transactions involving $10,000 or more; however, it provides an exception for cash received by financial institutions as defined under the Bank Secrecy Act. Therefore, it appears there are no additional reporting requirements for banks for cash transactions.

Mortgage Interest. Banks and other taxpayers are required to file information reports relating to receipts of mortgage interest from individuals beginning in 1985. The report to be filed on or before January 31 of the following year (first report due January 31, 1986) should be filed with the IRS with a copy furnished to the person paying the mortgage interest. It should contain the name and address of the person from whom the interest was received, amount of such interest received for the calendar year and such other information as the IRS may require.

For mortgage loans entered into after December 31, 1984, it is anticipated that recipients of mortgage interest will require the payor to furnish his taxpayer-identification number as part of the mortgage-loan approval or closing process. With respect to mortgage loans in existence on December 31, 1984, it is anticipated that the IRS will require recipients to request, at least annually, the payor's taxpayer-identification number for those not already obtained.

For the purpose of this reporting requirement, the term "mortgage" means any obligation secured by real estate. Interest received by one person — for example, a service company — on behalf of another shall be reported only by the first person receiving the interest.

Foreclosures. The act also institutes reporting requirements for situations involving foreclosures or abandonments of property-securing loans. Beginning in 1985, a lender who forecloses or otherwise acquires an interest in any property that is security for indebtedness, or has reason to know that such property has been abandoned, must file a return with the IRS with a copy furnished to the debtor by January 31 of the following year.

The return filed with the IRS must contain the name and address of the borrower, a general description of such property and such indebtedness. In the case of foreclosures, the return also should include the amount of indebtedness at the time of such acquisition and the amount of indebtedness satisfied in such acquisition.

These new reporting requirements are intended to assist the IRS in determining if there is any discharge of indebtedness income or gain on disposition to the debtor. They do not apply to any loan to an individual secured by tangible personal property that is not held for investment and that is not used in a trade or business.

Individual Retirement Accounts (IRAs). The act provides that the annual report of the trustee of an IRA to the IRS and the individual owner must attribute contributions to a specific tax year of the individual. This applies to contributions made after 1984.

* * *

The next article will cover several other of the act's provisions that will affect most banks, including new rules on company automobiles, other property used partly in a trade or business and part personal use, interest-free or below-market loans, debt-financed corporate stock, industrial development bonds and fringe benefits. ● ●

Bank CEOs

(Continued from page 28)

sons, but that is a possibility for the future. He's been more concerned about programming the system to sound an alarm if demands on the building's boilers exceed expected peak levels.

As good as the Security First National system is, its capabilities are limited compared to an even more powerful automated-control system recently installed at the 18-year-old, 276,000-square-foot Charleston (W. Va.) National Bank building. Tom Martin, building manager, says he has yet to fully explore the capabilities of the system, but he has big plans for the future.

So far, only the heating and air-conditioning equipment has been put on line, and the bank has hired an energy manager, Jim Hurlow, to use the system to monitor and optimize energy use. A 16% gain in energy efficiency thus far is attributed to the new equipment, according to Mr. Martin.

"We have better control over energy costs, and we can predict demand and peak loads well in advance," says Mr. Martin.

Lighting and fire alarms probably will be controlled by the new system one day, he adds. Theoretically, a building-control system as powerful as the one installed at Charleston National simultaneously could monitor as many as 2,000 on-site or off-site sensing devices. Sensing devices might be burglar detectors, fire/smoke detectors, card-access slots, closed-circuit television cameras or simple panels used to monitor floor temperatures. If the bank's heating/ventilating/air-conditioning equipment was properly configured, the system could do all of the following without human intervention:

- Sense location of a fire and sound an alarm.
- Automatically call the fire department.
- Pressurize floors immediately above and below the fire to contain smoke.
- Turn on fans on the floor where the fire is located so that smoke is vented outside.
- Recall all elevators so they are not used while the fire is in progress.

Mr. Martin says Charleston National's management was attracted particularly to the fire-detection and alarm features of the system. Such a system not only is the best protection available against the possibility of a devastating fire; it helps offset rising property-insurance premiums, he says.

Security First National's Mr. Von Rautenkranz says he believes the financial-services industry will be turning increasingly to automated building-control systems due to competitive pressures caused by deregulation. Banks have less leeway to increase prices these days, he says, and building-operation costs traditionally have been among the most difficult costs to pass along to consumers.

To stay competitive, he says, banks are going to have to take "countermeasures to protect themselves from the rate increases the utilities are asking for."

Moreover, given the uncertainty banking deregulation has created, bank CEOs probably are going to be receptive to any new equipment that promises to watch over the bank while they get a good night's sleep. — **John L. Cleveland, assistant to the publisher.**

Reverting

(Continued from page 36)

year meeting with computer hardware and software suppliers.

"We must have met with Fremont (the software supplier selected) a half dozen times and called them another 15 or so times," he says.

He adds that it is wise to make the hardware and software purchase decision simultaneously rather than buying a computer and then trying to locate compatible software. It's far better to know when purchasing the hardware that software exists for it that will meet the bank's current and future needs, he maintains.

Compatibility was not a concern when First National installed its System/36 this year. IBM supplied software-migration aids that permitted First National to re-compile all its software to run on the System/36.

"It was only about a six-hour job," he says.

First National currently has about a five-hour-per-day window during which it could accept data-processing work from outside customers. Mr. Hull says the bank is resisting the temptation to turn a few extra dollars of profit on its data-processing department.

"When you start doing outside data processing, your responsibilities change," he maintains. "You suddenly are responsible to all those customers out there. Let's say the system goes down for eight hours. Whose work are you going to do when you get back up and running again? I think this is one reason a lot of banks have gotten out of outside data processing."

Having worked so hard to get control of its own destiny with respect to data processing, First National isn't about to relinquish that control, he says. — **John L. Cleveland, assistant to the publisher.**

• **Charles T. Mallet** has been named senior vice president, information-management services, Heller International Corp., Chicago. He formerly was with General Electric Credit Corp.

• **Walter E. Heller & Co.**'s Central Commercial Finance Division, based in Chicago, has promoted Sampath Ayyanger, Patrick M. Mulcahy, Angela J. Narel, Harry R. Novak, Eugene J. O'Hara and James A. Richards to vice presidents.

Career-Apparel Program Proves Boost for Bank in Virginia

IN the late '70s, the statewide Bank of Virginia decided to undertake a total marketing plan to improve a performance described as "lackluster and below par." "Change" became the watchword, and adoption of a career-apparel program was one of the elements of the marketing plan.

First, the Richmond-based bank studied career-apparel programs at other banks and found six common elements that would help such a program be successful: 1. Include both men and women on a mandatory basis. 2. Provide at least one day a month when employees don't have to wear their career apparel. 3. Implement a 30-, 60-, 90-day probationary period before career apparel is issued to reduce costs/handling problems. 4. On issuance of career apparel, have employees sign reimbursement agreements authorizing withholding from final pay if the apparel isn't returned when they leave the bank. 5. Charge branch managers or assistant managers with responsibility for making sure the correct apparel is worn and to secure the apparel when employees terminate. 6. Specify that employees should not mix their own clothes with their career apparel, except for shoes.

Next, the bank obtained articles on career apparel from the Bank Marketing Association Information Center. According to a bank-staff member, Mary Charlotte Shriner, the most useful article was "Observe Basic Steps to Assure Successful Career-Apparel Program," from the October, 1980, issue of MID-CONTINENT BANKER, written by Jim Fabian, senior editor.

The next step was to determine which vendors would be contacted. The field was narrowed to one firm, Fashion Star, Inc., Carrollton, Ga. With that company's representative, the bank selected the best package to meet its style, color and budget needs.

Then came the hard part — selling the program to the bank's staff. Senior management agreed not to pressure employees. It was realized from the start that the staff had to feel positive about the program and that peer influence was more important than top-down pressure. A staff-only focus-group concept was adopted. Thirty public-contact employees, both men and women, were selected at random from across the state to take part. They were shown the garments via a fashion show, with several employees from the group selected to model the clothes. Fashion Star Representatives were present to explain fabrics and styles and to answer questions. They also moderated the fashion show. Afterward, the employees were left to themselves — no bank management or Fashion Star representatives — and had an opportunity to express their candid opinions. They were extremely positive about the career-apparel concept and the fashions recommended for the employees.

All objectives for the career-apparel program at Bank of Virginia were met and surpassed, according to a bank spokesperson. Employee morale has never been higher; quality of customer service is at an all-time high; market share is increasing, and profitability has increased significantly.

After many hours of planning and developing the program, it was decided that all tellers, customer-service representatives, branch secretaries and other branch-support-platform people who routinely work with the public would be eligible to wear career apparel. Providing the clothes was done in two phases: Tellers would comprise Phase I and begin wearing apparel in September, 1981, which also was the launch date for the bank's new marketing program. All others were considered Phase II and were to begin wearing the apparel in March, 1982.

To ensure a coordinated and successful program, the bank appointed a full-time career-apparel coordinator, whose duties include ensuring an orderly distribution of the initial order from the supplier to branches, establishing/maintaining records of all items issued each employee, maintaining a clothes inventory and acting as liaison between the bank and apparel supplier.

On September 5, 1981, the new look at Bank of Virginia was introduced in a full-color supplement in more than 1,000 newspapers throughout the state. Finally, to make all employees really feel part of the new Bank of Virginia, the bank gave a special employee kit to all staff members. The kits contained copies of all ads, bumper stickers, desk cards and a special item — paper cutout dolls in career apparel. In addition, women employees were given career-apparel scarves and men career-apparel ties.

In the fall of 1982, a survey of all employees who wear career apparel was conducted. Key findings were: Eighty percent wanted to continue wearing the apparel; 45% said they at least felt a little more professional when wearing the apparel; 85% believed the apparel helps set their bank apart from other banks; 71% said the apparel created a good image for the bank; 72% said customers sometimes comment on the apparel, with 30% saying customers like the concept and 19% saying customers think it looks professional.

According to Ms. Shriner, all objectives for the career-apparel program were met and surpassed; employee morale has never been higher; quality of customer service is at an all-time high; market share is increasing, and profitability has increased significantly. ● ●

Negotiations Completed For Harris Acquisition By Canadian Bank

Harris Bancorp Inc., Chicago, has become a wholly owned subsidiary of Bank of Montreal. Year-long negotiations were completed at the Harris Bank building in Chicago September 4 at ceremonies that saw the Canadian bank paying (in U. S. dollars) $546,734,016 for 6,667,488 shares of Harris Bancorp.

The Harris organization, which continues to operate under its own name, has assets of $7.8 billion. No significant changes are planned in Harris management structure or personnel. Plans are to have the board composed largely of outside directors and that Harris Bank be managed as a self-sufficient organization.

Fed's Payment-System-Risk Seminars Encourage Bankers to Comment

IN AN ATTEMPT to enable bankers to comment knowledgeably on proposals by the Fed to manage the risks connected with daylight overdrafts, the Fed and the ABA sponsored a series of seminars over the past month.

Seminar format included a presentation by a representative of the Fed, followed by comments by commercial bankers.

At the St. Louis seminar, Edward C. Ettin, deputy director of the Fed's division of research/statistics, presented the Fed's proposal to reduce risk on large-dollar transfer-system transactions. He stressed that the Fed had yet to decide which steps to take and urged bankers to send their ideas on the topic to Fed headquarters in Washington. Deadline for comments is October 29.

Daylight credit exposure is the problem, Mr. Ettin said. Such exposure by one bank can affect the risk and exposure of other banks. This can occur on funds-transfer networks and is called systemic risk.

He used the example of participation on a shared-ATM network to illustrate how systemic risk can occur.

"If Bank A's customers withdraw more cash from the other participants' ATMs than the other participants' customers withdraw cash from Bank A's ATMs, Bank A will need to send funds to other participants to settle the net debit created. In effect, the other participants have given cash to a customer prior to receiving good funds from Bank A. Bank A has a daylight overdraft with other participants. If Bank A is unable to make this settlement transfer, the other participants may incur a loss. In this way, Bank A's daylight exposure can affect the credit risk of other participants in a systemic fashion."

Among the Fed's proposed solutions to systemic risk are the following:

- Bilateral net credit limits, whereby receivers of funds evaluate the credit-worthiness of the sending bank. With this evaluation, Mr. Ettin said, the receiving bank places an internally specified limit on the value of the net credit it is willing to receive from a sender. In effect, this places a limit on the net debit a sending bank can incur with each receiving bank separately and thereby limits the receiving bank's credit exposure to different sending banks.
- Bilateral net credit limits, which already are used on most private funds transfer systems.
- A sender net debit "cap," often expressed as a ratio to a sending bank's capital position. The cap seeks to limit the total net debit of a sending bank. It's a more direct limit on the credit exposure of a sending bank.
- Payments finality, which has been defined to exist when a receiving bank provides customers with access to any funds received prior to settlement and, in addition, gives up its right of recourse to the customer in the event the bank sending the funds fails prior to end-of-day settlement. In effect, Mr. Ettin explained, the receiving bank is providing a guarantee to treat funds received as collected balances prior to settlement based on a credit judgment of the sending bank. If the sending bank is unable to settle, the receiving bank guarantees the funds received (and used) by the customer. Payments received aren't provisional, but are final.

Bankers taking part at the St. Louis meeting included Eugene A. Leonard, senior vice president, Mercantile Trust, St. Louis, and Everett C. Gambrell, executive vice president, Texas Commerce Bank, Houston, both representing the large correspondent-bank viewpoint; and Norman J. Tice, chairman, CharterBank, St. Louis, representing the community-banker viewpoint.

Mr. Leonard stressed that credit risk is the primary problem and credit-risk management is the solution.

"You can't take the credit risk out of banking," he said, "but you can keep the risk at a manageable level."

More use of term fed funds would help the situation, he said, but there must be some incentive on the part of the Fed to get bankers to take this route.

He added that a portion of Mercantile's fed-funds transactions are collateralized and that most upstream correspondent banks take care to perform credit analyses of respondents.

He recommended that the Fed make its final rulings voluntary for participating banks because the private sector is in a position to handle the risks.

A question period concluded each seminar. — **Jim Fabian, senior editor.**

Banking Scene

(Continued from page 54)

ence in Tennessee prior to the failure of their banks. Whether knowledge of the Butcher family's political clout may have permitted their banks to get by with practices that otherwise would not have been accepted is, of course, speculation. In my opinion, however, political pressure often influences bank regulators and, worse, often encourages bankers to pursue ill-advised policies on the fatal assumption that their political acumen and clout will extricate them from any tight spots they might blunder into.

Bankers sometimes justify their involvement in politics as being of help to the community, and there can be no doubt that bankers need to be involved in the cultural and social affairs of their communities. Where a banker's involvement is totally self-serving or overly ambitious in terms of his/her or the bank's commitment of resources, however, there is no long-term gain for the community or the bank.

One well-known banker makes a point of reminding bank officers and directors that the money their institutions handle is "tainted." The money, he says, "'tain't the bank's or the banker's, but 'tis the depositors.'" Bank officers and directors should always keep that anecdote in mind when considering their fiduciary responsibilities. They have a responsibility to see that their depositors' money is prudently invested.

2. **Bank executives must keep their boards well informed about policies and problems.** Boards should insist on being sent copies of the bank examination report and any significant communication from regulatory officials within a reasonable time after the communication is received. Included in the list of communications that must be distributed to directors is the Uniform Bank Performance Report and the Peer Group Report. Attached to the reports should be a form asking each director to signify by signature that he/she has read the report, understood it and — in conjunction with others on the board — plans to take steps to correct any problems. The vast majority of banks do not take precautions like this, but they are necessary.

I recall one bank executive who was accused of removing all adverse criticism of himself and his policies from the Report of Examination prior to distributing it to the board. A good way to prevent such practices is for the board to establish written policies on how the documents they want to see should be presented and how they should be reviewed. In some cases, there is nothing wrong with summary reports, but the board must ensure that it gets the information it needs to judge the performance of the bank and its officers.

3. **Boards need to establish a policy to determine when a CEO might be fired.** As I have written in a previous column, firing a bank CEO is one of the toughest jobs any board has, but the job is easier if the board has written policies stating the level of performance expected and when termination of a CEO will result. A CAMEL (Capital Adequacy, Asset Quality, Management, Earnings and Liquidity) rating by regulators of three or more could be taken as a sign that the board should replace the CEO.

Of course, such a rating may be due to factors beyond the CEO's control, and board policy can be written to cover such exigencies. But a board that has established a policy of removing the top officer or officers when performance does not meet specified levels will be in the driver's seat, not vice versa. Furthermore, all concerned will be aware that corrective action must be taken well in advance of the time such action actually becomes necessary. As soon as performance starts to fall into the danger zone, the CEO will either shape up or ship out and the board will begin to come together on necessary remedial measures.

4. **Board policy must cover the sensitive issue of loans to directors.** Directors often are appointed to bank boards because they or their firms are good customers. No director should be appointed to the board unless he/she brings something more to the performance of the bank than just business, but it is a fact of life in banking that directors often are among the bank's most highly prized loan customers.

In all cases, however, it is imperative that the board ensure that no laws are violated in the approval of such loans and that steps are taken to remove directors whose loans are judged substandard or nonperforming. Policy should cover how such substandard loans are to be recovered.

For years I have advocated some degree of positive direct verification of significant collateral for bank-credit customers and this procedure is especially important on collateralized loans made to insiders. This need not be an expense for the bank, since the loan agreement can state that the bill for appraisal of the collateral be paid by the applicant. Since appraisals by outside auditors can be falsified, the appraisal contract should include a caveat that legal remedies will be sought against appraisers in the event their audit fails to meet professional standards.

Almost any banker can claim that his bank's written loan policies are prudent, but when those policies are inadequately enforced, they are worse than no policy at all because they create the illusion of prudence. In all too many banks, internal auditors — who

First Interstate, Los Angeles, Promotes 3, Appoints 3

First Interstate Bancorp, Los Angeles, has promoted James Hook to senior vice president, corporate finance group; Lisa L. Corbett to audit manager and Doug Wallis to vice president/corporate development.

Appointed to officer status were Sandor E. Samuels to counsel in the office of general counsel; Larry D. McCurley to vice president/loan review in auditing and Bonnie S. Downey to vice president/tax department.

have responsibility for pointing out violations of written policy — report to operating management rather than to an audit committee of the board.

At most banks, this chain of command is a matter of expediency. The board is not present every day to deal with loan-policy violations. Yet the board and its audit committee have a responsibility to see that established policies have been implemented and violations are being uncovered and corrected. External auditors can be engaged to ensure policy compliance if necessary.

5. **Banks and society as a whole must recognize the growing responsibilities of bank directors.** Banks need concerned, competent and hard-working directors. This is one reason a bank directorship carries a certain degree of status and protection from liability. No one who fits the qualifications cited above is likely to serve on a board if there are no rewards other than becoming a sitting duck for a lawsuit.

Society needs to recognize the responsibilities of bank directors. In large measure, they are watchdogs over not only the health of their institutions, but the financial health of their community economy. Their decisions influence the local economy in countless subtle ways every day.

A major perception of bank directors, according to Harvard professor Miles L. Mace, is that they are overpaid for what they actually do and underpaid for what they are supposed to do.

It is interesting to note that bank directors typically are paid a lower stipend than directors of industrial and manufacturing firms, yet their responsibilities are — if anything — greater. Perhaps banks need to re-examine the fee structure for directors in light of the greater work load on them today. Moreover, banks may need to do more to convince the public that directors are the first line of defense against failure.

Perhaps then, banks will get more and more boards that are not overly dominated by strong CEOs — directors who carry out their duties as custodians of bank safety and soundness. ●●

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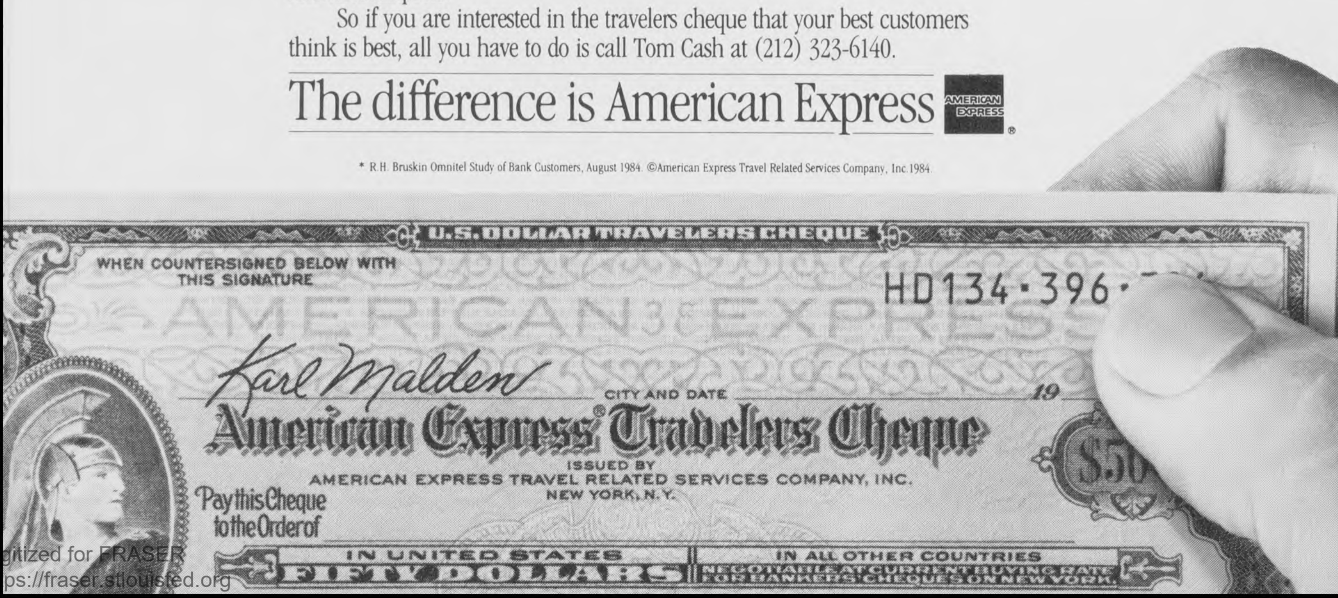
* R.H. Bruskin Omnitel Study of Bank Customers, August 1984. ©American Express Travel Related Services Company, Inc.1984.



State News

(Continued from page 6)

John L. Falatok has been elected corporate banking officer, Centran Bank, Akron. He formerly was a commercial banking officer/credit analyst, BancOhio National, Akron.

Huntington National, Columbus, has promoted Linda R. Kay from trust administrator/assistant vice president to trust administrator/vice president. Elected assistant vice presidents were Gene A. Cahall and William J. Janoch, private banking sales representatives, Ralph F. Griffith, financial institution representative, Diana L. Hansford, banking office manager, and Glenn W. McClelland, commercial loan representative.

WISCONSIN

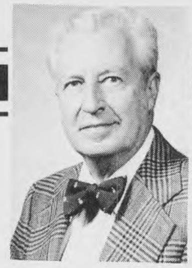
Jon H. Stowe has been elected vice president/executive-in-charge of a new group within the Marine Corp., Milwaukee, known as the financial institutions group. Mr. Stowe is a senior vice president at Marine Bank, Milwaukee, and has joined the management committee of Marine Corp. Purpose of the new group is to provide banking/financial services to financial institutions.

Valley Bank of Black Creek has elected Duane Wussow to its board. He is owner/operator, Wussow Dairy Farms.

Alan M. Holman has been promoted to assistant vice president, First Interstate Bank of Wisconsin, Sheboygan. Formerly a business banking officer, Mr. Holman is in the business banking department of the downtown Sheboygan office.

Ruth A. Rynish has been named president, Firstar Bank Freedom. She joined the bank in 1971 and formerly was cashier. In her new post, Ms. Rynish succeeds Stanley M. Sielaff, who resigned September 1.

Valley Bank, Shawano, has named John A. Hennessy executive vice president/director. He joined the bank's parent HC, Valley Bancorp, 20 years ago and has been president, Valley Northern Bank, Appleton, and a director, Valley Bank, Black Creek. William R. Sands has been elected president, Valley Northern Bank, Appleton, moving up from vice president/cashier.



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

Lessons From Failure of Butcher Banks

INEPT or too aggressive management and lackadaisical reporting and controls have been suggested as being at the root of the need for a federal bail-out at Continental Illinois National, Chicago, and the more recent shakiness of the $32-billion Financial Corp. of America, Los Angeles.

In hindsight, it's always easy to point an accusatory finger at management and criticize what should or shouldn't have been done. The only true justification for these exercises in laying blame is that they somehow prevent other managers at other financial institutions from following the same paths that led to the earlier trouble. There is a need to discover the guilty and carry out punishment, of course, but society benefits from the example set by those punished, not from the mental or physical anguish suffered by the accused.

The problems at Continental and American Savings are still being sorted out, and it probably will be some time before we learn what really went wrong. There is an earlier bank failure — actually, a series of failures — that pretty well has been sorted out by now. At least, we can begin to make a clearer assessment of what led to the failure.

The collective failure of nine Tennessee banks with total assets of nearly $1.7 billion last year ranked at that time as the largest commercial bank failure in U. S. history. The banks — all controlled by the Butcher family — were an integral part of Tennessee's economy and their failure was a major blow to the state and the region.

Reporting on the cause of the demise of the Butcher financial empire and the earlier failure of Penn Square Bank in Oklahoma, the Government Operations Committee of the House of Representatives said that the failures did not have many new lessons to offer.

> **"Laws and regulations are not always effective in curing or preventing bank problems where a bank — and its board — are dominated by a strong personality set on a course of management. . . ."**

"Rather (the failures), confirm a lesson of the past," the report says, "namely, that laws, regulations and supervision are not always effective in curing or preventing problems where a bank — and its board of directors — are dominated by a strong personality who is set on a course of management."

The report goes on to say that United American Bank, Knoxville, "engaged in a virtually unbroken pattern of unsafe, unsound and conceivably unlawful banking practices over a six-year period."

The report also criticizes what it calls "a pattern of regulatory failure" surrounding the Butcher bank problem. The FDIC and the Office of the Comptroller of the Currency had numerous meetings and exchanged correspondence with bank officers and directors, the report says. All the warnings and jawboning by regulatory officials ultimately failed to produce the desired results.

Officers and directors of the once Butcher-controlled bank in Nashville probably now wish they'd heeded those warnings since they are being held personally liable for millions of dollars in bad loans. A letter from the FDIC exerpted recently in a Nashville newspaper stated that "Directors or officers of the bank, in contravention of their duty . . . may have caused, authorized or permitted the bank to engage in unsafe, unsound or irregular practices and may have failed to exercise due diligence in discovering or correcting unsafe, unsound or irregular practices."

Other parts of the FDIC communication accused officers and directors of:

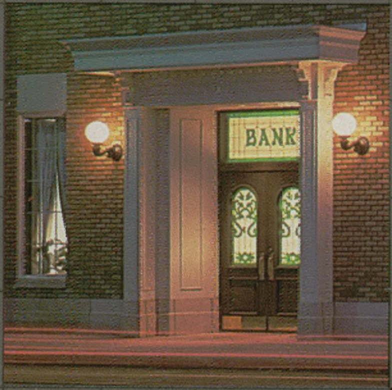
- Failure to supervise loan disbursements properly.
- Extensions of credit in violation of the bank's own written loan policy.
- Extensions of credit in violation of the bank's legal lending limit.
- Failure of directors to exercise adequate supervision over employees and officers.
- Failure to heed warnings from bank supervisory authorities.
- Extensions of credit to borrowers known to be in financial difficulty.
- Failure to scrutinize insider transactions.
- Failure to adhere to applicable laws and regulations.
- Permitting conflicts of interest to the detriment of the bank.

Some directors and officers at other failed Butcher banks received similar FDIC notifications and some of the directors say they do not feel they have any legal liability for the loans. They denied knowledge of any wrongdoing.

Obviously, this case is going to drag on in the courts for some time, and the FDIC allegations are not proof of anyone's guilt. Enough has been revealed about the problems of the Butcher banks, however, to make some general conclusions about what might have gone wrong and how similar incidents can be prevented. Some of my conclusions or recommendations may not be welcomed by some top banking executives, but the soundness of the banking system, in my view, demands such remedies.

1. **Political clout should not hinder oversight by regulators.** The Butchers wielded tremendous political influ-

(Continued on page 49)



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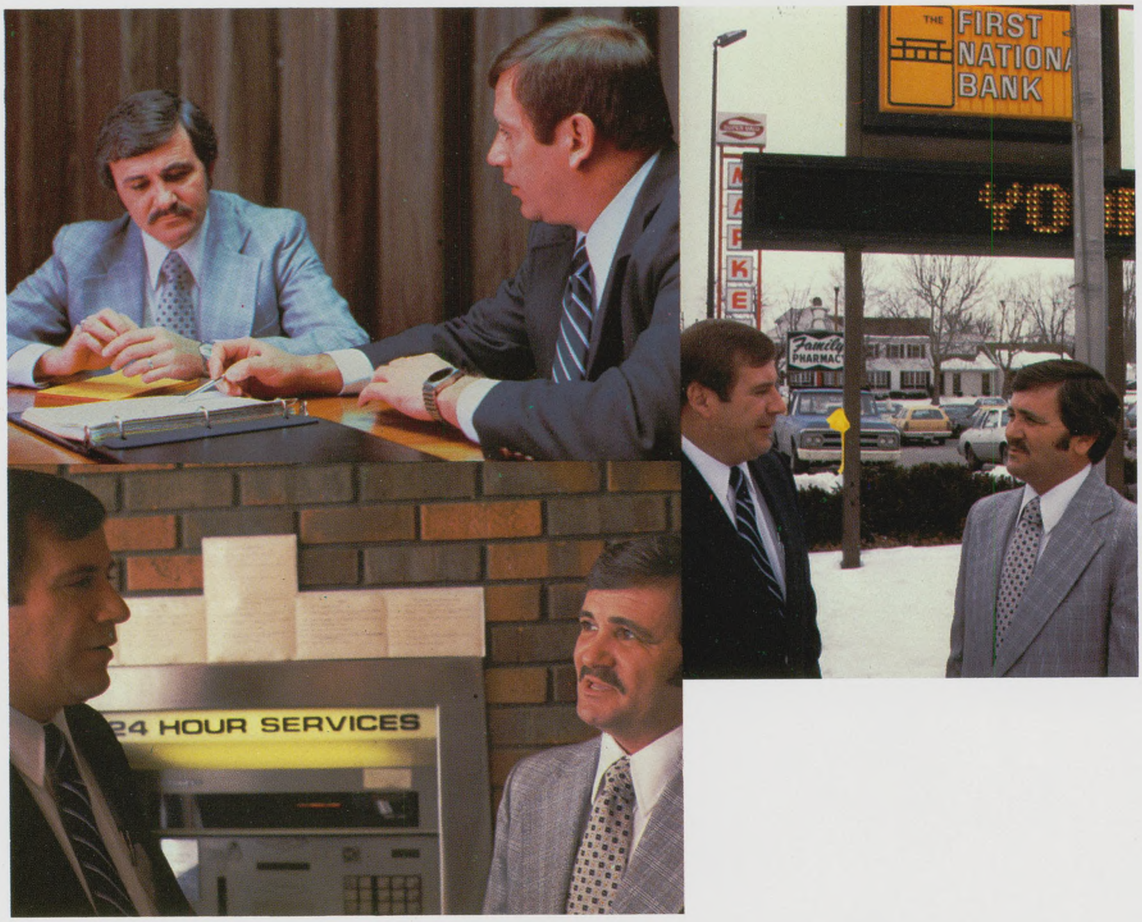

Boatmen's Vice President Ted Smothers working with Bob Menz, Chairman and President of The First National Bank of Highland. Whatever your correspondent needs, Boatmen's has knowledgeable people to assist you. Call Ted Smothers. He can help.

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